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Annual Report and Financial Statements

Syndicate 2488

31 December 2017

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President's Report

What a remarkable year we have had. So many things have happened which have tested us, both as individuals and insurers, but I am pleased to say Syndicate 2488 has ended 2017 with credible results, a strong balance sheet and the knowledge that we have served our clients to the best of our ability throughout this turbulent period.

Financial Performance

Syndicate 2488 underwrote £459.5 million of gross written premium in 2017, an increase of almost 13% on the £407.5 million recorded at year end 2016. This was driven by growth in Marine, Financial Lines and Property classes, and is partly reflective of the renewal of some of the business previously underwritten by Syndicate 1882 which ceased to trade with effect from 1st January 2017. Net written premiums for the year amounted to £367.4 million.

Our profit for the year of £13.4 million was achieved despite significant losses emanating from the major catastrophe events of the year, including hurricanes Harvey, Irma and Maria, each of which broke records in terms of their scale and intensity and contributed to what is likely to be the costliest Atlantic hurricane season on record. The year also saw devastating earthquakes in Mexico and a spate of wildfires in the US, all of which resulted in tragic loss of life and incredible destruction of property and infrastructure.

With catastrophe losses estimated to cost the industry $135 billion[1] this year, it is a stark reminder of why insurers like Chubb exist: to provide the support and means to help individuals, families, businesses and communities recover and rebuild in the wake of such devastation.

In aggregate, Syndicate 2488's net catastrophe related losses for the year amounted to £61.3 million, a significant number, but well within our risk tolerances and commensurate with the size of loss we would expect from these types of events.

Pricing

The scale and frequency of these catastrophe losses demonstrate the necessity of the viable price adequacy required for the insurance industry to continue to thrive. Underwriting conditions in the Lloyd's and London markets have been challenging for a number of years with rates dropping to unsustainable levels in many classes. However we are now starting to see signs of firming in some areas around the world and there appears to be some momentum in the markets to rectify inadequate pricing and terms and conditions, although the extent to which this will take hold remains to be seen.

Syndicate 2488 is a key player in these markets and we recognize our responsibility to price appropriately in a thoughtful and resolute way. We will continue to insist on an adequate rate for the coverage provided in order to generate a reasonable risk-adjusted return and avoid more volatile price movements in the future should rates continue to stagnate or erode. We are in a great position in terms of risk management and financial strength to respond to any changes in the underwriting environment.

Looking ahead

We know there will be other challenges to face as we look ahead to 2018.

Like many other companies in the financial services industry, Brexit has been a huge area of focus for Chubb in 2017. We fully support Lloyd's plans to set up a new Brussels-based European insurance company ahead of the 1st January 2019 renewals season and provide the market with an effective solution to allow business to continue without interruption when the UK leaves the European Union as planned later that year.

From a regulatory perspective, GDPR (General Data Protection Regulation), the new legal framework for data protection in Europe comes into force in May, with the Insurance Distribution Directive, covering requirements associated with the sale of insurance, also scheduled for implementation this year. Regulatory enforcement of directives such as these is becoming stricter as time goes on, and it is imperative that CUAL maintains its focus on ensuring its compliance with all aspects of current regulatory requirements.

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[1] *Source: Munich Re press release, 4 January 2018*

We also need to consider the evolving insurance needs of our clients and broker partners. Innovation in the market place continues and there have been advancements both in the increasing digitalisation of distribution channels and the development of new products, illustrated by Syndicate 2488's ability to provide solutions to complex and non-standard risks through its Special Risks Unit in addition to the more traditional Lloyd's and London Market insurance products.

Lloyd's itself is also making changes under the banner of the London Market Target Operating Model, with the aim of creating a market that is more accessible, efficiently run and relevant to the needs of its customers. It is also embracing new technology in the form of Placing Platform Limited ("PPL"), the electronic placement platform which provides benefits to both brokers and underwriters and Structured Data Capture, which will ultimately allow data to flow directly from Lloyd's into syndicates' own systems.

In conclusion

2017 has been a crucially important year for our business and I am proud of what we have achieved. We have stepped up to meet the ongoing regulatory challenges and continued our drive to receive an adequate price for the risks we take onto our balance sheet. We have maintained excellent balance sheet strength in light of substantial catastrophe related losses, and endeavored to offer best-in-class service levels to our clients and partners.

There is much to be done in 2018, but we have laid the foundations to execute on the strategies we have in place and I am confident that we can build upon our successes this year.

A J Kendrick
President
19 March 2018

Managing Agent's Report

The Board of Directors of the syndicate's managing agent, Chubb Underwriting Agencies Limited ("CUAL") are pleased to submit their report and the audited syndicate annual accounts for the year to 31 December 2017.

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") as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 (the '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.

Ownership

Chubb Limited, the ultimate parent of CUAL, is the Swiss-incorporated holding company of the Chubb Group of Companies. Chubb Limited and its direct and indirect subsidiaries, collectively the Chubb Group of Companies ("Chubb"), are a global insurance and reinsurance organisation. At 31 December 2017, Chubb Limited held total assets of $167.0 billion and shareholders' equity of $51.2 billion. It 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 31,000 people worldwide.

Brexit Contingency Planning

On 23 June 2016 the United Kingdom voted in a national referendum to withdraw from the European Union and on 29 March 2017 invoked Article 50 of the Treaty on European Union, with the leaving date currently set for 29 March 2019. Negotiations regarding the terms of the UK's exit from the EU officially began in June 2017 however the ultimate outcome of the discussions is difficult to predict and it remains unclear whether UK insurers will be permitted to continue to underwrite European risks through the EU Single Market or by an equivalent means.

CUAL fully supports Lloyd's commitment to the European markets following the Brexit vote and its plans to set up a new Brussels-based European insurance company, providing the market with an effective solution to allow business to continue without interruption when the UK leaves the European Union.

Business Overview

Chubb is 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.

Chubb is distinguished by its extensive product and service offerings, broad distribution capabilities, exceptional financial strength, superior claims handling expertise and local operations globally. The company serves multinational corporations, mid-size and small businesses with property and casualty insurance and risk engineering services; affluent and high net worth individuals with substantial assets to protect; individuals purchasing life, personal accident, supplemental health, homeowners, automobile and specialty personal 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.

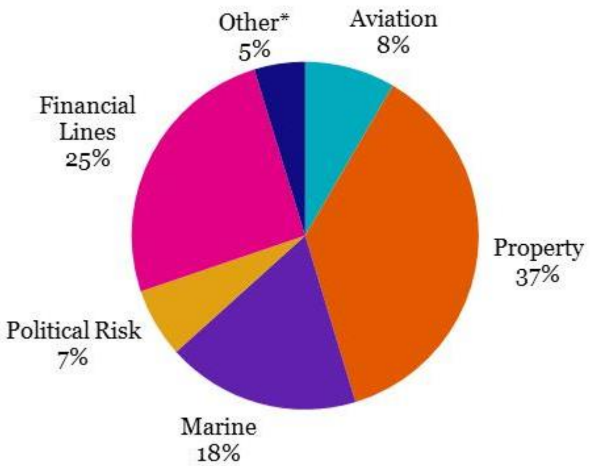
Syndicate 2488 is a strategically important business within Chubb, allowing the group to access specialist Lloyd's and London market risks. The syndicate offers its clients a broad range of insurance and risk solutions, with policies written under the names "Chubb Global Markets" and "Chubb Tempest Re". which capitalise on the distinctiveness and strength of the Chubb brand and acknowledge the company's strong insurance platforms, reputation, skill sets and consistent management philosophy.

The structure of the syndicate's operations allows the underwriters formal and informal interaction with their Chubb 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.

Managing Agent's Report

Chubb Global Markets ("CGM") and Chubb Tempest Re ("CTRe") underwriting products are offered principally through Syndicate 2488 and Chubb European Group Limited ("CEGL"), a UK domiciled company which offers a wide range of property, casualty and accident and health insurance and reinsurance products to both retail and wholesale markets. Business may also be written through a number of overseas Chubb companies. Factors influencing the decision to place business with the syndicate, CEGL 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 risk and financial lines. The 2017 split of gross written premiums by major product line is illustrated below:



* Other includes A&H, energy, international casualty, environmental liability, terrorism and other non-core 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 Objectives & Strategy

CUAL 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.

CUAL'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 CUAL'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 CUAL's actuaries and management team.

CUAL 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.

CUAL 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.

Investment Strategy

Syndicate 2488 operates a conservative investment strategy by establishing highly liquid, diversified, high quality portfolios managed by expert external managers. Detailed Chubb Group investment guidelines are established for each managed portfolio including Chubb customised benchmarks against which the manager performance is measured.

Syndicate 2488 maintains five active and one indexed investment grade fixed income portfolios, held in US dollars, sterling, Canadian dollars and euro. 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 78%, sterling 5%, Canadian dollars 10% and euros 7%. Syndicate 2488 held no equities in 2017.

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.

Presentation of Financial Statements

The basis of preparation of Syndicate 2488's annual financial statements is in accordance with the 2008 Lloyd's Regulations, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, and applicable accounting standards in the United Kingdom. These financial statements recognise a calendar year profit or 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 Chubb corporate capital vehicles, with effect from 2003. The Chubb corporate capital vehicles have agreed to waive their right to receive syndicate underwriting accounts in respect of Syndicate 2488's closed 2015 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 business. These KPIs are reviewed regularly by the CUAL Board.

£ million	**2017**	**2016**
Gross premiums written	459.5	407.5
Net premiums written	367.4	317.6
Combined ratio % *	106.5%	74.5%
Profit for financial year	13.4	127.0

** Ratio of net claims incurred, commission and expenses to net premiums earned, excluding profit / loss on exchange*

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.

CUAL seeks to manage syndicate capacity levels in order to make the most effective use of available capital. The 2018 capacity of Syndicate 2488 has been set at £405.0 million (2017: £405.0 million).

Managing Agent's Report

Results & 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 depreciation in the average rate of sterling across the whole year against the US dollar in 2017 compared with the prior year has impacted the comparison of the profit and loss statement against the prior year.

Syndicate 2488 produced a profit for the financial year of £13.4 million and a combined ratio of 106.5%. A summary of the reported financial results is shown below.

£ million	**2017**	**2016**
Gross premiums written	459.5	407.5
Net premiums written	367.4	317.6
Net premiums earned	354.1	310.9
Incurred losses	241.1	114.6
Operating expenses	135.9	117.1
Underwriting profit (loss)	**(22.9)**	**79.2**
Profit on exchange	2.8	1.6
Investment return	33.5	46.2
Profit for financial year	**13.4**	**127.0**
Combined ratio %	106.5%	74.5%

Rating Environment

Despite a challenging start to 2017, a more positive rating picture began to emerge towards the end of the year in the majority of core business lines, and particularly on catastrophe exposed business as a result of the loss activity in the latter half of the year. Overall pricing on renewal business for the full year was effectively flat, with the extent of rate increases and reductions varying by class of business.

Conditions in the reinsurance market remained competitive for much of the year but were broadly in line with projections. A number of cedants modified their reinsurance purchases, with some increasing their retentions, combining programs together or, in some cases, dropping cover altogether.

In general, as in previous years, business retention was strong in the majority of classes, however competition for new business remained fierce and difficult to secure at adequate rates.

Drivers of Underwriting Result

Gross written premiums were almost 13% higher than those reported in 2016 however this growth was driven by the depreciation in the average rate of sterling across the whole year against the US dollar in 2017 compared with the prior year. If the impact of currency movements is excluded, top line premiums were roughly in line with those of the prior year, reflecting adherence to CUAL's strict underwriting criteria against a backdrop of continued challenging market conditions.

The syndicate purchases reinsurance to mitigate the impact of major events and an undue frequency of smaller losses. The programmes are primarily product line specific with some related lines protected by consolidated programmes. 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 events, typically with an occurrence probability around 1 in 250 years but potentially more or less frequent for certain types of peril. The principal reinsurance programmes operated by the syndicate during 2017 were partly shared with other Chubb companies including Chubb European Group Limited. There were no major changes to the syndicate's reinsurance purchasing strategy in 2017.

A number of significant geophysical, meteorological, hydrological and climatological events occurred in 2017, including earthquakes, hurricanes, tropical storms, floods, landslides and wildfires, which are expected to cost the insurance industry a record $135 billion[2]. Syndicate 2488'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. Syndicate 2488's catastrophe losses net of reinsurance recoveries during 2017 amounted to £61.3 million (2016: £16.1 million) with the most significant losses emanating from the hurricane trio of Harvey, Irma and Maria.

Prior period reserve releases amounted to £15.2 million (2016: £63.4 million) due primarily to favourable experience within aviation, energy and property lines.

Excluding catastrophe losses and prior period development, the accident year loss ratio for the year was 55.1% (2016: 52.1%) 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). CUAL continues to focus on the management of each of these components in line with the growth and needs of the business.

Financial Markets Review

Volatility remained low in 2017, with occasional market turbulence due to political or geopolitical events. Central banks began to take cautious steps away from excessively accommodative policies by announcing or implementing plans to wind down balance sheets and to consider raising interest rates.

For much of the start of 2017, the robust risk appetite that marked the post-US election period broadly continued. Early challenges in President Donald Trump's policy agenda, including the last-minute cancellation of a key healthcare vote in the House of Representatives, left some investors less optimistic about the potential for other highly anticipated agenda items such as tax reform. Still, solid fundamental data, relatively easy financial conditions, and optimism among businesses and consumers provided an opportunity for the US Federal Reserve ("Fed") to continue on its path towards policy normalisation.

In the second quarter, geopolitics, including elections in several countries as well as political controversies in the US and Brazil, dominated headlines and contributed to brief periods of market volatility. In the US, the Fed raised rates and unveiled details of its plan to gradually unwind its balance sheet, contributing to a flattening yield curve. A perceived hawkish shift in tone from other major central banks spurred most developed market yields to rise.

Geopolitical uncertainties, including escalating tensions between the US and North Korea and political turmoil within the Trump administration, weighed on yields early in the third quarter, though risk assets were generally resilient. Meanwhile, developed market central banks shifted towards a reduction in accommodation that pushed yields higher toward the end of the third quarter. The Fed detailed plans to unwind its balance sheet, the Bank of England and European Central Bank suggested less stimulus on the horizon, and the Bank of Canada raised rates twice after a 7-year gap. Still, the fundamental backdrop remained largely intact and the broader risk rally continued as equities marched higher, credit spreads tightened, and Emerging Market assets strengthened.

As the year came to a close, geopolitical uncertainties continued to concern investors but markets continued to rally. Buoyant sentiment was pushed higher by a successful outcome on US tax legislation. Meanwhile, the Fed began to carefully wind down its balance sheet while the European Central Bank announced plans to halve the amount it spends each month as part of its quantitative easing operations. Meanwhile, the Bank of England raised rates by 0.25% to 0.5%, its first hike in over a decade. With few signs of economic overheating or inflationary overkill on the horizon, investors looked ahead to 2018 with cautious optimism.

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[2] *Source: Munich Re press release, 4 January 2018*

Investment Performance

Economic activity in 2017 provided a neutral environment for fixed income investors. Yields on intermediate sovereign bonds went largely unchanged in the year. For Syndicate 2488 this resulted in total returns of 1.6% and 1.0% for sterling and euro portfolios respectively. In the US, total returns of 2.9% were generated during the year reflecting significant excess performance generated by the manager through activity strategy. In Canada, investment grade fixed income yields rose in the year and Syndicate 2488's indexed portfolio generated a total return of 0.8% for 2017.

Syndicate 2488's alternative investment assets were entirely comprised of upper tier US dollar high yield bonds during the year. The allocation, constituting less than 14% of the total portfolio, generated strong absolute returns of 5.6% for the year.

Overall, Syndicate 2488 generated a total return of 2.3% on balances available for investment during 2017.

Cash Flow

Total syndicate cash flow derived from operating activities in the year was positive although total syndicate funds decreased in the year as a result of the distribution of the 2014 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 of 35%, which is referred to as the Lloyd's Economic Capital Requirement.

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 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.

In order to determine the SCR 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 2018, the SCR shows a small decrease compared with the 2017 requirement.

The syndicate maintained capital throughout 2017 in line with both the SCR and the Lloyd's Economic Capital 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 Funds in Syndicate. The overall quantum of FAL for 2017 year end increased to $655m (2016: $590 million) due to the retention of part of the 2014 year of account profit distribution in Funds in Syndicate and investment gains.

Ratings

All active syndicates benefit from the financial strength ratings assigned to the Lloyd's market by 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 Chubb's core operating insurance companies ratings of "A++" and "AA" from A.M. Best and Standard & Poor's respectively, it has not been considered necessary to obtain an individual rating for the syndicate.

Governance

CUAL 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 Board of Directors ("the Board") has reserved responsibility 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 five times a year and additionally on other occasions to discharge its responsibilities in respect of these and other matters. In 2017 the Board met seven times.

Membership of the Board is kept under review to ensure that the composition and available expertise remains relevant to the current needs of the syndicate. The Board comprises five independent non-executive directors and four executive directors. During 2017 one executive and two non-executive directors left the Board and one non-executive director, Lord Turner, joined as a new Chairman. Lord Turner was executive chairman of the Financial Services Authority from 2008 to 2013, is a member of the House of Lords and has had a career spanning banking, consultancy and a wide range of entities in a non-executive capacity. CUAL greatly 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 16.

Key non-routine Board activity during the year included, i) consideration of the contingency planning for Brexit's impact on the business, ii) an investigation of the syndicate's culture, carried out by a dedicated working group, iii) a review of the impact of the year's catastrophe events on the syndicate and its reinsurance arrangements, and iv) investigation of cyber security. It also agreed changes to capital policy, the internal solvency model and investment allocations.

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, underwriting controls, actuarial and solvency matters. One meeting is held each year to consider high-level business strategy.

The Board has delegated a number of matters to committees. Each of the following committees has formal terms of reference and matters reserved to it. Each, with the exception of the Executive Committee, includes non-executive directors in its membership, and reports to the Board regularly in respect of its remit. The terms of reference of each Board committee were reviewed and refreshed in 2017, but not significantly amended. The Product Oversight Committee, which had previously reported direct to the Board, became a subcommittee of the Executive Committee.

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 compliance, actuarial 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. It meets regularly with the external Auditor without management being present.

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 Committee's role is aimed at providing assurance to the Board and Chubb 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 2017 the Committee in particular reviewed i) the impact of the revised "Ogden table" interest rates on reserves, ii) analysis on the impact of significant catastrophe events on reserves, iii) assurance over Cyber underwriting processes, iv) new Solvency II Pillar 3 reporting, and iv) alignment of internal and external actuarial practices and financial controls between the merged acquired Chubb business and the syndicate's existing methodology.

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 syndicate'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 risk appetites agreed by the Board.

During the year the Risk Committee's non-routine activity included: i) a review of the effectiveness and independence of the Risk Management function throughout Europe, ii) review of the activity being carried out in preparation for the introduction of the General Data Protection Regulation, iii) assessment of outsourcing risk, iv) investigation into internal information security and cyber insurance risk and a change to Cyber Risk policy, v) introduction to a new regional risk reporting tool, vi) considering the risks relating to the syndicate's contingency proposals against the event of Brexit, and vii) receiving requested reports on inflation risk, talent retention, underwriting best practice and project risk management.

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, underwriting and project reporting. It meets monthly to oversee and discuss current issues. A number of specialist sub-committees, such as those for customer conduct, underwriting controls, 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.

CUAL has a **Routine Business Committee** which meets on an ad hoc basis between formal Board meetings to consider authorisation of routine activity.

Risk & Control Framework

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

CUAL has adopted the Chubb Group Enterprise Risk Management Framework ("RMF"), which describes the role of ERM within CUAL and how it helps the syndicate achieve its business objectives, meet its corporate obligations and maintain the reputation of the Chubb franchise. Chubb'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 which each business segment, and the syndicate as a whole, is exposed, and their resultant impact on economic and regulatory capital. This framework employs Solvency II principles to assess risk and manage capital requirements to ensure the capital required to support CUAL's business objectives and to meet the requirements of policyholders and regulators.

The Board is ultimately responsible for ensuring that the syndicate 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. The 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 2017 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 management function and internal audit function.

Disclosures regarding risks and capital management are provided in note3 to the financial statements.

Compliance

Compliance with regulation, legal and ethical standards is a high priority for Chubb and CUAL, and the compliance function has an important oversight role in this regard. Annual affirmation of the Chubb Code of Conduct is required of all employees and directors.

As a material subsidiary of Chubb Limited, a US listed company, the financial control environment applicable the US GAAP financial statements of Syndicate 2488 used for internal reporting, is subject to the requirements of US Sarbanes-Oxley legislation. CUAL has formalised documentation and tested controls to enable Chubb Limited to fulfil the requirements of the legislation.

CUAL is also committed to fulfilling its other compliance-related duties, including its observance of customer-focused policies, in line with regulatory principles, and it uses various metrics to assess its performance.

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

Social and Employee Matters

The Chubb Code of Conduct

Chubb aims to comply with legal and regulatory requirements in all countries in which it operates and embed the Chubb Code of Conduct values in its activities. The Chubb Code of Conduct affirms Chubb's commitment to compliance with equal employment opportunity laws and other applicable civil rights, human rights and labour laws. Chubb expects staff to behave ethically and transparently and to be accountable for their actions. All employees, officers and directors are expected to acknowledge acceptance of this code confirming that they know and understand the standards expected. Chubb expects its business partners such as consultants, agents, third party representatives and service providers to also comply with the code. Appropriate measures may be taken if any party fails to meet those standards or contractual obligations.

Human Rights

Chubb policies, frameworks and actions aim to prevent modern slavery and human trafficking in both the business and its supply lines by:

- Undertaking employment verification checks as part of the hiring process;
- Requiring agencies who supply workers to carry out employment verification checks, wherever staff are located;
- Procurement questionnaires require third party suppliers to state what steps they take to comply with the Modern Slavery Act 2015;
- Procurement agreements require third party suppliers to comply with applicable laws and regulations and permit Chubb to terminate relationships where they fail to do so;

- Subjecting key business transactions to both on boarding and periodic regulatory screening;
- Providing regular training for staff on sanctions restrictions, anti-bribery, anti-money laundering, and the Chubb Code of Conduct to which they must attest;
- Providing training and support for all staff on how and where they can raise concerns about wrongdoing and assurances that they will not suffer reprisals for doing so; and
- Taking appropriate action where potential violations of the Modern Slavery Act 2015 are identified.

Chubb's Procurement, Risk, Compliance, HR and Legal teams work together to apply these standards across the business. Policies, procedures and training materials are regularly reviewed to continue to make the company's commitment to anti-slavery and human trafficking explicit to its customers, employees, suppliers, and business partners.

Chubb's Modern Slavery and Human Trafficking Transparency statement has been published on the UK website.

Equal Opportunities, Diversity & Inclusion

Chubb is an equal opportunities employer and considers its people to be its fundamental competitive advantage. It aims to provide a safe and ethical working environment where colleagues, candidates, clients and business partners are treated with equality, fairness and respect, regardless of age, disability, race, religion or belief, gender, sexual orientation, marital status or family circumstances.

Chubb is an organisation dedicated to providing superior underwriting service and execution, and seeks to foster an environment of professional excellence enabling employees to be creative, agile, innovative and ethical in meeting customers' needs. Chubb's regional Diversity & Inclusion Council of senior representatives across Europe, Eurasia and Africa is responsible for developing and supporting the implementation of Chubb's Diversity and Inclusion strategy, taking into account the varied requirements and needs of the region.

With the support of the executive team, Chubb has launched a number of employee-led internal networks to provide opportunities for networking, education and development of business capabilities for all employees. These include the Gender Equality Network, the Parents and Carers Network and the Cultural Awareness Network. A resulting action from Chubb's Social Mobility network was the development of an 'Insight' programme, providing students from inner-city London schools with the opportunity to listen to and meet leaders in the insurance industry, and explore potential career opportunities in a variety of fields including underwriting, marketing, operations, HR and finance.

In addition to a number of internal employee networks, Chubb is also a founding member of the cross-market Gender Inclusion Network for Insurance, connecting a number of organisations across the insurance market in the UK and Ireland to work towards the common goal of establishing greater gender balance at all levels. Chubb is also a Stonewall Diversity Champion, an Out and Equal Workplace Advocate and a Working Families Employer Member. Additionally, Chubb was a gold sponsor of the global Dive In Festival in 2017, showcasing Diversity and Inclusion in Insurance.

CUAL supports a wide range of activities that benefit the community through the Chubb International Foundation and the Chubb Community Support Committee, predominantly in the areas of education, poverty, health and the environment. Chubb employees also participate in a number of local voluntary community schemes and personal fundraising efforts which Chubb supports through a charity-matching scheme. In 2017 Chubb contributed £0.2 million to various charities across the UK and Europe,

Talent Strategy

As well as having a robust diversity and inclusion strategy to ensure that all available talent is accessed, CUAL has a talent strategy which actively supports the personal and professional development of all its employees, operating talent and leadership development programmes to help staff realise their full career potential. Chubb's ability to deliver outstanding business results relies on the calibre of its talent and the efforts of its employees at all levels of the organisation. As a company, Chubb invests in its people, striving to attract, retain and grow employees to meet their career aspirations. A core element of Chubb's value proposition for employees is the opportunity to constantly evolve as a professional and reach one's full potential.

Chubb aims to build and develop mid and long-term talent pipelines to ensure the right quality and quantity of diverse talent is available for the company to deliver key business objectives. It endavours to identify talent on a regular basis and provide high quality development programmes that build leadership qualities. Robust succession plans are in place at the senior level.

Chubb expects all employees to own and drive their development by availing themselves of the structured and unstructured learning on offer. In turn, it will help those employees who are motivated to develop and grow by providing the critical experiences, resources, tools and opportunities to succeed in their career. Chubb internally sources talent to fill open positions where appropriate

Environmental Matters

Chubb recognises its responsibility to provide solutions that help clients manage environmental risks, reduce any environmental impact and make meaningful contributions to environmental causes.

The Chubb group is one of the largest and most advanced global underwriters of environmental liability and pollution risks, and as a result has a significant interest in current and future regulatory requirements that may affect its operations. As an insurance company, Chubb's emissions produce a modest climate footprint and it continues to improve its facilities by implementing energy efficient projects such as lighting, heating, ventilation and air conditioning and increasing chiller set points across all of its operations. Chubb's commitment to the disclosure of environmental actions and philanthropic activities reduces the reputational risk relating to its environmental practices.

As a global property and casualty insurer, Chubb has significant exposure to potential losses from weather related events of any kind. Assessing and managing risk is a core competency for Chubb and hence the costs of managing climate change risk are embedded into its risk management process.

Chubb does not anticipate any significant risk to its European operations as a result of climate change.

Chubb produces an annual Environmental Report which outlines the full scope of the group's environmental programme and initiatives. It reports to the Carbon Disclosure Project on an annual basis disclosing climate change risks and opportunities as well as emissions performance. A third-party certified environmental statement on the company's greenhouse gas emissions program is also included. Chubb also demonstrated its commitment to increasing awareness within the industry by sponsoring Insurance Business Magazine to host the "The Environmental Liability and Risk Masterclass" and conference designed to inform brokers and other insurers about the importance of environmental risk liability insurance.

Chubb is a proud member of ClimateWise, an independent network of insurers, reinsurers, brokers and insurance industry service providers facilitated by the University of Cambridge Institute for Sustainability Leadership. Chubb discloses its global actions to ClimateWise annually based on the ClimateWise principles of direct consumption. This independent review enables Chubb to assess its influence on those it interacts with, from brokers and clients to government agencies and regulators. In 2017 Chubb scored 74%, placing it fifth out of sixteen ClimateWise members.

Chubb is committed to managing and reducing greenhouse gas emissions throughout its operations, and plans to announce an updated greenhouse gas reduction goal for the combined company some time in 2018. The company will continue to deploy successful approaches for greenhouse gas emissions reduction including installing energy-efficient lighting and equipment with more efficient use of office space. In 2018, Chubb's London office will begin to transition to Activity Based Working, which will result in up to a 25% increase in efficiency of office space usage, as well as reducing emissions that result from commuting.

In 2017, Chubb earned a score of 'A-' on the Carbon Disclosure Project's climate change program ranking and was one of only 22 insurers out of 148 analysed to earn a "High Quality" designation for the comprehensiveness of its climate risk disclosures by Ceres, the nonprofit sustainability organization.

Chubb is a pioneer in developing advanced environmental insurance solutions, including coverages for premises-based exposures, contractors' and project pollution liability, renewable energy, clean technology and environmental cleanup projects, as well as "green building" consulting services and a property policy that enables greener rebuilding after a loss. Chubb's role in mitigating supply chain and global operations risks through its risk engineering services helps organisations identify climate-related exposures while providing risk management expertise to help manage environmental challenges caused by climate change.

Anti-corruption and Bribery

Chubb recognises the importance of the effective management of financial crime risk in terms of its obligations to its customers, the expectations of its regulators and long term financial stability. The Financial Crime Framework is comprised of board policies and procedures and sets out the company's approach to the management of financial crime risk including bribery and corruption. This framework is underpinned by the Chubb Code of Conduct.

Risks relating to financial crime may include fines or penalties for non-compliance with laws and regulations, loss of licences or a restriction on the syndicate's ability to transact business, additional regulatory scrutiny and a loss of reputation. The management of financial crime risk is fully integrated into Chubb's wider Risk Management Framework. All financial crime policies within this framework enable exemptions to be granted in accordance with the corresponding risk appetite statement, in part determining the exemption approval and reporting processes to the Board. The risk appetite statement also addresses the escalation procedure for non-compliance of policy standards and/or breaches of risk appetite.

Financial crime policies and explanatory guidance notes relating to financial crime are in place and are appropriately detailed and take into account the nature and complexity of Chubb's activities. The policies require that all Chubb business units develop and maintain controls that are sufficient to achieve compliance with the standards set out in each individual policy and the responsibility and accountability for the implementation and oversight of these controls is clearly allocated in the policy documents. Regular policy reviews are undertaken and new and emerging risks are considered. Oversight procedures are in place and all financial crime policies and procedures are subject to internal and external audit and review procedures.

As a Lloyd's managing agency, CUAL has to take reasonable steps to identify, prevent and report all identified incidents of bribery and corruption and ensure that it conducts its business with integrity and honesty at all times. Chubb's European Anti-Bribery & Corruption Policy describes a number of standards that must be adhered to, including the need to carry out due diligence checks when performing various business activities and adding relevant contractual clauses under certain circumstances, gifts and hospitality procedures and how concerns or suspicious activity should be reported. All business lines are required to implement anti-bribery and corruption procedures and controls at each stage of the insurance transaction appropriate to their risk exposure and supported by compliance monitoring procedures to ensure compliance with the agreed standards. Training relating to the Anti-Bribery & Corruption Policy is provided to all new joiners as part of the induction programme, with all employees required to complete refresher training on a periodic basis.

Directors

The following have been directors of the managing agent from 1 January 2017 to the date of this report unless otherwise indicated:

Executive directors:
A J Kendrick
M K Hammond
R P Murray (resigned 31/05/2017)
J U Rehman
A M W Shaw (Active Underwriter)

Non-executive directors:
A Turner (appointed 18/05/2017)
J A Napier (resigned 17/05/2017)
M C Bailey
K N O'Shiel
C E Riley
T C Wade
M J Yardley (resigned 31/12/2017)

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 (CUAL's ultimate holding company). No charge was made to CUAL 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 Chubb 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, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 (the 'Regulations'), 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.

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 2017 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 Auditor's

The 2008 Lloyd's Regulations, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 (the "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 2017 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 CUAL and other Chubb 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
19 March 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 2488

Report on the syndicate annual accounts

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 2017 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, (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Annual Report and Financial Statements (the "Annual Report"), which comprise:

- the Balance Sheet at 31 December 2017,
- 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 for the year then ended,
- the Statement of Cash Flows for the year then ended
- the accounting policies, and
- the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the syndicate annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the managing agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is not appropriate; or
- the managing agent has not disclosed in the syndicate annual accounts any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the syndicate annual accounts are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' report thereon. The managing agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Managing Agent's Report, we also considered whether the disclosures required by Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2017 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the managing agent for the syndicate annual accounts

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 17, the managing agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the managing agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the syndicate annual accounts

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

A further description of our responsibilities for the audit of the syndicate annual accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 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.

Other required reporting

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, 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
- certain disclosures of managing agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

James Pearson (Senior statutory auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

19 March 2018

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017	2016
		£'000	£'000
TECHNICAL ACCOUNT – GENERAL BUSINESS			
EARNED PREMIUMS, NET OF REINSURANCE:			
Gross premiums written	4	459,524	407,504
Outward reinsurance premiums		(92,154)	(89,919)
Net premiums written		367,370	317,585
Change in the gross provision for unearned premiums		(16,544)	(3,612)
Change in the provision for unearned premiums – reinsurers' share		3,290	(3,053)
EARNED PREMIUMS, NET OF REINSURANCE		354,116	310,920
ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT	8	18,357	30,092
CLAIMS INCURRED, NET OF REINSURANCE:			
Claims paid:			
Gross amount	4	(245,314)	(238,712)
Reinsurers' share		47,830	43,419
Net paid claims		(197,484)	(195,293)
Change in the provision for claims outstanding:			
Gross amount	4	(55,286)	104,891
Reinsurers' share		11,646	(24,182)
Change in the net provision for claims outstanding		(43,640)	80,709
CLAIMS INCURRED, NET OF REINSURANCE		(241,124)	(114,584)
Net operating expenses		(135,881)	(117,060)
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		(4,532)	109,368

NON-TECHNICAL ACCOUNT	Note	2017 £'000	2016 £'000
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		(4,532)	109,368
Investment income	8	40,011	38,266
Unrealised gains on investments	8	35,745	77,114
Investment expenses and charges	8	(2,951)	(7,041)
Unrealised losses on investments	8	(39,290)	(62,262)
Allocated investment return transferred to the general business technical account	8	(18,357)	(30,092)
Profit / (loss) on exchange		2,804	1,643
PROFIT FOR THE FINANCIAL YEAR		13,430	126,996

All of the above results derive from continuing operations.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 £'000	2016 £'000
PROFIT FOR THE FINANCIAL YEAR	13,430	126,996
Currency translation differences	(28,513)	75,664
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	(15,083)	202,660

BALANCE SHEET AS AT 31 DECEMBER 2017		2017	2016
			(restated)
	Note	£'000	£'000
ASSETS			
INVESTMENTS			
Other financial investments	9	1,183,744	1,233,548
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums		47,833	46,899
Claims outstanding		309,858	309,444
		357,691	356,343
DEBTORS – amounts falling due within one year			
Debtors arising out of direct insurance operations: amounts owed by intermediaries		74,742	73,174
Debtors arising out of reinsurance operations		59,902	65,402
Other debtors	10	19,823	10,334
		154,467	148,910
DEBTORS – amounts falling due after one year			
Other debtors	10	-	721
Cash at bank and in hand	13	97,316	121,023
PREPAYMENTS AND ACCRUED INCOME			
Deferred acquisition costs		60,608	59,315
Other prepayments and accrued income		11,174	10,552
		71,782	69,867

BALANCE SHEET AS AT 31 DECEMBER 2017	Note	2017	2016 (restated)
		£'000	£'000
LIABILITIES			
CAPITAL AND RESERVES			
Members' balances	11	501,728	556,146
TECHNICAL PROVISIONS			
Provision for unearned premiums		226,682	222,168
Claims outstanding		982,165	962,146
		1,208,847	1,184,314
DEPOSITS RECEIVED FROM REINSURERS		54	57
CREDITORS – amounts falling due within one year			
Creditors arising out of direct insurance operations			
Creditors arising out of reinsurance operations		46,032	57,411
Bank loans and overdrafts		84,712	116,917
Other creditors		7,689	1,262
		138,433	175,590
ACCRUALS AND DEFERRED INCOME			
Other accruals and deferred income		15,939	14,304
		1,865,000	1,930,412

The syndicate annual accounts on pages 22 to 51 were approved by the board of Chubb Underwriting Agencies Limited on 19 March 2018 and were signed on its behalf by:

Mark K Hammond

Statement of Changes in Members’ Balances

	Members' Balances £'000
AT 1 JANUARY 2016	450,189
Profit for the financial year	126,996
Net transfer into members' balances designated as Funds at Lloyd's	(28,378)
Profit distribution	(68,325)
Currency translation differences	75,664
AT 31 DECEMBER 2016	556,146
Profit for the financial year	13,430
Net transfer into members' balances designated as Funds at Lloyd's	36,524
Profit distribution	(75,859)
Currency translation differences	(28,513)
AT 31 DECEMBER 2017	501,728

Statement of Cash Flows

	Note	2017	2016
			(restated)
RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES	Note	£'000	£'000
Operating result		13,430	126,996
Increase in gross technical provisions		24,533	83,842
Increase reinsurers' share of gross technical provisions		(1,348)	(30,525)
Increase in debtors		(6,752)	(33,499)
(Decrease)/Increase in creditors		(3,317)	6,739
Investment return		(33,514)	(46,076)
Other		20,020	(120,120)
Net cash flows from operating activities		13,052	(12,643)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of equity and debt instruments		(314,521)	(325,959)
Sale of equity and debt instruments		311,762	367,977
Investment income received		37,059	31,311
Other		(590)	8,800
CASH FLOWS FROM FINANCING ACTIVITIES			
Transfers to members in respect of underwriting participations		(75,859)	(68,325)
Profits added to funds in syndicate		35,353	34,884
Funds in syndicate released to member		-	(63,203)
Net increase/(decrease) in cash and cash equivalents		6,255	(27,157)
Cash and cash equivalents at beginning of year		34,137	47,795
Foreign exchange on cash and cash equivalents		1,147	13,500
Cash and cash equivalents at end of year		41,540	34,137
Cash at bank and in hand	12	97,316	121,023
Short term deposits with credit institutions	12	28,936	30,031
Overdrafts	12	(84,712)	(116,917)
Cash and cash equivalents at end of year	12	41,540	34,137

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 member 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 Chubb corporate capital vehicles, these accounts are able to disclose the total FAL supporting the operations of the syndicate (see note 14).

The syndicate annual accounts have been prepared in accordance with the provisions of Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410"), Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Lloyd's Regulations"), as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 (the '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.

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

Prior year restatement

Some of the prior year amounts within these financial statements have been restated to ensure consistency with current year presentation. The restatements do not change the values reported in the current or prior year for members' balances or the profit for the financial year. Where amounts have been restated that is indicated in the note that includes those amounts.

The main restatements relate to reclassifications of gross and reinsurance commissions within the balance sheet, re-presentation of amounts within the cash flow statement and a correction to the value of prior year reserve releases.

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.

2. ACCOUNTING POLICIES – continued

Provision for claims outstanding and related reinsurance recoveries

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs and deduction for expected salvage and other recoveries. The provision also includes the estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and where material reported as an asset.

The reinsurers' share of the provision for claims outstanding is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

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

The directors consider that the provision for gross claims outstanding and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent 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.

2. ACCOUNTING POLICIES – continued

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. Both realised investment gains and losses are included as part of investment return in the profit and loss account. Dividends receivable are accounted for by reference to the date on which the price of the investment is quoted ex-dividend. Interest and expenses are accounted for on an accruals basis.

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

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. Other than investment return on Funds at Lloyd's retained within the syndicate, all investment return has been wholly allocated to the technical account.

Investments

Investments in marketable securities are stated at bid value on the balance sheet date. For quoted investments where there is an active market, this is their quoted bid price at the balance sheet date. For quoted investments where there is no active market, the bid value is determined by reference to prices for similar assets in active markets.

Overseas deposits are stated at cost or market value, as notified by Lloyd's.

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.

Insurance and other receivables

Insurance and other receivables are recognised at fair value less any provision for impairment. Any impairment of a receivable will be recognised if there is evidence that the company will not be able to collect the amounts receivable according to the original terms of the receivable.

2. ACCOUNTING POLICIES – continued

Insurance and other payables

Payables arising from insurance contracts, creditors and deposits received from reinsurers, are initially measured at cost, which is equal to fair value, net of transaction costs.

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, 2013, 2014 and 2015 years of account. It is currently anticipated that the profit commission will also be waived for the 2016 and 2017 years of account.

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT

Capital management

CUAL 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 CUAL managed its capital levels in 2017 in the context of Solvency II and the Funds at Lloyd's requirement.

Solvency II regulation came into force on 1 January 2016. From 1 January 2016, the syndicate's regulatory capital requirement has been 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 2, 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 £3.5 million (2016: £3.1 million) and members' balances would have been lower by £3.5 million (2016: £3.1 million). If the net claims ratio had been lower by 1%, then the profit for the financial year would have been higher by £3.5 million (2016: £3.1 million) and members' balances would have been higher by £3.5 million (2016: £3.1 million).

Concentrations of insurance risk

As shown in Note 4, the syndicate writes a diverse book of business across a number of underwriting classes. Approximately 70% of the gross written premiums for 2017 (2016: 74%) related to property and casualty line of insurance, with the remainder split across a number of other classes.

Geographically, 71% (2016: 70%) of gross premiums written in 2017 relate to risks within the United States of America, with the remainder being spread across Europe, Asia Pacific and Latin America.

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

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.

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 CUAL. 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 2017.

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.

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

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 £1,083.4 million at external managers as at 31 December 2017 (2016: £1,130.3 million), an increase of 50 basis points in interest yields across all portfolios consecutively (principally sterling, euros 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 £25.2 million (2016: £27.1 million) and accordingly decrease total shareholders' funds by £25.2 million (2016: £27.1 million).

Equity price risk

The syndicate held no equities in 2017 (2016: 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.

The accounting policy for foreign currencies is stated in note 2 to the financial statements.

For the profit and loss account, the 2017 average US dollar/sterling rate of US$1.277/£1 is down 7.1% on the prior period (2016: US$1.375/£1). Had the average sterling rate weakened against the US dollar by a further 10% compared to the actual 2017 average and all other variables remained constant, the profit for the year would have been £1.5 million more than the amount reported.

For the monetary components of the balance sheet, the year end rates used to convert US dollar to sterling has increased 5.4% to US$1.334/£1 (2016: US$1.266/£1). Assuming sterling had strengthened by a further 10% against the US dollar and all other variables remained constant, the effect of translating year end net assets based on these parameters would have resulted in a reduction in members' balances of £45.6 million, which would have appeared as a loss in the statement of comprehensive income.

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

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 is held to meet regulatory deposit requirements which may not be available to meet recommended liquidity needs.

CUAL 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, CUAL maintained an overdraft of £84.7 million at year end (2016: £116.9 million) and credit balances of £ 93.5 million (2016: £118.7 million) in designated accounts.

The syndicate also benefits from letter of credit facilities which can be utilised to meet certain funding needs and notional pooling facilities with other Chubb 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 paid within agreed terms of trade. Non-derivative financial liabilities with contractual maturities are limited to reinsurance premiums payable and expense accruals.

£000 **31 December 2017**	**No Stated Maturity**	**0-1 year**	**1-3 years**	**3-5 years**	**>5 years**	**Total**
Deposits received from reinsurers	54	-	-	-	-	54
Claims outstanding	-	330,377	326,000	149,686	176,102	982,165
Creditors	-	138,433	-	-	-	138,433
Total	54	468,810	326,000	149,686	176,102	1,120,652

£000 **31 December 2016**	**No Stated Maturity**	**0-1 year**	**1-3 years**	**3-5 years**	**>5 years**	**Total**
Deposits received from reinsurers	57	-	-	-	-	57
Claims outstanding	-	303,164	321,096	154,872	183,013	962,146
Creditors	-	175,590	-	-	-	175,590
Total	57	478,754	321,096	154,872	183,013	1,137,793

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

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 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:

	2017	2016
	£'000	£'000
Other financial investments	1,183,744	1,233,548
Reinsurers' share of technical provisions	357,691	356,343
Debtors arising out of direct insurance operations	74,742	73,174
Debtors arising from reinsurance operations	59,902	65,402
Total assets bearing credit risk	1,676,079	1,728,467

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

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 2. The Moody's credit rating for other financial investments is detailed below.

	2017	2016
	£'000	£'000
AAA	160,688	179,715
AA	459,311	478,282
A	246,076	257,649
BBB	157,772	184,767
Below BBB or not rated	159,897	133,135
Total assets bearing credit risk	1,183,744	1,233,548

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 a 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 2. This balance includes 0% past due that have been impaired (2016: 0%).

Debtors arising out of direct and reinsurance operations are held at fair value less any provision for impairment as described in note 2. They include 1.2% (2016: 0.0%) that have been impaired and 10.6% (2016: 18.0%) that are past due, but not impaired. The latter is aged 7.3% up to six months (2016: 15.8%), 2.4% six months to a year (2016: 0.0%) and the remaining 1.0% is older than a year (2016: 2.2%).

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

	2017	2016
	£'000	£'000
AA	187,763	201,566
A	119,903	125,799
BBB	284	(205)
Below BBB or not rated	64	16
Not rated	12,286	2,676
Total assets bearing credit risk	320,300	329,852

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, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 (the 'Regulations'), 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 2017					
Direct insurance					
Fire and other damage to property	176,210	177,409	(153,618)	(71,659)	10,319
Marine, aviation and transport	56,541	55,338	(29,711)	(19,511)	409
Accident and health	2,218	2,941	(1,558)	(1,274)	245
Third party liability	111,636	103,794	(63,351)	(34,781)	9,068
Miscellaneous	18,981	13,285	1,824	(7,485)	(3,260)
Reinsurance acceptances	93,938	90,213	(54,186)	(13,124)	(34,216)
TOTAL	459,524	442,980	(300,600)	(147,834)	(17,435)

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
Year to 31 December 2016					
Direct insurance					
Fire and other damage to property	158,570	154,430	(54,065)	(72,017)	(3,128)
Marine, aviation and transport	47,160	44,164	25,834	(13,804)	(10,064)
Accident and health	4,170	4,656	(2,589)	(1,875)	258
Third party liability	87,955	87,669	(55,825)	(30,633)	4,034
Miscellaneous	13,687	13,882	(10,076)	(7,366)	3,098
Reinsurance acceptances	95,962	99,091	(37,100)	(6,893)	(52,405)
TOTAL	407,504	403,892	(133,821)	(132,588)	(58,207)

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.

4. SEGMENTAL ANALYSIS – continued

Gross written premium information by destination (location of risk) as required by Schedule 1, Regulations 2015 (Part V, 84) is as follows:

	2017	2016
	£'000	£'000
United Kingdom	11,069	10,167
United States of America	326,799	284,027
Continental Europe	37,910	31,509
Africa and Middle East	10,373	12,098
Asia Pacific	23,362	28,519
Americas	50,010	41,184
	459,524	407,504

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

The prior year's net provision for claims outstanding generated a surplus for 2017 (2016: surplus) as detailed below:

	2017	2016
		(restated)
	£'000	£'000
Direct insurance		
Fire and other damage to property	2,399	9,459
Marine, aviation and transport	11,857	26,947
Accident and health	189	297
Third party liability	(7,771)	(5,767)
Miscellaneous	6,787	30,308
Reinsurance acceptances	1,766	2,186
	15,225	63,429

6. NET OPERATING EXPENSES – TECHNICAL ACCOUNT

	2017	2016
	£'000	£'000
Acquisition costs	112,991	102,401
Change in deferred acquisition costs	(4,789)	(5,187)
Administrative expenses	39,631	35,374
Reinsurance commissions	(11,952)	(15,528)
	135,881	117,060

"Acquisition costs" includes total commissions for direct business amounting to £88.3 million (2016: £76.9 million).

"Administrative expenses" includes the managing agent's fee (which covers most expenses generally classified as syndicate expenses), net of an element of the fee deemed to be indirect acquisition costs and included within acquisition costs, Lloyd's Central Fund contributions and Lloyd's subscriptions.

The managing agent's fee for 2017, before the transfer to acquisition costs, is £42.5 million (2016: £38.9 million).

Auditor's remuneration

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

	2017	2016
	£'000	£'000
Fees payable to the syndicate's auditors and their associates for the audit of the syndicate's annual accounts	268	256
Fees payable to the syndicate's auditors and their associates for other services:		
Audit-related assurance services	103	92
Non-audit fees	-	66
	371	414

"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.

7. DIRECTORS AND EMPLOYEES

Staff costs

The managing agency has no employees (2016: none). Staff that support the syndicate and managing agency are employed by Chubb Services UK Limited ("CSUK"), 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 CSUK 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 CSUK to the managing agent. 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 CSUK in respect of the directors of the managing agent.

	2017	2016
	£'000	£'000
Aggregate emoluments and benefits	3,825	3,426
Company pension contributions to money purchase pension schemes	-	8
	3,825	3,434

Included in the above amounts paid by CSUK in respect of the directors of the managing agent, the active underwriter was paid a total of £629,033 (2016: £600,513) in respect of emoluments and benefits and the highest paid director was paid a total of £835,764 (2016: £829,033) 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 (2016: Nil) and Nil (2016: Nil) respectively.

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

Until 31 March 2002, retirement benefits accrued under the Chubb London Pension Scheme to one director who held office during the year under the final salary section. Disclosures relating to this scheme are contained within the financial statements for CSUK.

8. INVESTMENT RETURN

	2017	2016
	£'000	£'000
Investment income		
Investment income	37,103	34,875
Gains on the realisation of investments	2,908	3,391
	40,011	38,266
Investment management expenses		
Investment management expenses	(1,330)	(1,741)
Losses on the realisation of investments	(1,621)	(5,300)
	(2,951)	(7,041)
Net unrealised gains less losses on investments		
Unrealised gains on investments	35,745	77,114
Unrealised losses on investments	(39,290)	(62,262)
	(3,545)	14,852
TOTAL INVESTMENT RETURN	33,515	46,077

Investment return is analysed between:

	2017	2016
Allocated investment return transferred to the general business technical account	18,357	30,092
Net investment return included in the non-technical account	15,158	15,985
TOTAL INVESTMENT RETURN	33,515	46,077

9. OTHER FINANCIAL INVESTMENTS

	2017	2016
	£'000	£'000
Market value:		
Debt securities and other fixed interest securities	1,083,363	1,130,277
Overseas deposits	71,444	73,239
Deposits with credit institutions	28,937	30,032
	1,183,744	1,233,548
Cost:		
Debt securities and other fixed interest securities	1,086,475	1,129,990
Overseas deposits	69,550	73,240
Deposits with credit institutions	28,937	30,032
	1,184,962	1,233,262

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.

£487.4 million (2016: £463.6 million) of the total market value relates to Funds at Lloyd's, as explained in note 11. This is analysed as follows:

9. OTHER FINANCIAL INVESTMENTS - continued

	2017	2016
	£'000	£'000
Market value:		
Debt securities and other fixed interest securities	478,869	458,779
Deposits with credit institutions	8,554	4,789
	487,423	463,568
Cost:		
Debt securities and other fixed interest securities	483,263	465,101
Deposits with credit institutions	8,554	4,788
	491,817	469,889

Fair Value Hierarchy

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

- Level 1 – The unadjusted quoted price in an active market for identical assets or liabilities that the syndicate can access at the measurement date.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3 – Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

An analysis of financial instruments at 31 December 2017 by fair value hierarchy is set out below:

	Level1	**Level 2**	**Level3**	**Total**
	£000	**£000**	**£000**	**£000**
Debt securities and other fixed income securities	52,992	1,028,210	2,161	1,083,363
Loans and deposits with credit institutions	14,337	14,600	-	28,937
Overseas deposits	25,374	46,070	-	71,444
Total	92,703	1,088,880	2,161	1,183,744

An analysis of financial instruments at 31 December 2016 by fair value hierarchy is set out below:

	Level1	**Level 2**	**Level3**	**Total**
	£000	**£000**	**£000**	**£000**
Debt securities and other fixed income securities	43,023	1,084,484	2,769	1,130,276
Loans and deposits with credit institutions	14,204	15,828	-	30,032
Overseas deposits	28,891	44,106	243	73,240
Total	86,118	1,144,418	3,012	1,233,548

9. OTHER FINANCIAL INVESTMENTS - continued

'Debt securities and other fixed interest securities' with active markets such as Government securities are classified within Level 1, 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 2. 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 3.

'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 1, as fair values are based on quoted market prices. Where no active market exists for such securities they are typically classified within Level 2 and where pricing is unobservable, Level 3.

For securities in level 3 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 Chubb 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 (0.2%) of the investment portfolio as at 31 December 2017 (2016: 0.2%).

An analysis of movements during the year in Level 3 balances is as follows:

	2017
	£'000
Balance at 1 January 2017	3,012
Losses Recognised in the Profit and Loss Account	(154)
Sales	(473)
Transfers in (out) of Level 3	(224)
Balance at 31 December 2017	2,161

10. OTHER DEBTORS

	2017	2016
	£'000	£'000
Amounts falling due within one year:		
Amounts due from members	3,547	3,222
Amounts due from group companies	16,173	7,005
Other debtors	103	107
	19,823	10,334
Amounts falling due after one year:		
Amounts due from members	-	721

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 14.

Members' balances at 31 December 2017 include £491.3 million (2016: £466.4 million) designated as FAL.

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

	2017	2016
	£'000	£'000
Other financial investments (note 9)	478,869	458,779
Deposits with credit institutions	8,554	4,788
Other prepayments and accrued income	3,892	2,814
	491,315	466,381

12. CASH AND CASH EQUIVALENTS

An analysis of cash and cash equivalents is as follows:

	2017	2016
	£'000	£'000
Cash at bank and in hand	97,316	121,023
Cash equivalents included within Financial Investments	28,936	30,031
Overdrafts	(84,712)	(116,917)
	41,540	34,137

Cash equivalents include deposits held at call with banks and other short term highly liquid investments that are readily convertible to 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.

13. TRANSACTIONS WITH RELATED PARTIES

The ultimate holding company of the syndicate's managing agent, Chubb Underwriting Agencies Limited ("CUAL"), 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 Chubb's executive offices at 17 Woodbourne Avenue, Hamilton HM 08, Bermuda.

The principal related reinsurance partner of the syndicate is Chubb Tempest Re, a leading global multi-line reinsurer that is part of the Chubb group. 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 2017, a number of outwards reinsurance contracts were effected with group companies. The main excess of loss reinsurance programmes in operation during 2017 were shared with other Chubb companies, including Chubb European Group Limited.

The following is a summary of the reinsurance transactions and balances with related parties in 2017 and as at 31 December 2017:

Reinsurance Premium Related	Chubb Tempest Reinsurance	Chubb European Group Ltd	Chubb America	Other	Total
	£'m	£'m	£'m	£'m	£'m
Reinsurance Premiums	15.3	1.4	1.3	0.1	18.1
Reinsurance Commissions	1.1	0.2	0.2	0.0	1.5
Reinsurance on Unearned Premium Reserve	8.8	0.6	0.4	0.3	10.1
Reinsurance Creditor	12.7	0.3	0.4	0.3	13.7
Total	37.9	2.5	2.3	0.7	43.4

Reinsurance Recovery Related	Chubb Tempest Reinsurance	Chubb European Group Ltd	Chubb America	Other	Total
	£'m	£'m	£'m	£'m	£'m
Reinsurance on Claims Incurred	11.8	0.2	1.4	-0.3	13.1
Reinsurance on Claims Outstanding	67.8	0.9	10.5	0.4	79.6
Reinsurance Debtor	4.0	0.1	0.0	0.7	4.8
Total	83.6	1.2	11.9	0.8	97.5

The syndicate's capacity for the 2017 and 2018 years of account is provided entirely by Chubb Capital I Limited. For previous years of account Chubb Capital IV Limited and Chubb Capital V Limited also provided capacity. Each of these companies trades as a corporate member of Lloyd's, participating only on Syndicate 2488. These companies are wholly owned subsidiaries within the Chubb group.

Managing agency fees of £42.5 million (2016: £38.9 million) were paid by the syndicate to CUAL. Staff providing services to CUAL and the syndicate are employed by Chubb Services U.K. Limited ("CSUK"), another Chubb Limited company. CSUK settles expenses on behalf of, and provides services to, the syndicate and CUAL.

14. FUNDS AT LLOYD'S

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on Prudential Regulatory Authority (PRA) requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and assessment of the reserving risk in respect of business that has been underwritten. The syndicate's members have met their FAL requirements by the retention of closed year of account profits in the syndicate. At 31 December 2017 FAL totaled £491.3 million (2016: £466.4 million).

15. 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 from the first time adoption of this standard, which was 2015. 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 current year-end rates.

Claims development as at 31 December 2017 – Gross

	2011	2012	2013	2014	2015	2016	2017	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimates:								
End of underwriting year	145,437	131,021	97,782	95,478	99,190	103,611	147,657	
One year later	306,344	262,705	252,483	235,711	225,921	275,307		
Twoyears later	356,739	262,511	262,187	230,188	243,921			
Three years later	294,838	235,861	251,183	226,267				
Four years later	274,279	229,364	222,712					
Five years later	271,320	218,744						
Six years later	264,604							
Current estimate of ultimate claims	264,604	218,744	222,712	226,267	243,921	275,307	147,657	1,599,212
Cumulative payments	(228,523)	(172,162)	(160,998)	(143,204)	(130,481)	(88,039)	(21,580)	(944,987)
In balance sheet	36,081	46,582	61,713	83,063	113,440	187,268	126,077	654,224
Provision for prior financial years	327,941							
Liability in the balance sheet	982,165							

15. CLAIMS DEVELOPMENT TABLES – continued

Claims development as at 31 December 2017 – Net

	2011	2012	2013	2014	2015	2016	2017	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimates:								
End of underwriting year	111,055	92,536	73,498	74,236	70,403	76,969	102,998	
One year later	217,135	197,871	192,023	187,800	168,140	210,126		
Twoyears later	249,163	196,504	198,126	188,652	186,489			
Three years later	203,018	190,531	191,288	191,281				
Four years later	196,583	185,222	171,407					
Five years later	198,856	179,262						
Six years later	192,693							
Current estimate of ultimate claims	192,693	179,262	171,407	191,281	186,489	210,126	102,998	1,234,256
Cumulative payments	(166,206)	(141,791)	(129,656)	(125,847)	(105,846)	(76,044)	(18,570)	(763,961)
In balance sheet	26,487	37,471	41,751	65,434	80,643	134,082	84,428	470,295
Provision for prior financial years	202,011							
Liability in the balance sheet	672,306							

16. RECONCILIATION OF INSURANCE BALANCES

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

	2017	2016
		(restated)
	£'000	£'000
At 1 January	59,315	47,465
Change in acquisition costs deferred during the year	4,789	5,187
Foreign exchange gains/(losses)	(3,496)	6,663
At 31 December	60,608	59,315

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

	Gross		Reinsurers' share	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
At 1 January	222,168	184,189	46,899	42,726
Increase/(decrease) in provision	16,544	3,612	3,290	(3,053)
Foreign exchange movements	(12,030)	34,367	(2,356)	7,226
At 31 December	226,682	222,168	47,833	46,899

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

	Gross		Reinsurers' share	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
At 1 January	962,146	916,284	309,444	283,092
Increase/(decrease) in provision	55,286	(104,891)	11,646	(24,182)
Foreign exchange movements	(35,267)	150,753	(11,232)	50,534
At 31 December	982,165	962,146	309,858	309,444

17. ULTIMATE HOLDING COMPANY

The managing agent's immediate holding company is Chubb 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 Chubb's executive offices at 17 Woodbourne Avenue, Hamilton HM 08, Bermuda.