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Annual Report and Financial Statements

Syndicate 1882

31 December 2017

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President's Report

Syndicate 1882 formally ceased to trade on 31 December 2016, with elements of the portfolio being renewed into Syndicate 2488 with effect from 1 January 2017. It is anticipated that Syndicate 1882's 2016 & prior years of account will be reinsured to close into Syndicate 2488 in due course.

The syndicate produced a total recognised loss of £8.6 million for 2017 (2016: £12.1 million loss). Details relating to financial performance can be found in the Managing Agent's Report.

I would like to take this opportunity to acknowledge the dedication and commitment of all my Chubb colleagues who have been engaged in the management and operations of Syndicate 1882.

A J Kendrick

President
19 March 2018

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”). 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.

Consolidation of Chubb’s Lloyd’s Entities

Chubb operated two Lloyd’s syndicates during 2017: Syndicate 2488 and Syndicate 1882, both managed by CUAL. CUAL assumed the management of Syndicate 1882 from Chubb Managing Agency Limited (“CMAL”) through a Deed of Novation of the Managing Agent Agreement on 30 September 2016. The transfer of assets and business from CMAL to CUAL was effected by a Business Transfer Agreement on 12 October 2016, with the renewal rights to Syndicate 1882’s business transferred to Syndicate 2488’s capital provider, Chubb Capital I Ltd, through a Renewal Rights Transfer Agreement also on 12 October 2016.

Syndicate 1882 formally ceased to trade on 31 December 2016.

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 1882

The principal activity of the syndicate was the underwriting of general lines of insurance focused towards niche products and customer segments. The syndicate had a capacity of £93.0m for 2016 (2015: £93.0m) and ceased to trade on 31 December 2016.

Investment Strategy

Syndicate 1882 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 1882 maintains five active investment grade fixed income portfolios, held in US dollars, sterling and euros. In addition, the syndicate maintains US dollar and sterling investment grade portfolios in respect of the Funds in Syndicate. The approximate currency split of the syndicate investment portfolios, including Funds in Syndicate, is US dollars 53%, sterling 45%, and euros 2%. Syndicate 1882 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 1882's annual financial statements is in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 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 1882 is a fully aligned syndicate, with 100% of the underwriting capital provided by the Chubb corporate capital vehicle from inception. The Chubb corporate capital vehicle agreed to waive its right to syndicate underwriting accounts in respect of Syndicate 1882'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's business. These KPIs, together with a variety of other performance indicators including production volumes, retention ratios, price monitoring, loss and expense analyses, and operating metrics are reviewed regularly by management.

£ million	**2017**	**2016**
Gross premiums written (1)	9.3	62.4
Net premiums written (1)	5.2	49.3
Combined ratio % (2)	129.7%	113.7%
Loss for financial year	(10.1)	(10.1)

1. *Premiums written in 2017 relate to adjustments made in the year to the premium for contracts entered into prior to 2017*
2. *Ratio of net claims incurred, commission and expenses to net earned premiums*

Results & Performance

The syndicate produced a loss of £10.1 million (2016: £10.1 million loss) for the year ended 31 December 2017. A summary of the reported financial results is shown in the table below.

£ million	**2017**	**2016**
Gross premiums written	9.3	62.4
Net premiums written	5.2	49.3
Net premiums earned	35.8	74.3
Incurred losses	(35.4)	(63.8)
Operating expenses	(11.0)	(20.6)
Underwriting loss	**(10.6)**	**(10.1)**
Investment return	3.4	2.3
Other income / (expense)	(2.9)	(2.3)
Loss for financial year	(10.1)	(10.1)
Combined ratio %	**129.7%**	**113.7%**

Drivers of Underwriting Result

The syndicate focused on writing third party liability, transport (cargo) and marine business. Both direct and reinsurance assumed marine business was written. Third-party liability business comprises errors & omissions insurance and directors & officers insurance.

The syndicate did not underwrite in 2017. Gross written premiums reported for 2017 relate to adjustments made during 2017 to the premium for contracts entered into in prior years. Risks previously written by the syndicate were either renewed into 2488 or non-renewed, reflecting adherence to CUAL's strict underwriting criteria against a backdrop of continued competitive market conditions.

The syndicate purchased reinsurance to mitigate the impact of major events and an undue frequency of smaller losses. In 2016, post-acquisition, additional reinsurance protection was purchased to bring retentions and accumulations more in-line with other operating companies within the Chubb Group.

The net loss ratio was high at 99.0% (2016: 85.9%) driven by challenging market conditions across all of 1882's classes of business.

Prior period reserve deterioration was £10.8 million (2016: deterioration of £7.5 million) due to adverse experience across property, marine and third party liability.

Operating expenses constitute acquisition costs, Lloyd's subscriptions, Central Fund contributions and general administrative expenses (as part of the managing agency fee). Expenses reduced significantly in comparison to the prior year mostly because of decreasing earned premium but also from the synergies of running Syndicate 1882 alongside Syndicate 2488 and a general reduction in activity since the syndicate ceased underwriting.

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.

Investment Performance

Economic activity in 2017 provided a neutral environment for fixed income investors. Yields on intermediate sovereign bonds rose modestly during the year for sterling, euro and US dollar debt while yields on corporate investment grade bonds remained largely unchanged in the year. For Syndicate 1882 this resulted in total returns of 1.3% and nil for sterling and euro portfolios respectively. In the US, total returns of 2.4% were generated during the year reflecting significant excess performance generated by the manager through activity strategy.

Overall, Syndicate 1882 generated a total return of 2.0% on balances available for investment during 2017.

Cash Flow

Total syndicate cash flow derived from operating activities in the year was negative. This is consistent with the syndicate now being in run-off. The syndicate retains sufficient liquid assets, including members' Funds in Syndicate to settle claims in the future.

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 Solvency Capital Requirement, 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, this remains broadly unchanged compared to the 2017 requirement.

The syndicate maintained capital throughout 2017 in line with both the Solvency Capital Requirement and the Lloyd's Economic Capital Requirement.

Syndicate 1882 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 £135.4 million (2016: £134.7 million).

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 the 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 in 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 14.

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. The Board and its Committees have also reviewed the progress of the run-off syndicate 1882 during the year.

The Board has delegated a number of matters to committees. Each of the following committees has formal terms of reference and matters reserved to it. Each, with the exception of the Executive Committee, includes non-executive directors in its membership, and 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 company operates within an established framework of effective systems of internal control, including the approval of the overall risk tolerance for the organisation and compliance with policies, procedures, internal controls and regulatory requirements.

The Board's oversight of the RMF is effected through the various committees and functions with particular purposes and direction around the monitoring of risk tolerances and oversight of internal controls and compliance procedures. 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 note 3 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 in which the US GAAP financial statements are derived 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 they fail 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 almost £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 company 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 andwas 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 company'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, to prepare syndicate annual accounts for Syndicate 1882 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 Auditors

The 2008 Lloyd's Regulations require that the auditors of the syndicate annual accounts be appointed by the members of the syndicate, initially for the syndicate annual accounts for the 2016 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.

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 1882

Report on the syndicate annual accounts

Opinion

In our opinion, Syndicate 1882'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 loss 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 Statement of Financial Position as at 31 December 2017,
- the Income Statement 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 15, 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

Income Statement
for the year ended 31 December 2017

Technical account – general business	Notes	2017 £000	2016 £000
Earned premiums, net of reinsurance			
Gross premiums written	4	9,252	62,375
Outwards reinsurance premiums		(4,096)	(13,104)
Net premiums written		5,156	49,271
Change in the gross provision for unearned premiums		31,568	25,349
Change in the provision for unearned premiums, reinsurers' share		(922)	(330)
Change in unearned premiums, net of reinsurance		30,646	25,019
Earned premiums, net of reinsurance		35,802	74,290
Allocated investment return transferred from the non-technical account		1,607	1,730
Total technical income		37,409	76,020
Claims incurred, net of reinsurance			
Claims paid, gross amount	4	(49,925)	(49,432)
Claims paid, reinsurers' share		1,502	1,392
Net claims paid		(48,423)	(48,040)
Change in the provision for claims, gross amount	4	17,220	(19,895)
Change in the provision for claims, reinsurers' share		(4,231)	4,121
Change in the provision for claims, net of reinsurance		12,989	(15,774)
Claims incurred, net of reinsurance		(35,434)	(63,814)
Net operating expenses	4, 6	(10,994)	(20,635)
Total technical charges		(46,428)	(84,449)
Balance on the general business technical account		(9,019)	(8,429)

Income Statement
for the year ended 31 December 2017

Non-technical account	Notes	2017 £000	2016 £000
Balance on the general business technical account		(9,019)	(8,429)
Investment return			
Investment income	9	4,205	2,714
Investment expenses and charges	9	(797)	(384)
Allocated investment return transferred to general business technical account	9	(1,607)	(1,730)
Investment return	9	1,801	600
Loss on exchange		(2,909)	(2,309)
Loss for the financial year		(10,127)	(10,138)

The above results are all derived from continuing operations.

Statement of Comprehensive Income
for the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Loss for the financial year		(10,127)	(10,138)
Other recognised gains and losses			
Unrealised gain/(losses) on investments	9	1,475	(2,016)
Total recognised losses relating to the year		(8,652)	(12,154)

Statement of Changes in Members' Balances for the year ended 31 December 2017

	Members' Balances
	£000
At 1 January 2016	(27,622)
Loss for the financial year	(10,138)
Receipt of loss from members' personal reserve fund	5,926
Net transfer into members' balances designated as Funds in Syndicate	136,060
Other recognised gains and (losses)	(2,016)
At 31 December 2016	102,210
Loss for the financial year	(10,127)
Receipt of loss from members' personal reserve fund	3,847
Net transfer into members' balances designated as Funds in Syndicate	1,966
Other recognised gains and (losses)	1,475
At 31 December 2017	99,371

Statement of Financial Position
as at 31 December 2017

Assets	Notes	2017 £000	2016 (restated) £000
Investments			
Other financial investments	10	240,142	270,109
Reinsurers' share of technical provisions			
Provision for unearned premiums		1,747	2,700
Claims outstanding		13,429	18,759
		15,176	21,459
Debtors			
Debtors arising out of direct insurance operations		9,150	24,041
Debtors arising out of reinsurance operations		7,714	28,306
Other debtors	11	2,525	845
		19,389	53,192
Other assets			
Cash at bank and in hand	14	14,326	7,878
Other assets		-	3
		14,326	7881
Prepayments and accrued income			
Accrued interest and rent		1,812	2,240
Deferred acquisition costs		1,592	10,687
Other prepayments and accrued income		478	56
		3,882	12,983
Total assets		292,915	365,624

Statement of Financial Position
as at 31 December 2017

Liabilities	Notes	2017 £000	2016 (restated) £000
Capital and reserves			
Members' balances		99,371	102,210
Technical provisions			
Provision for unearned premiums		15,667	47,941
Claims outstanding		164,182	188,563
		179,849	236,504
Creditors			
Creditors arising out of direct insurance operations		-	3,574
Creditors arising out of reinsurance operations		3,847	14,663
Bank loans and overdrafts	14	4,552	-
Other creditors including taxation and social security	13	4,787	6,749
		13,186	24,986
Accruals and deferred income		509	1,924
Total liabilities		292,915	365,624

The syndicate annual accounts on pages 19 to 43 were approved by the board of Chubb Underwriting Agencies Ltd on the 19 March 2018 and were signed on its behalf by:

M Hammond

Director
19 March 2018

Statement of Cash Flows
for the year ended 31 December 2017

	Notes	2017 £000	2016 (restated) £000
Loss on ordinary activities		(10,127)	(10,138)
(Decrease)/increase in gross technical provisions		(56,655)	25,692
Decrease/ (increase) in reinsurers' share of gross technical provisions		6,284	(6,508)
Decrease in debtors		42,908	7,847
(Decrease)/increase in creditors		(17,767)	5,040
Investment return		(3,408)	(2,329)
Other		3,851	(12,840)
Net cash (outflows)/inflows from operating activities		(34,914)	6,764
Investing activities			
Investment income received		3,408	2,329
Purchase of debt and equity investments		(169,206)	(189,190)
Sale of debt and equity investment		189,222	45,912
Other		7,548	(7,772)
Net cash inflows/(outflows) from investing activities		30,972	(148,721)
Financing activities			
Receipt from members' personal reserve fund		5,813	141,986
Net cash inflows from financing activities		5,813	141,986
Increase in cash and cash equivalents		1,871	29
Cash and cash equivalents at 1 January		7,878	7,018
Exchange differences on opening cash		25	831
Cash and cash equivalents at 31 December	14	9,774	7,878
Cash at bank and in hand		14,326	7,878
Overdraft		(4,552)	-
Cash and cash equivalents at 31 December	14	9,774	7,878

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 12. Given that Syndicate 1882 is a fully aligned syndicate, with 100% of the underwriting capacity provided by a Chubb corporate capital vehicle, these accounts are able to disclose the total FAL supporting the operations of the syndicate (see note 16).

The syndicate annual accounts have been prepared in accordance with the provisions of Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410"), Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Lloyd's Regulations") and applicable accounting standards in the United Kingdom, including Financial Reporting Standard FRS 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard FRS 103, "Insurance Contracts" ("FRS 103").

These annual accounts have been prepared on a going concern basis. The principal accounting policies, which are set out below, have been applied consistently to all the years presented unless otherwise stated.

The Syndicate's functional currency and 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 loss for the financial year. Where an amount has been restated, that is indicated in the note that includes that amount.

The main restatements relate to reclassifications of financial investments within the balance sheet and a re-presentation of amounts within the cash flow statement.

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 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; 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

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. 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 market value, as notified by Lloyd's.

Investments – fair value through statement of comprehensive income

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.

2 ACCOUNTING POLICIES – continued

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 syndicate will not be able to collect the amounts receivable according to the original terms of the receivable.

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 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.

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.

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

Syndicate 1882 regulatory capital requirement is 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 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. 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 loss for the financial year would have been increased by £0.4 million (2016: £0.7 million) and members' balances would have been lower by £0.4 million (2016: £0.7 million). If the net claims ratio had been lower by 1%, then the loss for the financial year would have been lower by £0.4 million (2016: £0.7 million) and members' balances would have been higher by £0.4 million (2016: £0.7 million).

Concentrations of insurance risk

68.4% of the 2017 net written premiums (2016: 80.1%) and 37.1% of the 2017 net claims incurred (2016: 58.6%) related to Marine insurance, though within that class there were a number of different products, notably Excess of Loss, Cargo, Hull and Marine Liability.

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 prior and unearned 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 Chubb Group Chief Investment Officer. The Committee also includes the Chief Executive Officer, Chief Financial Officer and Treasurer of the managing agent.

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, illiquid debt, high yield and emerging market instruments. The policy stipulates a target range of between 80% and 100% for investment grade fixed income securities and a range of between 0% and 20% for alternative asset classes. The syndicate held no alternative assets 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.

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

3 CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

within the fixed interest portfolio of £234.6 million with external managers as at 31 December 2017 (2016: £256.3 million), an increase of 50 basis points in interest yields across all portfolios consecutively (principally sterling, euro and US dollars) has been calculated. Such an increase would decrease the market value of the investment portfolio and lead to a decrease in the total investment return of £4.0 million (2016: £4.2 million) and accordingly decrease total shareholders' funds by £4.0 million (2016: £4.2 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 Euros and US dollars. The syndicate's policy seeks to ensure that a currency match of assets and liabilities is maintained. 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. Balance sheet components (monetary assets and liabilities) are translated to sterling using the rates of exchange at year end.

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 and Euro transactions. If the US Dollar and Euro had weakened by 5% against Sterling, then the syndicate's net assets would have been reduced by £1.8 million (2016: £1.0 million).

Liquidity risk

Liquidity risk is the risk that the syndicate is unable to meet its obligations as they fall due. To counter this risk, the syndicate aims to maintain funds in the form of cash or cash equivalents to meet known cash flows. In addition, the asset allocation policy and the investment guidelines are structured in order to ensure that funds are predominantly held in investment grade fixed income securities, the proceeds of which are readily realisable.

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

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 £4.6 million at year end (2016: £Nil).

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

3 CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

The table below shows the contractual maturity for financial liabilities.

£000 31 December 2017	No Stated Maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
Claims outstanding	-	52,543	61,779	27,267	22,593	164,182
Creditors	-	13,186	-	-	-	13,186
Total	-	65,729	61,779	27,267	22,593	177,368

£000 31 December 2016	No Stated Maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
Claims outstanding	-	30,676	34,765	14,955	108,167	188,563
Creditors	-	24,986	-	-	-	24,986
Total	-	55,662	34,765	14,955	108,167	213,549

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 Standard & Poor's ratings remained high throughout the year and at year end was "AA" (2016: "AA").

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.

3 CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

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 (restatec
	£000	£000
Other financial investments	240,142	270,109
Reinsurers' share of technical provisions	15,176	21,460
Debtors arising out of direct insurance operations	9,150	24,041
Debtors arising out of reinsurance operations	7,714	28,306
Total assets bearing credit risk	272,182	343,916

Other financial investments are designated as fair value through other comprehensive income 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	45,003	70,346
AA	128,244	127,511
A	37,287	32,612
BBB	26,731	20,730
Below BBB or not rated	2,877	18,910
Total assets bearing credit risk	240,142	270,109

Other financial investments are neither past due nor impaired.

The amount of change, during the period and cumulatively, in the fair value of receivables that is attributed to changes in credit risk is represented by the provision for impairment against receivables past due.

Reinsurers' share of technical provisions includes claims outstanding, related claims handling costs and IBNR. This is described along with the valuation methods in note 2. None of the balance past due has been impaired (2016: 0.0%).

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 0.0% (2016: 0.0%) that have been impaired and 29.0% (2016: 36.8%) that are past due, but not impaired. The latter is aged 7.1% up to six months (2016: 13.2%), 3.1% six months to a year (2016: 8.8%) and the remaining 18.8% is older than a year (2016: 14.9%).

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

3 CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

	2017 £000	2016 £000
AA	7,055	9,682
A	6,463	10,569
Below BBB or not rated	2	180
Total assets bearing credit risk	13,520	20,431

4 SEGMENTAL ANALYSIS

Segmental information in the format required by Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 is as follows:

Year to 31 December 2017	Gross premiums written £000	Gross premiums earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance balance £000
Direct Insurance					
Fire and other damage to property	3,424	8,173	7,611	2,651	(460)
Marine, aviation and transport	(879)	8,529	1,918	3,012	190
Accident and health	-	12	(131)	1	-
Third party liability	155	4,972	12,337	1,519	(4,062)
Reinsurances acceptances	6,552	19,134	10,970	3,811	(3,415)
TOTAL	9,252	40,820	32,705	10,994	(7,747)

Year to 31 December 2016	Gross premiums written £000	Gross premiums earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance balance £000
Direct Insurance					
Fire and other damage to property	6,179	9,203	8,402	2,329	(2,972)
Marine, aviation and transport	17,037	24,891	18,758	6,541	(1,120)
Accident and health	(51)	251	97	31	-
Third party liability	8,204	12,447	10,378	2,399	(539)
Reinsurances acceptances	31,006	40,932	31,692	9,335	(3,290)
TOTAL	62,375	87,724	69,327	20,635	(7,921)

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 £000	2016 £000
United Kingdom	2,199	17,616
United States of America	2,415	11,286
Continental Europe	1,747	13,957
Africa and Middle East	506	3,033
Asia Pacific	1,233	7,272
Americas	1,152	9,211
	9,252	62,375

5 MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING

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

	2017 £000	2016 £000
Direct insurance		
Fire and other damage to property	(386)	(1,850)
Marine, aviation and transport	3,104	(2,102)
Accident and health	82	29
Third party liability	(13,296)	(1,971)
Reinsurance Acceptances	(268)	(1,614)
	(10,764)	(7,508)

6 NET OPERATING EXPENSES – TECHNICAL ACCOUNT

	2017 £000	2016 £000
Acquisition costs	1,656	10,477
Change in deferred acquisition costs	9,302	1,170
Administrative expenses	238	9,240
Reinsurance commission	(202)	(252)
	10,994	20,635

"Acquisition costs" includes total commissions for direct business amounting to £1.2 million (2016: £5.2 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 are Lloyd's Central Fund contributions and Lloyd's subscriptions.

The managing agent's fee for 2017, before the transfer to acquisition costs, is £Nil (2016: £0.5 million).

7 AUDITOR'S REMUNERATION

	2017 £000	2016 £000
Fees payable to the syndicate's auditors and their associates for the audit of the syndicate's annual accounts	170	169
Fees payable to the syndicate's auditors and their associates for other services:		
Audit-related assurance services	61	50
	231	219

"Audit-related assurance services" includes the audit of the syndicate's regulatory returns.

8 DIRECTORS & 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.

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 £000	2016 £000
Aggregate emoluments and benefits	3,825	4,916
Compensation for loss of office	-	1,500
Company pension contributions to money purchases pension schemes	-	58
	3,825	6,474

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: £492,767) 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.

8 DIRECTORS & EMPLOYEES - continued

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 of CSUK.

9 INVESTMENT RETURN

	2017 £000	2016 £000
Investment Income		
Investment income	4,041	2,484
Gains on the realisation of investments	164	230
	4,205	2,714
Investment expenses and charges		
Investment management expenses	(335)	(255)
Losses on the realisation of investments	(462)	(129)
	(797)	(384)
Net unrealised gains and losses on investments		
Unrealised gains on investments	1,475	17
Unrealised losses on investments	-	(2,033)
	1,475	(2,016)
TOTAL INVESTMENT RETURN	4,883	314

Investment return is analysed between:

	2017 £000	2016 £000
Allocated investment return transferred to the general business technical account	1,607	1,730
Net Investment included in the non-technical account	1,801	600
Net Investment included in the other comprehensive income	1,475	(2,016)
	4,883	314

10 OTHER FINANCIAL INVESTMENTS

	2017	2016 (restated)
	£000	£000
Market value:		
Debt securities and other fixed interest securities	228,598	251,017
Overseas deposits	6,049	6,921
Shares and other variable yield securities	5,495	12,171
	240,142	270,109
Cost:		
Debt securities and other fixed interest securities	231,899	246,208
Overseas deposits	5,834	6,921
Shares and other variable yield securities	5,495	12,171
	243,228	265,300

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.

Shares and other variable yield securities 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.

£134.1 million (2016: £133.1 million) of the total market value relates to Funds at Lloyd's, as explained in note 12; this is analysed as follows:

	2017	2016
	£000	£000
Market value:		
Debt securities and other fixed interest securities	131,504	133,073
Shares and other variable yield securities	2,609	-
	134,113	133,073
Cost:		
Debt securities and other fixed interest securities	132,071	135,031
Shares and other variable yield securities	2,609	-
	134,680	135,031

10 OTHER FINANCIAL INVESTMENTS - continued

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:

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Debt securities and other fixed income securities	224	228,374	-	228,598
Shares and other variable yield securities	5,495	-	-	5,495
Overseas deposits	1,349	4,700	-	6,049
Total	7,068	233,074	-	240,142

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

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Debt securities and other fixed income securities	2,734	248,283	-	251,017
Shares and other variable yield securities	-	12,171	-	12,171
Overseas deposits	1,828	5,093	-	6,921
Total	4,562	265,547	-	270,109

Debt securities and other fixed income 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 income 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.

Shares and other variable yield securities include 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.

11 OTHER DEBTORS

	2017	2016
	£000	£000
Amounts falling due within one year:		
Other debtors	2,525	845
Total	2,525	845

12 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 16. Members' balances carried forward at 31 December include £135.4 million (2016: £134.7 million) designated as FAL. Members' balances designated as FAL are included in the following asset headings:

	2017	2016
	£000	£000
Other financial investments (note 10)	134,113	133,073
Deposits with credit institutions	115	131
Other prepayment and accrued income	1,219	1,497
Total assets designated as Funds at Lloyds	135,447	134,701

13 OTHER CREDITORS

	2017	2016
	£000	£000
Amounts falling due within one year:		
Other creditors	4,787	6,749
	4,787	6,749

14 CASH AND CASH EQUIVALENTS

An analysis of cash and cash equivalents is as follows:

	2017	2016
	£000	£000
Cash at bank and in hand	14,326	7,878
Overdrafts	(4,552)	-
	9,774	7,878

15 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 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 inforce 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. Outwards reinsurance premium in the technical account for the year ended 31 December 2017 includes £0.9 million for reinsurance contracts placed with group companies. Of this amount, £0.9 million relates to reinsurance contracts placed with Chubb Tempest Reinsurance and £Nil placed with Federal Insurance Inc. (2016: £4.1 million, £3.2 million and £0.9 million respectively). Creditors arising out of reinsurance operations as at 31 December 2017 includes £0.7 million payable to Federal Insurance Inc. (2016: £0.7 million payable, offset by receivable of £0.7 million) and £0.1 million to Chubb Tempest Reinsurance (2016: £0.5 million).

The syndicate's capacity is supported entirely by Chubb Capital Limited which trades as a corporate member of Lloyd's, participating only on Syndicate 1882. This company is a wholly owned subsidiary within the Chubb group.

Managing agency fees of £Nil (2016: £0.5 million) were paid by the syndicate to CUAL. Staff providing services to CUAL and the syndicate are employed by Chubb INA Services U.K. Limited ("CIS"), a fellow Chubb group undertaking. CIS settles expenses on behalf of, and provide services to, the syndicates and CUAL.

16 FUNDS AT LLOYD'S

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on Prudential Regulatory Authority (PRA) requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and assessment of the reserving risk in respect of business that has been underwritten. As referred to in notes 10 and 12, the syndicate's member has met its FAL requirements by a capital injection from a fellow group company. At 31 December 2017 FAL totalled £135.4 million (2016: £134.7million).

17 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 10 years. When adopting FRS 103 for the first time, the standard allows the syndicate to disclose information in relation to claims development occurring up to 5 years from the first year of adoption 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.

17 CLAIMS DEVELOPMENT TABLES - continued

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	Total
	£000	£000	£000	£000	£000	£000	£000
Estimate of ultimates:							
End of underwriting year	35,212	46,783	31,858	33,758	43,772	28,008	
One Year Later	74,389	65,148	51,356	56,962	76,493	41,497	
Two Years Later	99,052	68,559	48,175	61,515	85,410		
Three Years Later	107,157	71,087	51,505	64,234			
Four Years Later	118,129	73,173	55,503				
Five Years Later	116,702	73,231					
Six Years Later	118,591						
Current estimate of ultimate claims	118,591	73,231	55,503	64,234	85,410	41,497	
Cumulative payments	(99,353)	(51,740)	(33,428)	(33,982)	(43,563)	(15,451)	
In balance sheet	19,238	21,491	22,075	30,252	41,847	26,046	160,949
Provision for prior financial years							3,233
Liability in the balance sheet							164,182

Claims development as at 31 December 2017 – Net

	2011	2012	2013	2014	2015	2016	Total
	£000	£000	£000	£000	£000	£000	£000
Estimate of ultimates:							
End of underwriting year	33,374	37,885	28,683	30,903	42,860	25,905	
One Year Later	62,696	52,797	47,657	54,744	72,941	38,118	
Two Years Later	69,772	64,315	46,005	58,668	81,305		
Three Years Later	68,079	63,738	50,272	63,104			
Four Years Later	73,966	65,956	55,188				
Five Years Later	76,110	66,258					
Six Years Later	79,508						
Current estimate of ultimate claims	79,508	66,258	55,188	63,104	81,305	38,118	
Cumulative payments	(64,836)	(44,952)	(33,428)	(33,982)	(43,530)	(15,254)	
In balance sheet	14,672	21,306	21,760	29,122	37,775	22,864	147,499
Provision for prior financial years							3,254
Liability in the balance sheet							150,753

18 RECONCILIATION OF INSURANCE BALANCES

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

	2017	2016
	£000	£000
At 1 January	10,687	11,847
Decrease in provision	(9,311)	(1,160)
Foreign exchange movement	216	-
At 31 December	1,592	10,687

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	47,941	64,386	2,700	2,641
Decrease in provision	(31,568)	(25,349)	(922)	(330)
Foreign exchange movements	(706)	8,904	(31)	389
At 31 December	15,667	47,941	1,747	2,700

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	188,563	146,427	18,759	12,311
Increase/(decrease) in provision	(17,220)	19,895	(4,231)	4,121
Foreign exchange movements	(7,161)	22,241	(1,099)	2,327
At 31 December	164,182	188,563	13,429	18,759

19 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.