

**ACE UNDERWRITING AGENCIES LIMITED
SYNDICATE 2488**

REPORT AND ANNUAL ACCOUNTS

31 DECEMBER 2009

CHAIRMAN'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

PERFORMANCE IN 2009

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.

Profit for the 2009 financial year amounted to £179.0 million, reflecting the syndicate's core principles of underwriting control and discipline despite recession-related declines in certain lines and increasing competition towards the end of the year. The solid underwriting performance resulted in a combined ratio of 76.9% and contributed £70.2 million to the financial year profit. Investment returns amounted to £108.8 million reflecting the recovery of the financial markets and significantly improved performance of the syndicate's investment portfolio.

MARKET ENVIRONMENT

Last year we anticipated that 2009 would herald the end of the soft market. Market conditions showed some signs of improvement in the first half of the year; however, the combination of the recovery of financial markets and the absence of a major loss event has meant we have seen little or no improvement in rating within the insurance industry.

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 Financial Services Authority 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.

During 2009 we made adjustments to some areas of the portfolio where deemed necessary by either rate or the market environment, but we have seen some growth in areas that have experienced losses and where prices have risen, including financial institutions, political risks & trade credit, and aviation. Syndicate 2488 also 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.

ACHIEVEMENTS DURING THE YEAR

Adapting to the changing environment

We at ACE seek to balance our underwriting position with the needs of our clients. Now, more than ever, clients are looking to reduce their insurance costs and we have used our proven underwriting skills to offer flexible solutions and commensurately priced alternatives. We have aligned ourselves to address clients' needs through risk education and have stepped into areas that others tend to avoid, such as trade credit risk and financial institutions.

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. With the capacity of Syndicate 2488 increasing to £400 million in 2010, it is clear that we intend to operate a syndicate with a sizeable mass for the foreseeable future.

We support Lloyd's vision to be the platform 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 project, the claims processing improvements and the simplification of Lloyd's 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.

We recognise that service levels are one of the key differentiators in the insurance market and strive to ensure that Syndicate 2488's service to brokers and clients is amongst the best in the market by continually looking for ways of enhancing our abilities using both traditional and technology driven methods.

Solvency II

The European Union Solvency II Directive is due to be implemented by 1st November 2012. Covering over 30 countries, it is the biggest ever exercise in establishing a single set of rules governing insurer creditworthiness and risk management, and represents a fundamental shift in regulatory requirements for the insurance industry.

Syndicate 2488's Solvency II preparation is well underway. We have chosen to adopt the Internal Model regime and will enter into a pre-approval process with Lloyd's who will then liaise with the Financial Services Authority on behalf of the society as a whole. As part of this process, we have completed a Solvency II "gap analysis" which provides an efficient and consolidated assessment of AUAL's risk management objectives and processes and how these need to adapt for supervision under a Solvency II regime.

AUAL will also participate in the Committee of European Insurance & Occupational Pension Supervisors ("CEIOPS") Quantitative Impact Study 5 during 2010.

CHAIRMAN'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2009 – continued*Management changes*

In September 2009, Mike Reynolds joined the ACE European Group management team as Chief Financial Officer. In addition to welcoming Mike to the organisation, I would like to express our deepest thanks and appreciation to Philippa Curtis who, from 1996, led ACE's European Finance, Actuarial and Risk functions through a period of momentous development and growth. Philippa's contribution has been critical to our success and we wish her the very best for the future.

FUTURE PROSPECTS

Although there are early signs that the global economic crisis is abating, significant risks remain and full economic recovery is not guaranteed. In the developed economies, unprecedented Government intervention has stabilised economic activity and fostered a return to modest growth in several countries, although a rapid return to the boom years prior to 2008 is unlikely.

Most insurers' balance sheets and investment portfolios have recovered and many have reported strong earnings during 2009. However, recent results have benefited significantly from reserve releases, masking the marginal nature of current accident year profitability. The move towards Solvency II is likely to result in an increase in capital requirements for many, and in order to maintain returns on capital and continued investor support, profitability must increase.

Given the intense, persistent competition currently being experienced, it is likely that 2010 will be another challenging year, with rates anticipated to be flat or even down on 2009.

Our underwriting focus will continue to concentrate on more than just price. We believe that policy terms and conditions coupled with good risk selections are just as important, and our current levels of profitability reflect this approach. Our robust control environment will ensure that the activities of all underwriters will continually be scrutinised by their peers, managers and actuaries. Our Peer Review process, applicable to all business written, underpins this ethos. We will continue to rely, not only on our underwriters' judgement and internal processes, but also on a strong actuarial function that continually evaluates the margin in all risk classes. We are very conscious of the current difficult trading conditions across most lines and a disciplined underwriting approach is paramount to our planning and strategy going into 2010.

We appreciate the dynamics of a soft market and our strategy is to manage the cycle as pricing begins to slide. This we have demonstrated in 2009. Our commitment to effectively manage the cycle remains in 2010. We expect to see growth in certain lines that have been loss affected or where capacity has become tighter. All new business will have to conform to the same rigorous underwriting standards as long term renewals. We adhere to our core principle that underwriting discipline is paramount, and we will not hesitate to decline business with unacceptable margins.

IN CONCLUSION

Syndicate 2488 has wide ranging product capabilities, a strong underwriting culture and a team of highly talented, optimistic and motivated people. Regardless of market conditions, our strategy and approach to underwriting, pricing and expense control do not change. The syndicate's performance is a testament to our strategy of maintaining underwriting discipline and pursuing a conservative investment policy, avoiding the more complex financial instruments that have proved so damaging to the financial markets.

We have a superb business support network encompassing claims, finance and actuarial, risk management, legal and compliance, human resources, operations and IT. All of our people know exactly what they must do to continue to build on our success and I would like to take this opportunity to thank all AUAL's employees for their hard work and dedication.

A J Kendrick

Chairman and Chief Executive Officer

11 March 2010

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2009

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 Aggregate 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 of companies is one of the few truly global insurance and reinsurance organisations. Writing over \$19 billion of gross written premiums and with more than \$78 billion in assets at year end 2009, the ACE group is distinguished by its underwriting expertise, superior claims handling and global franchise. It has a physical presence in more than 50 countries and conducts business in over 140, employing 15,000 people worldwide. As well as being one of the world’s leading providers of commercial property and casualty (“P&C”) insurance and reinsurance, ACE also has a major presence in the accident and health (“A&H”) business and a young, growing life insurance operation. The ACE group focuses on building global operations diversified by region and business line. This diverse product mix and extensive global presence give it competitive advantage and enhanced financial stability.

Syndicate 2488’s key strategy focuses on an established underwriting ethos that permeates the company. 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:

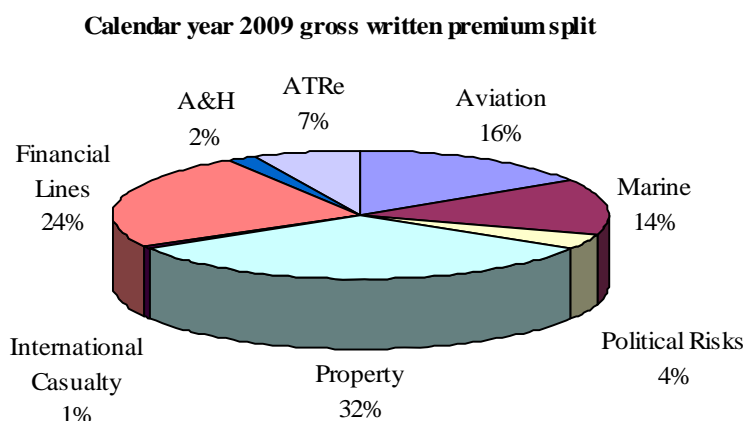
- is a professional risk taking operation with a strong underwriting culture;
- aims to position itself to set the terms and conditions on all business accepted, and is in no way a market share driven organisation;
- is focused on the profitability of its capital providers;
- values its relationships 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 has maintained 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, A&H, international casualty 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:



BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2009 - continued

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

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

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 P&C and A&H insurance and reinsurance products to both retail and wholesale markets. Factors influencing the decision to place business with the syndicate or the company include licensing eligibilities and capitalisation requirements, but predominantly reflect client and broker preference.

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

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

In September 2009, Mike Reynolds was appointed Chief Financial Officer, ACE European Group and was appointed to the AUAL board on 1 October 2009. Mike was previously the Chief Financial Officer of Aon Benfield, the largest global reinsurance broker in the world, and brings with him considerable finance expertise, particularly in the areas of financial management, budgeting and strategic planning.

BUSINESS ENVIRONMENT

Following the unprecedented economic events in 2008, the global financial markets have generally experienced a good recovery, shoring up capital and strengthening their balance sheets. Whilst a number of countries are reportedly emerging from recession, continuing high levels of unemployment and much reduced demand within the services sector mean that the potential for a double dip recession remains, and the outlook for 2010 remains uncertain.

The insurance industry continues to see high levels of competition which, together with the absence of a major loss event in 2009, is resulting in increasing pressure on rating levels, particularly within marine and property classes. Despite this, Syndicate 2488 has experienced some upward rate movement in aviation, trade credit risk and financial institutions.

Syndicate 2488 will rise to the economic and market challenges through 2010 by maintaining underwriting discipline, focusing on the retention of core accounts, continuing to implement effective expense control and retaining key underwriting and support staff.

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 2007 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	2009	2008
Gross written premiums	400.3	436.6
Net written premiums	294.3	322.1
Combined ratio *	76.9%	104.2%
Profit (loss) for financial year	179.0	(62.2)

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

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2009 - continued

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. As the majority of Syndicate 2488's business is conducted in US dollars, the initial 2009 capacity of £285 million was increased to £340 million in June 2009 as a result of a re-evaluation of the syndicate's capital needs following the significant currency movements against sterling towards the end of 2008. Capacity for the 2010 underwriting year has been set at £400 million.

RESULTS AND PERFORMANCE

Syndicate 2488 produced a profit for the financial year of £179.0 million and a combined ratio of 76.9%. A summary of the reported financial results is shown in the table below.

£ million	2009	2008
Gross written premiums	400.3	436.6
Net written premiums	294.3	322.1
Net earned premiums	304.5	344.9
Incurred losses	150.2	247.3
Operating expenses	84.1	111.9
Underwriting profit (loss)	70.2	(14.3)
Investment return	108.8	(47.9)
Profit (loss) for financial year	179.0	(62.2)
Combined ratio %	76.9%	104.2%

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

At £400.3 million, gross written premiums were 8% below those of the prior year, with the reduction reflective of the increasingly challenging market conditions.

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 2009 were shared with other ACE companies, predominantly AEGL.

AUAL benefited from below average catastrophe losses during 2009 as well as from favourable prior period reserve development with releases, predominantly within aviation, property, political risks and ATRe, offsetting some reserve strengthening within the marine product line. In comparison, the 2008 financial year was impacted by catastrophe losses totalling approximately £34 million, primarily relating to Hurricanes Ike and Gustav and US tornadoes. Excluding catastrophe losses and prior period development, the current accident year loss ratio for the year was 62.4% – a very good result that illustrates the quality of the syndicate's core business.

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

After the turmoil in financial markets witnessed in 2008, 2009 proved to be a strong year for investors. After continued volatility in the first quarter of 2009, in the remainder of the year credit spreads narrowed reflecting the improvement in corporate performance, lower expected downgrade and default rates together with increased demand from investors. Against this backdrop, fixed income performed strongly and investors focused on minimising cash while interest rates remained at historic lows. For 2009 calendar year, Syndicate 2488 generated a total investment return of 9.9% based on funds available for investment.

The syndicate maintained its bias towards investment grade fixed income investments throughout the year and at year end, approximately 89% of the syndicate investments were allocated to investment grade portfolios. During June 2009 the syndicate's modest allocation to equities was liquidated with the proceeds allocated to the high yield portfolio. Consequently, at year end, the high yield portfolio constituted the remaining 11% of the syndicate investment balances.

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2009 - continued**FINANCIAL POSITION****Investments**

Syndicate 2488 maintains five active and one indexed investment grade fixed income portfolios, the currencies of which are US dollars, sterling and Canadian dollars. In addition, the syndicate maintains an actively managed US dollar portfolio of high yield fixed income securities. The approximate currency split of the syndicate investment portfolios is US dollars 84%, Canadian dollars 8% and sterling 8%.

Investment grade portfolios held within the Lloyd's Dollar Trust Fund ("LDTF"), the Surplus Lines Trust Fund ("SLTF") and the Credit for Reinsurance Trust Fund ("CRTF") are managed by Wellington Management Company. The high yield portfolio held within the LDTF is managed by Oaktree Capital Management. Blackrock Investment Management manage the Sterling Premiums Trust Fund ("SPTF") and the Lloyd's Canadian Trust Fund ("LCTF") fixed income investment portfolios following their acquisition of Barclays Global Investors at the end of 2009.

Global markets and economies began to stabilise at the start of the year in part as a result of the extraordinary measures taken by governments. As markets stabilised, yields narrowed dramatically, resulting in strong gains for fixed income investors. Sectors which bore the brunt of the falling valuations in 2008 showed the most marked recoveries. Financial corporate bonds, asset backed, collateralised mortgage backed and high yield sectors were among the strongest performing. Conversely, yields for government bonds rose in most markets and this resulted in modest total returns for this sector.

The US dollar investment grade portfolios managed by Wellington Management Company maintain significant exposure to non-government sectors and generated strong total returns for the year in excess of 10%. The smaller sterling and Canadian dollar portfolios now managed by Blackrock hold a blend of government securities and other sectors. Both portfolios performed satisfactorily during the year, generating total returns in excess of 5%.

The high yield portfolio managed by Oaktree focuses on upper tier high yield fixed income, targeting average Standard & Poor's quality of "B" or higher and is therefore higher quality than the universe of high yield issues. Nevertheless, in a year in which lower credits produced the best returns, the portfolio produced strong total returns in excess of 34% 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. Underwriting cash flow deteriorated in the latter part of the year as a result of some large loss settlements. The 2006 year of account syndicate profits were distributed by the transfer of fixed income securities now held as Funds at Lloyd's by the ACE corporate capital vehicles.

During 2009, the syndicate entered into a notional cash pooling arrangement with other ACE group companies operated by Bank Mendes Gans, a subsidiary of ING. The cash pooling arrangement facilitates short term currency overdrafts for individual participants subject to the maintenance of an overall credit balance for the pool.

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 2010, the agreed ICA shows a slight increase over the 2009 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 Funds at Lloyd's ("FAL") are provided by letters of credit ("LOCs") guaranteed by ACE Bermuda Insurance Ltd and ACE Tempest Reinsurance Ltd and investments representing the bulk of the profits for the 2006 year of account retained within the syndicate and designated as FAL. The letters of credit are provided by a syndication of banks and the existing facility will expire in 2013 at a level of £300 million.

The utilisation of the FAL LOC facility increased in the early part of 2009 as a result of the impact of the strengthening of the US dollar on the ICA requirement translated to sterling and the inclusion of open year solvency deficits from the open years of account. As a result, the FAL LOC was fully utilised for the majority of 2009 but this decreased towards the end of the year as a result of the inclusion of part of the profit earned in 2009 as a credit in the FAL requirement for 2010 underwriting.

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 "A+" ratings from both A.M. Best and Standard & Poor's held by the ACE group, it has not been considered necessary to obtain an individual rating for the syndicate.

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2009 - continued**GOVERNANCE**

AUAL continues to work closely and further develop its relationships with its regulator, the FSA. AUAL believes that the FSA operates one of the strongest insurance related regulatory regimes in the world and the board of directors continues to support their outcomes-focused 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 two committees, the Audit Committee and the Risk 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 Risk and Audit committees operate a number of sub-committees including the Control Environment Sub-Committee which oversees the effectiveness and efficiency of the control environment and provides the committees with information to assess residual risk exposures.

The board reviews and approves the annual business plan for the syndicate, which includes assessing the risk appetite for the syndicate and considering the strategy, limits and reinsurance protections for each product line. The board also receives reports from each of the Risk and Audit Committees, reviews the ICA, quarterly financial information and significant management decisions.

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

RISK & CONTROL FRAMEWORK

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

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

The Risk Committee, another principal committee of the AUAL board, assists the board by providing oversight of risk management as well as overseeing the development and embedding in the business of risk management and capital assessment. The Risk Committee ensures that business risks and controls are recorded and monitored. A number of sub-committees or subject matter functions dedicated to managing specific areas of risk such as underwriting, reserve, investment, counterparty credit, operational and projects, report to the Risk Committee.

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

The syndicate is continuing to invest in the development of the 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.

The syndicate has developed a risk based framework for identifying the key risks to which each business sector, and the syndicate as a whole, is exposed and their resultant impact on economic and regulatory capital. This framework employs ICA principles to assess risk and manage capital requirements to ensure the capital required to support AUAL's business objectives and meet the requirements of 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 2009 - continued**COMPLIANCE**

Compliance with regulation, legal and ethical standards is a high priority for the syndicate, 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.

The financial crisis has led to increased scrutiny of financial institutions by regulators. In 2009 the FSA carried out their ARROW risk assessment with no AUAL specific issues arising. AUAL employs a highly skilled and proficient workforce to manage its regulatory and compliance undertakings and aims to operate to a standard of best practice. The syndicate enjoys good relationships with regulators and engages in open dialogue and communication to address and resolve any issues.

EMPLOYEES

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

ACE is an equal opportunity employer. One of the three key ACE mission statements is to provide "superior employee value by creating a rewarding and ethical environment". In support of this, it is ACE's policy to take whatever steps reasonably practicable to promote equality of opportunity and to eliminate discrimination in employment. The ACE group has implemented a number of policies relating to diversity and equal opportunities including but not limited to age, disability, race, religious and sex discrimination.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the ACE group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

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

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

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

ACE AND THE ENVIRONMENT

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

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

ACE IN THE COMMUNITY

The ACE group supports the communities around the world in which its employees live and work through the established "ACE Foundations" and through group sponsored volunteer initiatives. These positive contributions to the fabric of local communities return long-lasting benefits to society, employees and the group.

In addition, ACE European Group ("AEG") employees who are 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.

BUSINESS REVIEW FOR THE YEAR ENDED 31 DECEMBER 2009 - continued

During 2009, approximately 70 requests for donations or matched funding were received from offices throughout the UK, Ireland and Continental Europe, covering a wide range of charities that included:

- Cancer research & treatment for adults and children;
- Hospices for adults and children;
- Education & special needs;
- Quality of life programmes;
- Critical illnesses; and
- Military veteran services

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 2009 to in excess of £91,000.

During the year, a selection of ACE employees involved in fund raising and whose charities received donations from ACS were filmed on ACE TV sharing their activities with all AEG employees.

Just some of the other initiatives in which members of AUAL participate are highlighted below:

- The Lloyd's Community Reading Partners scheme is a long running project in which AUAL employees make a real difference to the lives of children in East London by devoting one lunch break every week to partner with children in a local school and help with their literacy and numeracy skills.
- ACE European Group hosts a "Take Our Students to Work" programme aimed at secondary school students attending inner city London schools. The event, which takes place twice a year, allows students to take a peek into the daily workings of the insurance world by spending a day at AEG's UK headquarters. In addition, AEG has initiated a new work experience scheme for 2010, where students will shadow underwriters across various business classes and are given the opportunity to present to a broker.
- AEG also participates in the annual Tower Hamlets schools public speaking competition, organised by the Lloyd's Community Programme ("LCP") and Tower Hamlets Education Business Partnership. In 2009, AEG hosted a lunch for all semi-finalists, teachers and volunteers involved in the project prior to the final of the competition, which was held at Lloyd's. Again in conjunction with the LCP, AEG helped run a sports day for children in the Tower Hamlets area. Over 500 children aged 8 and 10 participated in the event which included various sporting events which will feature in the 2012 London Olympics.

Approved by the Board of Directors

11 March 2010

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

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 2009.

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 2009 amounted to £178,998,000 (2008: £62,235,000 loss). 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 2009 to the date of this report unless otherwise indicated:

Executive directors:

P M Curtis (Resigned 30 September 2009)
A J Kendrick
R P Murray
R V Pryce (Active Underwriter)
M T Reynolds (Appointed 1 October 2009)

Non-executive directors:

W J Loschert (Resigned 12 March 2009)
D S Marston (Appointed 16 April 2009)
G D Williams

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

DIRECTORS' PARTICIPATIONS

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

FINANCIAL RISK MANAGEMENT

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

The investment function

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

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

The investment management function is out-sourced to specialist external managers: Wellington Management Company, 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 although equities were maintained during the year. 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 2009 - continued**FINANCIAL RISK MANAGEMENT - continued****Investment guidelines**

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

Duration and interest rate risk

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

Equity price risk

The syndicate's exposure to equity price risk is moderated through the asset allocation policy, which limits this category of asset, and the investment guidelines. The investment guidelines restrict individual equity holdings relative to the size of the portfolio and the benchmark constituents. No equities were held by the syndicate at year end.

Currency risk

The syndicate maintains three separate currency funds: sterling, United States dollars and Canadian dollars. The syndicate seeks to ensure an approximate currency match of assets and liabilities, subject to regulatory funding requirements. In 2010, the syndicate established a currency fund in Euros in order to improve the currency matching of assets and liabilities.

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. On this basis, the syndicate maintained an overdraft in the notional pool of £30.0 million at year end.

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 2009 - 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 2009 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. Members have approved the appointment of PricewaterhouseCoopers LLP as the auditor of the syndicate annual accounts for the 2009 year end.

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

On behalf of the board of ACE Underwriting Agencies Limited

M T Reynolds
Chief Financial Officer

11 March 2010

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 2009 which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes. These accounts have been prepared under the accounting policies set out therein.

Respective responsibilities of managing agent and auditors

The managing agent's responsibilities for preparing the syndicate annual accounts in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Managing Agent's Responsibilities.

Our responsibility is to audit the syndicate annual accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the syndicate's members as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the syndicate annual accounts give a true and fair view and are properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and United Kingdom Generally Accepted Accounting Practice. We also report to you whether, in our opinion, the information given in the Managing Agent's Report is consistent with the syndicate annual accounts.

In addition we report to you if, in our opinion, the managing agent has not kept adequate accounting records in respect of the syndicate, if the syndicate annual accounts are not in agreement with the accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding remuneration of the directors of the managing agent and the active underwriter and other transactions is not disclosed.

We read the other information attached to the syndicate annual accounts and consider whether it is consistent with the audited syndicate annual accounts. This other information comprises the Chairman's Report, the Business Review and the Managing Agent's Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the syndicate annual accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the syndicate annual accounts. It also includes an assessment of the significant estimates and judgements made by the directors of the managing agent in the preparation of the syndicate annual accounts, and of whether the accounting policies are appropriate to the syndicate's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the syndicate annual accounts.

Opinion

In our opinion:

- the syndicate annual accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the syndicate's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended;
- the syndicate annual accounts have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and United Kingdom Generally Accepted Accounting Practice; and
- the information given in the Managing Agent's Report is consistent with the syndicate annual accounts.

Nick Wilks (Senior Statutory auditor)

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

11 March 2010

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2009**

	Note	2009 £'000	2008 £'000
TECHNICAL ACCOUNT – GENERAL BUSINESS			
EARNED PREMIUMS, NET OF REINSURANCE:			
Gross premiums written	2	400,272	436,644
Outward reinsurance premiums		(105,975)	(114,512)
Net premiums written		294,297	322,132
Change in the gross provision for unearned premiums		11,207	33,607
Change in the provision for unearned premiums – reinsurers' share		(941)	(10,812)
EARNED PREMIUMS, NET OF REINSURANCE		304,563	344,927
ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT	6	108,234	(47,890)
CLAIMS INCURRED, NET OF REINSURANCE:			
Claims paid:			
Gross amount	2	(330,737)	(400,392)
Reinsurers' share		81,038	134,245
Net paid claims		(249,699)	(266,147)
Change in the provision for claims outstanding:			
Gross amount	2	119,859	46,750
Reinsurers' share		(20,381)	(27,960)
Change in the net provision for claims outstanding		99,478	18,790
CLAIMS INCURRED, NET OF REINSURANCE		(150,221)	(247,357)
Net operating expenses	4	(84,116)	(111,915)
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		178,460	(62,235)

All of the above results derive from continuing operations.

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2009 – continued**

	Note	2009 £'000	2008 £'000
NON-TECHNICAL ACCOUNT			
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		178,460	(62,235)
Investment income	6	79,560	85,468
Unrealised gains on investments	6	111,815	32,254
Investment expenses and charges	6	(39,996)	(28,544)
Unrealised losses on investments	6	(42,607)	(137,068)
Allocated investment return transferred to the general business technical account	6	(108,234)	47,890
		<hr/>	<hr/>
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	9	178,998	(62,235)
		<hr/>	<hr/>

All of the above results derive from continuing operations.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2009**

		2009 £'000	2008 £'000
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		178,998	(62,235)
Currency translation differences	9	15,589	21,687
		<hr/>	<hr/>
TOTAL RECOGNISED GAINS/(LOSSES) FOR THE FINANCIAL YEAR		194,587	(40,548)
		<hr/>	<hr/>

BALANCE SHEET AT 31 DECEMBER 2009

	Note	2009 £'000	2008 £'000
ASSETS			
INVESTMENTS			
Other financial investments	7	1,165,575	1,131,886
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums		36,302	40,396
Claims outstanding		464,972	528,428
		501,274	568,824
DEBTORS – amounts falling due within one year			
Debtors arising out of direct insurance operations: amounts owed by intermediaries		105,008	103,905
Debtors arising out of reinsurance operations		53,923	78,912
Other debtors	8	2,975	907
		161,906	183,724
DEBTORS – amounts falling due after one year			
Debtors arising out of direct insurance operations: amounts owed by intermediaries		14	142
Debtors arising out of reinsurance operations		52	-
Other debtors	8	1,673	1,493
		1,739	1,635
OTHER ASSETS			
Cash at bank and in hand		14,725	48,593
PREPAYMENTS AND ACCRUED INCOME			
Deferred acquisition costs		30,081	35,807
Other prepayments and accrued income		9,651	11,495
		39,732	47,302
TOTAL ASSETS		1,884,951	1,981,964

BALANCE SHEET AT 31 DECEMBER 2009

	Note	2009 £'000	2008 £'000
LIABILITIES			
CAPITAL AND RESERVES			
Members' balances	9	173,835	(11,561)
TECHNICAL PROVISIONS			
Provision for unearned premiums		171,267	195,057
Claims outstanding		1,373,411	1,594,638
		<u>1,544,678</u>	<u>1,789,695</u>
DEPOSITS RECEIVED FROM REINSURERS		370	5,499
		<u>370</u>	<u>5,499</u>
CREDITORS – amounts falling due within one year			
Creditors arising out of direct insurance operations		16,917	18,651
Creditors arising out of reinsurance operations		115,032	163,692
Bank loans and overdrafts		30,003	-
Other creditors	10	3,334	15,287
		<u>165,286</u>	<u>197,630</u>
ACCRUALS AND DEFERRED INCOME		782	701
		<u>782</u>	<u>701</u>
TOTAL LIABILITIES		<u>1,884,951</u>	<u>1,981,964</u>

The syndicate annual accounts on pages 14 to 29 were approved by the board of ACE Underwriting Agencies Limited on 11 March 2010 and were signed on its behalf by:

M T Reynolds
Chief Financial Officer

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 £'000	2008 £'000
RECONCILIATION OF OPERATING PROFIT/(LOSS) TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES			
Operating profit/(loss) on ordinary activities		178,998	(62,235)
Currency translation differences	9	15,589	21,687
Unrealised investment (gains)/losses		(69,208)	104,814
Foreign exchange movement on cash and investments		72,746	(277,203)
Foreign exchange movement on Funds at Lloyd's		(4,639)	-
(Decrease)/increase in net technical provisions		(177,467)	196,464
Decrease in deposits received from reinsurers		(5,129)	(11,294)
Decrease in debtors and prepayments		29,284	9,951
(Decrease)/increase in creditors and accruals		(62,266)	62,240
		<hr/>	<hr/>
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES		(22,092)	44,424
Transfers to members in respect of underwriting participations		(62,620)	(45,625)
Members' balances designated as Funds at Lloyd's		58,068	-
		<hr/>	<hr/>
NET CASH OUTFLOW	11	(26,644)	(1,201)
		<hr/>	<hr/>
CASH FLOWS WERE (UTILISED)/INVESTED AS FOLLOWS:			
Decrease in cash holdings	11	(62,978)	(8,304)
Net portfolio investment	12	36,334	7,103
		<hr/>	<hr/>
NET UTILISATION OF CASH FLOWS	11	(26,644)	(1,201)
		<hr/>	<hr/>

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

The unique capital base of Lloyd's means that these annual accounts do not include the capital supporting the operations of the syndicate. Capital is provided to Lloyd's by the syndicate's members in the form of Funds at Lloyd's ("FAL"), and held in trust. Given that Syndicate 2488 is a fully aligned syndicate, with 100% of the underwriting capacity provided by ACE corporate capital vehicles, these accounts disclose the total FAL supporting the operations of the syndicate in note 14.

The syndicate annual accounts have been prepared in accordance with the provisions of 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 2006 and 2007 years of account. The managing agent’s current intention is to consider a waiver of profit commission for the 2008 and 2009 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 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)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Year to 31 December 2008					
Direct insurance					
Fire and other damage to property	123,406	134,940	(102,501)	(41,685)	(3,976)
Marine, aviation and transport	50,011	52,175	(33,399)	(13,649)	(2,412)
Accident and health	5,392	5,593	(3,698)	(1,978)	377
Third party liability	140,630	149,509	(132,037)	(33,586)	(1,009)
Miscellaneous	10,950	14,127	(4,215)	(5,100)	(1,850)
Reinsurance acceptances	106,255	113,907	(77,792)	(23,483)	(2,603)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	436,644	470,251	(353,642)	(119,481)	(11,473)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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 2009 (2008: surplus) as detailed below:

	2009 £'000	2008 £'000
Direct insurance		
Fire and other damage to property	13,107	2,732
Marine, aviation and transport	4,488	1,635
Accident and health	1,613	515
Third party liability	6,937	(3,480)
Miscellaneous	5,116	1,814
Reinsurance acceptances	8,542	6,880
	<hr/>	<hr/>
	39,803	10,096
	<hr/>	<hr/>

4. NET OPERATING EXPENSES – TECHNICAL ACCOUNT

	2009 £'000	2008 £'000
Acquisition costs	76,651	82,245
Change in deferred acquisition costs	3,623	5,648
Administrative expenses	27,160	26,532
Reinsurance commissions	(9,187)	(7,566)
(Profit)/loss on exchange	(14,131)	5,056
	<hr/>	<hr/>
	84,116	111,915
	<hr/>	<hr/>

“Acquisition costs” includes total commissions for direct business amounting to £58.75 million (2008: £63.50 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 2009, before the transfer to acquisition costs, is £29.93 million (2008: £29.04 million) and can be estimated as constituting the following:

salary and other employment costs – 42% (41%), accommodation costs – 6% (8%), Lloyd's charges – 23% (17%), computer costs – 19% (18%), professional fees – 6% (8%), auditors' remuneration – 1% (1%), travel and entertaining – 2% (2%) and administrative costs including irrecoverable VAT on all costs – 1% (5%).

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

	2009 £'000	2008 £'000
Audit fees:		
Fees payable for the audit of the annual accounts	144	144
Non audit fees:		
Other services pursuant to legislation	216	212
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	360	356
	<hr/>	<hr/>

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

NOTES TO THE FINANCIAL STATEMENTS

5. DIRECTORS AND EMPLOYEES

Staff costs

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

Directors' emoluments

All directors of the managing agent received emoluments from AIS in respect of their services to the syndicate and ACE group companies. The cost of these emoluments is covered by the managing agent's fee and incorporated within the management charges from AIS to the managing agent. For disclosure purposes, it is not practical to allocate these amounts to the underlying entities to which the directors provide services. Consequently, the following amounts represent the total emoluments paid by AIS in respect of the directors of the managing agent.

	2009 £'000	2008 £'000
Aggregate emoluments and benefits	1,894	1,878
Company pension contributions to money purchase pension schemes	75	70
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	1,969	1,948
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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 £576,799 (2008: £585,287) in respect of emoluments and benefits and the highest paid director was paid a total of £616,418 (2008: £630,555) 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 (2008: £37,449) and £208,739 (2008: £156,322) respectively.

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

	2009 £'000	2008 £'000
Investment income		
Investment income	49,485	62,244
Gains on the realisation of investments	30,075	23,224
	<hr/>	<hr/>
	79,560	85,468
	<hr/>	<hr/>
Investment expenses and charges		
Investment management expenses	(1,538)	(1,599)
Losses on the realisation of investments	(38,458)	(26,945)
	<hr/>	<hr/>
	(39,996)	(28,544)
	<hr/>	<hr/>
Net unrealised gains less losses on investments		
Unrealised gains on investments	111,815	32,254
Unrealised losses on investments	(42,607)	(137,068)
	<hr/>	<hr/>
	69,208	(104,814)
	<hr/>	<hr/>
TOTAL INVESTMENT RETURN	108,772	(47,890)
	<hr/>	<hr/>
Investment return is analysed between:		
Allocated investment return transferred to the general business technical account	108,234	(47,890)
Net investment return included in the non-technical account	538	-
	<hr/>	<hr/>
TOTAL INVESTMENT RETURN	108,772	(47,890)
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

7. OTHER FINANCIAL INVESTMENTS

	2009 £'000	2008 £'000
Market value:		
Shares and other variable-yield securities and units in unit trusts	-	47,575
Debt securities and other fixed interest securities	1,053,403	982,479
Overseas deposits	95,146	101,832
Deposits with credit institutions	17,026	-
	<hr/>	<hr/>
	1,165,575	1,131,886
	<hr/>	<hr/>
Cost:		
Shares and other variable-yield securities and units in unit trusts	-	58,672
Debt securities and other fixed interest securities	1,062,040	1,066,822
Overseas deposits	95,146	101,832
Deposits with credit institutions	17,026	-
	<hr/>	<hr/>
	1,174,212	1,227,326
	<hr/>	<hr/>

All securities are listed investments.

The overseas deposits are held under Lloyd's premium trust deed arrangements where applicable and are administered by Lloyd's. The syndicate is required to lodge deposits in various overseas insurance markets as a condition of conducting underwriting business in those markets. All such overseas deposits are calculated in accordance with the relevant territorial authority's requirements, usually by reference to outstanding liabilities derived from business written in those territories. Approximately 92% 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.

£53.68 million (2008: £Nil) of the total market value relates to Funds at Lloyd's, as explained in note 9; this is analysed as follows:

	2009 £'000	2008 £'000
Market value:		
Debt securities and other fixed interest securities	53,677	-
	<hr/>	<hr/>
Cost:		
Debt securities and other fixed interest securities	52,658	-
	<hr/>	<hr/>

8. OTHER DEBTORS

	2009 £'000	2008 £'000
Amounts falling due within one year:		
Amounts due from members	595	907
Amounts due from group company	384	-
Other debtors	1,996	-
	<hr/>	<hr/>
	2,975	907
	<hr/>	<hr/>
Amounts falling due after one year:		
Amounts due from members	1,673	1,493
	<hr/>	<hr/>

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

	2009 £'000	2008 £'000
Members' balances brought forward at 1 January	(11,561)	74,612
Currency translation differences	15,589	21,687
Profit/(loss) for the financial year	178,998	(62,235)
Profit distribution	(62,620)	(45,625)
Members' balances designated as Funds at Lloyd's	58,068	-
Foreign exchange movement on Funds at Lloyd's	(4,639)	-
	<hr/>	<hr/>
Members' balances carried forward at 31 December	173,835	(11,561)
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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 £53,967,000 (2008: £Nil) designated as FAL; this represents the balance of the 2006 year of account profit distribution, which was retained in the syndicate to meet an increase in the FAL requirement, and is included in the following asset headings:

	2009 £'000	2008 £'000
Other financial investments (note 7)	53,677	-
Cash at bank and in hand	21	-
Other prepayments and accrued income	269	-
	<hr/>	<hr/>
Total assets designated as Funds at Lloyd's	53,967	-
	<hr/>	<hr/>

10. OTHER CREDITORS

	2009 £'000	2008 £'000
Amounts falling due within one year:		
Payable for purchases of securities	2,966	15,027
Other creditors	368	260
	<hr/>	<hr/>
	3,334	15,287
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

11. MOVEMENT IN CASH, PORTFOLIO INVESTMENTS AND FINANCING

		2009 £'000	2008 £'000
Net cash outflow for the year		(62,978)	(8,304)
Cash flow – portfolio investments (note 12)		36,334	7,103
		<hr/>	<hr/>
Movement arising from cash flows		(26,644)	(1,201)
Changes in market value and exchange rates		(3,538)	172,389
		<hr/>	<hr/>
Total movement in portfolio investments net of financing		(30,182)	171,188
Balance brought forward at 1 January		1,180,479	1,009,291
		<hr/>	<hr/>
Balance carried forward at 31 December		1,150,297	1,180,479
		<hr/>	<hr/>
		Changes to market value and currencies	At 31 December 2009
	At 1 January 2009 £'000	Cash flow £'000	£'000
Cash at bank and in hand	48,593	(32,975)	(893)
Bank loans and overdrafts	-	(30,003)	-
	<hr/>	<hr/>	<hr/>
	48,593	(62,978)	(893)
	<hr/>	<hr/>	<hr/>
Shares and other variable yield securities and units in unit trusts	47,575	(43,774)	(3,801)
Debt securities and other fixed interest securities	982,479	63,913	7,011
Overseas deposits	101,832	(2,776)	(3,910)
Deposits with credit institutions	-	18,971	(1,945)
	<hr/>	<hr/>	<hr/>
Total portfolio investments	1,131,886	36,334	(2,645)
	<hr/>	<hr/>	<hr/>
	1,180,479	(26,644)	(3,538)
	<hr/>	<hr/>	<hr/>

12. NET CASH OUTFLOW ON PORTFOLIO INVESTMENTS

	2009 £'000	2008 £'000
Purchase of shares and other variable yield securities and units in unit trusts	(47,889)	(53,749)
Purchase of debt securities and other fixed interest securities	(959,460)	(769,272)
Sale of shares and other variable yield securities and units in unit trusts	91,663	49,584
Sale of debt securities and other fixed interest securities	895,547	762,023
Decrease in overseas deposits	2,776	4,311
Increase in deposits with credit institutions	(18,971)	-
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Net cash outflow on portfolio investments	(36,334)	(7,103)
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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 2009, 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 2009 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 2009, £26.05 million relates to reinsurance contracts placed with group companies; of this amount, £23.86 million relates to reinsurance contracts placed with ACE Tempest Reinsurance Ltd. As at 31 December 2009, the reinsurers' share of the provision for claims outstanding includes £116.97 million recoverable from group companies; of this amount £102.84 million is recoverable from ACE Tempest Reinsurance Ltd. Creditors arising out of reinsurance operations as at 31 December 2009 includes £76.41 million due to group companies, of which £75.41 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 £29.93 million (2008: £29.04 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 2009 FAL totalled £309.58 million (2008: £175.41 million), £255.61 million (2008: £175.41 million) of which was met by letters of credit.