Chaucer

A member of The Hanover Insurance Group

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Syndicate 1176

Annual Report and Accounts 2015

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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 terms, which have withstood the test of time. The Syndicate also provides coverage within the wider nuclear fuel cycle, with insurance involvement from raw uranium and nuclear fuel (including manufacturing facilities) 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 core melt nuclear event paid by the market, 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 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.

Despite the recent volatility in oil price, power generation is largely dominated by non-oil generation including gas, coal, renewables and nuclear generation, which is growing, albeit slowly. This is being led by two macro influencers; security of supply – where countries are nervous of relying on energy supply from often volatile areas, politically and; a low carbon agenda – where most of the world agrees that generation from coal is just too abusive to the environment. Future ideas such as carbon capture and nuclear fusion remain on the horizon, where they have remained for many years.

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.

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.

An analysis of cyber exposure has been undertaken and whilst there remains some residual risk, the syndicate believes the exposure is limited. Cyber protection of nuclear plants is considered paramount, but details of such protection remain confidential.

Windstorms, hurricanes and cyclones

In terms of other perils, the Syndicate remains confident that exposure to windstorm is low. 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

Policies with exposures in Japan currently 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. Were it to be requested, following extensive safety upgrades at Japanese plants, this cover could be considered. But the sub-limit, deductible and price would be all important. 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 low 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 limited nuclear liability coverage to most non-US nuclear power stations. The coverage issued normally has 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. This includes damage caused by an incident as a result of terrorism (see below) or cyber. Cyber protection of nuclear plants is considered paramount, but details of such protection remain confidential. We consider the chance of a cyber-attack leading to a significant release of radiation, leading to offsite damage, to be remote.

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 (Sterling currency) to in the region of €700m (Euro currency) 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. France is expected to adopt increased limits during 2016 with Canada being expected to adopt both increased limits and coverage during 2016. The syndicate has been working closely with these countries to provide the coverage and this resulted in a planned increase in liability income during 2016. The adoption of the larger liability limits is expected to be slow, but occur over the next few years. This has resulted in a planned increase in premium over the next few years. The adoption of these changes requires national Governments approval. The Syndicate's business plan estimates that liability will comprise approximately 25% of premium income in 2016.

Terrorism

In many countries, property terrorism is excluded or excess 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 considered to be lower. Further most liability 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 75% property and 25% liability during 2016.

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 predominantly 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 44%) 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 also participates as a local 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 is expected to 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 £225m, 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.

The Syndicate wishes to draw the members' attention to the possibility of increased loss because of exchange rate fluctuations. The Syndicate carefully monitors its exposures on a monthly basis to mitigate this risk. As a result of the US dollars recent appreciation one risk exceeded the syndicate's maximum exposure of £225m during the first few months of 2016. This risk is being watched and the exposure will be adjusted at April 1st 2016, when it renews. The exposure will be within the revised maximum of £270m (at the time of writing).

Underwriting performance

2013 Year of Account and prior years

2013 generated a total premium to the Syndicate of £25.7m, a similar level to 2012. The premium was slightly higher than assumed during 2015 as a result of a more favourable US dollar exchange rate. Further as with 2012, the lack of excess of loss reinsurance increases net premiums and returns at syndicate level, if significant losses do not occur.

Last year we referred to the fact that the early stages of the 2013 underwriting year showed an increase in incidence and severity of attrition losses, but had appeared to settle during 2014. During 2015 some of the 2013 notifications were withdrawn reducing the claims to the 2013 underwriting year. The most notable paid losses were 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 claim was settled at £1.7m. An additional loss was experienced at a fuel fabrication plant in the UK, which cost the Syndicate £1.5m. The reserve established of £1.4m as a result of a possible material damage loss in China, was not required and the claim was withdrawn.

As a result the syndicate is pleased with the final profit achieved of 54% on capacity, which whilst lower than 2012 (62.4%) is ahead of expectations in the early part of the 2013 underwriting year development.

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 £24.1m. 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 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 (particularly because a key account does not run off until April 2016); the result to date suggests that a profit in the range of 25% - 45% should be achieved.

2015 Year of Account

The plan was for a premium income of £25.4m, the latest forecast shows an expected ultimate premium of £23.1m. The main reason for the reduction is a timing issue whereby a key account was renewed in late 2014 for 18 months, this has depleted expected premium income. Further, the Japanese re-starts were forecast to commence and whilst this has started, the amount purchased and the number re-started is slower than originally forecast. These issues over the longer term are expected to normalise but these events, coupled with Sterling's comparative strength, have reduced forecast premiums. We also have received a couple of losses in 2015, both in non-power areas; one following a fire in France and the other as a result of dust contamination in a fuel plant in the Netherlands. The total reserve for these two claims is £2.4m. Whilst these are within expected losses overall, they are relatively high individually and remind us that these "incidental" accounts seem to be prone to incidents, with a frequency and severity, which justifies a careful attention to premium levels. The 2015 underwriting year remains undeveloped, but if the current loss trend continues to be in line with forecast loss ratios, the year should be profitable.

Outlook

For years, I have been challenged to be more optimistic on nuclear new build. I have always responded cautiously and so it is with some hesitation that I offer some expectation of growth. Part of this is due to the continued recommencement of our Japanese units, which have been on hold pending significant safety assessment. Part of the growth is expected finally because of the enhanced liabilities being required by Governments; and part due to the construction of new units, most notably in the UK. The syndicate has been at the forefront of all of these and has, in line with the business plan, committed recently a modest line to a new facility insuring the new-build expected over the coming years. The business is different in that the projects themselves are expected to take at least seven years to complete. Whilst the values of the projects only increase gradually over this time, resulting in small incremental exposures in the early years, the values towards the end of the project are high. Accordingly, whilst considerable premium is expected on a risk by risk basis, it is held to earn over the life of the project. The result is that there is little expected premium over the early years. Over the longer term, the accounts are expected to be profitable, but there can be no certainty in this regard. The syndicate's line on these projects is expected to be well below that written for operational plants at a probable maximum loss of circa $15m. This exposure which is less than 2% of the normal contract loss is expected to be retained net. The overall premium income in the first year is expected to be less than £500,000 rising to perhaps £3m after a few years. This is a new area for the syndicate. We are following an existing respected lead at Lloyd's who in turn is expected to follow respected insurers and reinsurers in this market. Our approach is deliberately cautious and we will learn and develop as appropriate over the years. The main focus will continue to be on nuclear insurance and this will continue.

Overall, therefore the syndicate hopes to grow over the next couple of years. The maximum line increased with a pre-emption of the syndicate from £225m in 2015 to £270m for the 2016 year. With this additional exposure premium income is planned to increase to £28m from the £23m expected in 2015.

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. 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.

While we still see opportunities as insurers in the specialist area of nuclear insurance, the volatility and exposure within the portfolio, is real. We have already planned for higher losses and have continued with increased loss ratios within the plan. With increased loss ratios, it might be assumed that higher rates 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. As mentioned before, the returns expected should be less than the history has shown, but there is considerable volatility around this statement.

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.

Michael Dawson
Active Underwriter
15 March 2016

Managing Agent's Report

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

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

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

Principal activities
This Report covers the business of Syndicate 1176, whose principal activity during the year continued to be the transaction of worldwide nuclear insurance and reinsurance business in the United Kingdom and overseas.

Review of the business and future developments
The Syndicate's key financial performance indicators during the year were as follows:

	2015	2014
	£000	£000
Gross written premiums	26,610	24,285
Profit for the financial year	17,080	20,586
Combined ratio [1]	32.2%	20.6%

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 Management Function to ensure that underwriting procedures and discipline are followed.

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

Claims risk
While claims events are inherently uncertain and volatile, the Claims 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.

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

Monthly reporting
Reports are produced, 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.

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 the Syndicate does not purchase reinsurance.

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 a professional portfolio manager. The manager operates within a defined set of investment guidelines and against an appropriate benchmark.

Refer to Note 12 for more detail on the Syndicate's exposure to investment risks and the processes in place for managing these risks.

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

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

The Managing Agent'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 2015, unless otherwise stated.

C M Stooke, Chairman and Independent Non-executive Director
B P Bartell, Deputy Chief Executive Officer
R J Callan, Chief Financial Officer (appointed 1 December 2015)
T J Carroll, Independent Non-executive Director
J Fowle, Chief Underwriting Officer (appointed 27 May 2015)
D B Greenfield, Non-executive Director (deceased 17 October 2015)
D S Mead, Chief Operating Officer (resigned 19 January 2016)
A S Robinson, Non-executive Director
P M Shaw, Chief Risk Officer (appointed 12 February 2015)
J G Slabbert, Chief Executive Officer
R A Stuchbery, Deputy Chairman

Managing Agent's company secretary
K S Shallcross (resigned 17 June 2015)
R N Barnett (appointed 17 June 2015)

Managing Agent's registered office
Plantation Place
30 Fenchurch Street
London EC3M 3AD

Managing Agent's registered number
184915

Managing Agent's auditors
PricewaterhouseCoopers LLP, London

Syndicate 1176 active underwriter
M G Dawson

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

Syndicate investment manager
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.

Independent Auditors
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

Approved by order of the Board of Chaucer Syndicates Limited.

R J Callan
Chief Financial Officer
15 March 2016

Statement of Comprehensive Income for the year ended 31 December 2015

	Notes	2015 £000	Restated * 2014 £000
Technical Account – General Business			
Earned premiums, net of reinsurance			
Gross premiums written	3	26,610	24,285
Outward reinsurance premiums		-	-
Net premiums written		**26,610**	**24,285**
Change in the provision for unearned premiums			
Gross amount	16	(2,496)	540
Reinsurers' share	16	-	-
Net change in the provision for unearned premiums		**(2,496)**	**540**
Earned premiums, net of reinsurance		**24,114**	**24,825**
Allocated investment return transferred from the Non-Technical Account		428	1,063
Total technical income		**24,542**	**25,888**
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	16	(1,316)	(3,169)
Net claims paid		**(1,316)**	**(3,169)**
Change in the provision for claims			
Gross amount	16	470	4,307
Net change in the provision for claims		**470**	**4,307**
Claims incurred, net of reinsurance		**(846)**	**1,138**
Net operating expenses	3, 5	(6,923)	(6,263)
Total technical charges		**(7,769)**	**(5,125)**
Balance on the Technical Account – General Business		**16,773**	**20,763**
Non-Technical Account			
Other income/(charges)	11	307	(177)
Investment income	9	1,023	983
Unrealised (losses)/gains	9	(262)	237
Investment expenses and charges	9	(333)	(157)
Allocated investment return transferred to the Technical Account – General Business		(428)	(1,063)
Profit for the financial year	15	**17,080**	**20,586**

All the amounts above are in respect of continuing operations.

* These balances are restated as a result of the adoption of FRS 102 and FRS 103. See Note 24 for further analysis.

Balance Sheet at 31 December 2015

	Notes	2015 £000	2014 £000
Assets			
Investments			
Other financial investments	12	39,793	47,967
Debtors			
Debtors arising out of direct insurance operations - intermediaries		8,210	6,025
Debtors arising out of reinsurance operations		17,711	18,488
Other debtors	13	169	2,881
		26,090	27,394
Other assets			
Cash at bank		10,494	4,562
Other	14	386	2,358
		10,880	6,920
Prepayments and accrued income			
Deferred acquisition costs		907	864
Other prepayments and accrued income		413	364
		1,320	1,228
Total assets		**78,083**	**83,509**
Liabilities			
Capital and reserves			
Members' balances	15	24,167	28,034
Technical provisions			
Provision for unearned premiums	16	16,105	13,382
Claims outstanding	16	34,662	35,195
		50,767	48,577
Creditors			
Creditors arising out of direct insurance operations - intermediaries		40	515
Other creditors including taxation and social security		3,109	6,383
		3,149	6,898
Total liabilities		**78,083**	**83,509**

The annual accounts on pages 12 to 28 were approved by the Board of Chaucer Syndicates Limited on 15 March 2016 and signed on its behalf by:

R J Callan
Chief Financial Officer

Statement of Changes in Members' Balances for the year ended 31 December 2015

	Note	2015 £000	2014 £000
Balance as at 1 January		28,034	15,356
Profit for the year	15	17,080	20,586
Payments of profit to members' personal reserve funds	15	(20,677)	(7,617)
Other	15	(270)	(291)
Balance as at 31 December		**24,167**	**28,034**

Statement of Cash Flows for the year ended 31 December 2015

	Notes	2015 £000	Restated * 2014 £000
Operating result		17,080	20,586
Increase/(decrease) in gross technical provisions		2,190	(4,455)
Decrease/(increase) in debtors		1,213	(3,479)
(Decrease)/increase in creditors		(3,749)	1,993
Movement in other assets/liabilities		1,966	(1,962)
Investment return	9	(428)	(1,063)
Other		(270)	(292)
Net cash flows from operating activities		**18,002**	**11,328**
Cash flows from investing activities			
Purchase of equity and debt instruments		(24,452)	(95,955)
Sale of equity and debt instruments		32,294	82,207
Investment income received		765	614
Cash flows from financing activities			
Distribution profit		(14,705)	(2,594)
Open year profit release		(5,972)	(5,022)
Net increase/(decrease) in cash and cash equivalents		**5,932**	**(9,422)**
Cash and cash equivalents at beginning of year		4,562	13,984
Cash and cash equivalents at end of year		**10,494**	**4,562**
Cash and cash equivalents consists of:			
Cash at bank and in hand		10,494	4,562
Cash and cash equivalents		**10,494**	**4,562**

* These balances are restated as a result of the adoption of FRS 102 and FRS 103. See Note 24 for further analysis.

Notes to the Accounts for the year ended 31 December 2015

1. Basis of preparation

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

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

2. Accounting policies

a) Insurance contracts

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

i) Premiums written

Premiums written comprise premiums on contracts 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.

ii) Unearned premiums

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

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

The Directors consider that the provisions for gross claims are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the accounts for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Notes to the Accounts for the year ended 31 December 2015

2. Accounting policies (continued)

iv) 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.

v) 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.

b) 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.

c) Cash at bank

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

d) Foreign currencies

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

Under previous UK GAAP, the definition of a foreign branch included assets and liabilities accounted for in a foreign currency. FRS 102 requires that a foreign operation must be an entity. Hence, assets and liabilities denominated in a foreign currency no longer constitute a foreign operation and are not retranslated at the closing rate with exchange differences reported through other comprehensive income (OCI). Instead, monetary items are retranslated at the closing rate with exchange differences reported through the non-technical account and non-monetary items (for example, tangible assets) are not retranslated. The impact of this change in accounting policy is shown in note 24.

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

FRS103 states that insurance assets and liabilities (UPR and DAC), that were previously considered non-monetary items, are now required to be treated as monetary items.

e) Financial assets

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

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

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

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

Notes to the Accounts for the year ended 31 December 2015

2. Accounting policies (continued)

f) 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.

g) Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agent is gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earning. Any payments on account made by the Syndicate during the year are included in the balance sheet under the heading 'Members' balances'.

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

h) 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.

i) Profit commission

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

j) Key judgements and uncertainty

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

- Valuation of general insurance contract liabilities (page 16)
- Premium recognition (page 16)

Notes to the Accounts for the year ended 31 December 2015

3. Segmental analysis

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

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses*	Reinsurance balance	Total	Net technical provisions
	£000	£000	£000	£000	£000	£000	£000
2015							
Direct insurance							
Fire and other damage to property	4,419	3,952	331	(1,541)	-	2,742	11,907
Third party liability	2,137	2,036	(190)	(60)	-	1,786	2,438
	6,556	5,988	141	(1,601)	-	4,528	14,345
Reinsurance	20,054	18,126	(987)	(5,322)	-	11,817	36,422
	26,610	**24,114**	**(846)**	**(6,923)**	**-**	**16,345**	**50,767**
2014 Restated							
Direct insurance							
Fire and other damage to property	3,560	6,758	1,025	(1,626)	-	6,157	16,950
Third party liability	1,550	1,597	456	(193)	-	1,860	2,851
	5,110	8,355	1,481	(1,819)	-	8,017	19,801
Reinsurance	19,175	16,470	(343)	(4,444)	-	11,683	28,776
	24,285	**24,825**	**1,138**	**(6,263)**	**-**	**19,700**	**48,577**

* Gross operating expenses are the same as net operating expenses shown in the statement of comprehensive income as no commissions in respect of outward reinsurance were received and set off in arriving at the net expenses for 2015 and 2014.

All premiums were concluded in the UK.

Commissions on direct insurance, gross premiums during 2015 was £0.2m (2014: £0.1m).

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

	2015	2014
	£000	£000
UK	1,403	1,892
Americas (including US)	1,032	5,092
Other	24,175	17,301
Gross premiums written	**26,610**	**24,285**

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

	2015	2014
	£000	£000
UK	2,676	3,784
Americas (including US)	1,969	10,185
Other	46,122	34,608
Total	**50,767**	**48,577**

Gross technical provisions are the same as net technical provisions as the Syndicate does not currently purchase reinsurance.

Notes to the Accounts for the year ended 31 December 2015

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

During the year, the Syndicate released £8.7m of technical reserves in respect of prior periods (2014: £9.5m) arising predominantly from fire and other damage to property.

5. Net operating expenses

	2015 £000	Restated 2014 £000
Acquisition costs - brokerage and commissions	683	538
Change in deferred acquisition costs	(11)	94
Administrative expenses	6,251	5,631
	6,923	**6,263**
Administrative expenses include:		
Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission)	4,895	5,386

6. Auditors' remuneration

	2015 £000	2014 £000
Audit of the Syndicate annual accounts	64	60
Other services pursuant to legislation, including the audit of the regulatory return	61	60
	125	**120**

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:

	2015 Number	2014 Number
Administration and finance	4	5
Underwriting	2	1
Other	2	1
	8	**7**

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 consultancy fees, incurred by Chaucer Syndicates Limited and recharged to the Syndicate within Managing Agency fees.

	2015 £000	2014 £000
Active Underwriter	145	148

Notes to the Accounts for the year ended 31 December 2015

9. Investment return

	2015 £000	Restated 2014 £000
Investment income		
Income from financial assets at fair value through profit and loss	755	757
Interest on cash at bank	43	55
Other interest and similar income	127	158
Gains on the realisation of investments	98	13
	1,023	983
Investment expenses and charges		
Investment management expenses, including interest	(29)	(16)
Losses on the realisation of investments	(304)	(141)
Net unrealised (losses)/gains on investments	(262)	237
Total investment return	**428**	**1,063**

10. Calendar year investment return

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

	2015 £000	2014 £000
Average funds	46,586	48,795
Investment return	428	1,063
Calendar year investment return	0.9%	2.2%
Average funds available for investment by fund		
Sterling	37,391	40,525
United States Dollars	6,038	5,316
Canadian Dollars	3,157	2,954
Analysis of calendar year investment return by fund	**%**	**%**
Sterling	1.1	2.6
United States Dollars	0.2	0.1
Canadian Dollars	0.6	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.

11. Other income/(charges)

Net foreign exchange gains of £0.3m (2014: £0.2m losses) are included within other income in the non-technical account.

Notes to the Accounts for the year ended 31 December 2015

12. Financial assets

	Cost	2015 Market value	Cost	2014 Market value
	£000	£000	£000	£000
Shares and other variable yield securities at fair value through profit and loss	12,672	12,781	14,292	11,826
Debt securities and other fixed income securities at fair value through profit and loss	27,397	27,012	36,264	36,141
	40,069	**39,793**	**50,556**	**47,967**

Risk policies

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.

The sensitivities shown in the table below indicates the estimated impact on result from parallel shifts in the yield curve.

	Change in interest rates	Impact on result
	%	£000
31 December 2015	+1.0	(815)
	-1.0	786
31 December 2014	+1.0	(843)
	-1.0	675

Currency risk
The Syndicate writes a significant proportion of insurance business in currencies other than sterling, which gives rise to exposure to currency risk. The Syndicate mitigates this through a policy of 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.

Notes to the Accounts for the year ended 31 December 2015

The expected payment profile of undiscounted liabilities is as follows:

	No stated maturity £000	<1 £000	1-3 £000	3-5 £000	>5 £000	Total £000
					Maturity band (Years)	
Other creditors	-	3,149	-	-	-	3,149
Claims outstanding	-	11,264	12,116	5,866	5,416	34,662
At 31 December 2015	**-**	**14,413**	**12,116**	**5,866**	**5,416**	**37,811**
Other creditors	-	6,898	-	-	-	6,898
Claims outstanding	-	11,711	11,935	6,132	5,417	35,195
At 31 December 2014	**-**	**18,609**	**11,935**	**6,132**	**5,417**	**42,093**

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

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

	2015 £000	2014 £000
Debt securities	27,012	36,141
Cash at bank	10,494	4,562
Shares and other variable yield securities	12,781	11,826
Overseas deposits	386	2,358
	50,673	**54,887**
AAA	18,679	19,688
AA	11,710	20,242
A	19,799	12,770
BBB	480	2,184
BB or less	5	2
Not rated	-	1
Total assets bearing credit risk	**50,673**	**54,887**

Determination of fair value hierarchy

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

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

Notes to the Accounts for the year ended 31 December 2015

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

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities and unit trusts	12,781	-	-	12,781
Debt securities and other fixed income securities	3,676	23,336	-	27,012
Overseas deposits	321	65	-	386
At 31 December 2015	**16,778**	**23,401**	**-**	**40,179**
Shares and other variable yield securities and unit trusts	11,826	-	-	11,826
Debt securities and other fixed income securities	13,271	22,870	-	36,141
Overseas deposits	1,427	931	-	2,358
At 31 December 2014	**26,524**	**23,801**	**-**	**50,325**

13. Other debtors

	2015 £000	2014 £000
Due from Managing Agent	-	16
Other debtors	169	2,865
	169	2,881

Of the £2.8m other debtors in 2014, £2.7m is for the advance profit commission paid in respect of the 2012 and 2013 years of account. This has been netted off against other creditors in 2015.

14. 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.

15. Reconciliation of movements in members' balances

	2015 £000	Restated 2014 £000
Members' balances at 1 January	28,034	15,356
Profit for the financial year	17,080	20,586
Payments of profit to members' personal reserve funds	(20,677)	(7,617)
Movement in members' balance in respect of members' agent's fees	(131)	(132)
Movement in members' balance in respect of tax and other	(139)	(159)
Members' balances at 31 December	**24,167**	**28,034**

Members participate on Syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

Notes to the Accounts for the year ended 31 December 2015

16. Technical reserves

	Provisions for unearned premiums £000	Claims outstanding £000	Deferred acquisition costs £000	Total £000
Gross and net technical provisions				
At 1 January 2015	13,382	35,195	864	47,713
Exchange adjustments	227	(63)	32	132
Claims paid in year	-	(1,316)	-	(1,316)
Movement in provision	2,496	846	11	3,331
At 31 December 2015	**16,105**	**34,662**	**907**	**49,860**

17. Sensitivity of Insurance Risk

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

	2015	2014
Net loss ratio	3.5%	-4.6%
Impact of 1% variation (£000)	241	248

18. Claims Development Tables

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

Pure underwriting year	2010 and prior £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	Total £000
Estimate of net claims incurred							
At end of underwriting year		9,151	6,021	11,744	5,106	7,474	39,496
One year later		20,635	7,127	11,484	6,156		45,402
Two years later		17,467	4,312	7,237			29,016
Three years later		16,319	2,980				19,299
Four years later		16,149					16,149
As at 31 December 2015	12,818	16,149	2,980	7,237	6,156	7,474	52,814
Less net claims paid	1,246	13,538	118	3,250	-	-	18,152
Net reserves	**11,572**	**2,611**	**2,862**	**3,987**	**6,156**	**7,474**	**34,662**

The syndicate has a number of unsettled obligations arising out of insurance contracts from the 2010 and prior underwriting years, for which net reserves are still carried.

19. Other creditors

	2015 £000	2014 £000
Profit commission	3,014	6,295
Due to Managing Agent	15	-
Other creditors	80	88
	3,109	**6,383**

Notes to the Accounts for the year ended 31 December 2015

20. Related parties

Chaucer Syndicates Limited, a wholly owned subsidiary of Chaucer Holdings Limited, is the Managing Agent of the Syndicate. Chaucer Syndicates Limited has charged the Syndicate with the following expenses during the year along with the outstanding balances at the year end:

	2015 £000	2014 £000
Managing agency fees	1,626	1,591
Profit commission	3,014	3,629
Year-end balance due to Chaucer Syndicates Limited at 31 December	3,029	6,295
Year-end balance due from Chaucer Syndicates Limited at 31 December	-	16

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

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

			Year of account
	2015 £000	2014 £000	2013 £000
Chaucer Corporate Capital (No. 3) Limited	18,035	18,035	17,847

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.

Notes to the Accounts for the year ended 31 December 2015

22. Capital

Capital framework at Lloyd's

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 1176 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% (2015: 35%) of the member's SCR 'to ultimate'.

Provision of capital by members

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

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the balance sheet on page 13, represent resources available to meet members' and Lloyd's capital requirements.

23. 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).

Notes to the Accounts for the year ended 31 December 2015

24. Transition to FRS 102

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

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

- the allocation of foreign exchange gains/losses between the technical and non-technical account; and
- the use of monthly average rates as a proxy for transaction rates when determining the prevailing foreign exchange rate for non-monetary assets and liabilities where these items are held at transactional rates of exchange.

No adjustment has been made to treat DAC and UPR as monetary items as the impact is immaterial.

In accordance with FRS 102 section 3.12, the applicable comparative figures in the primary statements and notes have been restated to reflect the uniform application of the new policy outlined above.

Profit for the financial year		**2014**
UK GAAP - As previously reported		**20,483**
Single functional currency	A	103
FRS 102		**20,586**

A. Single functional currency
FRS 102 requires all foreign currency transactions to be translated into a single functional currency at the historic rate of exchange. At the period end, the monetary foreign currency items must be translated at the closing rate with any difference being allocated to the statement of comprehensive income. This has had the impact of increasing the profit by £103k for the year ended 31 December 2014, with no impact to members' balances.

25. Reclassification of Comparatives

Certain comparatives have been reclassified to conform with current year presentation.

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, Syndicate 1176's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2015 and of its profit/loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

What we have audited

The syndicate annual accounts for the year ended 31 December 2015, included within Syndicate 1176 Annual Report and Accounts (the "Annual Report), comprise:

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

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

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

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

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

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- the Managing Agent in respect of the Syndicate has not kept 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 28, the Managing Agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view.

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

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of Syndicate annual accounts involves

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

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

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

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

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

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

15 March 2016

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