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Annual Report and Financial Statements

Syndicate 2488

CHUBB®

31 December 2020

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President's Report

I am pleased to report a robust set of results for Chubb Underwriting Agencies Limited (“CUAL”) and Syndicate 2488 for the year ended 31 December 2020. It goes without saying that the past 12 months have been extremely challenging with Covid-19 but despite the significant pandemic related disruption and lockdown restrictions we were able to successfully transition to a working from home environment, working effectively with our broker partners and clients and maintaining our high levels of service.

Underwriters continued to take advantage of the hardening market and achieved meaningful top line growth through an improved pricing environment, favourably impacting renewals and also allowing risks that were previously underpriced to move within our underwriting appetite. Syndicate 2488 achieved “light touch” Lloyd’s regulatory status in 2020 and continued to attract new business as clients recognised CUAL’s superior qualities, brand and reputation, enabling us to seize opportunities arising from dislocation within the Lloyd’s Market. These growth enablers have more than compensated for the adverse underlying impact Covid-19 restrictions have had on production levels within specific elements of Chubb Global Market’s portfolio, notably within the Aviation and Political Risk markets.

Financial Performance

Syndicate 2488 underwrote £528.3 million of gross written premium in the year, an increase of over 8% on the £488.2 million recorded at year end 2019, with growth primarily driven by the improvement in market conditions referenced above. Additional revenue was also generated through the implementation of a number of specific broker initiatives which strengthened existing relationships with the global brokers and allowed us to expand the volume of business written with our other London Market focused broker partners. Net written premiums for the year increased in line with gross premiums, rising to £420.6 million from £387.0 million the previous year.

The syndicate reported underwriting profits of £9.3 million and an associated combined ratio of 97.6%. The results benefitted from prior period reserve releases of £31.5 million. Net catastrophe related losses, including losses relating to Covid-19, amounted to £76.9 million and, although higher than average, were within with the syndicate’s risk tolerances and expectations.

Net investment returns were £76.1 million, reflecting a strong investment performance and contributing to the profit for the year of £87.8 million.

Looking Ahead

The London wholesale market saw improvements in pricing across a broad range of business classes in 2020, with underwriting terms and conditions also remaining robust in the majority of areas. Whilst it is imperative we continue to capitalise on what are clearly some of the best market conditions we have seen for a long time, we must be equally conscious of the value we bring to customers in return. More than ever, our clients and brokers are relying on us to provide stability and peace of mind as they navigate these uncertain times and this year we will be aiming to further deepen and strengthen relationships with our partners.

We acknowledge the incredible pace of change throughout the world as new technologies lead to more innovative and efficient ways of doing business, and the impact this change is having on the insurance industry. CUAL will align with the Future at Lloyd’s initiatives outlined in Blueprint Two to take advantage of the proposed market-wide efficiency improvements through building a digital future. We will also focus on improving the syndicate’s digital capabilities and continue to simplify and standardise systems and processes to help us deliver the best insurance solutions for our clients.

There is an underlying sense of optimism in the air with vaccination programmes across the world picking up and infection rates dropping, with governments and health authorities now starting to consider plans for lifting restrictions and ending lockdowns. As the health-related aspects of the pandemic recede, CUAL is prioritising the safe reopening of its offices with, as always, the safety and well-being of our employees and their families continuing to be a key factor in planning and decision-making.

President's Report

Thanks

The whole of the Chubb Global Markets team, from our front facing underwriters and claims professionals to our vital support function colleagues, have demonstrated tremendous resilience in these unprecedented times and I would like to take this opportunity to formally thank them for their hard work, resolve and dedication throughout 2020.

I would also like to thank our broker partners for their continued support and engagement which has enabled us to align growth initiatives to specific underwriting strategies to build additional revenue and position Syndicate 2488 as one of the pre-eminent insurers in the Lloyd's Market.

There is huge momentum to drive profitable growth across the business and with the quality, dedication and professionalism of the Chubb Global Markets team, we are in an excellent position to deliver on our objectives and meet the targets we have set ourselves in 2021.

J W Keen

Chief Executive Officer and Active Underwriter, Chubb Underwriting Agencies Limited

3 March 2021

Managing Agent's Report

The Board of Directors of the syndicate's managing agent, Chubb Underwriting Agencies Limited ("CUAL") are pleased to submit their report and the audited syndicate annual accounts for the year to 31 December 2020.

This report and accounts are prepared using the annual basis of accounting as required by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Lloyd's Regulations") as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 (the "Regulations"). In addition to this statutory requirement, the report also addresses other aspects of the syndicate's business which the Board believes will be of benefit to interested parties.

Ownership

Chubb Limited, the ultimate parent of CUAL, is the Swiss-incorporated holding company of the Chubb Group of Companies. Chubb Limited and its direct and indirect subsidiaries, collectively the Chubb Group of Companies ("Chubb", "the company") are a global insurance and reinsurance organisation. At 31 December 2020, Chubb Limited held total assets of \$190.8 billion and shareholders' equity of \$59.4 billion. It is listed on the New York Stock Exchange (NYSE: CB) and is a component of the S&P 500 index. Chubb maintains executive offices in Zurich, New York, London, Paris and other locations, and employs approximately 31,000 people worldwide.

Coronavirus

During 2020 worldwide social and economic activity became severely impacted by the spread and threat of the novel coronavirus ("Covid-19"). CUAL took swift actions to minimise risk to employees, including restricting travel and instituting extensive work from home protocols. With respect to clients and business partners, the syndicate sought to minimise any disruption and was able to continue to operate effectively throughout the pandemic and region-wide lockdown restrictions.

The syndicate has reported Covid-19 related losses, net of reinsurance, amounting to £28.3 million for 2020, a significant but manageable number in line with expectations for an event of this nature. As at 31 December 2020 paid and reported claims comprised only 15% of the net of reinsurance loss.

The majority of the Covid-19 related loss arises in the Financial Lines class of business (59% of the net of reinsurance total) with smaller losses in Property (25% of the net of reinsurance total), Trade Credit (7%), Political Risks (4%) and Specialty Credit (4%). The syndicate has minimal exposure to Covid-19 related UK Business Interruption ("BI") losses and is therefore not directly impacted by the UK Supreme Court's judgements on BI policy wordings.

In addition, the economic repercussions of the pandemic and the widespread uncertainty it has created prompted the syndicate to adopt a more cautious approach to underwriting in certain classes of business during the year and as a consequence premium income was lower than it would otherwise have been.

Business Overview

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

Chubb is defined by its extensive product and service offerings, broad distribution capabilities, direct-to-consumer platform partnerships, exceptional financial strength and local operations globally. The company serves multinational corporations, mid-size and small businesses with property and casualty insurance and risk engineering services; affluent and high net worth individuals with substantial assets to protect; individuals purchasing life, personal accident, supplemental health, homeowners, automobile and specialty personal insurance coverage; companies and affinity groups providing or offering accident and health insurance programs 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.

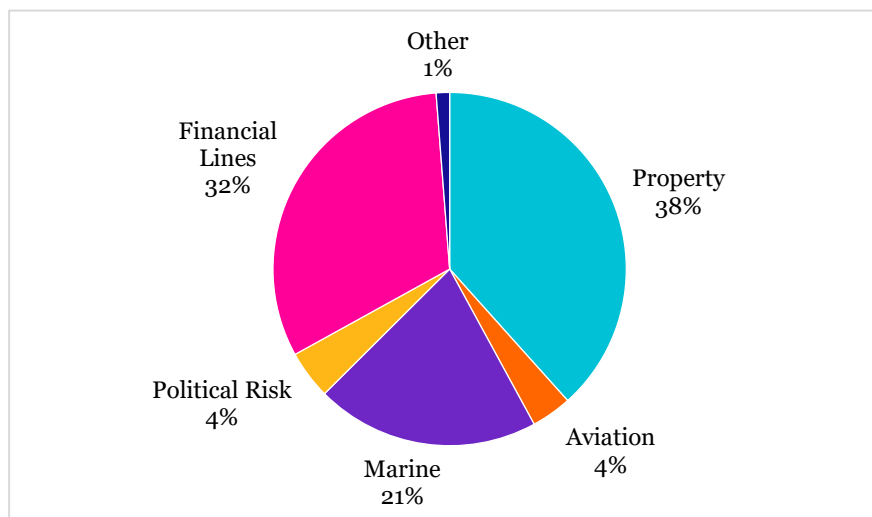
Managing Agent's Report

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

The structure of the syndicate's operations allows the underwriters formal and informal interaction with their Chubb underwriting peers across the world. With longstanding client relationships and multi-line global platforms, Syndicate 2488 enjoys a position as a lead insurer in the key lines in which it chooses to compete, with a significant presence in the Lloyd's market.

Chubb Global Market's underwriting products are offered principally through Syndicate 2488 and Chubb European Group SE ("CEG"), a French domiciled company which offers a wide range of property, casualty and accident and health insurance and reinsurance products to both retail and wholesale markets. Business may also be written through a number of overseas Chubb companies. Factors influencing the decision to place business with the syndicate, CEG or an overseas company include licensing eligibilities and capitalisation requirements, but predominantly reflect client and broker preference.

Syndicate 2488 underwrites a diverse portfolio of business organised into product lines including aviation, property, marine, political risk and financial lines. The 2020 split of gross written premiums by major product line is illustrated below:



* Other includes energy, international casualty, environmental liability, terrorism and other non-core lines

With effect from 1 January 2019, Syndicate 2488 accepted the reinsurance to close of the liabilities of Syndicate 1882. Syndicate 1882 was also managed by CUAL and had been in run-off since 31 December 2016. The 2016 year of account was its last year of account. The transaction resulted in the transfer to Syndicate 2488 of gross and net technical provisions of £150.2 million and £135.0 million, respectively.

Syndicate 2488 benefits from comprehensive and fully integrated support functions encompassing claims, finance and actuarial, risk management, legal and compliance, human resources, operations and IT. Some of the support functions are outsourced to specialist third party service providers and some of their services are performed outside of the UK. During the year the main outsourced service provider was changed from EXL to Genpact.

Business Objectives & Strategy

Syndicate 2488 has market-leading risk expertise, a disciplined approach to underwriting and is fully committed to meeting the insurance needs of its clients. It is distinguished by its ability to manage the challenging and constantly changing external environment, the clarity of its strategy and the thoroughness of its execution.

The syndicate's strategy focuses on an established underwriting ethos that permeates the business. Top line growth is not the primary driver for the syndicate and underwriters are fully prepared to shed volume as necessary in order to maintain an underwriting profit. Using CUAL's underwriting skills and targeted marketing strategies, the syndicate aims to generate growth in areas where risk-adjusted underwriting margins are favourable and achieve better terms or shrink business where they are not.

Managing Agent's Report

The syndicate's product line segmental structure enables underwriters to manage each business class at a detailed level, essential for the identification and analysis of the characteristics, challenges and opportunities of each class. Rating adequacy, competition, volatility and margins are analysed at a micro level by the underwriting teams with significant input from CUAL's actuaries and management team.

The syndicate strives to offer superior service levels in all aspects of its operations, particularly claims, and it continues to invest in technology to improve its operational efficiency, underwriter support and broker interfaces.

The syndicate and CUAL are committed to protecting and preserving its assets. It operates a conservative investment strategy and has maintained its focus on cash flow management and liquidity to secure its long-term position in the Lloyd's insurance market.

Post-Brexit Underwriting Arrangements

Following the UK's decision to withdraw from the European Union ("EU"), Syndicate 2488, in common with all syndicates operating in the Lloyd's market, has implemented new processes to enable it to continue underwriting EU-based risks and to service EU policies written prior to the withdrawal.

Since 1 January 2019 the syndicate has written all EU policies via Lloyd's Insurance Company S.A. ("LIC"), which is a Belgium based insurance company wholly owned by Lloyd's.

In addition, to ensure that the syndicate can continue to service EU policies written prior to the withdrawal, on 30 December 2020 it transferred all direct insurance policies (and related liabilities) written prior to 2019 for EU located risks or EU resident policyholders and which may have future premium or claims settlements to LIC. The transfer was in accordance with Part VII of the Financial Services and Markets Act 2000 and was approved by the English High Court on 25 November 2020. Furthermore, on 30 December 2020 the syndicate entered into a 100% quota share reinsurance agreement whereby LIC reinsured all risks on the same policies back to the syndicate.

Upon transfer of the impacted EU policies and related liabilities the syndicate paid \$109.3 million to LIC as consideration for the transferred liabilities and at the same time the syndicate received \$109.3 million from LIC in return for the 100% quota share reinsurance agreement. The combined effect of the two transactions had no economic impact on the syndicate, and accordingly there is no impact on the syndicate's Income Statement or Statement of Financial Position in 2020.

Investment Strategy

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

Syndicate 2488 maintains six active investment grade fixed income portfolios, held in US dollars, sterling, Canadian dollars and euro. In addition, the syndicate maintains a US dollar investment grade portfolio, an actively managed US dollar high yield portfolio, a private equity fund and an equity portfolio in respect of the Funds in Syndicate.

The approximate currency split of the syndicate investment portfolios, including Funds in Syndicate, is US dollars 69%, Euros 10%, Canadian dollars 11%, Sterling 4% and other currencies 6%.

During the year, the syndicate continued to maintain diversified actively managed portfolios with exposure to a broad range of sectors. No changes to the asset allocation policy were implemented during 2020. In the third quarter, a new global equity portfolio was established and funded.

Presentation of Financial Statements

The basis of preparation of Syndicate 2488's annual financial statements is in accordance with the 2008 Lloyd's Regulations, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, and applicable accounting standards in the United Kingdom. These financial statements recognise a calendar year profit or loss, driven by net earned premium and net incurred losses arising on that net earned premium.

Managing Agent's Report

Managing agents are required to prepare syndicate underwriting accounts, similar to those previously prepared on a three year underwriting basis in respect of any year of account which is being closed by reinsurance to close, unless all the members on the closing year agree otherwise. Syndicate 2488 is a fully aligned syndicate, with 100% of the underwriting capital provided by one corporate capital vehicle, Chubb Capital 1 Limited. Chubb Capital 1 Limited has agreed to waive its right to receive syndicate underwriting accounts in respect of Syndicate 2488's closed 2018 year of account and, as such, no information on this basis has been provided within this report and annual accounts.

Key Performance Indicators

The following financial key performance indicators ("KPIs") have been deemed relevant to the syndicate business. These KPIs are reviewed regularly by the CUAL Board.

£ million	2020	2019
Gross premiums written	528.3	488.2
Net premiums written	420.6	387.0
Combined ratio % *	97.6%	93.6%
Profit for financial year	87.8	101.7

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

Management also uses a variety of other performance indicators, including production volumes, retention ratios, price monitoring, loss and expense analyses, and operating metrics in assessing the performance of each of the product lines. All financial results are monitored against plan, forecast and prior year on a regular basis.

CUAL seeks to manage syndicate capacity levels in order to make the most effective use of available capital. The 2021 capacity of Syndicate 2488 has been set at £550.0 million (2020: £480.0 million).

Results & Performance

Syndicate 2488's business is principally conducted in US dollars however, for accounting purposes, the financial results are presented in sterling. Syndicate 2488's functional currency is US dollars. Fluctuations in exchange rates during the year can therefore impact the comparability of the income statement and balance sheet for the current year with the prior year, although in 2020 the impact of changes in exchange rates was minimal.

Syndicate 2488 produced a profit for the 2020 financial year of £87.8 million and a combined ratio of 97.6%. A summary of the reported financial results is shown below.

£ million	2020	2019
Gross premiums written	528.3	488.2
Net premiums written	420.6	387.0
Net premiums earned	391.7	378.8
Incurred losses	257.2	218.5
Operating expenses	125.2	136.1
Underwriting profit / (loss)	9.3	24.2
(Loss)/profit on exchange	2.4	(12.1)
Investment return	76.1	89.6
Profit for financial year	87.8	101.7
Combined ratio %	97.6%	93.6%

Managing Agent's Report

Rating Environment

The London insurance market experienced premium rate increases across a broad range of business classes in 2020, with more significant rate increases being seen as the year progressed. The largest increases for the syndicate were in the Financial Lines, Aviation, Marine and Property classes of business.

Drivers of Underwriting Result

The syndicate's underwriting result in 2020 was negatively impacted by losses arising from the Covid-19 global pandemic and other natural catastrophe events, although the full impact of these events was partly offset by prior period reserve releases.

The 2020 underwriting profit was £9.3 million (2019: £24.2 million) which equates to a combined ratio of 97.6% (2019: 93.6%). The underwriting profit benefited from a prior period reserve release of £31.5 million (2019: £4.6 million). The combined ratio excluding the prior period reserve releases was 105.6% (2019: 94.8%) but included 7.2% for Covid-19 related losses (2019: 0%) and 12.4% for other catastrophe events (2019: 2.7%) which were principally hurricanes Sally, Zeta and Laura which struck the US in the third and fourth quarters of 2020. Syndicate 2488's exposure to large losses is managed by adherence to clear risk management and underwriting guidelines and the use of reinsurance protection and sophisticated modelling and analysis.

Gross written premiums of £528.3 million in 2020 were 8.2% higher than the prior year. The growth in 2020 reflects the continued increases in premium rates and increased underwriting opportunities, and would have been greater had CUAL not adopted a more cautious approach to underwriting in the first half of the year in response to the social and economic uncertainties brought on by the Covid-19 pandemic and national lockdowns around the world. Growth was strongest in the Property, Marine and Financial Lines classes of business.

The syndicate purchases reinsurance to mitigate the impact of major events and an undue frequency of smaller losses and seeks to limit its loss exposures by purchasing reinsurance up to its maximum line sizes and accumulations. The principal reinsurance programmes operated by the syndicate during the year were partly shared with other Chubb companies including CEG. There were no major changes to the syndicate's reinsurance purchasing strategy in 2020.

Operating expenses constitute acquisition costs, Lloyd's subscriptions, Central Fund contributions and general administrative expenses. CUAL continues to focus on the management of each of these components in line with the growth and needs of the business.

Investment Performance

Despite significant volatility at the start of the year, investment markets performed strongly in 2020. Investment grade fixed income returns were generally good in 2020 as both sovereign and corporate yields fell. Returns for high yield bonds, private loans and equities recovered and produced good returns for the full year.

Overall Syndicate 2488 generated a total return of 5.1% in 2020 (2019: 5.7%) on balances available for investment. For investment grade portfolios, total returns of 3.9%, 2.2% and 7.7% were generated for sterling, euro and Canadian dollar portfolios respectively (2019: 4.5%, 4.4%, 4.7%). The US dollar investment grade portfolios which comprise over 77% of the investment grade bonds generated a total return of 4.9% in the year (2019: 5.0%).

Syndicate 2488's alternative investment assets, constituting around 26% of the total portfolio, are comprised of US dollar upper tier high yield bonds (13%), the Oak Hill Advisors private equity fund (7%) and a global equity portfolio managed by Wellington Management Company (5%), which was established at end of August 2020. The high yield portfolio generated strong returns of 5.5%, the Oak Hill Advisors fund 5.3% and the equity portfolio 12% for the year.

Cash Flow

Total syndicate cash flow derived from operating activities in the year was positive. The distribution of the 2017 year of account profits was made in 2020.

Managing Agent's Report

Capital

A syndicate's capital requirements are determined through the submission and agreement by Lloyd's of a Solvency Capital Requirement ("SCR") adjusted by Lloyd's through the application of a market wide uplift of 35%. The uplifted SCR is referred to as the Lloyd's Economic Capital Assessment ("ECA").

The Prudential Regulation Authority ("PRA") conducts reviews directly with Lloyd's on the overall SCR for the Lloyd's Market rather than at a syndicate level. 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 SCR the syndicate assesses its risk profile and capital requirements using an internal model which has been developed to meet Solvency II requirements. The internal model is supported by a robust validation and governance framework which ensures its ongoing appropriateness and is refined to reflect the syndicate's experience, changes in the risk profile and advances in modelling methodologies. For 2021, the SCR shows a slight decrease compared with the 2020 requirement.

The syndicate maintained capital throughout 2020 in excess of the Lloyd's ECA.

Syndicate 2488 meets its Funds at Lloyd's ("FAL") requirement by the provision of investments held within the syndicate which are designated as Funds in Syndicate. The overall quantum of FAL for 2020 year end increased to £631.6 million (2019: £618.9 million).

Ratings

All active syndicates benefit from the financial strength ratings assigned to the Lloyd's market by various rating agencies. Lloyd's currently holds financial strength ratings of "A (Excellent)" from A.M. Best, "A+ (Strong)" from Standard & Poor's and "AA- (Very Strong)" from Fitch. In view of these robust ratings, together with Chubb's core operating insurance companies ratings of "A++" and "AA" from A.M. Best and Standard & Poor's respectively, it has not been considered necessary to obtain an individual rating for the syndicate.

Governance

CUAL has a documented corporate governance framework, the purpose of which is to exercise oversight and control over the management of its own and the syndicate's business.

The Board of Directors ("the Board") has reserved responsibility for decisions in connection with a number of matters, including those of a significant strategic, structural, capital, financial reporting, internal control, risk, contractual, policy or compliance nature. The Board meets at least four times a year and additionally on other occasions to discharge its responsibilities in respect of these and other matters. In 2020 the Board met nine 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 two independent non-executive directors, two non-executive regional Chubb representatives and two executive directors. During 2020 Matthew Shaw, as executive director and Chief Executive Officer, left the Board and was replaced by Jason Keen. 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 of the regional Chubb representatives into the wider Chubb Group. Details of the directors, including appointments and resignations can be found on page 16.

Key non-routine Board activity during the year included: i) monitoring of the Lloyd's Part VII Transfer, ii) CUAL's response to the FCA's Dear CEO letter on non-financial misconduct, iii) response to the PRA's rules on Diversity and iv) approval of the change in business process outsource provider from EXL to Genpact. The Board conducted deep dives on the impacts of Covid-19, the syndicate's investment approach, the risks of climate change and the programme to identify efficiencies and to automate processes. It also approved a change to the asset allocation policy and changes to the Internal Model Governance Framework and associated documentation.

Managing Agent's Report

The Board received regular reports on the status of business results, business and function plans, resourcing, developments in the risk and regulatory environments, regulatory compliance, underwriting controls, actuarial and solvency matters. One meeting each year is dedicated to the company's business strategy.

The Board has delegated a number of matters to committees. Each of the following committees has formal terms of reference and matters reserved to it. Each, with the exception of the CUAL Management Committee, includes non-executive directors in its membership, and reports to the Board regularly in respect of its remit.

The Audit & Risk Committee, which was comprised exclusively of non-executive directors, considered and made recommendations to the Board on areas including the validation of solvency calculations, internal controls, financial reporting, whistleblowing, actuarial matters and the external audit. In addition it 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 were recorded and monitored.

This Committee received reports from the compliance, conduct, actuarial and finance functions on a quarterly basis. Other regular reporting included updates 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. It also reviewed the work supporting compliance with the Lloyd's Minimum Standards and completion of CUAL's Lloyd's returns and other regulatory requirements.

In relation to the external audit process, the Committee monitored the nature and scope of work in the audit of the financial statements and other external reporting requirements. The Committee received regular reports from the External Auditor and the independent non-executive directors met regularly with the External Auditor without management being present.

In the case of the internal audit function, the 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. The Committee received regular reports from the Internal Auditor and the independent non-executive directors met regularly with the Head of Internal Audit without management being present.

The Committee's role was aimed at providing assurance to the Board that the internal control systems, agreed by executive management, was appropriate for the prudent management of the business during the year and was operating as designed. At all times the Committee members were expected to challenge any aspect of these processes which it considered weak or generally poor practice.

During 2020 the Committee in particular reviewed and came to satisfactory conclusions on: i) the impacts of Covid-19 on the company's risks, losses and levels of reserving, ii) CUAL's response to the regulatory information requests, for example the Lloyd's thematic review of anti-money laundering and the FCA's risk mitigation plan for business continuity, and iii) it assessed the impacts of the FCA's Business Interruption Test Case. Other areas of focus were developments around sanctions and the risks associated with leadership changes.

The CUAL Management Committee comprises executive directors and other members of the senior management team. The primary role of the 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 specialist sub-committees.

The specialist sub-committees include: finance, capital & credit; reserve; underwriting controls & product oversight; investment; internal model steering and IT steering committees. These report to the CUAL Management Committee to ensure that various aspects of the business are reviewed by a wide senior management group. In 2020 the reporting line of the delegated underwriting review committee was transferred to the Management Committee to improve governance. The purpose of this sub-committee is to assist the CGM Division President in the performance of his duties in respect of the monitoring of delegated authorities.

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

Managing Agent's Report

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, risk management, monitoring and governance.

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

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

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

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

The RMF was re-approved by the Board in 2020 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 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 utilises a skilled and specialist workforce employed by Chubb Services UK Limited and Chubb European Group SE, 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.

Managing Agent's Report

Social, Environmental and Employee Matters

The Chubb Code of Conduct

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 of CUAL 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 anyone fails to meet those standards or contractual obligations.

Diversity & Inclusion

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 three 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.

Chubb's Diversity & Inclusion ("D&I") strategy is delivered across the region by the European Head of Diversity & Inclusion with the help of the regional Diversity & Inclusion Council of senior representatives.

With the support of the executive team, Chubb has developed six employee-led networks: 'Gender Equality Network', 'Social Mobility', 'Parents and Carers Network', 'Abilities & Wellbeing', 'Cultural Awareness' and 'Pride'. Each network has dedicated Executive sponsorship and provides opportunity for employees to collaborate on initiatives that contribute to positive change.

In addition to these 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 key sponsor of the global Dive In Festival for several years, showcasing D&I in Insurance.

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 maintain 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 people. Chubb strives to attract, retain and develop employees to meet their career aspirations. 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. Formal succession plans are in place at the senior level.

Chubb expects all employees to own and drive their development by availing themselves of the structured and unstructured learning on offer. In turn, it will help those employees who are motivated to develop and grow by providing the critical experiences,

Managing Agent's Report

resources, tools and opportunities to succeed in their career. CUAL supports employees with job-related professional qualifications and external development opportunities where appropriate. It also provides regulatory and technical e-learning to new starters and existing employees. CUAL internally sources talent to fill open positions where appropriate.

Environmental Matters

Chubb recognises its responsibility to provide solutions that help clients manage environmental risks, to reduce its own environmental impact and to make meaningful contributions to environmental causes. Chubb makes sustainability and preservation a high priority, integrating environmentalism into many aspects of its business, from its products and services to its day-to-day operations, as well as within its philanthropic commitments.

Chubb is committed to developing insurance products and risk management services that facilitate market-based solutions to current and pending environmental and climate-related issues. Chubb's environmental insurance solutions include coverages for premises-based exposures, contractors' and project pollution liability, renewable energy, clean tech 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 and provides risk management expertise to help manage environmental challenges caused by climate change.

In 2019 Chubb adopted a policy concerning thermal coal-related underwriting and investment and committed to not make new debt or equity investments in companies that generate more than 30% of revenues from thermal coal mining or energy production from coal. Chubb will no longer underwrite the construction and operation of new coal-fired plants or new risks for companies that generate more than 30% of their revenues from coal mining or energy production from coal. Insurance coverage for existing coal plant risks that exceed this threshold will be phased out by 2022, and for utilities beginning in 2022.

Chubb is committed to managing and reducing greenhouse gas ("GHG") emissions throughout its operations. In June 2020 Chubb announced that it had achieved its short-term goal to reduce GHG emissions 20% on an absolute basis by 2025 through a combination of real estate portfolio optimisation and energy-efficiency projects. The company continues to pursue its long-term goal to reduce absolute GHG emissions 40% by 2035, which is equivalent to 45,000 metric tons of CO₂ per year. A third-party certified environmental statement on Chubb's GHG emissions programme is also included in the Chubb Limited annual report.

Chubb's commitment to the disclosure of environmental actions and philanthropic activities reduces the reputational risk relating to its environmental practices. Chubb produces an annual Environmental Report which outlines the full scope of the group's environmental programme and initiatives. It also reports annually to the CDP - an international, not-for-profit organisation providing the only global system for companies and cities to measure, disclose, manage and share vital environmental information - disclosing climate change risks and opportunities as well as emissions performance. In 2020, the company earned a score of B on the CDP's climate change program ranking.

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 whilst also comparing its actions against other leaders in the industry.

Citizenship & Charitable Giving

Chubb supports a wide range of activities that benefit the community through the global Chubb Foundation, 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 charitable contribution scheme.

In 2020, in response to the coronavirus pandemic, Chubb committed \$10 million to pandemic relief efforts globally. The company's support, funded through the Chubb Charitable Foundation, was directed to a range of partner organisations around the world to provide essential resources in areas facing the most acute need, including organisations providing emergency medical equipment and supplies to healthcare facilities and community food banks to support those who have become unemployed as a result of the pandemic. In Europe, these contributions included a \$1.5 million donation to FareShare, the UK's national network

Managing Agent's Report

of charitable food banks and a \$1.5 million contribution to the Global FoodBanking Network, a company that provides direct grants to food banks in Europe. Chubb also supported other industry initiatives to help mitigate the spread of coronavirus and its impact on people and the economy.

Chubb is a member of the Insurance Industry Charitable Foundation and the main sponsor of the East End Community Foundation in the UK, which this year helped to fund Winter Care Packages for the local community. The company is also a supporter of the Lloyd's Community Programme which worked in association with the Tower Hamlets Education Business Partnership to provide books to children in the London area during the pandemic.

'Charity at Chubb' is Chubb's European charity committee with a remit to make the best, most relevant charitable impact aligned to Chubb's wider corporate and social responsibility and diversity & inclusion strategies. In 2020, Charity at Chubb donated approximately £190,000 to 67 charities and good causes.

Guarding against Financial Crime

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 management of financial crime risk is fully integrated into Chubb's wider Risk Management Framework. 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 and is underpinned by the Chubb Code of Conduct.

The Financial Crime Framework sets out Chubb's approach to managing financial crime risk, including the governance procedures; how financial crime risk is assessed; the control framework in place; and oversight procedures.

Financial crime policies and explanatory guidance notes relating to financial crime are in place, are appropriately detailed and take into account the nature and complexity of Chubb's activities. All business lines are required to implement appropriate risk based procedures and controls at each stage of the insurance transaction to mitigate financial crime risk exposure and to ensure compliance with the agreed standards.

Detailed and regular financial crime reports are provided that enable Senior Management, the Audit & Risk Committee and the Board to understand the financial crime risks to which CUAL is exposed. This enables the managing agent to manage financial crime risk in accordance with Chubb's risk appetite, and to ensure that controls operate effectively.

Financial crime training including sanctions restrictions, anti-bribery and anti-money laundering is provided for all new starters and risk based training, tailored to specific roles is provided regularly thereafter. Chubb's training has a strong practical dimension, including case studies and knowledge testing. Training material is reviewed periodically to ensure consistency and effectiveness and is updated when required to ensure that it is relevant and up to date.

Human Rights

Chubb conducts its business in a manner that respects the human rights and dignity of all, and supports international efforts to promote and protect human rights. Chubb does not tolerate abuse of human rights in a Chubb workplace or in the course of its business. Chubb aims to comply with legal and regulatory requirements everywhere it conducts business. These values are embedded in the Chubb Code of Conduct. Chubb policies, frameworks and actions which aim to prevent modern slavery and human trafficking in both the business and its supply lines include:

- Attestation to the Chubb Code of Conduct;
- Undertaking employment verification checks as part of the hiring process where allowed by local legislation;
- Requiring agencies who supply workers to carry out employment verification checks, wherever staff are located where allowed by local legislation;
- 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 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 issues are identified.

Managing Agent's Report

Chubb has policies, procedures and training materials to make its commitment to anti-slavery and human trafficking explicit to customers, employees, suppliers, and business partners. In 2019 Chubb enhanced its framework for the management of its third parties by launching a new risk assessment tool and control standards. This was followed by training to business managers and support staff in 2020. Chubb's General Data Protection Regulations communications make reference to the 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 company's website.

Directors

The following have been directors of the managing agent from 1 January 2020 to the date of this report unless otherwise indicated:

Executive directors:

J W Keen Appointed 28 March 2020, Chief Executive Officer and Chief Underwriting Officer

C P J O'Brien

A M W Shaw Resigned 28 March 2020, Chief Executive Officer and Active Underwriter

Non-executive directors:

M A Connole

D M A Furby

J A Turner Chairman

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, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 (the "Regulations"), to prepare syndicate annual accounts for Syndicate 2488 for each financial year which give a true and fair view of the state of affairs of the syndicate and of its profit or loss for that year.

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

- i) select suitable accounting policies which are applied consistently with the exception of changes arising on the adoption of new accounting standards in the year;
- ii) make judgements and estimates that are reasonable and prudent;
- iii) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the syndicate annual accounts; and
- iv) prepare the syndicate annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The directors of the managing agent confirm that they have complied with the above requirements in preparing the syndicate annual accounts.

Managing Agent's Report

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 2020 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, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 (the "Regulations") require that the auditors of the syndicate annual accounts be appointed by the members of the syndicate, initially for the syndicate annual accounts for the 2009 year end after which provisions for deemed reappointment of auditors will apply. PricewaterhouseCoopers LLP is deemed to have been reappointed as the auditors of the syndicate annual accounts for the 2020 year end.

On 10th December 2001, Lloyd's granted consent to PricewaterhouseCoopers LLP continuing to act as syndicate auditors for Syndicate 2488 (for the 2002 and previous years of account) and as corporate auditors for CUAL and other Chubb group companies (for the 2002 financial year). This consent was, in effect, an extension of the consent granted previously in relation to the 2001 and prior years of account and has been further extended without time limit.

Approved by the Board and signed on its behalf:

C P J O'Brien

Director

3 March 2021

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 2488

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 2488's annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2020 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 applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2020; the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Members' Balances for the year then ended; and the Notes to the Financial Statements, which include a description of the significant accounting policies.

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

Independence

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

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue as a going concern for a period of at least twelve months from when the syndicate annual accounts are authorised for issue.

In auditing the syndicate annual accounts, we have concluded that the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is appropriate.

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

Our responsibilities and the responsibilities of the Managing Agent with respect to going concern are described in the relevant sections of this report.

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.

Independent Auditors' Report

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

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

Based on our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires 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 2020 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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, the Managing Agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the syndicate annual accounts

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to revenue recognition and management override of controls. Audit procedures performed included:

- Discussions with senior management involved in the Legal and Internal Audit functions, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of any matters reported on the company's whistleblowing helpline and the results of management's investigation of such matters;

Independent Auditors' Report

- Reading key correspondence with Lloyd's, the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Audit and Risk Committee;
- Testing journal entries identified in accordance with our risk assessment;
- Identifying and testing estimated premium income on a sample basis; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the syndicate annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate's member in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; 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.

Robert Cordock (Senior statutory auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 March 2021

Income Statement for the year ended 31 December 2020

Technical account – general business	Notes	2020 £000	2019 £000
Earned premiums, net of reinsurance			
Gross premiums written	4	528,252	488,175
Outwards reinsurance premiums		(107,682)	(101,176)
Net premiums written		420,570	386,999
Change in the gross provision for unearned premiums		(29,113)	(7,167)
Change in the provision for unearned premiums, reinsurers' share		240	(1,063)
Change in unearned premiums, net of reinsurance		(28,873)	(8,230)
Earned premiums, net of reinsurance		391,697	378,769
Allocated investment return transferred from the non-technical account	8	36,644	40,531
Total technical income		428,341	419,300
Claims incurred, net of reinsurance			
Claims paid, gross amount	4	(301,118)	(352,383)
Claims paid, reinsurers' share		59,164	83,766
Net claims paid		(241,954)	(268,617)
Change in the provision for claims, gross amount	4	(83,064)	83,530
Change in the provision for claims, reinsurers' share		67,772	(33,430)
Change in the provision for claims, net of reinsurance		(15,292)	50,100
Claims incurred, net of reinsurance		(257,246)	(218,517)
Net operating expenses	6	(125,138)	(136,052)
Total technical charges		(382,384)	(354,569)
Balance on the general business technical account		45,957	64,731

The notes on pages 27 to 51 form an integral part of these financial statements.

Income Statement for the year ended 31 December 2020

Non-technical account	Notes	2020	2019
		£000	£000
Balance on the general business technical account		45,957	64,731
Investment return			
Investment income	8	61,601	56,444
Unrealised gains on investments	8	102,136	71,710
Investment expenses and charges	8	(12,945)	(9,859)
Unrealised losses on investments	8	(74,676)	(28,737)
Allocated investment return transferred to general business technical account	8	(36,644)	(40,531)
Investment return	8	39,472	49,027
Profit/(Loss) on exchange		2,388	(12,090)
Profit for the financial year		87,817	101,668

The above results are all derived from continuing operations.

The notes on pages 27 to 51 form an integral part of these financial statements.

Statement of Comprehensive Income for the year ended 31 December 2020

	2020	2019
	£000	£000
Profit for the financial year	87,817	101,668
Currency translation differences	(12,432)	(32,793)
Total comprehensive income for the financial year	75,385	68,875

Statement of Financial Position as at 31 December 2020

Assets	Notes	2020 £000	2019 £000
Investments			
Other financial investments	9	1,463,990	1,384,274
Reinsurers' share of technical provisions			
Provision for unearned premiums	16	54,225	55,524
Claims outstanding	16	307,707	243,683
		361,932	299,207
Debtors – amounts falling due within one year			
Debtors arising out of direct insurance operations		62,115	50,942
Debtors arising out of reinsurance operations		66,848	56,813
Other debtors	10	447	51,671
		129,410	159,426
Other assets			
Cash at bank and in hand	12	106,581	120,804
Prepayments and accrued income			
Deferred acquisition costs	16	55,169	51,648
Other prepayments and accrued income		9,209	11,119
		64,378	62,767
Total assets		2,126,291	2,026,478

The notes on pages 27 to 51 form an integral part of these financial statements.

Statement of Financial Position as at 31 December 2020

Liabilities	Notes	2020 £000	2019 £000
Capital and reserves			
Members' balances		631,716	608,750
Technical provisions			
Provision for unearned premiums	16	245,182	220,297
Claims outstanding	16	1,044,492	964,380
		1,289,674	1,184,677
Deposits received from reinsurers		0	55
Creditors – amounts falling due within one year			
Creditors arising out of reinsurance operations		60,658	48,918
Bank loans and overdrafts	12	101,429	109,300
Other creditors including taxation and social security		29,000	60,817
		191,087	219,035
Accruals and deferred income		13,814	13,961
Total liabilities		2,126,291	2,026,478

The notes on pages 27 to 51 form an integral part of these financial statements.

The syndicate annual accounts on pages 21 to 51 were approved by the board of Chubb Underwriting Agencies Ltd on the 3 March 2021 and were signed on its behalf by:

C P J O'Brien

Director
3 March 2021

Statement of Changes in Members' Balances

	Members' Balances
	£000
At 1 January 2019	631,063
Profit for the financial year	101,668
Net transfer into / (out of) members' balances designated as Funds in Syndicate	(69,020)
Profit distribution	(21,646)
Other	(522)
Currency translation differences	(32,793)
At 31 December 2019	608,750
Profit for the financial year	87,817
Net transfer into / (out of) members' balances designated as Funds in Syndicate	(20,636)
Profit distribution	(32,656)
Other	873
Currency translation differences	(12,432)
At 31 December 2020	631,716

Statement of Cash Flows

	Notes	2020 £000	2019 £000
Operating result		87,817	101,668
Increase / (decrease) in gross technical provisions		104,997	2,287
(Increase)/ decrease in reinsurers' share of gross technical provisions		(62,725)	33,784
Decrease / (increase) in debtors		28,404	(9,494)
(Decrease) / increase in creditors		(20,225)	45,149
Investment return		(76,116)	(89,558)
Other		(6,256)	42,831
Net cash inflows from operating activities		55,896	126,667
Investing activities			
Investment income received		48,655	46,585
Purchase of debt and equity investments		(443,433)	(610,694)
Sale of debt and equity investment		450,565	476,459
Other		(23,137)	(9,194)
Net cash outflows from investing activities		32,650	(96,844)
Financing activities			
Transfers to members in respect of underwriting participations		(32,656)	(21,645)
Profits added to funds in syndicate		32,304	-
FIS released to member		(52,940)	(69,020)
Net cash (outflows) / inflows from financing activities		(53,292)	(90,665)
Increase / (Decrease) in cash and cash equivalents		35,254	(60,842)
Cash and cash equivalents at 1 January		27,607	83,150
Exchange differences on opening cash		(5,967)	5,299
Cash and cash equivalents at 31 December	12	56,894	27,607
Cash at bank and in hand	12	106,581	120,804
Short-term deposits with credit institutions	12	51,742	16,103
Overdraft	12	(101,429)	(109,300)
Cash and cash equivalents at 31 December	12	56,894	27,607

Notes to the Financial Statements

1. BASIS OF PREPARATION

The syndicate annual accounts have been prepared in accordance with applicable accounting standards in the United Kingdom, including Financial Reporting Standard FRS 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (“FRS 102”) and Financial Reporting Standard, “Insurance Contracts” (“FRS 103”) and the provisions of Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (“SI2008/410”), Regulation 5 of the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 (“the 2008 Lloyd’s Regulations”), as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 (the “Regulations”).

These annual accounts include all sources of capital supporting the operations of the syndicate. Given that Syndicate 2488 is a fully aligned syndicate, with 100% of the underwriting capacity provided by Chubb corporate capital vehicles, these accounts are able to disclose the total Funds at Lloyd’s (“FAL”) capital supporting the operations of the syndicate (see note 14).

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

Syndicate 2488’s functional currency is US dollars. The presentational currency is sterling which is common practice in the Lloyd’s market and aids comparability.

2. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

In preparing these financial statements, the directors of the managing agent have made judgements, estimates and assumptions that affect the application of the syndicate’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The measurement of the provision for claims outstanding involves judgements and assumptions about the future that have the most significant effect on the amounts recognised in the financial statements. The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgement is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (“IBNR”) to the syndicate.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the in-house actuaries and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time in view of the likely ultimate claims to be experienced and for more recent underwriting, having regard to variations in business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. 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 business accepted and assessments of underwriting conditions.

The gross written premium is initially based on estimated premium income (EPI) for each contract. EPI estimates are based on information provided by the brokers, policyholders, coverholders, past underwriting experience and the contractual terms of the policy. The EPI estimates are reviewed on a regular basis. Premiums in respect of insurance contracts underwritten under binding authorities are booked as the underlying contracts incept (a straight-line basis is selected for this inception pattern). Premiums are earned on a straight-line basis over the life of each contract. At a portfolio level this is considered to provide a reasonable estimate for the full year of the pattern of risk over the coverage period.

The significant accounting policies used in the preparation of these financial statements are as follows:

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES – continued

Premiums written

Premiums written, which are stated gross of brokerage but exclusive of premium taxes, relate to:

- a) 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;
- b) payments made to Lloyd's Insurance Company S.A. ("LIC") on 30 December 2020 for the transfer of all direct insurance policies (and related liabilities) written prior to 2019 for EU located risks or EU resident policyholders and which may have future premium or claims settlements, in accordance with Part VII of the Financial Services and Markets Act 2000; and
- c) reinsurance premium received from LIC on 30 December 2020 in return for the 100% quota share reinsurance agreement written by the syndicate and covering the liabilities transferred to LIC under the transaction referred to in b) above.

The payments made to LIC and the reinsurance premium received from LIC are closely linked transactions and are intended to have a neutral impact on the income statement, hence both transactions are recorded with premiums written.

Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established risk profiles or time apportionment as appropriate.

Acquisition costs

Acquisition costs comprise brokerage, commissions and other related costs, and are deferred over the period in which the related premiums are earned.

Claims incurred

Claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect expenses and adjustments to claims outstanding from previous years. Where applicable, deductions are made for reinsurance, salvage and other recoveries.

Provision for claims outstanding and related reinsurance recoveries

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

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

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES – continued

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

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

Fire and other damage to property; marine, aviation and transport; accident and health

These business segments are predominantly “short tail”; that is there is not a significant delay between the occurrence of the claim and the claim being reported to the syndicate. The costs of claims notified to the syndicate at the balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics, which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

Third party liability (including marine and aviation liability)

Liability claims are longer tail than the classes of business described above and so a larger element of the provision for claims outstanding relates to IBNR. Claims estimates for the syndicate’s liability business are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique. In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. The liability class of business is also subject to the emergence of new types of latent claims but no allowance is included for this as at the balance sheet date.

Reinsurance acceptances

This business segment includes both short tail and longer tail business, and is subject to the issues laid out in the preceding two sections.

Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. Both realised investment gains and losses are included as part of investment return in the profit and loss account. Dividends receivable are accounted for by reference to the date on which the price of the investment is quoted ex-dividend. Interest and expenses are accounted for on an accruals basis.

Realised gains and losses on investments carried at bid value are calculated as the difference between net sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or, if they have previously been revalued, their valuation at the last balance sheet date,

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES – continued

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 and non-quoted investments where there is no active market, the bid value is determined by reference to prices for similar assets in active markets.

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

Investments – fair value through profit and loss

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

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

Insurance and other receivables

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

Insurance and other payables

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

Taxation

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

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

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

Foreign currencies

Foreign currency transactions are accounted for, in functional currency, at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, from translating such transactions into the

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES – continued

functional currency of the syndicate, and from the revaluation to year end exchange rates of monetary assets and liabilities, are recognised in the profit and loss account.

At each period end foreign currency monetary items are translated using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined. Results recorded in their functional currency, are translated into sterling at average rates of exchange for the year while assets and liabilities are translated to sterling at year end exchange rates. Differences arising on translation are recorded in the statement of comprehensive income.

Profit commission

Profit commission is chargeable by the managing agent at a rate of 15% of the year of account profit, subject to the operation of a deficit clause. This does not become payable until after the appropriate year of account closes, normally at 36 months.

The managing agent has waived its right to the receipt of profit commission for the 2017 and 2018 years of account. It is currently anticipated that the profit commission will also be waived for the 2019 and 2020 years of account.

Reinsurance to close (“RITC”) received from a third party syndicate

When the syndicate accepts a RITC premium from another syndicate it records all of the assets and liabilities transferred from the other syndicate on the balance sheet at fair value on the date the RITC agreement is effective. Any unearned gross and reinsurance premiums included with the RITC transaction are recorded in the income statement on the date of the RITC agreement is effective and immediately deferred as movements in gross and reinsurers’ share of unearned premiums and are subsequently earned over the remaining life of the relevant contracts. The RITC transaction has no impact on the syndicate’s profit or net assets at the time that it is first recorded.

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT

Capital management

CUAL assesses the capital needs for Syndicate 2488 and maintains an efficient capital structure consistent with its 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 2020 in the context of Solvency II and the Funds at Lloyd’s requirement.

Syndicate 2488’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; and
- to retain financial flexibility by maintaining strong liquidity.

Notes to the Financial Statements

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Insurance risk

Insurance risk arises from underwriting activities both prospective and retrospective. Key risks include unexpected losses arising from inaccurate pricing, fluctuations in the timing, frequency and/or severity of claims compared to expectations, inadequate reinsurance protection and inadequate reserving. The syndicate mitigates the risk of inaccurate pricing by maintaining underwriting discipline throughout its operations with the use of underwriting guidelines, technical expertise and appropriate authority limits which are monitored through price monitoring procedures, an established peer review process and exception monitoring. These guidelines are updated regularly to reflect developments in the nature of the insurance risks being underwritten.

The syndicate's exposures are continually monitored and the catastrophe management function, independent of underwriting management, has responsibility to model aggregate risk and assists with the pricing of risk, providing a key control to the underwriting process.

The syndicate also uses reinsurance to help mitigate insurance risk by providing coverage against and limiting large individual or aggregated losses. However, the use of reinsurance provides additional risk where reinsurance may transpire to be inadequate in coverage or recoveries cannot be collected due to reinsurer default.

The reserving process is owned by the Actuarial Function and includes coordinating the calculation of technical provisions; selecting appropriate methods and assumptions for each element of the reserve calculation; ensuring the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of the technical provisions; assessing the sufficiency and quality of the data used in the calculation of the technical provisions; comparing best estimate against experience; reviewing sufficiency of reserves; monitoring of large losses; forecasting and planning; regular deep dives; calculation of a range of reasonable estimates; arranging appropriately independent external review and peer review of assumptions and calculations. In 2020, reserving for Covid-19 related losses, particularly in the financial lines line of business, involved significant judgements and estimates, given the high level of uncertainty still relating to this event. Challenge and oversight is provided by the Reserve Committee. The Responsibilities of this committee include monitoring the risk appetite statements related to reserve risk. CUAL's independent non-executive directors attend the Reserve Committee meetings.

Sensitivity to insurance risk

As highlighted in note 2, there is inherent uncertainty in the ultimate cost of claims for which the company uses a variety of different actuarial techniques to estimate the provision for claims outstanding. If the net claims ratio for the year had been higher by 1%, then the profit for the financial year would have been lower by £3.9 million (2019: £3.8 million) and members' balances would have been lower by £3.9 million (2019: £3.8 million). If the net claims ratio had been lower by 1%, then the profit for the financial year would have been higher by £3.9 million (2019: £3.8 million) and members' balances would have been higher by £3.9 million (2019: £3.8 million).

Concentrations of insurance risk

As shown in note 4, the syndicate writes a diverse book of business across a number of underwriting classes. Approximately 77% of the gross written premiums for 2020 (2019: approximately 73%) related to property and casualty line of insurance, with the remainder split across a number of other classes.

Geographically, 57% (2019: 56%) of gross premiums written in 2020 relate to risks within the United States of America, with the remainder being spread across Europe, Asia Pacific, Latin America, Africa and the Middle East.

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.

Notes to the Financial Statements

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

These financial risks principally arise from the investment activity of the business and consequent holdings in fixed income investments, all of which are exposed to general and specific market movements. The underwriting activity of the business also generates financial risk, particularly in the form of currency risk as well as liquidity and credit risk through its insurance and reinsurance receivables and payables. The notes below explain how financial risks are managed. The processes used to manage these risks are unchanged from previous periods, and cover areas such as investment activity through stochastic modelling of the portfolio, within its internal capital model and consequent capital requirements.

Investment activity governance

The managing agent operates an Investment Committee which functions under terms of reference determined by the 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 along with representatives from Chubb Asset Management, the group's investment specialists who provide advisory services to Chubb group companies and is chaired by Miriam Connole.

The investment management function is outsourced to specialist external managers.

Asset allocation policy

The Investment Committee has established an asset allocation policy which defines the limits for different asset types. The broad asset allocation policy cites two major asset classes: investment grade fixed income securities and alternative assets. The policy includes limits within the alternative assets for high yield, emerging market debt, illiquid loans and equities. The policy stipulates a target range of between 70% and 100% for investment grade fixed income securities and a range of between 0% and 30% for alternative asset classes. At the end of 2020 the total allocation to alternative assets was approximately 23% and is monitored by the Investment Committee.

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 £1,121.2 million at external managers as at 31 December 2020 (2019: £1,211.1 million), the impact of an increase of 50 basis points in interest yields across all portfolios consecutively (principally sterling, euros and US dollars) has been calculated. Such an increase would decrease the market value of the investment portfolio and lead to a decrease in the total investment return of £22.0 million (2019: £22.0 million) and accordingly decrease total shareholders' funds by £22.0 million (2019: £22.0 million).

Notes to the Financial Statements

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Equity price risk

The syndicate held £87.5 million of equities in 2020 (2019: £Nil) and as a result the syndicate is exposed to changes in the level and volatility of equity prices. To illustrate the downside risk within the equity portfolio, the impact of a 5% decrease in stock market prices has been calculated. Such a decrease would decrease the market value of the equity portfolio and lead to a decrease in the total investment return of £4.0 million (2019: £Nil) and accordingly decrease total shareholders' funds by £4.0 million (2019: £Nil).

Currency risk

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

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

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

For the profit and loss account, the 2020 average US dollar/sterling rate of US\$1.285/£1 is up 1.4% on the prior period (2019: US\$1.267/£1). Had the average sterling rate weakened against the US dollar by 10% compared to the actual 2020 average and all other variables remained constant, the profit for the year would have been £9.8 million more than the amount reported (2019: £11.3 million more).

For the monetary components of the balance sheet, the year-end rates used to convert US dollar to sterling has increased 1.5% to US\$1.340/£1 (2019: US\$1.320/£1). Assuming sterling had weakened by 10% against the US dollar and all other variables remained constant, the effect of translating year-end net assets based on these parameters would have resulted in an increase in members' balances of £70.2 million, which would have appeared as a gain in the statement of comprehensive income (2019: £54.9 million gain).

Liquidity risk

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

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

Syndicate 2488 participates in a notional pooling programme with other Chubb group companies under a facility operated by Bank Mendes Gans, a subsidiary of ING, which specialises in global liquidity management. The facility operates by the notional pooling of designated balances of the Chubb group participants in order to provide additional liquidity. Chubb group participants may overdraw individual account balances to fund immediate short term needs against credit balances held elsewhere within the pool. On this basis, CUAL maintained an overdraft of £101.4 million at year end (2019: £109.3 million) and credit balances of £96.3 million (2019: £112.5 million) in designated accounts.

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

Notes to the Financial Statements

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

As indicated in the balance sheet, the syndicate's financial liabilities are all payable within one year. Non-derivative financial liabilities with contractual maturities are paid within agreed terms of trade. Non-derivative financial liabilities with contractual maturities are limited to reinsurance premiums payable and expense accruals.

£000 31 December 2020	No Stated Maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
Deposits received from reinsurers	-	-	-	-	-	-
Claims outstanding	-	350,299	358,148	161,122	174,923	1,044,492
Creditors	-	191,087	-	-	-	191,087
Total	-	541,386	358,148	161,122	174,923	1,235,579

£000 31 December 2019	No Stated Maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
Deposits received from reinsurers	55	-	-	-	-	55
Claims outstanding	-	317,036	322,343	153,909	171,091	964,379
Creditors	-	219,035	-	-	-	219,035
Total	55	536,071	322,343	153,909	171,091	1,183,469

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 remained high throughout the year and at year end was "A" (2019: "A+").

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

Credit risk – insurance operations

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

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

Ceded reinsurance is used to manage and mitigate inwards direct insurance and reinsurance risk. Ceded reinsurance does not discharge the syndicate's liability as primary insurer. If a ceded reinsurer fails to pay a claim, the syndicate remains liable for the payment to the policyholder. A Reinsurance Security Committee is operated by the Chubb group which analyses the creditworthiness of ceded reinsurers on a quarterly basis by reviewing their financial strength. In addition, the recent payment history of ceded reinsurers is used to update the reinsurance purchasing strategy.

Notes to the Financial Statements

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

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

The assets bearing credit risk are summarised below:

	2020	2019
	£000	£000
Other financial investments	1,463,990	1,384,274
Reinsurers' share of technical provisions	361,932	299,207
Debtors arising out of direct insurance operations	62,115	50,942
Debtors arising out of reinsurance operations	66,848	56,813
	1,954,885	1,791,236

Other financial investments are designated as fair value through comprehensive income at inception, and their performance evaluated on a fair value basis, in accordance with a documented investment strategy as detailed in note 3. The Moody's credit rating for other financial investments is detailed below.

	2020	2019
	£000	£000
AAA	151,742	121,585
AA	476,551	573,122
A	253,218	256,789
BBB	176,860	168,157
Below BBB or not rated	405,619	264,621
	1,463,990	1,384,274

The value of £405.5 million that is below BBB or not rated includes Swiss Overseas deposits and the Wellington Equity portfolio both of which are not rated.

Other financial investments are neither past due nor impaired.

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

Reinsurers' share of technical provisions includes claims outstanding, related claims handling costs and IBNR. This is described along with the valuation methods in note 2. This balance includes 1.9% past due that have been impaired (2019: 2.4%).

Debtors arising out of direct and reinsurance operations are held at fair value less any provision for impairment as described in note 2. Debtors arising out of direct and reinsurance operations include:

Notes to the Financial Statements

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

	2020	2019
Impaired	0.0%	0.0%
Past due but not impaired:		
0 to 6 months past due	15.7%	18.5%
6 to 12 months past due	3.7%	2.5%
Over 12 months past due	3.9%	6.3%
Total past due but not impaired	<u>23.3%</u>	<u>27.3%</u>

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

	2020	2019
	£000	£000
AA	209,751	168,160
A	109,010	84,343
BBB	1,899	(633)
Below BBB	24	17
Not rated	9,361	7,827
	<u>330,045</u>	<u>259,714</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 presented below. Current year underwriting results for the policies transferred to Lloyd’s as part of the Part VII transaction described in the Managing Agent’s Report have been reported in the same classes of business as in prior years, as the effective date of the transfer was 30 December 2020, and in line with Society of Lloyd’s guidance no movements were processed on these policies on 31 December 2020. In future years, results relating to these risks will be reported under the Reinsurance Acceptances class of business, reflecting the new contractual arrangement with Lloyd’s Insurance Company S.A.

	Gross premiums written £000	Gross premiums earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance balance £000
Year to 31 December 2020					
Direct Insurance					
Fire and other damage to property	179,070	174,764	(145,497)	(59,660)	17,760
Marine, aviation and transport	88,029	76,210	(48,435)	(23,038)	(361)
Accident and health	(936)	(930)	658	1,024	42
Third party liability	139,396	125,724	(101,622)	(31,095)	23,031
Miscellaneous	7,186	9,816	(6,767)	(5,476)	2,712
Reinsurances acceptances	115,507	113,555	(82,519)	(22,308)	(8,275)
TOTAL	528,252	499,139	(384,182)	(140,553)	34,909
	Gross premiums written £000	Gross premiums earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Reinsurance balance £000
Year to 31 December 2019					
Direct Insurance					
Fire and other damage to property	174,870	171,494	(73,561)	(61,810)	(13,402)
Marine, aviation and transport	56,905	56,472	(32,687)	(20,835)	1,952
Accident and health	755	1,600	(1,433)	(1,060)	(52)
Third party liability	125,964	124,967	(92,637)	(38,081)	(2,780)
Miscellaneous	10,147	11,974	(2,956)	(11,692)	4,884
Reinsurances acceptances	119,534	114,501	(65,579)	(18,428)	(26,652)
TOTAL	488,175	481,008	(268,853)	(151,906)	(36,050)

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

Notes to the Financial Statements

4. SEGMENTAL ANALYSIS – continued

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

	2020	2019
	£000	£000
United Kingdom	48,739	46,677
United States of America	302,202	275,132
Continental Europe	44,406	37,583
Africa and Middle East	18,574	17,248
Asia Pacific	32,714	30,910
Americas	81,617	80,625
	<u>528,252</u>	<u>488,175</u>

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

The prior year's net provision for claims outstanding generated a surplus for 2020 (2019: surplus) as detailed below:

	2020	2019
	£000	£000
Direct insurance		
Fire and other damage to property	8,407	1,763
Marine, aviation and transport	2,864	16,394
Accident and health	372	-
Third party liability	17,908	(12,266)
Miscellaneous	-	1,533
Reinsurance acceptances	1,943	(2,824)
	<u>31,494</u>	<u>4,600</u>

Notes to the Financial Statements

6. NET OPERATING EXPENSES

	2020	2019
	£000	£000
Acquisition costs	117,795	117,314
Change in deferred acquisition costs	(4,324)	791
Administrative expenses	27,084	33,403
Reinsurance commission	(15,417)	(15,455)
	<u>125,138</u>	<u>136,053</u>

“Acquisition costs” includes total commissions for direct business amounting to £92.1 million (2019: £88.7 million).

“Administrative expenses” covers most expenses generally classified as syndicate expenses, net of an element of those expenses which are indirect acquisition costs and therefore included within acquisition costs, Lloyd’s Central Fund contributions and Lloyd’s subscriptions.

The managing agent’s fee in 2020 was in line with 2019 (£0.5 million compared with £0.4 million). Most of the services used by the syndicate (including staff costs, accommodation, IT, professional fees and travel) are provided by Chubb Services UK Limited (“CSUK”).

Auditor’s remuneration

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

	2020	2019
	£000	£000
Fees payable to the syndicate’s auditors and their associates for the audit of the syndicate’s annual accounts	445	400
Fees payable to the syndicate’s auditors and their associates for other services:		
Audit-related assurance services	106	95
	<u>551</u>	<u>495</u>

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

Notes to the Financial Statements

7. DIRECTORS AND EMPLOYEES

Staff costs

The managing agency has no employees (2019: none). Staff that support the syndicate and managing agency are employed by Chubb Services UK Limited (“CSUK”) and/or Chubb European Group SE (“CEGSE”), fellow Chubb group undertakings (together the “employing entities”). With effect from 2019 staff costs are included in the fee charged by the employing entities and are reimbursed by the syndicate directly to those entities as required.

Directors’ emoluments

All directors of the managing agent received emoluments from the employing entities in respect of their services to the syndicate and Chubb group companies. The cost of these emoluments is included in a fee reimbursed directly to the employing entities by the syndicate. 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 the employing entities in respect of the directors of the managing agent.

	2020	2019
	£000	£000
Aggregate emoluments and benefits	2,235	2,561
Company pension contributions to money purchases pension schemes	95	37
	<u>2,330</u>	<u>2,598</u>

Included in the above amounts paid by the employing entities in respect of the directors of the managing agent are:

	2020	2019
	£	£
Emoluments and benefits paid to the Active Underwriter	94,988	646,455
Emoluments and benefits paid to the highest paid director	1,018,176	931,843

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, three directors received shares in Chubb Limited under long-term incentive plans and two directors exercised options over the shares of Chubb Limited. The 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 the employing entities.

Notes to the Financial Statements

8. INVESTMENT RETURN

	2020	2019
	£000	£000
Investment Income		
Investment income	48,514	47,790
Gains on the realisation of investments	13,087	8,655
	<u>61,601</u>	<u>56,445</u>
Investment expenses and charges		
Investment management expenses	(2,105)	(2,613)
Losses on the realisation of investments	(10,840)	(7,247)
	<u>(12,945)</u>	<u>(9,860)</u>
Net unrealised gains and losses on investments		
Unrealised gains on investments	102,136	71,710
Unrealised losses on investments	(74,676)	(28,737)
	<u>27,460</u>	<u>42,973</u>
Total Investment Return	<u>76,116</u>	<u>89,558</u>
Investment return is analysed between:		
Allocated investment return transferred to the general business technical account	36,644	40,531
Net Investment included in the non-technical account	39,472	49,027
	<u>76,116</u>	<u>89,558</u>

Notes to the Financial Statements

9. OTHER FINANCIAL INVESTMENTS

	2020	2019
	£000	£000
Market value:		
Shares and other variable yield securities	87,458	1,434
Debt securities and other fixed interest securities	1,121,210	1,211,144
Overseas deposits	111,503	84,730
Deposits with credit institutions	51,742	16,102
Other Investments	92,077	70,864
	<u>1,463,990</u>	<u>1,384,274</u>
Cost:		
Shares and other variable yield securities	82,207	1,434
Debt securities and other fixed interest securities	1,076,436	1,190,937
Overseas deposits	111,503	84,730
Deposits with credit institutions	51,742	16,102
Other Investments	84,446	69,844
	<u>1,406,334</u>	<u>1,363,047</u>

All securities are listed investments.

The overseas deposits are held under Lloyd's premium trust deed arrangements where applicable and are administered by Lloyd's. The syndicate is required to lodge deposits in various overseas insurance markets as a condition of conducting underwriting business in those markets. All such overseas deposits are calculated in accordance with the relevant territorial authority's requirements, usually by reference to outstanding liabilities derived from business written in those territories.

£646.5 million (2019: £622.1 million) of the total market value relates to Funds at Lloyd's, as explained in note 11. This is analysed as follows:

	2020	2019
	£000	£000
Market value:		
Equity Shares	79,921	-
Debt securities and other fixed interest securities	466,386	547,093
Deposits with credit institutions	8,106	4,101
Other Investments	92,077	70,864
	<u>646,490</u>	<u>622,058</u>
Cost:		
Equity Shares	74,671	-
Debt securities and other fixed interest securities	447,839	533,808
Deposits with credit institutions	8,106	4,101
Other Investments	84,446	69,844
	<u>615,062</u>	<u>607,753</u>

Notes to the Financial Statements

9. OTHER FINANCIAL INVESTMENTS - continued

Fair Value Hierarchy

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

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

An analysis of financial instruments at 31 December 2020 by fair value hierarchy is set out below:

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Shares and other variable yield securities	79,921	-	7,537	87,458
Debt securities and other fixed income securities	251,869	867,759	1,582	1,121,210
Loans and deposits with credit institutions	11,739	40,003	-	51,742
Overseas deposits	53,771	57,732	-	111,503
Other Investments	-	-	92,077	92,077
Total	397,300	965,494	101,196	1,463,990

An analysis of financial instruments at 31 December 2019 by fair value hierarchy is set out below:

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Shares and other variable yield securities	-	1,434	-	1,434
Debt securities and other fixed income securities	353,233	856,397	1,514	1,211,144
Loans and deposits with credit institutions	6,880	9,222	-	16,102
Overseas deposits	37,741	46,989	-	84,730
Other Investments	-	-	70,864	70,864
Total	397,854	914,042	72,378	1,384,274

Notes to the Financial Statements

9. OTHER FINANCIAL INVESTMENTS - continued

'Debt securities and other fixed interest securities' with active markets such as Government securities are classified within Level 1, as fair values are based on quoted market prices. For debt securities and other fixed interest securities that trade in less active markets, including corporate securities, fair values are based on the output of pricing models, the significant inputs into which include, but are not limited to, yield curves, credit risks and spreads, measures of volatility, and prepayment speeds. These debt securities and other fixed interest securities are classified within Level 2. For debt securities and other fixed interest securities and debt securities and other fixed interest securities for which pricing is unobservable, these are classified within Level 3.

'Loans and deposits with credit institutions' 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.

For securities in level 3 where pricing is based on unobservable inputs, valuations are sourced from models and / or third parties. Any third party models are reviewed and approved by the Chubb Group's specialist asset management function on a quarterly basis. Significant uncertainty would be considered to exist in relation to pricing based on unobservable inputs. However, for Syndicate 2488 this uncertainty is considered to be immaterial as the exposure to these types of assets is only a small proportion, 6.9%, of the investment portfolio as at 31 December 2020 (2019: 5.2%).

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

	2020	2019
	£000	£000
Balance at 1 January	72,378	1,843
Gains recognised in profit and loss account	4,198	2,261
Purchases	23,749	68,671
Sales	(305)	(397)
Transfers in (out) of Level 3	1,176	-
Balance at 31 December	<u>101,196</u>	<u>72,378</u>

Notes to the Financial Statements

10. OTHER DEBTORS

	2020	2019
	£000	£000
Amounts falling due within one year:		
Amounts due from group companies	433	51,641
Other debtors	14	30
	<u>447</u>	<u>51,671</u>

There are no debtors due in greater than 1 year.

11. MEMBERS' BALANCES

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

Members' balances are supported by Funds at Lloyd's ("FAL"), as disclosed in note 14.

Members' balances at 31 December 2020 include £631.6 million (2019: £618.9 million) designated as FAL.

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

	2020	2019
	£000	£000
Other financial investments	638,384	617,958
Deposits with credit institutions	8,106	4,101
Other prepayment and accrued income	(14,868)	(3,190)
Total assets designated as Funds at Lloyd's	<u>631,622</u>	<u>618,869</u>

12. CASH AND CASH EQUIVALENTS

An analysis of cash and cash equivalents is as follows:

	2020	2019
	£000	£000
Cash at bank and in hand	106,581	120,804
Short-term deposits with credit institutions	51,742	16,102
Overdrafts	(101,429)	(109,300)
	<u>56,894</u>	<u>27,606</u>

Short-term deposits with credit institutions 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.

Notes to the Financial Statements

13. TRANSACTIONS WITH RELATED PARTIES

The ultimate holding company of the syndicate's managing agent, Chubb Underwriting Agencies Limited ("CUAL"), is Chubb Limited, a company which is registered in Zurich, Switzerland and quoted on the New York Stock Exchange.

Copies of the ultimate holding company's consolidated accounts can be obtained from Investor Relations at Chubb's executive offices at 1133 Avenue of the Americas, New York, NY 10036.

The principal related reinsurance partner of the syndicate is Chubb Tempest Re, a leading global multi-line reinsurer that is part of the Chubb group. The syndicate may have reinsured, or have been reinsured by, insurance companies in which Chubb Limited has interests and of which it and certain of its subsidiaries are controllers.

During calendar year 2020, a number of outwards reinsurance contracts were effected with group companies. The main excess of loss reinsurance programmes in operation during 2020 were shared with other Chubb companies, including Chubb European Group SE.

The following is a summary of the reinsurance transactions and balances with related parties in 2020 and as at 31 December 2020:

Reinsurance Premium Related	Chubb Tempest Reinsurance	Chubb European Group SE	Chubb America	Other	Total
	£m	£m	£m	£m	£m
Reinsurance Premiums	22.1	1.4	-	0.1	23.6
Reinsurance Commissions	2.4	0.3	-	-	2.7
Reinsurers' share of Unearned Premium Reserve	10.2	0.5	-	-	10.7
Reinsurance Creditor	9.7	0.2	0.2	0.5	10.6
Reinsurance Recovery Related	Chubb Tempest Reinsurance	Chubb European Group SE	Chubb America	Other	Total
	£m	£m	£m	£m	£m
Change in reinsurers' share of Claims Incurred	27.0	-	1.0	0.1	28.1
Balance of reinsurers' share of Claims Outstanding	80.0	3.3	8.8	1.0	93.1
Reinsurance Debtor	2.8	0.2	0.1	6.0	9.1

The syndicate's capacity for the 2018, 2019 and 2020 years of account is provided entirely by Chubb Capital I Limited, which is a corporate member of Lloyd's, participating only on Syndicate 2488. Chubb Capital I Limited is a wholly owned subsidiary within the Chubb group.

Managing agency fees of £0.5 million (2019: £0.4 million) were paid by the syndicate to CUAL. Staff providing services to CUAL and the syndicate are employed by Chubb Services UK Limited ("CSUK"), another Chubb Limited company. CSUK settles expenses on behalf of, and provides services to, the syndicate and CUAL. During 2020 the syndicate incurred expenses of £33.5 million (2019: £ 37.6 million) from CSUK and had an outstanding balance with CSUK of £12.1 million payable as at 31 December 2020 (2019: £28.1 million due).

14. FUNDS AT LLOYD'S

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on Prudential Regulatory Authority ("PRA") requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and assessment of the reserving risk in respect of business that has been underwritten. The syndicate's members have met their FAL requirements by the retention of closed year of account profits in the syndicate. At 31 December 2020 FAL totaled £631.6 million (2019: £618.9 million).

Notes to the Financial Statements

15. CLAIMS DEVELOPMENT TABLES

The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis. FRS 103 requires that claims development shall go back to the period when the earliest claim arose for which there is still uncertainty about the amount and timing of the claims payment but need not go back more than 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 2020 – Gross

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Estimate of ultimates:											
End of underwriting year	180,720	177,445	129,435	128,964	142,611	131,315	147,327	101,002	95,403	169,256	1,403,478
One Year Later	380,462	332,665	303,088	291,546	301,764	315,851	299,319	265,452	281,647	-	2,771,794
Two Years Later	458,105	330,457	308,895	290,985	328,696	327,702	332,248	286,673	-	-	2,663,761
Three Years Later	404,707	306,093	301,942	289,720	315,104	322,156	329,717	-	-	-	2,269,439
Four Years Later	391,270	301,976	277,584	288,712	293,069	327,737	-	-	-	-	1,880,348
Five Years Later	387,860	291,457	260,982	285,570	291,226	-	-	-	-	-	1,517,095
Six Years Later	383,030	291,760	258,638	285,493	-	-	-	-	-	-	1,218,921
Seven Years Later	375,722	293,989	257,801	-	-	-	-	-	-	-	927,512
Eight Years Later	370,065	292,508	-	-	-	-	-	-	-	-	662,573
Nine Years Later	369,025	-	-	-	-	-	-	-	-	-	369,025
Current estimate of ultimate claims	369,025	292,508	257,801	285,493	291,226	327,737	329,717	286,673	281,647	169,256	2,891,083
Cumulative payments	(348,712)	(254,488)	(216,897)	(238,809)	(225,740)	(227,699)	(251,649)	(163,136)	(93,732)	(26,527)	(2,047,389)
In balance sheet	20,313	38,020	40,904	46,684	65,486	100,038	78,068	123,537	187,915	142,729	843,694
Provision for prior financial years											200,799
Liability in the balance sheet											1,044,493

Notes to the Financial Statements

15. CLAIMS DEVELOPMENT TABLES- continued

Claims development as at 31 December 2020 – Net

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Estimate of ultimates:											
End of underwriting year	144,664	130,212	102,039	103,843	112,644	102,650	102,802	79,585	76,664	118,179	1073,282
One Year Later	280,199	255,170	239,115	241,595	240,645	247,935	236,795	205,838	225,686	-	2,172,978
Two Years Later	321,339	261,310	242,877	246,737	267,387	267,195	259,370	218,502	-	-	2,084,717
Three Years Later	271,641	253,423	241,557	253,789	258,774	251,767	256,515	-	-	-	1,787,466
Four Years Later	275,018	250,773	226,136	252,534	237,617	245,369	-	-	-	-	1,487,447
Five Years Later	275,491	245,143	212,788	242,159	236,273	-	-	-	-	-	1,211,854
Six Years Later	275,198	246,125	204,374	241,739	-	-	-	-	-	-	967,436
Seven Years Later	269,017	246,223	203,407	-	-	-	-	-	-	-	718,647
Eight Years Later	258,496	242,954	-	-	-	-	-	-	-	-	501,450
Nine Years Later	254,841	-	-	-	-	-	-	-	-	-	254,841
Current estimate of ultimate claims	254,841	242,954	203,407	241,739	236,273	245,369	256,515	218,502	225,686	118,179	2,243,467
Cumulative payments	(244,053)	(211,204)	(178,481)	(207,657)	(187,493)	(186,035)	(196,314)	(124,867)	(78,892)	(23,834)	(1,638,831)
In balance sheet	10,788	31,750	24,926	34,082	48,780	59,334	60,201	93,635	146,794	94,345	604,635
Provision for prior financial years											132,151
Liability in the balance sheet											736,786

Notes to the Financial Statements

16. RECONCILIATION OF INSURANCE BALANCES

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

	2020	2019
	£000	£000
At 1 January	51,648	54,308
Change in acquisition costs deferred during the year	4,324	(1,189)
Foreign exchange movement	(803)	(1,471)
At 31 December	<u>55,169</u>	<u>51,648</u>

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

	Gross		Reinsurers' share	
	2020	2019	2020	2019
	£000	£000	£000	£000
At 1 January	220,297	225,880	55,524	59,523
Increase/(decrease) in provision	29,114	7,167	240	(1,063)
RITC from Syndicate 1882	-	7,949	-	735
Foreign exchange movements	(4,229)	(20,699)	(1,539)	(3,671)
At 31 December	<u>245,182</u>	<u>220,297</u>	<u>54,225</u>	<u>55,524</u>

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

	Gross		Reinsurers' share	
	2020	2019	2020	2019
	£000	£000	£000	£000
At 1 January	964,380	956,510	243,683	273,468
Decrease in provision	83,065	(83,530)	67,773	(33,430)
RITC from Syndicate 1882	-	143,759	-	14,517
Foreign exchange movements	(2,952)	(52,359)	(3,749)	(10,872)
At 31 December	<u>1,044,492</u>	<u>964,380</u>	<u>307,707</u>	<u>243,683</u>

17. ULTIMATE HOLDING COMPANY

The managing agent's immediate holding company is Chubb Leadenhall Limited. The managing agent's ultimate holding company is Chubb Limited, a company which is registered in Zurich, Switzerland and quoted on the New York Stock Exchange. Copies of the ultimate holding company's consolidated accounts can be obtained from Investor Relations at Chubb's executive offices at 1133 Avenue of the Americas, New York, NY 10036.