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# Chubb Syndicate 1882

**Report and Annual Accounts**
**for the year ended 31 December 2015**

**Choose certainty. Choose Chubb.**

# Chubb Syndicate 1882

## Syndicate Information

**Managing Agent**

Chubb Managing Agent Ltd

**Chubb Group of Insurance Companies**

The capacity for Chubb Syndicate 1882 ("the syndicate") is wholly owned by Chubb Capital Ltd, a corporate member. Both Chubb Capital Ltd and Chubb Managing Agent Ltd are indirect, wholly-owned subsidiaries of The Chubb Corporation and members of the Chubb Group of Insurance Companies ("Chubb"). The Chubb Group of Insurance Companies is the marketing term used to describe several separately incorporated insurance companies under the common ownership of Chubb Limited. Chubb Limited is listed on the New York Stock Exchange [NYSE:CB]. For more information regarding Chubb Limited, including a listing of the insurers in the Chubb Group of Insurance Companies, visit www.chubb.com.

Except as otherwise provided, information contained on Chubb's website or that can be accessed through its website is not incorporated by the references into, and does not form a part of, this report.

**Forward-looking information**

Some of the statements in this report may be considered forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995 (PSLRA). These forward-looking statements are made pursuant to the safe harbour provisions of the PSLRA and includes a statement regarding the lines of business the syndicate plans to write in 2016. Such statements speak only as of the date of this report and are not guarantees of future performance. Various risks and uncertainties may cause actual results to differ materially. These risks and uncertainties include those discussed in the filings that Chubb Limited makes with the U.S. Securities and Exchange Commission. Neither the syndicate nor Chubb Limited assumes any obligations to update such forward-looking statements.

# Chubb Syndicate 1882

## Contents

# Chubb Syndicate 1882

## Managing Agent's Report

The managing agent presents its report for the year ended 31 December 2015.

The annual report is prepared using the annual basis of accounting required by Statutory Instrument No 1950 of 2008, The Insurance Accounts Directive (Lloyd's Syndicate Aggregate Accounts) Regulations 2008 ("Lloyd's Regulations 2008").

### Principal activity

The principal activity of the syndicate is the underwriting of general lines of insurance focused towards niche products and customer segments. The syndicate's managing agent and capacity provider are both indirect, wholly-owned subsidiaries of Chubb Limited, and was an indirect, wholly-owned subsidiary of The Chubb Corporation prior to its 14 January 2016 acquisition by ACE Limited (which changed its name to Chubb Limited).

### Business review

**Results**
The syndicate produced a loss of £16.1m (2014: £4.3m profit) for the year ended 31 December 2015.

**Key performance indicators**
The key performance indicators of the syndicate are shown below:

| | 2015 | 2014 |
|---|---|---|
| Net premiums written | £87.4m | £78.4m |
| Net loss ratio[1] | 86.4% | 61.9% |
| Net expense ratio[2] | 33.7% | 29.6% |
| Net combined ratio | 120.1% | 91.5% |
| (Loss) / Profit for the year | (£16.1m) | £4.3m |

[1] Based on net claims incurred as a percentage of net premiums earned

[2] Based on net operating expenses incurred (excluding deferred acquisition costs and member's expenses) as a percentage of net premiums written

# Chubb Syndicate 1882

## Managing Agent's Report (continued)

### ACE merger

On 30 June 2015, The Chubb Corporation, the ultimate parent of the syndicate, entered into an Agreement and Plan of Merger ("the Merger Agreement") with ACE Limited under which ACE would acquire Chubb. Following approval from the shareholders of both companies, receipt of all required regulatory approvals and satisfaction of other closing conditions, ACE Limited completed the acquisition of The Chubb Corporation on 14 January 2016, and subsequently changed its name to Chubb Limited.

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

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

With US$150 billion in assets and US$37 billion of gross written premiums in 2014* on a pro forma basis, Chubb's core operating insurance companies maintain financial strength ratings of "AA" from Standard & Poor's and "A++" from A.M. Best.

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

*Pro forma 31 December 2014 ACE Limited and The Chubb Corporation.

**Results by insurance class**
The gross premium written and net underwriting result analysed by the accounting classes defined by UK companies legislation are shown in the table below:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Gross premium written £000** | **Net underwriting result £000** | **Gross premium written £000** | **Net underwriting result £000** |
| Direct insurance: | | | | |
| Accident and Health | (75) | 67 | 650 | (443) |
| Marine, aviation and transport | 25,452 | 1,034 | 23,234 | (3,528) |
| Fire & other damage to property | 8,555 | (4,838) | 5,239 | (3,343) |
| Third-party liability | 15,099 | (7,975) | 14,353 | 1,272 |
| | 49,031 | (11,712) | 43,476 | (6,042) |
| Reinsurance acceptances | 49,244 | (6,671) | 44,607 | 9,582 |
| | 98,275 | (18,383) | 88,083 | 3,540 |

The syndicate has concentrated on writing third party liability, transport (cargo) and marine business. Both direct and reinsurance assumed marine business was written. The third-party liability business comprises errors & omissions insurance and directors & officers insurance. The Marine business saw favourable prior period development and the Fire and other damage to property line saw unfavourable development.

The syndicate had a capacity of £93.0m for 2015 (2014: £85.0m). It has a capacity of £93.0m for 2016 on which it plans to write similar lines of business.

# Managing Agent's Report (continued)

## Business review (continued)

**Investments**
Total investments held at 31 December 2015 were £103.6m (2014: £81.4m). A total of £97.7m (2014: £74.0m) of the portfolio was invested in fixed income government and corporate securities with a rating of AA or better; £5.9m (2014: £5.8m) was held in deposits with credit institutions, many of which are administered by Lloyd's to meet the requirements for conducting insurance business in jurisdictions outside the UK.

The investment management objectives are to achieve a stable investment income stream from a conservative investment base with sufficient liquidity to meet the ongoing obligations of the insurance operations of the syndicate.

**Risk disclosure and capital management**

Disclosures regarding risks and capital management are provided in note 2 to the financial statements.

## Directors

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

M Casella (resigned 2 November 2015)
C Giles (resigned 10 March 2016)
C D'Auria
N Davenport
K Docherty
B Hardwick
C Smith
I Hutchinson
M Hammond (appointed 19 January 2016)
A Kendrick (appointed 19 January 2016)
J Napier (appointed 19 January 2016)
A Shaw (appointed 19 January 2016)

## Statement of managing agent's responsibilities

The managing agent is responsible for preparing the syndicate annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") require the managing agent to prepare syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the syndicate as at that date and of its profit or loss for that year.

In preparing the syndicate annual accounts, the managing agent is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the notes to the syndicate annual accounts; and
- 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 managing agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the syndicate and to enable it to ensure that the syndicate annual accounts comply with the Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included in the syndicate's webpages within the group website, www.chubb.com.

## Statement of disclosure of information to the auditors

So far as each person who was a director of the managing agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors of the managing agent and the syndicate's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

## Reappointment of auditor

Ernst & Young LLP has indicated its willingness to continue in office as the syndicate's auditor.

On behalf of the board of the managing agent

C Smith
Director of Chubb Managing Agent Ltd

14 March 2016

# Chubb Syndicate 1882

## Independent Auditor's Report to the members of Chubb Syndicate 1882

We have audited the syndicate annual accounts of syndicate 1882 ('the syndicate') for the year ended 31 December 2015 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flow and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'.

This report is made solely to the syndicate's members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 4, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the syndicate annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the syndicate annual accounts. In addition, we read all the financial and non-financial information in the Syndicate Report and Annual Accounts to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on syndicate annual accounts

In our opinion the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

### Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

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

## Independent Auditor's Report to the members of Chubb Syndicate 1882 (continued)

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

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

Ernst & Young LLP

Michael Purrington (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

14 March 2016

### Notes

1. The maintenance and integrity of the syndicate and financial information included in the syndicate's webpages within the group website, www.chubb.com, is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Chubb Syndicate 1882

## Income Statement
## for the year ended 31 December 2015

| Technical account – general business | Notes | 2015 £000 | 2014 £000 |
|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | |
| Gross premiums written | 3 | 98,275 | 88,083 |
| Outwards reinsurance premiums | | (10,936) | (9,683) |
| Net premiums written | | 87,339 | 78,400 |
| Change in the gross provision for unearned premiums | | (6,785) | (12,278) |
| Change in the provision for unearned premiums, reinsurers' share | | 621 | (97) |
| Change in unearned premiums, net of reinsurance | | (6,164) | (12,375) |
| Earned premiums, net of reinsurance | | 81,175 | 66,025 |
| | | | |
| **Total technical income** | | 81,175 | 66,025 |
| | | | |
| **Claims incurred, net of reinsurance** | 4 | | |
| Claims paid, gross amount | | 46,486 | 59,313 |
| Claims paid, reinsurers' share | | (3,954) | (17,454) |
| Net claims paid | | 42,532 | 41,859 |
| Change in the provision for claims, gross amount | | 16,250 | (7,665) |
| Change in the provision for claims, reinsurers' share | | 11,373 | 6,695 |
| Change in the provision for claims, net of reinsurance | | 27,623 | (970) |
| Claims incurred, net of reinsurance | | 70,155 | 40,889 |
| | | | |
| **Net operating expenses** | 5 | 29,403 | 21,596 |
| | | | |
| **Total technical charges** | | 99,558 | 62,485 |
| | | | |
| **Balance on the general business technical account** | | (18,383) | 3,540 |

# Chubb Syndicate 1882

## Income Statement (continued)
## for the year ended 31 December 2015

| Non-technical account | Notes | 2015 £000 | 2014 £000 |
|---|---|---|---|
| **Balance on the general business technical account** | | (18,383) | 3,540 |
| **Investment return** | | | |
| Investment income | 8 | 1,272 | 851 |
| Investment expenses and charges | 8 | (70) | (35) |
| Investment return | | 1,202 | 816 |
| Other income/(expense) | 9 | 1,455 | (550) |
| **(Loss)/Profit for the financial year** | | (15,726) | 3,806 |

The above results are all derived from continuing operations.

## Statement of Comprehensive Income
## for the year ended 31 December 2015

| | Notes | 2015 £000 | 2014 £000 |
|---|---|---|---|
| **(Loss)/Profit for the financial year** | | (15,726) | 3,806 |
| **Other recognised gains and losses** | | | |
| Unrealised (losses)/gains on investments | 8 | (351) | 538 |
| **Total recognised (losses)/gains relating to the year** | | (16,077) | 4,344 |

# Chubb Syndicate 1882

## Statement of Changes in Members' Balances for the year ended 31 December 2015

| Changes in 2015 | Fair value reserve £000 | Profit and loss account £000 | Total members' balances £000 |
|---|---|---|---|
| At 1 January 2015 | 507 | (14,238) | (13,731) |
| Total comprehensive income for the year | (351) | (15,726) | (16,077) |
| Receipt of loss from members' personal reserve fund | - | 7,955 | 7,955 |
| At 31 December 2015 | 156 | (22,009) | (21,853) |

| Changes in 2014 | Fair value reserve £000 | Profit and loss account £000 | Total members' balances £000 |
|---|---|---|---|
| At 1 January 2014 | (31) | (41,053) | (41,084) |
| Total comprehensive income for the year | 538 | 3,806 | 4,344 |
| Receipt of loss from members' personal reserve fund | - | 23,009 | 23,009 |
| At 31 December 2014 | 507 | (14,238) | (13,731) |

# Chubb Syndicate 1882

## Statement of Financial Position
## As at 31 December 2015

| Assets | Notes | 2015 £000 | 2014 £000 |
|---|---|---|---|
| **Investments** | | | |
| Other financial investments | 10 | 103,601 | 81,417 |
| **Reinsurers' share of technical provisions** | | | |
| Provision for unearned premiums | 2 | 2,188 | 1,517 |
| Claims outstanding | | 12,311 | 23,250 |
| | | 14,499 | 24,767 |
| **Debtors** | | | |
| Debtors arising out of direct insurance operations | 11 | 32,572 | 28,581 |
| Debtors arising out of reinsurance operations | 11 | 32,279 | 31,933 |
| Other debtors | | 1,393 | 1,492 |
| | | 66,244 | 62,006 |
| **Other assets** | | | |
| Cash at bank and in hand | 16 | 7,018 | 7,205 |
| Other assets | 12 | 5,464 | 5,038 |
| | | 12,482 | 12,243 |
| **Prepayments and accrued income** | | | |
| Accrued interest and rent | | 660 | 482 |
| Deferred acquisition costs | | 11,313 | 10,139 |
| Other prepayments and accrued income | | 38 | 41 |
| | | 12,011 | 10,662 |
| **Total assets** | | 208,837 | 191,095 |

# Chubb Syndicate 1882

## Statement of Financial Position (continued)
## As at 31 December 2015

| Liabilities | Notes | 2015 £000 | 2014 £000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Members' balances | 13 | (21,853) | (13,731) |
| **Technical provisions** | | | |
| Provision for unearned premiums | | 60,672 | 53,767 |
| Claims outstanding | | 146,607 | 130,264 |
| | | 207,279 | 184,031 |
| **Creditors** | | | |
| Creditors arising out of direct insurance operations | | 7,794 | 6,650 |
| Creditors arising out of reinsurance operations | | 9,578 | 10,197 |
| Other creditors including taxation and social security | 14 | 3,452 | 1,998 |
| | | 20,824 | 18,845 |
| **Accruals and deferred income** | 15 | 2,587 | 1,950 |
| **Total liabilities** | | 208,837 | 191,095 |

The syndicate annual accounts on pages 7 to 30 were approved by the board of Chubb Managing Agent Ltd and were signed on its behalf by:

C D'Auria
Director of Chubb Managing Agent Ltd

14 March 2016

# Chubb Syndicate 1882

## Statement of Cash Flow
## for the year ended 31 December 2015

| | Notes | 2015 £000 | 2014 £000 |
|---|---|---|---|
| **(Loss)/Profit on ordinary activities** | | (15,726) | 3,806 |
| Movement in general insurance unearned premiums and outstanding claims | | 23,248 | 7,615 |
| Movement in reinsurers' share of unearned premiums and outstanding claims | | 10,268 | 5,913 |
| Investment return | | (1,202) | (807) |
| Movements in other assets/(liabilities) | | (2,211) | (8,904) |
| **Net cash inflows from operating activities** | | 14,377 | 7,623 |
| **Investing activities** | | | |
| Investment income received | | 1,202 | 807 |
| Purchase of debt and equity investments | | (39,061) | (50,433) |
| Sale of debt and equity investments | | 16,252 | 23,887 |
| **Net cash outflows from investing activities** | | (21,607) | (25,739) |
| **Financing activities** | | | |
| Receipt of losses from members' personal reserve fund | | 7,954 | 22,126 |
| **Net cash inflows from financing activities** | | 7,954 | 22,126 |
| Increase in cash and cash equivalents | | 724 | 4,010 |
| Cash and cash equivalents at 1 January | | 7,205 | 4,485 |
| Exchange differences on opening cash | | (911) | (1,290) |
| **Cash and cash equivalents at 31 December** | 16 | 7,018 | 7,205 |

### 1 Accounting policies

**Statement of compliance**

The financial statements have been prepared in compliance with the Insurance Accounts Directive (Lloyd's Syndicate Aggregate Accounts) Regulations 2008 and FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium sized Companies Groups (Accounts and Reports) 2008 Regulations relating to insurance companies.

The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

The syndicate transitioned from previously extant UK GAAP to FRS 102 and FRS 103 as at 1 January 2014. An explanation of how the transition to FRS 102 and FRS 103 has affected the reported financial position and financial performance is given in note 19.

**Basis of preparation**

The financial statements for the year ended 31 December 2015 were approved for issue by the Board of Directors on 14 March 2016.

The financial statements are prepared in pounds sterling, which is the presentational currency of the company, rounded to the nearest £'000.

As permitted by FRS 103 the company continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

**Judgements and key sources of estimation uncertainty**

The financial statements include amounts based on informed estimates and judgments by management for transactions that are not yet complete. Such estimates and judgements affect the reported amounts in the financial statements. Those estimates and judgements that are most critical to the preparation of the financial statements involved the determination of claims outstanding (and related reinsurance recoveries). These estimates and judgements, which are discussed within the Claims accounting policy section of this note and the Insurance risk section of note 2, require the use of assumptions about matters that are highly uncertain and therefore are subject to change as facts and circumstances develop. The nature of estimation means that different methodologies would result in different provisions and that actual outcomes could well differ from these estimates.

**Underwriting**

Gross premiums
Gross premiums written represent premiums on direct insurance and reinsurance assumed contracts that incepted during the period, together with adjustments made in the period to premiums written in prior accounting periods. Gross premiums are shown before deduction of brokerage and commission due to intermediaries and excluding taxes and duties levied on premiums.

*Premium debtors*
Premiums receivable which are outstanding at the statement of financial position date are shown as debtors less any amounts not considered to be collectable. Estimates are included for pipeline premiums, being premium amounts due but not yet received or notified to the syndicate by intermediaries.

*Provision for unearned premiums*
Premiums written are recognised as earned premiums proportionally over the period of the coverage of the policy. Premiums that have been written but not yet earned are shown in the provision for unearned premiums.

# Chubb Syndicate 1882

## Notes to the Financial Statements (continued)
## for the year ended 31 December 2015

### 1 Accounting policies (continued)

Claims

Claims incurred represent the claims and claims handling costs paid in the period, together with the movement in provision for claims outstanding, less any salvage or other similar recoveries.

The provision for claims outstanding represents the estimated ultimate cost of all claims notified but not settled by the statement of financial position date and includes provisions for reported outstanding claims, claims incurred but not reported ("IBNR"), claims handling costs less any salvage or other similar recoveries.

There is inherent uncertainty, due to the nature of insurance underwriting, as to the ultimate cost of claims. Therefore, subsequent information and events may result in the ultimate cost of claims being different, perhaps substantially, to the amounts previously provided. Adjustments of this nature are reflected in the period that the subsequent information becomes known or the subsequent event occurs.

*Provision for claims outstanding estimation techniques*

As a result of this inherent uncertainty in the ultimate cost of claims, a variety of different actuarial techniques are used to estimate the provision for claims outstanding. These techniques include, using the following statistical analyses: (a) the development of claims on more mature accident years to estimate the claims development on less mature accident years; (b) the development of claim numbers and average cost per claims on more mature accident years to estimate the claims development on less mature accident years; (c) expected loss ratios for each accident year taking into account underwriting factors that may be particularly pertinent to that year, for instance, price changes, changes in business mix, market conditions, policy coverage, etc; and (d) techniques that involve using a mixture of the above analyses such as the Bornheutter-Ferguson method which uses a combination of claims development and expected loss ratios, where claims development is given more weight as an accident year matures.

These analyses for each line of business take into account whether the period of time between the occurrence of the claim, the claim being notified to the syndicate and the claim being resolved is considered short or long for that line of business.

Large claims, that can distort the above analyses, may be extracted from the main data, analysed and projected separately.

In deriving a best estimate for the provision for claims outstanding, the syndicate considers the techniques that are most appropriate to the line of business and accident year.

As the syndicate commenced underwriting from 1 July 2010, more emphasis has been placed on technique (c). However, the derivation of expected loss ratios has benefited from the historical information available to the group from its other European operations.

*Unexpired risks*

At the statement of financial position date, an assessment is made of whether the cost of claims and expenses arising after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the provision for unearned premiums (net of any deferred acquisition costs) and any premiums still receivable under these contracts. In this event, a provision for unexpired risks is made after offsetting surpluses and deficits arising from lines of business which are managed together and after taking into account relevant future investment income.

Reinsurance ceded

Premiums ceded on outward reinsurance contracts are accounted for in the same accounting period as the premiums for the direct or reinsurance assumed business.

Reinsurance recoveries on gross claims paid are recognised based on amounts to be reimbursed under reinsurance contracts that provide for recoveries of contractually defined portions of gross claims paid by the syndicate. As at the statement of financial position date, reinsurance recoveries due on gross claims paid are shown in debtors arising out of reinsurance operations, less any receipts from those reinsurers as at that date and any amounts not considered to be collectable. Reinsurance recoveries on gross claims outstanding are estimated based on the amounts expected to be recovered on those gross claims under the programme of reinsurance contracts that have been arranged by the managing agent, less any amounts not considered to be recoverable.

## 1 Accounting policies (continued)

Deferred acquisition costs
Acquisition costs are the costs of acquiring new contracts or renewing existing contracts. These costs comprise commission and other related expenses. The determination of which other related expenses are eligible to be included as deferrable acquisition costs is based on an annual review of such expenses as part of the accounting estimation process. Acquisition costs eligible for deferral relating to premiums written that have yet to be earned at the statement of financial position date, are deferred and shown as deferred acquisition costs. Subsequently, these deferred acquisition costs are charged to the income statement as the unearned premiums to which the deferred costs relate become earned.

**Financial assets**

As permitted by FRS 102, the company has elected to apply the recognition and measurement provisions of IAS 39 'Financial instruments' (as adopted by the EU) to account for all of its financial instruments.

The syndicate classifies its financial assets as either available for sale financial assets or loans and receivables. All financial assets are initially recognised at fair value; their subsequent measurement is discussed below.

Investments
Investments in bonds, short term deposits and unit trusts that invest predominantly in bonds and short term deposits are classified as available for sale financial assets. Bond purchases and sales are recognised at trade date.

Available for sale financial assets are subsequently re-appraised to their fair value at each statement of financial position date. Where there is an active market for these investments, fair value is based upon quoted prices using bid price. Where there is not an active market, but other market data is observable for these investments, fair value is based upon that market data using expected bid price.

The fair value adjustments for these available for sale financial assets are shown as unrealised gains and losses in the statement of comprehensive income.

Impairment losses on available for sale financial assets are recognised in the income statement if there has been an event that has had a negative impact on the expected future cash flows of the asset and the fair value of the asset is below its amortised cost.

Other receivables
Other receivables are classified as loans and other receivables. Loans and other receivables are carried at amortised cost less any provision for impairment arising from uncollectibility.

**Investment return**

Investment return in the income statement comprises investment income and realised investment gains and losses, net of investment expenses, impairment losses and interest payable.

Investment income includes dividends, interest receivable and the amortisation of any discount or premium on available for sale financial assets.

Realised gains and losses on investments which arise on the disposal of investments represent the difference between net sales proceeds and the purchase, amortised or impaired cost of the investment.

**Foreign exchange**

Foreign currency transactions are converted to sterling using the rate for the month in which the transaction is recorded. Foreign exchange gains and losses arising from the settlement of transactions, and from the retranslation of monetary assets and liabilities to rates prevailing at the statement of financial position date, are recognised in the non-technical part of the income statement.

The Syndicate's functional currency and presentational currency is Sterling.

## 1 Accounting policies (continued)

**Taxation**

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic-rate income tax from syndicate 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 overseas tax, including United States Federal Income tax, payable by the members on underwriting results or investment earnings. Any payments on account made by the syndicate are included in the statement of financial position in other debtors.

**Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**Fair value of financial assets**

The syndicate uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) process in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

**Insurance contracts – Product classification**

Insurance contracts are those contracts when the Syndicate (the insurer/reinsurer) has accepted significant insurance risk from another party (the policyholder/reinsured) by agreeing to compensate the policyholder if a specified uncertain further event (the re/insured event) adversely affects the policyholders. As a general guideline, the Syndicate determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contacts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Any separable embedded derivatives within an insurance contract are separated and accounted for in accordance with IAS 39 unless the embedded derivative is itself an insurance contract (i.e. the derivative is not separated if the policyholder benefits from the derivative only when the insured event occurs).

## 2 Risk disclosures and capital management

### Risk disclosures

Risk management
The management of the syndicate's risks is governed by the risk management policy determined by the managing agent, which sets out responsibility and accountability for risk management within the syndicate. In line with Chubb's enterprise risk management programme, the syndicate has a defined appetite or tolerance in relation to key areas of risk. This is implemented via the syndicate's risk management framework, which embeds within the business a consistent approach to the identification, assessment, mitigation, monitoring and reporting of risk. The framework encompasses all of the significant classes of identified risk to which the syndicate is exposed, namely insurance, operational, credit, market, liquidity and group risk. Through the framework each of the specific risks faced by the syndicate is allocated to an individual for management. These individuals are responsible for ensuring the appropriate controls are in place to keep the risk within proportionate appetite or tolerance thresholds. The insurance, operational and group classes of risk are described below. Credit, market and liquidity risk are discussed in note 2 to the financial statements, which deals with financial instruments.

The risk management framework is designed to be a reliable source of risk quantification data to support the syndicate's assessment of its capital resource requirements.

Insurance risk
Insurance risk arises from unexpected significant adverse fluctuations in the frequency and/or severity of claims. Consistent with Chubb's operating philosophy, the managing agent mitigates this risk by maintaining underwriting discipline throughout the syndicate. This policy is supported by 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 managing agent has also set up a reinsurance programme for the syndicate to manage its insurance risk by providing cover against certain large exposures.

*Sensitivity to insurance risk*
As highlighted in note 1, there is inherent uncertainty in the ultimate cost of claims for which the company uses a variety of different actuarial techniques to estimate the provision for claims outstanding. If the net claims ratio for the year had been higher by 1%, then the loss would increase by £0.8m (2014: £0.6m) and members' balances would have been lower by £0.8m (2014: £0.6m). If the net claims ratio had been lower by 1%, then the profit would have been higher by £0.8m (2014: £0.6m) and members' balances would have been higher by £0.8m (2014: £0.6m).

*Concentrations of insurance risk*
70.0% of the 2015 net written premiums (2014: 61.9%) and 52.7% of the 2015 net claims outstanding (2014: 49.7%) related to Marine insurance, though within that class there were a number of different products, notably Excess of Loss, Cargo, Hull and Marine Liability.

## 2 Risk disclosure and capital management (continued)

**Risk disclosures (continued)**

Claims development table
The following table shows the estimates of net cumulative incurred claims, including both reported claims, IBNR and claims handling costs for each successive accident year at each reporting date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are retranslated to pound sterling at the rates of exchange that applied at 31 December 2015. The company has taken advantage of the transitional rules of FRS 103 that permit only five years of information to be disclosed upon adoption.

| Underwriting year | 2011 £000 | 2012 £000 | 2013 £000 | 2014 £000 | 2015 £000 | Total £000 |
|---|---|---|---|---|---|---|
| Estimate of cumulative net claims incurred: | | | | | | |
| At end of accident year | 29,297 | 35,025 | 25,471 | 26,854 | 38,016 | |
| One year later | 57,461 | 51,846 | 42,957 | 48,974 | - | |
| Two years later | 62,922 | 54,883 | 40,556 | - | - | |
| Three years later | 59,661 | 57,139 | - | - | - | |
| Four years later | 72,669 | - | - | - | - | |
| Current estimate of cumulative net claims incurred | 72,669 | 57,139 | 40,556 | 48,974 | 38,016 | 257,354 |
| Net cumulative payments to date | (51,429) | (34,804) | (21,310) | (15,231) | (5,762) | (128,536) |
| Net claims outstanding | 21,240 | 22,335 | 19,246 | 33,743 | 32,254 | 128,818 |
| Net claims outstanding in respect of prior accident years | | | | | | 5,478 |
| Total net claims outstanding per the statement of financial position | | | | | | 134,296 |

Claims outstanding maturity
The expected mean term of future claims payments arising from net claims outstanding at 31 December 2015 was 2.91 years (2014: 2.94 years).

## 2 Risk disclosure and capital management (continued)

**Risk disclosures (continued)**

*Reconciliations of changes in amounts arising from insurance contracts*
Reconciliations for the provision for unearned premiums, deferred acquisition costs and the provision for claims outstanding are shown below:

| Provision for unearned premiums | Gross £000 | Reinsurers' share £000 | Net £000 |
|---|---|---|---|
| At 1 January 2015 | 53,767 | 1,517 | 52,250 |
| Change in provision for unearned premiums | 6,785 | 621 | 6,164 |
| Foreign exchange | 120 | 50 | 69 |
| At 31 December 2015 | 60,672 | 2,188 | 58,483 |

| Provision for unearned premiums | Gross £000 | Reinsurers' share £000 | Net £000 |
|---|---|---|---|
| At 1 January 2014 | 40,180 | 1,549 | 38,631 |
| Change in provision for unearned premiums | 12,278 | (97) | 12,375 |
| Foreign exchange | 1,309 | 65 | 1,244 |
| At 31 December 2014 | 53,767 | 1,517 | 52,250 |

| Deferred acquisition costs | Gross £000 | Reinsurers' share £000 | Net £000 |
|---|---|---|---|
| At 1 January 2015 | 10,165 | 26 | 10,139 |
| Change in deferred acquisition costs | 1,200 | 26 | 1,174 |
| Foreign exchange | - | - | - |
| At 31 December 2015 | 11,365 | 52 | 11,313 |

| Deferred acquisition costs | Gross £000 | Reinsurers' share £000 | Net £000 |
|---|---|---|---|
| At 1 January 2014 | 7,295 | 14 | 7,281 |
| Change in deferred acquisition costs | 2,870 | 12 | 2,858 |
| Foreign exchange | - | - | - |
| At 31 December 2014 | 10,165 | 26 | 10,139 |

# Chubb Syndicate 1882

## Notes to the Financial Statements (continued) for the year ended 31 December 2015

### 2 Risk disclosures and capital management (continued)

**Risk disclosures (continued)**

Insurance risk (continued)

| Provision for claims outstanding | Gross £000 | Reinsurers' share £000 | Net £000 |
|---|---|---|---|
| At 1 January 2015 | 130,264 | 23,250 | 107,014 |
| Change in provision for claims outstanding | 16,250 | (11,374) | 27,624 |
| Foreign exchange | 93 | 435 | (342) |
| At 31 December 2015 | 146,607 | 12,311 | 134,296 |

| Provision for claims outstanding | Gross £000 | Reinsurers' share £000 | Net £000 |
|---|---|---|---|
| At 1 January 2014 | 136,236 | 29,130 | 107,106 |
| Change in provision for claims outstanding | (7,665) | (6,695) | (970) |
| Foreign exchange | 1,693 | 815 | 878 |
| At 31 December 2014 | 130,264 | 23,250 | 107,014 |

Credit risk

Credit risk arises when a third party, with whom a syndicate transacts business, defaults. The main credit risks that the syndicate faces are in respect of reinsurer default and the risk of a bond issuer or a bank defaulting. The syndicate mitigates these risks by selecting reinsurers, bond issuers and banks that are considered to have strong credit ratings and by setting limits on the level of exposures the syndicate has to any particular counterparty. The syndicate also faces the risk of intermediaries, such as brokers, defaulting. This risk is mitigated through credit assessment of intermediaries, review of intermediary credit limits and active aged debt management. An analysis of the major categories of assets with credit risk exposure (excluding premium debtors) and a rating of that exposure is shown below.

| At 31 December 2015 | AAA £000 | AA £000 | A £000 | BBB/BB £000 | Other / not rated £000 | Total £000 |
|---|---|---|---|---|---|---|
| Debt securities and other fixed income securities | 97,746 | - | - | - | - | 97,746 |
| Unit trusts | 5,855 | - | - | - | - | 5,855 |
| Deposits with credit institutions | 2,831 | 1,571 | 505 | 464 | 93 | 5,464 |
| Reinsurers' share of technical provisions | 6 | 148 | 12,040 | 25 | 92 | 12,311 |
| | 106,438 | 1,719 | 12,545 | 489 | 185 | 121,376 |

| At 31 December 2014 | AAA £000 | AA £000 | A £000 | BBB/BB £000 | Other / not rated £000 | Total £000 |
|---|---|---|---|---|---|---|
| Debt securities and other fixed income securities | 56,006 | 18,018 | - | - | - | 74,024 |
| Unit trusts | 3,880 | - | - | - | 3,513 | 7,393 |
| Deposits with credit institutions | - | - | 5,780 | - | - | 5,780 |
| Reinsurers' share of technical provisions | - | 9,466 | 13,441 | 2 | 341 | 23,250 |
| | 59,886 | 27,484 | 19,221 | 2 | 3,854 | 110,447 |

## Notes to the Financial Statements (continued)
## for the year ended 31 December 2015

For insurance receivables an aged analysis is shown below. Amounts overdue were not impaired at the end of the year.

| At 31 December 2015 | Not yet overdue £000 | 1 day to 3 months overdue £000 | Over 3 months overdue £000 | Total £000 |
|---|---|---|---|---|
| Debtors arising out of direct insurance and reinsurance operations | 51,823 | 5,878 | 7,150 | 64,851 |

| At 31 December 2014 | Not yet overdue £000 | 1 day to 3 months overdue £000 | Over 3 months overdue £000 | Total £000 |
|---|---|---|---|---|
| Debtors arising out of direct insurance and reinsurance operations | 47,777 | 10,372 | 2,365 | 60,514 |

## 2 Risk disclosure and capital management (continued)

**Risk disclosures (continued)**

Market risk
Market risk on financial instruments arises from unexpected fluctuations in the fair value or future cash flows of assets in the investment portfolio, be that from changes in interest rate risk, currency risk or other price risk.

The managing agent mitigates the syndicate's market risk by taking a conservative approach to its investments. At 31 December 2015, 94.3% (2014: 84.9%) of its investment portfolio was in government, government-backed or supra-national bonds, and 5.7% (2014: 15.1%) was in short-term deposits and unit trusts investing mainly in short term deposits. The corporate member, Chubb Capital Ltd, follows a similarly conservative policy in managing the Funds at Lloyd's available to the syndicate. At 31 December 2015, 98.1% (2014: 91.4%) of this portfolio comprised government and high quality supra-national bonds. Government bonds were concentrated towards EU governments rated AA or higher. At 31 December 2015, these represented 75.2% (2014: 77.0%) of all government bonds in the syndicate's portfolio and 97.4% (2014: 91.8%) held in Funds at Lloyd's. The function of Funds at Lloyd's is explained in note 20.

The bonds bear interest rate risk whereby changes in market interest rates can affect the market value of the bond portfolio and consequently the net assets of the syndicate as well as the value of the Funds at Lloyd's available to the syndicate. The syndicate mitigates this risk by investing in relatively short term bonds which bear low interest rate risk and a similar approach is followed by Chubb Capital Ltd with regard to the bonds held in the Fund's at Lloyd's. At 31 December 2015, the duration of the syndicate's bond portfolio was 2.3 years (2014: 2.3 years). The equivalent figure for the Fund's at Lloyd's was 2.9 years (2014: 2.4 years). As an indication of interest rate sensitivity, if market interest rates had risen by 50 basis points, the fair value of the syndicate's bonds may have been expected, as an estimate, to decrease by £1.2m (2014: £0.9m). The equivalent figure for the bonds held in the Funds at Lloyd's was an expected decrease in value of £1.5m (2014: £1.3m).

Currency risk can arise where assets and liabilities are expected to be settled in differing currencies. The syndicate largely mitigates this risk by matching assets with liabilities in the same currency subject to any regulatory funding requirements. In particular, the syndicate has significant amounts of US Dollar, Euro and Australian Dollar transactions. If these currencies had weakened by 5% against Sterling, then the syndicate's net liabilities would have been reduced by £0.8m (2014: £0.8m).

Liquidity risk
Liquidity risk relates to the risk that, irrespective of a syndicate's solvency position, a syndicate may encounter difficulty in finding sufficient available financial assets or cash to enable it to meet its financial obligations as and when they fall due. The syndicate mitigates this risk by maintaining suitable levels of readily realisable assets. At 31 December 2015 94.3% (2014: 90.9%), of the syndicate's investment portfolio was held in bonds and short-term investments, all of which are readily realisable.

Operational risk

Operational risk can arise where the syndicate suffers a loss as a result of an inadequate or failed internal process. This could be as a result of people's actions, system processes or external events. The managing agent mitigates the syndicate's operational risk by ensuring that material operational risks are identified and controls are adopted to mitigate these risks.

Group risk

Group risk is defined as detriment to the syndicate arising from actions taken by the ultimate parent company of the managing agent or from the actions of another subsidiary of that ultimate parent. Group risk is inherent in any multinational organisation and primarily arises from inconsistencies between the laws and regulations to which the various members of the organisation are subject. In particular, the syndicate and managing agent are subject to the laws of the countries in which it and Lloyd's operate, while Chubb Limited (previously The Chubb Corporation) and its US Subsidiaries are subject to the laws and regulations of the United States of America (including states and territories thereof). The managing agent mitigates this risk through open communication in appropriate committees and other forums through which decision makers are advised of the potential impact that group policy and decisions may have, and how this may be addressed.

### 2 Risk disclosures and capital management (continued)

**Capital management**

The managing agent is committed to ensuring that the syndicate maintains prudent levels of capital resources to support the business operations and initiatives and the risks which arise from them. These resources provide protection for policyholders, and other interested parties. They consist of the net admissible assets of the syndicate as well as Funds at Lloyd's provided by Chubb Insurance Company of Europe SE, a fellow Chubb group company. The function of Funds at Lloyd's is explained in note 20 to the annual accounts.

Policyholders, reinsurers and other interested parties consider the rating of an insurer by independent rating agencies as important in assessing the financial strength of that insurer. Lloyd's currently enjoys an 'A' rating from AM Best and 'A+' ratings from Fitch Ratings and Standard & Poor's. The managing agent monitors the capital resources available to the syndicate to ensure they are sufficient in contributing to this financial rating. Since commencement of underwriting and subsequent to the statement of financial position date, the capital resources available to the syndicate were sufficient to meet the levels required by Lloyd's.

From 1 January 2016, with the European Union's Solvency II directive coming into force, this assessment is performed using Solvency II methodology. This methodology provides rules and guidance for both the calculation of the company's regulatory capital resources, known as eligible own funds, and the calculation of the company's regulatory capital requirements, known as the Solvency Capital Requirement ("SCR") and Minimum Capital Requirement ("MCR"). Eligible own funds are calculated using an economic, market-consistent statement of financial position less deductions for any ineligible assets. The SCR provides a target capital level for which an insurer should aim, whereas the MCR, which is often a lower figure, is an absolute minimum measure that, if breached, would trigger serious regulatory intervention. The SCR is designed to calculate the capital required to ensure that an insurer will be able to meet its obligations over the next 12 months with a probability of at least 99.5%. The company has chosen to calculate the SCR using the Standard Formula methodology prescribed in the Solvency II Technical Specifications. The company aims to maintain eligible own funds that allows it to meet both its SCR and MCR. As part of the dry-run preparations the company has been undertaking, the company has calculated its eligible own funds as at 31 December 2015 to be in excess of both its SCR and MCR.

# Chubb Syndicate 1882

## Notes to the Financial Statements (continued)
## for the year ended 31 December 2015

### 3 Business analysis

#### Insurance class analysis as required by companies' legislation

| 2015 | Gross premium written £000 | Gross premium earned £000 | Gross claims incurred £000 | Gross operating expenses £000 | Outwards reinsurance balance £000 |
|---|---|---|---|---|---|
| Direct insurance: | | | | | |
| Accident and Health | (75) | 250 | 125 | 58 | - |
| Marine, aviation and transport | 25,452 | 23,647 | 10,319 | 8,443 | (3,816) |
| Fire & other damage to property | 8,555 | 6,638 | 7,573 | 2,622 | (1,184) |
| Third-party liability | 15,099 | 14,343 | 14,510 | 3,913 | (3,755) |
| | 49,031 | 44,878 | 32,527 | 15,036 | (8,755) |
| Reinsurance acceptances | 49,244 | 46,612 | 30,209 | 14,614 | (8,732) |
| | 98,275 | 91,490 | 62,736 | 29,650 | (17,487) |

| 2014 | Gross premium written £000 | Gross premium earned £000 | Gross claims incurred £000 | Gross operating expenses £000 | Outwards reinsurance balance £000 |
|---|---|---|---|---|---|
| Direct insurance: | 650 | 14 | 7 | 185 | - |
| Marine, aviation and transport | 23,234 | 18,506 | 12,750 | 6,444 | (72) |
| Fire & other damage to property | 5,239 | 4,527 | 4,067 | 1,462 | 59 |
| Third-party liability | 14,353 | 12,372 | 11,661 | 2,952 | (1,981) |
| | 43,476 | 35,419 | 28,485 | 11,043 | (1,994) |
| Reinsurance acceptances | 44,607 | 40,386 | 23,163 | 10,993 | 575 |
| | 88,083 | 75,805 | 51,648 | 22,036 | (1,419) |

#### Analysis of gross premium written by destination

| | 2015 £000 | 2014 £000 |
|---|---|---|
| United Kingdom | 35,550 | 30,156 |
| Other EEA countries | 9,377 | 9,758 |
| Other countries | 53,348 | 48,169 |
| | 98,275 | 88,083 |

The syndicate's gross premium written, results and net assets by origin all arose from its operations at Lloyd's in the United Kingdom.

# Chubb Syndicate 1882

## Notes to the Financial Statements (continued)
## for the year ended 31 December 2015

### 4 Claims incurred, net of reinsurance

Claims incurred includes the following calendar year movements arising from favourable / (unfavourable) developments in the prior years' net provision for claims outstanding:

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Direct insurance: | | |
| Marine, aviation and transport | 3,343 | 2,239 |
| Miscellaneous | - | - |
| Fire & other damage to property | (2,407) | (967) |
| Third-party liability | (3,017) | 3,365 |
| | (2,081) | 4,637 |
| Reinsurance acceptances | 1,850 | 2,653 |
| | (231) | 7,290 |

The Marine business saw favourable prior period development with the Fire and other damage to property and third party liability lines seeing unfavourable development.

### 5 Net operating expenses

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Commission | 15,766 | 14,171 |
| Other acquisition costs | 2,326 | 1,657 |
| Acquisition costs | 18,092 | 15,828 |
| Change in deferred acquisition costs | (1,200) | (2,870) |
| Administrative expenses | 11,545 | 7,868 |
| Gross operating expenses | 28,437 | 20,826 |
| Reinsurance commissions and profit participation | (247) | (440) |
| | 28,190 | 20,386 |
| Member's expenses | 1,213 | 1,210 |
| **Net operating expenses** | **29,403** | **21,596** |

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Net operating expenses before change in deferred acquisition costs | 30,577 | 24,454 |
| Change in deferred acquisition costs, net of reinsurance | (1,174) | (2,858) |
| **Net operating expenses** | **29,403** | **21,596** |

## 6 Employees and directors

**Employees**
Neither the syndicate nor the managing agent of the syndicate employ any staff. During the year, Chubb Europe Services Ltd, a fellow group company, provided staff support to both the syndicate and managing agent of the syndicate under a Group Resources Agreement.

**Emoluments of the managing agent's directors**
The directors of the managing agent of the syndicate did not receive emoluments from the managing agent itself. The directors, as employees of Chubb Europe Services Ltd, did receive emoluments for the services they provided to support both the syndicate and the managing agent of the syndicate. The figures below are in respect of that element of their emoluments in Chubb Europe Services Ltd relating solely to their involvement in the services provided to the syndicate.

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Aggregate remuneration | 863 | 785 |
| Aggregate amounts receivable under long-term incentive schemes | 200 | 80 |
| Company pension contributions to money purchase schemes | 59 | 43 |
| **Total** | **1,122** | **908** |

During the year, 3 directors (2014: 4 directors) accrued benefits under defined contribution schemes and 2 directors (2014: 3 directors) accrued benefits under defined benefit schemes.

| **Active Underwriter** | 2015 £000 | 2014 £000 |
|---|---|---|
| Aggregate remuneration | 213 | 227 |
| Aggregate amounts receivable under long-term incentive schemes | 41 | 16 |
| Company pension contributions to money purchase schemes | - | - |
| **Total** | **254** | **243** |

At 31 December 2015, the Active Underwriter accrued a pension of £25,311 (2014: £22,566) under a defined benefit pension scheme.

## 7 Auditors' remuneration

| | 2015 £000 | 2014 £000 |
|---|---|---|
| Auditing the accounts of the syndicate | 96 | 85 |
| Audit related assurance services | 82 | 86 |
| Valuation and actuarial services | 58 | 58 |
| **Total** | **236** | **229** |

## 8 Investment return

| **Investment return on available for sale financial assets** | **2015 £000** | **2014 £000** |
|---|---|---|
| Investment income – interest and other similar income | | |
| Available for sale financial assets | 1,278 | 850 |
| **Total** | **1,278** | **850** |
| Investment income – realised (losses)/gains | | |
| Available for sale financial assets | (6) | 1 |
| **Total** | (6) | **1** |
| **Total investment income** | **1,272** | **851** |
| Investment expenses and charges | (70) | (35) |
| **Investment return in the income statement** | **1,202** | **816** |
| Unrealised (losses)/gains on available for sale financial assets (included in the statement of total recognised gains and losses) | (351) | 538 |
| **Total investment return** | **851** | **1,354** |

| **Average level of investments during the year by currency** | **2015 £000** | **2014 £000** |
|---|---|---|
| Sterling | 32,523 | 19,488 |
| United States dollars | 55,445 | 45,367 |
| Euros | 6,382 | 6,092 |
| Canadian dollars | 1,874 | 1,716 |
| Japanese yen | 851 | 1,400 |
| | 97,075 | 74,063 |

## 9 Other income/(expense)

| | **2015 £000** | **2014 £000** |
|---|---|---|
| Foreign currency exchange gains recognised in the income statement | 1,455 | (549) |

## 10 Investments

| | Fair value | | Cost | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Analysis by accounting classification** | £000 | £000 | £000 | £000 |
| Available for sale financial assets | 103,601 | 81,417 | 103,443 | 81,487 |

| | Fair value | | Cost | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Analysis by fair value method, fair value based on:** | £000 | £000 | £000 | £000 |
| Level 2 – observable market data other than quoted prices in active markets: | | | | |
| Available for sale financial assets | 103,601 | 81,417 | 103,443 | 81,487 |

The syndicate has taken the view that all bonds, government and corporate, are Level 2 as the syndicate's fair values are based upon consensus pricing from multiple inputs rather than quoted prices.

| | Fair value | | Cost | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Analysis by legal classification** | £000 | £000 | £000 | £000 |
| Shares and other variable-yield securities and unit trusts: Listed | 5,855 | 7,393 | 5,855 | 7,393 |
| Debt securities and other fixed income securities: Listed | 97,746 | 74,024 | 97,588 | 74,094 |
| Deposits with credit institutions | - | - | - | - |
| **Total** | **103,601** | **81,417** | **103,443** | **81,487** |

In 2015, the syndicate correctly included its interest bearing cash accounts within 'cash at bank and in hand'. In 2014, these amounts totalling £5.7m had been incorrectly included in 'deposits with credit institutions' within financial investments. The 2014 balances have been restated to reflect this classification.

## 11 Debtors arising out of direct insurance operations

| | 2015 | 2014 |
|---|---|---|
| | £000 | £000 |
| Intermediaries | 32,572 | 28,581 |

## Debtors arising out of reinsurance operations

| | 2015 | 2014 |
|---|---|---|
| | £000 | £000 |
| Intermediaries | 32,279 | 31,933 |

## 12 Other assets

Other assets comprise funds lodged as overseas deposits as a condition of conducting underwriting business in certain countries. These deposits are held under Lloyd's premium trust deed arrangements and are administered by Lloyd's.

## 13 Reconciliation of members' balances

| | Fair value reserve | Other members' balances | Total members' balances |
|---|---|---|---|
| | £000 | £000 | £000 |
| At 1 January 2015 | 507 | (14,238) | (13,731) |
| Profit for the year | - | (15,726) | (15,726) |
| Members' contributions | - | 7,955 | 7,955 |
| Unrealised gains/(losses) | (351) | - | (351) |
| At 31 December 2015 | 156 | (22,009) | (21,853) |

### 14 Other creditors including taxation and social security

| | 2015<br>£000 | 2014<br>£000 |
|---|---|---|
| Amounts due to group undertakings | 3,452 | 1,998 |

### 15 Accruals and deferred income

| | 2015<br>£000 | 2014<br>£000 |
|---|---|---|
| Other accruals and deferred income | 2,587 | 1,950 |

### 16 Cash and cash equivalents

| | 2015<br>£000 | 2014<br>£000 |
|---|---|---|
| Cash at bank and in hand | 7,018 | 7,025 |

In 2015, the syndicate correctly included its interest bearing cash accounts within 'cash at bank and in hand'. In 2014, these amounts totalling £5.7m had been incorrectly included in 'deposits with credit institutions' within financial investments. The 2014 balances have been restated to reflect this classification.

### 17 Related party transactions

During the year, Chubb Europe Services Ltd, a fellow Chubb group company, provided staff and other related support services to the syndicate. The costs incurred for these staff and other related support services under this agreement totalled £9.1m for the year (2014: £5.7m arising from similar agreements with fellow Chubb group companies) of which, at 31 December 2015, the amount outstanding was £3.4m (2014: £2.0m).

The syndicate's outwards reinsurance programme includes reinsurance with the United Kingdom branch of Federal Insurance Company, a fellow Chubb group company. During the year, the syndicate ceded reinsurance premiums of £2.8m (2014: £1.1m) to that branch. At the statement of financial position date, there were £0.0m of reported claim recoveries due from that branch (2014: £2.0m).

Also, during the year, the syndicate paid £0.5m (2014: £0.4m) managing agency fees, as per the managing agency agreement, to Chubb Managing Agent Ltd. No profit commission (2014: £Nil) was charged by Chubb Managing Agent Ltd to the syndicate due to the syndicate's losses in previous years. At 31 December 2015 the amount outstanding was £Nil (2014: £Nil).

The Funds at Lloyd's for Chubb Syndicate 1882 have been provided on behalf of Chubb Capital Ltd by Chubb Insurance Company of Europe SE as detailed in note 20.

### 18 Parent undertaking and controlling party of the managing agent

The immediate parent company of the managing agent of the syndicate is Chubb Insurance Investment Holdings Ltd, a company registered in England and Wales.

Up to 14 January 2016, the ultimate parent company and ultimate controlling party was The Chubb Corporation, a company registered in the United States of America. Copies of The Chubb Corporation's consolidated accounts may be obtained from The Chubb Corporation, 15 Mountain View Road, PO Box 1615, Warren, New Jersey 07061-1615.

After the completion of the merger of The Chubb Corporation on 14 January 2016, the ultimate parent company and ultimate controlling party became Chubb Limited, a company registered in Switzerland. Copies of Chubb Limited's consolidated accounts may be obtained from Investor Relations at Chubb's executive offices at 17 Woodbourne Avenue, Hamilton HM08, Bermuda.

## Notes to the Financial Statements (continued)
## for the year ended 31 December 2015

### 19 Transition to FRS 102 and FRS 103

The company transitioned to FRS 102 and FRS 103 from previously extant UK GAAP as at 1 January 2014 and there were no impacts on profit or net assets in the financial statements due to this transition.

### 20 Funds at Lloyd's

Every member at Lloyd's, including Chubb Capital Ltd, 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. The Funds at Lloyd's for Chubb Syndicate 1882 have been provided on behalf of Chubb Capital Ltd by Chubb Insurance Company of Europe SE, a fellow Chubb group company. These amounted to £101.8m as at 31 December 2015 (2014: £110.7m).

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on 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 syndicate for the corporate member and the assessment of the reserving risk in respect of that business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these annual accounts by way of such capital resources. However, the managing agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses.

### 21 ACE merger

On 30 June 2015, The Chubb Corporation entered into an Agreement and Plan of Merger ("the Merger Agreement") with ACE Limited ("ACE"), a company organised under the laws of Switzerland, and William Investment Holdings Corporation, a New Jersey corporation and a wholly owned indirect subsidiary of ACE. The merger pursuant to the Merger Agreement was completed on 14 January 2016 and ACE Limited was renamed Chubb Limited.

The merger will affect the company's activities as ACE and Chubb look to integrate both their European operations ("the Integration"). Notwithstanding the possible outcomes of the Integration which are not yet known, the directors have prepared these financial statements on a going concern basis.