

# ***1084 Annual Report 2015***

# ***Syndicate 1084 – building for the future***

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**John Fowle**

Active Underwriter

*Chaucer Syndicate 1084*



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# Underwriter's Report

## Underwriting performance

Despite a challenging underwriting market, with over capacity and high levels of competition prevalent in most markets in 2015, Chaucer Syndicate 1084 produced an excellent underwriting profit of £77.7m (2014: £90.8m). The Syndicate benefited from another positive year for international insurance industry performance, as the frequency and severity of both natural and man-made catastrophe events again remained subdued. After investment income, the profit for the year was £91.3m (2014: £123.8m).

Excluding the UK Division, which following a strategic review, we transferred to a third party UK-based insurance provider on 30 June 2015, reported gross written premium increased to £717.4m in 2015 (2014: £705.4m) as Syndicate 1084 targeted income increases from those business areas where business conditions, while challenging, continued to offer the potential of good returns. Premiums grew at our Casualty and Treaty Divisions as recent underwriting team investments continue to be productive, while Aviation gained from new production initiatives. We also reduced premium income from our Energy, Marine and Property Divisions as competition increased and rates reduced. Energy, in particular suffered from the impact of the continued fall in the oil price on asset values and activities in the energy sector and consequently on premium volumes. Excluding the UK Division, net earned premium increased by 5.0% to £570.1m (2014: £542.6m).

The combined ratio excluding UK remained low at 85.8% (2014: 83.1%), with the performance from our Treaty and Property Divisions benefitting most from the benign catastrophe environment. We also experienced good prior year development across all Divisions during the period.

## 2015 market loss activity

Insured losses from natural catastrophes in 2015 were again lower than in the previous year. The natural climate phenomenon El Niño reduced hurricane activity in the North Atlantic, which recorded 11 tropical cyclones, of which only four reached hurricane strength and from which resultant insured losses were low. However, El Niño also promoted the development of intense tropical cyclones in the North-Eastern Pacific, producing 26 cyclones, of which 16 reached hurricane strength. Hurricane Patricia was the most notable of these, being the most powerful in the North-Eastern Pacific ever to make landfall. Patricia made landfall in a remotely populated area of Mexico.

The costliest natural catastrophe phenomenon for the insurance industry in 2015 was the series of winter storms that struck the North-Eastern United States and Canada in February. Just like the previous year, the entire winter in the North-Eastern United States was unusually cold and snowy. Two tornado outbreaks across the southern USA in late December 2015 brought a destructive and deadly end to what had been a relatively quiet year for severe thunderstorms in the United States. There were also notable floods in Europe in December 2015, as weather systems crossed the Atlantic from the Caribbean and brought heavy rain to the United Kingdom and then Northern Europe.

Insured losses from man-made catastrophes increased in 2015. The costliest event was the series of explosions at a storage facility in the Port of Tianjin in North-Eastern China in August, which claimed 173 lives and injured many more, as well as damaging and destroying vehicles, shipping containers, production facilities and surrounding property. The insured loss estimate is subject to a high degree of uncertainty due to the many different lines of business and coverage impacted, including potentially contingent business interruption. Initial indications suggest claims of at least US\$2bn, which would make this the largest man-made loss event ever in Asia for the insurance industry. There were also a number of other significant fires and explosions at other industrial sites and energy facilities around the world during 2015.

## Underwriting outlook

Against an intensely competitive market background, with an absence of major losses, excess capacity and high levels of competition will continue to affect pricing conditions for all of our markets.

In response to these challenging market conditions, our objective in 2016 remains the successful active management of our broad-based underwriting portfolio to protect, and if possible, enhance underwriting margins. Our underwriting will remain highly disciplined to achieve target margins, while ensuring the effective deployment of our capital and underwriting capabilities on whatever positive opportunities that we can identify, and on those areas of business development where we have recently recruited or are planning to recruit specialist underwriters and teams.

# Underwriter's Report

## Divisional performance

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

	Energy £m	Property £m	Marine £m	Aviation £m	Casualty £m	Treaty £m	UK* £m	Run off £m	Total £m
<b>2015</b>									
Gross written premiums	113.1	43.3	169.6	34.2	142.3	214.8	121.5	0.1	838.9
Net earned premiums	101.3	37.6	128.5	28.4	111.8	160.1	87.4	2.4	657.5
Underwriting profit / (loss)	9.7	8.9	12.4	7.0	(0.3)	37.4	(3.5)	6.1	77.7
<b>2014</b>									
Gross written premiums	136.1	43.7	171.9	30.5	119.6	203.8	193.4	(0.2)	898.8
Net earned premiums	109.0	39.4	129.4	25.7	84.7	154.6	187.6	(0.2)	730.2
Underwriting profit / (loss)	17.2	8.6	24.3	4.1	(8.4)	40.6	(1.0)	5.4	90.8

\* 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.

## Energy Division

Both the impact of a falling oil price on energy industry demand worldwide and continued over-capacity and intense competition among insurance markets, affected the performance of our Energy Division in 2015, resulting in a fall in gross written premiums of 16.9% to £113.1m (2014: £136.1m). The underwriting profit decreased to £9.7m (2014: £17.2m) and the combined ratio increased to 90.4% (2014: 84.2%) as a result but 2015 still benefitted from an absence of major energy losses and lower levels of loss experience more generally.

The Syndicate appointed a new Head of Energy, Kelan Hunt, in 2015 with responsibility for leading the strategic development of the Energy Practice.

### Upstream

The unforeseen sharp fall in the oil price (down 60%) from mid-2014 and throughout 2015 created extremely challenging operating conditions within the global oil and gas industry. As this also occurred against a background of abundant insurance industry capacity, the resultant supply and demand imbalance pushed an already challenging class into extremely challenging territory in 2015.

The oil price reduction caused a rapid downturn in drilling activity across the oil and gas sector, as companies focused on maintaining existing production. This in turn dealt a blow to the drilling contractor market that until 2014 had seen a continual growth, and had undertaken extensive modernisation of rig fleets, many of which would now have to be taken out of service and 'laid up', now that drilling activity had collapsed. Oil companies also pulled back from further development of proven reserves in 2015 as the business case for such capital hungry developments collapsed.

These changes to the oil industry's fortunes had a material impact on the volume of upstream energy risks underwritten by Chaucer. Historically, construction and drilling risks generally command higher premium rates, and hence this downturn in industry activity significantly reduced an important part of our business portfolio. In addition, many of the values at risk involved also adjusted downwards to allow for revised replacement costs. This reduced demand across the industry has compounded an already fragile offshore energy insurance market that was seeing aggressive price competition even before the start of 2015.

In the four years to 2015, the offshore oil and gas insurance segment experienced relatively benign levels of claims activity, although 2015 was more eventful, with the industry experiencing an increased frequency of large losses (>\$250m), including an explosion and fire at a PEMEX processing platform and severe tendon damage at Chevron's newly built 'Bigfoot' platform. Both of these, as well as a number of smaller attritional losses, affected Chaucer's 2015 underwriting result. However, these losses, combined with a continued absence of hurricane related losses in the Gulf of Mexico, were insufficient to reduce underwriting capacity, and the sector remains competitive with rate reductions persisting into 2016. Equally, the energy casualty market, which contracted in 2010 post-Deepwater Horizon and remained disciplined since then, is now beginning to catch up with the general downward trend in rate.

# Underwriter's Report

We focused our underwriting efforts in 2015 on retaining our position with core assureds and maintaining underwriting discipline. These were sometimes contradictory challenges. The composition of the account evolved in line with the changes in the oil and gas industry underway, with far less construction business and a sharp reduction in well control cover for drilling operations. Resultant premium income fell although the complementary liability and midstream business, in combination with the broad business distribution achieved through strategic channels, ensured that we remained insulated from the worst pressures brought about by the over-supply of market capacity. Our risk appetite remained largely unchanged in the year and we held on to our conservative stance of maintaining low levels of Gulf of Mexico windstorm exposure.

The outlook for 2016 remains extremely challenging with premium rates expected to drop further as brokers compete for business and risks continue to go to tender. We continue to manage our business prudently, working with our core clients and brokers to manage this tough underwriting environment. Our highly experienced underwriting team, historic market influence and leadership will help ensure that we continue to retain and develop our core business and to generate new opportunities. Despite current industry pressures, underwriting discipline, and the controls in place to ensure we achieve technical rate adequacy across our portfolio, remain core to our business philosophy.

## Downstream

As expected, market conditions were also tough in 2015, with premium rates falling at a similar rate to those for upstream business. Our downstream account is a smaller element of our total portfolio, and our underwriting in 2015 was primarily defensive and aimed at maintaining our core accounts and supporting our upstream portfolio. Our long-term strategy will focus more on the development of this account, as well as our renewable energy account, to provide greater balance and diversification to the overall portfolio. At the beginning of 2016, we recruited a new underwriter to drive our downstream business strategy.

## Renewables and Power

Renewable energy remains a relatively new class, with the greatest potential for growth as world leaders refine their response to the challenges of climate change and the need for clean sources of energy. Underwriting capacity remains strong, particularly within the non-Lloyd's market where individual companies deploy large capacity lines in both construction and operating risks. We have steadily been increasing our position in this market with a view to becoming a leader of choice in the Lloyd's market. Market conditions remain tough but we have achieved small growth on 2014.

The bulk of our premium volume stems from our participation on a US coverholder operation, primarily for onshore wind in North America, and which provides us with access to industry and engineering expertise to support our underwriting decisions. We will continue to develop this relationship in 2016 and to expand our product offering. In 2015, we also created, and now co-lead, a renewable energy consortium in Lloyd's, with the intent of elevating Lloyd's position and brand within the industry. We have also taken over leadership of an offshore wind facility placed by the dominant renewable energy broker in London. In 2015, we also gave focus to developing our distribution network in Europe through working more closely with brokers in Germany and France. As with downstream, we will strengthen our team further in 2016 as we look to build our expertise and to develop this account.

## Property Division

Our underwriting profit improved to £8.9m (2014: £8.6m), although premium income reduced a little to £43.3m (2014: £43.7m) as the underwriting environment remained very competitive. The combined ratio was 76.2% (2014: 78.1%).

There was an absence of major natural catastrophe losses in 2015, although there was still significant loss activity, notably in Latin America, with Hurricane Patricia and an earthquake in Chile and Northern European floods. Our loss exposures to these events were retained within our catastrophe budget.

As the benign loss period continues, market conditions will remain challenging, and capacity both in Lloyd's and in local domestic markets will continue to increase. We also expect to see cedants continue to retain more risk or cede risks to broader treaty type facilities. While our retention rate reduced because of this behaviour, we have managed our core broker relationships successfully to minimise any reductions in premium volumes and to ensure that our portfolio retains balance and pricing adequacy. We have also continued to grow new business from our Miami office, targeting Latin American business that does not typically reach London's subscription market. Our delegated authority business has also allowed us to target territory specific local market business around the globe.

In 2016, our strategic focus will remain the development of our international property account, utilising our underwriting strength and increasing our position in the market through strategic deployment of our line size and leadership capabilities, continued review of our appetite within each territory and through offering innovative product solutions for the new opportunities that arise.

# Underwriter's Report

## Marine Division

As in 2014, the marine sector saw further inflows of new underwriting capacity in 2015, causing unprecedented levels of competition for the higher quality and more technically rated risks in 2015. Against this difficult background, Marine Division premium and underwriting profit reduced. Gross written premiums fell to £169.6m (2014: £171.9m), while the underwriting profit reduced to £12.4m (2014: £24.3m). The combined ratio was at 90.3% (2014: 81.2%).

### Specialty Marine

The year once again gained from an absence of material market losses, with the exception of the Tianjin Port explosion, (which affected the Cargo sector although our exposure estimates were minimal), and a small number of large losses on the liability account. With continued positive results across most traditional marine classes, capacity continued to increase at pace, particularly in the more commoditised areas. Because of this, all London Market marine business is under increasing competition, both from existing and new markets and ongoing changes to broker revenue models. Our strategy in 2015 aimed to protect our core client and broker relationships, while maintaining a selective approach to taking risk to ensure continued underwriting discipline across the portfolio.

We will continue to develop this theme in 2016, with our approach to our core clients and brokers remaining unchanged. In addition, we will concentrate further on the niche areas of our account where we can have more influence over terms. In particular, we are developing a regional specialty account to provide products for the SME marine sector where service and "value-add" are often the key customer drivers. This strategy has met with success to date, notably through our involvement with two specialised managing general agencies in the UK, the targeting of profitable brown water hull business in the US, and growth in our ports and terminals account with the launch of PortLink in 2015, which provides a comprehensive product solution for the UK ports and terminals industry.

In the second half of 2015, Chaucer Syndicates Limited completed the acquisition of Lonham Insurance Underwriters, an established business servicing UK regional brokers and clients in the marine cargo, freight liability, hauliers and warehouse-keepers liability classes. We also recruited two underwriters (in the UK and US) to offer a complementary freightforwarder product online.

Our overall strategy is to build a multi-lined marine specialty entity that draws together these distinct business lines to provide comprehensive marine solutions, underpinned with Lloyd's capacity, underwriting expertise and security, for both Lloyd's and UK regional brokers and clients.

### Political Classes

We remain an established market leader in this area, and our brand continued to strengthen in 2015 as our leadership and ability to provide innovative solutions has maintained the loyalty of both our clients and brokers. Political and economic instability around the globe continues to drive demand for our political risk, trade credit and political violence capacity. While market losses have arisen from the unstable situations in both Ukraine / Russia and the Middle East, these have been within expectations and manageable within our extensive and highly diversified portfolio.

In 2016, we aim to develop our leading market position further. Our political risk account has a strong position in the emerging market community, and we successfully built on this in 2015, including our offices in Singapore and New York. In 2016, we will widen our political risk product offering, having recruited a strong underwriting team, including a credit analyst, to develop an emerged market book of business to complement our existing account and to strengthen our overall position within the industry.

The political violence market has seen the most change in terms of broker models in 2015, with significant business volumes now placed through broker facilities. We have cemented our lead position in the market, obtaining influential positions on our chosen facilities to strengthen further our relationships with our brokers and clients and to provide us with more control over our underwriting approach.

In addition, through 2015 we have actively sought to widen our distribution network, with underwriting expertise deployed in our Singapore, Miami and Copenhagen offices to access local business. We also strengthened our London team in 2015 to target Middle Eastern business, which is proving successful, and from 2016, we will offer a new Shariah Law compliant political violence product to the market.

## Aviation Division

Our Aviation Division recorded an excellent underwriting profit of £7.0m in 2015 (2014: £4.1m), as premium income rose to £34.2m (2014: £30.5m), despite continued challenging market conditions. The combined ratio remained low at 75.5% (2014: 83.9%).

Market conditions remain tough throughout the aviation market, despite several headline-making losses in 2015, including Metrojet, German Wings and Shoreham, and evidence to show that the airline insurance market overall ran at a loss for both 2014 and 2015. The airline renewal season at the end of 2015 continued the disappointing trend with further rate reduction. On a more positive note, available exposures continue to increase (in terms of asset values, fleet size and passenger numbers) because of the robust health of the global airline industry.

# Underwriter's Report

Our performance remained strong as we continued to focus on the maintenance of underwriting discipline and to adopt a selective approach aimed at the niche areas of the market. Our decision to remain risk averse to Tier 1 airlines continued to benefit our reported result. Premium volumes reduced as market conditions adversely affected both our retention rate and average line size achieved, although we maintained the overall balance of our portfolio.

Despite losses including the AMOS-5 satellite that lost contact with Israeli Spacecom in November 2015, our satellite account remained profitable. Our participation on the Atrium Space Consortium continues to drive our participation in this market.

Our strategy for 2016 is cautious, as we do not anticipate any improvement in market conditions, and again our focus will remain on achieving underwriting adequacy above market share. We will also continue to develop our core client and broker relationships, including for our aerospace account, which while only a small proportion of our Division, is profitable and will offer us good opportunities in 2016.

## Casualty Division

Our Casualty Division writes a diverse account, in terms of both product and territorial reach, which allows us to achieve a balance and spread in our exposures. We segment the Division into five areas - US specialist lines, international professional indemnity, international general liability, healthcare and financial institutions – and target business mainly through specialist brokers and locally domiciled coverholders with access to small to medium sized accounts typically placed in domestic markets. In this way, we reduce our reliance on business sourced through the largest Lloyd's brokers.

The Division increased premium income to £142.3m in 2015 (2014: £119.6m), as we responded positively to favourable pricing and specific underwriting opportunities, primarily in the international general liability and the US specialist lines markets. The underwriting loss reduced significantly to £0.3m (2014: £8.4m loss). The combined ratio improved to 100.3% (2014: 110.0%). This is a long-tail account that, as more component areas reach maturity, is now demonstrating performance in line with our initial business plan expectations. The account is also now producing a consistent flow of prior year reserve releases, in particular from financial institutions and institutional healthcare in 2015.

Market conditions are broadly flat within the US specialist lines area, albeit below the level of related claims inflation. This has perhaps been our most positive area in terms of rate obtained, and has allowed us to grow the account through our existing relationships with key local partners in the US, and our leadership expertise, claims handling capabilities and ability to deliver solutions in niche areas of the market. While market conditions have been broadly positive, there has been softening in certain areas of the account, particularly in the medical malpractice area. In 2016, we will reduce our exposure to this class as hungrier markets target this business more aggressively. Our strategy remains one of working with our core agents and distribution networks to generate new underwriting opportunities.

Our financial institutions account saw the benefit of small rate increases at the beginning of 2015, although pricing adequacy then eroded during the second half of the year. Our strategy remains cautious for this class given previous market losses, although we are pleased with the performance of the account following the re-underwriting we began in 2010. Our strategy in 2016 will see us continue to work closely with our core brokers and partners to maintain the underlying profit of the account.

Our institutional healthcare account is perhaps the class under most pressure in terms of rates and coverage. Our results continue to be excellent, and are a key contributor to overall divisional performance year on year. We benefit from a strong leadership position within this industry and from longstanding relationships with both our brokers and assureds. The account is almost all US-based and we continue to look for additional products to enhance our product offering, which includes international risks where we are able to apply our technical underwriting approach.

International professional indemnity remains flat at best, and challenging in terms of price adequacy. We continue to review and re-underwrite as appropriate this portfolio to ensure we generate targeted margins. In 2016, we expect premiums to reduce as we seek to protect our core relationships if market conditions continue to soften. New business opportunities will be more limited, although we will continue to explore niche areas within the class for potential profit opportunities.

The international general liability market has continued to show signs of softening, and as expected the falling oil price has affected the energy-related area of our account. We continue to target local market business through our established coverholder network and have widened our offering in Latin America following the recruitment of additional expertise. Our 2016 strategy will focus on using this strength to identify further growth opportunities. Our account continues to show above market profit potential across all years, albeit at an early stage of development, having been established in 2010.

# Underwriter's Report

## Treaty Division

The Treaty Division recorded an excellent result in 2015, with premium income up to £214.8m (2014: £203.8m) and the underwriting profit was £37.4m (2014: £40.6m). The combined ratio was 76.6% (2014: 73.7%).

Market conditions across most treaty classes were challenging in 2015, with rates and coverage terms weakening. While rate reductions were mainly as forecast, in many areas this took prices to levels of minimum technical adequacy for underwriting margin purposes. In addition, terms and conditions continued to widen and more composite programmes bought. The successful development of our US Casualty Treaty Team, which began underwriting for us at the end of 2014, underpinned the Division's growth in premium.

Despite the question of rate adequacy, performance remained strong for the Division for both current and prior years. Our strict approach to programme level protected us, as did our technical approach to pricing, modelling and portfolio management.

All classes contributed to the excellent result, despite headline losses including the Chilean earthquake and UK floods, and the Tianjin port explosion. The US also suffered winter storm losses and California wildfire losses. Overall, however, the impact of these losses was contained within our catastrophe budget. Risk losses did not affect the Division significantly overall in 2015, although our marine account was exposed to the PEMEX energy loss. The casualty portfolios (both US and international) continue to develop promisingly.

Our performance highlights the strength of our underwriting team, which combines proven leadership capabilities with a smart technical approach and first class service to deliver valued solutions to both cedants and brokers. We continued to strengthen the team in 2015, particularly our international property capabilities and our offices in Copenhagen, Singapore and Miami. Together with London, we have the ability to offer a truly global service. The hubs continued to establish the Chaucer treaty brand in a disciplined manner in 2015, and recruitment in these offices will continue. We recognise the importance of being able to offer a multi-faceted product solution to our cedants, and continue to broaden our core relationships in response.

Our strategy for 2016 will continue to build on our current underwriting expertise, with the aim of further enhancing our leadership capabilities, including line size increases (mainly in catastrophe exposed classes), the strengthening our product offering through continue development of our cross class participations, and the development of our local market expertise through our hub operations. While we expect 2016 to prove no less challenging than 2015, we are confident that we have the underwriting talent required to generate the opportunities worldwide that will enable us to continue building an enduring long term profitable portfolio.

## 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 that offers smart solutions and first-rate service.

Our efforts in 2015 focused on strengthening our value to brokers and clients. Across Syndicate 1084, our underwriters aim to provide a smart underwriting approach, to ensure that we balance underwriter expertise, insight and commercial judgement with a rigorous technical assessment of each risk, to deliver timely, innovative and tailored solutions for each client. We continue to invest in our pricing, modelling and performance measurement capabilities to support this.

I am pleased with our strong strategic focus on specialty business in 2015, and the investments we made to promote this. We continued to leverage off our core underwriting skills, acquiring additional expertise in political risk, trade credit and cargo, including freightforwarder, to broaden our specialty product range. We also extended our international footprint to include Miami, China and Labuan in 2015 to ensure that clients and brokers receive the maximum benefit from our international presence.

## Conclusions

I would like to thank all members of the Syndicate 1084 team for their continued first-rate efforts in 2015. This was another excellent year for the Syndicate, with our continued hard work combined with good loss experience to produce a satisfactory combined ratio and a healthy underwriting profit.

I believe that we have firmly in place all the components required for the continued long-term development of Syndicate 1084; notably a broad, highly valued specialty product range, a strong underwriter focus on technically and commercially smart solutions for brokers and clients, and first class delivery of a clear and valued service proposition. This means that despite a challenging underwriting outlook, I am confident of more success for Syndicate 1084 in 2016.

## John Fowle, Active Underwriter

Chaucer Syndicate 1084

15 March 2016

# Managing Agent's Report

The Directors of the Managing Agent present their report and the audited annual accounts for the year ended 31 December 2015.

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, as well as UK Motor up to the point of transfer of the UK Division on 30 June 2015.

### Review of the business and future developments

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

	2015 £m	2014 £m
Gross written premiums	838.9	898.8
Profit for the financial year	91.3	123.8
Combined ratio <sup>1</sup>	88.4%	89.8%

<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.

### 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, reserving adequacy, 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.

# Managing Agent's Report

## 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.

## 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.

# Managing Agent's Report

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.

## 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.

# Managing Agent's Report

## 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.

## 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 2015, unless otherwise stated.

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

**B P Bartell**, Deputy Chief Executive Officer

**R J Callan**, Chief Financial Officer (appointed 1 December 2015)

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

**J Fowle**, Chief Underwriting Officer (appointed 27 May 2015)

**D B Greenfield**, Non-executive Director (deceased 17 October 2015)

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

**A S Robinson**, Non-executive Director

**P M Shaw**, Chief Risk Officer (appointed 12 February 2015)

**J G Slabbert**, Chief Executive Officer

**R A Stuchbery**, Deputy Chairman

## Managing Agent's company secretary

**K S Shallcross** (resigned 17 June 2015)

**R N Barnett** (appointed 17 June 2015)

## 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

## Syndicate bankers

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

Citibank N.A.

Royal Bank of Canada

# *Managing Agent's Report*

## **Syndicate investment managers**

GenRe 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 Annual General Meeting.

Approved by the Board of Chaucer Syndicates Limited.

## **R J Callan**

Chief Financial Officer

15 March 2016

# Profit and Loss Account

for the year ended 31 December 2015

	Notes	2015 £m	Restated* 2014 £m
<b>Technical Account – General Business</b>			
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	3	838.9	898.8
Outward reinsurance premiums		(284.9)	(178.5)
<b>Net premiums written</b>		<b>554.0</b>	<b>720.3</b>
<b>Change in the provision for unearned premiums</b>			
Gross amount	18	67.1	6.6
Reinsurers' share	18	36.5	3.3
<b>Net change in provision for unearned premiums</b>		<b>103.6</b>	<b>9.9</b>
<b>Earned premiums, net of reinsurance</b>		<b>657.6</b>	<b>730.2</b>
Other technical income, net of reinsurance	9	0.7	-
Allocated investment return transferred from the Non-Technical Account		13.6	33.0
<b>Total technical income</b>		<b>671.9</b>	<b>763.2</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount	18	(469.1)	(420.0)
Reinsurers' share	18	153.2	72.9
<b>Net claims paid</b>		<b>(315.9)</b>	<b>(347.1)</b>
<b>Change in the provision for claims</b>			
Gross amount		5.3	(68.1)
Reinsurers' share		(4.7)	44.4
<b>Net change in the provision for claims</b>		<b>0.6</b>	<b>(23.7)</b>
<b>Claims incurred, net of reinsurance</b>		<b>(315.3)</b>	<b>(370.8)</b>
Net operating expenses	3, 5	(266.0)	(284.6)
<b>Total technical charges</b>		<b>(581.3)</b>	<b>(655.4)</b>
<b>Balance on the Technical Account – General Business</b>		<b>90.6</b>	<b>107.8</b>
<b>Non-Technical Account</b>			
Other income	12	0.7	16.0
Investment income	10	31.8	32.4
Net unrealised (losses) / gains on investments	10	(6.8)	9.0
Investment expenses and charges	10	(11.4)	(8.4)
Allocated investment return transferred to the Technical Account - General Business		(13.6)	(33.0)
<b>Profit for the financial year</b>	17	<b>91.3</b>	<b>123.8</b>

All the amounts above are in respect of continuing operations.

\* These balances are restated as a result of the adoption of FRS 102 and FRS 103. See Note 26 for further analysis.

# Statement of Other Comprehensive Income

for the year ended 31 December 2015

	Notes	2015 £m	Restated* 2014 £m
<b>Profit for the financial year</b>	17	<b>91.3</b>	123.8
Prior year adjustment	26	2.8	-
<b>Total comprehensive income</b>		<b>94.1</b>	123.8

\* These balances are restated as a result of the adoption of FRS 102 and FRS 103. See Note 26 for further analysis.

# Balance Sheet

at 31 December 2015

	Notes	2015 £m	Restated* 2014 £m
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	13	924.9	1,215.6
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	18	119.0	79.4
Claims outstanding	18	678.7	480.7
		<b>797.7</b>	<b>560.1</b>
<b>Debtors</b>			
Debtors arising out of direct insurance operations - intermediaries		239.7	189.0
Debtors arising out of reinsurance operations		67.6	114.4
Other debtors	14	1.1	14.1
		<b>308.4</b>	<b>317.5</b>
<b>Other assets</b>			
Cash at bank		16.1	21.6
Overseas deposits	15	69.3	86.1
Other assets	16	21.5	-
		<b>106.9</b>	<b>107.7</b>
<b>Prepayments and accrued income</b>			
Deferred acquisition costs		98.2	107.6
Other prepayments and accrued income		5.7	7.8
		<b>103.9</b>	<b>115.4</b>
<b>Total assets</b>		<b>2,241.8</b>	<b>2,316.3</b>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Members' balances	17	40.0	61.2
<b>Technical provisions</b>			
Provision for unearned premiums	18	431.9	483.1
Claims outstanding	18	1,609.0	1,579.2
		<b>2,040.9</b>	<b>2,062.3</b>
<b>Creditors</b>			
Creditors arising out of direct insurance operations - intermediaries		1.9	3.2
Creditors arising out of reinsurance operations		114.8	125.1
Other creditors including tax and social security	21	20.3	20.7
		<b>137.0</b>	<b>149.0</b>
Accruals and deferred income		23.9	43.8
<b>Total liabilities</b>		<b>2,241.8</b>	<b>2,316.3</b>

\* These balances are restated as a result of the adoption of FRS 102 and FRS 103. See Note 26 for further analysis.

The annual accounts on pages 14 to 33 were approved by the Board of Chaucer Syndicates Limited on 15 March 2016 and signed on its behalf by:

**R J Callan**  
Chief Financial Officer

# Statement of Changes in Members' Balances

for the year ended 31 December 2015

	Notes	2015 £m	Restated* 2014 £m
Balance as at 1 January		61.2	44.0
Profit for the year	17	94.1	123.8
Payments of profit to members' personal reserve funds	17	(108.8)	(103.9)
Other	17	(6.5)	(2.7)
<b>Balance as at 31 December</b>		<b>40.0</b>	<b>61.2</b>

\* These balances are restated as a result of the adoption of FRS 102 and FRS 103. See Note 26 for further analysis.

# Statement of Cash Flows

for the year ended 31 December 2015

		2015	Restated*
	Notes	£m	2014 £m
Operating result		91.3	123.8
(Decrease) / increase in gross technical provisions		(21.4)	248.1
Increase in reinsurers' share of gross technical provisions		(237.6)	(103.6)
Decrease / (increase) in debtors		20.6	(15.1)
(Decrease) / increase in creditors		(31.9)	32.8
Movement in other assets / liabilities		(5.2)	(8.3)
Investment return	10	(13.6)	(33.0)
Other		(3.7)	(2.7)
<b>Net cash flows from operating activities</b>		<b>(201.5)</b>	<b>242.0</b>
<b>Cash flows from investing activities</b>			
Purchase of equity and debt instruments		(1,013.7)	(931.9)
Sale of equity and debt instruments		1,336.6	806.2
Investment income received		(18.4)	(18.9)
<b>Cash flows from financing activities</b>			
Distribution profit		(100.0)	(36.4)
Open year profit release		(8.8)	(67.5)
Other		0.3	1.2
<b>Net decrease in cash and cash equivalents</b>		<b>(5.5)</b>	<b>(5.3)</b>
Cash and cash equivalents at beginning of year		21.6	26.9
<b>Cash and cash equivalents at end of year</b>		<b>16.1</b>	<b>21.6</b>
Cash and cash equivalents consists of:			
Cash at bank		16.1	21.6
<b>Cash and cash equivalents</b>		<b>16.1</b>	<b>21.6</b>

\* These balances are restated as a result of the adoption of FRS 102 and FRS 103. See Note 26 for further analysis.

# Notes to the Accounts

for the year ended 31 December 2015

## 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.

## 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.

#### 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.

# Notes to the Accounts

for the year ended 31 December 2015

## **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 balance sheet. Investment contract assets are initially recognised at fair value and subsequently carried in the balance sheet at amortised cost and shown as 'Other assets'. Contractual gains and losses are recognised in other technical income in the profit and loss account 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, Managing Agency costs, the costs of membership of Lloyd's and other expenses attributable to the Syndicate's underwriting.

## **d) Cash at bank**

Cash at bank on the balance sheet represents cash balances lodged with banks.

## **e) Foreign currencies**

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

Under previous UK GAAP, the definition of a foreign branch included assets and liabilities accounted for in a foreign currency. FRS 102 requires that a foreign operation must be an entity. Hence, assets and liabilities denominated in a foreign currency no longer constitute a foreign operation and are not retranslated at the closing rate with exchange differences reported through the statement of recognised gains and losses (OCI). Instead, monetary items are retranslated at the closing rate with exchange differences reported through the non-technical account and non-monetary items (for example, tangible assets) are not retranslated.

Non-monetary items are translated into the functional currency using transactional rates / monthly average rate of exchange prevailing at the time of the transaction as a proxy for transactional rates.

However, FRS103 states that insurance assets and liabilities (UPR and DAC), that were previously considered non-monetary items, are now required to be treated as monetary items. This is a change in accounting policy from 2014. These assets and liabilities have been retranslated at period end to functional currency at the closing rate and the resulting exchange differences have been reported through the profit and loss account. The impact of this change in accounting policy is shown in note 26.

## **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 profit and loss account within 'Unrealised gains on investments' or 'Unrealised losses on investments'.

## **g) 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.

## **h) 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 balance sheet under the heading 'Members' Balances'.

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

# Notes to the Accounts

for the year ended 31 December 2015

## i) Pension costs

Chaucer Syndicates Limited operates a defined benefit and a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and included within net operating expenses.

### a) 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 19)
- Premium recognition (page 19)

## 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>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>
<b>2014 Restated</b>							
<b>Direct insurance</b>							
Accident and health	(0.1)	0.6	(1.9)	(0.2)	(0.4)	(1.9)	1.2
Motor (third party liability)	14.1	14.7	(6.2)	(2.8)	(2.5)	3.2	118.0
Motor (other classes)	163.5	170.2	(147.1)	(47.1)	14.0	(10.0)	167.2
Marine, aviation and transport	36.3	33.0	(22.1)	(13.3)	1.0	(1.4)	55.1
Energy	63.7	60.9	(36.9)	(22.4)	(6.9)	(5.3)	114.5
Fire and other damage to property	45.4	54.1	(23.4)	(17.8)	(4.5)	8.4	78.1
Third party liability	108.7	112.8	(78.4)	(40.3)	7.0	1.1	301.0
Miscellaneous	39.0	44.5	(26.7)	(16.6)	6.8	8.0	49.4
	<b>470.6</b>	<b>490.8</b>	<b>(342.7)</b>	<b>(160.5)</b>	<b>14.5</b>	<b>2.1</b>	<b>884.5</b>
Reinsurance	428.2	414.6	(145.4)	(134.1)	(62.4)	72.7	617.7
	<b>898.8</b>	<b>905.4</b>	<b>(488.1)</b>	<b>(294.6)</b>	<b>(47.9)</b>	<b>74.8</b>	<b>1,502.2</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 2015 was £89.6m (2014: £94.0m).

# Notes to the Accounts

for the year ended 31 December 2015

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

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

	2015 £m	2014 £m
UK	145.2	211.5
Other EU	21.9	17.3
Americas (including US)	260.1	240.3
Other	411.7	429.7
<b>Gross premiums written</b>	<b>838.9</b>	<b>898.8</b>

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

	2015 Gross technical provisions £m	2015 Net technical provisions £m	2014 Gross technical provisions £m	2014 Net technical provisions £m
UK	353.3	215.2	485.4	353.6
Other EU	53.3	32.5	39.7	28.9
Americas (including US)	632.8	385.5	551.4	401.6
Other	1,001.5	610.0	985.8	718.1
<b>Total</b>	<b>2,040.9</b>	<b>1,243.2</b>	<b>2,062.3</b>	<b>1,502.2</b>

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

During 2015 the Syndicate released £95.7m of technical reserves in respect of prior periods (2014: £77.4m), arising predominantly from the Energy, Casualty and Treaty Divisions (2014: primarily from the Marine, Property and Treaty Divisions). These releases were due to favourable claims development on attritional losses during 2015.

## 5. Net operating expenses

	2015 £m	Restated 2014 £m
Acquisition costs:		
- brokerage and commission	168.2	178.7
- other	13.9	12.7
Change in deferred acquisition costs	20.1	(2.9)
Administrative expenses	96.9	106.1
Reinsurance commissions and profit participation	(33.1)	(10.0)
	<b>266.0</b>	<b>284.6</b>
Administrative expenses include:		
Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, managing agent's fees and profit commission)	16.2	35.3

# Notes to the Accounts

for the year ended 31 December 2015

## 6. Auditor remuneration

	2015 £m	2014 £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:

	2015 £m	2014 £m
Wages and salaries	52.2	42.7
Social security costs	6.2	4.7
Other pension costs	3.6	3.9
Other	0.9	1.2
	<b>62.9</b>	<b>52.5</b>

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

	2015 Number	2014 Number
Administration and finance	176	228
Underwriting	146	224
Claims	81	161
Other	66	61
	<b>469</b>	<b>674</b>

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

The Directors of Chaucer Syndicates Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2015 £m	2014 £m
Directors of Chaucer Syndicates Limited	1.7	1.1
Active Underwriter	0.3	0.3

## 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.

# Notes to the Accounts

for the year ended 31 December 2015

## 10. Investment return

	2015 £m	Restated 2014 £m
<b>Investment income</b>		
Interest from financial assets at fair value through profit and loss	26.4	28.4
Interest on cash at bank	0.1	0.2
Other interest and similar income	1.7	2.4
Realised gains on investments	3.6	1.4
	<b>31.8</b>	<b>32.4</b>
<b>Investment expenses and charges</b>		
Investment management expenses including interest	(1.4)	(1.6)
Realised losses on investments	(10.0)	(6.8)
	<b>(11.4)</b>	<b>(8.4)</b>
<b>Net unrealised (losses) / gains on investments</b>	<b>(6.8)</b>	<b>9.0</b>
<b>Total investment return</b>	<b>13.6</b>	<b>33.0</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:

	2015 £m	2014 £m
Average funds	1,151.1	1,259.4
Investment return (net of expenses)	13.6	33.0
Calendar year investment return	1.2%	2.6%
<b>Average funds available for investment by fund</b>		
Sterling	202.2	354.0
United States Dollars	884.0	851.2
Canadian Dollars	64.9	54.2
<b>Analysis of calendar year investment return by fund</b>	<b>%</b>	<b>%</b>
Sterling	1.0	3.5
United States Dollars	1.2	2.4
Canadian Dollars	2.0	2.9

Average fund is the average of bank balances, overseas deposits, inter-syndicate loans 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.

## 12. Other income

Net foreign exchange gains of £0.7m (2014: £16.0m) are included within other income in the non-technical account.

# Notes to the Accounts

for the year ended 31 December 2015

## 13. Financial assets

	Cost £m	2015 Market value £m	Cost £m	2014 Market value £m
Shares and other variable yield securities at fair value through profit and loss	34.3	35.2	57.7	62.9
Debt securities and other fixed income securities at fair value through profit and loss	884.3	889.7	1,102.2	1,120.6
Deposits with credit institutions	-	-	32.1	32.1
	<b>918.6</b>	<b>924.9</b>	<b>1,192.0</b>	<b>1,215.6</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 2015	+1.0	(28.4)
	-1.0	23.1
31 December 2014	+1.0	(32.0)
	-1.0	26.6

#### 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	-	144.7	16.2	-	-	160.9
Claims outstanding	-	542.7	585.4	255.6	225.3	1,609.0
<b>At 31 December 2015</b>	<b>-</b>	<b>687.4</b>	<b>601.6</b>	<b>255.6</b>	<b>225.3</b>	<b>1,769.9</b>
Other creditors	-	190.9	1.9	-	-	192.8
Claims outstanding	-	530.6	577.3	255.1	216.2	1,579.2
<b>At 31 December 2014</b>	<b>-</b>	<b>721.5</b>	<b>579.2</b>	<b>255.1</b>	<b>216.2</b>	<b>1,772.0</b>

# Notes to the Accounts

for the year ended 31 December 2015

## 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:

	2015 £m	2014 £m
Debt securities	889.7	1,120.6
Cash at bank	16.1	21.6
Shares and other variable yield securities	35.2	62.9
Overseas deposits	69.3	86.1
Deposits with credit institutions	-	32.1
	<b>1,010.3</b>	<b>1,323.3</b>
AAA	410.3	623.0
AA	203.9	257.8
A	231.5	301.1
BBB	136.7	125.8
BB or less	27.6	15.3
Not rated	0.3	0.3
<b>Total assets bearing credit risk</b>	<b>1,010.3</b>	<b>1,323.3</b>

## Determination of fair value hierarchy

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

- Quoted prices in an active market (Level 1);
- Recent transactions in an identical asset if there is unavailability of quoted prices (Level 2); and
- Use of a valuation technique if there is no active market, recent transactions in an identical asset, or other transactions which are a good estimate of fair value (Level 3).

The following table presents the Syndicate's assets measured at fair value at 31 December 2015 and at 31 December 2014.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Shares and other variable yield securities and unit trusts	35.2	-	-	35.2
Debt securities and other fixed income securities	25.1	611.6	253.0	889.7
Overseas deposits	46.2	23.1	-	69.3
<b>At 31 December 2015</b>	<b>106.5</b>	<b>634.7</b>	<b>253.0</b>	<b>994.2</b>
Shares and other variable yield securities and unit trusts	62.9	-	-	62.9
Debt securities and other fixed income securities	75.4	600.5	444.7	1,120.6
Overseas deposits	46.2	39.9	32.1	118.2
<b>At 31 December 2014</b>	<b>184.5</b>	<b>640.4</b>	<b>476.8</b>	<b>1,301.7</b>

# Notes to the Accounts

for the year ended 31 December 2015

## 14. Other debtors

	2015 £m	2014 £m
Amounts due from Managing Agent	-	11.5
Investment sales debtors	0.3	-
Other debtors	0.8	2.6
	<b>1.1</b>	<b>14.1</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. At the end of 2014, the Syndicate had prepaid profit commission paid on the 2012 year of account.

## 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 members' balances

	2015 £m	Restated 2014 £m
Members' balances at 1 January (as previously stated)	58.4	44.0
Prior year adjustment	2.8	-
	<b>61.2</b>	<b>44.0</b>
Profit for the financial year	91.3	108.8
Other recognised gains relating to the financial year	-	12.2
Payments of profit to members' personal reserve funds	(108.8)	(103.9)
Movement in members' balances in respect of tax, members' agent's fees and other	(3.7)	(2.7)
Members' balances at 31 December (2014 as previously stated)	40.0	58.4
Prior year adjustment	-	2.8
<b>Members' balances at 31 December (as currently stated)</b>	<b>40.0</b>	<b>61.2</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.

# Notes to the Accounts

for the year ended 31 December 2015

## 18. Technical reserves

	Provisions for unearned premiums £m	Claims outstanding £m	Deferred acquisition costs* £m	Total £m
<b>Gross</b>				
At 1 January 2015 (restated)	483.1	1,579.2	107.6	1,954.7
Exchange differences	15.9	30.0	10.7	35.2
QS with Syndicate 6124	-	5.1	-	5.1
Claims paid in year	-	(469.1)	-	(469.1)
Movement in provision	(67.1)	463.8	(20.1)	416.8
<b>At 31 December 2015</b>	<b>431.9</b>	<b>1,609.0</b>	<b>98.2</b>	<b>1,942.7</b>
<b>Reinsurance</b>				
At 1 January 2015 (restated)	79.4	480.7	7.3	552.8
Exchange differences	3.1	12.3	0.4	15.0
QS with Syndicate 6124	-	190.3	-	190.3
Reinsurance recoveries in the year	-	(153.2)	-	(153.2)
Movement in provision	36.5	148.6	6.8	178.3
<b>At 31 December 2015</b>	<b>119.0</b>	<b>678.7</b>	<b>14.5</b>	<b>783.2</b>
<b>Net technical provisions</b>				
<b>At 31 December 2015</b>	<b>312.9</b>	<b>930.3</b>	<b>83.7</b>	<b>1,159.5</b>
At 31 December 2014 (restated)	403.7	1,098.5	100.3	1,401.9

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

### 2014 events

The Syndicate had exposure to a number of catastrophe events that occurred in 2014. The largest of these are from very heavy snowfall in Japan in February, a number of hailstorm and tornado events in the US in May and June and Hurricane Odile which struck the south-western coast of the US and Mexico in September. The losses from each of these events is below £10m and there has been little change in the estimated net loss for each event during 2015.

### 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 £15.8m and £14.8m gross and net of reinsurance. After allowing for inwards and outwards reinstatement premiums this reduces to £13.5m. The current estimated ultimate claims for the UK flood events are £5.5m gross and £4.5m net (also £4.5m net of inwards and outwards reinstatement premiums).

## 19. Sensitivity of insurance risk

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

	2015	2014
Net loss ratio	47.9%	50.8%
Impact of 1% variation (£m)	6.6	7.3

# Notes to the Accounts

for the year ended 31 December 2015

## 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	Total £m
<b>Estimate of gross claims incurred</b>							
At end of underwriting year		359.3	271.1	313.3	406.2	261.3	1,611.2
One year later		616.6	453.6	577.3	669.1	-	2,316.6
Two years later		615.0	441.3	586.1	-	-	1,642.4
Three years later		594.0	439.5	-	-	-	1,033.4
Four years later		605.5	-	-	-	-	605.5
<b>As at 31 December 2015</b>	<b>814.5</b>	<b>605.5</b>	<b>439.5</b>	<b>586.1</b>	<b>669.1</b>	<b>261.3</b>	<b>3,376.0</b>
Less gross claims paid	533.9	428.1	290.8	280.0	199.2	34.9	1,766.9
<b>Gross reserves</b>	<b>280.6</b>	<b>177.4</b>	<b>148.7</b>	<b>306.1</b>	<b>469.9</b>	<b>226.4</b>	<b>1,609.1</b>

Pure underwriting year	2010 and prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	Total £m
<b>Estimate of net claims incurred</b>							
At end of underwriting year		291.5	216.4	247.8	303.3	166.9	1,225.9
One year later		469.5	367.7	448.3	435.4	-	1,720.9
Two years later		469.9	358.6	403.0	-	-	1,231.5
Three years later		447.2	326.0	-	-	-	773.2
Four years later		430.9	-	-	-	-	430.9
<b>As at 31 December 2015</b>	<b>595.5</b>	<b>430.9</b>	<b>326.0</b>	<b>403.0</b>	<b>435.4</b>	<b>166.9</b>	<b>2,357.7</b>
Less net claims paid	419.6	345.9	245.4	241.7	157.9	17.0	1,427.5
<b>Net reserves</b>	<b>175.9</b>	<b>85.0</b>	<b>80.6</b>	<b>161.3</b>	<b>277.5</b>	<b>149.9</b>	<b>930.2</b>

## 21. Other creditors

	2015 £m	2014 £m
Amounts due to Managing Agent	19.1	15.1
Taxation	0.9	3.3
Investment purchases creditor	-	1.9
Other creditors	0.3	0.4
	<b>20.3</b>	<b>20.7</b>

Other creditors comprise amounts due to Service Company.

# Notes to the Accounts

for the year ended 31 December 2015

## 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:

	2015 £m	2014 £m
Managing agency fees	9.6	11.2
Expenses recharged	87.8	79.7
Profit Commission	-	18.3
Balance due to Chaucer Syndicates Limited at 31 December	(19.2)	(15.1)

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

Year of account	2015 £m	2014 £m	2013 £m
Chaucer Corporate Capital (No. 3) Limited	760.0	860.0	751.9

Chaucer Latin America S.A, a subsidiary of Chaucer Holdings Limited, provides underwriting services to Syndicate 1084. The Syndicate incurred the following expense from Chaucer Latin America S.A during the year:

	2015 £m	2014 £m
Fees paid to Chaucer Latin America S.A	-	0.6

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:

	2015 £m	2014 £m
Commissions paid to Chaucer Underwriting A/S	1.5	1.7
Fees paid to Chaucer Underwriting A/S	0.2	0.3
Balance due from Chaucer Underwriting A/S at 31 December	0.4	0.4

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:

	2015 £m	2014 £m
Fees paid to Chaucer Singapore PTE	2.3	2.0
Balance due to 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:

	2015 £m	2014 £m
Fees paid to Chaucer Oslo AS	0.2	0.3
Balance due to 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 not incurred any expenses from Chaucer Labuan Limited during the year.

# Notes to the Accounts

for the year ended 31 December 2015

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:

	2015 £m	2014 £m
Fees paid to Lonham Limited	0.2	-

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 along with the outstanding balances at the year end from CISL:

	2015 £m	2014 £m
Commissions paid to CISL	2.4	5.6
Balance due from CISL at 31 December	-	11.3

Hanover Insurance Company (HIC) writes certain direct risks through an insurance intermediary and have 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:

	2015 £m	2014 £m
Premiums ceded to the Syndicate	4.7	3.7
Commissions paid to HIC	0.2	0.2
Balance due from HIC at 31 December	4.7	3.7

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:

	2015 £m	2014 £m
Investment fees	1.3	1.1

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 both 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 members' FAL to meet liquidity requirements or to settle losses.

# Notes to the Accounts

for the year ended 31 December 2015

## 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.

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 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 2016 was 35% (2015: 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 members' balances reported on the balance sheet on page 17, represent resources available to meet members' 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. 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)).

## 26. Transition to FRS 102

This is the first year that the Syndicate has presented their results under FRS 102. The last financial statements under previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. Set out below are the changes in accounting policies which reconcile Syndicate profit for the financial year ended 31 December 2014 and the total Syndicate members' balances as at 1 January 2014 and 31 December 2014 between UK GAAP as previously reported and FRS 102. There were no changes to the Syndicate profit for the financial year ended 31 December 2014 and the total Syndicate members' balances as at 1 January 2014 and 31 December 2014 as a result of the adoption of FRS 102.

During the year, the Syndicate has made an amendment to its foreign exchange accounting policy to ensure compliance with FRS 102 Section 30 'Foreign Currency Translation' and amendment to the treatment of insurance assets and liabilities included in FRS 103, section 2.26 with respect to:

- the allocation of foreign exchange gains / losses between the profit & loss account and OCI;
- the use of monthly average rates as a proxy for transaction rates when determining the prevailing foreign exchange rate for non-monetary assets and liabilities where these items are held at transactional rates of exchange; and
- treating all insurance assets and liabilities (including DAC and UPR) as monetary items.

# Notes to the Accounts

for the year ended 31 December 2015

In accordance with FRS 102 section 3.12, the applicable comparative figures in the primary statements and notes have been restated to reflect the uniform application of the new policy outlined above. Set out below are the financial effects of restating the prior year amounts for the changes in accounting policy.

Profit for the financial year	Notes	2014
<b>UK GAAP - As previously reported</b>		<b>108.8</b>
Single functional currency	A	12.2
DAC / UPR as monetary amounts	B	2.8
<b>Total adjustment to profit for the financial year</b>		<b>15.0</b>
<b>FRS 102</b>		<b>123.8</b>

Other comprehensive income	Notes	2014
<b>UK GAAP - As previously reported</b>		<b>121.0</b>
Single functional currency	A	(12.2)
<b>FRS 102</b>		<b>108.8</b>

Total members' balances	Notes	1 January 2014	31 December 2014
<b>UK GAAP - As previously reported</b>		<b>(44.0)</b>	<b>(58.4)</b>
DAC / UPR as monetary amounts	B	(2.5)	(2.8)
<b>FRS 102</b>		<b>(46.5)</b>	<b>(61.2)</b>

## A. Single functional currency

FRS 102 requires all foreign currency transactions to be translated into a single functional currency at the historic rate of exchange. At the period end, the monetary foreign currency items must be translated at the closing rate with any difference being allocated to the profit and loss account. This has had the impact of increasing the profit by £12.2m for the year ended 31 December 2014, with no impact to members' balances.

## B. DAC / UPR as monetary amounts

FRS 103 states that insurance assets and liabilities that were previously considered non-monetary items, are now required to be treated as monetary items. These assets and liabilities have been retranslated at period end to functional currency at the closing rate and the resulting exchange differences have been reported through the profit and loss account.

## *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 Members 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 2015 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 2015, included within Syndicate 1084 Annual Report and Accounts (the "Annual Report"), comprise:

- the Profit and Loss account for the year then ended;
- the Statement of Other Comprehensive Income for the year then ended;
- the Balance Sheet as at 31 December 2015;
- the Statement of Changes in Members' Balances for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the accounting policies, and
- the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

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 Members 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 Hill (Senior statutory auditor)**

**For and on behalf of PricewaterhouseCoopers LLP**

**Chartered Accountants and Statutory Auditors**

London

15 March 2016

- 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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*Committed to our community*

The Chaucer Foundation is the charitable Foundation of Chaucer Syndicates, dedicated to providing support and funding for local projects where we can make a real difference. Please visit [chaucer-foundation.org.uk](http://chaucer-foundation.org.uk) to learn more.