15

ACE CAPITAL V LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2003

COMPANY REGISTRATION NUMBER: 2949447

10/03/04 17:45

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2003

The directors are pleased to submit their report and the audited financial statements for the year to 31 December 2003.

PRINCIPAL ACTIVITY

The principal activity of the company is that of a corporate underwriting member of Lloyd's.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The company participates exclusively on Syndicate 2488 which is managed by ACE Underwriting Agencies Limited, a fellow subsidiary undertaking of ACE Global Markets Limited. The company's participations on Syndicate 2488 for the 2001, 2002, 2003 and 2004 underwriting accounts are as follows:

2001 allocated capacity		2002 allocated capacity		2003 allocated capacity		2004 allocated capacity	
Total £'000	Company's participation £'000	Total £'000	Company's participation £'000	Total £'000	Company's participation £'000	Total £'000	Company's participation £'000
724,819	**295,720**	899,973	**367,107**	725,000	**298,649**	550,000	**226,560**

The 2001 year of account of Syndicate 2488 is affected by the terrorist attacks of 11 September 2001 in the United States; the impact of this loss is disclosed in note 3 to the financial statements.

RESULTS AND DIVIDENDS

The profit for the year to 31 December 2003 after taxation amounted to £10,349,000 (2002 restated: £3,458,000). The directors do not recommend the payment of a dividend (2002: £Nil).

DIRECTORS

The following have been directors from 1 January 2003 to the date of this report unless otherwise indicated:

ACE London Group Limited
R L Cigelnik (Appointed 7 March 2003)
P M Curtis
M L Glover (Resigned 28 February 2003)

The company has the benefit of a group directors' and officers' liability insurance policy effected by ACE Limited. No charge was made to the company during the year for this policy.

DIRECTORS' INTERESTS

In accordance with The Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985 (SI 1985/802), the directors' interests in ACE Limited, the ultimate holding company, are not disclosed in these financial statements.

AUDITORS

The company's auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. On 23 June 1999 the company passed an elective resolution to dispense with the obligation to appoint auditors annually.

By Order of the Board

for and on behalf of
ACE London Services Limited
Secretary, 11 March 2004

ACE Building
100 Leadenhall Street
London
EC3A 3BP

DIRECTORS' RESPONSIBILITIES

The directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for the financial period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2003. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT
to the members of ACE Capital V Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes, and which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion
In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
11 March 2004

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 £'000	2002 (restated) £'000
TECHNICAL ACCOUNT – GENERAL BUSINESS			
EARNED PREMIUMS, NET OF REINSURANCE:			
Gross premiums written	2	272,666	401,588
Outward reinsurance premiums		(75,962)	(188,113)
Net premiums written		196,704	213,475
Change in the gross provision for unearned premiums		49,239	(8,454)
Change in the provision for unearned premiums – reinsurers' share		(28,877)	(12,516)
NET PREMIUMS EARNED		217,066	192,505
ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT	4	11,586	7,908
CLAIMS INCURRED NET OF REINSURANCE:			
Claims paid:			
Gross amount	2	(205,439)	(278,603)
Reinsurers' share		85,975	131,834
Net paid claims		(119,464)	(146,769)
Change in the provision for claims:			
Gross amount	2	(10,139)	50,840
Reinsurers' share		(10,911)	3,866
Change in the net provision for claims		(21,050)	54,706
CLAIMS INCURRED NET OF REINSURANCE	3	(140,514)	(92,063)
Net operating expenses	5	(71,570)	(99,046)
Investment expenses and charges		168	(893)
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		16,736	8,411

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003 – continued

	Note	2003 £'000	2002 (restated) £'000
NON-TECHNICAL ACCOUNT			
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT	3	16,736	8,411
Investment income	7	12,053	9,166
Allocated investment return transferred to the general business technical account	4	(11,586)	(7,908)
Unrealised gains on investments	7	1,404	-
Unrealised losses on investments	7	-	(2,318)
Investment expenses and charges	7	(1,562)	(72)
Other charges, including value adjustments	8	(2,891)	(2,275)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	14,154	5,004
Tax on profit on ordinary activities	9	(3,805)	(1,546)
RETAINED PROFIT FOR THE FINANCIAL YEAR		10,349	3,458
Retained loss at beginning of the financial year		(15,681)	(19,139)
RETAINED LOSS AT END OF THE FINANCIAL YEAR		(5,332)	(15,681)

All of the above results derive from continuing operations.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the financial period stated above and their historical cost equivalents.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2003 £'000	2002 (restated) £'000
RETAINED PROFIT FOR THE FINANCIAL YEAR	10,349	3,458
Total recognised gains and losses relating to the financial year	10,349	3,458
Prior year adjustment as explained in Note 1	1,586	
TOTAL GAINS AND LOSSES RECOGNISED SINCE LAST ANNUAL REPORT	11,935	

BALANCE SHEET AT 31 DECEMBER 2003

	Note	2003 £'000	2002 (restated) £'000
ASSETS			
INVESTMENTS			
Intangible assets	10	5,338	5,695
Financial investments	11	246,919	238,175
		252,257	243,870
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums		25,129	54,004
Claims outstanding		328,116	342,705
		353,245	396,709
DEBTORS – amounts falling due within one year			
Debtors arising out of direct insurance operations: amounts owed by intermediaries		101,792	132,509
Debtors arising out of reinsurance operations		81,986	114,362
Other debtors	12	38,832	45,574
		222,610	292,445
OTHER ASSETS			
Cash at bank and in hand		22,566	35,397
Deferred taxation	13	5,342	24,758
		27,908	60,155
PREPAYMENTS AND ACCRUED INCOME	14	32,065	37,106
TOTAL ASSETS		888,085	1,030,285

BALANCE SHEET AT 31 DECEMBER 2003

	Note	2003 £'000	2002 (restated) £'000
LIABILITIES			
CAPITAL AND RESERVES			
Called-up share capital	15	4,284	4,284
Share premium account	15	38,552	38,552
Profit and loss account	16	(5,332)	(15,681)
TOTAL SHAREHOLDER'S FUNDS	16	37,504	27,155
TECHNICAL PROVISIONS			
Provision for unearned premiums		156,905	206,140
Claims outstanding		625,381	635,565
		782,286	841,705
CREDITORS – amounts falling due within one year			
Creditors arising out of direct insurance operations		6,091	7,540
Creditors arising out of reinsurance business		61,181	152,744
Other creditors including taxation and social security	17	1,023	1,141
		68,295	161,425
TOTAL LIABILITIES		888,085	1,030,285

The financial statements on pages 3 to 17 were approved by the board of directors on 11 March 2004 and were signed on its behalf by:

P M Curtis

Director

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Change in accounting policy

In previous years, only direct costs have been included in acquisition costs and hence deferred. With effect from the 31 December 2003, indirect costs are now included; comparatives at 31 December 2002 have been restated to reflect this change.

The effect of implementing this new accounting policy was to decrease the profit after tax for the year by £252,000 (2002: increase the profit after tax by £250,000) and to increase the value of net assets by £1,334,000 (2002: £1,586,000).

Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985 ("the Act"), and in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 1998, Technical Release 1/99 "Accounting by Lloyd's Corporate Capital Vehicles" ("TR 1/99") and applicable accounting standards in the United Kingdom. No cash flow statement is presented since FRS 1 (revised) exempts the company from the requirement to do so as the consolidated financial statements of ACE Limited includes a group cash flow statement.

Under the terms of TR 1/99, the guidance contained in the ABI SORP should be followed so far as practicable having regard to the nature of Lloyd's business. The exceptions to this principle relate to the presentation of exchange gains (paragraph 205) and investment return (paragraph 232). Consequently, there has been a departure from the ABI SORP in the company's financial statements in respect of these matters.

In order for the corporate member to reflect the legal and practical separation of assets and transactions at syndicate level and at corporate undertaking level, syndicate transactions are generally presented in the technical account and corporate undertaking level transactions are presented in the non-technical account. The ABI SORP permits the direct attribution of the investment return and exchange movements to the technical account in this way except as regards unrealised investment gains and losses. However, because all syndicate investments are deemed to be realised at 31 December each year under TR 1/99, it is reasonable to regard all syndicate investment gains and losses as realised for the purposes of the ABI SORP. Accordingly, the syndicate investment return and exchange gains have been attributed directly to the technical account.

Basis of accounting for underwriting business

Preparing financial statements in accordance with Section 255 and Schedule 9A to the Act has required the company to recognise its proportion of all the transactions undertaken by the Lloyd's syndicate in which it participates ("the Syndicate") during the calendar year. Similarly, its proportion of the syndicate's assets and liabilities has been reflected in its balance sheet. The proportion referred to above is calculated by reference to the company's participation as a percentage of the syndicate's total capacity.

(i) Premiums

Gross premiums written, which are stated gross of acquisition costs but exclusive of premium taxes, relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and includes estimates of premiums due but not yet received or notified to the company by intermediaries.

Unearned premiums relating to risks in future periods of account are estimated on a daily pro-rata, or more appropriate, basis.

Outwards reinsurance premiums are accounted for on the same basis and in the same accounting period as the premiums for the direct or inwards reinsurance business to which they relate.

(ii) Acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts and are deferred over the period in which the related premiums are earned.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES - continued

(iii) Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for reinsurance, salvage and other recoveries.

(iv) Claims provisions and related reinsurance recoveries

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses;
- movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims. Where possible the company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year. Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectibility.

As discussed in note 3 to the financial statements, the company has utilised a number of other estimation techniques in order to arrive at reserves in respect of the terrorist attacks on 11 September 2001.

Fire and other damage to property, and 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 company. The costs of claims notified to the company 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.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES – continued

Third party liability

Liability claims are longer tail than the classes of business described above and so a larger element of the claims provision relates to IBNR. Claims estimates for the company'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.

Marine, aviation and transport

This business segment has a mix of hull and cargo risks that are "short tail" in nature and liability risks which are longer tail. The methodologies for estimating short tail and longer tail business are included in the previous two sections.

Reinsurance recoveries

Reinsurance recoveries in respect of estimated IBNR are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the company's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies.

(v) Reinsurance to close

The reinsurance to close is technically a reinsurance contract and, as such, the payment of a reinsurance to close does not remove from members of that year of account ultimate responsibility for claims payable on risks they have written.

If the company has increased its participation from one year of account to the next, the reinsurance to close paid is eliminated, as a result of this offset, leaving an element of the reinsurance to close received. This reflects the fact that the company has assumed a greater proportion of the business of the syndicate. If the company has reduced its participation from one year of account to the next, the reinsurance to close received is eliminated, leaving an element of the reinsurance to close paid. This reflects the reduction in the company's exposure to risks previously written by the syndicate. The excess representing the increase or reduction in percentage participation is shown in the technical account as gross premiums written or reinsurance premiums payable as appropriate and is represented in the balance sheet by the related share of assets and liabilities transferred between the two Lloyd's years of account of the managed syndicate.

(vi) Syndicate investment income, expenses and charges

Syndicate investments and cash are held on a pooled basis, the return from which is allocated to underwriting years proportionately to the funds contributed by the year.

All syndicate investment gains and losses including those that are unrealised are attributed to the technical account in accordance with TR 1/99.

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. The ABI SORP requires that, for insurance companies, both realised investment gains and losses should be included as part of investment return in the profit and loss account. Dividends are recorded on the date on which the shares are quoted ex-dividend and include the imputed tax credits. Interest and expenses are accounted for on an accruals basis.

Realised gains and losses on investments carried at mid market value are calculated as the difference between net sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have previously been revalued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES – continued

Costs of capacity purchased at auction

The auction costs relating to syndicate capacity are treated as an intangible asset and written off through the profit and loss account in 20 equal annual instalments commencing in the financial year to which the capacity relates. The carrying value of the asset is reviewed annually by the directors and a provision is made where necessary for any permanent impairment in the value of the capacity acquired.

Foreign currency transactions

Monetary assets and liabilities and transactions in the technical account are translated into sterling at the exchange rates prevailing at the balance sheet date. Transactions in the non-technical account are translated at rates of exchange ruling at the dates of the transactions. Gains or losses arising on syndicate transactions are included in the technical account. Gains or losses arising on the company's transactions and balances are included in the non-technical account.

Taxation

UK taxation in the profit and loss account is based on the underwriting result and other income and charges of the year as determined in accordance with the relevant tax legislation, together with adjustments for prior years.

Deferred taxation

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised have not been discounted.

Investments

Investments in marketable securities are stated at their mid-market value on the balance sheet date.

2. SEGMENTAL ANALYSIS

The business noted below has all been underwritten in the Lloyd's insurance market or in the United Kingdom, which has been treated as one geographical segment and class of business for the purposes of Statement of Standard Accounting Practice No. 25: Segmental Reporting.

Segmental information in the format required by the Companies Act 1985 is as follows:

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
Year to 31 December 2003					
Marine, aviation and transport	37,261	44,121	(43,124)	(9,810)	646
Fire and other damage to property	59,172	63,528	(60,752)	(14,124)	464
Third party liability	92,008	112,621	(35,857)	(25,039)	(24,193)
Other	9,194	9,615	(463)	(2,138)	(2,970)
Motor – third party liability	16	163	(223)	(36)	24
Accident and health	5,780	7,194	(8,857)	(1,599)	741
Motor – other classes	790	1,486	(1,599)	(330)	73
Reinsurance acceptances	68,445	83,177	(64,703)	(18,494)	(4,560)
Reinsurance to close	-	-	-	-	-
TOTAL	272,666	321,905	(215,578)	(71,570)	(29,775)

NOTES TO THE FINANCIAL STATEMENTS

2. SEGMENTAL ANALYSIS – continued

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
Year to 31 December 2002 (restated)					
Marine, aviation and transport	46,802	45,816	(41,900)	(11,539)	(20,718)
Fire and other damage to property	79,954	78,271	(66,102)	(19,720)	(32,825)
Third party liability	111,125	108,786	(91,452)	(27,406)	(49,956)
Other	7,023	6,875	(7,977)	(1,733)	(6,792)
Motor – third party liability	912	893	(535)	(228)	(156)
Accident and health	14,262	13,962	(8,377)	(3,516)	(3,564)
Motor – other classes	1,479	1,448	(1,464)	(366)	(814)
Reinsurance acceptances	140,031	137,083	(9,956)	(34,538)	49,896
Reinsurance to close	-	-	-	-	-
TOTAL	401,588	393,134	(227,763)	(99,046)	(64,929)

The reinsurance balance comprises the sum of reinsurers' share of net premiums earned and reinsurers' share of claims incurred.

3. US TERRORIST ATTACKS OF 11 SEPTEMBER 2001

The US terrorist attacks on 11 September 2001 resulted in the largest insured loss in history; as such the extent of the gross and net loss to the company is difficult to estimate with the degree of confidence which is usual for insurance losses.

Some 41% of the company's gross exposure emanates from the inwards reinsurance sector of its portfolio, with 31% and 20% emanating from the property and aviation sectors respectively. The company conducted an exhaustive review of its portfolio on a policy by policy basis to estimate the impact of the attacks on a gross and net basis; the reserves are constantly monitored and have not changed significantly since the initial estimate was made in September 2001. Consequently, this loss has not had a material impact on the company's results for the year ended 31 December 2003. There is particular uncertainty with respect to the inwards reinsurance exposure, which has been reserved for using an estimate based on probabilities attaching to the various accounts within the book of business. This estimate is subject to ongoing review, specifically a reasonableness review of the estimate compared to notified claims.

At 31 December 2003, the company's net technical provisions included £23m (2002: £42m) in respect of this loss.

4. ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT

	2003 £'000	2002 (restated) £'000
Syndicate investment income	9,331	7,979
Syndicate realised and unrealised net gains/(losses)	2,255	(71)
	11,586	7,908

NOTES TO THE FINANCIAL STATEMENTS

5. NET OPERATING EXPENSES – TECHNICAL ACCOUNT

	2003 £'000	2002 (restated) £'000
Acquisition costs	51,025	73,769
Change in deferred acquisition costs	6,574	(2,512)
Administrative expenses	25,455	29,229
Foreign exchange gains	(11,484)	(1,440)
	71,570	99,046

6. DIRECTORS AND EMPLOYEES

The company has no employees. Remuneration received by the directors in respect of their services to the company is borne by ACE London Services Limited.

NOTES TO THE FINANCIAL STATEMENTS

7. INVESTMENT RETURN

	2003 £'000	2002 (restated) £'000
Investment income		
Syndicate investment income	9,331	7,979
Syndicate realised and unrealised net gains/(losses)	2,255	(71)
Interest receivable on funds held at Lloyd's	103	35
Bank interest receivable	18	21
Other interest	38	-
Dividends and interest received on quoted investments	308	1,202
	12,053	9,166
Unrealised gains on investments		
Unrealised profits on investments	1,336	-
Exchange gains arising on revaluation of US dollar investments	68	-
	1,404	-
Unrealised losses on investments		
Unrealised losses on investments	-	(1,268)
Exchange losses arising on revaluation of US dollar investments	-	(1,050)
	-	(2,318)
Investment expenses and charges		
Other interest payable	-	(19)
Realised losses on investments	(1,562)	(53)
	(1,562)	(72)
TOTAL INVESTMENT RETURN	11,895	6,776

8. OTHER CHARGES, INCLUDING VALUE ADJUSTMENTS

	2003 £'000	2002 (restated) £'000
Profit on ordinary activities before taxation is stated after charging the following items:		
Management fee payable to ACE London Services Limited	1,700	1,350
Amortisation of purchases of syndicate capacity	357	285
Exchange loss arising on retranslation of US dollar balances	834	640

The company's audit fee is borne by ACE London Services Limited.

NOTES TO THE FINANCIAL STATEMENTS

9. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of charge/(credit) in period

	2003 £'000	2002 (restated) £'000
Current tax:		
Amounts receivable from group undertakings in respect of group relief	(15,570)	(270)
Prior year adjustments	(41)	24
Total current tax (note 9(b))	(15,611)	(246)
Deferred tax (note 13):		
Origination and reversal of timing differences	19,416	1,792
Tax on profit on ordinary activities	3,805	1,546

(b) Factors affecting tax charge/(credit) for period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2003 £'000	2002 (restated) £'000
Profit on ordinary activities before taxation	14,154	5,004
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	4,246	1,501
Effects of:		
2000 (2002: 1999) account result declared in year	(10,137)	119
Current year technical results not yet declared	(5,021)	(3,390)
2000 (2002: 1999) technical reserves disclaimed	-	1,615
Reversal of 1999 S.107 disclaimer of technical reserves	(2,015)	-
Expenses not deductible for tax purposes	(2,643)	380
Income not subject to corporation tax	-	(15)
Statutory discounting adjustment	-	(480)
Prior year adjustments	(41)	24
Current tax credit for period (note 9(a))	(15,611)	(246)

NOTES TO THE FINANCIAL STATEMENTS

10. INTANGIBLE ASSETS

	2003 £'000	2002 (restated) £'000
Cost:		
Purchase costs of capacity at auction:		
Balance at the beginning of the year	7,137	5,690
Additions during the year	-	1,447
Balance at the end of the year	7,137	7,137
Amortisation:		
Balance at the beginning of the year	1,442	1,157
Charge for the year	357	285
Balance at the end of the year	1,799	1,442
Net book value at the end of the year	5,338	5,695

11. INVESTMENTS

	2003 £'000	2002 (restated) £'000
Debt securities and other fixed interest securities	200,770	141,239
Participation in investment pools	5,624	70,019
Overseas deposits	40,525	26,917
	246,919	238,175

The purchase cost of the investments was £243,738,000 (2002: £224,990,000).

The overseas deposits are held under Lloyd's premium trust deed arrangements where applicable. The syndicate is required to lodge deposits in various overseas insurance markets as a condition of conducting underwriting business in those markets.

12. OTHER DEBTORS

	2003 £'000	2002 (restated) £'000
Amounts due from group undertakings	20,653	42,859
Amounts due from group undertakings in respect of group relief	15,570	270
Income tax recoverable	48	48
Other debtors	2,561	2,397
	38,832	45,574

NOTES TO THE FINANCIAL STATEMENTS

13. DEFERRED TAXATION ASSET

	2003 £'000	2002 (restated) £'000
At 1 January	24,758	26,550
Utilisation in year (note 9(a))	(19,416)	(1,792)
At 31 December	5,342	24,758
Analysis of asset at 31 December:		
Technical results not declared	3,207	18,364
Technical reserves disclaimed	-	1,615
Other timing differences	2,135	4,779
Undiscounted deferred taxation asset as above	5,342	24,758

14. PREPAYMENTS AND ACCRUED INCOME

	2003 £'000	2002 (restated) £'000
Deferred acquisition costs	27,247	36,798
Other prepayments and accrued income	4,818	308
	32,065	37,106

15. CALLED-UP SHARE CAPITAL

	2003 *$'000*	*2002* *$'000*	2003 £'000	2002 £'000
Authorised, allotted, issued and fully paid: 6,725,202 Ordinary shares of US$1	*6,725*	*6,725*	4,284	4,284
Share premium at US$9 per ordinary share	*60,527*	*60,527*	38,552	38,552

The company has met its funds at Lloyd's requirement to support its underwriting capacity by way of a letter of credit to the value of £160,625,056 (2002: £160,300,000). The letter of credit has been arranged by ACE Limited and guaranteed by ACE Bermuda Insurance Ltd.

NOTES TO THE FINANCIAL STATEMENTS

16. MOVEMENTS IN SHAREHOLDER'S FUNDS

	Share capital and share premium £'000	Profit and loss account £'000	Total £'000
Opening shareholder's funds:			
As previously stated	42,836	(17,267)	25,569
Prior year adjustment (Note 1)	-	1,586	1,586
	42,836	(15,681)	27,155
Retained profit for the financial year	-	10,349	10,349
Closing shareholder's funds	42,836	(5,332)	37,504

17. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2003 £'000	2002 (restated) £'000
Corporation tax	500	502
Accruals and deferred income	489	612
Other creditors	34	27
	1,023	1,141

Other creditors do not include £9,120,000 in respect of the company's share of Syndicate 2488's 2001 closed year of account loss (2002: £33,789,000 in respect of the 2000 closed year of account loss), which is due to be paid to the syndicate by 30 June 2004. This is because the company's share of the syndicate's assets and liabilities include an asset of the same amount; the syndicate asset and the company liability have been netted off in these financial statements.

18. LETTER OF CREDIT FACILITIES

In order to meet the quarterly funding requirements for US regulated business, the company has lodged letters of credit with the trustees of the Surplus Lines and Credit for Reinsurance Trust Funds, Citibank NA. These letters of credit have been made available from the ACE Global Markets group facility, with Barclays Bank plc, and the ACE Limited central facility. At 31 December 2003 the letters of credit issued under these facilities totalled £45,668,000 (2002: £46,196,000) and £Nil (2002: £43,305,000) respectively.

The Barclays Bank plc facility, and the letters of credit issued thereunder, are guaranteed by ACE Bermuda Insurance Ltd. The facility expires on 29 October 2004 and, at this time, there is no expectation that the facility will not be renewed.

19. TRANSACTIONS WITH RELATED PARTIES

Advantage has been taken of the exemption provided in FRS 8 from disclosing details of transactions with ACE Limited and its subsidiary undertakings.

20. ULTIMATE HOLDING COMPANY

The intermediate company that heads the smallest group of undertakings for which consolidated accounts, including the company, are prepared is ACE Global Markets Limited, a company registered in England and Wales. The ultimate holding company is ACE Limited, a company registered in the Cayman Islands, with its headquarters in Bermuda 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 Global Headquarters, 17 Woodbourne Avenue, Hamilton HM 08, Bermuda.