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ACE UNDERWRITING AGENCIES LIMITED
SYNDICATE 2488

REPORT AND ANNUAL ACCOUNTS

31 DECEMBER 2015

CHAIRMAN'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

The President's Report for 2015 contains a review of 2015 performance, an introduction to the Chubb acquisition and confirms the 2016 outlook of a continuing, challenging and competitive marketplace. In short we demonstrated good use of ACE Underwriting Agencies Limited's excellence in underwriting, actuarial, line of business and risk management skills and will continue to develop these capabilities throughout 2016.

In addition the Board and management have sought to deliver the major initiatives formulated by our regulators, the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"), on prudential and conduct issues. This has been reinforced by a requirement within the 'Senior Insurance Managers Regime' for separate identification regimes delineating key responsibilities and the relevant experience, information and awareness needs of key managers and Board members in order to ensure adequate challenge and validation of decisions. This is a significant policy change and has been introduced with helpful comment and directional guidance helping build constructive relationships.

A significant strengthening of the Board was reported in 2014. One change had to be made to replace Laurel Powers-Freeling when she resigned in July 2015 to take up an important appointment as Chairman of The Sumitomo Mitsui Banking Corporation Europe Limited. The Board thanks her for her strong contribution and wishes her well in her new appointment. A replacement Non-Executive Director, Marshall Bailey, was appointed at the end of 2015. Marshall has a background of experience in prudential matters, banking, capital markets, finance and regulatory oversight. He brings new skills to the Board and has accepted responsibility for the Risk Management function as Committee Chair. We will be maintaining our approach that, as a regulated major subsidiary, Non-Executive Directors should sit on the Risk and Audit Committees to ensure uniformity in the adequacy and depth of information required to be an effective Board member. The company will also be adopting and rolling out in 2016 improved standards of whistleblowing processes as recommended by the FCA with the relevant supporting actions of required management training and necessary improvements in employee awareness.

In summary, in 2016 there are a number of themes additional to the current market challenges. These include meeting on an ongoing basis the improved standards of prudential and conduct regulation and the optimal integration and ongoing delivery of the business opportunities provided by the completion of the Chubb acquisition. The year of 2016 therefore presents significant opportunities for ACE Underwriting Agencies Limited to demonstrate continued strong progress.

J A Napier
Chairman

15 March 2016

PRESIDENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

Overview

Syndicate 2488 is one of the pre-eminent specialty insurers in the London market. It is managed by ACE Underwriting Agencies Limited ("AUAL"), which formed part of the ACE Group of Companies in 2015.

Acquisition of Chubb Corporation

On 14 January 2016, ACE Limited, the ultimate parent of AUAL, completed the acquisition of the Chubb Corporation, creating a global insurance leader operating in 54 countries.

The new Chubb will be an industry leader in commercial and personal insurance, with enhanced growth and earnings power and an exceptional balance of products. The combined company will benefit from greater product diversification and complementary distribution channels, customer segments and a shared commitment to underwriting discipline and outstanding claims service. In addition, the size and strength of the balance sheet will elevate the combined company into the elite group of global P&C insurers.

Legacy Chubb had a significant UK and European presence with business lines, distribution channels, customer segments and underwriting skills that complement existing structure and portfolios of legacy ACE. Senior task force teams have been constructed from all business and support areas to consider how best to bring the strengths of the two companies together for the benefit of our customers and business partners. Integration plans have been progressing well with executives from both former organisations collaborating to develop a blueprint for the new Chubb.

Following the transaction close and in line with local regulatory requirements, the combined organisation will transition to operate under the Chubb brand on a global basis – an acknowledgment of the distinctiveness and strength of the Chubb name.

2015 performance

The syndicate delivered excellent results for 2015 despite the continuance of challenging market conditions. Adherence to underwriting discipline resulted in a slight reduction in the top line on a constant exchange rate basis. However the strengthening of the US dollar means reported gross written premiums of £377.5 million were slightly higher than 2014 (£361.0 million). The syndicate generated underwriting profits of £54.0 million. Investment returns were adversely impacted by unrealized losses and generated net returns of £6.1 million. After taking into account loss on foreign exchange of £3.7 million the syndicate's profit for the year was £56.4 million. Further detail relating to our financial performance can be found in the Managing Agent's Report.

Remaining relevant in a challenging marketplace

Conditions in the London insurance market remained difficult throughout 2015. The huge swathe of capital that has entered into the markets during the past few years looks like it is here to stay and the rating environment has showed no signs of improvement as competitors continue to chase the top line with an apparent disregard for bottom line profitability.

Generally speaking, pricing is not keeping pace with loss cost trends, although this varies by line and geography. We continue to execute strategies to ameliorate the impact of pricing on our combined ratio using portfolio management to target classes with better margin and applying tighter individual risk selection and pricing actions in more stressed areas.

Businesses are pursuing new and increasingly global growth opportunities which bring with them a new wave of complex, inter-related and rapidly changing risks. These include technology risk – cyber-attack, data loss and business interruption as a result of systems failure – and supply chain and reputational risk as the complexity of expanding supply networks creates numerous interdependencies and exposures. Regulation and compliance risk also remains high on the agenda, especially as companies move into new and less familiar jurisdictions and regulators drive more intrusive supervision with a trend towards direct action against companies and their executives.

We acknowledge the need to remain relevant in this constantly changing environment. We are a key player in our chosen markets and are actively working to create new products and provide tailored insurance and risk management solutions to address our customers' evolving needs. We recognise the power of big data and have invested in tools and technologies to better utilise the wealth of information at our disposal and assist underwriters in their risk assessment.

Our position as a lead syndicate in the Lloyd's market continues to benefit us and we acknowledge the 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. We remain fully supportive of Lloyd's vision to be the global centre for specialist insurance by 2025.

Positioning for the future

Our plans for 2016 assume continued insurance market pressures, with rates likely to remain flat at best and in many cases continue to decline. Portfolio review processes are embedded throughout the business which, together with enhanced data analysis and management information tools, enable us to better evaluate profitability margins and identify our preferred, standard or challenged business sectors. We remain steadfast in our refusal to trade underwriting profit for premium volume and as a result, significant top line growth will be difficult to come by in 2016.

AUAL's underwriting business is conducted via registered brokers and we recognise the benefit of the good relationships we have built with our broker partners to bring tangible benefits to our underwriting transactions and thank them for their continued support.

Positioning for the future – *continued*

We are finally seeing a desire for process change in the London Market. London's high acquisition and transaction costs result in expense ratios consistently higher than those of comparable insurance centres and its competitive edge is diminished by the current inflexible business servicing model. Increasing efficiency is absolutely critical to the future success of the market place.

The way we consume and receive information is changing at record speed and the world is increasingly at odds with London's current processes, which remain manual and labour intensive. New technologies have the potential to transform how we do business: from capturing growth through new products and services to improving risk management and driving better underwriting and claims outcomes.

Work is progressing on new 'London Market Target Operating Model' which incorporates one touch data capture, improved access and enhanced service and efficiency through shared services. An electronic placing platform is essential and we now have a clear strategy to build a central system to increase the transparency of placement and link directly to our back-end systems.

But the market also faces some deep and complex issues that go far beyond the reform agenda. Customers, especially those in the emerging markets, are increasingly showing a preference for buying insurance locally, potentially putting billions of pounds of London Market premiums at risk. Process reform alone will not prevent business migrating elsewhere. London needs to continue to earn its reputation as an innovative insurance and risk solutions provider and keep pace with an ever-changing agenda.

We will continue to focus on our clients, pooling our skills and expertise with our partners to provide the strategic counsel and risk management expertise they need. We have leveraged our operations to provide superior customer service and outcomes and adhere to clear and agreed service standards through risk management, compliance and conduct governance practices throughout all areas of the business.

In conclusion

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.

Finally, I want to acknowledge the dedication and commitment of my ACE colleagues. We have a great team and I would like to thank them all for maintaining focus on our 'business as usual' targets this year amidst the flurry of integration announcements and activities.

2016 will bring ACE and Chubb together to create a global P&C leader with highly complementary business lines, distribution channels, customer segments and underwriting culture and I look forward to leading AUAL through an exciting year ahead.

A J Kendrick

President
15 March 2016

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

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 2015.

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

Ultimate Ownership

Syndicate 2488 was a strategically important business within the ACE Group of Companies in 2015, allowing the group to access specialist Lloyd's London market risks. At the end of 2015, the ACE Group recorded $23.8 billion of gross written premiums in the year and held $66.3 billion in assets.

On 1 July 2015, ACE Limited, the ultimate parent of AEGL, announced that the Boards of Directors of ACE Limited and The Chubb Corporation had unanimously approved a definitive agreement under which ACE would acquire Chubb. Following approval from the shareholders of both companies and receipt of all required regulatory approvals, ACE Limited completed the acquisition of The Chubb Corporation on 14 January 2016 and subsequently changed its name to Chubb Limited.

The combined company, operating under the Chubb name, is now the world's largest publicly traded property and casualty insurer. With operations in 54 countries, Chubb provides commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance and life insurance to a diverse group of clients.

The company is distinguished by its extensive product and service offerings, broad distribution capabilities, exceptional financial strength, underwriting excellence, superior claims handling expertise and local operations globally. The insurance companies of Chubb serve multinational corporations, mid-size and small businesses with property and casualty insurance and services; affluent and high net worth individuals with substantial assets to protect; individuals purchasing life, personal accident, supplemental health, homeowners, automobile and other specialty insurance coverage; companies and affinity groups providing or offering accident and health insurance programmes and life insurance to their employees or members; and insurers managing exposures with reinsurance coverage.

Chubb's core operating insurance companies maintain financial strength ratings of "AA" from Standard & Poor's and "A++" from A.M. Best.

Chubb Limited is listed on the New York Stock Exchange (NYSE: CB) and is a component of the S&P 500 index. The company maintains executive offices in Zurich, New York, London and other locations, and employs approximately 30,000 people worldwide.

Syndicate 2488

Syndicate 2488 is managed by AUAL. Following the close of the Chubb acquisition and in line with regulatory requirements, AUAL will transition from operating under the "ACE", "ACE Global Markets" and "ACE Tempest Re" brands to adopt "Chubb", "Chubb Global Markets" and "Chubb Tempest Re" respectively.

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

***Syndicate 2488** – continued*

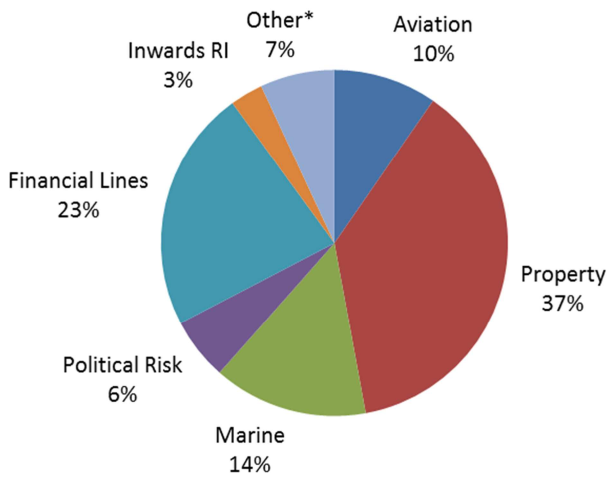
The acquisition has no immediate impact on AUAL as a legal entity; however the name of the company is expected to change to reflect the Chubb brand over time.

The structure of the group operations 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.

ACE Global Markets ("AGM") and ACE Tempest Re ("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, marine, political risks, financial lines and inwards reinsurance business.

The calendar year 2015 gross written premium business split by major product line is illustrated in the chart below:



** Other includes A&H, energy, international casualty, environmental liability, terrorism and other 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 2015. Virtually every class of business underwritten by the syndicate experienced negative pricing on renewals, with the most adverse rate movements affecting energy and aviation risks. Conditions in the reinsurance market also remained difficult, with reductions more pronounced in shorter tail classes due in part to another year of benign catastrophe activity.

The high transaction costs traditionally associated with the London Market continue to put pressure on the combined ratio. Brokers continue to push for increased remuneration and specific agreements and facilities continue to inundate the market, making some accounts less mobile or more expensive to underwrite. 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

Volatility increased within financial markets in 2015, with events such as plummeting oil and commodity prices, devaluation of the Chinese currency, falls in Chinese equity prices and another Greek debt crisis focussing investors' minds. 2015 was also defined by a divergence in economic policy, as the Federal Reserve ("Fed") began the road toward normalising monetary policy by increasing interest rates, while the European Central Bank ("ECB") continued easing. The Bank of England's Monetary Policy Committee ("MPC") kept the base rate unchanged through the year, despite inflation dropping to record lows, and even into negative territory in April and September.

In the US, amid increased signs of economic strength, the Fed finally increased interest rates by 25 basis points in December.

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

***Financial markets review** – continued*

Earlier in the year, the Fed laid the groundwork for this by signalling that it was becoming more data-dependent and this appeared to suggest rates would rise mid-year. However, these expectations were waylaid by significant market volatility, stemming initially from the Eurozone in the form of Greece and then from China as a result of unanticipated currency depreciation. Relatively strong growth in the United States together with signs of inflation in 2016 pushed the Fed to finally begin its hiking cycle in Q4. Markets ended the year expecting further increases in 2016.

Despite a decisive election result in the UK, questions continued concerning the potential timing and outcome of the EU referendum and this uncertainty will likely influence investor sentiment in 2016. Throughout 2015 inflation remained comfortably below the MPC's 2% target and wage data has not shown consistent strengthening to influence this outlook. For the UK, there were moderate yield rises over the year and expectations for interest rate rises are now priced in for 18-24 months' time.

In the Eurozone, the ECB introduced its quantitative easing programme in the first quarter, a move which initially drove sovereign yields in the region into negative territory. As the second quarter came to a close, markets focused on events in Greece, where the debt crisis worsened sharply and its Prime Minister ultimately secured approval for a new bailout. While the Eurozone managed to end the year on a relatively positive note as ECB head Mario Draghi expanded the bank's quantitative easing programme, the relative sense of calm that emerged in August was quickly replaced by renewed volatility coming from China where growth continued to slow.

This economic environment proved challenging for fixed income investors although performance differed by region. In the US and UK sovereign bond yields rose but remained little changed in Germany. Across all markets, exposure to credit proved detrimental and consequently in 2015 investment grade portfolios struggled to generate meaningful total returns.

Presentation of Financial Statements

The basis of preparation of Syndicate 2488's annual financial statements is in accordance with the 2008 Lloyd's Regulations and applicable accounting standards in the United Kingdom. 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 2013 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	**2015**	**2014**
Gross written premiums	377.5	361.0
Net written premiums	289.1	284.2
Combined ratio *	81.3%	60.4%
Profit for financial year	56.4	141.2

* *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 2016 capacity of Syndicate 2488 at £350 million which is unchanged from 2015.

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's functional currency is US dollars. The presentational currency is sterling.

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

Results and Performance – *continued*

Syndicate 2488 produced a profit for the financial year of £56.4 million and a combined ratio of 81.3%. A summary of the reported financial results is shown in the table below.

£ million	**2015**	**2014**
Gross written premiums	377.5	361.0
Net written premiums	289.1	284.2
Net earned premiums	289.4	284.6
Incurred losses	121.8	65.8
Operating expenses	113.5	106.1
Underwriting profit	**54.0**	**112.7**
Investment return	6.1	39.6
Profit / loss on exchange	3.7	11.1
Profit for financial year	**56.4**	**141.2**
Combined ratio %	81.3%	60.4%

Drivers of underwriting result

Due to competitive market conditions and continued adherence to AUAL's strict underwriting criteria, gross written premiums for 2015 were below those of the prior year on a constant exchange rate basis, with lower premium volumes in all product lines with the exception of political risk and inwards RI. Due to the strengthening of the US dollar during 2015, the reported gross written premiums were 4.6% higher.

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 2015 were shared with other ACE companies. There were no major changes to the syndicate's reinsurance programme in 2015.

The absence of very severe catastrophes and another quiet hurricane season in the North Atlantic resulted in lower than average natural catastrophe related losses in 2015, with economic losses across the market amounting to approximately US$90 billion and total insured losses of circa US$27 billion. AUAL's exposure to large losses is managed by adherence to clear risk management and underwriting guidelines and the use of reinsurance protection and sophisticated modelling and analysis. AUAL's catastrophe losses net of reinsurance recoveries and reinstatement premiums during 2015 amounted to £13.6 million (2014: £5.0 million) with the most significant losses emanating from Cyclone Marcia, Typhoon Soudelor, California wildfires and the Tianjin explosion in China.

Prior period reserve releases amounted to £49.6 million (2014: £103.8 million) due primarily to improvements within aviation, marine and other lines.

Excluding catastrophe losses and prior period development, the accident year loss ratio for the year was 54.5% (2014: 57.8%) which demonstrates the strength of the syndicate's underlying business.

Operating expenses constitute acquisition costs, Lloyd's subscriptions, Central Fund contributions and general administrative expenses (as part of the managing agency fee). 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 US dollar investment grade portfolio in respect of the Funds in Syndicate and an actively managed US dollar high-yield portfolio, the focus of which is upper-tier high-yield fixed income securities, targeting average Moody's quality of "B" or higher. The approximate currency split of the syndicate investment portfolios is US dollars 64%, sterling 13%, Canadian dollars 14% and euros 9%. Syndicate 2488 held no equities in 2015.

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 performed broadly in line with their ACE customised benchmark in 2015. However, total returns were modest in the year as sovereign yields rose and credit spreads widened. The US dollar high yield portfolio generated negative total returns of around -2% due to the deteriorating credit environment although this performance compared favourably with the performance of the high yield universe.

The smaller sterling and euro portfolios generated flat returns in the year as a result of increasing yields. In Canada yields fell and consequently the Canadian dollar portfolio generated relatively strong absolute returns in 2015.

Overall the syndicate generated a modest total investment return of around 0.5% in the year. As a result of unrealised losses booked in

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

Investment report – *continued*

the year, the aggregate portfolio now shows a modest unrealised loss position.

Cash flow

Total syndicate cash flow derived from operating activities in the year was positive but funds decreased in the year as a result of the distribution of the 2012 year of account profits.

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 Regulation Authority ("PRA") conducts reviews directly with Lloyd's on the overall SCR for the Lloyd's Market 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 2016, the SCR shows a small decrease compared with the 2015 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 2015 year end increased to $604 million (2014: $543 million), due to an increase in open year accounting surpluses.

Solvency II

Solvency II regulation came into force on 1 January 2016.

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 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 SCR from 2014 onwards.

Syndicate 2488 has delivered on its Solvency II project deliverables and milestones 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 Lloyd's internal model obtained approval from the PRA in December 2015 for use in setting its statutory capital. Under the governance processes surrounding the Lloyd's internal model, the syndicate is obligated to ensure compliance with Lloyd's requirements for the internal model tests and standards, and processes are in place to meet this obligation.

Ratings

All active syndicates benefit from the financial strength ratings assigned to the Lloyd's market by the various rating agencies. Lloyd's currently holds financial strength ratings of "A (Excellent)" from A.M. Best, "A+ (Strong)" from Standard & Poor's and "AA- (Very Strong)" from Fitch. In view of these robust ratings, together with the Chubb 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 ("the Board") 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 routinely 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 fifteen times in 2015.

The AUAL Board comprises six independent non-executive directors and four executive directors. During 2015 one new non-executive director joined 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.

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

***Governance** – continued*

Key non-routine Board activity during the year included, i) reviews of policies affecting the Company's internal model for capital-setting, ii) review of the Company's whistleblowing processes and policy, iii) consideration of the methods of validation of the Company's regulatory capital figure employed by management, and iv) adoption of revised arrangements in compliance with the new regulatory requirements under the Senior Insurance Manager Regime.

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

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 continuing Board committee were unchanged in 2015.

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, whistleblowing, actuarial matters and the external audit. It receives reports from the Risk Committee, the compliance and finance functions and Internal Audit on a quarterly basis.

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

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. The Audit Committee kept close review Internal Audit resources during 2015, to ensure that they remained adequate to carry out the annual audit plan for the year, particularly in the light of the demands placed on the audit team by Internal Model validation.

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 2015 the Committee received externally-produced reports on controls over financial crime and customer conduct risk, a presentation on the taxation function and a review of the whistleblowing framework.

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. It receives regular reports on the Company's "Own Risk and Solvency Assessment" metrics, required by Solvency II, which helps to provide an independent overview of management's assessment of risk and a check against agreed risk appetites.

During the year the Committee continued to consider the policies and methodology used in connection with the Syndicate's Internal Capital Model and assessment of risk. It received a number of reports on technology-related risks and on the risks arising from outsourcing processes to external agencies.

Towards the end of 2015 the Board constituted a **Product Oversight Committee** as a Board Committee, to provide organisation-wide consistent oversight in respect of conduct towards customer. Over a transitional period the Committee will assume responsibility for the customer conduct oversight of commercial lines of business, in line with Lloyd's guidelines. The Committee met for the first time in January 2016 with monthly meetings scheduled thereafter.

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, internal model steering, 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 broker credit control 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

The ACE Group 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 ERM strategy helps achieve the goal of building shareholder value by systematically identifying, and then monitoring and

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

***Risk and Control Framework** - continued*

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. ACE's documented RMF is principles-based and sets out the organisational framework for risk taking, monitoring and governance.

The RMF adopts a "three lines of defence" model, comprising day-to-day risk management and controls, risk management oversight, and independent assurance.

The RMF identifies the key risks to the company and their resultant impact on economic and regulatory capital. This framework assesses risk and manages capital requirements to ensure the capital required to support AUAL's business objectives and to meet the requirements of policyholders, regulators and rating agencies is in place.

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 Board's oversight of the RMF is effected through the various committees and functions 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. The RMF was re-approved by the Board in 2015 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.

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.

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 the possibility that the financial position of our counterparties deteriorates, and 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

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

***Financial Risk** - continued*

- 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 unanticipated interest rate movements having 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.

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

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

***Financial Risk** - continued*

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 positive balance in the notional pool of £2.8 million, being £95.4 million of credit balances in Australian dollars, US dollars, Chinese Renminbi and Euros, net of £92.6 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.

A key strategic risk will be the integration of AUAL with Chubb legal entities following the acquisition. The risks associated with the integration will be measured and monitored on an on-going basis using the AEG RMF.

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 formal 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.

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

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.

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

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.

In October, employees participated in the ACE Group's "Global Day of Service", a tradition that began in 2005 and reflects ACE's firm belief that positive contributions to communities return long-lasting benefits to society and the company's employees and business. AUAL employees participated in volunteer projects focused on education, poverty, health and the environment in the communities where they live and work. AUAL also actively supports employees in personal fundraising efforts through an employee charity-matching scheme.

Directors

The following have been directors of the managing agent from 1 January 2015 to the date of this report unless otherwise indicated:

Executive directors:	
A J Kendrick	
R P Murray	
M K Hammond	
K L H Underhill	Resigned on 21 January 2016
A M W Shaw	(Active Underwriter)
Non-executive directors:	
J A Napier	
L C Powers-Freeling	Resigned on 7 July 2015
C E Riley	
A R Prindl	
T C Wade	
M J Yardley	
M C Bailey	Appointed on 10 December 2015

MANAGING AGENT'S REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

Directors - *continued*

Qualifying third-party indemnity provisions (as defined by section 234 of the Companies Act 2006) are in place for the benefit of the directors and, at the date of this report, are in 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 also has the benefit of a group insurance company management activities policy effected by Chubb Limited (AUAL's ultimate holding company). No charge was made to AUAL during the year for this policy.

Directors' Participations

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

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 he/she is aware, there is no information relevant to the audit of the syndicate's annual accounts for the year ended 31 December 2015 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.

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 2015 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

15 March 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 2488

Report on the syndicate annual accounts

Our Opinion

In our opinion, Syndicate 2488's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2015 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 2015, included within the Report and Annual Accounts (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2015;
- the Profit and Loss Account for the year then ended;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Members' Balances;
- the Statement of Cash Flows; and
- 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 United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (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 14, the Managing Agent is responsible for the preparation of the syndicate annual accounts in accordance with United Kingdom Generally Accepted Accounting Practice 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 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 Annual 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
15 March 2016

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 £'000	2014 £'000
TECHNICAL ACCOUNT – GENERAL BUSINESS			
EARNED PREMIUMS, NET OF REINSURANCE:			
Gross premiums written	4	377,516	361,034
Outward reinsurance premiums		(88,464)	(76,807)
Net premiums written		289,052	284,227
Change in the gross provision for unearned premiums		(10,987)	(687)
Change in the provision for unearned premiums – reinsurers' share		11,315	1,039
EARNED PREMIUMS, NET OF REINSURANCE		289,380	284,579
ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT	8	2,774	30,468
CLAIMS INCURRED, NET OF REINSURANCE:			
Claims paid:			
Gross amount	4	(212,186)	(207,424)
Reinsurers' share		62,870	48,717
Net paid claims		(149,316)	(158,707)
Change in the provision for claims outstanding:			
Gross amount	4	98,782	116,843
Reinsurers' share		(71,288)	(23,941)
Change in the net provision for claims outstanding		27,494	92,902
CLAIMS INCURRED, NET OF REINSURANCE		(121,822)	(65,805)
Net operating expenses	6	(113,529)	(106,061)
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		56,803	143,181

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2015 - *continued*

NON-TECHNICAL ACCOUNT		2015	2014
		£'000	£'000
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		56,803	143,181
Investment income	8	35,199	33,927
Unrealised gains on investments	8	44,098	104,918
Investment expenses and charges	8	(4,760)	(4,666)
Unrealised losses on investments	8	(68,401)	(94,565)
Allocated investment return transferred to the general business technical account	8	(2,774)	(30,468)
Profit / (loss) on exchange		(3,748)	(11,093)
PROFIT FOR THE FINANCIAL YEAR		56,417	141,235

All of the above results derive from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
	£'000	£'000
PROFIT FOR THE FINANCIAL YEAR	56,417	141,235
Currency translation differences	20,418	20,949
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	76,835	162,184

BALANCE SHEET AS AT 31 DECEMBER 2015

	Note	2015 £'000	2014 £'000
ASSETS			
INVESTMENTS			
Other financial investments	9	1,098,970	1,167,197
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums	18	42,726	30,439
Claims outstanding	18	283,092	349,039
		325,818	379,478
DEBTORS – amounts falling due within one year			
Debtors arising out of direct insurance operations: amounts owed by intermediaries		71,529	61,683
Debtors arising out of reinsurance operations		54,249	40,971
Other debtors	10	3,019	3,415
		128,797	106,069
DEBTORS – amounts falling due after one year			
Other debtors	10	3,170	26
OTHER ASSETS			
Cash at bank and in hand		98,768	113,785
PREPAYMENTS AND ACCRUED INCOME			
Deferred acquisition costs	18	36,742	34,636
Other prepayments and accrued income		8,982	8,561
		45,724	43,197
TOTAL ASSETS		1,701,247	1,809,752

BALANCE SHEET AS AT 31 DECEMBER 2015

LIABILITIES	Note	2015 £'000	2014 £'000
CAPITAL AND RESERVES			
Members' balances		450,189	463,950
TECHNICAL PROVISIONS			
Provision for unearned premiums	18	184,189	169,624
Claims outstanding	18	916,284	1,004,414
		1,100,473	1,174,038
DEPOSITS RECEIVED FROM REINSURERS		48	46
CREDITORS – amounts falling due within one year			
Creditors arising out of reinsurance operations		52,489	49,473
Bank loans and overdrafts		92,605	116,602
Other creditors	12	3,070	2,162
		148,164	168,237
ACCRUALS AND DEFERRED INCOME			
Other accruals and deferred income		2,373	3,481
TOTAL LIABILITIES		1,701,247	1,809,752

The syndicate annual accounts on pages 17 to 42 were approved by the board of ACE Underwriting Agencies Limited on 8 March 2016 and were signed on its behalf by:

M K Hammond
Director
15 March 2016

STATEMENT OF CHANGES IN MEMBERS' BALANCES
AS AT 31 DECEMBER 2015

	Members' Balances
	£'000
AT 1 JANUARY 2014	157,173
Profit for the financial year	141,235
Net transfer into members' balances designated as Funds at Lloyd's	166,441
Profit distribution	(21,848)
Currency translation differences	20,949
AT 31 DECEMBER 2014	463,950
Profit for the financial year	56,417
Net transfer into members' balances designated as Funds at Lloyd's	37,409
Profit distribution	(128,005)
Currency translation differences	20,418
AT 31 DECEMBER 2015	450,187

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015	2014
RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES		£'000	£'000
Operating result		56,417	141,235
Decrease in gross technical provisions		(73,566)	(93,076)
Decrease reinsurers' share of gross technical provisions		53,660	15,609
Increase in debtors		(28,422)	(10,202)
Increase in creditors		2,817	7,708
Investment return		(6,128)	(39,615)
Other		(5,953)	(1,337)
Net cash flows from operating activities		(1,176)	20,322
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equity and debt instruments		(332,740)	(491,117)
Sale of equity and debt instruments		361,697	338,573
Investment income received		30,431	29,261
Other		29,392	(22,017)
CASH FLOWS FROM FINANCING ACTIVITIES			
Transfers to members in respect of underwriting participations		(128,005)	(21,848)
Members' balances designated as Funds at Lloyd's		37,409	166,441
Foreign Exchange		457	(138)
Net (decrease) / increase in cash and cash equivalents		(2,535)	19,477
Cash and cash equivalents at beginning of year		28,131	8,654
Cash and cash equivalents at end of year		25,596	28,131
Cash at bank and in hand	13	98,768	113,785
Short term deposits with credit institutions	13	19,433	30,948
Overdrafts	13	(92,605)	(116,602)
Cash and cash equivalents at end of year		25,596	28,131

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 11. 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 15).

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 ("SI2008/410"), Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Lloyd's Regulations") and applicable accounting standards in the United Kingdom, including Financial Reporting Standard FRS 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard FRS 103, "Insurance Contracts" ("FRS 103").

These annual accounts have been prepared on a going concern basis. The principal accounting policies, which are set out below, have been applied consistently to all the years presented unless otherwise stated. The company has adopted FRS 102 and FRS 103 in these financial statements. The prior financial year financial statements were restated on adoption of FRS 102 and 103 in the current financial year. For more information see Note 17.

Syndicate 2488's functional currency is US dollars. The presentational currency is sterling.

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.

NOTES TO THE FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES – *continued*

The two most critical assumptions as regards the provision for claims outstanding are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the provision for gross claims outstanding and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

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.

NOTES TO THE FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES – *continued*

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.

Investments – *fair value through profit and loss*

A financial asset is classified into this category at inception if they are acquired principally for the purpose of selling in the short term, if they form part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated to minimise any measurement or recognition inconsistency with the associated liabilities.

Financial assets designated as fair value through profit and loss are initially recognised at fair value with any transaction costs being expensed through the profit and loss account. For quoted investments where there is an active market, the fair value is their quoted bid price at the balance sheet date. For quoted investments where there is no active market, the fair value is determined by reference to prices for similar assets in active markets.

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

Foreign currency transactions are accounted for, in functional currency, at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, from translating such transactions into the functional currency of the syndicate, and from the revaluation to year end exchange rates of monetary assets and liabilities, are recognised in the profit and loss account.

At each period end foreign currency monetary items are translated using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Results recorded in their functional currency, are translated into sterling at average rates of exchange for the year while assets and liabilities are translated to sterling at year end exchange rates. Differences arising on translation are recorded in the statement of comprehensive income.

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 2012 and 2013 years of account. It is currently anticipated that the profit commission will also be waived for the 2014 and 2015 years of account.

NOTES TO THE FINANCIAL STATEMENTS

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT

Capital management

AUAL assesses its capital needs on a risk management basis and maintains an efficient capital structure consistent with the company's risk profile and business requirements, and to meet regulatory requirements. The company then seeks to maintain financial strength and capital adequacy to support business growth and meet the requirements of policyholders, rating agencies and regulators, whilst retaining financial flexibility by ensuring substantial levels of liquidity. Once the capital needs have been met, it is the policy of the company to distribute any surplus capital through dividends to its ultimate parent company.

From a prudential perspective, the Lloyd's market is regulated by the PRA and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held. In line with regulatory requirements that were in force to the end of 2015, AUAL managed its capital levels in 2015 in the context of the Lloyds's Economic Capital Assessment and the Funds at Lloyd's requirement.

Solvency II regulation comes into force on 1 January 2016. From 1 January 2016, AEGL's regulatory capital requirement will be set according to the Solvency II Internal Model. The company performs tests and controls to ensure continuous and full compliance with the Solvency II regulations.

The primary objectives of the company in managing capital can be summarised as follows:

- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to manage exposures to key risks;
- to maintain financial strength to support new business growth;
- to retain financial flexibility by maintaining strong liquidity.

Insurance risk

Insurance risk arises from fluctuations in the frequency and/or severity of claims. The syndicate mitigates this risk by maintaining underwriting discipline throughout its operations. This policy is supported by each strategic business unit's underwriting guidelines, expertise and appropriate authority limits. These guidelines are updated regularly to reflect developments in the nature of the insurance risks being underwritten. The syndicate also uses a reinsurance programme to manage its insurance risk by providing cover against certain large exposures.

Sensitivity to insurance risk

As highlighted in note 1, there is inherent uncertainty in the ultimate cost of claims for which the company uses a variety of different actuarial techniques to estimate the provision for claims outstanding. If the net claims ratio for the year had been higher by 1%, then the profit for the financial year would have been lower by £2.9m (2014: £2.8m) and members' balances would have been lower by £2.9m (2014: £2.8m). If the net claims ratio had been lower by 1%, then the profit for the financial year would have been higher by £2.9m (2014: £2.8m) and members' balances would have been higher by £2.9m (2014: £2.8m).

Concentrations of insurance risk

As set out in Note 4, the syndicate writes a diverse book of business across a number of underwriting classes. Approximately 40% of the gross written premiums for 2015 (2014: 39%) related to property and casualty line of insurance, with the remainder split across a number of other classes.

Geographically, 69.8% (2014:70.2%) of gross premiums written 2015 relates to risks within the United States of America, with the remainder being spread across Europe, Asia Pacific and Latin America.

Financial risk management objectives

The syndicate is exposed to a range of financial risks through its financial assets and financial liabilities. The most important components of this financial risk are market risk (including interest rate risk and currency risk), liquidity risk and credit risk.

These financial risks principally arise from the investment activity of the business and consequent holdings in fixed income investments, all of which are exposed to general and specific market movements. The underwriting activity of the business also generates financial risk, particularly in the form of currency risk as well as liquidity and credit risk through its insurance and reinsurance receivables and payables.

The notes below explain how financial risks are managed. The processes used to manage these risks are unchanged from previous periods, and cover areas such as investment activity through stochastic modelling of the portfolio, within its internal capital model and consequent capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – *continued*

Investment activity governance

The managing agent operates an Investment Committee which functions under terms of reference determined by the Executive Committee of the Board. The Committee is charged with establishing and effecting an appropriate investment policy for the syndicate having regard to the financial risk appetite of 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 Chubb management and is chaired by the Chief Executive Officer of Chubb Asset Management, the group's investment specialists who provide advisory services to Chubb group companies including AUAL. The Committee also includes the Chief Executive Officer, Chief Financial Officer and Treasurer of the managing agent.

The investment management function is outsourced 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 policy cites two major asset classes: investment grade fixed income securities and alternative assets. Alternative assets can include equities, high yield and emerging market instruments. The policy stipulates a target range of between 75% and 100% for investment grade fixed income securities and a range of between 0% and 25% for alternative asset classes. The current allocation to alternative assets sits at the mid of the target range, however, the position is regularly reviewed by the Investment Committee. The syndicate held no equities and emerging market instruments in 2015.

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 these guidelines.

Interest rate risk

The syndicate is exposed to interest rate risk primarily through its investments in fixed interest securities and, to the extent that claims inflation is correlated to interest rates, its liabilities to policyholders. Interest rate risk arises in the fixed income investment portfolio primarily through instrument duration. Accordingly, 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.

Sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. To illustrate the downside risk within the fixed interest portfolio of £958.5 million at external managers as at 31 December 2015 (2014: £1,013.2 million), an increase of 50 basis points in interest yields across all portfolios consecutively (principally sterling, euro and US dollars) has been calculated. Such an increase would decrease the market value of the investment portfolio and lead to a decrease in the total investment return of £23.0 million (2014: £22.0 million) and accordingly decrease total shareholders' funds by £23.0 million (2014: £22.0 million).

Equity price risk

The syndicate held no equities in 2015 (2014: Nil) and as a result the syndicate is not susceptible to equity price risk.

Currency risk

The syndicate is primarily exposed to currency risk in respect of assets and liabilities under policies of insurance denominated in currencies other than sterling. The syndicate maintains various currency balances generated through regular business activity but the majority of the funds held are denominated in sterling, euros, Canadian dollars and US dollars. The syndicate's policy seeks to ensure that an approximate currency match of assets and liabilities is maintained, with the bulk of surplus funds held in Canadian dollars and US dollars.

Any component of the members' funds denominated in currencies other than sterling gives rise to currency risk due to exchange rate volatility relative to sterling.

NOTES TO THE FINANCIAL STATEMENTS

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – *continued*

The accounting policy for foreign currencies is stated in note 2 to the financial statements. Profit and loss results pertaining to foreign branches are translated to sterling using the average rates of exchange for the year. Balance sheet components (monetary assets and liabilities) are translated to sterling using the rates of exchange at year end.

For the profit and loss account, the 2015 average US dollar/sterling rate of US$1.539/£1 is down on the prior period (2014: US$1.654/£1). Had sterling weakened by 10% against US dollar and all other variables remained constant, the profit for the year would have been £7.7 million more than the amount reported.

For the monetary components of the balance sheet, the yearend rates used to convert US dollar to sterling has decreased 5% to US$1.489/£1 (2014: US$1.561/£1). Assuming sterling had weakened by 10% against US dollar and all other variables remained constant, the effect of translating year end net assets based on these parameters would have resulted in increased members' balances of £47.4 million, which would have appeared as a gain in the statement of comprehensive income.

Liquidity risk

Liquidity risk is the risk 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.

However, a significant share of the syndicate's investments are held to meet regulatory deposit requirements which may not be available to meet recommended liquidity needs.

AUAL participates in a notional pooling programme with other Chubb 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 Chubb group participants in order to provide additional liquidity. Chubb group participants may overdraw individual account balances to fund immediate short term needs against credit balances held elsewhere within the pool. On this basis, AUAL maintained an overdraft of £92.6 million at year end (2014: £114.8 million) and credit balances of £95.4 million (2014: £109.7 million).

The syndicate also benefits from letter of credit facilities which can be utilised to meet certain funding needs and notional pooling facilities with other ACE group companies which serve to provide additional liquidity.

As indicated in the balance sheet, the syndicate's financial liabilities are all payable within one year. Non-derivative financial liabilities with contractual maturities are payable within normal terms of trade, which is on average 60 days. Non-derivative financial liabilities with contractual maturities are limited to reinsurance premiums payable and expense accruals.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The syndicate is exposed to credit risk through its investment activity and its insurance operations.

The syndicate is exposed to investment credit and price risk as a result of its holdings in fixed income. The risk in respect of fixed income investments is moderated by the application of detailed investment guidelines which limit the size of holdings with individual issuers, restrict duration and dictate minimum credit quality, both for individual holdings and for the aggregate weighted portfolio.

The average credit quality of investment portfolios using Moody's ratings remained high throughout the year and at year end was "A+". This is comparable to the previous year ("A+").

The investment guidelines seek to limit the credit risk of each of the portfolios through specifying eligible/ineligible investments; setting maximum counterparty exposures and minimum weighted credit quality and individual issuer credit quality.

Credit risk – insurance operations

The syndicate is exposed to credit risk as a result of its regular insurance and reinsurance activity. The areas of key exposure are:

- reinsurers' share of provision for claims outstanding;
- debtors arising from reinsurers in respect of claims already paid;
- amounts due from direct insurance and reinsurance policyholders; and
- amounts due from direct insurance and reinsurance intermediaries.

Ceded reinsurance is used to manage and mitigate inwards direct insurance and reinsurance risk. Ceded reinsurance does not

NOTES TO THE FINANCIAL STATEMENTS

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – *continued*

discharge the syndicate's liability as primary insurer. If a ceded reinsurer fails to pay a claim, the syndicate remains liable for the payment to the policyholder. A Reinsurance Security Committee is operated by the Chubb group which analyses the creditworthiness of ceded reinsurers on a quarterly basis by reviewing their financial strength. In addition, the recent payment history of ceded reinsurers is used to update the reinsurance purchasing strategy.

With regard to direct insurance and reinsurance receivables, the syndicate operates a committee to review broker security, a process for monitoring arrangements with managing general agents, and, in certain circumstances, the requirement for collateral to be posted by the policyholder to the benefit of the syndicate.

The assets bearing credit risk are summarised below:

	2015	2014
	£'000	£'000
Other financial investments	1,098,970	1,167,197
Reinsurers' share of technical provisions	325,818	379,478
Debtors arising out of direct insurance operations	71,529	61,683
Debtors arising from reinsurance operations	54,249	40,971
Total assets bearing credit risk	1,550,566	1,649,329

Other financial investments are designated as fair value through profit or loss at inception, and their performance evaluated on a fair value basis, in accordance with a documented investment strategy as detailed in note 1. The Moody's credit rating for other financial investments is detailed below.

	2015	2014
	£'000	£'000
AAA	242,744	303,426
AA	353,137	406,229
A	225,496	203,911
BBB	172,778	157,419
Below BBB or not rated	104,815	96,212
Total other financial investments	1,098,970	1,167,197

Other financial investments are neither past due nor impaired.

The amount of change, during the period and cumulatively, in the fair value of receivables that is attributed to changes in credit risk is represented by the provision for impairment against receivables past due.
Reinsurers' share of technical provisions includes claims outstanding, related claims handling costs and IBNR. This is described along with the valuation methods in note 1. This balance includes 0.0% past due that have been impaired (2014: 0.0%).

Debtors arising out of direct and reinsurance operations are held at fair value less any provision for impairment as described in note 1. They include 1.1% (2014: 1.1%) that have been impaired and 14.44% (2014: 6.9%) that are past due, but not impaired. The latter is aged 13.4% up to six months (2014: 6.8%), 1.7% six months to a year (2014: 0.6%) and the remaining minus 0.7% is older than a year (2014: minus 0.4%).

The Standard and Poor's credit rating for reinsurers share of technical provisions and debtors arising out of reinsurance operations that are neither past due nor impaired are detailed overleaf.

NOTES TO THE FINANCIAL STATEMENTS

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – *continued*

	2015	2014
	£'000	£'000
AA	176,857	223,547
A	116,224	128,369
BBB	(62)	(198)
Below BBB or not rated	8	10
Not rated	2,572	3,161
Total assets bearing credit risk	295,598	354,889

4. 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 2015					
Direct insurance					
Fire and other damage to property	127,757	119,922	(36,053)	(49,942)	(4,335)
Marine, aviation and transport	46,386	49,051	(381)	(15,171)	(21,542)
Accident and health	4,980	4,716	(2,718)	(3,847)	423
Third party liability	79,342	78,810	(44,441)	(24,248)	17,022
Miscellaneous	23,736	18,587	(2,808)	(6,059)	(5,298)
Reinsurance acceptances	95,315	95,443	(27,003)	(27,389)	(58,710)
TOTAL	377,516	366,529	(113,404)	(126,656)	(72,440)

	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	132,275	125,698	(36,131)	(48,099)	(6,469)
Marine, aviation and transport	45,823	50,134	10,840	(15,850)	(9,482)
Accident and health	4,242	4,832	(2,180)	(1,884)	312
Third party liability	76,307	78,925	(29,720)	(22,678)	(12,572)
Miscellaneous	16,240	15,326	(5,655)	(5,098)	4,523
Reinsurance acceptances	86,147	85,428	(27,735)	(21,107)	(18,647)
TOTAL	361,034	360,343	(90,581)	(114,716)	(42,337)

NOTES TO THE FINANCIAL STATEMENTS

4. SEGMENTAL ANALYSIS - *continued*

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 Schedule 1, Regulations 2015 (Part V, 84) is as follows:

	2015	2014
	£'000	£'000
United Kingdom	17,039	16,439
United States of America	263,669	253,558
Continental Europe	30,795	32,276
Africa and Middle East	6,633	6,024
Asia Pacific	27,707	20,462
Americas	31,673	32,275
	377,516	361,034

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

The prior year's net provision for claims outstanding generated a surplus for 2015 (2014: surplus) as detailed below:

	2015	2014
	£'000	£'000
Direct insurance		
Fire and other damage to property	3,740	16,272
Marine, aviation and transport	36,118	57,070
Accident and health	349	589
Third party liability	5,573	23,060
Miscellaneous	3,159	528
Reinsurance acceptances	670	6,301
	49,609	103,820

NOTES TO THE FINANCIAL STATEMENTS

6. NET OPERATING EXPENSES – TECHNICAL ACCOUNT

	2015	2014
	£'000	£'000
Acquisition costs	96,234	84,552
Change in deferred acquisition costs	(1,337)	(1,246)
Administrative expenses	31,760	31,410
Reinsurance commissions	(13,128)	(8,655)
	113,529	106,061

"Acquisition costs" includes total commissions for direct business amounting to £69.6million (2014: £65.8 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 2015, before the transfer to acquisition costs, is £35.0 million (2014: £34.3 million).

Auditors' remuneration

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

	2015	2014
	£'000	£'000
Fees payable to the syndicate's auditors and their associates for the audit of the syndicate's annual accounts	220	205
Fees payable to the syndicate's auditors and their associates for other services:		
Audit-related assurance services	148	153
Non-audit fees	122	20
	490	378

"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.

NOTES TO THE FINANCIAL STATEMENTS

7. DIRECTORS AND EMPLOYEES

Staff costs

The managing agency has no employees (2014-none). Staff that support the syndicate and managing agency are employed by ACE INA Services U.K. Limited (“AIS”), a fellow Chubb group undertaking, and their costs are covered by the managing agency fee as described in note 6.

Directors’ emoluments

All directors of the managing agent received emoluments from AIS in respect of their services to the syndicate and Chubb 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.

	2015	2014
	£’000	£’000
Aggregate emoluments and benefits	3,034	3,033
Company pension contributions to money purchase pension schemes	88	86
	3,122	3,119

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 £556,221 (2014: £564,000) in respect of emoluments and benefits and the highest paid director was paid a total of £787,668 (2014: £793,867) 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 Nil (2014: £46,900) and Nil (2014: £246,738) 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 Chubb Limited under long-term incentive plans and two directors’ exercised options over the shares of Chubb Limited. The active underwriter and highest paid director received shares in Chubb 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

8. INVESTMENT RETURN

	2015	2014
	£'000	£'000
Investment income		
Investment income	32,498	29,832
Gains on the realisation of investments	2,701	4,095
	35,199	33,927
Investment expenses and charges		
Investment management expenses	(1,480)	(1,460)
Losses on the realisation of investments	(3,280)	(3,205)
	(4,760)	(4,665)
Net unrealised gains less losses on investments		
Unrealised gains on investments	44,098	104,918
Unrealised losses on investments	(68,401)	(94,565)
	(24,303)	10,354
TOTAL INVESTMENT RETURN	6,136	39,614

Investment return is analysed between:

	2015	2014
Allocated investment return transferred to the general business technical account	2,774	30,468
Net investment return included in the non-technical account	3,362	9,146
TOTAL INVESTMENT RETURN	6,136	39,614

NOTES TO THE FINANCIAL STATEMENTS

9. OTHER FINANCIAL INVESTMENTS

	2015	2014
	£'000	£'000
Market value:		
Debt securities and other fixed interest securities	985,471	1,013,256
Overseas deposits	71,867	95,401
Deposits with credit institutions	41,632	58,540
	1,098,970	1,167,197
Cost:		
Debt securities and other fixed interest securities	992,579	999,884
Overseas deposits	71,867	95,401
Deposits with credit institutions	41,632	58,540
	1,106,078	1,153,825

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 78% 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.

£403.98 million (2014: £346.13 million) of the total market value relates to Funds at Lloyd's, as explained in note 11; this is analysed as follows:

	2015	2014
	£'000	£'000
Market value:		
Debt securities and other fixed interest securities	394,518	336,101
Deposits with credit institutions	9,464	10,026
	403,982	346,127
Cost:		
Debt securities and other fixed interest securities	396,915	333,372
Deposits with credit institutions	9,464	10,026
	406,379	343,398

NOTES TO THE FINANCIAL STATEMENTS

9. OTHER FINANCIAL INVESTMENTS - *continued*

Fair Value Hierarchy

FRS 102 requires the company to classify financial instruments into a fair value hierarchy as follows:

– Level A – Quoted prices (unadjusted) in active markets

– Level B – Recent transactions in an identical asset or liability if there is unavailability of quoted prices, and

– Level C – Inputs for the asset or liability that are derived using valuation techniques if there is no active market or other transactions which are a good estimate of fair value.

An analysis of financial instruments at 31 December 2015 by fair value hierarchy is set out below:

	Level A	Level B	Level C	Total
	£'000	£'000	£'000	£'000
Debt securities and other fixed income securities	34,043	948,769	2,660	985,471
Loans and deposits with credit institutions	75,992	37,507	-	113,499
Total	110,035	986,276	2,660	1,098,970

For securities in level C where pricing is based on unobservable inputs, valuations are sourced from models and / or third parties. Any third party models are reviewed and approved by the ACE Group's specialist asset management function on a quarterly basis. Significant uncertainty would be considered to exist in relation to pricing based on unobservable inputs. However, for Syndicate 2488 this uncertainty is considered to be immaterial as the exposure to these types of assets is insignificant – 0.24% of the investment portfolio as at 31 December 2015.

An analysis of financial instruments at 31 December 2014 by fair value hierarchy is set out below:

	Level A	Level B	Level C	Total
	£'000	£'000	£'000	£'000
Debt securities and other fixed income securities	20,669	989,203	3,384	1,013,256
Loans and deposits with credit institutions	116,107	37,834	-	153,941
Total	136,776	1,027,036	3,384	1,167,197

For securities in level C where pricing is based on unobservable inputs, valuations are sourced from models and / or third parties. Any third party models are reviewed and approved by the ACE Group's specialist asset management function on a quarterly basis. Significant uncertainty would be considered to exist in relation to pricing based on unobservable inputs. However, for Syndicate 2488 this uncertainty is considered to be immaterial as the exposure to these types of assets is insignificant – 0.29% of the investment portfolio as at 31 December 2014.

'Debt securities and other fixed interest securities' with active markets such as Government securities are classified within Level A, as fair values are based on quoted market prices. For debt securities and other fixed interest securities that trade in less active markets, including corporate securities, fair values are based on the output of pricing models, the significant inputs into which include, but are not limited to, yield curves, credit risks and spreads, measures of volatility, and prepayment speeds. These debt securities and other fixed interest securities are classified within Level B. For debt securities and other fixed interest securities and debt securities and other fixed interest securities for which pricing is unobservable, these are classified within Level C.

NOTES TO THE FINANCIAL STATEMENTS

9. OTHER FINANCIAL INVESTMENTS - *continued*

'Loans and deposits with credit institutions' includes short term investments, such as liquidity funds. Where such securities are traded in active markets, they are classified within Level A, as fair values are based on quoted market prices. Where no active market exists for such securities they are typically classified within Level B and where pricing is unobservable, Level C.

During the period no significant investments were transferred between Level A and Level B.

	2015
	£'000
Balance at 1 January 2015	3,384
Gains / Losses	(248)
Sales	(476)
Balance as at 31st December	2,660

No securities were transferred either in to or out of level B or C during the period.

10. OTHER DEBTORS

	2015	2014
	£'000	£'000
Amounts falling due within one year:		
Amounts due from group companies	2,391	3,112
Other debtors	628	303
	3,019	3,415
Amounts falling due after one year:		
Amounts due from members	3,170	26

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

11. MEMBERS' BALANCES

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 15.

Members' balances carried forward at 31 December include £406.16 million (2014: £348.18 million) designated as FAL.

NOTES TO THE FINANCIAL STATEMENTS

11. MEMBERS' BALANCES – *continued*

Members' balances designated as FAL are included in the following asset headings:

	2015	2014
	£'000	£'000
Other financial investments (note 9)	394,518	336,101
Deposits with credit institutions	9,464	10,026
Other prepayments and accrued income	2,182	2,051
Total assets designated as Funds at Lloyd's	406,164	348,178

12. OTHER CREDITORS

	2015 £'000	2014 £'000
Amounts falling due within one year:		
Other creditors	3,070	2,162
	3,070	2,162

13. CASH AND CASH EQUIVALENTS

Reconciliation of cash and cash equivalents to the Balance Sheet Position

	2015 £'000	2014 £'000
Cash and bank and in hand	98,768	113,785
Cash equivalents included within Other Financial Investments	19,433	30,948
Overdrafts	(92,605)	(116,602)
	25,596	28,131

Cash equivalents include deposits held at call with banks and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values.

14. TRANSACTIONS WITH RELATED PARTIES

The ultimate holding company of the syndicate's managing agent, ACE Underwriting Agencies Limited ("AUAL"), is Chubb 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 Chubb Limited has interests and of which it and certain of its subsidiaries are controllers. During calendar year 2015, a number of outwards reinsurance contracts were effected with group companies. The main excess of loss reinsurance programmes in operation during 2015 were shared with other Chubb companies, including ACE European Group Limited. Included within outwards reinsurance

NOTES TO THE FINANCIAL STATEMENTS

14. TRANSACTIONS WITH RELATED PARTIES - *continued*

premium in the technical account for the year ended 31 December 2015, £23.9 million relates to reinsurance contracts placed with group companies; of this amount, £18.3 million relates to reinsurance contracts placed with Chubb Tempest Reinsurance. In addition, reinsurers' commissions (note 6) include £4.0 million in respect of the contracts placed with Chubb Tempest Reinsurance. The reinsurers' share of claims incurred in the technical account for the year ended 31 December 2015 includes £20.0 million in relation to reinsurance contracts placed with group companies; of this amount, £16.0 million relates to reinsurance contracts placed with Chubb Tempest Reinsurance. As at 31 December 2015, the reinsurers' share of the provision for claims outstanding includes £69.7 million recoverable from group companies; of this amount £61.2 million is recoverable from Chubb Tempest Reinsurance. As at 31 December 2015, the reinsurers' share of the provision for unearned premium includes £11.9 million in relation to reinsurance contracts placed with group companies; of this amount £9.0 million relates to reinsurance contracts placed with Chubb Tempest Reinsurance. Debtors arising out of reinsurance operations as at 31 December 2015 includes £5.5 million due from group companies, of which £5.1million is due from Chubb Tempest Reinsurance. Creditors arising out of reinsurance operations as at 31 December 2014 includes £22.4 million due to group companies, of which £19.6 million is payable to Chubb 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 Chubb'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.

Managing agency fees of £35.0 million (2014: £34.3 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 Chubb Limited company. AIS settles expenses on behalf of, and provides services to, the syndicate and AUAL.

15. FUNDS AT LLOYD'S

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on 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 11 and 14, 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 2015 FAL totalled £406.16 million (2014: £348.18million).

16. CLAIMS DEVELOPMENT TABLES

The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis. FRS 103 requires that claims development shall go back to the period when the earliest claim arose for which there is still uncertainty about the amount and timing of the claims payment, but need not go back more than 5 years upon first time adoption of this standard. The top half of the table shows how the estimates of total claims for each underwriting year develop over time. The lower half of the table reconciles the cumulative claims to the amount appearing in the balance sheet.

The cumulative claims estimates and payments for each underwriting year are translated into sterling at the year-end rates that applied at the end of each underwriting year.

NOTES TO THE FINANCIAL STATEMENTS

16. CLAIMS DEVELOPMENT TABLES - *continued*

Claims development as at 31 December 2015 - Gross

	2011	2012	2013	2014	2015	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimates:						
End of underwriting year	129,857	112,859	84,730	85,299	88,553	501,298
One year later	274,833	236,095	225,302	210,648		946,878
Two years later	322,209	235,838	233,691			791,738
Three years later	263,573	213,762				477,335
Four years later	220,173					220,173
Current estimate of ultimate claims	220,173	213,762	233,691	210,648	88,553	966,827
Cumulative payments	(169,965)	(127,529)	(114,129)	(56,865)	(6,820)	(475,308)
In balance sheet	50,208	86,233	119,562	153,783	81,733	491,519
Provision for prior financial years	424,765					
Liability in the balance sheet	916,284					

Claims development as at 31 December 2015 – Net

	2011	2012	2013	2014	2015	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimates:						
End of underwriting year	99,482	78,439	63,209	66,401	62,792	370,323
One year later	195,046	178,012	171,696	167,963		712,717
Two years later	225,367	176,684	176,967			579,018
Three years later	181,591	172,177				353,768
Four years later	176,102					176,102
Current estimate of ultimate claims	176,102	172,177	176,967	167,963	62,792	756,001
Cumulative payments	(122,375)	(116,536)	(90,306)	(50,195)	(3,590)	(383,002)
In balance sheet	53,727	55,641	86,661	117,768	59,202	372,999
Provision for prior financial years	260,193					
Liability in the balance sheet	633,192					

17. EXPLANATION OF TRANSITION TO FRS 102 AND 103

This is the first financial year that the syndicate has presented its financial statements under FRS 102 and FRS 103 issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the financial year ended 31 December 2014 and the date of the transition to FRS 102 was therefore 1 January 2014. As a consequence of adopting FRS 102 and 103, certain accounting policies have changed to comply with these standards. The only accounting policy change which has an impact on the financial statements is the policy change in relation to the treatment of foreign currency within all assets and liabilities, including unearned premium reserve and deferred acquisition costs, as monetary items.

NOTES TO THE FINANCIAL STATEMENTS

17. EXPLANATION OF TRANSITION TO FRS 102 AND 103 - *continued*

Foreign currency translation

Previously, transactions in US dollars, Canadian dollars, Euros (from the 2010 year of account onwards) and Australian dollars (from the 2013 year of account onwards) were 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 were included at the rate of exchange ruling at the date the transaction was processed.

All assets and liabilities denominated in branch currencies were 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 were converted at the rate ruling at the balance sheet date and non-monetary items were 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 were included in the statement of total recognised gains and losses. Exchange differences from other currencies were included in the technical account.

Under FRS 102, foreign currency transactions are accounting for, in functional currency, at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, from translating such transactions into the functional currency of the syndicate, and from the revaluation to year end exchange rates of monetary assets and liabilities, are recognised in the profit and loss account.

At each period end foreign currency monetary items are translated using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Results recorded in functional currency are translated into sterling at average rates of exchange for the year while assets and liabilities are translated to sterling at year end exchange rates. Differences arising on translation are recorded in the statement of comprehensive income.

The effect on the financial statements of these changes is primarily as follows:

- The statement of financial position is unchanged except for the translation of unearned premiums, deferred acquisitions costs and unexpired risk provisions.
- All of the line items within the profit and loss account are impacted due to the use of the rate of exchange at the transaction date rather than the rate of exchange at the balance sheet date.
- The Statement of Comprehensive Income is impact by the change in translation basis.

The impact of these changes on the primary statements of the syndicate for the year ending 31 December 2014 is as follows:

- Members balances have increased by £509,000 from £463,441,000 to £463,950,000 as a result of revaluing DAC and UPR as monetary items.
- The profit for the financial year has reduced by £13,410,000 from £154,645,000 to £141,235,000 as a result of change in the treatment of functional currency.
- Total comprehensive income has increased by £509,000 from £161,675,000 to £162,184,000 as a result of revaluing DAC and UPR as monetary items.

NOTES TO THE FINANCIAL STATEMENTS

18. RECONCILIATION OF INSURANCE BALANCES

The reconciliation of opening and closing deferred acquisition costs is as follows:

	2015	2014
	£'000	£'000
At 1 January	34,636	32,600
Change in acquisition costs deferred during the year	1,337	1,246
Foreign exchange gains/(losses)	769	790
At 31 December	36,742	34,636

18. RECONCILIATION OF INSURANCE BALANCES - *continued*

The reconciliation of opening and closing unearned premium provision is as follows:

	Gross		Reinsurers' share	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
At 1 January	169,624	165,756	30,439	28,827
Increase/(decrease) in provision	10,987	687	11,315	1,039
Foreign exchange movements	3,578	3,181	972	573
At 31 December	184,189	169,624	42,726	30,439

The reconciliation of opening and closing provision for claims is as follows:

	Gross		Reinsurers' share	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
At 1 January	1,004,414	1,100,679	349,039	368,127
Increase/(decrease) in provision	(98,782)	(116,843)	(71,288)	(23,941)
Foreign exchange movements	10,652	20,578	5,341	4,853
At 31 December	916,284	1,004,414	283,092	349,039

19. SUBSEQUENT EVENTS

On 30 June 2015, Chubb Limited ("ACE"), together with its wholly owned indirect subsidiary, William Investment Holdings Corporation, entered into an Agreement and Plan of Merger ("the Merger") with The Chubb Corporation ("Chubb"), a company organised under the laws of the United States of America. The Merger was completed on 14 January 2016 and ACE Limited was renamed Chubb Limited.

The Merger may affect the syndicate's activities as ACE and Chubb look to integrate both their European operations ("the Integration"), but the directors do not consider there to be any effect on these financial statements.

20. ULTIMATE HOLDING COMPANY

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