

**ACE UNDERWRITING AGENCIES LIMITED
SYNDICATE 2488**

REPORT AND ANNUAL ACCOUNTS

31 DECEMBER 2010

CHAIRMAN'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2010**PERFORMANCE IN 2010**

Syndicate 2488, managed by ACE Underwriting Agencies Ltd ("AUAL") and part of the ACE group of companies, is one of the pre-eminent specialty insurers in the London market.

Despite the continuing economic pressures and difficult market conditions throughout 2010, gross written premiums were £389.5 million, just 3% below those of the prior year.

AUAL has again proved its ability to generate substantial returns during the soft market cycle and reported a profit for the 2010 financial year of £111.1 million. We achieved an excellent combined ratio of 83.8%, reflecting the syndicate's core principles of underwriting discipline and cost control. A solid investment performance resulted in returns for the year of £64.0 million.

ACHIEVEMENTS DURING THE YEAR*Celebrating 25 years of ACE*

ACE Limited celebrated its 25th anniversary on 30 August 2010. Our commemoration of this milestone included advertisements in publications around the globe thanking our friends, distribution partners and customers who have supported us over the years, and a global road show by ACE senior management to meet with clients and brokers. As a company, we make it one of our priorities to support the communities where we live and work by giving back through charitable efforts, and another highlight of the year's activities was ACE's Global Day of Service on 22 October when employees around the world demonstrated their appreciation to the communities that have supported us throughout the years by working on volunteer service projects in partnership with local organisations.

Management changes

In July 2010, Matthew Shaw, previously AGM's Chief Underwriting Officer, was appointed as President, ACE Global Markets ("AGM") and Active Underwriter of Syndicate 2488. Following his significant contribution to the development of the AGM business over the past two years, Matthew has been given additional responsibilities to ensure AGM continues to operate profitably and maintains its market leading position. Richard Pryce continues in his role as President, ACE UK, with responsibility for ACE's UK and Ireland retail operations and the oversight of the AGM business. Matthew was appointed to the board of AUAL in August 2010.

Graham Williams, a non-executive director of AUAL since 1999, retired from the board in October 2010 and on behalf of the board and myself, would like to take this opportunity to thank Graham for his unwavering support and guidance throughout the years, and wish him well for the future.

In October 2010, Malcolm Cox was appointed as a non-executive director of AUAL. Malcolm brings with him over 40 years' experience in the Lloyd's insurance market, and has been a member of various boards and committees including the Lloyd's Market Board, Lloyd's North American Board, and the Lloyd's Underwriters' Non-marine Association, of which he was Chairman in 1998.

Solvency II

The European Union Solvency II Directive is expected to be implemented by 1 January 2013. Covering over 30 countries, it is the biggest ever exercise in establishing a single set of rules governing insurer capital and risk management, and represents a fundamental shift in regulatory requirements for the insurance industry.

Syndicate 2488 has chosen to adopt the Internal Model regime and has entered into a pre-approval process with Lloyd's, who will liaise with the Financial Services Authority ("FSA") on behalf of the Society of Lloyd's as a whole. Solvency II preparations are well underway, under the guidance of the Solvency II Steering Committee established in January 2010. The syndicate has also participated in the Quantitative Impact Study 5 ("QIS 5") testing and the FSA benchmarking exercises.

The Steering Committee is also tracking wider Solvency II issues including the equivalence of third country regulatory regimes and the impact of group supervision.

Distribution and service

We recognise the value and benefits of the distribution platform that Lloyd's provides – cost effective, easy access to the world's major markets supported by the Lloyd's global brand and licence network, and strong financial strength ratings. Although the capacity of Syndicate 2488 is reducing from £400 million to £360 million for 2011 in line with the anticipated continuing soft market cycle, management are committed to operating a syndicate with a sizeable mass and significant market presence for the foreseeable future.

We support Lloyd's vision to be the market of choice for insurance and reinsurance buyers and sellers to access and trade specialist property and casualty risks. We believe that the initiatives currently underway – such as the Lloyd's Exchange service, the claims processing transformation, the efficiency improvements to the central services and the streamlining and standardisation of information requirements – will benefit the market and we will continue to work closely with Lloyd's to achieve these mutual aims.

Syndicate 2488's business is conducted via registered brokers. We recognise the added value brokers bring to our underwriting transactions and the tangible benefits of maintaining good relationships, and I would like to thank our partners and the wider broking community for their continued support.

MARKET ENVIRONMENT

Global economic growth has been weak throughout 2010, unemployment remains high, and reductions in client revenues, shrinking insurance budgets and pressures on consumer sales have all impacted the insurance markets. Underwriting conditions have remained competitive, with prices generally soft around the world.

2010 also saw significant natural catastrophe activity including the devastating earthquakes in Haiti, Chile and New Zealand, Windstorm Xynthia, flooding in Europe and Pakistan and the eruption of Eyjafjallajökull, an Icelandic sub-glacier volcano which disrupted air travel in northern Europe for several weeks. The year was also notable for the Deepwater Horizon disaster in the Gulf of Mexico, the largest accidental marine oil spill in the history of the petroleum industry. According to estimates from Swiss Re's *sigma* team¹, worldwide economic losses from natural catastrophes and man-made disasters were \$222 billion in 2010 (2009: \$63 billion), with eight events triggering losses in excess of \$1 billion. Although the cost to the global insurance industry was \$36 billion, an increase of 34% over the previous year, these losses have not significantly impacted the overall rating environment.

Syndicate 2488 is one of two legal entities through which the ACE group's international and specialty London market business, branded as ACE Global Markets ("AGM"), and its European reinsurance business, branded as ACE Tempest Re (Europe), can be written; the other being the UK domiciled FSA regulated company, ACE European Group Limited ("AEGL"). Syndicate 2488, AEGL and a number of other smaller, overseas legal entities which are overseen by the European management team collectively form the ACE European Group.

Being part of this unique structure is a key differentiator for us, allowing our underwriters formal and informal interaction with their ACE underwriting peers throughout the globe. Our position as a lead insurer with a significant market presence combined with our longstanding client relationships and multi-line global platform, means there is no requirement to resort to excessive price competition as a mechanism to win and retain business.

There have already been a number of significant events in 2011.

The floods across the east coast of Australia were some of the worst seen in the past 20 years. Similarly, no one anticipated that, having just recovered from a major earthquake, Christchurch, New Zealand would experience another one six months later, with devastating consequences and tragic loss of life.

We are seeing a challenge to established political powers across a number of countries on the south shores of the Mediterranean. The instability appears to be contagious and could signal a period of political and economic unrest in that area for many years to come.

The increasing frequency of catastrophes coupled with economic and political uncertainty across the globe will provide both challenges and opportunities for the insurance industry. Whether this will be enough to prompt an upturn in the insurance cycle is yet to be seen.

FUTURE PROSPECTS

Despite some signs of recovery, the economic environment continues to adversely impact many of the lines of business Syndicate 2488 operates in. Significant cuts in government expenditure and continued cost cutting in all public and private sectors are likely to reduce demand for insurance protection and drive consumers and companies to review their purchasing strategies.

We are now also starting to see the effect of the continued soft market conditions on insurers' profitability. Although underwriting results are showing signs of deterioration as prior period reserve releases diminish, revealing the marginal nature of recent accident year profitability, the over supply of insurance capacity looks likely to continue into 2011. Notwithstanding a significant market changing event, we anticipate that 2011 will be another difficult year, with increased pressure on pricing and terms and conditions, particularly when accounts are re-marketed.

We continue to operate in challenging times. While businesses everywhere examine their insurance expenditure, our philosophy is to respond with a creative approach, while never compromising on quality or security. We balance local knowledge and service with underwriting and engineering centres of excellence across the world, enabling us to offer the best solutions to clients, wherever they are.

Preservation of capital and balance sheet strength remain our utmost priorities, and underwriting discipline continues to be at the forefront of our business strategy. Our conservative investment policy aims to ensure that consistent investment returns with low levels of volatility are generated, hence preserving the asset side of the balance sheet.

Syndicate 2488 will aim to maintain profitability margins through the soft market cycle, rebalancing the portfolio as necessary to achieve planned combined ratios. We employ a proactive business retention strategy and aim to meet new business targets without compromising our stringent risk selection parameters.

Our comprehensive reinsurance programmes ensure that we are not unduly exposed to large losses, and vigilant price monitoring and actual versus expected loss analysis conducted by the actuarial team allows us to quickly make any underwriting adjustments deemed necessary to sustain our profitability. Our relationships with our clients and intermediaries remain strong and our ability to offer flexible, tailor-made insurance and risk management solutions has continued to stand us in good stead.

The syndicate continues to benefit from a flight to quality, capability and balance sheet strength – especially in those lines of business or risk layers where price is not the single determining factor and as such we experience higher retentions, better rates and firmer terms and conditions.

¹ [Swiss Re media release](#): Preliminary 2010 catastrophe estimates from *sigma*, November 2010

IN CONCLUSION

Syndicate 2488 is a leader in insurance, reinsurance and risk solutions with excellent balance sheet strength and exceptional market standing. It has wide ranging product capabilities, a strong underwriting culture and a team of highly talented, optimistic and motivated people. The syndicate's performance is driven by values and is a testament to our strategy of maintaining underwriting discipline, stringent cost controls and a conservative investment policy.

We acknowledge that our clients have the right to demand world class products, security and service, and we endeavour to provide this throughout the whole policy lifecycle, backed by cutting edge technologies and some of the best people in the risk and insurance industry.

We have a superb business support network encompassing claims, finance and actuarial, risk management, legal and compliance, human resources, operations and IT. Syndicate 2488 would not be able to operate to the high standards it has set itself without the hard work and dedication of both our front line and back office employees, and I would like to take this opportunity to thank all our staff for their contribution to the syndicate's tremendous performance this year.

We remain committed to taking on the responsibility of risk so that our clients can take on the responsibility of making things happen – *insuring progress*[®].

A J Kendrick

Chairman and Chief Executive Officer

14 March 2011

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2010

The board of ACE Underwriting Agencies Limited (“AUAL”) has prepared this review in accordance with Schedule 1 to the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregated Accounts) Regulations 2008 (“the 2008 Lloyd’s Regulations”). In addition to this statutory requirement, this report also addresses other aspects of the syndicate’s business which the board believes will be of benefit to all stakeholders.

BUSINESS OBJECTIVES AND STRATEGY

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

The ACE group is one of the world’s largest providers of commercial property and casualty insurance and reinsurance. With \$83.4 billion in assets and \$19.5 billion of gross written premiums in 2010, the ACE group is distinguished by its underwriting expertise, superior claims handling and global franchise, which includes offices in 53 countries and clients in over 170.

The insurance companies of the ACE group serve a diverse range of clients: multinational corporations and local businesses with property and casualty exposures; companies and affinity groups looking to provide or offer accident and health insurance programmes and life insurance to their employees or members; insurers seeking reinsurance coverage; and individuals purchasing life, personal accident, supplemental health and high-valued homeowners, automobile, and umbrella insurance.

ACE Limited, the Swiss-incorporated parent company of the ACE group, is listed on the New York Stock Exchange (NYSE: ACE) and is a component of the S&P 500 stock index. The ACE group maintains executive offices in Zurich, Bermuda and New York, among other locations, and employs more than 15,000 people worldwide.

Syndicate 2488’s key strategy focuses on an established underwriting ethos that permeates the business. It is managed to earn an underwriting profit, with both insurance market and economic factors considered in the assessment of insurance risks. Underwriting discipline is fundamental to this strategy and underwriters use their skills to set pricing, terms and conditions that reflect clients’ changing requirements in the current, challenging environment. The syndicate strives to offer superior service levels in all aspects of its operations and has invested in technology to improve its operational efficiency, underwriter support and broker interfaces.

Certain principles are central to our ethos of being a disciplined and technical underwriting business. These principles have served the syndicate well and will continue to be central to its operation. In brief, Syndicate 2488:

- is a professional risk taking operation with a strong underwriting culture;
- aims to position itself to set the terms and conditions on all business accepted, and is in no way a market share driven organisation;
- is focused on the profitability of its capital providers;
- values its relationships with clients, producers and reinsurers alike, and recognises that transparency is a vital part of this process;
- maintains strong underwriting control and discipline; and
- acknowledges the importance of a professional and independent claims function.

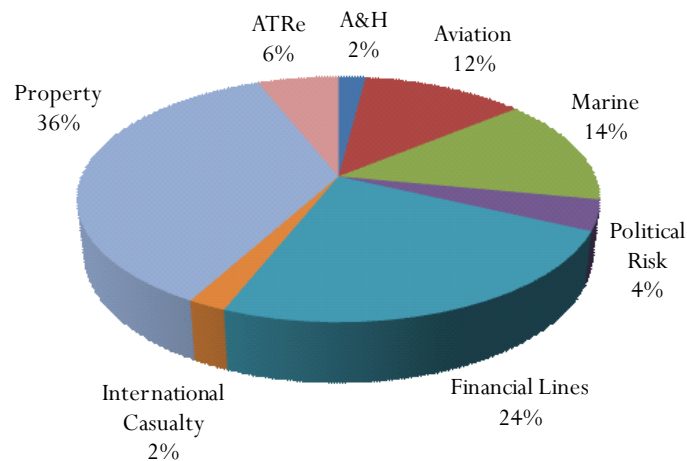
In addition, the syndicate is committed to protecting and preserving its assets by operating a conservative investment strategy and maintains focus on cash flow management and liquidity to secure its position as a long term insurer.

ORGANISATION OF THE BUSINESS

Insurance and reinsurance policies are written under the well established “ACE Global Markets (AGM)” and “ACE Tempest Re (Europe)” 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 ACE Tempest Re (“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; competition, volatility and margins are analysed at a micro level by the product line underwriting team, actuaries and management. At all times, Syndicate 2488’s aim is to build capital by making underwriting profits, as opposed to growing revenue.

The business split is illustrated in the chart below:

Calendar year 2010 gross written premiums split by product line pie chart



AGM is the ACE group's specialty international underwriting business and can provide 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.

AGM and ATRe underwriting products are offered through both Syndicate 2488 and ACE European Group Limited ("AEGL"). AEGL is a UK domiciled, Financial Services Authority ("FSA") regulated company which offers a wide range of property, casualty 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.

AEGL, Syndicate 2488 and a number of other smaller, overseas legal entities which are overseen by the European management team collectively form the ACE European Group.

The syndicate benefits from comprehensive and fully integrated support functions encompassing 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.

In July 2010, Matthew Shaw, previously AGM's Chief Underwriting Officer was appointed as President, ACE Global Markets and Active Underwriter of Syndicate 2488. Matthew assumed the role of Active Underwriter from Richard Pryce, who continues in his role as President, ACE UK, with responsibility for ACE's UK and Ireland retail operations and the oversight of the AGM business.

BUSINESS ENVIRONMENT

Despite growth in the emerging markets, the global economic outlook remains uncertain, with financial markets remaining fragile and the economies of many developed countries recovering at a much slower pace than others.

The economic situation, continuing high unemployment, low interest rates, rising inflation, excess capacity and competitive market conditions are expected to continue to be the major factors influencing the performance of insurance markets in 2011.

Despite the notable market losses of 2010, pressures on accident year loss ratios and lower favourable prior period loss reserve releases, the insurance industry continues to see high levels of competition and greater strains on rating levels.

Syndicate 2488 has experienced pricing pressure in most classes of business underwritten during 2010 and premium levels, particularly within aviation, have reduced in comparison to prior year as underwriters maintain their strict rating criteria. However, certain specific sectors of the business such as non-US professional indemnity, marine specie and structured trade credit have seen some rate increases in 2010.

Although no immediate widespread improvement in rating is anticipated, 2488's focused, disciplined and conservative approach to underwriting, expense control, investments and risk management should ensure the syndicate's continued success.

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2010 - continued**PRESENTATION OF FINANCIAL STATEMENTS**

The basis of preparation of Syndicate 2488's annual financial statements is in accordance with the 2008 Lloyd's Regulations. 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 capital vehicles, with effect from 2003. The ACE group corporate capital vehicles have agreed to waive their right to syndicate underwriting accounts in respect of Syndicate 2488's closed 2008 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	2010	2009
Gross written premiums	389.5	400.3
Net written premiums	279.6	294.3
Combined ratio *	83.8%	76.9%
Profit for financial year	111.1	179.0

* 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 a regular basis.

AUAL seeks to manage syndicate capacity levels in order to make the most effective use of available capital. In view of the continuing soft market, Syndicate 2488's 2010 capacity of £400 million has reduced to £360 million in 2011.

RESULTS AND PERFORMANCE

Syndicate 2488 produced a profit for the financial year of £111.1 million and a combined ratio of 83.8%. A summary of the reported financial results is shown in the table below.

£ million	2010	2009
Gross written premiums	389.5	400.3
Net written premiums	279.6	294.3
Net earned premiums	291.3	304.5
Incurred losses	141.9	150.2
Operating expenses*	102.3	84.1
Underwriting profit	47.1	70.2
Investment return	64.0	108.8
Profit for financial year	111.1	179.0
Combined ratio %	83.8%	76.9%

* including profit on exchange

Syndicate 2488's business is principally conducted in US dollars however, for accounting purposes, the financial results are presented in sterling.

Premiums reduced by 3% in comparison to prior year, reflecting the continued challenging market conditions experienced throughout 2010. Reductions in aviation, financial lines, marine and A&H premiums were partially offset by increased international casualty business and single digit growth in property and political risks.

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 2010 were shared with other ACE companies, predominantly AEGL.

Despite the high level of natural disasters occurring during 2010, Syndicate 2488's catastrophe related losses after reinsurance recoveries amounted to £6.7 million (2009: £0.2 million). Prior period reserve releases, predominantly within the financial lines, property and inwards reinsurance lines, amounted to £33.9 million (2009: £39.8 million). Excluding catastrophe losses and prior period development, the current accident year loss ratio for the year was 58.1% (2009: 62.4%), an excellent performance that illustrates the strength of the syndicate's core business.

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2010 - continued

Operating expenses constitute commissions, the managing agency fee, Lloyd's subscriptions, Central Fund contributions and profit/(loss) on exchange.

Overall, Syndicate 2488 generated solid total investment returns in 2010 of 5.9% based on funds available for investment. Syndicate 2488's investment structure and commentary is detailed in the following Financial Position section.

FINANCIAL POSITION**Investments**

Syndicate 2488 maintains four 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 a further actively managed US dollar portfolio for high yield fixed income securities. The approximate currency split of the syndicate investment portfolios is US dollars 76%, sterling 13% and Canadian dollars 11%.

Syndicate 2488 implemented no significant changes to the existing asset allocation or investment strategy and continued to maintain diversified actively managed portfolios with exposure to a broad range of sectors.

After the extreme volatility witnessed in 2008 and stabilisation in 2009 resulting from measures taken by governments, fixed income investments continued to perform strongly in 2010 for most sectors. In general, 2010 was a favourable year for holding riskier asset classes as the global economic picture stabilised and economic indicators improved. Spread sectors and lower credit assets outperformed higher quality and government related sectors.

The syndicate US dollar investment grade portfolios outperformed their benchmark in the year despite the high quality bias of the portfolios. The portfolios generated strong total returns for the year in excess of 5% with security selection driving the contribution to the relative outperformance.

Returns for the sterling portfolio were in line with the benchmark but absolute returns suffered as yields rose in the latter part of the year. The Canadian dollar portfolio is managed passively against an ACE customised benchmark and produced satisfactory absolute returns for the year in line with the benchmark.

The syndicate high yield portfolio focuses on upper tier high yield fixed income securities, targeting average Standard & Poor's quality of "B" or higher. Although returns were significantly lower than those achieved in 2009, the portfolio performed satisfactorily in view of the higher quality portfolio bias, generating a total return in excess of 12% for the year.

Cash flow

Overall operating cash flow was negative during the year with the impact of negative underwriting cash flow and expenses, offset in part by investment income. The negative underwriting cash flow was driven by the settlement of large value reserves in the first half of the year.

Profits in respect of the 2007 year of account were distributed by the transfer of fixed income securities and initially held as Funds at Lloyd's ("FAL"). The bulk of the profits were subsequently released from FAL to the ACE corporate capital vehicles as part of the adjustment of assets supporting FAL for the 2011 year of account Coming into Line ("CIL") exercise in November 2010.

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 2011, the agreed ICA shows a slight increase over the 2010 level reflecting a number of offsetting factors resulting from changes in the underlying business risk profile and more refinements in the ICA assessment.

Syndicate 2488's FAL are provided by letters of credit guaranteed by ACE Bermuda Insurance Ltd and ACE Tempest Reinsurance Ltd and investments provided by the release of syndicate profits but retained within the syndicate and designated as FAL. New US dollar bilateral letter of credit facilities were established in 2010 replacing the syndicated sterling facility and providing aggregate capacity of US\$400 million. The change in currency of the letters of credit from sterling to US dollars was instigated in order to provide a more appropriate currency match to the currency drivers of the ICA, the bulk of which is US dollar denominated.

The overall quantum of Funds at Lloyd's remained relatively stable in 2010 as the impact of the increase in the ICA was largely offset by the application of credits in respect of the half year interim results for CIL for the 2011 year of account. Overall, the ACE corporate capital vehicles provided US\$455 million for 2011 CIL in November 2010.

Solvency II

ACE recognises the importance of Solvency II, not just to its EU-based operations, but also to the wider group. The ACE Solvency II programme was initiated by ACE Limited's Enterprise Risk Management ("ERM") Board in 2009 and Syndicate 2488's Solvency II project was formally established in early 2010 within the structure of the global project.

The syndicate's Solvency II project is managed against a comprehensive plan. The project has been broken down into a number of workstreams each with a leader and detailed project plan. Resource needs have been identified and deliverables and milestones have been defined.

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2010 - continued

Weekly implementation meetings take place where progress across all the workstreams is monitored and project governance is provided through both the ACE European Group Solvency II Steering Committee and ultimately the ACE Global Steering Committee.

Syndicate 2488's approach to the implementation of Solvency II has been to build on existing processes, where possible, incorporating business operational improvements with a focus on ensuring these to be cost effective and deliver tangible business benefits as well as meet regulatory requirements. The syndicate is also seeking to engage with Lloyd's and the FSA to ensure there is an opportunity to influence the overall direction and allow the syndicate sufficient time to ensure that all the necessary requirements are met.

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 A.M. Best and "A+ (Strong)" by Fitch. In view of these robust ratings, together with the ACE group's "A+" and "AA-" ratings from A.M. Best and Standard & Poor's respectively, it has not been considered necessary to obtain an individual rating for the syndicate.

GOVERNANCE

AUAL continues to work closely with its regulator, the FSA, and the board of directors fully supports their approach to regulation and their contribution to the development of the Solvency II directive.

Corporate governance is focused upon the proper oversight of the management of the business, senior management responsibility and the effectiveness 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 four times a year and delegates certain oversight responsibilities to three committees, the Audit Committee, Risk Committee and Executive Committee, under formal terms of reference. AUAL's non-executive directors take an active role in these committees, with the Audit Committee being solely comprised of non-executive directors.

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 company operates within an established framework of effective systems of internal control, risk management and compliance with policies, procedures, internal controls and regulatory requirements.

Risk Committee

The board has delegated responsibility for the approval, oversight and implementation of its risk management framework to the Risk Committee. Various committees which have responsibility for specific risks, financial controls and functional areas have been created to comprehensively cover the major risk sources facing the syndicate.

The Risk Committee assists the board by providing oversight of risk management and overseeing the development and embedding in the business of risk management and capital assessment. It also ensures that business risks and controls are recorded and monitored. AUAL is continuing to invest in the development of its risk management framework through the dedicated central risk management and capital modelling team which has been tasked with further embedding risk assessment within the business to meet Solvency II standards.

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

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

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2010 - continued*Executive Committee*

The Executive Committee, another principal committee of the board, includes all executive directors of AUAL. The primary role of the Executive Committee is to oversee the day to day management of business operations, performance and to implement and oversee operational strategies and decisions determined by the board. The Executive Committee is also responsible for the oversight of support function activities, key steering groups and sub-committees including broker review, reserving and project reporting.

Audit Committee

The Audit Committee is another sub-committee of the AUAL board and is responsible for the 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 is expected to challenge any aspect of these processes which it considers weak or generally poor practice.

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

COMPLIANCE

Compliance with regulation, legal and ethical standards is a high priority for AUAL, and the compliance team and finance department have 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.

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 its regulator and engages in open dialogue and communication to address and resolve any issues.

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.

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

ACE AND THE ENVIRONMENT

The ACE group is focused on the implications of climate change in all areas of its business and is taking action across the company, both internally and externally, to make a positive and lasting difference.

Climate change is an important and serious issue for the global property and casualty insurance industry because it is its business to provide security against many of the risks posed by such change. Natural catastrophes, in the form of hurricanes, windstorms, flooding, drought and other weather-related events, may be increasing in both frequency and severity due to climate change.

In December 2010, ACE announced that it had achieved its group-wide greenhouse gas emissions reduction goal – to reduce its global emissions by eight percent per employee from 2006 to 2012 – more than two years ahead of the original 2012 target date. The goal was reached through a range of activities, including making energy-efficient lighting upgrades and heating/ventilation/air conditioning improvements in its largest owned and leased facilities, reducing non-essential business travel and optimizing its real estate square footage.

Responsibility for ACE’s environmental action program is a shared commitment at the senior management level and involves a comprehensive, coordinated effort integrating activity across all areas of the organisation.

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2010 - continued**ACE IN THE COMMUNITY**

The ACE group supports the communities around the world through the established “ACE Foundations” and through group sponsored volunteer initiatives, with focus on the areas of education, poverty and health and the environment. ACE encourages the development of local and regional initiatives, which reflect its employees’ commitment to the needs of the communities in which they live and work, and ACE employees direct a significant portion of the group’s charitable giving.

AUAL employees involved with charitable activities and fund raising in their local community or a national registered charity may apply to the ACE European Group Community Support Programme Committee (“ACS”) for a financial donation to their chosen cause. During 2010, requests for donations or matched funding were received from offices throughout the UK, Ireland and Continental Europe, covering a wide range of charities. In addition to the requests that fulfilled the ACS criteria, a small number of donations were also made in response to external charity requests, bringing total donations made during 2010 to approximately £109,000.

On 22 October 2010, AUAL employees joined together to take part in the ACE group’s second “Global Day of Service” and demonstrated their appreciation to their communities by working with volunteer service projects in partnership with local organisations and raising significant funds and resources for various charities including the NSPCC, Age UK and Barnardo’s.

Approved by the Board of Directors

10 March 2011

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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 2010.

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 2008 ("the 2008 Lloyd's 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 profit for the year to 31 December 2010 amounted to £111,077,000 (2009: £178,998,000). 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 2010 to the date of this report unless otherwise indicated:

Executive directors:

A J Kendrick

R P Murray

R V Pryce (Active Underwriter until 2 August 2010)

M T Reynolds

A M W Shaw (Appointed 2 August 2010) (Active Underwriter from 2 August 2010)

Non-executive directors:

M Cox (Appointed 29 October 2010)

D S Marston

G D Williams (Resigned 29 October 2010)

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, Pacific Investment Management, Blackrock Investment Management 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 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 2010 - 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, 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. No equities were held by the syndicate during the year.

Currency risk

The syndicate maintains four separate currency funds: sterling, United States dollars, Canadian dollars and Euros. 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 ACE group letter of credit facilities which are available to meet certain funding needs, although no such facilities are currently utilised by the syndicate.

The syndicate participates in a notional pooling programme with other ACE group companies under a facility operated by Bank Mendes Gans, a subsidiary of ING, which specialises in global liquidity management. The facility operates by the notional pooling of designated balances of the ACE group participants in order to provide additional liquidity. ACE group participants may overdraw individual account balances to fund immediate short term needs against credit balances held elsewhere within the pool. At year end, the syndicate had an overall net credit balance in the notional pool of £6.9 million, being £11.8 million of credit balances in US dollars, Canadian dollars and euros, net of a £4.9 million overdrawn sterling balance.

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 2010 - continued**STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES**

The managing agent is required by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 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 2008. 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 2010 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 2008 Lloyd's 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. PricewaterhouseCoopers LLP is deemed to have been reappointed as the auditor of the syndicate annual accounts for the 2010 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

M T Reynolds
Chief Financial Officer

14 March 2011

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 2010 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. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the managing agent and the auditors

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 13, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the syndicate annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the syndicate annual accounts.

Opinion on syndicate annual accounts

In our opinion the syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Managing Agent's Report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Nick Wilks (Senior Statutory auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

14 March 2011

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Note	2010 £'000	2009 £'000
TECHNICAL ACCOUNT – GENERAL BUSINESS			
EARNED PREMIUMS, NET OF REINSURANCE:			
Gross premiums written	2	389,479	400,272
Outward reinsurance premiums		(109,926)	(105,975)
Net premiums written		279,553	294,297
Change in the gross provision for unearned premiums		18,096	11,207
Change in the provision for unearned premiums – reinsurers' share		(6,313)	(941)
EARNED PREMIUMS, NET OF REINSURANCE		291,336	304,563
ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT	6	61,767	108,234
CLAIMS INCURRED, NET OF REINSURANCE:			
Claims paid:			
Gross amount	2	(359,809)	(330,737)
Reinsurers' share		110,921	81,038
Net paid claims		(248,888)	(249,699)
Change in the provision for claims outstanding:			
Gross amount	2	138,563	119,859
Reinsurers' share		(31,615)	(20,381)
Change in the net provision for claims outstanding		106,948	99,478
CLAIMS INCURRED, NET OF REINSURANCE		(141,940)	(150,221)
Net operating expenses	4	(102,312)	(84,116)
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		108,851	178,460

All of the above results derive from continuing operations.

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010 – continued**

	Note	2010 £'000	2009 £'000
NON-TECHNICAL ACCOUNT			
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		108,851	178,460
Investment income	6	58,834	79,560
Unrealised gains on investments	6	56,724	111,815
Investment expenses and charges	6	(3,486)	(39,996)
Unrealised losses on investments	6	(48,079)	(42,607)
Allocated investment return transferred to the general business technical account	6	(61,767)	(108,234)
		<hr/>	<hr/>
PROFIT FOR THE FINANCIAL YEAR	9	111,077	178,998
		<hr/>	<hr/>

All of the above results derive from continuing operations.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2010**

		2010 £'000	2009 £'000
PROFIT FOR THE FINANCIAL YEAR		111,077	178,998
Currency translation differences	9	1,473	15,589
		<hr/>	<hr/>
TOTAL RECOGNISED GAINS FOR THE FINANCIAL YEAR		112,550	194,587
		<hr/>	<hr/>

BALANCE SHEET AT 31 DECEMBER 2010

	Note	2010 £'000	2009 £'000
ASSETS			
INVESTMENTS			
Other financial investments	7	1,024,573	1,165,575
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums		31,473	36,302
Claims outstanding		453,721	464,972
		485,194	501,274
DEBTORS – amounts falling due within one year			
Debtors arising out of direct insurance operations: amounts owed by intermediaries		99,587	105,008
Debtors arising out of reinsurance operations		39,394	53,923
Other debtors	8	3,967	2,975
		142,948	161,906
DEBTORS – amounts falling due after one year			
Debtors arising out of direct insurance operations: amounts owed by intermediaries		-	14
Debtors arising out of reinsurance operations		-	52
Other debtors	8	671	1,673
		671	1,739
OTHER ASSETS			
Cash at bank and in hand		25,551	14,725
PREPAYMENTS AND ACCRUED INCOME			
Deferred acquisition costs		30,275	30,081
Other prepayments and accrued income		9,478	9,651
		39,753	39,732
TOTAL ASSETS		1,718,690	1,884,951

BALANCE SHEET AT 31 DECEMBER 2010

	Note	2010 £'000	2009 £'000
LIABILITIES			
CAPITAL AND RESERVES			
Members' balances	9	154,498	173,835
TECHNICAL PROVISIONS			
Provision for unearned premiums		159,444	171,267
Claims outstanding		1,285,707	1,373,411
		1,445,151	1,544,678
DEPOSITS RECEIVED FROM REINSURERS			
		385	370
CREDITORS – amounts falling due within one year			
Creditors arising out of direct insurance operations		9,984	16,917
Creditors arising out of reinsurance operations		103,233	115,032
Bank loans and overdrafts		4,937	30,003
Other creditors	10	-	3,334
		118,154	165,286
ACCRUALS AND DEFERRED INCOME			
		502	782
TOTAL LIABILITIES		1,718,690	1,884,951

The syndicate annual accounts on pages 15 to 30 were approved by the board of ACE Underwriting Agencies Limited on 10 March 2011 and were signed on its behalf by:

M T Reynolds
Chief Financial Officer

14 March 2011

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 £'000	2009 £'000
RECONCILIATION OF OPERATING PROFIT TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES			
Operating profit on ordinary activities		111,077	178,998
Currency translation differences	9	1,473	15,589
Unrealised investment gains		(8,605)	(69,208)
Foreign exchange movement on cash and investments		(45,565)	72,746
Foreign exchange movement on Funds at Lloyd's		2,797	(4,639)
Decrease in net technical provisions		(83,447)	(177,467)
Increase/(decrease) in deposits received from reinsurers		15	(5,129)
Decrease in debtors and prepayments		20,005	29,284
Decrease in creditors and accruals		(22,346)	(62,266)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(24,596)	(22,092)
Transfers to members in respect of underwriting participations		(150,377)	(62,620)
Members' balances designated as Funds at Lloyd's		15,693	58,068
NET CASH OUTFLOW	11	(159,280)	(26,644)
CASH FLOWS WERE (UTILISED)/INVESTED AS FOLLOWS:			
Increase/(decrease) in cash holdings	11	36,408	(62,978)
Net portfolio investment	12	(195,688)	36,334
NET UTILISATION OF CASH FLOWS	11	(159,280)	(26,644)

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 Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Regulation 2 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Lloyd's 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. Other than investment return on Funds at Lloyd’s retained within the syndicate, all investment return has been wholly allocated 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 2007 and 2008 years of account. The managing agent’s current intention is to consider a waiver of profit commission for the 2009 and 2010 years of account.

NOTES TO THE FINANCIAL STATEMENTS

2. SEGMENTAL ANALYSIS

Segmental information in the format required by Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 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 2010					
Direct insurance					
Fire and other damage to property	126,407	119,338	(32,665)	(45,048)	(29,827)
Marine, aviation and transport	65,898	71,198	(37,566)	(15,993)	(25,924)
Accident and health	6,290	5,759	(2,877)	(2,669)	(99)
Third party liability	96,029	98,477	(55,222)	(23,931)	(9,679)
Miscellaneous	14,157	14,021	1,282	(4,421)	(4,549)
Reinsurance acceptances	80,698	98,782	(94,198)	(18,135)	41,030
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	389,479	407,575	(221,246)	(110,197)	(29,048)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Year to 31 December 2009					
Direct insurance					
Fire and other damage to property	107,853	110,269	(43,623)	(31,156)	(17,981)
Marine, aviation and transport	47,027	46,293	(30,619)	(11,033)	(2,672)
Accident and health	4,951	5,951	(3,125)	(2,753)	530
Third party liability	124,803	131,671	(70,879)	(26,624)	(21,766)
Miscellaneous	10,135	11,964	19,726	(4,842)	(18,107)
Reinsurance acceptances	105,503	105,331	(82,358)	(16,895)	22,924
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	400,272	411,479	(210,878)	(93,303)	(37,072)
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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 2010 (2009: surplus) as detailed below:

	2010 £'000	2009 £'000
Direct insurance		
Fire and other damage to property	9,301	13,107
Marine, aviation and transport	(2,707)	4,488
Accident and health	(144)	1,613
Third party liability	11,855	6,937
Miscellaneous	3,277	5,116
Reinsurance acceptances	12,306	8,542
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	33,888	39,803
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4. NET OPERATING EXPENSES – TECHNICAL ACCOUNT

	2010 £'000	2009 £'000
Acquisition costs	85,780	76,651
Change in deferred acquisition costs	788	3,623
Administrative expenses	30,962	27,160
Reinsurance commissions	(7,885)	(9,187)
Profit on exchange	(7,333)	(14,131)
	<hr/>	<hr/>
	102,312	84,116
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“Acquisition costs” includes total commissions for direct business amounting to £69.51 million (2009: £58.75 million).

“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 2010, before the transfer to acquisition costs, is £34.0 million (2009: £29.93 million) and can be estimated as constituting the following:

salary and other employment costs – 44% (42%), accommodation costs – 6% (6%), Lloyd's charges – 25% (23%), computer costs – 12% (19%), professional fees – 7% (6%), auditors' remuneration – 1% (1%), travel and entertaining – 2% (2%) and administrative costs including irrecoverable VAT on all costs – 3% (1%).

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

	2010 £'000	2009 £'000
Audit fees:		
Fees payable for the audit of the annual accounts	125	144
Non audit fees:		
Other services pursuant to legislation	193	216
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	318	360
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“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.

	2010 £'000	2009 £'000
Aggregate emoluments and benefits	2,257	1,894
Company pension contributions to money purchase pension schemes	84	75
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	2,341	1,969
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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 £637,055 (2009: £576,799) in respect of emoluments and benefits and the highest paid director was paid a total of £714,191 (2009: £616,418) 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 £41,624 (2009: £41,624) and £212,825 (2009: £208,739) 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, four directors received shares in ACE Limited under long-term incentive plans and two directors exercised options over the shares of ACE Limited. The active underwriter and highest paid director received shares in ACE Limited under long-term incentive plans .

Pension benefits are accruing to five current directors under the ACE European Group UK Pension Plan (Stakeholder scheme). Until 31 March 2002, retirement benefits accrued under the ACE London Pension Scheme to two 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.

NOTES TO THE FINANCIAL STATEMENTS

6. INVESTMENT RETURN

	2010 £'000	2009 £'000
Investment income		
Investment income	45,222	49,485
Gains on the realisation of investments	13,612	30,075
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	58,834	79,560
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Investment expenses and charges		
Investment management expenses	(1,777)	(1,538)
Losses on the realisation of investments	(1,709)	(38,458)
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	(3,486)	(39,996)
	<hr/>	<hr/>
Net unrealised gains less losses on investments		
Unrealised gains on investments	56,724	111,815
Unrealised losses on investments	(48,079)	(42,607)
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	8,645	69,208
	<hr/>	<hr/>
TOTAL INVESTMENT RETURN	63,993	108,772
	<hr/>	<hr/>
Investment return is analysed between:		
Allocated investment return transferred to the general business technical account	61,767	108,234
Net investment return included in the non-technical account	2,226	538
	<hr/>	<hr/>
TOTAL INVESTMENT RETURN	63,993	108,772
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NOTES TO THE FINANCIAL STATEMENTS

7. OTHER FINANCIAL INVESTMENTS

	2010 £'000	2009 £'000
Market value:		
Debt securities and other fixed interest securities	883,785	1,053,403
Overseas deposits	111,238	95,146
Deposits with credit institutions	29,550	17,026
	<hr/>	<hr/>
	1,024,573	1,165,575
	<hr/>	<hr/>
Cost:		
Debt securities and other fixed interest securities	882,377	1,062,040
Overseas deposits	111,238	95,146
Deposits with credit institutions	29,550	17,026
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	1,023,165	1,174,212
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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 91% 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.

£67.61 million (2009: £53.68 million) of the total market value relates to Funds at Lloyd's, as explained in note 9; this is analysed as follows:

	2010 £'000	2009 £'000
Market value:		
Debt securities and other fixed interest securities	67,611	53,677
	<hr/>	<hr/>
Cost:		
Debt securities and other fixed interest securities	67,481	52,658
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8. OTHER DEBTORS

	2010 £'000	2009 £'000
Amounts falling due within one year:		
Amounts due from members	1,376	595
Amounts due from group company	101	384
Other debtors	2,490	1,996
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	3,967	2,975
	<hr/>	<hr/>
Amounts falling due after one year:		
Amounts due from members	671	1,673
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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.

NOTES TO THE FINANCIAL STATEMENTS

9. MEMBERS' BALANCES

	2010 £'000	2009 £'000
Members' balances brought forward at 1 January	173,835	(11,561)
Currency translation differences	1,473	15,589
Profit for the financial year	111,077	178,998
Profit distribution	(150,377)	(62,620)
Members' balances designated as Funds at Lloyd's	15,693	58,068
Foreign exchange movement on Funds at Lloyd's	2,797	(4,639)
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Members' balances carried forward at 31 December	154,498	173,835
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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 ("FAL"), as disclosed in note 14.

Members' balances carried forward at 31 December include £74,682,000 (2009: £53,967,000) designated as FAL; this represents the balance of the profit distribution for each of the 2006 and 2007 year of account, which was retained in the syndicate to meet an increase in the FAL requirement, and is included in the following asset headings:

	2010 £'000	2009 £'000
Other financial investments (note 7)	67,611	53,677
Deposits with credit institutions	6,766	-
Cash at bank and in hand	-	21
Other prepayments and accrued income	305	269
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Total assets designated as Funds at Lloyd's	74,682	53,967
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10. OTHER CREDITORS

	2010 £'000	2009 £'000
Amounts falling due within one year:		
Payable for purchases of securities	-	2,966
Other creditors	-	368
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	-	3,334
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NOTES TO THE FINANCIAL STATEMENTS

11. MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING

	2010 £'000	2009 £'000
Net cash inflow/(outflow) for the year	36,408	(62,978)
Cash flow – portfolio investments (note 12)	(195,688)	36,334
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Movement arising from cash flows	(159,280)	(26,644)
Changes in market value and exchange rates	54,170	(3,538)
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Total movement in portfolio investments net of financing	(105,110)	(30,182)
Balance brought forward at 1 January	1,150,297	1,180,479
	<hr/>	<hr/>
Balance carried forward at 31 December	1,045,187	1,150,297
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	At 1 January 2010 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 December 2010 £'000
Cash at bank and in hand	14,725	10,332	494	25,551
Bank loans and overdrafts	(30,003)	26,076	(1,010)	(4,937)
	<hr/>	<hr/>	<hr/>	<hr/>
	(15,278)	36,408	(516)	20,614
	<hr/>	<hr/>	<hr/>	<hr/>
Debt securities and other fixed interest securities	1,053,403	(220,758)	51,140	883,785
Overseas deposits	95,146	13,291	2,801	111,238
Deposits with credit institutions	17,026	11,779	745	29,550
	<hr/>	<hr/>	<hr/>	<hr/>
Total portfolio investments	1,165,575	(195,688)	54,686	1,024,573
	<hr/>	<hr/>	<hr/>	<hr/>
	1,150,297	(159,280)	54,170	1,045,187
	<hr/>	<hr/>	<hr/>	<hr/>

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

	2010 £'000	2009 £'000
Purchase of shares and other variable yield securities and units in unit trusts	-	(47,889)
Purchase of debt securities and other fixed interest securities	(1,281,395)	(959,460)
Sale of shares and other variable yield securities and units in unit trusts	-	91,663
Sale of debt securities and other fixed interest securities	1,502,153	895,547
(Increase)/decrease in overseas deposits	(13,291)	2,776
Increase in deposits with credit institutions	(11,779)	(18,971)
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Net cash inflow/(outflow) on portfolio investments	195,688	(36,334)
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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 is registered in Zurich, Switzerland and 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 2010, 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 2010 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 2010, £29.45 million relates to reinsurance contracts placed with group companies; of this amount, £26.08 million relates to reinsurance contracts placed with ACE Tempest Reinsurance Ltd. The reinsurers' share of claims incurred in the technical account for the year ended 31 December 2010 includes £16.06 million in relation to reinsurance contracts placed with group companies; of this amount, £15.55 million relates to reinsurance contracts placed with ACE Tempest Reinsurance Ltd. As at 31 December 2010, the reinsurers' share of the provision for claims outstanding includes £123.85 million recoverable from group companies; of this amount £115.34 million is recoverable from ACE Tempest Reinsurance Ltd. As at 31 December 2010, the reinsurers' share of the provision for unearned premium includes £11.24 million in relation to reinsurance contracts placed with group companies; of this amount £8.79 million relates to reinsurance contracts placed with ACE Tempest Reinsurance Ltd. Creditors arising out of reinsurance operations as at 31 December 2010 includes £36.41 million due to group companies, of which £30.52 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.

An element of the Funds at Lloyd's requirements of each of the corporate members referred to above is 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 £34.0 million (2009: £29.93 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 notes 9 and 13, the syndicate's members have met their FAL requirements by the retention of closed year of account profits in the syndicate and letters of credit; at 31 December 2010 FAL totalled £293.97 million (2009: £309.58 million), £219.28 million (2009: £255.61 million) of which was met by letters of credit.