CHUBB CAPITAL V LIMITED (FORMERLY ACE V CAPITAL LIMITED)

FINANCIAL STATEMENTS

31 DECEMBER 2016

COMPANY REGISTRATION NUMBER: 2949447

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The Board of Chubb Capital V Limited (the "Company"), has prepared this report in accordance with Section 414A of the Companies Act 2006.

RESULTS AND PERFORMANCE

A summary of the reported financial results is shown in the following table.

£'000	2016	2015
Gross written premiums	-	38,100
Net written premiums	1,215	36,494
Net earned premiums	10,616	82,501
Net claims release/(expense)	21,005	(24,878)
Operating expenses	(1,913)	(22,729)
Underwriting result	**29,708**	**34,894**
Investment return	9,799	2,216
Other income / (charges)	10,194	(4,532)
Profit on ordinary activities before taxation	**49,701**	**32,578**

The results of the company represent its share of Syndicate 2488's results plus specific items of income and expenditure relating to the company itself.

Of the profit on ordinary activities before taxation for the year ended 31 December 2016 of £49,764,000 (2015: £32,578,000), £41,155,000 (2015: £36,214,000) relates to Syndicate 2488. The performance of Syndicate 2488 is discussed in the Managing Agent's Report contained within Syndicate 2488's Report and Annual Accounts as at 31 December 2016, available on the Lloyd's website.

CHUBB ACQUISITION

On 30 June 2015, ACE Limited ("ACE"), the company's ultimate parent, entered into an Agreement and Plan of Merger ("the Merger") with The Chubb Corporation ("Chubb") under which ACE would acquire Chubb. The Merger was completed on 14 January 2016 and ACE Limited was renamed Chubb Limited.

KEY PERFORMANCE INDICATORS (KPIs)

The company's KPIs are derived from the performance of Syndicate 2488 and are not managed separately. Accordingly the KPIs, which include those of the company, are discussed within the Managing Agent's Report in Syndicate 2488's Report and Annual Accounts as at 31 December 2016, available on the Lloyd's website.

RISK DISCLOSURES AND CAPITAL MANAGEMENT

Disclosures regarding risks and capital management are provided in Note 3 to the financial statements.

Approved by the Board of Directors

M K Hammond
Director
28 September 2017

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

The directors are pleased to submit their report and the audited financial statements for the year to 31 December 2016.

It should be noted that the company's financial statements have been prepared in compliance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS102"), being applicable United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). The company transitioned from previously extant UK GAAP to FRS 102 as at 1 January 2014. Any financial amounts included within this report, including comparative amounts, are calculated based on FRS 102.

PRINCIPAL ACTIVITIES AND FUTURE DEVELOPMENTS

The company participates exclusively on Syndicate 2488 which is managed by ACE Underwriting Agencies Limited, a fellow subsidiary undertaking of Chubb Market Company Limited (formerly ACE Global Markets Limited). This activity is expected to continue for the foreseeable future. The company's participations on Syndicate 2488 for the 2014, 2015, 2016 and 2017 years of account are as follows:

2014 allocated capacity		2015 allocated capacity		2016 allocated capacity		2017 allocated capacity	
Total £'000	Company's participation £'000	Total £'000	Company's participation £'000	Total £'000	Company's participation £'000	Total £'000	Company's participation £'000
350,000	**144,175**	350,000	-	350,000	-	350,000	-

On 27November 2014 the Board resolved to cease underwriting on the 2015 year of accounts of syndicate 2488 and to pass all participation rights to Chubb Capital Limited, a fellow subsidiary.

RESULTS AND DIVIDENDS

The profit on ordinary activities before taxation for the year to 31 December 2016 before taxation amounted to £49,764,000 (2015: profit before taxation £32,578,000) and the shareholders' funds of the company total £158,231,000 (2015: £134,504,000). The interim dividends during the year amounted to £10,028,000 (2015: £39,365,000). The directors do not recommend the payment of a final dividend (2015: £Nil).

DIRECTORS

The following have been directors from 1 January 2016 to the date of this report unless otherwise indicated:

M K Hammond
A J Kendrick
A C Mullins (Appointed 06 April 2016)
K L H Underhill (Resigned 21 January 2016)

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 company also has the benefit of a group insurance company management activities policy affected by Chubb Limited. No charge was made to the company during the year for this policy.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016 – continued

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of this report confirms that:

i) So far as each of them is aware, there is no information relevant to the audit of the company's financial statements for the year ended 31 December 2016 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 company's auditors are aware of that information.

G P Langley

for and on behalf of
Chubb London Services Limited
Secretary, 28 September 2017

100 Leadenhall Street
London
EC3A 3BP

Independent auditors' report to the members of Chubb Capital V Limited

Report on the financial statements

Our opinion

In our opinion, Chubb Capital V Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2016;
- the Profit and Loss Account and Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

James Pearson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 September 2017

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £'000	2015 £'000
TECHNICAL ACCOUNT – GENERAL BUSINESS			
EARNED PREMIUMS, NET OF REINSURANCE:			
Gross premiums written	4	-	38,100
Outward reinsurance premiums		1,215	(1,606)
Net premiums written		1,215	36,494
Change in the provision for unearned premiums		10,537	56,184
Change in the provision for unearned premiums – reinsurers' share		(1,136)	(10,177)
EARNED PREMIUMS, NET OF REINSURANCE		10,616	82,501
ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT	6	9,297	1,089
CLAIMS INCURRED, NET OF REINSURANCE:			
Claims paid:			
Gross amount	4	(61,122)	(84,596)
Reinsurers' share		11,443	24,567
Net paid claims		(49,679)	(60,029)
Change in the provision for claims outstanding:			
Gross amount	4	96,729	73,622
Reinsurers' share		(26,045)	(38,471)
Change in the net provision for claims outstanding		70,684	35,151
CLAIMS INCURRED, NET OF REINSURANCE		21,005	(24,878)
Net operating expenses	7	(1,913)	(22,729)
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		39,005	35,983

All of the above results derive from continuing operations.

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2016 – continued

	Note	2016 £'000	2015 £'000
NON-TECHNICAL ACCOUNT			
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		39,005	35,983
Investment income	9	8,181	13,238
Unrealised gains on investments	9	16,757	16,590
Investment expenses and charges	9	(1,982)	(1,848)
Unrealised losses on investments	9	(13,157)	(25,764)
Allocated investment return transferred to the general business technical account	6	(9,297)	(1,089)
Other charges including value adjustments	10	(11)	(1,500)
Profit / (loss) on exchange		10,205	(3,033)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		49,701	32,578
Tax on profit on ordinary activities	11	(9,666)	(5,299)
PROFIT FOR THE FINANCIAL YEAR		40,034	27,279

Results for the current and prior year derive from continuing operations.

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year for the current or prior year and their historical cost equivalents.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £'000	2015 £'000
PROFIT FOR THE FINANCIAL YEAR	40,034	27,279
Currency translation differences	(10,475)	8,463
Movement on tax relating to currency translation differences	2,423	(290)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	31,982	35,452

BALANCE SHEET AS AT 31 DECEMBER 2016

	Note	2016 £'000	2015 £'000
ASSETS			
INVESTMENTS			
Other financial investments	12	252,444	275,117
		252,444	275,117
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums		1,599	2,411
Claims outstanding		99,437	107,382
		101,036	109,793
DEBTORS- amounts falling due within one year			
Debtors arising out of direct insurance operations: amounts owed by intermediaries		-	2,547
Debtors arising out of reinsurance operations		7,869	12,401
Other debtors	13	12,814	8,064
		20,683	23,012
DEBTORS – amounts falling due after one year			
Other debtors	13	113,633	158,260
OTHER ASSETS			
Cash at bank and in hand		37,390	38,651
PREPAYMENTS AND ACCRUED INCOME			
Deferred acquisition costs		1,976	3,514
Other prepayments and accrued income		93	46
		2,069	3,560
TOTAL ASSETS		527,255	608,393

BALANCE SHEET AS AT 31 DECEMBER 2016

	Note	2016 £'000	2015 £'000
LIABILITIES			
CAPITAL AND RESERVES			
Called-up share capital	14	4,284	4,284
Share premium account		38,552	38,552
Profit and loss account		113,622	95,581
TOTAL SHAREHOLDERS' FUNDS		156,458	138,417
TECHNICAL PROVISIONS			
Provision for unearned premiums		4,847	69,873
Claims outstanding		297,031	413,746
		301,878	483,619
DEPOSITS RECEIVED FROM REINSURERS		24	20
CREDITORS- amounts falling due within one year			
Creditors arising out of reinsurance operations		8,333	7,761
Bank loans and overdrafts		36,121	36,239
Other creditors including taxation and social security	15	16,384	63,560
		60,838	107,560
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred tax	16	8,057	11,563
TOTAL LIABILITIES		527,255	751,917

The notes on pages 11 to 28 are an integral part of these financial statements.

The financial statements on pages 6 to 28 were approved by the board of directors on 28 September 2017 and were signed on its behalf by:

M K Hammond

Director

COMPANY REGISTRATION NUMBER: 2949447

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Called-up share capital	Profit and loss account	Total Shareholders' Funds
	£'000	£'000	£'000
At 1 January 2015	**42,836**	**95,581**	**138,417**
Profit for the financial year		27,279	27,279
Other comprehensive income:			
Dividends paid		(39,365)	(39,365)
Currency translation differences net of deferred tax thereon		8,173	8,173
At 31 December 2015	**42,836**	**91,668**	**134,504**
Profit for the financial year		40,034	40,034
Other comprehensive income:			
Dividends paid		(10,028)	(10,028)
Currency translation differences net of deferred tax thereon		(8,052)	(8,052)
At 31 December 2016	**42,836**	**113,622**	**156,458**

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

Chubb Capital V Limited is a limited liability company incorporated in the United Kingdom. The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. Financial Reporting Standard FRS 102 ("The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102")). The company is a wholly owned subsidiary within the Chubb Limited group and is included in the consolidated financial statements of Chubb Limited, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement and disclosing details of key management personnel and related party transactions under the terms of FRS102.

The principal accounting policies, which have been applied consistently throughout the year, are set out below:

2. ACCOUNTING POLICIES

Underwriting business

Preparing financial statements in accordance with Schedule 3 to the Regulations has required the company to recognise its proportion of all the transactions undertaken by the Lloyd's syndicate in which it participates ("the syndicate") during the calendar year. Similarly, its proportion of the syndicate's assets and liabilities has been reflected in its balance sheet. The proportion referred to above is calculated by reference to the company's participation as a percentage of the syndicate's total capacity.

Premiums written

Premiums written, which are stated gross of brokerage but exclusive of premium taxes, relate to business incepted during the year, together with adjustments made in the year to premiums written in prior accounting periods. Estimates are made of pipeline premiums, representing amounts due but not yet received or notified to the company by intermediaries.

Unearned premiums

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

Acquisition costs

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

Claims incurred

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

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.

NOTES TO THE FINANCIAL STATEMENTS - continued

2. ACCOUNTING POLICIES - continued

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

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

The directors consider that the provision for gross claims outstanding and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior periods 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 company. The costs of claims notified to the company 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 company'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.

Reinsurance to close

The reinsurance to close is technically a reinsurance contract and, as such, the payment of a reinsurance to close does not remove from members of that year of account ultimate responsibility for claims payable on risks they have written.

If the company has increased its participation from one year of account to the next, the reinsurance to close paid is eliminated, as a result of this offset, leaving an element of the reinsurance to close received. This reflects the fact that the company has assumed a greater proportion of the business of the syndicate. If the company has reduced its participation from one year of account to the next, the reinsurance to close received is eliminated, leaving an element of the reinsurance to close paid. This reflects the reduction in the company's exposure to risks previously written by the syndicate. The excess representing the increase or reduction in percentage participation is shown in the technical account as gross premiums written or reinsurance premiums payable as appropriate and is represented in the balance sheet by the related share of assets and liabilities transferred between the two Lloyd's years of account of the managed syndicate.

NOTES TO THE FINANCIAL STATEMENTS - continued

2. ACCOUNTING POLICIES -continued

Syndicate investment income, expenses and charges

Syndicate investments and cash are held on a pooled basis, the return from which is allocated to underwriting years proportionately to the funds contributed by the year.

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. FRS102 requires that, for insurance entities, both realised investment gains and losses be included as part of investment return in the profit and loss account. Dividends receivable are accounted for by reference to the date on which the price of the investment is quoted ex-dividend. Interest and expenses are accounted for on an accruals basis.

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

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. All syndicate investment gains and losses including those that are unrealised are attributed to the technical account.

Investments

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

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

Taxation

UK taxation in the profit and loss account is based on the underwriting result and other income and charges of the year as determined in accordance with the relevant tax legislation, together with adjustments for prior periods.

Deferred tax

Deferred tax has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more tax in future, or a right to pay less tax in future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised have not been discounted.

Foreign currency transactions

The Syndicate's functional currency is US Dollars. Syndicate transactions in Sterling, Canadian Dollars, Euros (from the 2010 year of account onwards) and Australian dollars (from the 2013 year of account onwards) are translated into US Dollars at the rates of exchange ruling at the balance sheet date. Syndicate transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

All syndicate assets and liabilities denominated in branch currencies are translated into US Dollars at the rates of exchange ruling at the balance sheet date or, if appropriate, at the forward contract rate of the above currencies. For non-branch currencies, monetary items are converted at the rate ruling at the balance sheet date and non-monetary items are held at their historic rates of exchange.

Exchange differences arising from the revaluation of syndicate net assets in foreign branches or brought forward from the previous balance sheet date are included in the statement of comprehensive income. Exchange differences from other currencies are included in the technical account.

NOTES TO THE FINANCIAL STATEMENTS - continued

2. ACCOUNTING POLICIES - continued

Non-technical account transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed. All non-technical assets and liabilities denominated in other foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date; the resulting exchange differences are recognised in the non-technical account.

All Syndicate assets and liabilities are translated from US Dollar to Sterling at the balance sheet date, with all exchange differences arising from this included in Other Comprehensive Income.

Dividends

Dividends are recognised when they are approved by the Board of Directors.

3. CAPITAL MANAGEMENT AND FINANCIAL RISK MANAGEMENT

The syndicate's underwriting is managed and controlled by Chubb Underwriting Agencies Limited (CUAL), a fellow Chubb group company and the managing agent of the syndicate. The company utilises the managing agent to determine and manage the risk and capital of the syndicate.

Capital management

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

From a prudential perspective, the Lloyd's market is regulated by the PRA and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held. In line with regulatory requirements that were in force to the end of 2016, CUAL managed its capital levels in 2016 in the context of the Lloyds's Economic Capital Assessment and the Funds at Lloyd's requirement.

Solvency II regulation came into force on 1 January 2016. From 1 January 2016, the syndicate's regulatory capital requirement has been set according to the Solvency II Internal Model. The company performs tests and controls to ensure continuous and full compliance with the Solvency II regulations.

The primary objectives of the company in managing capital can be summarised as follows:

- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to manage exposures to key risks;
- to maintain financial strength to support new business growth;
- to retain financial flexibility by maintaining strong liquidity.

Insurance risk

Insurance risk arises from fluctuations in the frequency and/or severity of claims. The Company mitigates this risk by maintaining underwriting discipline throughout its operations. This policy is supported by each strategic business unit's underwriting guidelines, expertise and appropriate authority limits. These guidelines are updated regularly to reflect developments in the nature of the insurance risks being underwritten. The Company also uses a reinsurance programme to manage its insurance risk by providing cover against certain large exposures.

Sensitivity to insurance risk

As highlighted in note 2, there is inherent uncertainty in the ultimate cost of claims for which the company uses a variety of different actuarial techniques to estimate the provision for claims outstanding. If the net claims ratio for the year had been higher by 1%, then the profit for the financial year would have been lower by £0.1m (2015: £0.8m) and members' balances would have been lower by £0.1m (2015: £0.8m). If the net claims ratio had been lower by 1%, then the profit for the financial year would have been higher by £0.1m (2015: £0.8m) and members' balances would have been higher by £0.1m (2015: £0.8m).

Concentrations of insurance risk

As set out in Note 4, the Company writes a diverse book of business across a number of underwriting classes. Approximately 38% of the gross earned premium for 2016 (2015: 56%) related to property and casualty line of insurance, with the remainder split across a number of other classes.

NOTES TO THE FINANCIAL STATEMENTS - continued

Financial risk management objectives

The Company is exposed to a range of financial risks through its financial assets and financial liabilities. The most important components of this financial risk are market risk (including interest rate risk and currency risk), liquidity risk and credit risk.

These financial risks principally arise from the investment activity of the business and consequent holdings in fixed income investments, all of which are exposed to general and specific market movements. The underwriting activity of the business also generates financial risk, particularly in the form of currency risk as well as liquidity and credit risk through its insurance and reinsurance receivables and payables.

The notes below explain how financial risks are managed. The processes used to manage these risks are unchanged from previous periods, and cover areas such as investment activity through stochastic modelling of the portfolio, within its internal capital model and consequent capital requirements.

Investment activity governance

The managing agent operates an Investment Committee which functions under terms of reference determined by the Executive Committee of the Board. The Committee is charged with establishing and effecting an appropriate investment policy for the syndicate having regard to the financial risk appetite of the syndicate. In addition, the committee has the responsibility for recommending the appointment and removal of investment managers, for reviewing the managers' performance and for reporting on all other material aspects of the investment function.

The Investment Committee comprises senior Chubb management and is chaired by the Chief Executive Officer of Chubb Asset Management, the group's investment specialists who provide advisory services to Chubb group companies including CUAL. The Committee also includes the Chief Executive Officer, Chief Financial Officer and Treasurer of the managing agent.

The investment management function is outsourced to specialist external managers.

Asset allocation policy

The Investment Committee has established a broad asset allocation policy which defines the limits for different asset types. The asset allocation policy cites two major asset classes: investment grade fixed income securities and alternative assets. Alternative assets can include equities, high yield and emerging market instruments. The policy stipulates a target range of between 75% and 100% for investment grade fixed income securities and a range of between 0% and 25% for alternative asset classes. The current allocation to alternative assets sits at the mid of the target range, however, the position is regularly reviewed by the Investment Committee. The Company held no equities and emerging market instruments in 2016.

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 Company 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 £244.1 million at external managers as at 31 December 2016 (2015: £234.2 million), an increase of 50 basis points in interest yields across all portfolios consecutively (principally sterling, euro and US dollars) has been calculated.

Such an increase would decrease the market value of the investment portfolio and lead to a decrease in the total investment return of £5.9 million (2015: £5.5 million) and accordingly decrease total shareholders' funds by £5.9 million (2015: £5.5 million).

Equity price risk

The Company held no equities in 2016 (2015: Nil) and as a result the syndicate is not susceptible to equity price risk.

Currency risk

The syndicate is primarily exposed to currency risk in respect of assets and liabilities under policies of insurance denominated in currencies other than US dollars. 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – *continued*

Any component of the Share holders' funds denominated in currencies other than US dollars 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. Profit and loss results pertaining to foreign branches are translated to sterling using the average rates of exchange for the year. Balance sheet components (monetary assets and liabilities) are translated to sterling using the rates of exchange at year end.

For the profit and loss account, the 2015 average US dollar/sterling rate of US\$1.539/£1 is down on the prior year (2015: US\$1.539/£1). Had sterling weakened by 10% against US dollar and all other variables remained constant, the loss for the year would have been £3.9 million more than the amount reported.

For the monetary components of the balance sheet, the yearend rates used to convert US dollar to sterling has decreased 5% to US\$1.489/£1 (2015: US\$1.489/£1). Assuming sterling had weakened by 10% against US dollar and all other variables remained constant, the effect of translating year end net assets based on these parameters would have resulted in increased Shareholders' funds of £22.8 million, which would have appeared as a gain in the statement of comprehensive income.

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 Company 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 Company's investments are held to meet regulatory deposit requirements which may not be available to meet recommended liquidity needs.

CUAL participates in a notional pooling programme with other Chubb group companies under a facility operated by Bank Mendes Gans, a subsidiary of ING, which specialises in global liquidity management. The facility operates by the notional pooling of designated balances of the Chubb group participants in order to provide additional liquidity. Chubb group participants may overdraw individual account balances to fund immediate short term needs against credit balances held elsewhere within the pool. On this basis, CUAL maintained an overdraft of £79.4 million at year end (2015: £92.6 million) and credit balances of £118.7 million (2015: £95.4 million).

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.

The maturity of the Company's financial liabilities has been disclosed below. Non-derivative financial liabilities with contractual maturities are payable within normal terms of trade, which is on average 60 days. Non-derivative financial liabilities with contractual maturities are limited to reinsurance premiums payable and expense accruals.

31 December 2016	**No stated Maturity**	**0-1 year**	**1-3 years**	**3-5 years**	**>5years**	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000
Deposits received from reinsurers	23	-	-	-	-	23
Claims outstanding	-	93,592	99,128	47,812	56,499	297,031
Creditors	-	60,838	-	-	-	60,838
Total liquidity risk	23	154,430	99,128	47,812	56,499	357,892

31 December 2015	**No stated Maturity**	**0-1 year**	**1-3 years**	**3-5 years**	**>5years**	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000
Deposits received from reinsurers	20	-	-	-	-	20
Claims outstanding	-	100,924	111,318	54,611	76,827	343,680
Creditors	-	99,437	-	-	-	99,437
Total liquidity risk	20	200,361	111,318	54,611	76,827	443,137

NOTES TO THE FINANCIAL STATEMENTS - continued

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – *continued*

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The syndicate is exposed to credit risk through its investment activity and its insurance operations.

The syndicate is exposed to investment credit and price risk as a result of its holdings in fixed income. The risk in respect of fixed income investments is moderated by the application of detailed investment guidelines which limit the size of holdings with individual issuers, restrict duration and dictate minimum credit quality, both for individual holdings and for the aggregate weighted portfolio.

The average credit quality of investment portfolios using Moody's ratings remained high throughout the year and at year end was "A+". This is comparable to the previous year ("A+").

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

Credit risk – insurance operations

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

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

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

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

The assets bearing credit risk are summarised below:

	2016	2015
	£'000	£'000
Other financial investments	252,444	275,117
Reinsurers' share of technical provisions	101,036	109,793
Debtors arising out of direct insurance operations	-	2,547
Debtors arising from reinsurance operations	7,869	12,401
Total assets bearing credit risk	361,349	399,858

NOTES TO THE FINANCIAL STATEMENTS - continued

3. CAPITAL MANAGEMENT & FINANCIAL RISK MANAGEMENT – continued

Other financial investments are designated as fair value through profit or loss at inception, and their performance evaluated on a fair value basis, in accordance with a documented investment strategy as detailed in note 2. The Moody's credit rating for other financial investments is detailed below.

	2016	2015
	£'000	£'000
AAA	36,778	60,769
AA	97,880	88,404
A	52,728	56,451
BBB	37,812	43,253
Below BBB or not rated	27,246	26,240
Total assets bearing credit risk	252,444	275,117

Other financial investments are neither past due nor impaired.

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

Reinsurers' share of technical provisions includes claims outstanding, related claims handling costs and IBNR. This is described along with the valuation methods in note 2. This balance includes 0.0% past due that have been impaired (2015: 0.0%).

Debtors arising out of direct and reinsurance operations are held at fair value less any provision for impairment as described in note 2. They include 0.0% (2015: 1.1%) that have been impaired and 18.0% (2015: 14.44%) that are past due, but not impaired. The latter is aged 15.8% up to six months (2015: 13.4%), 0.0% six months to a year (2015: 1.7%) and 2.2% is older than a year (2015: minus 0.7%).

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

	2016	2015
	£'000	£'000
AAA	57,151	67,429
AA	35,669	44,312
A	(58)	(24)
BBB	4	3
Below BBB or not rated	759	981
Total assets bearing credit risk	93,525	112,701

NOTES TO THE FINANCIAL STATEMENTS - continued

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 is as follows:

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
Year to 31 December 2016					
Direct insurance					
Fire and other damage to property	-	4,028	14,385	(1,191)	(765)
Marine, aviation and transport	-	1,152	(6,874)	(228)	(2,463)
Accident and health	-	121	689	(31)	163
Third party liability	-	2,287	14,854	(507)	987
Miscellaneous	-	362	2,681	(122)	(758)
Reinsurance acceptances	-	2,587	9,872	(114)	(12,824)
TOTAL	-	10,537	35,607	(2,192)	(14,244)
Year to 31 December 2015					
Direct insurance					
Fire and other damage to property	12,894	30,849	(3,489)	(9,212)	(1,499)
Marine, aviation and transport	4,681	12,618	(37)	(2,798)	(7,451)
Accident and health	503	1,213	(263)	(710)	146
Third party liability	8,007	20,273	(4,300)	(4,472)	5,888
Miscellaneous	2,396	4,781	(272)	(1,117)	(1,833)
Reinsurance acceptances	9,619	24,551	(2,613)	(5,051)	(20,307)
TOTAL	38,100	94,285	(10,974)	(23,360)	(25,056)

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.

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

The prior year's net provision for claims outstanding generated a surplus for 2016 (2015: surplus) as detailed below:

	2016 £'000	2015 £'000
Direct insurance		
Fire and other damage to property	16,582	1,541
Marine, aviation and transport	29,662	14,878
Accident and health	440	144
Third party liability	10,022	2,296
Miscellaneous	(1,206)	1,301
Reinsurance acceptances	15,184	276
	70,684	20,436

NOTES TO THE FINANCIAL STATEMENTS - continued

6. ALLOCATED INVESTMENT RETURN TRANSFERRED FROM THE NON-TECHNICAL ACCOUNT

	2016	2015
	£'000	£'000
Syndicate investment income	6,842	8,975
Syndicate realised and unrealised gains less losses on investments	(2,995)	(7,291)
Investment management expenses	(540)	(595)
	9,297	1,089

7. NET OPERATING EXPENSES

	2016	2015
	£'000	£'000
Acquisition costs	390	13,534
Change in deferred acquisition costs	1,938	10,701
Administrative expenses	(135)	(875)
Reinsurance commissions	(280)	(631)
	1,913	22,729

8. DIRECTORS AND EMPLOYEES

The company has no employees (2015: £Nil). The directors received no emoluments for their services to the company (2015: £Nil).

All executive directors 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.

NOTES TO THE FINANCIAL STATEMENTS - continued

9. INVESTMENT RETURN

	2016 £'000	2015 £'000
Investment income		
Syndicate investment income	6,842	8,975
Gains on the realisation of syndicate investments	927	1,029
Investment income arising on Funds at Lloyd's investments	400	3,213
Gains on the realisation of Funds at Lloyd's investments	12	21
	8,181	13,238
Investment expenses and charges		
Investment management expenses	(540)	(581)
Losses on the realisation of syndicate investments	(1,420)	(165)
Losses on the realisation of Funds at Lloyd's investments	(22)	(102)
	(1,982)	(1,848)
Net unrealised gains less losses on investments		
Unrealised gains on syndicate investments	15,957	12,553
Unrealised losses on syndicate investments	(12,469)	(19,709)
Unrealised gains on Funds at Lloyd's investments	800	4,038
Unrealised losses on Funds at Lloyd's investments	(688)	(6,056)
	3,600	(9,174)
TOTAL INVESTMENT RETURN	9,799	2,216

10. OTHER CHARGES/(INCOME) INCLUDING VALUE ADJUSTMENTS

	2016 £'000	2015 £'000
Management charge	11	11
Chubb Limited royalties	-	1,452
Administrative expenses	-	37
	11	1,500

The management charge includes fees payable to the company's auditors and their associates for the following services:

	2016 £'000	2015 £'000
Fees payable to the company's auditors and their associates for the audit of the company's financial statements	6	4

NOTES TO THE FINANCIAL STATEMENTS - continued

11. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) The tax charge is made up as follows:

	2016	2015
	£'000	£'000
Current taxation:		
UK corporation tax on profits of the period	7,072	8,355
Amounts payable to group undertakings in respect of group relief	839	1,602
Prior period adjustments	(181)	(1,349)
Total current taxation	7,730	8,608
Deferred taxation (note 17):		
Origination and reversal of timing differences	1,937	(2,935)
Effect of change in tax rates	-	(589)
Prior period adjustments	-	215
Total deferred tax credit/(charged)	1,937	(3,309)
Tax on profit on ordinary activities	9,666	5,299

Tax included in the statement of comprehensive income
The tax credit is made up as follows:

	2016	2015
Origination and reversal of timing differences	(2,423)	290
Total tax credit	(2,423)	290

(b) Factors affecting tax charge for period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are reconciled below:

	2016	2015
	£'000	£'000
Profit on ordinary activities before tax	49,701	32,578
Profit on ordinary activities multiplied by standard rate of UK corporation tax of 20% (2015: 20.25%)	9,940	6,597
Expenses not deductible for tax purposes	(310)	(473)
Change in tax rates	-	(589)
Rate difference on deferred tax and current tax	218	898
Prior period adjustments	(181)	(1,134)
Total tax charge for the year (note 11 (a))	9,666	5,299

NOTES TO THE FINANCIAL STATEMENTS - continued

12. OTHER FINANCIAL INVESTMENTS

	2016	2015
	£'000	£'000
Market value:		
Debt securities and other fixed interest securities	221,868	234,202
Overseas deposits	22,627	28,124
Deposits with credit institutions	7,949	12,791
	252,444	275,117
Cost:		
Debt securities and other fixed interest securities	220,024	236,023
Overseas deposits	22,627	28,124
Deposits with credit institutions	7,949	12,791
	250,600	276,938

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. Approximately 91% of the value of the deposits is invested in debt securities and other fixed interest securities, with the balance being held in deposits with credit institutions and cash.

NOTES TO THE FINANCIAL STATEMENTS - continued

12. OTHER FINANCIAL INVESTMENTS - continued

£14.6 million (2015: £8.7 million) of the total market value relates to Funds at Lloyd's, as explained in note 15; this is analysed as follows:

	2016	2015
	£'000	£'000
Market value:		
Debt securities and other fixed interest securities	14,411	8,458
Deposits with credit institutions	150	203
	14,561	8,661
Cost:		
Debt securities and other fixed interest securities	14,609	8,510
Deposits with credit institutions	150	203
	14,759	8,713

Fair Value Hierarchy

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

- Level 1 – Quoted prices (unadjusted) in active markets
- Level 2 – Recent transactions in an identical asset or liability if there is unavailability of quoted prices, and
- Level 3 – Inputs for the asset or liability that are derived using valuation techniques if there is no active market or other transactions which are a good estimate of fair value.

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

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Debt securities and other fixed income securities	8,445	212,879	544	221,868
Loans and deposits with credit institutions	3,760	4,189	-	7,949
Overseas deposits	8,926	13,626	75	22,627
Total	21,131	230,695	619	252,444

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 the Company this uncertainty is considered to be immaterial as the exposure to these types of assets is insignificant – 0.24% of the investment portfolio as at 31 December 2015.

An analysis of financial instruments at 31 December 2015 by fair value hierarchy is set out below:

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Debt securities and other fixed income securities	8,090	225,479	632	234,201
Loans and deposits with credit institutions	8,564	4,227	-	12,791
Overseas deposits	18,829	9,295	-	28,124
Total	35,483	239,001	632	275,116

NOTES TO THE FINANCIAL STATEMENTS - continued

12. OTHER FINANCIAL INVESTMENTS - continued

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 the Company this uncertainty is considered to be immaterial as the exposure to these types of assets is insignificant – 0.23% of the investment portfolio as at 31 December 2015.

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

'Loans and deposits with credit institutions' includes short term investments, such as liquidity funds. Where such securities are traded in active markets, they are classified within Level 1, as fair values are based on quoted market prices. Where no active market exists for such securities they are typically classified within Level 2 and where pricing is unobservable, Level 3.

During the year no significant investments were transferred between Level 1, Level 2 and Level 3.

13. OTHER DEBTORS

	2016	2015
	£'000	£'000
Amounts falling due within one year:		
Amounts due from group undertakings	5,748	2,094
Other debtors	877	1,062
Corporation tax	6,189	4,908
	12,814	8,064
Amounts falling due after one year:		
Amounts due from group undertaking – Capital realignment	113,633	158,260
	113,633	158,260

14. CALLED-UP SHARE CAPITAL

	2016	2015	2016	2015
	\$'000	\$'000	£'000	£'000
Allotted, issued and fully paid 6,725,202 (2015: 6,725,202) Ordinary shares of US\$1	6,725	6,725	4,284	4,284
Share premium at US\$9 per ordinary share	60,527	60,527	38,552	38,552

The company has met its Funds at Lloyd's ("FAL") requirement to support its underwriting capacity by the retention of closed year of account profits.

The company's assets at 31 December include £14,654,000 (2015: £8,708,000) designated as FAL; this represents the balance of the profit distribution for all closed years of account, which was retained to meet an increase in the FAL requirement. The Capital realignment balance is the result of the capacity change of 2015 year of account as referred to in Directors' report.

NOTES TO THE FINANCIAL STATEMENTS - continued

14. CALLED-UP SHARE CAPITAL - continued

	2016 £'000	2015 £'000
Other financial investments (note 12)	14,411	8,458
Deposits with credit institutions (note 12)	150	203
Other prepayments and accrued income	93	47
Total assets designated as Funds at Lloyd's	14,654	8,708

15. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Amounts payable to group undertakings in respect of group relief	6,398	5,559
Amounts due to group undertakings	9,996	58,001
Other creditors	(10)	-
	16,384	63,560

16. DEFERRED TAX

The deferred tax included in the statement of financial position is as follows:

	2016 £'000	2015 £'000
Included in provisions for liabilities and charges	(8,057)	(8,544)
Total recognised deferred tax (liability)	(8,057)	(8,544)
Technical results not declared	(5,937)	(5,999)
Other temporary differences	(2,120)	(2,545)
Total recognised deferred tax/(liability)	(8,057)	(8,544)

An analysis of the movement is deferred tax is as follows:

	2016 £'000	2015 £'000
At 1 January	(8,544)	(11,563)
Deferred tax credit/(charge) to profit and loss account	(1,936)	2,937
Deferred tax credit/(charge) to other comprehensive income	2,423	(290)
Change in tax rate	-	587
Prior year adjustment	-	(215)
At 31 December 2016	(8,057)	(8,544)

The amount of the net reversal of deferred tax assets and liabilities expect to occur in 2017 is £8,057k (2016: £5,594k) in respect of the reversal of timing differences on funded business.

The Finance Act 2015 enacted a reduction in corporation tax rates to 29% from 1 April 2017 and 17% from 1 April 2020, as a result of which the relevant deferred tax balances have been re-measured.

NOTES TO THE FINANCIAL STATEMENTS - continued

17. TRANSACTIONS WITH RELATED PARTIES

Advantage has been taken of the exemption provided in FRS 102 from disclosing details of transactions with Chubb Limited and its subsidiary undertakings.

18. 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. Furthermore an insurer need not disclose information about claims development that occurred earlier than five years before the end of the first financial year in which it applies FRS 103. The top half of the table shows how the estimates of total claims for each accident 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 accident year are translated into sterling at the year-end rates that applied at the end of each underwriting year.

Analysis of claims development - gross

	2011	2012	2013	2014	2015	2016	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimates:							
End of underwriting year	62,306	56,180	41,773	40,860			201,120
One year later	131,489	112,673	108,383	101,263			453,808
Two years later	154,582	112,512	112,583	98,812			478,489
Three years later	126,508	101,217	108,053				335,778
Four years later	117,738	98,423					216,161
Five years later	116,492						116,492
Current estimate of ultimate claims	116,492	98,423	108,053	98,812			421,780
Cumulative payments	(94,566)	(69,797)	(65,658)	(51,351)			(281,372)
In balance sheet	21,926	28,626	42,395	47,461			140,408
Provision for prior financial years							156,523
Liability in the balance sheet							297,031

Analysis of claims development - net

	2011	2012	2013	2014	2015	2016	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of ultimates:							
End of underwriting year	47,436	39,867	31,373	31,725			150,401
One year later	93,037	84,747	82,389	80,642			340,814
Two years later	107,853	84,126	85,021	80,959			357,959
Three years later	86,901	81,700	82,222				250,823
Four years later	84,233	79,441					163,675
Five years later	85,259						85,259
Current estimate of ultimate claims	85,259	79,441	82,222	80,959	0	0	327,882
Cumulative payments	(68,723)	(58,221)	(52,866)	(45,208)	0	0	(225,018)
In balance sheet	16,536	21,220	29,356	35,751			102,864
Provision for prior financial years							94,730
Liability in the balance sheet							197,594

NOTES TO THE FINANCIAL STATEMENTS - continued

19. RECONCILIATION OF INSURANCE BALANCES

DEFERRED ACQUISITION COSTS

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

	2016	2015
	£'000	£'000
At 1 January	3,514	14,268
Change in acquisition costs deferred during the year	(1,938)	(10,701)
Foreign exchange movements	400	(53)
At 31 December	1,976	3,514

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

	Gross		Reinsurers' share	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
At 1 January	14,483	69,873	2,411	12,539
Increase/(decrease) in provision	(10,537)	(56,184)	(1,136)	(10,177)
Foreign exchange movements	901	394	324	49
At 31 December	4,847	14,083	1,599	2,411

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

	Gross		Reinsurers' share	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
At 1 January	343,682	413,746	107,382	143,779
Increase/(decrease) in provision	(96,729)	(73,622)	(26,045)	(38,471)
Foreign exchange movements	50,078	3,558	18,100	2,074
At 31 December	297,031	343,682	99,437	107,382

20. POST BALANCE SHEET EVENTS

On 27th February the Lord Chancellor announced a change in the Ogden rate for discounting personal injury claims, reducing them to negative 0.75%. This change does not have a material effect on financial statements of Chubb Capital IV Limited.

21. ULTIMATE HOLDING COMPANY

The ultimate holding company is Chubb Limited, a company registered in Zurich, Switzerland, with its headquarters in Zurich, Switzerland and it is quoted on the New York Stock Exchange. Copies of the ultimate holding company's consolidated financial statements can be obtained from Investor Relations at Chubb's executive offices at 17 Woodbourne Avenue, Hamilton HM 08, Bermuda.