Chaucer

A member of The Hanover Insurance Group

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Syndicate 1176

Annual Report and Accounts 2014

Contents

Underwriter's Report

Background

The Syndicate is the world's leading insurer of nuclear risk.

Nuclear risk predominantly comprises cover for physical damage loss to civil nuclear power stations, as well as nuclear liability, where the Syndicate issues policies with strict terms and restrictions and which have withstood the test of time. The Syndicate also provides coverage within the nuclear fuel cycle, with insurance involvement from raw uranium and nuclear fuel to the shipment and storage of waste. The Syndicate's main exposures derive from the power that nuclear energy produces in a power station because this is where most of the value from nuclear energy emanates. The Syndicate has been operating in a unique market niche and on a profitable basis since its inception in 1991.

Nuclear power

Man has an insatiable need for power. In a developing world, even the poorest countries are in a phase of rapid power production. Against this background, there is a reducing supply of the fossil fuels, which have provided much of the power to the world's leading countries. All power stations produce energy through the rotation of a generator. The power needed to turn the generator is produced through the rotation of a turbine, generally through water, wind or, most commonly, steam propulsion. Steam is produced by the boiling of water using a heat source; typically gas, coal, oil or nuclear fission.

The difference between a conventional fossil fuel station and a nuclear power station is that the heat is produced by nuclear fission. Other than this main heat source, a nuclear power station is similar to a fossil fuel station. Because the nuclear core is potentially damaging, considerable safety standards have been adopted to ensure that there is a very small risk of a significant nuclear accident.

Since the nuclear industry's formation in the early 1950's there has only been one significant insured nuclear event, at Three Mile Island in the US in 1979. Since then safety standards have improved materially and the insurance industry has typically only suffered the occasional non-nuclear loss of an attritional nature. Following the Fukushima accident in March 2011, an extensive review of the Syndicate's potential catastrophe exposure was undertaken, and exposure is considered to be very limited. This topic is further explored below, however as a generality nuclear power stations are not built in areas where natural catastrophe is expected and are not normally built in cities where an accumulation of risk with other businesses could occur. There has never been a significant insured loss from natural catastrophe.

Property damage

The Syndicate provides physical damage cover and business interruption within the nuclear fuel cycle. The largest values that the Syndicate insures are normally nuclear power stations, although the Syndicate also covers manufacturers of nuclear fuel and radioisotopes, their transport and ultimately their safe storage.

While the probabilistic risk assessment of each unit suggests that there is limited catastrophe exposure, the Syndicate traditionally has excluded cover for earthquake in Japan and, following the Fukushima tsunami event, the Syndicate has undertaken extensive analysis of each site insured and the potential for catastrophe loss; including assessment of the plant location, construction, the coverage offered, deductible levels and exposure.

In general, though nuclear power plants are not built in areas where there is significant catastrophe exposure; if there is some residual exposure, construction and safety procedures are introduced to minimise the risk.

Windstorms, hurricanes and cyclones

In terms of other perils, the Syndicate remains confident that exposure to windstorm is negligible. In the 50 years of operating nuclear sites there has never been a significant loss to a nuclear facility from a windstorm event. The largest insured windstorm loss to date was from a spares warehouse on a nuclear site from Hurricane Andrew in 1992. While the warehouse was damaged, with losses in the region of $200m, there was no damage to the nuclear unit.

Earthquake and tsunami

All policies with exposures in Japan exclude cover for damage arising from earthquake or tsunami perils. While historically a product was considered for a small aggregate sub-limit, with significant deductibles and a satisfactory price, this was never pursued and seems unlikely to be so. Outside Japan, studies have been undertaken on the two nuclear sites in California. One is approximately 200km from San Francisco and the other is approximately 100km from Los Angeles (this plant was closed in 2014 as a result of economic assessment; there remains some residual risk, during closure, but this is much reduced from that of an operating plant). Both were built to withstand earthquake and even if some damage was incurred it is considered a negligible risk that damage to plants would coincide with damage to the main conurbations of San Francisco and Los Angeles. Separate studies have also been made of tsunami risk. One site is located on top of a cliff and so tsunami damage is not considered possible; the other has significant sea walls and the backup generators (which were swamped and failed in the Japanese tsunami) are located in watertight bunkers. Elsewhere, exposures have been considered and there does not appear to be significant peril exposure.

Liability

The Syndicate provides a limited nuclear liability policy to most non-US nuclear power stations. The policies issued normally have an aggregate limit for the lifetime of the nuclear site, and also claims typically have to be made within ten years of an occurrence. These policies, which normally include terrorism coverage, are enshrined in national nuclear laws and international conventions and typically the national government retains exposure in excess of insurer policy limits.

The Syndicate also writes non-nuclear incidental liability policies for much smaller limits, which do not benefit from international conventions. These are designed to cover incidental risks such as contractors or visitors to nuclear sites.

The Syndicate historically underwrote reinsurance of the US Nuclear Pool for liability business. The policy had a strict limit and a large fund was available to cover losses either notified or occurring within a ten-year period. As a result of the industry's desire to be more involved in self-insurance, this reinsurance was discontinued from 1 January 1998. There is some modest residual run-off exposure (accepted via the Reinsurance to Close) although the reserves and notifications are at a satisfactory level. While the Syndicate is not currently involved in any US liability business and remains cautious generally, were an acceptable risk offered, the Syndicate would consider it subject to normal underwriting acceptance procedures.

There is a general need for increased liability limits worldwide. Historically, the bulk of the exposure has been with governments, which are increasingly looking for the nuclear insurance market to provide additional capacity. Looking forward, the revision of current international nuclear conventions will result in additional capacity and coverage being sought by operators. In the UK for instance, the indemnity for a nuclear accident is expected to increase from £140m to in the region of €700m and thereafter will increase by €100m, for each of the subsequent five years to take the capacity need to €1.2bn. Further, international nuclear conventions have been revised to incorporate additional coverage. The Syndicate has been working closely with the UK Government and the nuclear pool to understand the implications of the revised coverage. Anticipating the move to increased liability coverage, the Syndicate has increased the liability share of maximum exposure to 50%. These additional exposures are gradually being introduced, but will take some time to be adopted throughout the world. Since the adoption of the larger liability limits is expected to be slow, the Syndicate's business plan estimates that liability will comprise approximately 24% of premium income in 2015.

Terrorism

In most countries, property terrorism is excluded or coverage is provided through government reinsurance schemes such as Pool Re (Nuclear) in the UK (for property insurance) and under TRIPRA (Terrorism Risk Insurance Program Reauthorization Act 2007) in the US. Coverage is given in some countries where terrorism risk is lower. Further most liability sub-limits do not exclude strict liability under nuclear conventions for terrorism. While there are significant protections against terrorism, and the construction of power stations makes significant loss from terrorism unlikely, the Syndicate currently limits exposure to 50% of the maximum property net line for terrorism.

Transit

The Syndicate generates a small amount of premium insuring the transit of nuclear fuel and waste. The limits are typically modest and there has never been a significant transit loss. Transit of nuclear materials is undertaken to strict international standards and involves the highest safety procedures.

Premium income

Historically the Syndicate generated approximately 80% of premium income from nuclear property risk and 20% from nuclear liability risk. This is planned to be 76% property and 24% liability during 2015.

Outward reinsurance arrangements

Aside from inter-pool reciprocal exchange of risk and reinsurance through government terrorist schemes, the Syndicate does not currently purchase reinsurance. Historically, the Syndicate did buy reinsurance but this was discontinued on economic grounds in 2012.

Business placements

Most of the Syndicate's business comes through international pools of nuclear capacity. Countries that have nuclear capacity have established nuclear pools to insure domestic risks. As few pools have sufficient domestic capacity, the national pools reinsure on a reciprocal basis with the other foreign pools. The Syndicate is the leading participant of the British Nuclear Pool, NRI Limited, and owns a share of the associated management company in proportion to its share (approximately 43%) of the Pool. Any profit or loss from these operations is paid to the Syndicate account.

The British Nuclear Pool insured business is reciprocally reinsured with non-UK countries' nuclear pools for a share of their indigenous risks. The Syndicate is also involved as an indigenous insurer in the Canadian, Chinese, Japanese and South African nuclear pools. The exposures and premiums received from the pools are net of the inter-pool reciprocal reinsurances. In addition, the Syndicate provides reinsurance capacity to nuclear insurance mutual organisations and underwrites some open market business. The Syndicate is careful to aggregate net exposures to ensure that these are within the limits set.

The Syndicate historically avoided nuclear reactors located in the former Soviet Union. However, Russian nuclear reactors are now considered insurable following considerable improvements in safety enhancements that have been undertaken over the past decade.

The Syndicate underwrites a significant exposure, which is up to eight times the capacity level committed to the UK Pool, although there are few exposures at this level. This means that in the event of a significant nuclear accident at one of the top exposures, a £10,000 share on the Syndicate could suffer a loss of up to £80,000. Any further loss, however unlikely, would be in addition. Aside from inter-pool reciprocal exchange of risk, reinsurance is no longer purchased. While the maximum exposure retained by the pools currently suggests a maximum loss in the region of £65,000 for a £10,000 share to the Syndicate, there are less than 10 risks at this level. In addition, this should be offset by the normal level of profit in a year reducing the impact of a single loss. Any further loss would be in addition.

Underwriting performance

The Syndicate wishes to draw the members' attention to the possibility of increased loss because of exchange rate fluctuations. The Syndicate carefully monitors its sterling exposures on a monthly basis to mitigate this risk. At present, there are no known exposures in excess of the maximum exposures.

2012 Year of Account and prior years

The 2012 underwriting year has performed well, reflecting low loss experience and the decision not to buy reinsurance for the Syndicate. This, coupled with other improvements, has resulted in a profit for the 2012 underwriting year of 62.4% of capacity.

We are holding a reserve in the Reinsurance to Close for a significant claim on the Hamaoka nuclear plant in Japan. Following the earthquake in Japan, safety tests were undertaken at all sites. During this work at one of the sites, a pipe burst resulting in an inundation of seawater into the reactor systems. The Syndicate has reserved the claim in line with estimates at a cost of Yen 686m. Because the loss is reserved in Yen, which has depreciated against sterling, the loss has reduced; although this reduction is matched by a loss on Yen cash held to hedge against the claim.

The gross premiums written for the 2012 year of account were £26.6m.

2013 Year of Account

2013 is forecast to generate a total premium to the Syndicate of £25.0m, a similar level to 2012.

If 2012 showed a low frequency of loss at this stage last year, 2013 has shown an early increased frequency of claims. This normalised during 2014, although uncertainty remains until the risks run-off.

Last year we referred to a loss at a medical isotope plant in South Africa. This plant manufactures important isotopes for the monitoring and treatment of cancers. The values associated by this type of plant are lower than power plants. The reserve last year was some £4m; although the claim was settled at less than this, at £1.7m. An additional loss was experienced at the Urenco fuel fabrication plant in the UK, which the Syndicate paid £1.5m. The Syndicate has also established a recent reserve of £1.4m as a result of a possible material damage loss in China.

If the current reserves remain consistent, the Syndicate would aim to make a profit in the range of 20% - 40%

2014 Year of Account

The Syndicate's planned premium for the 2014 year was £26.6m. The recent estimate of premium income is lower at £23.0m. The shortfall is as a result of sterling's strength and the loss of some business. The lost business is partly as a result of not renewing some business, which was not viewed as being acceptably priced, and partly the loss of some business due to self-insurance and shares of the business being placed with competitors. At this early stage the Syndicate has not been advised of significant new claims and so accordingly, while it is too early to be certain of the underwriting return for 2014, the result to date suggests that a profit should be achieved.

Outlook

Since its inception, the Syndicate has focused purely on nuclear insurance and this will continue. While the Syndicate operates in a competitive arena, much of the competition comes from self-insurance schemes set up by the nuclear industry. Despite this competition, the Syndicate has remained, and expects to continue, as the leading insurer of nuclear risk. Over the long term, as the dwindling of fossil fuels continues, then the pressure for additional cover and the market for nuclear insurance should continue to grow.

There has been significant press coverage about the impending new build of nuclear power stations. While this is obviously good news, the reality is that in the UK, we are only at this stage contemplating replacing our ageing fleet. There also remains uncertainty over these developments, partly as a result of the dramatic fall in oil prices, and partly as a result of the complexities in funding projects of this scale. The Fukushima incident in 2011 should also ultimately lead to increased safety at all nuclear sites and should encourage operators to consider additional insurance coverage. In the longer-term, the Syndicate still believes that new sites will be built but little additional business is expected in the short-term. The Syndicate continues to consider insuring the construction phase of new nuclear units, although any line written is likely to be small and only generate a modest level of income in the early years. Careful attention to reserving risk will be required if this business is ultimately underwritten. Once construction commences, a station is unlikely to come on stream for 5 years, so there is little short-term benefit from each proposed new build.

Like many businesses, our clients too are changing. The acquisition of British Energy by EDF of France, shows how the traditional methods of indigenous insurers writing their local risks is changing. However, the Syndicate continues to look at new ways of providing cover to businesses following changes, and our expertise and scale in this segment should result in our capacity being utilised effectively.

Our plan for 2015 includes the assumption that the Japanese plants will gradually re-start in 2015, which together with the increased liability limits now being introduced, should result in planned premium being achieved. However the strength of sterling and the challenge of doing business in Russia, means that there remains some uncertainty around this.

While we still see opportunities as insurers in the specialist area of nuclear insurance, the increased losses we have been experiencing have resulted in increased loss ratios within the plan. With increased loss ratios it might be assumed that higher premiums would be possible. However, this is difficult in the current market, as a result of increased competition and the ability for operators to self-insure, through industry mutuals. Therefore, I think overall it is fair to say that the historic returns that the Syndicate has made are unlikely to be sustained. We are very focussed on doing all we can to try to ensure an appropriate profitability and give an adequate return on the capital deployed.

I would like to take this opportunity to thank the staff who work on behalf of the Syndicate for their help. It is an efficient team that provides a real level of expertise in a highly specialised segment and I appreciate their support. In particular, I would like to thank our consultant Professor John Gittus who retired in 2014. He has been a fabulous support to the Syndicate and has provided valuable insight and technical expertise over many years. Dr Ron Cameron, who has a long history in the nuclear industry, joined the Syndicate in 2010 to provide continuity, advice and support.

Michael Dawson
Active Underwriter
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.

Principal activities

This Report covers the business of Syndicate 1176, whose principal activity during the year was the transaction of worldwide nuclear insurance and reinsurance business in the United Kingdom.

Review of the business and future developments

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

	2014	2013
	£000	£000
Gross written premiums	24,285	26,539
Profit for the financial year	20,483	15,576
Combined ratio [1]	21.8%	45.1%

[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

The Syndicate separately defines underwriting risk appetite in respect of market losses and Syndicate-specific losses, with appetite for the former being greater.

Underwriting risk appetite is expressed at the highest level, as a maximum event-specific net underwriting loss as a percentage of Syndicate capacity for an annual year of account. Where appropriate, stochastic modelling of underwriting risk using dynamic financial analysis techniques supports this approach.

The Managing Agent Board approves the risk appetite limit, after considering the relativity between 'willing to lose' and potential forecast profitability for each year of account. The risk appetite will therefore reflect the view of forecast profitability, utilising the Syndicate's latest business plan assumptions.

Managing risk aggregation

Underwriting exposure is controlled via risk policy coding systems, setting of maximum lines, setting of jurisdiction limits, strict underwriter authority limits, Realistic Disaster Scenario monitoring, reinsurance programme design, policy limitations and exclusions, imposed deductibles and policy wording and coverage clauses.

The Syndicate records and monitors individual risk exposures on a regular basis to ensure these remain within the policies and guidelines set.

Underwriting controls

Underwriting authorities, underwriting peer, independent and expert review procedures and the audit and review of delegated arrangements, all contribute to the strength of the underwriting control environment.

Underwriting planning process
The Syndicate undertakes an extensive annual underwriting planning process in order to determine targets for premiums written and profitability for the coming year. Factors taken into account in determining the targets include the risk appetite agreed by the Managing Agent with the principal and other capital providers, anticipated policy pricing, terms and conditions, expected claims frequency and cost, and reinsurance cost and efficacy.

Monitoring performance against plan
The Syndicate manages performance against plan through monthly reporting of detailed underwriting management information. The Syndicate reports to an Underwriting Board, then to an Underwriting Committee, which ultimately reports to the Managing Agent's Board. This control process ensures that several layers of review occur for underwriting risks, with the focus being on the main components of risk, notably pricing, loss ratio selection, reserving, experience variations, reinsurance protection and catastrophe modelling.

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.

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 function has experience covering a wide range of business classes. The Managing Agent has 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, based on different aspects of the claims handling process such as, significant movements, catastrophes, and static claims. These reports are communicated at 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 ensures that the Syndicate receives a high quality service. Direct contact with external experts is also 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 the Underwriter.

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:

- 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 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 makes appropriate allowance for reinsurance recoveries and potential 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
Currently reinsurance is not purchased at Syndicate level but Chaucer's reinsurance requirements with regard to Syndicate 1176 are purchased at corporate level.

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 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 broadly 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's Compliance function supports and monitors the compliance of the business with regulatory and legal requirements whilst promoting successful business practices and meeting business objectives through advice and guidance. The exposure to regulatory risk is managed by monitoring regulatory compliance with the requirements of the Prudential Regulatory Authority, Financial Conduct Authority and Lloyd's and other domestic and international regulatory requirements.

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.

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.

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 on 1 April 2014)
K S Shallcross (appointed on 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 1176 active underwriter
M G Dawson

Syndicate bankers
The custodian of the Syndicate's investment funds is Citibank N.A.

Syndicate investment managers
GenRe NEAM

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 £000	2013 £000
Technical Account – General Business			
Earned premiums, net of reinsurance			
Gross premiums written	3	24,285	26,539
Outward reinsurance premiums		-	165
Net premiums written		**24,285**	**26,704**
Change in the provision for unearned premiums			
Gross amount	15	540	937
Reinsurers' share	15	-	-
Net change in the provision for unearned premiums		**540**	**937**
Earned premiums, net of reinsurance		**24,825**	**27,641**
Allocated investment return transferred from the Non-Technical Account		1,063	389
Total technical income		**25,888**	**28,030**
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	15	(3,169)	(9,043)
Net claims paid		**(3,169)**	**(9,043)**
Change in the provision for claims			
Gross amount	15	4,307	1,913
Net change in the provision for claims		**4,307**	**1,913**
Claims incurred, net of reinsurance		**1,138**	**(7,130)**
Net operating expenses	3, 5	(6,543)	(5,324)
Total technical charges		**(5,405)**	**(12,454)**
Balance on the Technical Account – General Business		**20,483**	**15,576**
Non-Technical Account			
Investment income	9	983	844
Unrealised gains / (losses)	9	237	(334)
Investment expenses and charges	9	(157)	(121)
Allocated investment return transferred to the Technical Account – General Business		(1,063)	(389)
Profit for the financial year	14	**20,483**	**15,576**

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 £000	2013 £000
Profit for the financial year	14	20,483	15,576
Currency translation differences	14	103	(280)
Total recognised gains relating to the financial year		**20,586**	**15,296**

Balance Sheet at 31 December 2014

	Notes	2014 £000	2013 £000
Assets			
Investments			
Other financial investments	11	47,967	33,776
Debtors			
Debtors arising out of direct insurance operations - intermediaries		6,025	8,754
Debtors arising out of reinsurance operations		18,488	14,300
Other debtors	12	2,881	933
		27,394	23,987
Other assets			
Cash at bank and in hand	18	4,562	13,984
Other	13, 18	2,358	389
		6,920	14,373
Prepayments and accrued income			
Deferred acquisition costs		864	906
Other prepayments and accrued income		364	251
		1,228	1,157
Total assets		**83,509**	**73,293**
Liabilities			
Capital and reserves			
Members' balances	14	28,034	15,356
Technical provisions			
Provision for unearned premiums	15	13,382	13,545
Claims outstanding	15	35,195	39,487
		48,577	53,032
Creditors			
Creditors arising out of direct insurance operations - intermediaries		515	604
Creditors arising out of reinsurance operations		-	24
Other creditors including taxation and social security	16	6,383	4,277
		6,898	4,905
Total liabilities		**83,509**	**73,293**

The annual accounts on pages 11 to 24 were approved by 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 Finance Officer

Statement of Cash Flows for the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit on ordinary activities		20,483	15,576
Realised and unrealised investment losses / (gains)	17	(450)	877
Decrease in net technical provisions		(4,455)	(3,065)
Decrease in debtors and prepayments and accrued income		(3,478)	(684)
Increase in creditors		1,993	1,813
Movement in members' balances in respect of members' agent's fees and other	14	(188)	(465)
Net cash inflow from operating activities		**13,905**	**14,052**
Transfer to members in respect of underwriting participations	14	(7,617)	(6,374)
		6,288	**7,678**
Cash flows invested as follows:			
Increase / (decrease) in cash holdings	17, 18	(9,422)	2,240
Increase / (decrease) in overseas deposits	17, 18	1,963	(17)
Net portfolio investments	17, 18, 19	13,747	5,455
Net investment of cash flows	17, 18	**6,288**	**7,678**

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. 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 incepted 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 directly 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, 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 the 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 the 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

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). 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 incurred by the Syndicate at a rate of 15% of profit, subject to the operation of a deficit clause.

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 £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses* £000	Reinsurance balance £000	Total £000	Net technical provisions £000
2014							
Direct insurance							
Fire and other damage to property	3,560	6,758	1,025	(1,654)	-	6,129	14,505
Third party liability	1,550	1,597	456	(217)	-	1,836	1,918
	5,110	8,355	1,481	(1,871)	-	7,965	16,423
Reinsurance	19,175	16,470	(343)	(4,672)	-	11,455	18,772
	24,285	**24,825**	**1,138**	**(6,543)**	**-**	**19,420**	**35,195**
2013							
Direct insurance							
Fire and other damage to property	8,197	8,184	(2,990)	(1,888)	(14)	3,292	17,954
Third party liability	1,980	2,024	(1,158)	(456)	44	454	17,153
	10,177	10,208	(4,148)	(2,344)	30	3,746	35,107
Reinsurance	16,362	17,268	(2,982)	(2,980)	135	11,441	17,925
	26,539	**27,476**	**(7,130)**	**(5,324)**	**165**	**15,187**	**53,032**

* Gross operating expenses are the same as net operating expenses shown in the profit and loss account as no commissions in respect of outward reinsurance were received and set off in arriving at the net expenses for 2014 and 2013.

All premiums were concluded in the UK.

Commissions on direct insurance – gross written premiums during 2014 were £0.1m (2013: £0.3m).

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

	2014 £000	2013 £000
UK	1,892	1,596
Other EU	(109)	(8)
Americas (including US)	5,092	4,338
Other	17,410	20,613
Gross premiums written	**24,285**	**26,539**

Notes to the Accounts for the year ended 31 December 2014

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

During the year, the Syndicate released £9.5m of technical reserves in respect of prior periods (2013: £7.1m).

5. Net operating expenses

	2014 £000	2013 £000
Acquisition costs - brokerage and commissions	538	614
Change in deferred acquisition costs	94	47
Administrative expenses	5,631	4,028
Net foreign exchange losses	280	635
	6,543	**5,324**

Administrative expenses include:		
Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission)	5,386	4,488

Note 15 provides further information on the impact of foreign currency exchange rate fluctuation on the value of technical provisions.

6. Auditors' remuneration

	2014 £000	2013 £000
Audit of the Syndicate annual accounts	60	57
Other services pursuant to legislation, including the audit of the regulatory return	60	62
	120	**119**

7. Staff costs

The Managing Agent employs all staff.

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	5	5
Underwriting	1	1
Investment	1	1
	7	**7**

Notes to the Accounts for the year ended 31 December 2014

8. Emoluments of the directors of the Managing Agent

The Directors of Chaucer Syndicates Limited were not remunerated in respect of their services to the Syndicate.

The Active Underwriter received the following remuneration, incurred by Chaucer Syndicates Limited and recharged to the Syndicate within managing agency fees.

	2014 £000	2013 £000
Active Underwriter	148	148

9. Investment return

	2014 £000	2013 £000
Investment income		
Income from financial investments	970	834
Gains on the realisation of investments	13	10
	983	844
Investment expenses and charges		
Investment management expenses, including interest	(16)	(22)
Losses on the realisation of investments	(141)	(99)
Net unrealised gains / (losses) on investments	237	(334)
Total investment return	**1,063**	**389**

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 £000	2013 £000
Average funds	48,795	39,815
Investment return	1,063	389
Calendar year investment yield	2.2%	1.0%
Average funds available for investment by fund		
Sterling	40,525	28,523
US dollars	5,316	8,223
Canadian dollars	2,954	3,069
Analysis of calendar year investment yield by fund	%	%
Sterling	2.6	1.3
US dollars	0.1	0.2
Canadian dollars	1.0	1.0

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 valued at month-end market prices, which includes accrued income where appropriate.

Notes to the Accounts for the year ended 31 December 2014

11. Other financial investments

	2014 Cost £000	2014 Market value £000	2013 Cost £000	2013 Market value £000
Shares and other variable yield securities	14,292	11,826	10,831	10,407
Debt securities and other fixed income securities	36,264	36,141	23,729	23,369
	50,556	**47,967**	**34,560**	**33,776**

Debt securities and other fixed income securities are all listed.

12. Other debtors

	2014 £000	2013 £000
Due from Managing Agent	16	920
Other debtors	2,865	13
	2,881	933

The other debtors amount for 2014 of £2.7m is for the advance profit commission paid in respect of the 2012 and 2013 years of account.

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 these markets. The Syndicate has only restricted access to these funds and no influence over their investment.

14. Reconciliation of movements in members' balances

	2014 £000	2013 £000
Members' balances at 1 January	15,356	6,619
Profit for the financial year	20,483	15,576
Other recognised gains / (losses) relating to the financial year	103	(280)
Payments of profit to members' personal reserve funds	(7,617)	(6,374)
Movement in members' balance in respect of members' agent's fees	(132)	(132)
Movement in members' balance in respect of tax and other	(159)	(53)
Members' balances at 31 December	**28,034**	**15,356**

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 £000	Claims outstanding £000	Total £000
Gross and net technical provisions			
At 1 January 2014	13,545	39,487	53,032
Exchange adjustments	377	15	392
Claims paid in year	-	(3,169)	(3,169)
Movement in provision	(540)	(1,138)	(1,678)
At 31 December 2014	**13,382**	**35,195**	**48,577**

16. Other creditors

	2014 £000	2013 £000
Profit commission	6,295	3,619
Other Creditors	88	658
	6,383	**4,277**

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

	2014 £000	2013 £000
Net cash (outflow) / inflow for the year	(9,422)	2,240
Cash flow		
Increase / (decrease) in overseas deposits	1,963	(17)
Increase in portfolio investments	13,747	5,455
Movement arising from cash flows	6,288	7,678
Changes in market value and exchange rates	450	(877)
Total movement in portfolio investments net of financing	6,738	6,801
Portfolio investments at 1 January	48,149	41,348
Portfolio investments at 31 December	**54,887**	**48,149**

Notes to the Accounts for the year ended 31 December 2014

18. Movement in cash, portfolio investments and financing

	At 1 January 2014 £000	Cash flow £000	Changes to market value and currencies £000	At 31 December 2014 £000
Cash at bank and in hand	13,984	(9,422)	-	4,562
Overseas deposits	389	1,963	6	2,358
	14,373	(7,459)	6	6,920
Portfolio investments				
Shares and other variable yield securities	10,407	1,097	322	11,826
Debt securities and other fixed income securities	23,369	12,650	122	36,141
	33,776	13,747	444	47,967
Total cash, portfolio investments and financing	**48,149**	**6,288**	**450**	**54,887**

19. Net cash inflow on portfolio investments

	2014 £000	2013 £000
Purchase of shares and other variable yield securities and unit trusts	(59,331)	(631)
Purchase of debt securities and other fixed income securities	(36,624)	(28,758)
Sale of shares and other variable yield securities and unit trusts	58,234	12,731
Sale of debt securities and other fixed income securities	23,974	11,203
Net cash outflow on portfolio investments	**(13,747)**	**(5,455)**

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 £000	2013 £000
Managing agency fees	1,591	1,535
Profit commission	3,629	2,699
Year-end balance due to Chaucer Syndicates Limited at 31 December	6,295	3,965
Year-end balance due from Chaucer Syndicates Limited at 31 December	16	-

The balances due to and from the Managing Agent do not carry the right of offset and are therefore disclosed separately.

A subsidiary of Chaucer Holdings Limited supports the underwriting capacity of the Syndicate as follows:

		Year of account	
	2014 £000	2013 £000	2012 £000
Chaucer Corporate Capital (No. 3) Limited	18,035	17,847	17,594

Notes to the Accounts for the year ended 31 December 2014

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 copy of the most recent consolidated accounts is available from the website of The Hanover Insurance Group, Inc. (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 1176

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
Syndicate annual accounts for the 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 proper 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 25, 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 legal 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.

Thomas Robb (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

12 March 2015