



***1084 Annual Report 2016***

*Our focus remains on ensuring that we can offer one of the strongest specialty underwriting options in the Lloyd's market, providing brokers and clients with a single destination for all major classes of business that delivers smart risk solutions and a high quality service.*

**Ed Lines**

Active Underwriter

*Chaucer Syndicate 1084*

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# Underwriter's Report

## Underwriting performance

Underwriting conditions remained challenging in 2016 with a continued softening across the board as market capacity continued to exceed demand. Despite this, reported gross written premium increased to £780.9m compared to £717.4m in 2015 (excluding our UK Division, which we transferred to a third party UK-based insurance provider on 30 June 2015).

We achieved growth in our targeted classes, where pricing and results were most robust, notably our Speciality Marine and Treaty classes, and through our addition of two new underwriters to strengthen our Accident and Health offering within our Casualty team. Our partnership with AXA Africa Specialty Risk, which provides Lloyd's expertise and brand to local distribution networks in Africa for speciality business, also completed a successful first year.

The Syndicate 1084 underwriting result decreased to £61.7m (2015: £76.3m) and the combined ratio increased to 89.6% (2015: 88.4%), reflecting the challenging underwriting conditions and an increase in the loss frequency for both catastrophe and large losses. Mitigating this, we again saw the strength of our robust reserving approach with healthy prior year development in most Divisions.

## 2016 market loss activity

The year saw an increase in global loss activity compared to 2015, with earthquakes being the main contributor. The costliest natural catastrophe of the year was the earthquake in Kumamoto, Japan, in April 2016. There were also earthquakes in Taiwan, Ecuador, Italy and New Zealand, each with a magnitude of over 6.0, during the year. There were also a number of significant flood events in 2016; the US experienced a number of powerful storms and persistent rainfall events throughout the year, and late spring saw floods in China and Europe that resulted in insured losses running into billions of dollars.

Canada experienced its worst insured loss in history, with devastating wildfires that swept through the town of Fort McMurray in May and took approximately 2 months to control. The US Hurricane season saw the first Category 5 Storm since 2007 with Hurricane Matthew bringing widespread destruction and loss of life across a number of Caribbean Islands, the worst hit being Haiti, and then the southeast of the US. With insured losses estimated to be in excess of \$5bn, Matthew was the costliest hurricane season event since Sandy in 2012.

## Underwriting outlook

Absent a major market event, excess capacity and intense competition will remain key features of the Insurance market in 2017, and this will continue to impact pricing levels for all of our classes. However, while we expect this pressure to continue, continuation of the recent uptick in loss frequency across most classes, combined with weakening prior year developments, further softening should become less aggressive. Our approach in 2017 will remain the protection of our core portfolio of clients and brokers, with focus on pricing adequacy and optimisation of our portfolio from class, through to syndicate level while continuing to seek opportunity where we can identify positive returns.

## Divisional performance

The following table provides a summary of divisional level underwriting performance.

	Marine £m	Aviation £m	Energy £m	Property £m	Casualty £m	Treaty £m	UK * £m	Run off £m	Total £m
<b>2016</b>									
Gross written premiums	207.2	26.8	97.1	42.6	172.9	234.8	(0.9)	0.4	780.9
Net earned premiums	148.4	25.0	76.1	34.1	137.4	169.5	-	0.9	591.4
Underwriting (loss) / profit	(17.7)	5.4	20.3	0.2	9.3	37.8	0.2	6.2	61.7
<b>2015</b>									
Gross written premiums	169.6	34.2	113.1	43.3	142.3	214.8	121.5	0.1	838.9
Net earned premiums	128.6	28.4	101.3	37.6	111.8	160.1	87.4	2.4	657.6
Underwriting profit / (loss)	9.3	8.3	6.1	9.3	2.4	39.8	(3.5)	4.6	76.3

\* On 30 June 2015, we transferred our UK Division to a third party UK-based insurance provider through a 100 percent reinsurance arrangement for prior claim liabilities and in-force policies written by this division and the sale of the entities associated with this business.

This performance table is prepared on a divisional basis and is not in accordance with the segmental analysis per Note 3 in the Annual Accounts.

Underwriting profit / (loss) comprises earned premiums, net of reinsurance; claims incurred, net of reinsurance and net operating expenses.

# Underwriter's Report

## Marine Division

Total premium income, from both our traditional marine and political classes, increased to £207.2m from £169.6m in 2015, as strategic actions, begun in 2015 to increase access to specialty marine business outside of the Lloyd's market, progressed. This was despite a further inflow of new capacity and intense competition for business, which together reduced our renewal business. Loss activity increased in 2016, notably in the political classes, producing an overall underwriting loss of £17.7m (2015: £9.3m profit) and combined ratio of 111.9% (2015: 92.7%).

### Specialty Marine

The hull and liability markets remained difficult with traditional hull business increasingly marginal and liability business continuing to suffer from increased loss frequency. In response, we continue to source niche, less commoditised segments of the market including builders risk, brown water hull and ports and terminals where pricing adequacy is more robust. Cargo saw two large losses in 2016 – a loss of oil assets at a Samir refinery in Morocco and the loss of the Amos 6 Satellite as the Falcon 9 Rocket exploded as it prepared to launch. The specie market remains less commoditised than for cargo, although market conditions remain challenging. Our focus remains underwriting discipline and a quality service to our brokers and clients, which allowed us to maintain a profitable (albeit smaller) account in 2016.

In 2015, we acquired Lonham Insurance Underwriters, an established business servicing UK regional brokers and clients in the marine cargo, freight liability, hauliers and warehouse-keepers liability classes. Lonham performance exceeded our expectations in 2016 and contributed significantly to Divisional growth. In addition, we have established a new online freight forward product (ForwarderLink) that provides a complementary product in both the UK and the US. Income in 2016 was promising and we expect more growth in 2017, the first full year of trading. We have also continued to push forward successfully with our UK Ports and Terminals product.

Our overall strategy remains to build a multi-lined marine specialty entity that provides comprehensive solutions, underwriting expertise and security to both Lloyd's and regional brokers, and clients.

### Political Classes

We are an established leader for political risk and violence in emerging markets. In 2016, we extended our leadership to emerged markets, expanding our political risk and trade credit team with senior-level underwriting and credit analytical capabilities.

Fallout from the weakening demand, and lower prices, for commodities that began in 2015, hit the trade credit market, especially in emerging markets, in 2016. The squeeze on revenue, profit and cash flow made it harder to service debts and made defaults more common in many commodity-related industries. As a leader for trade credit business in emerging markets, we have received our share of these losses.

While our results have disappointed, demand for our product has increased and we have benefited from a flight to quality in the proposals that we are now seeing. Our focus in 2017 remains our technical underwriting approach, our core client needs in emerging market business and development of our emerged market offering to improve the balance of our overall account.

Our Political Violence account has again outperformed expectations as our strong and established leadership position enables us to balance our exposures between high risk and more benign areas.

In 2016, we increased our line size to meet growing client demands and to protect our lead position in the political violence market. Typically brokers place these risks through large facilities, with less business written on a traditional facultative basis. In response, we have offered strong leadership support to our chosen facilities in order to retain underwriting control. This has been of paramount importance as capacity has continued to expand, affecting pricing adequacy. Mitigating this, demand has continued to grow as global political instability has remained in the headlines.

In 2016 we strengthened our regional offerings accessing local distribution networks via our international offices in Miami, Singapore, Shanghai and Copenhagen. We also launched our first Shariah-compliant political violence product, as well as our first online product in the US. In 2017, our strategic focus remains on development of our product range and regional presence for clients worldwide.

# Underwriter's Report

## Aviation Division

Our Aviation Division again produced a good performance, with an underwriting profit of £5.4m (2015: £8.3m) and a combined ratio of 78.3% (2015: 71.0%), despite challenging underwriting conditions. It was a more benign year for industry losses, although two major rotorwing losses affected our result. Despite these losses, this segment saw further rate softening, as did other aviation market segments. This caused our retention rate to reduce, especially for business that threatened to undermine the technical rate, and premium volumes fell in 2016 to £26.8m, compared to £34.2m in 2015.

Market conditions remained disappointing for the airline renewal season in the fourth quarter of 2016, although demand remains healthy as airline industry growth remains strong. Our underwriting team targets niche areas of the business where pricing strength remains more robust. We do not write Tier 1 airlines. Our satellite account, which provides diversification for our Aviation Division, performed strongly in 2016.

The outlook is challenging, although some commentators believe the aviation market may begin to turn in 2017. In the absence of any positive change, our strategy remains conservative and we will continue to target rate adequacy over growth. Our core clients and brokers remain our focal point and maintenance of these strong relationships will be key part of the continued protection and development of our Aviation Division.

## Energy Division

The low oil price, which settled at around \$50 a barrel (compared to around \$110 in early 2014), and intense competition for business continued to weigh heavily on the energy market in 2016. Development and construction activity in the industry remained quiet as the oil and gas industry lacked the confidence to press ahead with the investment needed to secure future long-term production targets. This lack of industry activity meant that the abundance of insurance market capacity had to work even harder to write business, driving premium below 2015 levels.

Across our portfolio, written premium income fell to £97.1m (2015: £113.1m) and, when combined with an increase in loss activity away from catastrophe exposures, reduced current year underwriting performance. The reported underwriting profit for 2016 improved to £20.3m (2015: £6.1m), including the benefit of increased prior year reserve developments. The combined ratio decreased to 73.3% (2015: 94.0%).

### Upstream

Industry development activities remained subdued in 2016 as oil and gas operators focused on maintaining lean, cost effective production and, in some cases, merging with or acquiring the production of competitors at prices that capitalised on industry stresses. With weak appetite and a lack of certainty over future commodity prices, firms held back from awarding new drilling contracts and left contractors with little option but to lay-up even more rigs than in 2015 or to run assets at negative margins to keep them work-ready. In addition, few new construction projects went ahead in 2016. This industry contraction alone significantly reduced the sector's premium base and compounded the over-supply of risk capacity, fuelling aggressive competition across the insurance market.

Loss activity remained light, including another absence of hurricane-related losses in the Gulf of Mexico, although the large physical damage and subsequent business interruption loss from the Tullow Oil Kwame Nkrumah vessel off the coast of Ghana affected our performance.

Against this background, our strategy centred on quality risk selection and focusing on delivering service to our core client and brokers. With capacity unlikely to diminish in 2017, we will focus on active marketing and business production, exercising superior risk selection and continuing to position ourselves as a vital and influential lead market in the upstream sector, able to adapt to the changing business needs of our clients.

### Downstream & Midstream

As with upstream, onshore markets remained challenging in 2016. Loss activity was again relatively benign and our results were good, assisted by minimal exposure to catastrophe losses and by further releases on prior years. The recruitment of a new underwriter for downstream & midstream business in the first quarter supported modest growth in the account.

We focused on risk selection and maintaining portfolio balance, while continuing to support core clients and maintaining underwriting discipline with a focus on well-engineered, well-managed risks. In 2017, we will build from this base through development of new distribution sources.

# Underwriter's Report

## Power & Renewable Energy

Despite pricing adequacy in the power and renewable energy markets remaining challenging, through increased marketing efforts, we achieved a little growth in 2016, and our reported underwriting performance was satisfactory.

In the first quarter of 2016, we recruited a new underwriter for our renewable energy class, which has provided us with additional expertise to support our long-term ambition of becoming a key market in renewable energy. In support of this, we also renewed our relationship with a key US producer of North American wind-power, and continued to develop our distribution among a wider group of producing brokers. Focus in this segment emphasises risk selection and deployment of a balanced line size across the account, particularly in catastrophe exposed areas.

While we remain cautious in what is still an emerging area of the energy industry, in 2017 we will continue our focus on engineering quality and risk selection, as well as building on our core base and widening our knowledge of the sector from both technological and geographical perspectives.

## Property Division

After a number of more benign loss years, market conditions remained challenging in 2016, with further increases in global capacity, greater cedant retentions and an ever-growing impetus to combine risks under broader facilities. In response to this trend, in the second half of 2016, we completed a review of our current underwriting approach with a view to ensuring greater relevance to brokers, clients and cedant going forward. Now, as part of our revised strategy, we have doubled our capacity for 2017 and recruited two new underwriters in the final quarter of 2016 to lead development of our property account, in terms of premium volumes and risk and regional diversification. The new approach has begun promisingly.

Premium for the year reduced to £42.6m (2015: £43.3m), although our underwriting profit suffered from the uptick in catastrophe loss activity in 2016, falling to £0.2m (2015: £9.3m) and our combined ratio increased to 99.5% (2015: 75.1%). Our largest loss was through our exposure to the Fort McMurray wildfires in Canada through our delegated authority account. We also had exposure to the New Zealand and Ecuadorian earthquakes and Hurricane Matthew.

While we expect market conditions in 2017 to remain tough, we anticipate that rate reductions will slow as we reach the bottom of the cycle trough. In addition, our increased leadership position will allow us to influence pricing in a greater proportion of our portfolio in 2017. Our underwriting approach will remain unchanged in terms of risk selection, although with an increased line-size, a greater willingness to consider quota share ground up placements and our introduction of established underwriting talent with strong industry relationships, we will see, and quote, a greater number and range of risks for cedants and brokers.

## Casualty Division

Our Casualty Division performed well during 2016, with underwriting profit increasing to £9.3m (2015: £2.4m) and combined ratio reducing to 93.3% (2015: 97.9%). Premium rose to £172.9m (2015: £142.3m) due to new opportunities in target classes (particularly US Specialist Lines and International General Liability) and our new accident and health proposition.

Our Casualty Division continues to write a broad spread of business, both in terms of product and geography, as we continue to aim for balance within the account. In support of this, we recruited a market leading team in the third quarter to strengthen our Accident and Health account. This will further widen our leadership offering to clients and brokers, as well as helping to further balance our casualty account.

Market conditions remained challenging across the board, although we continued to source opportunities, targeting more niche segments and geographies where conditions were less pressured. Our North American specialist lines business remains our largest class and we were able to grow this organically through established relationships in 2016. We reduced the medical malpractice contribution as market conditions remained disappointing and pricing adequacy suffered. Our Institutional Healthcare account, which is predominantly US-based, again performed well in 2016. Continued M&A activity in the US healthcare sector affects this class but our strong leadership position and long-standing relationships protected our renewal account. We continued to seek out additional products to enhance our US casualty offering and expect this to bear fruit in 2017.

International casualty markets remain flat at best. We successfully sourced growth opportunities in our well-performing general liability account, through our established MGA and broker networks in target markets. Following the Husky pipeline loss in Canada, which affected our general liability account, we reviewed our participations on Canadian oil and gas business, ensuring the technical adequacy of both pricing and attachment points.

# Underwriter's Report

International professional indemnity classes continued to remain challenging and we focused strongly on technical adequacy and profitability in our underwriting response. New business was limited, although we continue to work with our core agents and brokers to optimise this account. The financial institutions market proved the most disappointing in 2016 with continued softening. Our response was largely defensive, and we remained cautious in what can be a very difficult class, targeting profitability over growth.

Our 2017 strategy will continue our focus on core agents and distribution networks, while seeking new opportunities in our target areas and new classes.

## Treaty Division

Our Treaty Division produced another good result in 2016, with premium of £234.8m (2015: £214.8m) and underwriting profit of £37.7m (2015: £39.8m). The combined ratio increased to 77.8% (2015: 75.1%).

Market conditions remained challenging in 2016, following several years of more benign claims activity, and rates softened across all classes as expected. We continued to focus on level, driving accounts away from attrition, and a technical approach to pricing, while optimising our portfolio and use of aggregate. Despite the conditions, we achieved reasonable growth, primarily through the additional distribution provided through our international hub offices.

All classes contributed to the good result. We saw an increase in catastrophe activity, compared to 2015, and had exposure to the Ecuador and Japan earthquakes, the Fort McMurray wild fires in Canada, Hurricane Matthew and flood activity in China. Fortunately, these losses remained within our 2016 catastrophe budget. We also benefited from strong reserve releases on prior year loss events.

Risk losses in 2016 particularly affected our Marine XL account, with exposure to the Amos 6 satellite and Samir refinery losses in the cargo market and the Tullow Oil loss in the energy market.

Our performance highlights the strength of our team and our technical disciplined approach to underwriting. In 2016, we further improved our service offering through enhanced leadership capabilities and greater deployment of our capacity, which we increased for our catastrophe classes (both property and workers compensation) in 2016. We also successfully built on our core cedant relationships and better servicing increasing demand for multi-product solutions, as well as continuing to develop our local market distribution and expertise through our international hubs.

Our 2017 strategy will continue to build on our successes in 2016 to ensure that we remain relevant to our cedants in terms of our expertise, scale, products and our ability to offer truly global solutions across all of our established hubs, while remaining true to our technical approach to sustainable, disciplined underwriting.

## Business development

Our focus remains on ensuring that we can offer one of the strongest specialty underwriting options in the Lloyd's market, providing brokers and clients with a single destination for all major classes of business that delivers smart risk solutions and a high quality service.

In 2016, we worked hard to extend our proposition to brokers and clients, adding new products and underwriters, including accident and health, marine professional indemnity and political risk and trade credit for emerged markets, and new distribution channels, with our new online solutions for freightforwarder and political violence. We also increased the underwriting expertise and products available through our international hub offices, including political violence in Miami and a strengthened treaty presence in Singapore.

In 2017, this work will continue with further investment throughout the business to ensure that we can provide the right solution for our clients and brokers.

## The Syndicate 1084 Team

I am pleased to announce two senior underwriting management appointments, each of whom has played a major part in Chaucer's business development and, together bring significant capabilities and experience to the Syndicate's Senior Management Team.

On 1 January 2017, Ed Lines became Active Underwriter of Syndicate 1084, with responsibility for its business plan and underwriting. Ed has been central to the success of Syndicates 1096 and 1084 since he joined Chaucer as a Property Underwriter in 1997. Over almost 20 years, first as Underwriter and then as Property Divisional Head, Ed has taken a leading role in helping to drive the Syndicate forward, and I am sure that he will continue to lead by example in his new role. This includes Ed's commitment, most recently as Deputy Head of Underwriting, to ensuring the highest standards of underwriting quality, service, controls and good conduct throughout the Syndicate.

Colin Clulow has taken over from Ed Lines as Head of the Property Division. Colin joined us as International Property Underwriter in 2014 and will now lead the next stage of the Division's development as we implement our new strategy for property direct and facultative.



# *Underwriter's Report*

## **Conclusions**

I would like to thank all members of Syndicate 1084 team for their diligent efforts in 2016. This was another excellent year for the Syndicate, with our smart approach and hard work combining with good loss experience to produce a healthy underwriting profit.

I believe that we have all the components firmly in place and working efficiently for the continued long-term successful development of Syndicate 1084. We have a broad, highly valued specialty product range, a strong underwriting team with the right focus on delivering technically and commercially smart solutions for brokers and clients, and first class delivery of a clear and valued service proposition.

As I hand over the Active Underwriter role to Ed Lines, despite the challenging underwriting outlook, I am confident that more success beckons for Syndicate 1084 in 2017.

**John Fowle, Chief Underwriting Officer**

**Chaucer Syndicate 1084**

13 March 2017

# Managing Agent's Report

The Directors of the Managing Agent present their report and the audited annual accounts for the year ended 31 December 2016.

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

## The Managing Agent

The Managing Agent is Chaucer Syndicates Limited, whose registered office is Plantation Place, 30 Fenchurch Street, London EC3M 3AD and registered number is 184915.

## STRATEGIC REPORT

### Principal activities

This report covers the business of Syndicate 1084, whose principal activity during the year continued to be the transaction of worldwide general insurance and reinsurance business in the United Kingdom.

### Review of the business and future developments

The Syndicate's key financial performance indicators during the year were as follows:

	2016 £m	2015 £m
Gross written premiums	780.9	838.9
Total comprehensive income	142.5	91.3
Combined ratio <sup>1</sup>	89.6%	88.4%

<sup>1</sup> The combined ratio is the ratio of net claims incurred and net operating expenses to net premiums earned. A lower combined ratio represents better performance.

Refer to the Underwriter's Report for more detail on the development and performance of the Syndicate during the year and future developments in the business of the Syndicate.

### Transfer of UK Division

On 30 June 2015, Syndicate 1084's UK Division was transferred to another UK-based insurance provider. The transaction was executed through a 100% quota share reinsurance agreement with Syndicate 6124 for prior claim liabilities and in-force policies written by this division and the sale of two legal entities by Chaucer Syndicates Limited associated with the business. The reinsurance agreement also covers any business written post the date of sale on Syndicate 1084 paper during the facilitation period to 30 September 2015.

### Principal risks and uncertainties

The following paragraphs describe the principal risks and uncertainties facing the Syndicate.

#### Underwriting risk

Each Division of the Syndicate undertakes an extensive annual underwriting planning process in order to determine its targets for premium income and return on capital.

The detailed stochastic modelling of underwriting risk, both gross and net of reinsurance, using dynamic financial analysis techniques, assists with the setting and management of risk appetite.

Catastrophe risk is the main component of underwriting risk and the Syndicate uses Exceedance Probability (EP) curves as one of the tools for managing this risk. For a defined underwriting portfolio, an EP curve plots expected probability against loss size. This represents a sliding scale of risk appetite against associated exceedance probabilities.

#### Managing risk aggregation

The Syndicate monitors the aggregation of underwriting exposure using specialist modelling software tools where appropriate. The Syndicate monitors its loss exposure to a suite of natural catastrophe events (including the prescribed Lloyd's Realistic Disaster Scenarios) and man-made events on a quarterly basis. Modelled loss caps are set at an underwriting business unit level for each event; this provides the underwriters with a practical tool for managing their exposures.

# Managing Agent's Report

## Concentrations of risk

The Syndicate has exposure to losses arising through the aggregation of risks in geographical sectors. This mainly affects the property, marine and energy portfolios. Events giving rise to such aggregations are typically natural disasters such as earthquakes or weather-related disasters such as hurricanes, windstorms and typhoons. Other examples include major terrorism events.

As part of the risk management process, the Syndicate assesses exposures to Realistic Disaster Scenarios every quarter to enable the Syndicate to monitor potential accumulations of underwriting exposure against a pre-determined suite of catastrophic events and to confirm no breach of underwriting risk appetite.

## Maximum lines

Underwriters manage individual risks through adherence to set maximum line sizes.

## Underwriting controls

The Syndicate operates a number of underwriting controls, details of which are set out below.

## Monitoring performance against plan

The Syndicate manages performance against plan through monthly divisional reporting, utilising centrally prepared underwriting management information packs. Each Division reports to an Underwriting Board which in turn reports to the Underwriting Committee and through to the Board of the Managing Agent. This control process ensures several layers of review for underwriting risks, with particular focus on pricing, loss ratio forecasts, risk aggregation, catastrophe modelling and reinsurance protection.

## Emerging risks

An emerging risk is perceived to be potentially significant but which may not be fully understood or allowed for in insurance terms and conditions, pricing, reserving, capital setting or the operational activities of the Syndicate. The Managing Agent has a defined emerging risk process to identify and assess the potential impact of such risks.

## Peer and independent reviews

Peer review is performed on a risk-based sample of business by a fellow underwriter to ensure adherence to sound underwriting practices. The independent review process involves detailed review of individual underwriting risks and supporting documentation.

## Underwriting risk review

Themed underwriting reviews are conducted by the Underwriting Risk Management Function to ensure that underwriting procedures and discipline are followed.

## Internal audit

Internal audit provides assurance over the performance of the underwriting controls.

## Claims risk

While claims events are inherently uncertain and volatile, the claims department is an experienced team covering a wide range of business classes. The Managing Agent has various management controls in place to mitigate claims risk; some of these controls are outlined below.

## Claims settlement and reserving authority limits

The Managing Agent employs strict claims handling authority limits. All transactions in excess of an individual claims handler's authority are referred in a tiered approach to a colleague with the requisite knowledge and experience.

## Peer review

The Syndicate currently commissions an external random peer review on a quarterly basis. This review incorporates both qualitative and quantitative measures and findings are collated and reported to relevant committees.

## Monthly reporting

Reports are produced for different aspects of the claims handling process, including significant movements, catastrophes, and static claims. These reports are communicated both within the business and with key external stakeholders, including Lloyd's Claims Management.

## Management of external experts

The Managing Agent appoints third party loss adjusters, surveyors and legal advisors for claims investigation and assessment services. The development of long standing relationships with key experts and agreed Terms of Engagement aims to ensure the Syndicate receives a high quality service. Direct contact with external experts is actively encouraged. However, this process is not exclusive. If no suitable expert exists on the Syndicate's panel for any one particular claim, an 'Expert Exception' process operates to ensure a timely appointment of an appropriate expert.

# Managing Agent's Report

## Reserving risk

The Syndicate's reserving policy seeks to ensure appropriate allowance for reserving risk, consistency in reserving from year to year and the equitable treatment of capital providers on the closure of a year of account.

Reserves are set on a two tier hierarchical basis.

### Tier 1: Actuarial best estimate reserves

Actuarial best estimate reserves are prepared on an underwriting year basis and are intended to be true best estimates, i.e. estimates of expected value claims reserves. These are the basis for internal reporting and the derivation of expected loss ratios for business planning.

The actuarial best estimate reserves are the responsibility of the Internal Signing Actuary. The Managing Agent's Actuarial Team calculates the reserves in conjunction with extensive discussions with underwriting, claims and reinsurance staff.

### Tier 2: Syndicate reserves

Determination of syndicate reserves is a two-stage process: first, they are determined on an underwriting year basis and then they are converted to an annually accounted basis.

#### *(a) Underwriting year syndicate reserves*

Underwriting year syndicate reserves are prepared on an underwriting year basis and equal the Tier 1 reserves plus any reserve risk loadings. The intention of such risk loadings is to match areas within each syndicate where the perception is that there is a particularly high risk that the best estimate reserve may be inadequate. Such areas include, but are not limited to, the following:

- new classes of business
- classes where early development is materially better or worse than expected
- classes or events with abnormally skewed claim distributions
- claim events or reserving categories with a poorly understood distribution

To ensure consistency in the application of risk loadings, the starting point in their assessment is, where possible, formulaic. The formulaic risk loadings are adjusted wherever considered either excessive or understated. There may also be additional risk loadings in respect of risks not covered by the formulaic basis.

The underwriting year syndicate reserves provide the basis for all syndicate results and forecasts.

#### *(b) Annually accounted syndicate reserves*

Annually accounted syndicate reserves are the underwriting year syndicate reserves converted to an annually accounted basis, plus additional loadings.

The Managing Agent's Board approves all risk loadings within syndicate reserves.

The assessment of actuarial best estimate reserves is a rolling quarterly process. The underwriting portfolio comprises a number of heterogeneous business types, each of which the analysis projects to ultimate. Where certain contracts or claim events obscure development trends, the analysis splits these out for separate review. The application of standard actuarial techniques to the historical attritional, large and catastrophe claims data supports the estimation of ultimate loss ratios. The analysis also draws on external data or market data or non-standard methodologies where appropriate. Whenever actual development of premiums or claims within a reserving category during a quarter is materially different from expected development based on the existing methodology, then that methodology is reassessed and, where appropriate, amended. The analysis takes credit for reinsurance recoveries and provides for the possibility of reinsurer failure.

Reserving risk is controlled by the robust application of actuarial methodologies, stepped sign-off procedures, quarterly tracking of projected ultimate loss ratios and reassessment of methodologies where appropriate, regular dialogue between actuaries and practitioners and access to a history of loss data. Finally, explicit risk loadings are applied in respect of the areas of greatest risk within the reserve assessment.

Although the risk loadings provide important protection against adverse developments in reserves, the degree of subjectivity in the reserving process, the exposure to unpredictable external influences (e.g. the legal environment) and the quantum of reserves relative to net tangible assets, mean that reserving remains a significant source of risk to the Syndicate.

# Managing Agent's Report

## Credit risk

The Managing Agent reviews all reinsurer counterparties with whom the Syndicate wishes to conduct business and sets credit thresholds for the total potential recoveries due from each reinsurer. The review includes an analysis of the financial strength of the reinsurer, its payment performance record and standing in the market. Thereafter, management of reinsurer credit risk follows active and regular review, with the assistance of outside expertise, of the credit rating and financial exposure to all approved reinsurers.

The Syndicate predominantly purchases reinsurance from reinsurers rated strong or better by Standard & Poor's (or equivalent). Maximum exposures per reinsurer are set in response to a reinsurer's rating and net assets.

Broker credit risk limits are also determined depending on the grading of the relevant broker and exposures monitored against limits on a monthly basis.

## Investment risk

The Managing Agent's approach is that investment activities are complementary to the primary underwriting activities of the business and should not therefore divert or utilise financial resources otherwise available for insurance operations.

The preservation of capital and maintenance of sufficient liquidity to support the business and the enhancement of investment returns, within a set of defined risk constraints, are at the heart of the financial market risk policies adopted by the Managing Agent.

Investment risk constraints, which quantify the maximum amount of investment risk permitted over a one-year time horizon, are approved by the Managing Agent's Board on an annual basis and are used to derive the maximum allocation, or risk budget, that can be allocated to each asset class.

The Managing Agent reviews and amends asset allocations in accordance with investment risk constraints. Due regard is given to the outlook for each asset class because of changes in market conditions and investment returns. Proposed asset allocations are tested using stochastic modelling techniques prior to formal adoption.

The Syndicate invests a proportion of funds in fixed income and variable yield securities managed by professional portfolio managers. Each manager operates within a defined set of investment guidelines and against an appropriate benchmark.

Refer to Note 13 for more details on the Syndicate's exposure to investment risk and processes in place for managing these risks.

## Operational risk

This is the risk that events caused by people, processes, systems or external events lead to losses to the Syndicate. The Managing Agent seeks to manage this risk through business performance measures, formal disaster recovery and business continuity planning and other governing procedures which are reviewed through a structured programme of testing of processes and systems by Internal Audit and other assurance processes.

## Regulatory and legal risk

Regulatory risk is the risk of loss or reputational damage owing to a breach of regulatory and legal requirements or failure to respond to regulatory change.

The Managing Agent is required to comply with the requirements of the Prudential Regulatory Authority, Financial Conduct Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. The Managing Agent has a Compliance Officer, who monitors regulatory developments and assesses the impact on agency policy. The Syndicate also undertakes a compliance-monitoring programme. Legal risk is the risk that exposes Chaucer to actual or potential legal proceedings. The Managing Agent has legal risk resource which monitors legal developments and assesses impact on the business.

## Conduct risk

Conduct risk is the risk of treating our customers unethically or unfairly by delivering inappropriate outcomes due to improper attitudes, systems, controls and governance. The Managing Agent operates a suitable risk management and governance framework across the syndicate which monitors the various areas of potential exposure to conduct risk matters and ensures appropriate design and performance of controls and the effective escalation and resolution of items as required.

## Staff matters

The Managing Agent considers its staff to be a key resource and seeks to provide a good working environment for its staff that is rewarding and safe and complies with appropriate employee legislation. During the year there have been no significant injuries to staff in the workplace or any significant actions taken by any regulatory bodies with regard to staff matters.

# Managing Agent's Report

## **Brexit**

The potential effects of the Brexit Referendum and related consequences on are primarily as follows: (i) Chaucer's licensing permissions in European Union member states if Lloyd's does not obtain alternative licensing permissions; (ii) financial market conditions in the U.K. and the European market; and (iii) foreign exchange volatility.

## **Ogden rates**

The UK government has announced that from 20 March 2017 the Ogden discount rate deducted from personal injury compensation awards will change from the current 2.5% to negative 0.75%. This results in an increase in the cost of such awards. The Managing Agent has assessed the adequacy of the booked reserves in light of this development, and the impact has been reflected in the Syndicate's reserves, in line with the Syndicate's reserving policy.

## **Environmental matters**

The Managing Agent does not consider that a business such as a syndicate at Lloyd's has a large adverse impact upon the environment. As a result the agent does not manage its business by reference to any environmental key performance indicators.

## **Directors of the Managing Agent**

The Directors set out below held office throughout the year ended 31 December 2016, unless otherwise stated.

**B P Bartell**, Deputy Chief Executive Officer (resigned 1 October 2016)

**D C Bendle**, Chief Operating Officer (appointed 12 February 2016)

**R J Callan**, Chief Financial Officer

**T J Carroll**, Independent Non-executive Director

**J M Farber**, Non-executive Director (appointed 22 November 2016)

**J Fowle**, Chief Underwriting Officer

**D S Mead**, Chief Operating Officer (resigned 19 January 2016)

**A S Robinson**, Non-executive Director (resigned 5 August 2016)

**P M Shaw**, Chief Risk Officer

**J G Slabbert**, Chief Executive Officer (resigned 20 February 2017)

**C M Stooke**, Chairman and Independent Non-executive Director

**R A Stuchbery**, Deputy Chairman (resigned 31 May 2016)

## **Managing Agent's company secretary**

**R N Barnett**

## **Managing Agent's registered office**

Plantation Place  
30 Fenchurch Street  
London EC3M 3AD

## **Managing Agent's registered number**

184915

## **Managing Agent's auditors**

PricewaterhouseCoopers LLP, London

## **Syndicate 1084 Active Underwriter**

**J Fowle**

# Managing Agent's Report

## **Syndicate bankers**

The custodians of the Syndicate's investment funds are as follows:

Citibank N.A.

Royal Bank of Canada

## **Syndicate investment managers**

NEAM

Opus Investment Management, Inc.

## **Syndicate auditors**

PricewaterhouseCoopers LLP, London

## **Directors' interests**

None of the Directors of the Managing Agent have any participation in the Syndicate's premium income capacity.

## **Disclosure of information to the auditors**

The Directors each confirm that:

- So far as they are aware, there is no relevant audit information of which the Syndicate's Auditors are unaware; and
- They have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

## **Independent Auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at The Hanover Insurance Group Inc. Audit Committee Meeting.

Approved by the Board of Chaucer Syndicates Limited.

## **R J Callan**

Chief Financial Officer

13 March 2017

# Statement of Comprehensive Income

for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
<b>Technical Account – General Business</b>			
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	3	780.9	838.9
Outward reinsurance premiums		(208.4)	(284.9)
<b>Net premiums written</b>		<b>572.5</b>	<b>554.0</b>
<b>Change in the provision for unearned premiums</b>			
Gross amount	18	48.0	67.1
Reinsurers' share	18	(29.1)	36.5
<b>Net change in provision for unearned premiums</b>		<b>18.9</b>	<b>103.6</b>
<b>Earned premiums, net of reinsurance</b>		<b>591.4</b>	<b>657.6</b>
Other technical income, net of reinsurance	9	2.4	0.7
Allocated investment return transferred from the Non-Technical Account		21.5	13.6
<b>Total technical income</b>		<b>615.3</b>	<b>671.9</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount	18	(428.5)	(469.1)
Reinsurers' share	18	154.9	153.2
<b>Net claims paid</b>		<b>(273.6)</b>	<b>(315.9)</b>
<b>Change in the provision for claims</b>			
Gross amount		(31.2)	5.3
Reinsurers' share		12.2	(4.7)
<b>Net change in the provision for claims</b>		<b>(19.0)</b>	<b>0.6</b>
<b>Claims incurred, net of reinsurance</b>		<b>(292.6)</b>	<b>(315.3)</b>
Net operating expenses	3, 5	(237.1)	(266.0)
<b>Total technical charges</b>		<b>(529.7)</b>	<b>(581.3)</b>
<b>Balance on the Technical Account – General Business</b>		<b>85.6</b>	<b>90.6</b>
<b>Non-Technical Account</b>			
Other income	12	56.9	0.7
Investment income	10	29.6	31.8
Net unrealised losses on investments	10	(0.2)	(6.8)
Investment expenses and charges	10	(7.9)	(11.4)
Allocated investment return transferred to the Technical Account - General Business		(21.5)	(13.6)
<b>Profit for the financial year</b>	17	<b>142.5</b>	<b>91.3</b>
Prior year adjustment		-	2.8
<b>Total comprehensive income</b>		<b>142.5</b>	<b>94.1</b>

All the amounts above are in respect of continuing operations.



# Statement of Financial Position

as at 31 December 2016

	Notes	2016 £m	2015 £m
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	13	1,104.0	924.9
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	18	107.3	119.0
Claims outstanding	18	750.6	678.7
		<b>857.9</b>	<b>797.7</b>
<b>Debtors</b>			
Debtors arising out of direct insurance operations - intermediaries		265.8	239.7
Debtors arising out of reinsurance operations		96.1	67.6
Other debtors	14	1.7	1.1
		<b>363.6</b>	<b>308.4</b>
<b>Other assets</b>			
Cash at bank and in hand		15.2	16.1
Overseas deposits	15	82.6	69.3
Other assets	16	51.1	21.5
		<b>148.9</b>	<b>106.9</b>
<b>Prepayments and accrued income</b>			
Deferred acquisition costs	18	106.2	98.2
Other prepayments and accrued income		6.8	5.7
		<b>113.0</b>	<b>103.9</b>
<b>Total assets</b>		<b>2,587.4</b>	<b>2,241.8</b>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Member's balances	17	88.9	40.0
<b>Technical provisions</b>			
Provision for unearned premiums	18	454.5	431.9
Claims outstanding	13, 18, 20	1,830.6	1,609.0
		<b>2,285.1</b>	<b>2,040.9</b>
<b>Creditors</b>			
Creditors arising out of direct insurance operations - intermediaries		1.8	1.9
Creditors arising out of reinsurance operations		170.5	114.8
Other creditors including tax and social security	21	22.0	20.3
		<b>194.3</b>	<b>137.0</b>
Accruals and deferred income		19.1	23.9
<b>Total liabilities</b>		<b>2,587.4</b>	<b>2,241.8</b>

The annual accounts on pages 14 to 33 were approved by the Board of Chaucer Syndicates Limited on 13 March 2017 and signed on its behalf by:

**R J Callan**  
Chief Financial Officer

# Statement of Changes in Member's Balance

for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Balance as at 1 January		40.0	61.2
Profit for the financial year	17	142.5	94.1
Payments of profit to member's personal reserve funds	17	(97.0)	(108.8)
Other	17	3.4	(6.5)
<b>Balance as at 31 December</b>		<b>88.9</b>	<b>40.0</b>

# Statement of Cash Flows

for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
<b>Cash flows from operating activities</b>			
Operating result		142.5	91.3
Increase / (decrease) in gross technical provisions		244.2	(21.4)
Increase in reinsurers' share of gross technical provisions		(60.1)	(237.6)
(Increase) / decrease in debtors		(64.3)	20.6
Increase / (decrease) in creditors		52.5	(31.9)
Movement in other assets / liabilities		(42.9)	(4.7)
Investment return	10	(21.5)	(13.6)
Foreign exchange		(172.7)	(39.4)
Other		3.4	(3.7)
<b>Net cash generated from / (used in) operating activities</b>		<b>81.1</b>	<b>(240.4)</b>
<b>Cash flows from investing activities</b>			
Purchase of equity and debt instruments		(1,011.2)	(1,013.7)
Sale of equity and debt instruments		1,004.6	1,336.5
Investment income received		19.4	20.4
<b>Net cash generated from investing activities</b>		<b>12.8</b>	<b>343.2</b>
<b>Cash flows from financing activities</b>			
Distribution profit		(71.2)	(100.0)
Open year profit release		(25.8)	(8.8)
<b>Net cash used in financing activities</b>		<b>(97.0)</b>	<b>(108.8)</b>
Net decrease in cash and cash equivalents		(3.1)	(6.0)
Cash and cash equivalents at beginning of year		16.1	21.6
Foreign exchange on cash and cash equivalents		2.2	0.5
<b>Cash and cash equivalents at end of year</b>		<b>15.2</b>	<b>16.1</b>
Cash and cash equivalents consists of:			
Cash at bank and in hand		15.2	16.1
<b>Cash and cash equivalents</b>		<b>15.2</b>	<b>16.1</b>

# Notes to the Accounts

for the year ended 31 December 2016

## 1. Basis of preparation

The Syndicate annual accounts have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103") and the Companies Act 2006. The Syndicate annual accounts have been prepared under regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("IAD"), and reflect the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) as modified by the IAD.

The Syndicate annual accounts have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

Having assessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

## 2. Accounting policies

### a) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk.

#### *i) Premiums written*

Premiums written comprise premiums on contracts inception during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified.

#### *ii) Unearned premiums*

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

#### *iii) Reinsurance premiums ceded*

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

#### *iv) Claims provisions and related recoveries*

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

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. The provision also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods. Refer to reserving risk section in Managing Agent's Report for more detail.

These methods generally involve projecting from past experience 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 provisions for claims 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 claims provisions are that the past is a reasonable predictor of the likely level of claims development and 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 provisions for gross claims 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 accounts for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

# Notes to the Accounts

for the year ended 31 December 2016

## v) *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.

## vi) *Deferred acquisition costs*

Acquisition costs, which comprise commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

## b) **Investment contracts**

Amounts paid in respect of certain reinsurance contracts, which principally involve the transfer of financial risk and not significant insurance risk, are accounted for using deposit accounting, under which amounts paid are debited directly to the statement of financial position. Investment contract assets are initially recognised at fair value and subsequently carried in the statement of financial position at amortised cost and shown as 'Other assets'. Investment contract liabilities are carried in the statement of financial position at amortised cost and shown within 'Other creditors including tax and social security'. Contractual gains and losses are recognised in other technical income in the statement of comprehensive income using the effective interest rate method.

## c) **Net operating expenses**

Net operating expenses are recognised on an accruals basis. These comprise the Syndicate's operating expenses such as remuneration, profit commission, office and administrative costs, acquisition costs, reinsurance commissions, Managing Agency costs, the costs of membership of Lloyd's and other expenses attributable to the Syndicate's underwriting.

## d) **Cash and cash equivalents**

Cash and cash equivalents includes cash in hand and deposits held at call with banks.

## e) **Foreign currencies**

The functional and presentation currency of the Syndicate is Pound Sterling.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

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.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the non-technical account.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period end exchange rates of non-monetary assets and liabilities denominated in foreign currencies are recognised in other comprehensive income for those items where the gain is required to be recognised within other comprehensive income, and in the non-technical account where the gain is required to be recognised within profit or loss.

## f) **Financial assets**

All investments are classified as fair value through profit and loss and are measured at fair value. Fair value is determined using published bid price quotations of each security.

The Directors consider the fair value through profit and loss option to be appropriate as financial assets are managed and their performance evaluated on a fair value basis, in accordance with a documented investment strategy and information is provided internally on that basis to key management personnel. In addition, investment risk is assessed on a total return basis, which is consistent with the adoption of fair value through profit and loss.

Deposits with credit institutions are stated at cost and overseas deposits are stated at market value (per Lloyd's valuation).

Net gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in the Statement of Comprehensive Income within 'Unrealised gains on investments' or 'Unrealised losses on investments'.

# Notes to the Accounts

for the year ended 31 December 2016

## **g) Financial liabilities**

Creditors are financial liabilities and are recognised initially at fair value, net of directly attributable transaction costs. Creditors are subsequently stated at amortised cost, using the effective interest method.

## **h) Investment return**

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, 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. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

## **i) 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 or their members' agent is gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earning. Any payments on account made by the Syndicate during the year are included in the statement of financial position under the heading 'Member's Balances'.

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

## **j) Pension costs**

Chaucer Syndicates Limited operates a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and included within net operating expenses. Chaucer Syndicates Limited operated a defined benefit scheme during the year, which closed to future members and future accrual at 31 December 2016.

## **k) Key judgements and uncertainty**

In application of accounting policies described in Note 2, the following judgements, estimates and assumptions that have had the most significant impact on the financial statements are:

- Valuation of general insurance contract liabilities (page 18)
- Premium recognition (page 18)

# Notes to the Accounts

for the year ended 31 December 2016

## 3. Segmental analysis

An analysis of the underwriting result by class of business before investment return is set out below:

	Gross premiums written £m	Gross premiums earned £m	Gross claims incurred £m	Gross operating expenses <sup>1</sup> £m	Reinsurance balance £m	Total £m	Net technical provisions £m
<b>2016</b>							
<b>Direct insurance</b>							
Accident and health	7.8	4.9	(1.0)	(1.8)	(0.3)	1.8	(1.5)
Motor (third party liability)	1.8	4.6	(7.6)	-	3.3	0.3	-
Motor (other classes)	(0.3)	33.7	(36.7)	(1.0)	3.3	(0.7)	-
Marine, aviation and transport	62.3	59.0	(52.7)	(28.9)	2.3	(20.3)	91.4
Energy	33.2	42.4	(19.1)	(18.9)	(6.7)	(2.3)	46.1
Fire and other damage to property	52.9	54.7	(23.9)	(16.4)	(15.2)	(0.8)	101.5
Third party liability	151.5	147.4	(88.3)	(52.8)	17.4	23.7	347.1
Miscellaneous	65.4	53.4	(75.8)	(33.4)	20.0	(35.8)	107.2
	<b>374.6</b>	<b>400.1</b>	<b>(305.1)</b>	<b>(153.2)</b>	<b>24.1</b>	<b>(34.1)</b>	<b>691.8</b>
Reinsurance	406.3	428.8	(154.6)	(103.0)	(73.0)	98.2	735.4
	<b>780.9</b>	<b>828.9</b>	<b>(459.7)</b>	<b>(256.2)</b>	<b>(48.9)</b>	<b>64.1</b>	<b>1,427.2</b>
<b>2015</b>							
<b>Direct insurance</b>							
Accident and health	0.4	0.4	(8.3)	(0.2)	0.1	(8.0)	5.2
Motor (third party liability)	8.1	12.4	(12.5)	(0.4)	5.3	4.8	-
Motor (other classes)	101.0	146.2	(87.2)	(47.4)	(17.5)	(5.9)	-
Marine, aviation and transport	47.9	47.0	3.1	(19.6)	(20.9)	9.6	71.3
Energy	37.4	54.0	(10.6)	(13.0)	(16.0)	14.4	51.8
Fire and other damage to property	58.0	55.7	15.4	(18.7)	(19.8)	32.6	71.5
Third party liability	123.4	121.2	(74.7)	(47.9)	(8.6)	(10.0)	315.9
Miscellaneous	50.5	45.6	(46.2)	(21.6)	18.8	(3.4)	78.7
	<b>426.7</b>	<b>482.5</b>	<b>(221.0)</b>	<b>(168.8)</b>	<b>(58.6)</b>	<b>34.1</b>	<b>594.4</b>
Reinsurance	412.2	423.5	(242.8)	(129.6)	(8.2)	42.9	648.8
	<b>838.9</b>	<b>906.0</b>	<b>(463.8)</b>	<b>(298.4)</b>	<b>(66.8)</b>	<b>77.0</b>	<b>1,243.2</b>

<sup>1</sup> Gross operating expenses are not the same as net operating expenses shown in the profit and loss account because of commissions in respect of outward reinsurance received and other technical income.

All premiums were concluded in the UK.

Commission on direct insurance - gross premiums during 2016 was £82.7m (2015: £89.6m).

The reinsurance balance represents the charge to the technical account from the aggregate of all items relating to outwards reinsurance.

# Notes to the Accounts

for the year ended 31 December 2016

The geographical analysis of gross premiums written by reference to the location of the risk is as follows:

	2016 £m	2015 £m
UK	14.3	145.2
Other EU countries	34.1	21.9
Americas (including US)	294.3	260.1
Other	438.2	411.7
<b>Gross premiums written</b>	<b>780.9</b>	<b>838.9</b>

Concentration of gross and net insurance liabilities by geographical area is as follows:

	2016 Gross technical provisions £m	2016 Net technical provisions £m	2015 Gross technical provisions £m	2015 Net technical provisions £m
UK	41.8	26.1	353.3	215.2
Other EU	99.8	62.3	53.3	32.5
Americas (including US)	861.2	537.9	632.8	385.5
Other	1,282.3	800.9	1,001.5	610.0
<b>Total</b>	<b>2,285.1</b>	<b>1,427.2</b>	<b>2,040.9</b>	<b>1,243.2</b>

#### 4. Movement in prior year's provision for claims outstanding

During 2016 the Syndicate released £95.7m of technical reserves in respect of prior periods (2015: £95.7m), arising predominantly from the Energy and Treaty Divisions (2015: primarily from the Energy, Casualty and Treaty Divisions). These releases were due to favourable claims development on losses during 2016.

#### 5. Net operating expenses

	2016 £m	2015 £m
Acquisition costs:		
- brokerage and commission	171.4	168.2
- other	14.9	13.9
Change in deferred acquisition costs	4.5	20.1
Administrative expenses	67.7	96.9
Reinsurance commissions and profit participation	(21.4)	(33.1)
	<b>237.1</b>	<b>266.0</b>
Administrative expenses include:		
Member's standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, managing agent's fees and profit commission)	15.0	16.2



# Notes to the Accounts

for the year ended 31 December 2016

## 6. Auditor remuneration

	2016 £m	2015 £m
Audit of the syndicate annual accounts	0.2	0.2
Other services pursuant to legislation including audit of regulatory returns	0.2	0.2
	<b>0.4</b>	<b>0.4</b>

## 7. Staff costs

The Managing Agent employs all staff and recharges the following amounts to the Syndicate in respect of salary costs:

	2016 £m	2015 £m
Wages and salaries	24.2	52.2
Social security costs	3.3	6.2
Other pension costs	2.5	3.6
Other	0.8	0.9
	<b>30.8</b>	<b>62.9</b>

The average number of employees employed by the Managing Agent but working for the Syndicate during the year was as follows:

	2016 Number	2015 Number
Administration and finance	106	176
Underwriting	102	146
Claims	29	81
Other	54	66
	<b>291</b>	<b>469</b>

## 8. Emoluments of the Directors of the Managing Agent

The Directors of Chaucer Syndicates Limited received the following aggregate remuneration for services rendered to the Syndicate:

	2016 £m	2015 £m
Directors of Chaucer Syndicates Limited	2.0	1.7
Active Underwriter	0.4	0.3

Included in aggregate remuneration is £0.8m in respect of bonuses, which have been incurred by a related group undertaking supporting the underwriting capacity of the Syndicate, on its behalf.

# Notes to the Accounts

for the year ended 31 December 2016

## 9. Other technical income

Other technical income relates to the recognition of contractual gains on a ceded reinsurance transaction which did not transfer significant insurance risk and was subject to deposit accounting.

## 10. Investment return

	2016 £m	2015 £m
<b>Investment income</b>		
Interest from financial assets at fair value through profit and loss	25.6	26.4
Interest on cash at bank and in hand	0.3	0.1
Other interest and similar income	1.8	1.7
Realised gains on investments	1.9	3.6
	<b>29.6</b>	<b>31.8</b>
<b>Investment expenses and charges</b>		
Investment management expenses including interest	(1.2)	(1.4)
Realised losses on investments	(6.7)	(10.0)
	<b>(7.9)</b>	<b>(11.4)</b>
<b>Net unrealised losses on investments</b>	<b>(0.2)</b>	<b>(6.8)</b>
<b>Total investment return</b>	<b>21.5</b>	<b>13.6</b>

## 11. Calendar year investment yield

The average amount of syndicate funds available for investment and the calendar year investment return and yield were as follows:

	2016 £m	2015 £m
Average funds	1,107.3	1,151.1
Investment return (net of expenses)	21.5	13.6
Calendar year investment return	1.9%	1.2%
<b>Average funds available for investment by fund</b>		
Sterling	105.5	202.2
United States Dollars	906.1	884.0
Canadian Dollars	95.7	64.9
<b>Analysis of calendar year investment return by fund</b>	<b>%</b>	<b>%</b>
Sterling	1.7	1.0
United States Dollars	2.2	1.2
Canadian Dollars	0.8	2.0

Average fund is the average of bank balances, overseas deposits and investments held at the end of each month during the calendar year. For this purpose, investments are revalued at month-end market prices, which include accrued income where appropriate.

# Notes to the Accounts

for the year ended 31 December 2016

## 12. Other income

Net foreign exchange gains of £56.9m (2015: £0.7m) are included within other income in the non-technical account.

## 13. Financial instruments

	Cost £m	2016 Market value £m	Cost £m	2015 Market value £m
Shares and other variable yield securities at fair value through profit and loss	42.9	46.4	34.3	35.2
Debt securities and other fixed income securities at fair value through profit and loss	1,035.2	1,057.6	884.3	889.7
	<b>1,078.1</b>	<b>1,104.0</b>	<b>918.6</b>	<b>924.9</b>

### Risk policies

#### Market risk

##### Interest rate risk

The most significant proportion of risk within the Syndicate's fixed income portfolio is interest rate risk, which increases as the duration of each portfolio gets longer. In order to manage this risk duration constraints are set, relative to a benchmark to provide downside protection for increases in interest rates with duration targets of minimum 2.5 years and maximum 3.5 years for each portfolio.

	Change in interest rates %	Impact on result £m
31 December 2016	+1.0	(33.9)
	-1.0	29.0
31 December 2015	+1.0	(28.4)
	-1.0	23.1

##### Currency risk

The Syndicate writes a significant proportion of insurance business in currencies other than Sterling, which gives rise to exposure to currency risk. The Syndicate mitigates this through a policy of matching assets and liabilities by currency.

##### Liquidity risk

The Syndicate is subject to calls on cash resources, mainly in respect of claims on insurance business, on a daily basis. The Syndicate operates and maintains a liquidity risk policy designed to ensure that cash is available to settle liabilities and other obligations when due without excessive cost to the business.

The expected payment profile of undiscounted liabilities is as follows:

	No stated maturity £m	<1 £m	1-3 £m	3-5 £m	Maturity band (Years) >5 £m	Total £m
Other creditors	-	194.3	-	-	-	194.3
Claims outstanding	-	616.0	806.8	243.7	164.1	1,830.6
<b>At 31 December 2016</b>	<b>-</b>	<b>810.3</b>	<b>806.8</b>	<b>243.7</b>	<b>164.1</b>	<b>2,024.9</b>
Other creditors	-	137.0	-	-	-	137.0
Claims outstanding	-	542.7	585.4	255.6	225.3	1,609.0
<b>At 31 December 2015</b>	<b>-</b>	<b>679.7</b>	<b>585.4</b>	<b>255.6</b>	<b>225.3</b>	<b>1,746.0</b>

# Notes to the Accounts

for the year ended 31 December 2016

## Credit risk

The Syndicate holds the majority of its investments in investment grade securities and money market funds, managed by external portfolio managers. Investment managers may take credit risk as a tactical enhancement to fixed income returns when suitable opportunities arise within the risk budget set for each manager. Investment fund managers mitigate credit risk through diversification and by setting maximum limits for individual counterparties.

The assets bearing credit risk are summarised below, together with an analysis by credit rating

	2016 £m	2015 £m
Debt securities	1,057.6	889.7
Cash at bank and in hand	15.2	16.1
Shares and other variable yield securities	46.4	35.2
Overseas deposits	82.6	69.3
	<b>1,201.8</b>	<b>1,010.3</b>
AAA	456.7	410.3
AA	269.7	203.9
A	262.8	231.5
BBB	174.2	136.7
BB or less	38.4	27.6
Not rated	-	0.3
<b>Total assets bearing credit risk</b>	<b>1,201.8</b>	<b>1,010.3</b>

## Determination of fair value hierarchy

The Syndicate analyses financial instruments carried at fair value, by valuation method. The different levels have been identified as follows:

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

The following table presents the Syndicate's assets measured at fair value at 31 December 2016 and at 31 December 2015.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Shares and other variable yield securities and unit trusts	46.4	-	-	46.4
Debt securities and other fixed income securities	36.8	1,019.0	1.8	1,057.6
Overseas deposits	19.8	62.8	-	82.6
<b>At 31 December 2016</b>	<b>103.0</b>	<b>1,081.8</b>	<b>1.8</b>	<b>1,186.6</b>
Shares and other variable yield securities and unit trusts	35.2	-	-	35.2
Debt securities and other fixed income securities	25.2	862.2	2.3	889.7
Overseas deposits	46.2	23.1	-	69.3
<b>At 31 December 2015</b>	<b>106.6</b>	<b>885.3</b>	<b>2.3</b>	<b>994.2</b>

The 2015 figures above have been restated following the changes to FRS 102 in respect of the fair value hierarchy.

# Notes to the Accounts

for the year ended 31 December 2016

## 14. Other debtors

	2016 £m	2015 £m
Investment sales debtors	-	0.3
Other debtors	1.7	0.8
	<b>1.7</b>	<b>1.1</b>

Other debtors is related to refunds of fees due from Lloyd's, and also includes amounts due from Chaucer service companies in Denmark and the UK.

## 15. Overseas deposits

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries. The funds are required in order to protect policyholders and enable the Syndicate to operate in those markets. The Syndicate has only restricted access to these funds and no influence over their investment.

## 16. Other assets

This balance relates to the deposit asset arising on a ceded reinsurance transaction which did not transfer significant reinsurance risk and was subject to deposit accounting.

## 17. Reconciliation of movements in member's balance

	2016 £m	2015 £m
Member's balance at 1 January	40.0	58.4
Prior year adjustment	-	2.8
	<b>40.0</b>	<b>61.2</b>
Profit for the financial year	142.5	91.3
Payments of profit to member's personal reserve funds	(97.0)	(108.8)
Movement in member's balances in respect of tax, member's agent's fees and other	3.4	(3.7)
<b>Member's balance at 31 December</b>	<b>88.9</b>	<b>40.0</b>

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.

The prior year adjustment relates to a change in accounting policy from 1 January 2015 in respect of FRS 102, whereby the Syndicate now treats all insurance assets and liabilities as monetary items.

# Notes to the Accounts

for the year ended 31 December 2016

## 18. Technical reserves

	Provisions for unearned premiums £m	Claims outstanding £m	Deferred acquisition costs* £m	Total £m
<b>Gross</b>				
At 1 January 2016	431.9	1,609.0	98.2	1,942.7
Exchange differences	70.6	190.4	12.6	248.4
Claims paid in year	-	(428.5)	-	(428.5)
Movement in provision	(48.0)	459.7	(4.6)	416.3
<b>At 31 December 2016</b>	<b>454.5</b>	<b>1,830.6</b>	<b>106.2</b>	<b>2,178.9</b>
<b>Reinsurance</b>				
At 1 January 2016	119.0	678.7	14.5	783.2
Exchange differences	17.4	59.7	0.3	76.8
Reinsurance recoveries in the year	-	(154.9)	-	(154.9)
Movement in provision	(29.1)	167.1	(2.3)	140.3
<b>At 31 December 2016</b>	<b>107.3</b>	<b>750.6</b>	<b>12.5</b>	<b>845.4</b>
<b>Net technical provisions</b>				
<b>At 31 December 2016</b>	<b>347.2</b>	<b>1,080.0</b>	<b>93.7</b>	<b>1,333.5</b>
At 31 December 2015	312.9	930.3	83.7	1,159.5

\* Reinsurers' share of deferred acquisition cost is included in accruals and deferred income

### 2016 events

The Syndicate has exposure to a number of catastrophe events that occurred in 2016. The largest of these is the wildfire that started in Fort McMurray in Alberta Canada in May. The current estimated ultimate claims for this event are £10.9m and £7.7m gross and net of reinsurance. After allowing for inwards and outwards reinstatement premiums this reduces to £7.3m. The next largest catastrophe events are an earthquake in the North Canterbury district of New Zealand in November (£5.7m net of inwards and outwards reinstatement premiums) and an earthquake in the Esmeraldas province of Ecuador in April (£5.4m net of inwards and outwards reinstatement premiums).

### 2015 events

The Syndicate has exposure to a number of catastrophe events that occurred in 2015. The largest of these are from the explosions that occurred at a warehouse in the port of Tianjin in China in August and the flooding that hit the UK in November and December. The current estimated ultimate claims for Tianjin are £11.8m and £9.7m gross and net of reinsurance. After allowing for inwards and outwards reinstatement premiums this reduces to £8.6m.

## 19. Sensitivity of insurance risk

The following table shows the impact of a 1% variation in the loss ratio on profit or loss and member's balances:

	2016	2015
Net loss ratio	49.5%	47.9%
Impact of 1% variation (£m)	5.9	6.6

# Notes to the Accounts

for the year ended 31 December 2016

## 20. Claims development triangles

The development of insurance liabilities provides a measure of the Syndicate's ability to estimate the ultimate value of claims.

Pure underwriting year	2010 and prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Total £m
<b>Estimate of gross claims incurred</b>								
At end of underwriting year		391.2	297.3	340.3	463.2	290.5	242.9	2,025.4
One year later		655.9	484.4	640.7	719.6	544.8		3,045.4
Two years later		642.9	472.7	616.2	744.9			2,476.7
Three years later		626.3	453.1	586.6				1,666.0
Four years later		623.0	472.7					1,095.7
Five years later		611.1						611.1
<b>As at 31 December 2016</b>	<b>781.7</b>	<b>611.1</b>	<b>472.7</b>	<b>586.6</b>	<b>744.9</b>	<b>544.8</b>	<b>242.9</b>	<b>3,984.7</b>
Less gross claims paid	527.7	460.4	328.3	345.6	323.1	146.0	23.0	2,154.1
<b>Gross reserves</b>	<b>254.0</b>	<b>150.7</b>	<b>144.4</b>	<b>241.0</b>	<b>421.8</b>	<b>398.8</b>	<b>219.9</b>	<b>1,830.6</b>

Pure underwriting year	2010 and prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Total £m
<b>Estimate of net claims incurred</b>								
At end of underwriting year		391.2	297.3	340.3	348.3	207.5	175.4	1,760.0
One year later		655.9	484.4	507.4	512.1	363.4		2,523.2
Two years later		642.9	411.1	462.9	482.6			1,999.5
Three years later		533.9	381.1	402.9				1,317.9
Four years later		524.3	336.9					861.2
Five years later		430.9						430.9
<b>As at 31 December 2016</b>	<b>566.2</b>	<b>430.9</b>	<b>336.9</b>	<b>402.9</b>	<b>482.6</b>	<b>363.4</b>	<b>175.4</b>	<b>2,758.3</b>
Less net claims paid	415.0	363.9	264.3	280.1	248.6	86.1	20.3	1,678.3
<b>Net reserves</b>	<b>151.2</b>	<b>67.0</b>	<b>72.6</b>	<b>122.8</b>	<b>234.0</b>	<b>277.3</b>	<b>155.1</b>	<b>1,080.0</b>

Gross and net claims incurred that are denominated in non-functional currency are converted to Pound Sterling as of 31 December 2016, the most recent balance sheet date, for all years presented.

# Notes to the Accounts

for the year ended 31 December 2016

## 21. Other creditors

	2016	2015
	£m	£m
Amounts due to Managing Agent	15.7	19.1
Taxation	0.8	0.9
Investment purchases creditor	1.3	-
Deposit accounting creditor	3.7	-
Other creditors	0.5	0.3
	<b>22.0</b>	<b>20.3</b>

Deposit accounting creditor relates to deposit liabilities established based on the premium receivable of a fully funded transaction which has no underwriting exposure and is subject to deposit accounting.

Other creditors comprise amounts due to Service Company and Corporate Member.

## 22. Related parties

Chaucer Syndicates Limited, a wholly owned subsidiary of Chaucer Holdings Limited, is the Managing Agent of the Syndicate. The following table shows the expenses that Chaucer Syndicates Limited has charged the Syndicate during the year and the outstanding balances due from the Syndicate at the year end:

	2016	2015
	£m	£m
Managing agency fees	9.2	9.6
Expenses recharged	61.5	87.8
Balance due to Chaucer Syndicates Limited at 31 December	(15.7)	(19.2)

Subsidiaries of Chaucer Holdings Limited support the underwriting capacity of Syndicate 1084 as follows:

Year of account	2016	2015	2014
	£m	£m	£m
Chaucer Corporate Capital (No. 3) Limited	650.0	760.0	860.0

Chaucer Underwriting A/S, a subsidiary of Chaucer Holdings Limited, provides underwriting services to Syndicate 1084. The Syndicate incurred the following expense during the year along with the outstanding balances at the year end from Chaucer Underwriting A/S:

	2016	2015
	£m	£m
Commissions paid to Chaucer Underwriting A/S	2.4	1.5
Fees paid to Chaucer Underwriting A/S	0.4	0.2
Balance due from Chaucer Underwriting A/S at 31 December	0.6	0.4



# Notes to the Accounts

for the year ended 31 December 2016

Chaucer Singapore PTE, a subsidiary of Chaucer Holdings Limited, provides underwriting services to Syndicate 1084. The Syndicate has incurred the following expense during the year along with the outstanding balances at the year end from Chaucer Singapore PTE:

	2016 £m	2015 £m
Fees paid to Chaucer Singapore PTE	3.2	2.3
Balance due from Chaucer Singapore PTE at 31 December	0.7	0.7

Chaucer Oslo AS, a subsidiary of Chaucer Holdings Limited, provides underwriting services to Syndicate 1084. The Syndicate has incurred the following expense during the year along with the outstanding balances at the year end from Chaucer Oslo AS:

	2016 £m	2015 £m
Fees paid to Chaucer Oslo AS	0.3	0.2
Balance due from Chaucer Oslo AS at 31 December	0.1	0.1

Chaucer Labuan Limited, a subsidiary of Chaucer Holdings Limited, provides underwriting services to Syndicate 1084. The Syndicate has incurred the following expenses from Chaucer Labuan Limited during the year.

	2016 £m	2015 £m
Fees paid to Chaucer Labuan Limited	0.1	-

Lonham Limited, a subsidiary of Chaucer Holdings Limited, provides underwriting services to Syndicate 1084. The Syndicate has incurred the following expense from Lonham Limited during the year:

	2016 £m	2015 £m
Fees paid to Lonham Limited	1.3	0.2
Balance due from Lonham Limited at 31 December	0.4	-

Chaucer Insurance Services Limited (CISL), was a fellow subsidiary and related party of Chaucer Syndicates Limited until 30 June 2015, at which point it was sold. The Syndicate incurred the following expenses during the 6 months to 30 June 2015:

	2016 £m	2015 £m
Commissions paid to CISL	-	2.4

Hanover Insurance Company (HIC) writes certain direct risks through an insurance intermediary and has a 100% reinsurance agreement with the Syndicate for those risks. HIC is a fellow member of The Hanover Insurance Group, Inc. the Managing Agent's ultimate parent company. The Syndicate has incurred the following expenses during the year along with the outstanding balances at the year end from HIC:

	2016 £m	2015 £m
Premiums ceded to the Syndicate	4.7	4.7
Commissions paid to HIC	0.2	0.2
Balance due from HIC at 31 December	4.9	4.7

# Notes to the Accounts

for the year ended 31 December 2016

Opus Investment Management, Inc. (Opus) acts as an investment manager to the Syndicate. Opus is a wholly owned subsidiary of The Hanover Insurance Group, Inc., the Managing Agent's ultimate parent company. Opus has charged the Syndicate with the following investment management fees in the year:

	2016 £m	2015 £m
Investment fees	1.2	1.3

Amounts are unsecured and are expected to be settled in cash and cash equivalents within one year.

Syndicates 1084 and 6124, both managed by Chaucer Syndicates Limited, have entered into a reinsurance contract with one another. These transactions are subject to Chaucer's internal controls which ensure that all are compliant with Lloyd's Related Party Bylaw provisions.

Syndicates 1084 and 6130, both managed by Chaucer Syndicates Limited, have entered into a reinsurance contract with one another. These transactions are subject to Chaucer's internal controls which ensure that all are compliant with Lloyd's Related Party Bylaw provisions.

Syndicates 1084 and 1176, both managed by Chaucer Syndicates Limited, have entered into a reinsurance contract with one another, with a premium of \$100,000. These transactions are subject to Chaucer's internal controls which ensure that all are compliant with Lloyd's Related Party Bylaw provisions.

## 23. 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.

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

## 24. Capital

### Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000 and in accordance with Solvency II legislation.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 1084 is not disclosed in these financial statements.

### Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

# Notes to the Accounts

for the year ended 31 December 2016

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2017 was 35% (2016: 35%) of the member's SCR 'to ultimate'.

## **Provision of capital by members**

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a syndicate (funds in syndicate) or as the member's share of the members' balances on each syndicate on which it participates.

Accordingly all of the assets less liabilities of the syndicate, as represented in the member's balances reported on the Statement of Financial Position on page 15, represent resources available to meet member's and Lloyd's capital requirements.

## **25. Ultimate parent company and parent undertaking of larger group of which the results of the Syndicate are included**

The largest and smallest group of undertakings for which group accounts are prepared, and in which the results of the Syndicate is included, is The Hanover Insurance Group, Inc. The Managing Agent considers The Hanover Insurance Group, Inc. to be its ultimate parent company. A copy of the most recent consolidated accounts is available from the website of The Hanover Insurance Group, Inc. ([www.hanover.com](http://www.hanover.com)).

## *Statement of Managing Agent's Responsibilities*

The Managing Agent is responsible for preparing the Syndicate annual report and annual accounts in accordance with applicable law and regulations.

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

In preparing the Syndicate annual accounts, the Managing Agent is required to:

1. select suitable accounting policies and then apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
4. prepare the annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The Managing Agent is responsible for keeping proper accounting records, which 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 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# *Independent Auditors' Report to the Member of Syndicate 1084*

## **Report on the syndicate annual accounts**

### **Our Opinion**

In our opinion, Syndicate 1084's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2016 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; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

### **What we have audited**

The syndicate annual accounts for the year ended 31 December 2016, included within Syndicate 1084 Annual Report and Accounts (the "Annual Report"), comprise:

- the Statement of Comprehensive Income for the year then ended;
- the Statement of Financial Position as at 31 December 2016;
- the Statement of Changes in Member's Balances for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the accounting policies, and
- the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts 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 Managing Agent has 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.

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

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

### **Other matters on which we are required to report by exception**

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

We have no exceptions to report arising from this responsibility.

*Continues over page >*

# Independent Auditors' Report to the Member of Syndicate 1084

Continued from page 35

## Responsibilities for the syndicate annual accounts and the audit

### Our responsibilities and those of the Managing Agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 34, the Managing Agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("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 syndicate's members as a body 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.

### What an audit of syndicate annual accounts involves

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

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Managing Agent; and
- the overall presentation of the syndicate annual accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts.

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 syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Andrew G Hill (Senior statutory auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

13 March 2017

- The maintenance and integrity of the Chaucer Syndicates Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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