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# Annual Report and Financial Statements Syndicate 1882

**CHUBB**<sup>®</sup>

31 December 2018

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## Managing Agent's Report

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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 2018.

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 2018, Chubb Limited held total assets of \$167.8 billion and shareholders' equity of \$50.3 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 32,700 people worldwide.

### *Consolidation of Chubb's Lloyd's Entities*

Chubb operated two Lloyd's syndicates during 2018: 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 and CUAL has agreed terms to reinsure to close the liabilities of Syndicate 1882 into Syndicate 2488's 2017 year of account with effect from 1 January 2019. The reinsurance to close transaction results in the transfer to Syndicate 2488 of gross and net technical provisions of £150.2 million and £135.0 million, respectively.

Since 31 December 2016 the conduct of the syndicate's run-off was overseen by the Run-Off Manager and a run-off committee. The committee comprised representatives from the key functions, including underwriting, claims, reinsurance, IT, actuarial and finance. This enabled all salient matters to be reported and handled swiftly. Separate meetings were held each quarter with representatives from Lloyd's to ensure that Lloyd's was kept apprised of developments with the run-off.

### *Brexit*

On 23 June 2016 the United Kingdom voted in a national referendum to withdraw from the European Union ("EU") and on 29 March 2017 invoked Article 50 of the Treaty on European Union, with the leaving date currently set for 29 March 2019. Negotiations regarding the terms of the UK's exit from the EU officially began in June 2017 but the final outcome remains uncertain. CUAL fully supports Lloyd's commitment to the European markets, including the processes being developed to ensure that all valid claims to EU policyholders with policies written prior to Brexit are paid, and the newly created Brussels-based European insurance company that provides the Lloyd's market with an effective solution to allow business to continue without interruption regardless of the outcome of negotiations. CUAL has already transitioned to the post-Brexit operating model so it can continue to trade with confidence.

### *Business Overview*

Chubb is the world's largest publicly traded property and casualty insurer. With operations in 54 countries and territories, Chubb is a personal lines writer, as well as a leading middle market, small commercial and large industrial commercial insurer, providing a wide range of traditional and specialty coverages.

## Managing Agent's Report

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Chubb is a truly global company with a well balanced portfolio by product and customer segment. The company 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 to help clients reduce risk and mitigate loss; successful individuals and families 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 £93.0 million for 2016 (2015: £93.0 million) 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 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 89%, sterling 8%, and euros 3%. Syndicate 1882 held no equities in 2018.

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 2008 Lloyd's Regulations, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, and applicable accounting standards in the United Kingdom. These financial statements recognise a calendar year profit or loss, driven by net earned premium and net incurred losses arising on that net earned premium.

Managing agents are required to prepare syndicate underwriting accounts, similar to those previously prepared on a three year underwriting basis in respect of any year of account which is being closed by reinsurance to close, unless all the members on the closing year agree otherwise. Syndicate 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 2016 year of account and, as such, no information on this basis has been provided within this report and annual accounts.

## Managing Agent's Report

### 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.

<b>£ million</b>	<b>2018</b>	<b>2017</b>
Gross premiums written <sup>(1)</sup>	(1.9)	9.3
Net premiums written <sup>(1)</sup>	(2.6)	5.2
Combined ratio % <sup>(2)</sup>	(52.3%)	137.8%
Profit/(loss) for financial year	9.0	(10.1)

1. Premiums written in 2017 and 2018 relate to adjustments made in the year to the premium for contracts entered into prior to 2017
2. Ratio of net claims incurred, commission, expenses and foreign exchange gains to net earned premiums

### Results & Performance

The syndicate produced a profit of £9.0 million (2017: £10.1 million loss) for the year ended 31 December 2018. A summary of the reported financial results is shown in the table below.

<b>£ million</b>	<b>2018</b>	<b>2017</b>
Gross premiums written	(1.9)	9.3
Net premiums written	(2.6)	5.2
Net premiums earned	5.3	35.8
Incurred losses	(10.8)	(35.4)
Operating expenses	(0.7)	(11.0)
<b>Underwriting loss</b>	<b>(6.2)</b>	<b>(10.6)</b>
Investment return	0.9	3.4
Other income / (expense)	14.3	(2.9)
<b>Profit (Loss) for financial year</b>	<b>9.0</b>	<b>(10.1)</b>
<b>Combined ratio %</b>	<b>(52.3%)</b>	<b>137.8%</b>

### 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 and 2018. Gross written premiums reported for 2017 and 2018 relate to adjustments made during those years to the premium for contracts entered into in prior years. Risks previously written by the syndicate were either renewed into 2488 or non-renewed from 1 January 2017, with 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 203.2% (2017: 99.0%) driven by several new large losses and by the absence of new written premiums and negative adjustments to premiums for contracts underwritten in prior years.

## Managing Agent's Report

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Prior period reserve deterioration was £5.2 million (2017: deterioration of £10.8 million) primarily due to adverse experience on 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 after 1 January 2017 mostly because of decreasing earned premium but also from the synergies of running Syndicate 1882 alongside Syndicate 2488 and a general reduction in activity after the syndicate ceased underwriting.

### *Financial Markets Review*

Markets were subjected to a number of geopolitical events that significantly weighed on sentiment during 2018. Political risk events included trade tensions between the US and China, Brexit concerns for the UK, a US government shut down and budget deficits in Italy leading to the potential for EU sanctions. As these tensions ebbed and flowed, so did risk asset returns, which saw marked weakness in February and March, as well as significant negative returns in December. Indeed, US equities delivered their worst month in December 2018 since February 2009, while US 10-year government bond yields fell by over 30 basis points to end the year only 28 bps higher.

Monetary policy was also a key factor in 2018, as central banks in the US and Europe tightened policy. The Federal Reserve continued on its interest rate raising path, increasing interest rates four times. However, the pace of US interest rate rises looks to be slowing with concerns around economic outlook in the US and the continued impact from the government shut down. In Europe, the European Central Bank finally ended its asset purchases. In the UK, interest rates remain on hold until the outcome of Brexit is known, but with inflation near target and a buoyant labour market, the Bank of England could be active once the Brexit process is concluded. However, markets are all but pricing out any interest rate increases in 2019 given the current political uncertainty.

The outlook across markets for 2019 is for lower growth and more muted earnings. While there are suggestions that we are in the latter stages of the economic cycle in the US, should the continued geopolitical events come to pass in an orderly fashion there may well be upside for risk assets. Flattening of US yield curves means investors can find sources of income at the front end of the US curve, while US treasuries can provide ballast against sell off in risk equities. An upward quality bias may also help investors' portfolios in times of risk asset weakness, while company fundamentals across the globe still look to be in good health as we enter 2019. In the UK, outlook will continue to be clouded until there is greater clarity around the outcome of Brexit. In Europe, economists continue to anticipate muted growth in 2019 due mainly to the impact of weaker global growth.

### *Investment Performance*

Overall Syndicate 1882 generated a total return of 0.3% in 2018 on balances available for investment. For investment grade portfolios, total returns of 0.3% and 0.1% were generated for sterling and euro portfolios. The US dollar investment grade portfolios which comprise nearly 90% of the investment grade bonds generated a total return of 0.3% in the year.

### *Cash Flow*

Total syndicate cash flow derived from operating activities in the year was negative. This is consistent with the syndicate 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 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.

## Managing Agent's Report

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The Prudential Regulation Authority (“PRA”) conducts reviews directly with Lloyd’s on the overall Solvency Capital Requirement 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 these obligations.

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 2018 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 2018 year end decreased to £97.8 million (2017: £135.4 million) due to the fact that the syndicate is in run-off prior to its planned closure into Syndicate 2488 at the beginning of 2019 by way of a Reinsurance to Close (“RITC”) transaction.

### *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 2018 the Board met six 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 four independent non-executive directors, two non-executive and two executive directors. During 2018 two executive directors left the Board and David Furby was appointed. In addition to this, Chubb also made a number of changes during the year to align the governance structure of the managing agency with Chubb’s Brexit plans. One such change is the appointment of Matthew Shaw to the position of Chief Executive Officer of CUAL with effect from 1 January 2019. On 31 December 2018 an independent non-executive director resigned and on 1 January 2019 an additional non-executive director was appointed on behalf of the shareholder. CUAL greatly values the contribution of its non-executive directors in providing contrasting insights, experience and challenge in the Board’s discussions and the insights into the wider Chubb Group. 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 impact on the governance of the Company of Chubb’s contingency planning for Brexit, ii) readiness for the implementation of new legislation including the Insurance Distribution Directive, the General Data Protection Regulation and the Senior Manager & Certification Regime, and iii) a refresh of the Managing Agents Agreement with Chubb Capital I Limited. It also agreed changes to board policies and the Risk Management Framework to reflect the new governance arrangements and changes to 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.



## Managing Agent's Report

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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 CUAL Management Committee, includes non-executive directors in its membership, and reports to the Board regularly in respect of its remit. In order to reflect the impact on the company of the changes in governance for Chubb's contingency planning for Brexit the terms of reference of each Board committee were reviewed and refreshed in February 2019.

The Audit Committee, which was comprised exclusively of non-executive directors, considered and made recommendations to the Board on areas including validation of solvency calculations, internal controls, financial reporting, whistleblowing, actuarial matters and the external audit. It received reports from the compliance, actuarial and finance functions and Internal Audit on a quarterly basis.

In relation to the external audit process, the Audit Committee monitored the nature and scope of work in the audit of the financial statements and other external reporting requirements. It met regularly with the External Auditor without management being present.

In the case of the internal audit function, the Audit Committee's role involved 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. It met regularly with the Head of Internal Audit without management being present.

The Audit Committee's role was 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 members were expected to challenge any aspect of these processes which it considers weak or generally poor practice.

During 2018 the Audit Committee in particular reviewed: i) the adequacy of reserves and the impact of changes in inflation on reserves, ii) assurance over Cyber underwriting processes and iii) the impact of the changes in governance resulting from Chubb's contingency planning for Brexit on financial controls and the Internal Controls Framework.

The Board delegated responsibility for the oversight and implementation of its risk management framework to the Risk Committee. The Committee oversaw and advised 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 ensured that business risks and controls are recorded and monitored. It received regular reports on the syndicate's "Own Risk and Solvency Assessment" metrics, which helps to provide an independent overview of management's assessment of risk, including performance against Board approved risk appetites.

During the year the Risk Committee's non-routine activity included: i) a review of IT initiatives of the operating model, ii) an implementation review of compliance with the General Data Protection Regulation which came into effect May 2018, iii) an assessment of compliance with the Lloyd's Minimum Standards, iv) an implementation and ongoing development of information security measures, v) review of mitigation against cyber insurance risks, vi) a consideration of Brexit implications on the Chubb group of companies, and vii) appropriate remuneration practices.

As part of the changes to governance for Chubb's contingency planning for Brexit, the Audit Committee and Risk Committee were combined to become an Audit & Risk Committee from 1 January 2019. The responsibilities detailed above for the individual committees have been combined and the terms of reference updated to reflect the extended remit of the new committee. The Audit & Risk Committee is comprised of a combination of non-executive and Regional executive directors.

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The remit of the Nominations Committee was to advise and recommend in connection with independent non-executive director 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. During 2018 the Committee met to consider the appointment of David Furby, Regional President of Chubb Europe, as a Regional executive director of the Board. The structure and composition of the Board has been reviewed to ensure this is appropriate for the size and complexity of the managing agent in view of changes in governance resulting from Chubb's contingency planning for Brexit. The responsibilities of the Nominations Committee were assumed by the full Board from 1 January 2019, when the Committee was disbanded.

The CUAL Management Committee comprises executive directors and other members of the senior management team. The primary role of the CUAL Management Committee is to oversee the day-to-day management of business operations and performance, and to assist the Chief Executive Officer in implementing and overseeing operational strategies and decisions determined by the Board. The CUAL Management Committee oversees the support function activities, key steering groups and sub-committees including investment, credit risk, internal model steering, reserving and underwriting on a monthly basis and discuss current issues. The structure and composition of the CUAL Management Committee was updated to reflect the new governance arrangements from 1 January 2019.

A number of specialist sub-committees, such as those for customer conduct, underwriting controls, broker credit control and reserving, report to the CUAL Management Committee to ensure that various aspects of the business are reviewed by a wide senior management group. During 2018 the Product Oversight Committee oversaw the functioning of the Chubb Europe conduct framework pertaining to product risk through the performance of the line of business Product Councils. In recognition of the increased accountability of the Product Councils and in conjunction with the Conduct Risk Director, it was agreed that the Product Oversight Committee would be disbanded from 1 January 2019 and reporting on conduct matters would flow through to the CUAL Management Committee, with escalation to the Board and its committees as necessary. The remit and composition of the sub-committees was reviewed resulting in a number of changes from 1 January 2019 and the terms of reference were updated in early 2019.

CUAL has a Routine Business Committee which meets on an ad hoc basis between formal Board meetings to consider authorisation of routine activity and its activities are reported at the subsequent Board meeting.

### *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.

## Managing Agent's Report

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The RMF identifies the key risks to which each business segment, and the syndicate as a whole, is exposed, and their resultant impact on economic and regulatory capital. This framework employs Solvency II principles to assess risk and manage capital requirements to ensure the capital required to support CUAL's business objectives and to meet the requirements of policyholders and regulators.

The Board is ultimately responsible for ensuring that the syndicate operates within an established framework of effective systems of internal control, including the approval of the overall risk tolerance for the organisation and compliance with policies, procedures, internal controls and regulatory requirements.

The Board's oversight of the RMF is effected through the various committees and functions with particular purposes and direction around the monitoring of risk tolerances and oversight of internal controls and compliance procedures. The risk management function has a strong mandate from the Board to promote the RMF and embed it across the syndicate.

The RMF was re-approved by the Board in 2018 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;

## Managing Agent's Report

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- 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 continues to update its policies, procedures and training materials to make its commitment to anti-slavery and human trafficking explicit to customers, employees, suppliers, and business partners. Over the course of the last year, Chubb has revised its EU Procurement Policy which focuses on and re-iterates third parties' obligations to comply with modern slavery and human trafficking laws. Training in this regard was also provided to key management across Chubb's European offices. Furthermore, Chubb's General Data Protection Regulations communications included reference to our continued expectation that third party vendors must abide by modern slavery and human trafficking legislation.

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

### *Diversity & Inclusion Approach*

Chubb is committed to a diverse and inclusive environment where all staff are treated with dignity, fairness and respect, regardless of their age, disability, race, religion or belief, gender identity and expression, sexual orientation, marital status or family circumstances.

The Chubb approach is based on 3 key principles:

1. **Inclusion:** creating a working culture and environment where we value the whole person and the experiences they bring to work; where everyone has the opportunity to achieve their full potential and develop in a way that is consistent with our vision and values. Our aim is to be an organisation where people feel valued, involved, respected, supported and connected to the success of the business;
2. **Equality:** promoting equality by removing barriers, eliminating discrimination and ensuring equal and fair opportunity and access for all; and
3. **Diversity:** accepting each person as an individual and respecting and appreciating differences in ethnicity, gender identity and expression, age, national origin, disability, sexual orientation, education and religion and the value that these differences bring to the workplace every day.

In creating a diverse and inclusive environment Chubb aims to:

- ensure that all job applicants are treated fairly and judged on criteria relevant to a vacant position;
- ensure that all employees are treated in a fair manner which allows each individual to reach their full potential;
- ensure that decisions on recruitment, selection, training, promotion, career opportunities and management, all aspects of employment including terms and conditions are based solely on fair and objective and job-related criteria;
- provide Chubb with a workforce of the highest ability which reflects the community in which we conduct business;
- create an environment in which individual differences and the contributions of all team members are recognised, valued and respected; and
- ensure the leadership team and all managers and HR Business Partners actively promote equal opportunities as well as diversity and inclusion within Chubb.

## Managing Agent's Report

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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.

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 has been a gold sponsor of the global Dive In Festival for several years, showcasing Diversity and Inclusion in Insurance.

Chubb 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 the Company supports through a charity-matching scheme. In 2018 Chubb contributed almost £0.2 million to various charities across UK and Europe.

### *Talent Strategy*

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. Chubb aims to build and develop a mid and long-term talent pipeline to ensure the right quality and quantity of diverse talent is available for the company to deliver its key business objectives.

To this end, Chubb has a talent strategy that actively supports the personal and professional development of all its employees. Chubb strives to attract, retain and grow employees to meet their career aspirations and has a robust diversity and inclusion strategy to ensure that all available talent is accessed and given equal opportunity. A core element of Chubb's employee value proposition is the opportunity to constantly evolve as a professional and reach one's full potential. It endeavours to identify talent on a regular basis and provide high quality development programmes that build the necessary leadership qualities for now and the future. 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, Chubb 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.

Chubb 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 that climate change will present material near-term risk to its European operations.

## Managing Agent's Report

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Chubb produces an annual Environmental Report which outlines the full scope of the group's environmental programme and initiatives. It reports to the CDP on an annual basis disclosing climate change risks and opportunities as well as emissions performance. A third-party certified environmental statement on the group's greenhouse gas emissions program is also included in the Chubb Limited Annual Report.

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 2018 Chubb scored 78%, placing it joint second out of sixteen ClimateWise members.

Chubb is committed to managing and reducing greenhouse gas emissions throughout its operations. From 2015 to 2018, Chubb has reduced absolute greenhouse gas emissions by 21%. The group 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.

Since 2018, Chubb has begun transitioning all of its offices in Europe to Activity Based Working resulting in up to 25% increases in the efficiency of space usage and energy consumption. As part of the transition Chubb is also eliminating single use plastic in all of its offices.

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.

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.

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, adding appropriate contractual wording under certain circumstances, gifts and hospitality procedures, remuneration agreements and payment requirements and how concerns or suspicious activity should be reported. All business lines are required to implement anti-bribery and corruption procedures and controls at

## Managing Agent's Report

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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 2018 to the date of this report unless otherwise indicated:

#### *Executive directors:*

A J Kendrick (resigned 31/12/2018)

M K Hammond

J U Rehman (resigned 11/06/2018)

A M W Shaw (Active Underwriter)

#### *Non-executive directors:*

A Turner

M C Bailey (resigned 31/12/2018)

M A Connole (appointed 01/01/2019)

D M A Furby (appointed 19/11/2018)

K N O'Shiel

C E Riley

T C Wade

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 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.

## Managing Agent's Report

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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 2018 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 2018 year end.

Approved by the board and signed on its behalf

**M K Hammond**

Director  
18 March 2019



# Independent Auditor's Report

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## 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 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position at 31 December 2018, 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, the Statement of Cash Flows, and the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

#### 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 Auditor's 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.

#### Emphasis of matter - basis of preparation

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the syndicate's ability to continue as a going concern. As disclosed in note 1, with effect from 1 January 2019 all assets and liabilities of the syndicate (excluding members' funds in Syndicate) have been approved to be transferred to Syndicate 2488 by a reinsurance to close transaction. After this date Syndicate 1882 ceased to operate as a Lloyd's syndicate. However the financial statements have been prepared on a going concern basis in accordance with the Market Bulletin Y5220 dated 10 December 2018 entitled "2018 Syndicate Report and Accounts" and the Market Bulletin Y5228 dated 2 January 2019 entitled "2018 year end return" (the "Lloyd's instructions") and we deem this appropriate.

#### 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.

## Independent Auditor's Report

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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 2018 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 14, 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. In accordance with the Lloyd's Instructions, the managing agent is responsible for using the going concern basis of accounting, notwithstanding that with effect from 1 January 2019 all assets and liabilities of the syndicate (excluding members' funds in Syndicate) have been approved to be transferred to Syndicate 2488 by a reinsurance to close transaction and after this date Syndicate 1882 ceased to operate as a Lloyd's syndicate.

#### *Auditor's 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 auditor's 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's 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.

Siobhan Byrne (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
20 March 2019

## Income Statement for the year ended 31 December 2018

<b>Technical account – general business</b>	<b>Notes</b>	<b>2018 £000</b>	<b>2017 £000</b>
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	4	(1,880)	9,252
Outwards reinsurance premiums		(727)	(4,096)
Net premiums written		(2,607)	5,156
Change in the gross provision for unearned premiums		8,974	31,568
Change in the provision for unearned premiums, reinsurers' share		(1,060)	(922)
Change in unearned premiums, net of reinsurance		7,914	30,646
Earned premiums, net of reinsurance		5,307	35,802
Allocated investment return transferred from the non-technical account		116	1,607
<b>Total technical income</b>		<b>5,423</b>	<b>37,409</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid, gross amount	4	(36,054)	(49,925)
Claims paid, reinsurers' share		1,035	1,502
Net claims paid		(35,019)	(48,423)
Change in the provision for claims, gross amount	4	23,665	17,220
Change in the provision for claims, reinsurers' share		570	(4,231)
Change in the provision for claims, net of reinsurance		24,235	12,989
Claims incurred, net of reinsurance		(10,784)	(35,434)
Net operating expenses	4, 6	(715)	(10,994)
<b>Total technical charges</b>		<b>(11,499)</b>	<b>(46,428)</b>
<b>Balance on the general business technical account</b>		<b>(6,076)</b>	<b>(9,019)</b>

## Income Statement for the year ended 31 December 2018

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<b>Non-technical account</b>	<b>Notes</b>	<b>2018 £000</b>	<b>2017 £000</b>
<b>Balance on the general business technical account</b>		(6,076)	(9,019)
<b>Investment return</b>			
Investment income	9	6,098	4,205
Investment expenses and charges	9	(5,205)	(797)
Allocated investment return transferred to general business technical account	9	(116)	(1,607)
Investment return	9	777	1,801
Profit/(loss) on exchange		14,276	(2,909)
<b>Profit/(loss) for the financial year</b>		<b>8,977</b>	<b>(10,127)</b>

The above results are all derived from continuing operations.

## Statement of Comprehensive Income for the year ended 31 December 2018

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	<b>Notes</b>	<b>2018 £000</b>	<b>2017 £000</b>
<b>Profit/(loss) for the financial year</b>		8,977	(10,127)
<b>Other recognised gains and losses</b>			
Unrealised (losses)/gains on investments	9	(446)	1,475
<b>Total recognised gains/(losses) relating to the year</b>		<b>8,531</b>	<b>(8,652)</b>

## Statement of Changes in Members' Balances for the year ended 31 December 2018

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	<b>Members' Balances</b>
	<b>£000</b>
<b>At 1 January 2017</b>	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	1,475
<b>At 31 December 2017</b>	99,371
Profit for the financial year	8,977
Receipt of loss from members' personal reserve fund	28,869
Net transfer into members' balances designated as Funds in Syndicate	(49,818)
Other recognised losses	(446)
<b>At 31 December 2018</b>	86,953

Statement of Financial Position  
as at 31 December 2018

<b>Assets</b>	<b>Notes</b>	<b>2018 £000</b>	<b>2017 £000</b>
<b>Investments</b>			
Other financial investments	10	212,282	240,142
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		735	1,747
Claims outstanding		14,517	13,429
		15,252	15,176
<b>Debtors</b>			
Debtors arising out of direct insurance operations		3,100	9,150
Debtors arising out of reinsurance operations		2,315	7,714
Other debtors	11	807	2,525
		6,222	19,389
<b>Other assets</b>			
Cash at bank and in hand	14	12,870	14,326
		12,870	14,326
<b>Prepayments and accrued income</b>			
Accrued interest and rent		1,708	1,812
Deferred acquisition costs		1,462	1,592
Other prepayments and accrued income		-	478
		3,170	3,882
<b>Total assets</b>		<b>249,796</b>	<b>292,915</b>

Statement of Financial Position  
as at 31 December 2018

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<b>Liabilities</b>	<b>Notes</b>	<b>2018 £000</b>	<b>2017 £000</b>
<b>Capital and reserves</b>			
Members' balances		86,953	99,371
<b>Technical provisions</b>			
Provision for unearned premiums		7,950	15,667
Claims outstanding		143,759	164,182
		151,709	179,849
<b>Creditors</b>			
Creditors arising out of reinsurance operations		1,173	3,847
Bank loans and overdrafts	14	9,289	4,552
Other creditors including taxation and social security	13	520	4,787
		10,982	13,186
<b>Accruals and deferred income</b>			
		152	509
<b>Total liabilities</b>		<b>249,796</b>	<b>292,915</b>

The syndicate annual accounts on pages 19 to 43 were approved by the board of Chubb Underwriting Agencies Ltd on the 18 March 2019 and were signed on its behalf by:

**M Hammond**

Director

18 March 2019



Statement of Cash Flows  
for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
<b>Profit /(loss) on ordinary activities</b>		8,977	(10,127)
(Decrease) in gross technical provisions		(28,140)	(56,655)
(Increase)/ decrease in reinsurers' share of gross technical provisions		(76)	6,284
Decrease in debtors		13,775	42,908
(Decrease) in creditors		(7,298)	(17,767)
Investment return		(892)	(3,408)
Other		(13,049)	3,851
<b>Net cash (outflows)/inflows from operating activities</b>		(26,703)	(34,914)
<b>Investing activities</b>			
Investment income received		996	3,408
Purchase of debt and equity investments		(488,840)	(169,206)
Sale of debt and equity investment		522,061	189,222
Other		3,174	7,548
<b>Net cash inflows from investing activities</b>		37,391	30,972
<b>Financing activities</b>			
(Distribution)/receipt (from)/in members' personal reserve fund		(17,438)	5,813
<b>Net cash (outflows)/inflows from financing activities</b>		(17,438)	5,813
(Decrease)/ increase in cash and cash equivalents		(6,750)	1,871
Cash and cash equivalents at 1 January		9,774	7,878
Exchange differences on opening cash		557	25
<b>Cash and cash equivalents at 31 December</b>	14	3,581	9,774
Cash at bank and in hand		12,870	14,326
Overdraft		(9,289)	(4,552)
<b>Cash and cash equivalents at 31 December</b>	14	3,581	9,774

## Notes to the Financial Statements

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### 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" and Financial Reporting Standard FRS 103, "Insurance Contracts".

With effect from 1 January 2019 all assets and liabilities of the Syndicate (excluding members' funds in Syndicate) will be transferred to Syndicate 2488 by a reinsurance to close transaction. After this date Syndicate 1882 ceased to operate as a Lloyd's syndicate. However these annual accounts have still been prepared on a going concern basis so that they are consistent with the basis of preparation for regulatory returns submitted to Lloyd's as at 31 December 2018. The rules for Lloyd's reporting require the going concern basis to be used for a syndicate even when it is reinsuring and closing into another syndicate.

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.

### 2 ACCOUNTING POLICIES

The following are the significant accounting policies used in the preparation of these financial statements;

#### *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.

#### *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.

## Notes to the Financial Statements

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### **2 ACCOUNTING POLICIES – continued**

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.

#### *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.

## Notes to the Financial Statements

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### 2 ACCOUNTING POLICIES - continued

#### *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.

#### *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.

## Notes to the Financial Statements

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### **2 ACCOUNTING POLICIES – continued**

#### *Insurance and other payables*

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

#### *Taxation*

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year have been included in the balance sheet under the heading “other debtors”.

No provision has been made for any other overseas tax payable by members on underwriting results.

#### *Foreign currencies*

Foreign currency transactions are 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.

## Notes to the Financial Statements

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### 3 CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT

#### *Capital management*

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

From a prudential perspective, the Lloyd's market is regulated by the PRA and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held. In line with regulatory requirements CUAL managed its capital levels in 2018 in the context of Solvency II and the Funds at Lloyd's requirement.

Syndicate 1882's 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 profit for the financial year would have been lower by £0.1 million (2017: £0.4 million increase in loss) and members' balances would have been lower by £0.1 million (2017: £0.4 million). If the net claims ratio had been lower by 1%, then the profit for the financial year would have been higher by £0.1 million (2017: £0.4 million reduction in loss) and members' balances would have been higher by £0.1 million (2017: £0.4 million).

#### *Concentrations of insurance risk*

Prior to the syndicate moving into run-off it wrote a balanced portfolio of risks to avoid a concentration of exposures to one or a small number of risk classes.

#### *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.

## Notes to the Financial Statements

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### 3 CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

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 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 2018.

#### *Investment guidelines*

Investment management agreements have been established with the external investment managers. The agreements include specific guidelines for each individual portfolio in order to limit risks arising from duration, currency, liquidity, credit and counterparty exposures. The managers provide quarterly affirmation of compliance with these guidelines.

#### *Interest rate risk*

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

The restriction is stated by reference to the permissible duration variance compared to the customised benchmark index by which the external investment managers' performance is assessed.

Sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. To illustrate the downside risk within the fixed interest portfolio of £208.2 million with external managers as at 31 December 2018 (2017: £234.6 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 £3.7 million (2017: £4.0 million) and accordingly decrease total shareholders' funds by £3.7 million (2017: £4.0 million).

#### *Equity price risk*

The syndicate held no equities in 2018 (2017: £Nil) and as a result the syndicate is not susceptible to equity price risk.

## Notes to the Financial Statements

### 3 CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

#### *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 non-sterling 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. 2018 saw increased volatility between the sterling rates and US Dollars and Euro due to the uncertainty surrounding Brexit. Accordingly, if the US dollar and euro had weakened by 5% against sterling at the year end, then the syndicate's net assets would have been reduced by £6.7 million (2017: £1.8 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, the syndicate maintained an overdraft of £9.3 million at year end (2017: £4.6 million).

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.

The table below shows the contractual maturity for financial liabilities.

<b>£000</b> <b>31 December 2018</b>	<b>No</b> <b>Stated</b> <b>Maturity</b>	<b>0-1</b> <b>year</b>	<b>1-3</b> <b>years</b>	<b>3-5</b> <b>years</b>	<b>&gt;5</b> <b>years</b>	<b>Total</b>
Claims outstanding	-	50,137	52,851	23,239	17,532	143,759
Creditors	-	10,982	-	-	-	10,982
Total	-	61,119	52,851	23,239	17,532	154,741



## Notes to the Financial Statements

### 3 CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

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

#### *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" (2017: "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.

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:

	<b>2018</b> <b>£000</b>	<b>2017</b> <b>£000</b>
Other financial investments	212,282	240,142
Reinsurers' share of technical provisions	15,252	15,176
Debtors arising out of direct insurance operations	3,100	9,150
Debtors arising out of reinsurance operations	2,315	7,714
<b>Total assets bearing credit risk</b>	<b>232,949</b>	<b>272,182</b>

## Notes to the Financial Statements

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### 3 CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

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.

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
AAA	8,323	45,003
AA	118,529	128,224
A	41,908	37,287
BBB	41,935	26,731
Below BBB or not rated	1,587	2,877
Total assets bearing credit risk	<u>212,282</u>	<u>240,142</u>

Other financial investments are neither past due nor impaired.

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. £0.3m of the balance past due has been impaired (2017: 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% (2017: 0.0%) that have been impaired and 47.1% (2017: 29.0%) that are past due, but not impaired. The latter is aged 9.2% up to six months (2017: 7.1%), 6.4% six months to a year (2017: 3.1%) and the remaining 31.5% is older than a year (2017: 18.8%).

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.

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
AA	4,902	7,055
A	9,210	6,463
Below BBB or not rated	710	2
Total assets bearing credit risk	<u>14,822</u>	<u>13,520</u>

## Notes to the Financial Statements

### 4 SEGMENTAL ANALYSIS

Segmental information in the format required by Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors 2017 ('the Regulations'), is as follows:

	Gross premiums written £000	Gross premiums earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance balance £000
<b>Year to 31 December 2018</b>					
Direct Insurance					
Fire and other damage to property	862	3,743	(4,338)	(138)	931
Marine, aviation and transport	(1,715)	386	(1,076)	(26)	(110)
Accident and health	-	-	6	-	-
Third party liability	(17)	1,320	(8,205)	(181)	(564)
Reinsurances acceptances	(1,010)	1,645	1,224	(370)	(438)
<b>TOTAL</b>	<b>(1,880)</b>	<b>7,094</b>	<b>(12,389)</b>	<b>(715)</b>	<b>(181)</b>
<b>Year to 31 December 2017</b>					
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)
<b>TOTAL</b>	<b>9,252</b>	<b>40,820</b>	<b>32,705</b>	<b>10,994</b>	<b>(7,747)</b>

The reinsurance balance represents the charge to the technical account from the aggregate of all items relating to outwards reinsurance. All business is completed in the United Kingdom.

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

	<b>2018</b> £000	<b>2017</b> £000
United Kingdom	292	2,199
United States of America	(1,407)	2,415
Continental Europe	121	1,747
Africa and Middle East	149	506
Asia Pacific	(1,135)	1,233
Americas	100	1,152
	<b>(1,880)</b>	<b>9,252</b>

During the year the syndicate was in run-off and a thorough review of previously recorded premium entries was undertaken. This resulted in a number of adjustments (some of which were negative) to gross written premiums.

## Notes to the Financial Statements

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

The prior year's net provision for claims outstanding generated a deficit for 2018 (2017: deficit) as detailed below:

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Direct insurance		
Fire and other damage to property	760	(386)
Marine, aviation and transport	(921)	3,104
Accident and health	6	82
Third party liability	(7,908)	(13,296)
Reinsurance Acceptances	2,886	(268)
	<u>(5,177)</u>	<u>(10,764)</u>

### 6 NET OPERATING EXPENSES – TECHNICAL ACCOUNT

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Acquisition costs	(76)	1,656
Change in deferred acquisition costs	(209)	9,302
Administrative expenses	1,092	238
Reinsurance commission	(92)	(202)
	<u>715</u>	<u>10,994</u>

“Acquisition costs” includes total commissions for direct business amounting to negative £0.2 million (2017: £1.2 million). The negative direct commissions expense of £0.2 million is a result of refunds on direct commissions driven by revisions to previously recorded direct written premiums.

“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.

The managing agent's fee for 2018, before and after the transfer to acquisition costs, is £Nil (2017: £Nil).

### 7 AUDITOR'S REMUNERATION

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Fees payable to the syndicate's auditors and their associates for the audit of the syndicate's annual accounts	190	170
Fees payable to the syndicate's auditors and their associates for other services:		
Audit-related assurance services	49	61
	<u>239</u>	<u>231</u>

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

## Notes to the Financial Statements

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### 8 DIRECTORS & EMPLOYEES

#### *Staff costs*

The managing agency has no employees (2017: 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.

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Aggregate emoluments and benefits	3,967	3,825
Company pension contributions to money purchases pension schemes	8	-
	<u>3,975</u>	<u>3,825</u>

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 £607,433 (2017: £629,033) in respect of emoluments and benefits and the highest paid director was paid a total of £1,194,937 (2017: £835,764) 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 (2017: £Nil) and £Nil (2017: £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 no 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. Disclosures relating to the share based payments are contained within the financial statements of CSUK.

## Notes to the Financial Statements

### 9 INVESTMENT RETURN

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
<b>Investment Income</b>		
Investment income	6,014	4,041
Gains on the realisation of investments	84	164
	<u>6,098</u>	<u>4,205</u>
<b>Investment expenses and charges</b>		
Investment management expenses	(362)	(335)
Losses on the realisation of investments	(4,843)	(462)
	<u>(5,205)</u>	<u>(797)</u>
<b>Net unrealised gains and losses on investments</b>		
Unrealised gains on investments	352	1,475
Unrealised losses on investments	(798)	-
	<u>(446)</u>	<u>1,475</u>
<b>Total Investment Return</b>	<u>447</u>	<u>4,883</u>
Investment return is analysed between:		
Allocated investment return transferred to the general business technical account	116	1,607
Net Investment included in the non-technical account	777	1,801
Net Investment included in the other comprehensive income	(446)	1,475
	<u>447</u>	<u>4,883</u>

### 10 OTHER FINANCIAL INVESTMENTS

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Market value:		
Debt securities and other fixed interest securities	205,167	228,598
Overseas deposits	3,077	6,049
Shares and other variable yield securities	4,038	5,495
	<u>212,282</u>	<u>240,142</u>
Cost:		
Debt securities and other fixed interest securities	207,078	231,899
Overseas deposits	3,012	5,834
Shares and other variable yield securities	4,038	5,495
	<u>214,128</u>	<u>243,228</u>

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.

## Notes to the Financial Statements

### 10 OTHER FINANCIAL INVESTMENTS – Continued

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.

£96.9 million (2017: £134.1 million) of the total market value relates to Funds at Lloyd's, as explained in note 12; this is analysed as follows:

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Market value:		
Debt securities and other fixed interest securities	93,905	131,504
Shares and other variable yield securities	2,979	2,609
	<u>96,884</u>	<u>134,113</u>
Cost:		
Debt securities and other fixed interest securities	95,668	132,071
Shares and other variable yield securities	2,979	2,609
	<u>98,647</u>	<u>134,680</u>

#### *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 2018 by fair value hierarchy is set out below:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Debt securities and other fixed income securities	77,117	128,051	-	205,168
Shares and other variable yield securities	3,161	876	-	4,037
Overseas deposits	808	2,269	-	3,077
Total	<u>81,086</u>	<u>131,196</u>	<u>-</u>	<u>212,282</u>

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

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
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	<u>7,068</u>	<u>233,074</u>	<u>-</u>	<u>240,142</u>

## Notes to the Financial Statements

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### 10 OTHER FINANCIAL INVESTMENTS – Continued

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

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
<b>Amounts falling due within one year:</b>		
Other debtors	807	2,525
Total	<u>807</u>	<u>2,525</u>

### 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 2018 include £97.8 million (2017: £135.4 million) designated as FAL. Members' balances designated as FAL are included in the following asset headings:

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Other financial investments (note 10)	96,884	134,113
Deposits with credit institutions	-	115
Other prepayments and accrued income	872	1,219
Total assets designated as Funds at Lloyd's	<u>97,756</u>	<u>135,447</u>

### 13 OTHER CREDITORS

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
<b>Amounts falling due within one year:</b>		
Other creditors	520	4,787
	<u>520</u>	<u>4,787</u>



## Notes to the Financial Statements

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### 14 CASH AND CASH EQUIVALENTS

An analysis of cash and cash equivalents is as follows:

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Cash at bank and in hand	12,870	14,326
Overdrafts	(9,289)	(4,552)
	<u>3,581</u>	<u>9,774</u>

### 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 2018, a number of outwards reinsurance contracts were in force with group companies. The main excess of loss reinsurance programmes in operation during 2018 were shared with other Chubb companies, including Chubb European Group SE. Outwards Reinsurance premium in the technical account for the year ended 31 December 2018 includes reinsurance contracts of £0.2 million (2017: £0.9 million) placed with Chubb Tempest Reinsurance. No reinsurance contracts have been placed with other group companies. In addition to this, creditors arising out of reinsurance operations as at 31 December 2018 include £0.1 million (2017: £0.1 million) also payable to Chubb Tempest Reinsurance.

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 (2017: £Nil) 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 2018 FAL totalled £97.8 million (2017: £135.4million).

## Notes to the Financial Statements

### 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 in 2015, the standard allowed the syndicate to disclose information in relation to claims development occurring up to 5 years prior to 2015, and to thereafter add one extra development year annually up to the maximum of 10 years. The top half of the table shows how the estimates of total claims for each underwriting year develop over time. The lower half of the table reconciles the cumulative claims to the amount appearing in the balance sheet.

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

#### *Claims development as at 31 December 2018 - Gross*

	2011	2012	2013	2014	2015	2016	Total
	£000	£000	£000	£000	£000	£000	£000
Estimate of ultimates:							
End of underwriting year	36,554	48,835	33,392	35,199	44,929	29,415	
One Year Later	77,222	68,303	53,620	58,526	79,929	43,751	
Two Years Later	98,927	71,798	49,321	64,239	89,676	50,352	
Three Years Later	111,308	73,855	53,984	67,417	87,493		
Four Years Later	121,639	76,638	57,870	75,091			
Five Years Later	121,684	76,557	56,086				
Six Years Later	123,489	79,712					
Seven Years Later	120,679						
Current estimate of ultimate claims	120,679	79,712	56,086	75,091	87,493	50,352	
	107,440	58,911	40,286	42,521	53,730	25,097	
Cumulative payments							
In balance sheet	13,239	20,801	15,800	32,570	33,763	25,255	141,428
Provision for prior financial years							2,331
Liability in the balance sheet							143,759

## Notes to the Financial Statements

### 17 CLAIMS DEVELOPMENT TABLES – Continued

#### Claims development as at 31 December 2018 – Net

	2011	2012	2013	2014	2015	2016	Total
	£000	£000	£000	£000	£000	£000	£000
Estimate of ultimates:							
End of underwriting year	34,604	39,446	30,004	32,119	43,671	27,108	
One Year Later	65,211	55,284	49,671	56,420	76,036	40,362	
Two Years Later	67,979	67,297	47,345	61,150	85,019	46,785	
Three Years Later	70,695	65,873	53,165	66,162	84,775		
Four Years Later	75,981	68,916	57,512	70,381			
Five Years Later	78,967	69,095	55,853				
Six Years Later	85,043	72,442					
Seven Years Later	79,551						
Current estimate of ultimate claims	79,551	72,442	55,853	70,381	84,775	46,785	
Cumulative payments	70,175	51,659	40,287	42,521	53,695	24,561	
In balance sheet	9,376	20,783	15,566	27,860	31,080	22,224	126,889
Provision for prior financial years							2,353
Liability in the balance sheet							129,242

### 18 RECONCILIATION OF INSURANCE BALANCES

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

	2018	2017
	£000	£000
At 1 January	1,592	10,687
Decrease in provision	209	(9,311)
Foreign exchange movement	(339)	216
At 31 December	1,462	1,592

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

	Gross		Reinsurers' share	
	2018	2017	2018	2017
	£000	£000	£000	£000
At 1 January	15,667	47,941	1,747	2,700
Decrease in provision	(8,974)	(31,568)	(1,060)	(922)
Foreign exchange movements	1,257	(706)	48	(31)
At 31 December	7,950	15,667	735	1,747

## Notes to the Financial Statements

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### 18 RECONCILIATION OF INSURANCE BALANCES – Continued

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

	<b>Gross</b>		<b>Reinsurers' share</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 1 January	164,182	188,563	13,429	18,759
Increase/(decrease) in provision	(23,665)	(17,220)	570	(4,231)
Foreign exchange movements	3,242	(7,161)	518	(1,099)
At 31 December	143,759	164,182	14,517	13,429

### 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.

### 20 SUBSEQUENT EVENTS

CUAL agreed terms to reinsure to close the liabilities of Syndicate 1882 into Syndicate 2488's 2017 year of account with effective date 1 January 2019. Syndicate 2488 is also under the management of CUAL. This transaction resulted in the transfer to Syndicate 2488 of gross and net technical provisions of £150.2 million and £135.0 million, respectively.