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**ACE UNDERWRITING AGENCIES LIMITED
SYNDICATE 2488**

REPORT AND ANNUAL ACCOUNTS

31 DECEMBER 2014

CHAIRMAN'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

As outlined in the President's report, Syndicate 2488, managed by ACE Underwriting Agencies Group Limited ("AUAL") has delivered excellent results for 2014, particularly taking account of the challenges of:

- Continuing relative economic uncertainty and weak growth in Continental Europe compared to the UK.
- The continuing effect of Quantitative Easing lowering investment returns and attracting increased funding into the insurance sector already under intense competitive pricing pressures.
- Increased resourcing necessary to meet the requirements of the two separate regulatory agencies, the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"), and the introduction of the anticipated Solvency II capital adequacy regime being introduced across Europe in 2016.

AUAL as a major subsidiary of the ACE Group of Companies has demonstrated it is well positioned to meet these challenges. The company, our executives and employees are helped by a well-developed culture within all ACE Group companies of the primacy of, and support for, excellence in all aspects of risk awareness, pricing and exposures, actuarial, underwriting and claims activities. This is also manifested in the selection of lines of business, geographic markets, risk appetite and exposures and expert use of reinsurance.

AUAL is part of a global management process structured by line of business which emphasises underwriting discipline and accelerates shared knowledge and best practice. The necessary supporting functional services Risk, Actuarial, HR, Finance, Internal Audit, Operations and Compliance are grouped and managed regionally to give benefit of scale. All management, whether global, regional or local, is closely involved with the business, a factor that gives significant comfort to the Board, myself and my non-executive colleagues.

With respect to Board matters I have completed my own review of corporate governance and shared the results with my colleagues and the PRA. A number of changes have occurred which clarify the role of the Board and its committees and strengthen Board knowledge and improve involvement. As a subsidiary Board we have taken the opportunity to make all non-executives members of both Risk and Audit Committees, and major subsidiaries to ensure every director has available equal information of all aspects of governance, compliance and operational performance.

There were non-executive changes in 2014. Two of our longest serving directors, Malcolm Cox and Philip Stamp, retired in May. Both made significant contributions for which the company is pleased to recognise and thank them. Tim Wade joined in February and has significant international Board and accountancy experience in financial services and took over as Chair of the Audit Committee in May as part of a planned replacement. Cathryn Riley joined in April bringing Board and senior executive experience in operations and significant change management in the insurance industry. Given the extent of changes made in 2014 including a change in the Head of Internal Audit it has been agreed to extend the period before a further independent external review takes place. In the meantime, an interim internal process has been put in place to review Board effectiveness and to appraise individual non-executive performance over the next two financial years.

As we proceed through 2015 the challenges outlined at the beginning of this report are expected to continue. The Board is rightly expected to have greater awareness of and give constructive challenges to all important aspects of the company from the risks, sustainability and capital adequacy of its business model and strategy, to the detail of the appropriateness and "fairness" of the behaviours of its managers and employees at the customer interface. The macro to micro oversight is both interesting and challenging, particularly with the latter where key definitions are still being developed relating to "client", "customer" or "consumer", the degree of expertise they may or may not have and who has that responsibility. However, how that is resolved has long-term impacts and requires active regulatory consideration of proportionality, namely the size, scope and frequency of transactions, if the cost of regulation in terms of prices and availability of services is not to be distorted to the detriment of consumers.

In conclusion, I would like to thank my non-executive colleagues for their contributions and support and also that given by the AUAL management team by their input into the Board and the time and availability they give me and my colleagues throughout the year.

J A Napier
Chairman

17 March 2015

PRESIDENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2014**Performance**

Syndicate 2488 is one of the pre-eminent specialty insurers in the London market. It is managed by ACE Underwriting Agencies Limited ("AUAL"), which is part of the ACE Group of Companies.

The syndicate delivered an excellent result for 2014 against a backdrop of well documented, highly challenging market conditions. Adherence to underwriting discipline resulted in marginal production growth in comparison to prior year, with 2014 gross written premiums of £375.3 million. The year generated underwriting profits of £113.6 million and an associated combined ratio of 61.6%.

Although the underwriting result benefitted from favourable prior year reserve development and relatively light catastrophe related losses, the underlying accident year loss ratio was similar to that of the prior year, clearly demonstrating our disciplined, high quality underwriting approach. Strong investment performance generated total investment returns of £41.0 million, boosting profits for the financial year to £154.6 million, a simply excellent result.

Environment*Economic / political*

The world economy is still struggling to gain momentum as many countries continue to grapple with the legacies of the global financial crisis. The World Bank noted that growth in 2014 was lower than initially expected, picking up only marginally in comparison to 2013 and with progressively divergent trends developing in the major economies¹. Increased activity in the US and UK, due largely to the strengthening labour markets and accommodative monetary policies, was at odds with disappointing performances in other Western countries, with the much of the Eurozone seemingly afflicted by a generic economic malaise.

Many emerging markets' economies were also less dynamic than in the past, with continued economic slowdowns in China, Brazil and Russia reflecting weaker external demand, domestic policy tightening, political uncertainties and supply-side constraints.

Geopolitical events also impacted the economy somewhat, with sanctions due to the Ukraine conflict hitting not just Russia, but also countries trading with and exporting to them. Continued unrest in the Islamic world affected relationships between Middle Eastern countries and the West, although events in Iraq and Syria have not so far shaken the economic markets nor led to an increase in global oil prices.

Insurance market

Conditions in the Lloyd's and London insurance markets remained difficult throughout 2014. Market capacity reached an all-time high fuelling an increasingly competitive rating environment, particularly on larger accounts, and we have seen further emergence of broker agreements and facilities making some accounts less mobile and more difficult to access.

Premium growth in 2014 was difficult to come by. Price volatility remained in the London wholesale insurance and reinsurance markets and although overall business retention was strong, quality new business proved ever more difficult to secure at adequate rates.

Syndicate 2488's position as a lead syndicate in the Lloyd's market continues to benefit us. We recognise the true value of the distribution platform, global brand, strong financial strength ratings and the ease of access to the world's markets that Lloyd's provides. AUAL remains fully supportive of Lloyd's "Vision 2025" and recognises the benefits of the diversification and geographic expansion this should provide.

Natural catastrophes & large losses

The absence of very severe catastrophes and an unusually quiet hurricane season in the North Atlantic resulted in much lower natural catastrophe related losses in 2014 with economic losses of approximately US\$110 billion, well below the inflation-adjusted average values of the past ten years and also below the average values of the past 30 years². Total insured losses estimated at US\$31 billion were also lower than average, with the most costly event for the global insurance industry being the winter storms in Japan. Other notable natural loss events included Cyclone Hudhud which caused extensive damage in eastern India and Nepal, Typhoon Hagupit in the Philippines, Hurricane Odile, severe weather events and winter storms in the US, Canada and European countries including France, Belgium and Germany, and flooding in the UK. 2014 will also be remembered for its aviation disasters, including the loss of Malaysia Airlines flights MH370 and MH17 and the attacks on Tripoli international airport. The year had the highest volume of civilian aviation deaths in almost a decade, although the actual number of aviation related loss incidents was the lowest in modern aviation history.

Syndicate 2488's 2014 results were impacted by some of these events, with catastrophe related losses net of reinsurance recoveries amounting to £5.0 million, as adherence to clear risk management and underwriting guidelines, reinsurance protection, sophisticated modelling and analytical techniques continue to help us manage the syndicate's exposure to large losses, protecting our balance sheet and fully enabling us to meet our obligations to our clients.

¹ Source: Global Economic Prospects, January 2015

² Source: Munich Re press release "Review of natural catastrophes in 2014: Lower losses from weather extremes and earthquakes"

PRESIDENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2014**Outlook**

The insurance landscape is constantly evolving and as a significant underwriter of risk around the globe, ACE has to be prepared for change in order to maintain its leadership position in the marketplace.

Impact of alternative capital

The market is currently awash with capital and the influx of new sources of alternative capital is likely to make a structural and permanent change to the reinsurance market. These changing dynamics clearly have a wider impact on the primary market discipline and our view is that a global company such as ACE, with underwriting discipline supported by sophisticated data analytics, which can originate and package risk across a broad swathe of products and distribute directly through the capital markets, will have a winning model for the future.

Opportunities

Our 2015 plans assume continued market pressures, with rates likely to remain flat at best and in many cases continuing to decline. If the market continues its current trend, I would expect combined ratios to naturally rise over time. Beyond rate and loss cost, risk selection, portfolio management and product mix are some of the principles we use to help mitigate margin deterioration, and we practise those rigorously.

But there are plenty of opportunities among the challenges we face.

We will create new products – “pure” new products and also packaged solutions across business lines. We will utilise our cohesive underwriting, claims, actuarial and operations teams to develop enhancements and features that respond to customer needs – things that differentiate us in a competitive market.

Our focus remains firmly on underwriting discipline. Our portfolio review and analysis process allows us to fine-tune our underwriting appetite and improve profitability. Smart use of data allows us to dive deeper into our books of business and identify what works and where we need to target our business development activity.

Customer service

We continue to build on our long term relationships and increase our focus on our clients, pooling our skills and expertise with our brokers to provide the strategic counsel and risk management expertise they need. We are leveraging our operations to continually improve customer service and outcomes, adhering to clear and agreed service standards, and will continue to embed market leading risk management, compliance and conduct governance practices throughout all areas of the AUAL business.

Distribution

Underwriting business is conducted via registered brokers. We recognise that good relationships need to be nurtured and we continue to work with our broker partners to bring tangible benefits to our underwriting transactions. The tripartite relationships we build with brokers and their clients enable us to really understand a risk before absorbing it within our balance sheet, and I sincerely appreciate the continued support of our Lloyd's market partners and the wider broking community.

Conclusion

Intensified competition has the potential to lead to weakened balance sheets for some insurers who play for market share. It is more important than ever that we are able to offer our clients superior financial security and balance sheet strength. So we will continue to focus on our strengths – smart portfolio management, the use of data analytics and the clarity we provide to the market on our risk appetite – to keep abreast of the competition.

We are realistic about the Lloyd's market becoming more competitive but remain steadfast in our refusal to trade underwriting profit for premium volume. We have clear underwriting insight and are constantly working to improve our product innovation and distribution capabilities to keep us relevant in this ever-changing marketplace and I am optimistic about the opportunities that continue to present themselves.

AUAL has a clear strategic direction and a strong ability to execute. We are a leader in insurance, reinsurance and risk solutions with significant geographic presence, well-established underwriting capabilities and the support of the ACE worldwide network.

We constantly strive to set ourselves apart from the competition by providing superior service in all disciplines. We have a great team of people, and I would like to take this opportunity to thank all my colleagues for their continued dedication and contribution to AUAL's first class performance this year. Because of them, we are well placed to build on our position of strength throughout 2015.

A J Kendrick
President

17 March 2015

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

The Board of 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 2014.

This report and accounts are prepared using the annual basis of accounting as required by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Lloyd's Regulations").

Business Objectives and Strategy

The AUAL Board ("the Board") has prepared this review in accordance with Schedule 1 to the 2008 Lloyd's Regulations. In addition to this statutory requirement, the report also addresses other aspects of the syndicate's business which the Board believes will be of benefit to interested parties.

AUAL has market-leading risk expertise, a disciplined approach to underwriting and is fully committed to meeting the insurance needs of its clients. It is distinguished by its ability to manage the challenging and constantly changing external environment, the clarity of its strategy and the thoroughness of its execution.

AUAL's strategy focuses on an established underwriting ethos that permeates the business. Top line growth is not the primary driver for the syndicate and underwriters are fully prepared to shed volume as necessary in order to maintain an underwriting profit. Using AUAL's underwriting skills and targeted marketing strategies, the syndicate aims to generate growth in areas where risk-adjusted underwriting margins are favourable, and achieve better terms or shrink business where they are not.

The syndicate's product line segmental structure enables underwriters to manage each business class at a detailed level, essential for the identification and analysis of the characteristics, challenges and opportunities of each class. Rating adequacy, competition, volatility and margins are analysed at a micro level by the underwriting teams with significant input from AUAL's actuaries and management team.

AUAL strives to offer superior service levels in all aspects of the syndicate's operations, particularly claims, and it continues to invest in technology to improve its operational efficiency, underwriter support and broker interfaces.

AUAL is committed to protecting and preserving its assets. It operates a conservative investment strategy and has maintained its focus on cash flow management and liquidity to secure its long term position in the Lloyd's insurance market.

Organisation of the Business

Syndicate 2488 is a strategically important business within the ACE Group of Companies, allowing the group to access specialist Lloyd's London market risks.

With operations in 54 countries, the ACE Group is one of the world's largest multiline insurers, providing commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance and life insurance to a diverse group of clients. It has broad product and service capabilities, exceptional financial strength, underwriting and claims handling expertise and local operations globally.

At the end of 2014, the ACE Group recorded \$23.4 billion of gross written premiums in the year and held \$98.2 billion in assets. The group's core operating insurance companies maintain financial strength ratings of "AA" from Standard & Poor's and "A++" from A.M. Best.

ACE Limited, the parent company of the ACE Group, is listed on the New York Stock Exchange (NYSE: ACE) and is a component of the S&P 500 index. The group maintains executive offices in Zurich, Bermuda and New York, among other locations, and employs more than 20,000 people worldwide.

Syndicate 2488 is managed by AUAL and writes insurance and reinsurance policies under the well-established ACE Global Markets ("AGM") and ACE Tempest Re International ("ATRe") brands which capitalise on ACE's strong platform, reputation, skill sets and consistent management philosophy.

The group structure allows the syndicate's underwriters formal and informal interaction with their ACE underwriting peers across the world. With longstanding client relationships and multi-line global platforms, Syndicate 2488 enjoys a position as a lead insurer in the key lines in which it chooses to compete, with a significant presence in the Lloyd's market.

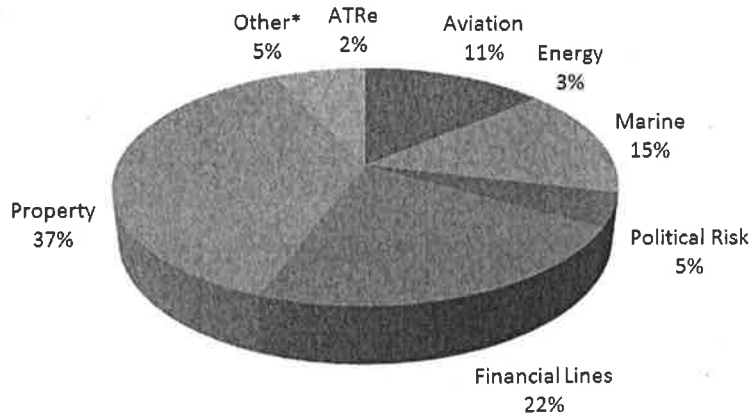
AGM and ATRe underwriting products are offered principally through Syndicate 2488 and ACE European Group Limited ("AEGL"), a UK domiciled company which offers a wide range of property, casualty and accident and health ("A&H") insurance and reinsurance products to both retail and wholesale markets. Business may also be written through a number of overseas ACE Group companies. Factors influencing the decision to place business with the syndicate, AEGL or an overseas company include licensing eligibilities and capitalisation requirements, but predominantly reflect client and broker preference.

Syndicate 2488 underwrites a diverse portfolio of business organised into product lines including aviation, property, financial lines, marine, energy, political risks and inwards reinsurance business.

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

Organisation of the Business - continued

The calendar year 2014 gross written premium business split by major product line is illustrated in the chart below:



* Other includes A&H, international casualty, environmental liability, terrorism and discontinued lines.

Syndicate 2488 benefits from comprehensive and fully integrated support functions encompassing claims, finance and actuarial, risk management, legal and compliance, human resources, operations and IT.

Business Environment

Rating environment

An abundance of capacity in the London wholesale insurance market meant that there was no respite in competition for 'AGM's business in 2014. Overall pricing on renewal business was negative, with the most adverse rate movements affecting property and energy premiums. Although pricing in the aviation market improved in the latter part of the year as a result of the significant market loss activity, the overall rate change for the full year in this class remained negative.

Conditions in the reinsurance market remained difficult, compounded by a surplus of capacity and the continuing trend for cedants to either combine programmes or retain more risk. Rate reductions were more pronounced in the short-tail classes due to benign catastrophe activity. Casualty and marine programmes experienced average rate reductions in the high single-digit range, although pricing on motor programmes increased by a similar magnitude.

There was continued pressure on broker acquisition costs in all lines of business. Various brokers sought to increase their remuneration through a variety of means, including central service agreements, slip deductions and up-front facility or marketing fees. AUAL continues to leverage its position as a lead insurer to ensure that all commissions payable are justified and bring additional value to the syndicate.

Financial markets review

In 2014 investors watched as increased geopolitical risks in the Middle East and Ukraine, actions both taken and expected by global central banks and substantial declines in energy prices, all influenced global capital markets. Global central banks showed signs of differentiation as the Federal Reserve and Bank of England moved toward policy normalisation.

In the US amid increased signs of economic strength, the Federal Reserve finished its tapering of Treasury and agency mortgage-backed security purchases. Additionally, the Federal Reserve carefully adjusted its statement to pivot away from a "considerable period" between tapering purchases and raising interest rates to a "patient" outlook which is data-dependent; expectations are for the first rate hike in mid-2015. Meanwhile, despite 2013's significant rise in interest rates following the Federal Reserve's hint of future tapering activity, Treasury yields declined during the year, especially on the long end of the curve, while equity markets continued to rally.

In the UK for much of the year, investors anticipated the Bank of England would begin raising interest rates by late 2014 or early 2015 following multiple quarters of consistently strong economic growth led by housing. Market volatility however increased as support grew for Scottish independence from the UK. While this generated substantial interest from the public and markets, concerns were laid to rest by a 55% vote against independence. However, regional concerns emanating from Europe, tumbling energy prices and uncertainty surrounding the outcome of the general election in 2015 caused investors to reconsider potential timing for interest rate rises.

The European Central Bank responded to increased geopolitical risk and sluggish economic activity by implementing its first ever negative deposit rate and a cut to its benchmark policy rate. In January 2015 the European Central Bank announced new quantitative easing measures in response to weak headline growth and mounting deflationary pressures seen throughout 2014.

In this economic environment both sovereign and corporate bond yields fell significantly during the year to historic lows generating strong total returns for investors.

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2014**Business Environment - continued**

Overall in 2014 sovereign bond yields fell in most of the developed and developing worlds. Already low levels of inflation, pushed lower by falling energy prices and geopolitical concerns, sent yields lower, especially on the long end of global yield curves. Spread sectors and equities rallied however, as low default expectations, still accommodative monetary and fiscal policies, and positive economic growth in the US served as tailwinds for the capital markets.

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 2012 year of account and, as such, no information on this basis has been provided within this report and annual accounts.

Key Performance Indicators

The following financial key performance indicators ("KPIs") have been deemed relevant to the syndicate's business. These KPIs are reviewed regularly by the AUAL Board.

£ million	2014	2013
Gross written premiums	375.3	371.4
Net written premiums	295.0	290.9
Combined ratio *	61.6%	81.2%
Profit for financial year	154.6	54.7

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

Management also uses a variety of other performance indicators, including production volumes, retention ratios, price monitoring, loss and expense analyses, and operating metrics in assessing the performance of each of the product lines. All financial results are monitored against plan, forecast and prior year on a regular basis.

AUAL seeks to manage syndicate capacity levels in order to make the most effective use of available capital and has set the 2015 capacity of Syndicate 2488 at £350 million, which is unchanged from 2014.

Results and Performance

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

Syndicate 2488 produced a profit for the financial year of £154.6 million and a combined ratio of 61.6%. A summary of the reported financial results is shown in the table below.

£ million	2014	2013
Gross written premiums	375.3	371.4
Net written premiums	295.0	290.9
Net earned premiums	295.7	277.4
Incurred losses	66.1	129.4
Operating expenses*	116.0	95.8
Underwriting profit	113.6	52.2
Investment return	41.0	2.5
Profit for financial year	154.6	54.7
Combined ratio %	61.6%	81.2%

** including profit/(loss) on exchange*

Drivers of underwriting result

Due primarily to the competitive nature of the Lloyd's market in 2014 and adherence to AUAL's strict underwriting criteria, gross written premiums for 2014 were just 1% above those of the prior year as limited growth in aviation, property and political risk was offset by reductions in premium volumes in financial lines, international casualty and inwards reinsurance.

Results and Performance - continued

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 with some related lines protected by consolidated programmes, 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 with reference to modelled 1 in 250 year events. The principal reinsurance programmes operated by the syndicate during 2014 were shared with other ACE companies. There has been some consolidation of programmes but otherwise there were no major changes to the syndicate's reinsurance programme in 2014.

Net earned premium growth was higher than written premium growth due to increased earnings attaching to previous underwriting years.

As a result of relatively benign catastrophe experience, Syndicate 2488's natural catastrophe related losses after reinsurance recoveries amounted to £5.0 million (2013: £6.4 million). Prior period reserve releases amounted to £103.7 million (2013: £29.8 million) due primarily to improvements within aviation, marine, financial lines, property and inwards reinsurance lines. There was also a significant prior year reserve release relating to the World Trade Centre losses of September 2001.

Excluding catastrophe losses and prior period development, the accident year loss ratio for the year was 55.7% (2013: 55.1%) which demonstrates the strength of the syndicate's underlying business.

Operating expenses constitute acquisition costs, Lloyd's subscriptions, Central Fund contributions, general administrative expenses (as part of the managing agency fee) and profit / (loss) on exchange. AUAL continues to focus on the management of each of these components in line with the growth and needs of the business.

Investment report

Syndicate 2488 maintains five active and one indexed investment grade fixed income portfolios, held in US dollars, sterling, Canadian dollars and euros. In addition, the syndicate maintains a further actively managed US dollar high-yield portfolio, the focus of which is upper-tier high-yield fixed income securities, targeting average Standard & Poor's quality of "B" or higher. The approximate currency split of the syndicate investment portfolios is US dollars 63%, sterling 17%, Canadian dollars 14% and euros 6%. Syndicate 2488 held no equities in 2014.

No significant changes to the existing asset allocation or investment strategy were made in the year and the syndicate continued to maintain diversified actively managed portfolios with exposure to a broad range of sectors.

The syndicate's US dollar investment grade portfolios modestly outperformed their ACE customised benchmark in 2014. Key drivers in the relative performance were a modestly long duration strategy and overweight exposure to investment grade credit. Absolute returns were solid, reflecting manager performance and the benign yield environment. The US dollar high-yield portfolio generated weak total returns of around 1% due to widening credit spreads and a short duration strategy.

The sterling, euro and Canadian dollar portfolios generated strong total returns of around 6% reflecting movements in yields in their respective markets.

Overall the syndicate generated a solid total investment return of 4% in the year. All of AUAL's investment grade active portfolios generated unrealised gains in 2014 and the aggregate portfolio continues to report an unrealised gain position.

Cash flow

Total syndicate cash flow derived from operating activities and the 2011 year of account profit distribution was modestly positive during the year.

Financial Position**Capital**

Syndicate capital requirements are determined through the submission and agreement by Lloyd's of a Solvency Capital Requirement ("SCR") adjusted by Lloyd's through the application of a market wide uplift. The Prudential Regulatory Authority ("PRA") conducts reviews directly with Lloyd's on overall SCR rather than at a syndicate level. The syndicate assesses its risk profile and capital requirements using an internal model which has been developed to meet Solvency II requirements.

The Internal Model is supported by a robust validation and governance framework which ensures its ongoing appropriateness and is refined to reflect the syndicate's experience, changes in the risk profile and advances in modelling methodologies. For 2015, the agreed SCR shows a small increase over the 2014 requirement.

Syndicate 2488 meets its Funds at Lloyd's ("FAL") requirement by the provision of fixed income investments held within the syndicate which are designated as FAL. The overall quantum of FAL for 2014 year end decreased to \$543 million (2013: \$619 million) due to an increase in open year accounting surpluses.

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2014**Financial Position - continued*****Solvency II***

ACE recognises the impact of Solvency II, not just to the syndicate, but also to the wider group. The ACE Solvency II programme was initiated by ACE Limited's Enterprise Risk Management ("ERM") Board in 2009 and Syndicate 2488's Solvency II project has received extensive support from the wider group. At the outset, ACE took the strategic decision to build a Global Capital Model ("GCM") that would provide a consistent and comprehensive tool to measure risk and capital requirements across the ACE Group. This allows ACE to connect the measurement of risk and capital at a legal entity level and across business units that span and interconnect legal entities. The GCM was used in determining Syndicate 2488's 2014 and 2015 SCR.

Syndicate 2488 has delivered on its Solvency II project deliverables and milestones to date as set out in the Lloyd's Dry Run and has transitioned its Solvency II project deliverables into its desired "Target Operating Model" which ensures that the Pillar I and Pillar II components are embedded into the syndicate's "business as usual" operations. The syndicate continues to monitor the Solvency II legislative requirements as these are finalised in law. The Solvency II "go-live" date has now been confirmed as 1 January 2016 and plans are in place to ensure compliance with Lloyd's requirements for the Internal Model tests and standards.

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

Governance

AUAL has a documented corporate governance framework, the purpose of which is to exercise oversight and control over the management of its own and the syndicate's business.

The AUAL Board of Directors is responsible for decisions in connection with a number of matters, including those of a significant strategic, structural, capital, financial reporting, internal control, risk, contractual, policy or compliance nature.

The Board meets formally at least six times a year and may meet additionally on other occasions to discharge its responsibilities in respect of these and other matters. The Board met formally twelve times in 2014.

The AUAL Board comprises six independent non-executive directors and five executive directors. During 2014 two of the longer-serving non-executive directors left the Board and five non-executive directors were added, to increase the level of independent review provided by the Board. AUAL values the contribution of its non-executive directors in providing contrasting insights, experience and challenge in the Board's discussions. Details of director appointments and resignations can be found on page 13.

Since his appointment in 2013, the Chairman, John Napier, has continued to keep AUAL's governance arrangements under review. During 2014 this review led to the amendment of committee terms of reference mentioned below and the design of an internal Board and committee effectiveness review to take place early in 2015. Consideration of company policies and the effectiveness of risk management activity and the internal audit function have also taken place during the year.

Key non-routine Board activity during the year included reviews of the effectiveness both of the risk management processes and internal audit function. This included consideration and adoption of a number of new or updated company policies intended to form a consistent company-wide structure under which business segment specific procedures apply.

The Board received regular reports on the status of business results, business and function plans, resourcing, developments in the risk and regulatory environments, on consumer conduct, regulatory compliance, actuarial and solvency matters. One meeting was set aside to consider high-level business strategy.

The Board has delegated a number of matters to committees. Each of the following committees has formal terms of reference and matters reserved to it. Each, with the exception of the Executive Committee, includes non-executive directors in its membership and each reports to the Board regularly in respect of its remit. The terms of reference of each Board committee were reviewed and amended during 2014.

The **Audit Committee**, which comprises exclusively non-executive directors, considers and makes recommendations to the Board on areas including validation of solvency calculations, internal controls, financial reporting and the external audit. It receives formal reports from the Risk Committee, the compliance function and internal audit on a quarterly basis. During 2014 it added actuarial function reporting to its remit.

In relation to the external audit process, the Committee monitors the nature and scope of work in the audit of the statutory accounts and other external reporting requirements.

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2014**Governance - continued**

In the case of the internal audit function, the Committee's role involves agreeing and monitoring, in conjunction with the group audit function, the nature and scope of work to be carried out by the internal audit team and the availability of sufficient resources. Internal audit team headcount was increased in 2014 and the Committee was satisfied that the resources available to the function were adequate to carry out the proposed plan. The Committee's role is aimed at providing assurance to the Board and ACE Group management that the internal control systems, agreed by executive management as being appropriate for the prudent management of the business, are operating as designed. At all times the Audit Committee is expected to challenge any aspect of these processes which it considers weak or generally poor practice.

During 2014 the Audit Committee oversaw an independent external review of the internal audit function's operations, with particular emphasis on annual planning methodology and resourcing. The Committee received regular reports on the implementation of the recommendations of this review. In support of the forming of its view of the reliability of management information on which financial statements are based, the Committee also requested and received a report on the current financial internal controls in place.

The Board has delegated responsibility for the oversight and implementation of its risk management framework to the **Risk Committee**. The Committee oversees and advises the Board on risk exposures, future risk strategy, the design and implementation of the risk management framework into the business and on solvency and capital matters. It also ensures that business risks and controls are recorded and monitored.

During the year the Risk Committee considered policies and methodology in connection with the syndicate's Internal Capital Model, in preparation for the proposed application for approval of the model by Lloyd's. It also instigated and oversaw the review of the effectiveness of risk management activity mentioned above.

The remit of the **Nominations Committee** is to advise and recommend in connection with appointments to and the structure of the Board, including diversity and independence of composition, Board evaluation, succession planning for the non-executive directors and leadership needs.

The **Executive Committee** comprises executive directors and other members of the senior management team. The primary role of the Committee is to oversee the day-to-day management of business operations and performance, and to assist the President in implementing and overseeing operational strategies and decisions determined by the Board. The Executive Committee is also responsible for the oversight of support function activities, key steering groups and sub-committees including Investment, Credit Risk, Broker Review, Reserving and Project Reporting. It meets monthly to oversee and discuss current issues. A number of specialist sub-committees, such as those for product governance and reserving, report to the Executive Committee to ensure that various aspects of the business are reviewed by a wide senior management group.

Risk and Control Framework

ACE is a global underwriting franchise whose risk management obligation to stakeholders is simple: ensure sufficient financial strength over the long term in order to pay policyholder claims while simultaneously building and sustaining shareholder value.

The ACE Enterprise Risk Management ("ERM") strategy helps achieve the goal of building shareholder value by systematically identifying, and then monitoring and managing, the various risks to the achievement of corporate business objectives and thereby minimising potential disruptions that could otherwise diminish shareholder value or balance sheet strength.

AUAL has adopted the ACE Group Enterprise Risk Management Framework ("RMF") which describes the role of ERM within AUAL and how it helps the syndicate achieve its business objectives, meet its corporate obligations and maintain the reputation of ACE's franchise.

The Board is ultimately responsible for ensuring that the company operates within an established framework of effective systems of internal control, including the approval of the overall risk tolerance for the organisation and compliance with policies, procedures, internal controls and regulatory requirements.

The RMF was re-approved by the Board in 2014 together with a review of individual risk policies and risk appetite statements which set out defined risk-tolerance constraints for the execution of the business strategy. All key policies and procedures are subject to Board approval and ongoing review by executive management, the Risk Committee and internal audit function.

The Board's oversight of the RMF is effected through the various committees with particular purposes and direction around the monitoring of risk tolerances and oversight of internal controls and compliance procedures.

AUAL's Risk Management function has a strong mandate from the Board to promote the RMF and embed it across the syndicate.

Principal Risks

The RMF classifies individual risk sources across its landscape into four major categories: insurance, financial, operational and strategic. Insurance is ACE's primary risk category; the three other risk categories present an exposure primarily from that assumption of insurance risk. Other risks, including group risk and emerging risk are also considered.

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2014**Risk and Control Framework - continued*****Insurance Risk***

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.

Underwriting risks and line sizes are continually monitored through the established peer review process and automated exception reporting. Each underwriter is given an authority based on technical expertise and experience to bind risks that fall within specified classes of insurance and specified maximum limits. Formal price monitoring procedures are in place 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. ACE operates a dedicated catastrophe management function independent of underwriting management, whose responsibility is to model aggregate risk and assist with the pricing of this risk, providing a key control to the underwriting process.

Reinsurance is used to help mitigate some of the above insurance risk. However, the possibility of reinsurance risk itself arises when reinsurance purchasing proves inadequate in amount, fails to protect the underlying coverage or falls short when the reinsurer fails to pay.

Financial Risk

The financial risk category includes a wide range of risks associated with activities such as investments, credit, liquidity and the impact of foreign exchange fluctuations.

Investment risk includes the impact of market volatility on asset values attributable to such factors as interest rate movements and / or price changes. Credit risk arises from changes in ratings and, ultimately, financial loss in the event of creditor default.

Liquidity risk refers to the possibility that cash or equivalents, coupled with operating cash flows, will be insufficient to provide for claims payments to policyholders and other needs such as interest payments. Foreign exchange risk occurs when assets and liabilities are denominated in different currencies and materialises when asset holdings are decreased or liabilities increased by exchange rate movements.

Other financial risk sources manifest themselves through an impact on asset values. Among these are investment risk due to interest rate movements having unanticipated impacts on asset values, and asset-liability management risk when asset values are insufficient or unavailable to pay liabilities when due.

Details of how the syndicate manages its exposure to financial risk are set out below:

The investment function

The managing agency operates an Investment Committee which functions under terms of reference determined by the Executive Committee of the AUAL Board. The Investment 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 President, the Chief Financial Officer and Treasurer of AUAL.

The investment management function is out-sourced to specialist external managers.

Asset allocation policy

The Investment Committee has established a broad asset allocation policy which defines the limits for different asset types. The asset allocation cites two major asset classes: investment grade fixed income securities and alternative assets. Alternative assets can include equities, high-yield and emerging market instruments although, of these, the syndicate currently only maintains high-yield instruments. The policy stipulates a maximum allocation to high-yield instruments and equities of 15% and 10% respectively.

Investment guidelines

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

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2014**Risk and Control Framework - continued**Duration and interest rate risk

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

Equity price risk

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

Currency risk

The syndicate maintains five separate currency funds: US dollars, sterling, Canadian dollars, Australian dollars and euros. The syndicate seeks to ensure an approximate currency match of assets and liabilities, subject to regulatory funding requirements.

Liquidity risk

Liquidity risk is the potential that the syndicate is unable to meet its obligations as they fall due. To counter this risk the syndicate aims to maintain funds in the form of cash or cash equivalents to meet known cash flows. In addition the asset allocation policy and the investment guidelines are structured in order to ensure that funds are predominantly held in investment grade fixed income securities, the proceeds of which are readily realisable. The syndicate also benefits from ACE Group letter of credit facilities which are available to meet certain funding needs, although no such facilities are currently utilised by the syndicate.

The syndicate participates in a notional pooling programme with other ACE Group companies under a facility operated by Bank Mendes Gans, a subsidiary of ING, which specialises in global liquidity management. The facility operates by the notional pooling of designated balances of the ACE Group participants in order to provide additional liquidity. ACE Group participants may overdraw individual account balances to fund immediate short term needs against credit balances held elsewhere within the pool. At year end the syndicate had an overall net overdraft in the notional pool of £5.1 million, being £109.7 million of credit balances in Australian dollars, US dollars and euros, net of £114.8 million overdrawn sterling, Swiss franc and Canadian dollar balances.

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.

Operational Risk

Operational risk is the possibility of loss resulting from inadequate or failed internal processes, people or systems, or from external events other than those falling within strategic risk as defined below. Significant operational risk sources include claims processing, IT security, outsourcing and vendor management, business continuity, fraud, and regulatory compliance (including conduct risk).

AUAL seeks to ensure that the syndicate is not exposed to operational risk in excess of the risk appetite with mitigating strategies (including business continuity plans) that have appropriate controls around key operational procedures and processes.

Strategic Risk

Strategic risk refers to the outcome from sub-optimal decisions that may be made or not made in respect of strategic planning, execution of strategy or responsiveness to changes in industry or competitive landscapes.

The AUAL Board is responsible for the management of strategic risks by approving the strategic and annual plans. The Board also receives updates on the execution of the plan with reports produced to monitor and track business performance against the approved plan.

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2014**Risk and Control Framework - continued****Other Risks**

Group risks: This is the potential impact on the syndicate of risks arising in other parts of the ACE Group. This could include direct or indirect financial loss and operational, reputational or regulatory issues. As a strategically important member of the ACE Group, the syndicate uses Group resources in a number of areas, including IT and asset management, as well as reinsurance and capital support. Group risk is assessed, monitored and reported as part of AUAL's risk management processes. Additionally, contractual intra-group arrangements are governed in an appropriate arms-length manner. They involve proper contracts, equitable and transparent transfer pricing, and full respect for the integrity thereof, as well as all laws and regulations facing the legal entities in question.

Emerging risks: An integral part of risk management framework is the identification and assessment of emerging risks.

AUAL has defined emerging risks as any events, situations or trends that may arise within its internal and external operating environment that could significantly impact the achievement of its corporate objectives in either the short or long term. There is an internal system for the identification, assessment and monitoring of such risks with reports issued to senior management including analyses which are often iterative in nature and conclude with recommended action plans that can be implemented to minimise or otherwise manage the emerging risk.

Compliance

Compliance with regulation, legal and ethical standards is a high priority for the ACE Group and AUAL, and the compliance function has 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 company has formalised documentation and tested controls to enable ACE Limited to fulfil the requirements of the legislation.

The managing agency employs a skilled and specialist workforce to manage its regulatory and compliance responsibilities and aims to operate to a high standard. AUAL recognises and values the relationships with its regulators, and engages in open dialogue and communication to address and resolve any issues.

Employees

The ACE Group is dedicated to providing a safe and ethical working environment for its employees and is fundamentally committed to the creation of an inclusive, respectful and equitable workplace. Through its policies and practices for recruitment, development, retention and promotion, AUAL seeks a diverse workforce that is effective in its local markets and communities, and takes full advantage of a wide range of experiences and backgrounds.

ACE is an equal opportunities employer and it is company policy to promote equality of opportunity and to eliminate unlawful discrimination in employment. The company seeks to create a workplace where all employees, agency staff and contractors are treated appropriately, equitably and with dignity and respect.

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 adjustments are made. 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.

ACE is an organisation dedicated to providing superior client, shareholder and employee value, and seeks to foster an environment of professional excellence that enables employees to be creative, agile, innovative and ethical in meeting customers' needs. AUAL actively supports the personal and professional development of all its employees and operates talent and leadership development programmes to help staff realise their full career potential.

AUAL supports a wide range of activities that benefit the community through the ACE International Foundation and the ACE European Charity Committee, predominantly in the areas of education, poverty, health and the environment. Employees also participate in a number of local voluntary community schemes including the Lloyd's Community Programme. AUAL actively supports employees in personal fundraising efforts through an employee charity-matching scheme.

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

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2014**Directors**

The following have been directors of the managing agent from 1 January 2014 to the date of this report unless otherwise indicated:

Executive directors:

A J Kendrick
 R P Murray
 M K Hammond
 K L H Underhill
 A M W Shaw (Active Underwriter)

Non-executive directors:

M Cox (Resigned 23 May 2014)
 P Stamp (Resigned 23 May 2014)
 J A Napier
 L C Powers-Freeling (Appointed 13 October 2014)
 C E Riley (Appointed 26 April 2014)
 A R Prindl (Appointed 20 October 2014)
 T C Wade (Appointed 27 February 2014)
 M J Yardley (Appointed 13 October 2014)

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) were put in place for the benefit of the directors and, at the date of this report, are in force in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers or office.

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 individually on the syndicate. Certain directors participate indirectly on the syndicate by virtue of their interests in the stock of ACE Limited.

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 for each financial 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 these 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 adequate accounting records that are sufficient to show and explain the syndicate's transactions and 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 annual accounts for the year ended 31 December 2014 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.

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2014**Independent Auditors**

The 2008 Lloyd's Regulations require that the auditors of the syndicate annual accounts be appointed by the members of the syndicate, initially for the syndicate annual accounts for the 2009 year end after which provisions for deemed reappointment of auditors will apply. PricewaterhouseCoopers LLP is deemed to have been reappointed as the auditors of the syndicate annual accounts for the 2014 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.

Approved by the Board and signed on its behalf

M K Hammond
Director

17 March 2015

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 2488**Report on the syndicate annual accounts****Our Opinion**

In our opinion the syndicate annual accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

What We Have Audited

The syndicate annual accounts for the year ended 31 December 2014, which are prepared by the Managing Agent, comprise:

- the Balance Sheet as at 31 December 2014;
- the Profit and Loss account for the year then ended;
- the Statement of total recognised gains and losses for the year then ended;
- the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Managing Agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on Matter Prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

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

Other Matters on Which We Are Required to Report by Exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Responsibilities for the Syndicate Annual Accounts and the Audit**Our Responsibilities and Those of the Managing Agent**

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 13, the Managing Agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an Audit of Syndicate Annual Accounts Involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Managing Agent; and
- the overall presentation of the syndicate annual accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Managing Agent's Report to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

James Pearson (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 March 2015

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2014**

	Note	2014 £'000	2013 £'000
TECHNICAL ACCOUNT – GENERAL BUSINESS			
EARNED PREMIUMS, NET OF REINSURANCE:			
Gross premiums written	3	375,327	371,387
Outward reinsurance premiums		(80,377)	(80,507)
Net premiums written		294,950	290,880
Change in the gross provision for unearned premiums		(345)	(15,124)
Change in the provision for unearned premiums – reinsurers' share		1,115	1,639
EARNED PREMIUMS, NET OF REINSURANCE		295,720	277,395
ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT	7	31,387	4,615
CLAIMS INCURRED, NET OF REINSURANCE:			
Claims paid:			
Gross amount	3	(216,593)	(235,255)
Reinsurers' share		55,487	59,373
Net paid claims		(161,106)	(175,882)
Change in the provision for claims outstanding:			
Gross amount	3	123,409	51,195
Reinsurers' share		(28,404)	(4,706)
Change in the net provision for claims outstanding		95,005	46,489
CLAIMS INCURRED, NET OF REINSURANCE		(66,101)	(129,393)
Net operating expenses	5	(116,015)	(95,813)
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		144,991	56,804

All of the above results derive from continuing operations.

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2014 – continued**

	Note	2014 £'000	2013 £'000
NON-TECHNICAL ACCOUNT			
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		144,991	56,804
Investment income	7	35,042	35,091
Unrealised gains on investments	7	111,395	18,206
Investment expenses and charges	7	(4,833)	(5,706)
Unrealised losses on investments	7	(100,563)	(45,117)
Allocated investment return transferred to the general business technical account	7	(31,387)	(4,615)
		<hr/>	<hr/>
PROFIT FOR THE FINANCIAL YEAR	10	154,645	54,663
		<hr/>	<hr/>

All of the above results derive from continuing operations.

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year, for the current or prior year and their historical costs equivalents.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2014**

		2014 £'000	2013 £'000
PROFIT FOR THE FINANCIAL YEAR		154,645	54,663
Currency translation differences	10	7,030	(6,107)
		<hr/>	<hr/>
TOTAL RECOGNISED GAINS FOR THE FINANCIAL YEAR		161,675	48,556
		<hr/>	<hr/>

BALANCE SHEET AS AT 31 DECEMBER 2014

	Note	2014 £'000	2013 £'000
ASSETS			
INVESTMENTS			
Other financial investments	8	1,167,197	934,604
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums		30,490	28,827
Claims outstanding		349,039	368,127
		379,529	396,954
DEBTORS – amounts falling due within one year			
Debtors arising out of direct insurance operations: amounts owed by intermediaries		61,682	48,199
Debtors arising out of reinsurance operations		40,971	47,964
Other debtors	9	3,415	2,512
		106,068	98,675
DEBTORS – amounts falling due after one year			
Other debtors	9	26	176
OTHER ASSETS			
Cash at bank and in hand		113,785	103,931
PREPAYMENTS AND ACCRUED INCOME			
Deferred acquisition costs		34,755	32,600
Other prepayments and accrued income		8,561	7,758
		43,316	40,358
TOTAL ASSETS		1,809,921	1,574,698

BALANCE SHEET AS AT 31 DECEMBER 2014

	Note	2014 £'000	2013 £'000
LIABILITIES			
CAPITAL AND RESERVES			
Members' balances	10	463,441	157,173
TECHNICAL PROVISIONS			
Provision for unearned premiums		170,304	165,757
Claims outstanding		1,004,413	1,100,679
		1,174,717	1,266,436
DEPOSITS RECEIVED FROM REINSURERS			
		46	44
CREDITORS – amounts falling due within one year			
Creditors arising out of direct insurance operations		0	947
Creditors arising out of reinsurance operations		49,473	45,686
Bank loans and overdrafts		116,602	103,638
Other creditors	11	2,161	227
		168,236	150,498
ACCRUALS AND DEFERRED INCOME			
Other accruals and deferred income		3,481	547
TOTAL LIABILITIES		1,809,921	1,574,698

The syndicate annual accounts on pages 17 to 32 were approved by the Board of ACE Underwriting Agencies Limited on 11 March 2015 and were signed on its behalf by:

M K Hammond
Director

17 March 2015

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 £'000	2013 £'000
RECONCILIATION OF OPERATING PROFIT TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES			
Operating profit on ordinary activities		154,645	54,663
Currency translation differences	10	7,030	(6,107)
Unrealised investment (gains)/losses		(10,832)	26,911
Foreign exchange movement on cash and investments		(26,286)	10,869
Decrease in net technical provisions		(74,294)	(42,148)
Increase in deposits received from reinsurers		2	-
Increase in debtors and prepayments		(10,201)	(10,312)
Increase/Decrease in creditors and accruals		7,708	(13,637)
NET CASH INFLOW FROM OPERATING ACTIVITIES		<u>47,772</u>	<u>20,239</u>
Transfers to members in respect of underwriting participations		(21,848)	(40,860)
Members' balances designated as Funds at Lloyd's		166,441	-
NET CASH INFLOW/OUTFLOW	12	<u>192,365</u>	<u>(20,621)</u>
CASH FLOWS WERE INVESTED/(UTILISED) AS FOLLOWS:			
(Decrease)/Increase in cash holdings	12	(4,782)	15,381
Net portfolio investment	12	197,147	(36,002)
NET INVESTMENT/(UTILISATION) OF CASH FLOWS		<u>192,365</u>	<u>(20,621)</u>

NOTES TO THE FINANCIAL STATEMENTS**1. BASIS OF PREPARATION**

These annual accounts include all sources of 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 as disclosed in note 10. Given that Syndicate 2488 is a fully aligned syndicate, with 100% of the underwriting capacity provided by ACE corporate capital vehicles, these accounts are able to disclose the total FAL supporting the operations of the syndicate (see 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 5 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.

These annual accounts have been prepared on a going concern basis, under the historical cost convention modified to include the revaluations of certain financial assets and liabilities. The principal accounting policies, which are set out below, have been applied consistently to all the years presented unless otherwise stated.

2. ACCOUNTING POLICIES**Premiums written**

Premiums written, which are stated gross of brokerage but exclusive of premium taxes, relate to business incepted during the year, together with adjustments made in the year to premiums written in prior accounting periods. Estimates are made of pipeline premiums, representing amounts due but not yet received or notified to the syndicate by intermediaries.

Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established risk profiles or time apportionment as appropriate.

Acquisition costs

Acquisition costs comprise brokerage, commissions and other related 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 and deduction for expected salvage and other recoveries. 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

NOTES TO THE FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES – continued

Provision for claims outstanding and related reinsurance recoveries – continued

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.

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**2 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, Canadian dollars, Euros (from the 2010 year of account onwards) and Australian dollars (from the 2013 year of account onwards) 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 branch currencies are translated into sterling at the rates of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate of the above currencies. For non-branch currencies, monetary items are converted at the rate ruling at the balance sheet date and non-monetary items are held at their historic rates of exchange.

Exchange differences arising from the revaluation of net assets in foreign branches or brought forward from the previous balance sheet date are included in the statement of total recognised gains and losses. Exchange differences from other currencies 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 2011 and 2012 years of account. It is currently anticipated that the profit commission will also be waived for the 2013 and 2014 years of account.

NOTES TO THE FINANCIAL STATEMENTS

3. 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 2014					
Direct insurance					
Fire and other damage to property	137,512	130,807	(37,170)	(52,383)	(6,853)
Marine, aviation and transport	47,637	52,170	11,151	(17,113)	(9,695)
Accident and health	4,410	5,024	(2,243)	(2,061)	341
Third party liability	79,328	82,130	(30,574)	(24,761)	(12,993)
Miscellaneous	16,882	15,949	(5,816)	(5,296)	4,666
Reinsurance acceptances	89,558	88,902	(28,532)	(22,912)	(19,134)
	<u>375,327</u>	<u>374,982</u>	<u>(93,184)</u>	<u>(124,526)</u>	<u>(43,668)</u>
Year to 31 December 2013					
Direct insurance					
Fire and other damage to property	109,697	103,961	(56,591)	(32,289)	11,347
Marine, aviation and transport	62,597	64,669	(27,834)	(21,899)	2,142
Accident and health	5,050	4,900	(2,453)	(2,104)	4
Third party liability	80,732	75,845	(59,674)	(20,139)	5,311
Miscellaneous	11,187	13,569	(1,012)	(4,756)	(4,453)
Reinsurance acceptances	102,124	93,319	(36,496)	(23,412)	(29,766)
	<u>371,387</u>	<u>356,263</u>	<u>(184,060)</u>	<u>(104,599)</u>	<u>(15,415)</u>

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

All business is completed in the United Kingdom.

Gross written premium information by destination (location of risk) as required by SSAP 25 "Segmental Reporting" is as follows:

	2014 £'000	2013 £'000
United Kingdom	17,089	13,152
United States of America	263,596	246,125
Continental Europe	33,554	35,068
Africa and Middle East	6,263	13,354
Asia Pacific	21,272	26,312
Americas	33,553	37,376
	<u>375,327</u>	<u>371,387</u>

NOTES TO THE FINANCIAL STATEMENTS

4. MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING

The prior year's net provision for claims outstanding generated a surplus for 2014 (2013: surplus) as detailed below:

	2014 £'000	2013 £'000
Direct insurance		
Fire and other damage to property	15,800	4,723
Marine, aviation and transport	57,236	15,699
Accident and health	580	109
Third party liability	23,031	4,339
Miscellaneous	530	1,571
Reinsurance acceptances	6,564	3,364
	<u>103,741</u>	<u>29,805</u>

5. NET OPERATING EXPENSES – TECHNICAL ACCOUNT

	2014 £'000	2013 £'000
Acquisition costs	87,832	83,398
Change in deferred acquisition costs	(1,294)	(3,573)
Administrative expenses	31,374	28,220
Reinsurance commissions	(8,991)	(8,787)
Loss / (Profit) on exchange	7,094	(3,445)
	<u>116,015</u>	<u>95,813</u>

“Acquisition costs” includes total commissions for direct business amounting to £65.8million (2013: £59.9 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 2014, before the transfer to acquisition costs, is £34.3 million (2013: £31.2 million) and can be estimated as constituting the following:

salary and other employment costs – 59% (49%), Lloyd's charges – 18% (19%), property & computer costs – 10% (20%), professional fees – 2% (6%), auditors' remuneration – 1% (1%), travel and entertaining – 3% (2%) and administrative costs including irrecoverable VAT on all costs – 7% (3%).

Auditors' remuneration

During the year, the syndicate obtained the following services from the managing agent's auditors and their associates

	2014 £'000	2013 £'000
Fees payable to the syndicate's auditors and their associates for the audit of the syndicate's annual accounts	205	199
Fees payable to the syndicate's auditors and their associates for other services:		
Audit-related assurance services	153	149
Non-audit fees	20	-
	<u>378</u>	<u>348</u>

“Audit-related assurance services” includes reports under section 404 of the US Public Company Accounting Reform and Investor Protection Act 2002, and also the audit of the syndicate’s regulatory returns.

6. DIRECTORS AND EMPLOYEES

Staff costs

The managing agency has no employees (2013-none). 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 5.

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.

	2014 £’000	2013 £’000
Aggregate emoluments and benefits	3,033	2,308
Company pension contributions to money purchase pension schemes	86	87
	<u>3,119</u>	<u>2,395</u>

Included in the above amounts paid by AIS in respect of the directors of the managing agent, the active underwriter was paid a total of £564,000 (2013: £502,780) in respect of emoluments and benefits and the highest paid director was paid a total of £793,867 (2013: £749,933) 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 £46,900 (2013: £45,436) and £246,738(2013: £239,036) 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, five 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 one current director 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

7. INVESTMENT RETURN

	2014 £'000	2013 £'000
Investment income		
Investment income	30,783	29,966
Gains on the realisation of investments	4,259	5,125
	<u>35,042</u>	<u>35,091</u>
Investment expenses and charges		
Investment management expenses	(1,502)	(1,680)
Losses on the realisation of investments	(3,331)	(4,026)
	<u>(4,833)</u>	<u>(5,706)</u>
Net unrealised gains less losses on investments		
Unrealised gains on investments	111,395	18,206
Unrealised losses on investments	(100,563)	(45,117)
	<u>10,832</u>	<u>(26,911)</u>
TOTAL INVESTMENT RETURN	<u>41,041</u>	<u>2,474</u>
Investment return is analysed between:		
Allocated investment return transferred to the general business technical account	31,387	4,615
Net investment return included in the non-technical account	9,654	(2,141)
TOTAL INVESTMENT RETURN	<u>41,041</u>	<u>2,474</u>

NOTES TO THE FINANCIAL STATEMENTS

8. OTHER FINANCIAL INVESTMENTS

	2014 £'000	2013 £'000
Market value:		
Debt securities and other fixed interest securities	1,013,256	826,134
Overseas deposits	95,401	96,981
Deposits with credit institutions	58,540	11,489
	<u>1,167,197</u>	<u>934,604</u>
Cost:		
Debt securities and other fixed interest securities	999,884	824,022
Overseas deposits	95,401	96,981
Deposits with credit institutions	58,540	11,489
	<u>1,153,825</u>	<u>932,492</u>

All securities are listed investments.

The overseas deposits are held under Lloyd's premium trust deed arrangements where applicable and are administered by Lloyd's. The syndicate is required to lodge deposits in various overseas insurance markets as a condition of conducting underwriting business in those markets. All such overseas deposits are calculated in accordance with the relevant territorial authority's requirements, usually by reference to outstanding liabilities derived from business written in those territories. Approximately 91.45% 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.

£346.13 million (2013: £163.20million) of the total market value relates to Funds at Lloyd's, as explained in note 10; this is analysed as follows:

	2014 £'000	2013 £'000
Market value:		
Debt securities and other fixed interest securities	336,101	161,983
Deposits with credit institutions	10,026	1,218
	<u>346,127</u>	<u>163,201</u>
Cost:		
Debt securities and other fixed interest securities	333,372	163,565
Deposits with credit institutions	10,026	1,218
	<u>343,398</u>	<u>164,783</u>

9. OTHER DEBTORS

	2014 £'000	2013 £'000
Amounts falling due within one year:		
Amounts due from members	-	160
Amounts due from group companies	3,112	2,310
Other debtors	303	42
	<u>3,415</u>	<u>2,512</u>
Amounts falling due after one year:		
Amounts due from members	26	176

Amounts due from members relate to payments on account of United States Federal Income Taxes.

NOTES TO THE FINANCIAL STATEMENTS

10. MEMBERS' BALANCES

	2014 £'000	2013 £'000
Members' balances brought forward at 1 January	157,173	149,478
Currency translation differences	7,030	(6,107)
Profit for the financial year	154,645	54,663
Profit distribution	(21,848)	(40,861)
Net transfer into members' balances designated as Funds at Lloyd's	166,441	-
	<hr/>	<hr/>
Members' balances carried forward at 31 December	463,441	157,173
	<hr/>	<hr/>

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 £348,178,000 (2013: £164,106,000) designated as FAL. During 2014 the syndicate members elected not to renew letters of credit which had been used to meet FAL requirements. In Q4 2014, a loan was made to one of the corporate members and designated as FAL for 'coming Into Line' in November 2014. Members' balances designated as FAL are included in the following asset headings:

	2014 £'000	2013 £'000
Other financial investments (note 8)	336,101	161,983
Deposits with credit institutions	10,026	1,218
Other prepayments and accrued income	2,051	888
Cash at bank	-	17
	<hr/>	<hr/>
Total assets designated as Funds at Lloyd's	348,178	164,106
	<hr/>	<hr/>

11. OTHER CREDITORS

	2014 £'000	2013 £'000
Amounts falling due within one year:		
Other creditors	2,161	227
	<hr/>	<hr/>
	2,161	227
	<hr/>	<hr/>

Included in other creditors is an amount of £2,010,406, which is comprised of amounts due from the purchase of securities

NOTES TO THE FINANCIAL STATEMENTS

12. PORTFOLIO INVESTMENTS

(a) Movement in portfolio investments and net financing

	2014 £'000	2013 £'000
(Decrease)/Increase in cash holdings	(4,782)	15,381
Net cash inflow / (outflow) on portfolio investments	197,147	(36,002)
	<hr/>	<hr/>
Movement arising from cash flows	192,365	(20,621)
Changes in market value and exchange rates	37,118	(37,781)
	<hr/>	<hr/>
Total movement in portfolio investments net of financing	229,483	(58,402)
Portfolio investments net of financing at 1 January	934,897	993,299
	<hr/>	<hr/>
Portfolio investments net of financing at 31 December	1,164,380	934,897
	<hr/>	<hr/>

(b) Movement in cash, portfolio investments and financing

	At 1 January 2014 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 December 2014 £'000
Cash at bank and in hand	103,931	9,993	(139)	113,785
Bank loans and overdrafts	(103,638)	(14,775)	1,811	(116,602)
	<hr/>	<hr/>	<hr/>	<hr/>
	293	(4,782)	1,672	(2,817)
	<hr/>	<hr/>	<hr/>	<hr/>
Debt securities and other fixed interest securities	826,135	152,544	34,578	1,013,257
Overseas deposits	96,980	(2,130)	550	95,400
Deposits with credit institutions	11,489	46,733	318	58,540
	<hr/>	<hr/>	<hr/>	<hr/>
Total portfolio investments	934,604	197,147	35,446	1,167,197
	<hr/>	<hr/>	<hr/>	<hr/>
	934,897	192,365	37,118	1,164,380
	<hr/>	<hr/>	<hr/>	<hr/>

(c) Cash flows invested in portfolio investments

	2014 £'000	2013 £'000
Purchase of debt securities and other fixed interest securities	(491,117)	(373,641)
Sale of debt securities and other fixed interest securities	338,573	375,562
Decrease in overseas deposits	2,130	15,362
(increase) / Decrease in deposits with credit institutions	(46,733)	18,719
	<hr/>	<hr/>
Net cash (outflow)/inflow on portfolio investments	(197,147)	36,002
	<hr/>	<hr/>

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

The ultimate holding company of the syndicate's managing agent, ACE Underwriting Agencies Limited ("AUAL"), is ACE Limited, a company which 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 2014, a number of outwards reinsurance contracts were affected with group companies. The main excess of loss reinsurance programmes in operation during 2014 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 2014, £13.1 million relates to reinsurance contracts placed with group companies; of this amount, £10.9 million relates to reinsurance contracts placed with ACE Tempest Reinsurance. In addition, reinsurers' commissions (note 5) include £1.7 million in respect of the contracts placed with ACE Tempest Reinsurance. The reinsurers' share of claims incurred in the technical account for the year ended 31 December 2014 includes £3.5 million in relation to reinsurance contracts placed with group companies; of this amount, £5.1 million relates to reinsurance contracts placed with ACE Tempest Reinsurance. As at 31 December 2014, the reinsurers' share of the provision for claims outstanding includes £98.2 million recoverable from group companies; of this amount £86.2 million is recoverable from ACE Tempest Reinsurance. As at 31 December 2014, the reinsurers' share of the provision for unearned premium includes £4.7 million in relation to reinsurance contracts placed with group companies; of this amount £3.9 million relates to reinsurance contracts placed with ACE Tempest Reinsurance. Debtors arising out of reinsurance operations as at 31 December 2014 includes £5.0 million due from group companies, of which £4.7 is due from ACE Tempest Reinsurance. Creditors arising out of reinsurance operations as at 31 December 2014 includes £14.9 million due to group companies, of which £14.9 million is payable to ACE Tempest Reinsurance.

The syndicate writes a delegated authority relating to business produced by ACE Tempest Reinsurance Canada Inc. ACE Tempest Reinsurance Canada Inc is authorised to write reinsurance on behalf of ACE's licensed and admitted Canadian insurance companies. In addition, ACE Tempest Reinsurance Canada Inc is a Lloyd's approved service company and can offer clients access to the syndicate, which is also licensed and admitted in Canada.

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.

In 2014, ACE Global Market Limited loaned \$230 million equivalent to one of the corporate members to meet an increase in the Funds at Lloyd's requirements for 2014.

Managing agency fees of £34.3 million (2013: £31.2 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 Prudential Regulatory Authority (PRA) 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 10 and 13, the syndicate's members have met their FAL requirements by the retention of closed year of account profits in the syndicate and a loan from a fellow ACE Group company. At 31 December 2014 FAL totalled £348.18 million (2013: £378.12 million).

15. ULTIMATE HOLDING COMPANY

The managing agent's immediate holding company is ACE Leadenhall Limited. The managing agent's ultimate holding company 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.