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Syndicate 1084

Annual Report and Accounts 2014

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Underwriter's Report

Underwriting performance

Despite a tough underwriting market, with over capacity and high levels of competition prevalent in most markets, 2014 was another positive year for international insurance industry performance, as the frequency and severity of both natural and man-made catastrophe events again remained subdued.

Whilst the US experienced some severe convective storm activity, the Atlantic hurricane season was again benign, with no major hurricanes making landfall in the US, although Mexico was hit by three storms from the Atlantic and five from the North Pacific basin. There were also a number of other significant loss events during the year, notably in the energy, property and marine markets.

Chaucer Syndicate 1084 responded positively to the challenging market conditions. Gross written premium increased slightly to £898.8m in 2014 (2013: £887.9m) and in combination with the acceptable market loss experience, produced an underwriting profit of £75.8m (2013: profit of £81.2m). After investment income the Syndicate produced a profit for the year of £108.8m (2013: profit of £86.1m).

The Syndicate targeted income increases from those business areas where business conditions, while challenging, continued to offer the potential of good returns. We again reduced premium income from our Aviation, Energy and Property Divisions as competition increased and rates fell. Premium income also reduced in our UK Motor Division as our underwriting remained selective in light of continued uncertainty over the future market direction. Net earned premiums increased by 1.3% to £730.2m (2013: £720.8m).

The combined ratio remained low at 89.6% (2013: 88.7%), with the performance from our Property and Treaty Divisions benefitting most from the benign catastrophe environment. Our Property and Marine Divisions, in particular, also benefited from good prior year development during the period.

Underwriting outlook

Against a very competitive market background, we expect very few rate increases in 2015. Current pricing conditions for energy, marine and aviation, property and treaty markets continue to be affected by an absence of major losses, excess capacity and high levels of competition. We expect any increases achieved in these areas to be negligible, and restricted to local market conditions in specific classes. Within casualty markets, after several years of continued rate decline, there are signs of potential modest rate increases in certain classes, notably North American professional risk and financial institutions. After remaining flat in 2014, we will seek rate increases in the UK motor market in 2015 to lift margins to acceptable overall levels.

In response to these challenging market conditions, our objective in 2015 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 that our capital and underwriting capabilities are effectively deployed on whatever positive opportunities that we can identify, including areas within marine and casualty, and on those areas of business development where we recruited specialist underwriters and teams in 2013 and 2014.

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
2014									
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)	7.2	8.2	18.8	5.0	(8.5)	41.0	(1.0)	5.1	75.8
2013									
Gross written premiums	144.1	53.6	170.0	34.9	101.9	174.6	209.7	(0.9)	887.9
Net earned premiums	107.8	47.8	121.6	34.5	70.8	137.6	201.4	(0.7)	720.8
Underwriting profit / (loss)	14.1	4.0	7.0	5.7	(9.8)	59.4	(0.2)	1.0	81.2

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

Energy Division

The Division recorded an underwriting profit of £7.2m (2013: £14.1m), while premium income reduced by £8.0m to £136.1m (2013: £144.1m) as oil and gas drilling activity reduced worldwide in 2014, affecting the offshore energy portfolio. The combined ratio increased to 92.0% (2013: 88.2%), although 2014 still benefitted from an absence of major energy losses and lower levels of loss experience more generally. Market conditions continued to be competitive in 2014, particularly in offshore energy, and we expect this trend to continue in 2015, especially in the continuing absence of major market losses. Our underwriters will not follow rates below technical adequacy and will continue to forgo market share to retain underwriting integrity.

Upstream

Our approach focused on achieving acceptable underwriting margin in 2014, while maintaining key relationships with core clients. We adopted a cautious approach toward both business interruption exposures and the drilling contractor segment. We were also conservative in our deployment of Gulf of Mexico wind aggregate which, while dampening our underwriting returns in a benign year such as 2014, ultimately reduces our volatility and will benefit us when hurricane activity inevitably returns.

Liability

We continued to reshape our energy liability account to concentrate on exploration and production (including contractors and midstream), offshore construction and renewable business. We remained absent from onshore US pipeline and utility business. In addition to these changes, we continued to reposition the account, renewing risks where we were able to move our aggregate exposures higher up liability towers and declining those that did not fit our revised portfolio structure.

Construction

The number of new medium sized (US\$500m) and mega (+US\$1bn) energy construction projects launched continued to decline in 2014. We remained selective in our underwriting choices, with a focus on high quality assureds, and where we ideally have a pre-existing operating risk relationship. We continued to lead business where possible, including in Singapore where we are an established lead market for construction risks.

Renewables

In 2014, our strategy switched from backing a significant broker lead consortium for renewables business to developing our own underwriting account; building stronger relationships with core clients, improving underwriting technical capabilities, controls and ultimately performance. The immediate result of this shift was a short-term reduction in premium in 2014, although we expect our new approach to generate growth in the future. The broker market has been responsive to our new market position, and new submissions have increased. This has enabled us to achieve a wide spread of risks and to influence terms and conditions on the account. Our work with our overseas offices has also been successful in generating a good spread of opportunities.

Downstream

The rate of premium increase fell back in 2014 as the absence of significant losses and arrival of new capacity drove rates down causing us to cut back. While this held back premium income against plan, underwriting integrity was maintained and there was a continued focus maintaining adequate underwriting margin.

Power and Engineering

This remains a modest account, largely written from Singapore, where we have considerable energy underwriting experience. While the Asian market is competitive, selective underwriting has enabled us to manage the account successfully during the soft market and, once underwriting conditions begin to improve, we look forward to gradual successful development of the account.

Property Division

Underwriting profit improved to £8.2m (2013: £4.0m), although premium income reduced by £9.9m to £43.7m (2013: £53.6m) as the underwriting environment remained very competitive. The combined ratio was 82.2% (2013: 89.1%).

2014 was another quiet year for major natural catastrophe losses, although no year is ever loss free, and there were losses from Hurricane Odile in Mexico and Super Typhoon Haiyan in the Philippines, although both of these were comfortably contained within the Division's catastrophe budget. Pressure on rates increased during the period, and this will continue in 2015 in the absence of any major losses.

The Division writes international direct and facultative business from London and from 2015, Miami, following the relocation of the Buenos Aires office in the final quarter of 2014. Income reduced during the period as cedants continued to either retain more exposure or to cede to broadened treaty facilities. Terms deteriorated and our renewal rate reduced because of this. That said, we remain satisfied with the balance of the account, and expect an improved showing of Latin American business resulting from our Miami relocation.

Our International Binder portfolio focuses on property and miscellaneous short tail, including contingency, prize indemnity and film completion bonds. Overall, property rates softened in 2014, with rates falling back in certain areas, like New Zealand, that had seen loss driven rate hikes. Elsewhere rates were broadly flat.

Marine Division

As in 2012, the marine sector saw further inflows of new underwriting capacity in 2013, causing unprecedented levels of competition for the higher quality and more technically rated risks in 2014. Notwithstanding this, the Division continued to produce both growth and strong results in 2014. Gross written premiums increased to £171.9m (2013: £170.0m), while the underwriting profit was £18.8m (2013: £7.0m). The combined ratio was at 87.4% (2013: 97.0%).

Cargo & Specie

Following headline losses in the specie market in 2013, which impacted our result, 2014 was much quieter, the result of us having steered clear of the majority of troublesome areas. This is also the case in cargo, where our good results reflected an avoidance of large market losses during the period. The cargo & specie team focused on that business where we believe that the underwriting standards were being maintained, and also concentrated on retaining our position on established books of business.

We continue to work closely with our brokers, and to concentrate on those who have access to better quality business, mostly through their own networks. We anticipate that current economic uncertainties will continue to dampen opportunities in project cargo, historically the best performing element of the account.

Hull, Liability & War

The performance of our hull account continues to meet our expectations favourably, despite a continuingly competitive market. We are very selective in our underwriting as we seek to build and balance the account around specific higher yielding niches, including the more highly regulated tanker market. Our involvement in the historically more profitable brown water hull account, through significant involvement with two specialised managing general agencies in the UK and the US, is also providing useful balance to the hull account.

The war account continues to benefit from a benign loss environment, aided in part in the Gulf of Aden by the agreement by sovereign naval powers to continue their protection of the region's Maritime Transit Corridor. There were no successful hijackings in 2014 in the Gulf of Aden, although the risk to maritime assets off the coast of Nigeria, and most recently in Libyan waters, remains high. We monitor the maritime risk situation daily, and rate accordingly as the threat of risk changes.

The liability market, which has historically performed profitably, was hit by a number of significant losses in 2014, notably the tragic loss of over 300 lives on the Sewol ferry in Korea, and a number of charterer liability losses, which we continue to monitor closely. There was also further deterioration in the Costa Concordia loss, although this remained comfortably within our reinsurance programme. The removal of the Costa Concordia wreck has now been successfully completed and the vessel moved to a breakers yard in Genoa.

The UK Ports and Terminals account had a modest but positive start in 2014, on which we will build as the foundation for a more broadly focused UK marine initiative in 2015.

Political Violence

Our medium term strategy of broadening the distribution base of the account is proving successful and we saw significant growth in premium income from our offices in Singapore and Copenhagen during 2014. Both offices now have dedicated underwriters to establish their respective market positions. We are also introducing underwriting capacity in Miami for Latin American risks, as well as an online system for efficient capture of smaller risks from the US, to further broaden the distribution base of the account in 2015. In London, we continue to add domestic UK business to the account, following our withdrawal from the UK pool in 2012.

Our team is firmly established as a market leader, and has the strength in depth and the drive to continue successful development of our political violence account in 2015.

Political Risk

Our account assists trade and investments in many developing countries worldwide. Chaucer is a key member of the Lloyd's emerging market risk community, with a strong and loyal international client base, including banks, commodity traders, telecoms companies and exporters.

Our proven ability to satisfy the needs of this demanding client base with underwriters in London, New York and Singapore, combined with the healthy balance of industries and geographies underwritten, enabled the account to remain resilient despite 2014 being quite a turbulent year around the globe. This should also provide a sound basis for further development of the account in 2015.

Treaty Division

2014 followed 2013 in being a very satisfactory year for the Treaty Division. Premium income increased to £203.8m (2013: £174.6m), in particular due to the successful growth in of our US Casualty Treaty Team, which began underwriting for us at the end of 2013. The underwriting profit fell to £41.0m (2013: £59.4m) although this reflects the growing proportion of long tail business. The combined ratio was 77.2% (2013: 58.9%).

Our good performance derived in part from the ongoing strengthening of our underwriting development infrastructure, with our products and marketing becoming more cross class and multi-faceted, and our value to clients became more portfolio, and less monoline, based. Recognition of the importance of relevance was demonstrated by our positive approach to line size, service, opinion and flexibility for clients.

The rigour of our approach to risk and portfolio pricing, modelling and performance measurement also grew, helping our underwriters to understand in detail the trading environment, their underwriting position and how best to apply the treaty underwriting strategy. The Treaty Division further developed our in-house view of risk in certain areas in 2014, and established approaches and appetites in support of this.

We adopted a consistent core underwriting strategy in 2014, including treaty business written from our overseas office in Copenhagen and Singapore. This made it difficult to gain traction in Singapore, in particular, since the trading environment in South East Asia is much less technically driven than in Europe and North America. However we remain committed to Singapore since we believe that ultimately we will represent a more stable and long-lasting options for clients there, and strategically we recognise the long-term importance of dedicating technically strong resource to those major emerging regions where the business flow to London will inevitably continue to diminish. To this end, we are mirroring our Singapore approach in Miami, with a lean but high quality underwriting operation to seek out local treaty opportunities that meet our quality criteria.

All classes and markets currently present their own challenges, but we continued to add new treaty classes in 2014 to increase portfolio diversification. We lead a new credit and bond treaty Lloyd's consortium in 2014 and entered the Aviation XL market. In both instances, as with our core approach, we sought to deploy smart underwriters and strong risk selection at a non-attribitional level. We are pleased with the performance of these small but growing portfolios to date.

The performance of the catastrophe classes exceeded plan. After some severe convective storm activity, the US was quiet, and despite some international weather-related losses, the overall performance was satisfactory. The accident & health and workers compensation catastrophe sectors again returned an excellent result, while marine again performed strongly. Engineering continued to offer stability to the overall account. The US and international casualty accounts continued to perform. As part of our continued commitment to improvement as a team, we reviewed our property risk excess classes in 2014 to ensure that we were maximising our performance.

2014 was a difficult year for technically focused treaty underwriters, and the trading environment was more competitive than anticipated. However, our underwriters were strict in their business retention decision-making and the management of their participations. In addition, we attracted more new business than forecast, with the US Casualty Treaty Team providing a significant contribution, to compensate for reduced renewal participations in other areas. In spite of testing conditions, a focus on smart underwriting and risk selection meant that our performance exceeded plan.

Undoubtedly 2015 will prove even more challenging, but we are confident that we have the strategic awareness and acumen to successfully navigate some of the most difficult treaty trading conditions seen for a decade.

Casualty Division

Since the formation of our Casualty Division in late 2010, encompassing both long-standing portfolios and our newer international portfolios we have developed both our team and our underwriting proposition. We continue to target specialist Lloyd's brokers and locally domiciled coverholders to access small to medium sized accounts for over half of our business, mostly in a lead capacity. We are pleased that despite difficult market conditions in all areas of our business, we have achieved a healthy portfolio balance, at class, geographical and attachment point levels.

The Division increased premium income to £119.6m (2013: £101.9m) in 2014, as we responded positively to favourable pricing and specific underwriting opportunities, primarily in the international general liability and US specialist lines markets. The overall underwriting loss reduced to £8.5m (2013: £9.8m) and the combined ratio improved to 113.7% (2013: 120.2%) as the account, which is long-tail, continued to develop satisfactorily, with incurred loss ratios achieved within business plan expectations and a consistent flow of prior year reserve releases, in particular from financial institutions and institutional healthcare in 2014.

Our Casualty Division underwrites in five main areas; US specialist lines, institutional healthcare and financial institutions, where we have specialised for many years, and international professional indemnity and general liability, which we entered at the end of 2010.

Demand remains healthy and loss experience encouraging in US specialist lines and we will seek to grow this account in 2015, including increased opportunities generated through the agency network of The Hanover Insurance Group, Inc., our parent company. Financial institutions is also positive, although our core strategy remains cautious given previous high market losses in this area. The early results of re-underwriting actions that began in 2010 for financial institutions are also looking promising. Competition remains at its most intense in the US Healthcare market and income remains static as a result but with continued strong performance.

International markets remain flat at best with professional indemnity remaining challenging. Accordingly we continue to review and re-underwrite our portfolio to generate sustainable margin.

Our international general liability account continued to produce good results in 2014, and we are planning the development of complimentary Latin America and Middle Eastern portfolios in 2015 with the appointment of a new specialist underwriting resource.

Aviation Division

Our Aviation Division recorded an underwriting profit of £5.0m in 2014 (2013: £5.7m) on premium income of £30.5m (2013: £34.9m), despite continued challenging market conditions. The combined ratio was 83.7% (2013: 84.6%).

Airline rates fell almost continuously through the year, only pausing after the second Malaysian Airline loss in July as the market attempted to recover some of the losses of the last 12 months. Reduced rates, together with pressure on signed lines and retention rates reduced Division volumes. The airline industry remained healthy during 2014, with world fleet and passenger numbers growing strongly and the added benefit of falling fuel prices. Despite this, we expect pressure on rates to continue while underwriting capacity remains abundant and competition for business strong.

The general aviation market was also significantly affected by new entrants and stronger local markets in 2014, resulting in pressure on rates, and on our signed lines and retention rates. We expect these soft market conditions to continue in 2015. Manufacturers' order books are currently strong but continued low oil prices may ultimately impact the rates for the helicopters used extensively in the off shore oil industry.

We also continued to develop the refuellers, products and airport account, although market conditions are difficult, and our growth expectations are necessarily long term.

UK Division

Deteriorating standard motor market conditions in the first half of the year forced continued selective underwriting and pushed our UK Division, to an underwriting loss of £1.0m (2013: loss £0.2m). Premium income reduced to £193.4m (2013: £209.7m), and the combined ratio remained unchanged at 100.7% (2013: 100.7%).

Rates fell for a third consecutive year in 2014. This followed three years of strong rate rises, beginning in 2009, that had returned the overall market to profitability, particularly in the private car and commercial vehicle sectors. This overall decline in rates has also reflected actions begun in 2013 to take credit for the

impact of legislative changes designed to reduce the future cost of bodily injury claims, in particular LASPO (Legal Aid, Sentencing and Punishment of Offenders Act 2012).

Premium rates for our portfolio decreased by 0.4% overall (2013: decrease 3.5%), although our standard private car prices increased by 0.1% (2013: decrease 6.8%). Our rate reductions were more conservative than those given by much of the market, holding back top line premium income.

In 2014, work continued through specialist units within our claims department to reduce the costs of credit hire and to detect fraudulent claims. LASPO was a welcome legislative change, resulting in the cessation of bodily injury claim referral fees and reducing legal costs. However, these issues have not disappeared from the market, with credit hire referrals and Alternative Business Structure models for legal fees still in evidence *and* increasing claims costs. We continue to welcome further proposed legislation, such as the proposed Whiplash Reforms.

Private Car

This business accounts for over half of our underwriting portfolio. Our products are available via brokers and all of the major aggregator sites, which together now take the greatest share of private motor products in the UK. Premium income from our Chaucer Direct website, which receives customer enquiries from aggregator sites and direct to our own site, was £34.9m in 2014 (2013: £42.8m), as we resisted the excesses of competitive market rate discounting.

Specialist Motor

Our specialist motor account comprises specialist vehicles, family fleets, schemes, motorcycles and motor trade, with each distributed through a small number of specialist intermediaries. These segments are less cyclical than private car and the account, which represents for just under a quarter of total UK Division premium, continued to develop positively in 2014.

Commercial Motor

This comprises fleet and individual commercial vehicle policyholders. It accounts for over more than a quarter of our UK portfolio. Our fleet account comprises a mix of vehicles, including private car, commercial vehicles, haulage and coaches, which together we write primarily through the Lloyd's broker market. The portfolio mainly focuses on medium and small fleets, where price competition is less intense. Unlike the private car market, the fleet market did not experience large rate rises in 2010 and 2011, only beginning to see signs of above inflation rate increases in 2012, and this trend continued in 2013 and 2014. We are well placed to take advantage of opportunities that arise in 2015. The commercial vehicle market has followed that of private car, with large rate increases during 2010 and 2011 and reductions from 2012 onward. Generally, this market follows private car trends, and should hopefully begin to see needed rate improvements in 2015.

SME Commercial

This account comprises UK employers and public liability and combined commercial risk including property. In 2014 the premium income generated was £16.5m (2013: £12.4m). We plan further expansion in 2015, with the market showing positive signs of rate improvements after a long period of market under rating. We are pleased with the continued performance of this account, despite strong price competition restricting our growth in recent years.

Business development

Our focus remains on ensuring that we can offer one of the strongest specialist 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 2014 have 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,

During 2014, we also continued to broaden our underwriting capabilities, including treaty, where the broker reception for our new US casualty team was extremely positive, and marine, where our new ports and terminals account has widened our offering in this key business sector. We have also broadened the product range, adding both underwriting expertise and class coverage, to our offices in Singapore, Denmark and now Miami, 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 2014. This was another excellent year for the Syndicate, with our continued hard work combining 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 product range, a strong underwriter focus on technically and commercially smart solutions for brokers and clients, and a clear service proposition. This means that despite a challenging underwriting outlook, I am confident of more success for Syndicate 1084 in 2015.



John Fowle, Active Underwriter
Chaucer Syndicate 1084
12 March 2015

Managing Agent's Report

The Directors of the Managing Agent present their report and the audited annual accounts for the year ended 31 December 2014.

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 UK motor and worldwide general insurance and reinsurance business concluded in the United Kingdom.

With effect from 1 January 2014, the Syndicate assumed the liabilities of Syndicate 4000 under a Reinsurance to Close contract, which consisted primarily of Specialist Lines business written by the Syndicate between 2004 and 2008. The transaction resulted in the transfer to Syndicate 1084 of gross and net technical provisions of £131.7m and £92.0m respectively.

Review of the business and future developments

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

	2014	2013
	£000	£000
Gross written premiums	898.8	887.9
Profit for the financial year	108.8	86.1
Combined ratio ¹	89.6%	88.7%

¹ 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.

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.

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 Review Department 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.

Monthly reporting

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

Management of external experts

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

Reserving risk

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

Reserves are set on a two tier hierarchical basis.

Tier 1: Actuarial best estimate reserves

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

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

Tier 2: Syndicate reserves

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

(a) Underwriting year syndicate reserves

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

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

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

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

(b) Annually accounted syndicate reserves

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

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

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

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

Although the risk loadings provide important protection against adverse developments in reserves, the degree of subjectivity in the reserving process, the exposure to unpredictable external influences (e.g. the

legal environment) and the quantum of reserves relative to net tangible assets, mean that reserving remains a significant source of risk to the Syndicate.

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.

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.

Currency risk

The Syndicate writes a significant proportion of insurance business in currencies other than Sterling, which gives rise to a potential 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 liquidity risk policy sets limits for cash required to meet expected cash flows. It includes a contingency funding plan, which details the process and provisions for liquidating assets and / or raising additional funds required to meet liabilities in extreme circumstances.

Credit risk

The Syndicate holds the majority of its investments in high-quality 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. Money market fund managers mitigate credit risk through diversification and by setting maximum limits for individual counterparties.

Operational risk

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

Regulatory and legal risk

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

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

Conduct risk

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

Staff matters

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

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 2014, unless otherwise stated.

C M Stooke, Chairman and Independent Non-executive Director
B P Bartell, Chief Underwriting Officer
T J Carroll, Independent Non-executive Director
D B Greenfield, Non-executive Director
D S Mead, Chief Operating Officer
A S Robinson, Non-executive Director
J G Slabbert, Chief Financial Officer
R A Stuchbery, Chief Executive Officer
P M Shaw, Risk Director (appointed 12 February 2015)

Managing Agent's company secretary

A J Goodenough (resigned 1 April 2014)
K S Shallcross (appointed 1 April 2014)

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

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.

Auditors

PricewaterhouseCoopers LLP has signified its willingness to continue in office as the independent auditor to the Syndicate.

Approved by order of the Finance Committee of Chaucer Syndicates Limited on authority from the Board of Chaucer Syndicates Limited.



J G Slabbert
Chief Financial Officer
12 March 2015

Profit and Loss Account for the year ended 31 December 2014

	Notes	2014 £m	2013 £m
Technical Account – General Business			
Earned premiums, net of reinsurance			
Gross premiums written	3	898.8	887.9
Outward reinsurance premiums		(178.5)	(162.9)
Net premiums written		720.3	725.0
Change in the provision for unearned premiums			
Gross amount	15	6.6	(6.0)
Reinsurers' share	15	3.3	1.8
Net change in provision for unearned premiums		9.9	(4.2)
Earned premiums, net of reinsurance		730.2	720.8
Allocated investment return transferred from the Non-Technical Account		33.0	4.9
Total technical income		763.2	725.7
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	15	(420.0)	(449.7)
Reinsurers' share	15	72.9	75.9
Net claims paid		(347.1)	(373.8)
Change in the provision for claims			
Gross amount		(68.1)	1.9
Reinsurers' share		44.4	11.3
Net change in the provision for claims		(23.7)	13.2
Claims incurred, net of reinsurance		(370.8)	(360.6)
Net operating expenses	3, 5	(283.6)	(279.0)
Total technical charges		(654.4)	(639.6)
Balance on the Technical Account – General Business		108.8	86.1
Non-Technical Account			
Investment income	9	32.4	31.9
Net unrealised gains / (losses) on investments	9	9.0	(21.1)
Investment expenses and charges	9	(8.4)	(5.9)
Allocated investment return transferred to the Technical Account - General Business		(33.0)	(4.9)
Profit for the financial year	14	108.8	86.1

All the amounts above are in respect of continuing operations.

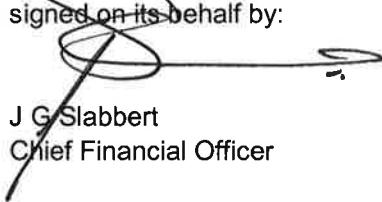
Statement of Total Recognised Gains and Losses for the year ended 31 December 2014

	Note	2014 £m	2013 £m
Technical Account – General Business			
Profit for the financial year	14	108.8	86.1
Currency translation differences	14	12.2	(7.3)
Total recognised gains and losses relating to the financial year		121.0	78.8

Balance Sheet as at 31 December 2014

	Notes	2014 £m	2013 £m
Assets			
Investments			
Other financial investments	11	1,215.6	1,039.9
Reinsurers' share of technical provisions			
Provision for unearned premiums	15	80.6	74.6
Claims outstanding	15	480.7	381.9
		<u>561.3</u>	<u>456.5</u>
Debtors			
Debtors arising out of direct insurance operations - intermediaries		189.0	129.3
Debtors arising out of reinsurance operations		114.4	163.4
Other debtors	12	14.1	11.0
		<u>317.5</u>	<u>303.7</u>
Other assets			
Cash at bank and in hand	18	21.7	27.0
Overseas deposits	13, 18	86.1	77.1
		<u>107.8</u>	<u>104.1</u>
Prepayments and accrued income			
Deferred acquisition costs		109.0	106.9
Other prepayments and accrued income		7.8	7.1
		<u>116.8</u>	<u>114.0</u>
Total assets		<u>2,319.0</u>	<u>2,018.2</u>
Liabilities			
Capital and reserves			
Members' balances	14	58.4	44.0
Technical provisions			
Provision for unearned premiums	15	488.2	481.8
Claims outstanding	15	1,579.2	1,332.5
		<u>2,067.4</u>	<u>1,814.3</u>
Creditors			
Creditors arising out of direct insurance operations - intermediaries		3.2	0.4
Creditors arising out of reinsurance operations		125.1	110.2
Other creditors including tax and social security	16	20.7	17.9
		<u>149.0</u>	<u>128.5</u>
Accruals and deferred income		44.2	31.4
Total liabilities		<u>2,319.0</u>	<u>2,018.2</u>

The annual accounts on pages 15 to 30 were approved by order of the Finance Committee of Chaucer Syndicates Limited on authority from the Board of Chaucer Syndicates Limited on 12 March 2015 and signed on its behalf by:


J G Slabbert
Chief Financial Officer

Statement of Cash Flows for the year ended 31 December 2014

	Note	2014 £m	2013 £m
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit on ordinary activities		108.8	86.1
Changes in market value and exchange rates	17, 18	(51.8)	37.6
Increase / (decrease) in net technical provisions		148.3	(25.0)
Increase in debtors		(16.6)	(16.9)
Increase in creditors		33.3	7.4
Movement in members' balance in respect of tax and other	14	9.5	(7.5)
Net cash inflow from operating activities		<u>231.5</u>	<u>81.7</u>
Transfer to members in respect of underwriting participations	14	(103.9)	(5.3)
	17, 18	<u>127.6</u>	<u>76.4</u>
Cash flows funded / invested as follows:			
(Decrease) / increase in cash holdings	17, 18	(6.4)	0.7
Increase / (decrease) in overseas deposits	17, 18	8.3	(5.3)
Net portfolio investments	17, 18, 19	125.7	81.0
Net investment of cash flows	17, 18	<u>127.6</u>	<u>76.4</u>

Notes to the Accounts for the year ended 31 December 2014

1. Basis of preparation

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 and the provisions of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005, as amended in December 2006, with the exception of foreign exchange gains or losses which are recorded in the Statement of Total Recognised Gains and Losses.

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

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.

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.

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.

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.

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.

Notes to the Accounts for the year ended 31 December 2014

2. Accounting policies (continued)

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.

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.

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.

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.

Cash at bank and in hand

Cash at bank and in hand on the balance sheet represent cash balances and money market deposits lodged with banks.

Foreign currencies

Transaction in US dollars and Canadian dollars are translated at the average rates of exchange for the period. Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date transaction is processed.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. Non-monetary assets and liabilities denominated in US dollars and Canadian dollars are translated at the rate of exchange at the balance sheet date, non-monetary assets and liabilities denominated in other foreign currencies are included at the rate of exchange ruling at the date transaction was processed.

Exchange differences arising on the retranslation of US dollar and Canadian dollar opening balance sheet items at the closing balance sheet rate and the retranslation of the US dollar and Canadian dollar profit and loss accounts for the year from the average rate to the closing balance sheet rate are taken to reserves and included in the Statement of Total Recognised Gains and Losses.

The rates of exchange used to translate monetary balances at the period end in foreign currencies into sterling are as follows:

	31 December 2014	31 December 2013
US dollars	1.56	1.66
Canadian dollars	1.81	1.76
Euros	1.29	1.21

Notes to the Accounts for the year ended 31 December 2014

2. Accounting policies (continued)

Investments

Investments are initially recognised at current value plus transaction costs and subsequently at current value at balance sheet date. For this purpose listed investments are stated at market value (bid price) and deposits with credit institutions are stated at cost and overseas deposits are stated at market value (per Lloyd's valuation). Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date.

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.

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 US 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.

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.

Profit commission

Profit commission is charged by the Managing Agent at a rate of 15% of the profit, on a year of account basis, on the 2012 year of account. This is charged to the syndicate as incurred but does not become payable until after the appropriate year of account closes, normally at 36 months. No profit commission is charged from the 2013 year of account onwards.

Notes to the Accounts for the year ended 31 December 2014

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* £m	Reinsurance balance £m	Total £m	Net technical provisions £m
2014							
Direct insurance							
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)	(47.2)	14.0	(10.1)	167.2
Marine, aviation and transport	36.3	33.0	(22.1)	(13.2)	1.0	(1.3)	55.3
Energy	63.7	60.9	(36.9)	(17.3)	(12.0)	(5.3)	114.9
Fire and other damage to property	45.4	54.1	(23.4)	(13.7)	(8.5)	8.5	78.4
Third party liability	108.7	112.8	(78.4)	(35.6)	2.5	1.3	302.0
Miscellaneous	39.0	44.5	(26.7)	(15.1)	5.4	8.1	49.6
	470.6	490.8	(342.7)	(145.0)	(0.6)	2.5	886.6
Reinsurance	428.2	414.6	(145.4)	(128.6)	(67.3)	73.3	619.5
	898.8	905.4	(488.1)	(273.6)	(67.9)	75.8	1,506.1
2013							
Direct insurance							
Accident and health	(2.6)	(2.6)	2.5	0.4	(0.7)	(0.4)	1.0
Motor (third party liability)	26.0	27.8	(30.2)	(6.7)	4.2	(4.9)	119.0
Motor (other classes)	175.7	179.1	(131.9)	(44.6)	(4.8)	(2.2)	170.1
Marine, aviation and transport	35.4	35.3	(24.9)	(12.9)	(2.0)	(4.5)	53.5
Energy	65.8	63.6	(48.7)	(20.3)	(5.0)	(10.4)	124.0
Fire and other damage to property	53.2	51.2	(31.2)	(17.9)	(14.7)	(12.6)	76.2
Third party liability	108.1	97.3	(72.0)	(18.7)	1.3	7.9	213.1
Miscellaneous	42.6	35.7	(6.0)	(10.3)	(5.0)	14.4	37.6
	504.2	487.4	(342.4)	(131.0)	(26.7)	(12.7)	794.5
Reinsurance	383.7	394.5	(105.4)	(138.7)	(56.5)	93.9	563.2
	887.9	881.9	(447.8)	(269.7)	(83.2)	81.2	1,357.7

* 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 in 2014.

All premiums were concluded in the UK.

Commission on direct insurance – gross written premiums during 2014 was £94.0m (2013: £86.5m).

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

Notes to the Accounts for the year ended 31 December 2014

3. Segmental analysis (continued)

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

	2014 £m	2013 £m
UK	211.5	215.3
Other EU countries	17.3	27.7
Americas (including US)	240.3	232.7
Other	429.7	412.2
Gross premiums written	898.8	887.9

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

During 2014 the Syndicate released £77.4m of technical reserves in respect of prior periods, arising predominantly from the Marine, Property and Treaty Divisions (2013: £79.4m, primarily from the Energy and Treaty Divisions). These releases were due to favourable claims development on losses in 2014.

5. Net operating expenses

	2014 £m	2013 £m
Acquisition costs:		
- brokerage and commission	178.7	172.6
- other	12.7	12.5
Change in deferred acquisition costs	(2.9)	(2.2)
Administrative expenses	106.1	96.1
Reinsurance commissions and profit participation	(10.0)	(9.2)
Net foreign exchange losses	(1.0)	9.2
	283.6	279.0

Administrative expenses include:

Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, managing agent's fees and profit commission)

35.3	35.1
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Note 15 shows further detail on the impact of foreign currency exchange rate fluctuation on the value of technical provisions.

6. Auditor remuneration

	2014 £m	2013 £m
Audit of the syndicate annual accounts	0.2	0.3
Other services pursuant to legislation including audit of regulatory returns	0.2	0.2
	0.4	0.5

Notes to the Accounts for the year ended 31 December 2014

7. Staff costs

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

	2014 £m	2013 £m
Wages and salaries	42.7	36.4
Social security costs	4.7	4.1
Other pension costs	3.9	3.5
Other	1.2	0.6
	52.5	44.6

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

	2014 Number	2013 Number
Administration and finance	228	202
Underwriting	224	223
Claims	161	153
Other	61	47
	674	625

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:

	2014 £m	2013 £m
Directors of Chaucer Syndicates Limited	1.1	1.2
Active Underwriter	0.3	0.3

9. Investment return

	2014 £m	2013 £m
Investment income		
Income from financial investments	31.0	30.8
Realised gains on investments	1.4	1.1
	32.4	31.9
Investment expenses and charges		
Realised losses on investments	(6.8)	(4.7)
Investment expenses and charges, including interest	(1.6)	(1.2)
	(8.4)	(5.9)
Net unrealised gains / (losses) on investments	9.0	(21.1)
Total investment return	33.0	4.9

Notes to the Accounts for the year ended 31 December 2014

10. Calendar year investment yield

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

	2014 £m	2013 £m
Average funds	1,259.4	1,167.6
Investment return (net of expenses)	33.0	4.9
Calendar year investment yield	2.6%	0.4%
Average funds available for investment by fund		
Sterling	354.0	327.6
US dollars	851.2	789.4
Canadian dollars	54.2	50.6
Analysis of calendar year investment yield by fund	%	%
Sterling	3.5	1.2
US dollars	2.4	0.2
Canadian dollars	2.9	1.4

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.

11. Other financial investments

	Cost £m	2014 Market value £m	Cost £m	2013 Market value £m
Shares and other variable yield securities and unit trusts	57.7	63.0	68.7	65.0
Debt securities and other fixed income securities	1,102.2	1,120.5	921.9	893.5
Deposits with credit institutions	32.1	32.1	81.4	81.4
	1,192.0	1,215.6	1,072.0	1,039.9
Bonds	1,102.2	1,120.5	921.9	893.5
Deposits with credit institutions	32.1	32.1	81.4	81.4
Money market funds	57.7	63.0	68.7	65.0
	1,192.0	1,215.6	1,072.0	1,039.9

Notes to the Accounts for the year ended 31 December 2014

12. Other debtors

	2014 £m	2013 £m
Proceeds from sale of investments	-	10.2
Amounts due from Managing Agent	11.5	-
Other debtors	2.6	0.8
	14.1	11.0

At the year end, the Syndicate had prepaid profit commission paid on the 2012 Year of Account. Other debtors relates to the refund of fees due from Lloyd's and amounts due from Chaucer service companies in Denmark and the UK.

13. 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.

14. Reconciliation of movements in members' balances

	2014 £m	2013 £m
Members' balances at 1 January	44.0	(29.3)
Profit for the financial year	108.8	86.1
Other recognised gains / (losses) relating to the financial year	12.2	(7.3)
Payments of profit to members' personal reserve funds	(103.9)	(5.3)
Movement in members' balances in respect of tax, members' agent's fees and other	(2.7)	(0.2)
Members' balances at 31 December	58.4	44.0

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 2014

15. Technical reserves

	Provisions for unearned premiums £m	Claims outstanding £m	Total £m
Gross			
At 1 January 2014	481.8	1,332.5	1,814.3
Acceptance of Syndicate 4000 RITC	-	131.7	131.7
Exchange differences	13.0	46.9	59.9
Claims paid in year	-	(420.0)	(420.0)
Movement in provision	(6.6)	488.1	481.5
At 31 December 2014	488.2	1,579.2	2,067.4
Reinsurance			
At 1 January 2014	74.6	381.9	456.5
Acceptance of Syndicate 4000 RITC	-	92.0	92.0
Exchange differences	2.7	(37.6)	(34.9)
Reinsurance recoveries in the year	-	(72.9)	(72.9)
Movement in provision	3.3	117.3	120.6
At 31 December 2014	80.6	480.7	561.3
Net technical provisions			
At 31 December 2014	407.6	1,098.5	1,506.1
At 31 December 2013	407.2	950.6	1,357.8

2013 events

The Syndicate has exposure to a number of catastrophe events that occurred in 2013. The largest of these are from Tropical Storms (Ingrid and Manuel) that hit Mexico in September and various European weather events. The total net loss from each of these events is below £10m.

2014 events

The Syndicate has 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 total net loss from each of these events is below £10m.

16. Other creditors

	2014 £m	2013 £m
Amounts due to Managing Agent	15.1	13.8
Taxation	3.3	2.9
Investment purchases creditor	1.9	-
Other creditors	0.4	1.2
	20.7	17.9

Other creditors comprise amounts due to members.

Notes to the Accounts for the year ended 31 December 2014

17. Movement in cash, opening and closing portfolio investments net of financing

	2014 £m	2013 £m
Net cash (outflow) / inflow for the year	(6.4)	0.7
Cash flow		
Increase / (decrease) in overseas deposits	8.3	(5.3)
Increase in portfolio investments	125.7	81.0
Movement arising from cash flows	127.6	76.4
Changes in market value and exchange rates	51.8	(37.6)
Total movement in portfolio investments net of financing	179.4	38.8
Portfolio investments at 1 January	1,144.0	1,105.2
Portfolio investments at 31 December	1,323.4	1,144.0

18. Movement in cash, portfolio investments and financing

	At 1 January 2014 £m	Cash flow £m	Changes to market value and exchange rates £m	At 31 December 2014 £m
Cash at bank and in hand	27.0	(6.4)	1.1	21.7
Overseas deposits	77.1	8.3	0.7	86.1
	104.1	1.9	1.8	107.8
Portfolio investments				
Shares and other variable yield securities	65.0	(4.9)	2.9	63.0
Debt securities and other fixed income securities	893.5	184.4	42.6	1,120.5
Deposits with credit institutions	81.4	(53.8)	4.5	32.1
	1,039.9	125.7	50.0	1,215.6
Total cash, portfolio investments and financing	1,144.0	127.6	51.8	1,323.4

19. Net cash outflow on portfolio investments

	2014 £m	2013 £m
Purchase of shares and other variable yield securities and unit trusts	(547.1)	(260.1)
Purchase of debt securities and other fixed income securities	(438.5)	(287.9)
Increase in deposits with ceding undertakings	-	1.2
Sale of shares and other variable yield securities and unit trusts	552.0	285.7
Sale of debt securities and other fixed income securities	254.1	155.1
Increase in deposits with credit institutions	53.8	25.0
Net cash outflow on portfolio investments	(125.7)	(81.0)

Notes to the Accounts for the year ended 31 December 2014

20. Related parties

Chaucer Syndicates Limited, a wholly owned subsidiary of Chaucer Holdings Limited (formerly Chaucer Holdings PLC), is the Managing Agent of the Syndicate. Chaucer Syndicates Limited charged the Syndicate with the following expenses during the year:

	2014 £m	2013 £m
Managing agency fees	11.2	10.6
Expenses recharged	79.7	70.9
Profit commission	18.3	17.2
Balance due to Chaucer Syndicates Limited at 31 December	(15.1)	(13.8)

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

Year of account

	2014 £m	2013 £m	2012 £m
Chaucer Corporate Capital (No. 3) Limited	860.0	751.9	795.8

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:

	2014 £m	2013 £m
Fees paid to Chaucer Latin America S.A	0.6	0.7

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

	2014 £m	2013 £m
Fees paid to Chaucer Underwriting A/S	1.7	1.7
Commissions paid to Chaucer Underwriting A/S	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 incurred the following expense from Chaucer Singapore PTE during the year:

	2014 £m	2013 £m
Fees paid to Chaucer Singapore PTE	2.0	2.8
Balance due to Chaucer Singapore PTE at 31 December	0.7	1.0

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

	2014 £m	2013 £m
Fees paid to Chaucer Oslo AS	0.3	0.3
Balance due to Chaucer Oslo AS at 31 December	0.1	0.1

Notes to the Accounts for the year ended 31 December 2014

20. Related parties (continued)

Chaucer Insurance Services Limited (CISL), a fellow subsidiary and related party of Chaucer Syndicates Limited, is a regulated insurance intermediary. The Syndicate incurred the following expense from CISL during the year:

	2014 £m	2013 £m
Commissions paid to CISL	5.6	5.5
Balance due from CISL at 31 December	11.3	13.5

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

	2014 £m	2013 £m
Premiums ceded to the Syndicate	3.7	6.1
Commissions paid to HIC	0.2	0.3
Balance due from HIC at 31 December	3.7	5.5

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 charged the Syndicate with the following investment management fees during the year:

	2014 £m	2013 £m
Investment fees	1.1	0.9

21. 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.

22. 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 company incorporated and registered in the United States of America. A copy of the most recent consolidated accounts for The Hanover Insurance Group, Inc. is available on their website at www.hanover.com

Statement of Managing Agent's Responsibilities

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

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

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

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

The Managing Agent is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

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

Independent Auditors' Report to the Members of Syndicate 1084

Report on the Syndicate annual accounts

Our Opinion

In our opinion the Syndicate annual accounts, defined below:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2014 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 year ended 31 December 2014, which are prepared by the Managing Agent, comprise:

- the Profit and Loss account for the year ended 31 December 2014;
- the Statement of Total Recognised Gains and Losses for the year ended 31 December 2014;
- the Balance Sheet as at 31 December 2014;
- the Statement of Cash Flows for the year ended 31 December 2014; 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 applicable law and United Kingdom Accounting Standards (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.

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 31, the Managing Agent is responsible for the preparation of 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 section 10 of 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 and accounts 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

12 March 2015