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**Syndicate 1176**

**Annual Report and Accounts 2016**

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## **Underwriter's Report**

### **Background**

The Syndicate looks to provide insurance cover to the Nuclear Industry. It does not participate in the wider insurance market.

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, 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 insurance 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 prices, 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 31 December 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 adopted increased limits during 2016 with Canada as expected adopting both increased limits and coverage in January 2017. 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 circa 30% of premium income in 2017.

## **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 where terrorism risk is considered to be lower. Further 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 normally 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 71% property and 29% liability during 2017.

## **Outward reinsurance arrangements**

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

There was one single facultative reinsurance placement outside of these arrangements during 2016 as a result of excess exposure on a particular risk. The ceded premium was \$100,000 (gross) and the reinsurance was placed at original terms with a related party, Syndicate 1084 at Chaucer.

## **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. The maximum exposure retained by the pools currently suggests a maximum loss in the region of £260m; 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.

## **Underwriting performance**

### **2014 Year of Account**

The Syndicate's planned premium for the 2014 year was £26.6m. The final premium income was £25.5m. The reduction 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. The year-end reinsurance to close has largely performed in line with expectations even with the deterioration in reserves for the potential interest that could accrue for the two Mexican claims on the 2008 and 2010 years respectively, and a final profit of 53% on capacity was achieved.

### **2015 Year of Account**

The plan was for a premium income of £25.4m, the latest forecast shows an expected ultimate premium of £23.7m. 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 strength when premiums were paid to us, have reduced forecast premiums. We 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 French loss is reserved at an ultimate reserve of £1.9m, whilst the Dutch loss was settled in 2016 at a cost to the syndicate of £0.6m.

A further reserve has been established for a dropped steam generator during refurbishment of a plant in France. The steam generator was being replaced and the drop involved the old generator that was to be scrapped. At the time of writing it is still uncertain whether there is significant damage to the plant. Whilst there has been no sizeable notification to date, the syndicate has reserved the event at £1.1m to the syndicate. Most of the syndicate's exposure is in excess of €1.2bn, which is not expected to be a loss. At this stage the syndicate is forecasting a profit in the range of between 15% – 35% return on capacity.

### **2016 Year of Account**

The 2016 year is benefitting from increased premium following the post Brexit sterling devaluation. The current estimated premium income for the syndicate is £28.5m. The corresponding impact of sterling's weakness has been an increase in exposure and obviously any non-sterling losses will also be higher when converted back to sterling. At the time of writing the syndicate's maximum retained line is £265m, which whilst is within the maximum of £270m, has at times been at the upper level. Currency fluctuation is a risk borne by Names and disclosed in the plan. The much anticipated revised liability limits have started to be introduced in France and Belgium. The UK's introduction has been slowed, probably influenced by the post-Brexit political challenges in Europe and the UK. A couple of early reserves have been made for the non-nuclear generating plants in the USA and France. It is too early to be certain of the results but the current projections would indicate a profit,

### **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 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 and the Middle East. 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 profit 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 was less than £500,000 but will perhaps rise to £2m 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. Following sterling's devaluation and anticipating some longer term growth in income, the Syndicate achieved a modest pre-emption for 2017 year of account of 7% to £37.5m.

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 a 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.

A handwritten signature in black ink, appearing to read 'Michael Dawson', with a long horizontal flourish extending to the right.

Michael Dawson  
Active Underwriter  
13 March 2017



## Managing Agent's Report

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

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

### The Managing Agent

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

### 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:

	2016	2015
	£000	£000
Gross written premiums	28,321	26,610
Total comprehensive income	13,678	17,080
Combined ratio <sup>1</sup>	61.8%	32.2%

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

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

### 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**

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

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

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

### **Investment risk**

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

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

Investment risk constraints, which quantify the maximum amount of investment risk permitted over a one-year time horizon, are approved by the 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.

### **Brexit**

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

### **Directors of the Managing Agent**

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

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

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

R J Callan, Chief Financial Officer

T J Carroll, Independent Non-executive Director

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

J Fowle, Chief Underwriting Officer

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

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

P M Shaw, Chief Risk Officer

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

C M Stooke, Chairman and Independent Non-executive Director

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

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

R N Barnett

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

Plantation Place

30 Fenchurch Street

London EC3M 3AD

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

184915

### **Managing Agent's auditors**

PricewaterhouseCoopers LLP, London

### **Syndicate 1176 active underwriter**

M G Dawson

### **Syndicate bankers**

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

### **Syndicate investment manager**

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 Hanover Insurance Group, Inc. Audit Committee meeting.

Approved by order of the Board of Chaucer Syndicates Limited.

A handwritten signature in black ink, appearing to read 'R J Callan', with a stylized flourish at the end.

R J Callan  
Chief Financial Officer  
13 March 2017

## Statement of Comprehensive Income for the year ended 31 December 2016

	Notes	2016 £000	2015 £000
<b>Technical Account – General Business</b>			
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	3	28,321	26,610
Outward reinsurance premiums		(68)	-
<b>Net premiums written</b>		<b>28,253</b>	<b>26,610</b>
<b>Change in the provision for unearned premiums</b>			
Gross amount	16	(660)	(2,496)
Reinsurers' share	16	34	-
<b>Net change in the provision for unearned premiums</b>		<b>(626)</b>	<b>(2,496)</b>
<b>Earned premiums, net of reinsurance</b>		<b>27,627</b>	<b>24,114</b>
Allocated investment return transferred from the Non-Technical Account		1,118	428
<b>Total technical income</b>		<b>28,745</b>	<b>24,542</b>
<b>Claims incurred, net of reinsurance</b>			
<b>Claims paid</b>			
Gross amount	16	(710)	(1,316)
Reinsurers' share	16	-	-
<b>Net claims paid</b>		<b>(710)</b>	<b>(1,316)</b>
<b>Change in the provision for claims</b>			
Gross amount	16	(10,259)	470
Reinsurers' share	16	12	-
<b>Net change in the provision for claims</b>		<b>(10,247)</b>	<b>470</b>
<b>Claims incurred, net of reinsurance</b>		<b>(10,957)</b>	<b>(846)</b>
Net operating expenses	3, 5	(6,110)	(6,923)
<b>Total technical charges</b>		<b>(17,067)</b>	<b>(7,769)</b>
<b>Balance on the Technical Account – General Business</b>		<b>11,678</b>	<b>16,773</b>
<b>Non-Technical Account</b>			
Other income	11	2,000	307
Investment income	9	1,038	1,023
Net unrealised gains/(losses)	9	329	(262)
Investment expenses and charges	9	(249)	(333)
Allocated investment return transferred to the Technical Account – General Business		(1,118)	(428)
<b>Total comprehensive income</b>	15	<b>13,678</b>	<b>17,080</b>

All the amounts above are in respect of continuing operations.

## Statement of Financial Position as at 31 December 2016

	Note	2016 £000	2015 £000
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	12	42,978	39,793
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	16	34	-
Claims outstanding	16	12	-
		<u>46</u>	<u>-</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations - intermediaries		6,888	8,210
Debtors arising out of reinsurance operations		20,256	17,711
Other debtors	13	108	169
		<u>27,252</u>	<u>26,090</u>
<b>Other assets</b>			
Cash at bank and in hand		14,042	10,494
Other	14	462	386
		<u>14,504</u>	<u>10,880</u>
<b>Prepayments and accrued income</b>			
Deferred acquisition costs		1,084	907
Other prepayments and accrued income		342	413
		<u>1,426</u>	<u>1,320</u>
<b>Total assets</b>		<b><u>86,206</u></b>	<b><u>78,083</u></b>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Members' balances	15	19,544	24,167
<b>Technical provisions</b>			
Provision for unearned premiums	16	18,120	16,105
Claims outstanding	12, 16, 18	45,337	34,662
		<u>63,457</u>	<u>50,767</u>
<b>Creditors</b>			
Creditors arising out of direct insurance operations - intermediaries		775	40
Other creditors including taxation and social security	19	-	15
		<u>775</u>	<u>55</u>
<b>Accruals and deferred income</b>			
		2,430	3,094
<b>Total liabilities</b>		<b><u>86,206</u></b>	<b><u>78,083</u></b>

The annual accounts on pages 12 to 28 were approved by the Board of Chaucer Syndicates Limited on 13 March 2017 and signed on its behalf by:



R J Callan  
Chief Financial Officer



## Statement of Changes in Members' Balances for the year ended 31 December 2016

	Note	2016 £000	2015 £000
Balance as at 1 January		24,167	28,034
Profit for the financial year	15	13,678	17,080
Payments of profit to members' personal reserve funds	15	(18,138)	(20,677)
Other	15	(163)	(270)
Balance as at 31 December		<b>19,544</b>	<b>24,167</b>

## Statement of Cash Flows for the year ended 31 December 2016

	Notes	2016 £000	Restated 2015 £000
<b>Cash flows from operating activities</b>			
Operating result		13,678	17,080
Increase in gross technical provisions		12,644	2,190
(Increase)/decrease in debtors		(1,268)	1,213
Increase/(decrease) in creditors		56	(3,749)
Movement in other assets/liabilities		(76)	1,972
Investment return	9	(1,118)	(428)
Foreign exchange		(1,969)	184
Other		(163)	(270)
<b>Net cash generated from operating activities</b>		<b>21,784</b>	<b>18,192</b>
<b>Cash flows from investing activities</b>			
Purchase of equity and debt instruments		(43,823)	(24,453)
Sale of equity and debt instruments		42,935	32,294
Investment income received		788	576
<b>Net cash (used in) / generated from investing activities</b>		<b>(100)</b>	<b>8,417</b>
<b>Cash flows from financing activities</b>			
Distribution profit		(14,674)	(14,705)
Open year profit release		(3,464)	(5,972)
<b>Net cash used in financing activities</b>		<b>(18,138)</b>	<b>(20,677)</b>
Net increase in cash and cash equivalents		3,546	5,932
Cash and cash equivalents at beginning of year		10,494	4,562
Foreign exchange on cash and cash equivalents		2	-
<b>Cash and cash equivalents at end of year</b>		<b>14,042</b>	<b>10,494</b>
<b>Cash and cash equivalents consists of:</b>			
Cash at bank and in hand		14,042	10,494
<b>Cash and cash equivalents</b>		<b>14,042</b>	<b>10,494</b>

## Notes to the Accounts for the year ended 31 December 2016

### 1. Basis of preparation

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

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

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

### 2. Accounting policies

#### a) Insurance contracts

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

##### i) Premiums written

Premiums written comprise premiums on contracts 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) Reinsurance premiums ceded

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

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

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

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods.

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.

## Notes to the Accounts for the year ended 31 December 2016

### 2. Accounting policies (continued)

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.

#### v) Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

#### vi) Deferred acquisition costs

Acquisition costs, which comprise commission and other costs 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 and cash equivalents

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

#### d) Foreign currencies

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

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

At each period end foreign currency monetary items are translated using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

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

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

#### 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.

## Notes to the Accounts for the year ended 31 December 2016

### 2. Accounting policies (continued)

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'.

#### f) Financial liabilities

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

#### g) Investment return

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

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the Non-Technical Account. A transfer is made from the Non-Technical Account to the General Business Technical Account. Investment return has been wholly allocated to the Technical Account as all investments relate to the Technical Account.

#### h) Taxation

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

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

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

#### i) Pension costs

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

#### j) Profit commission

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

#### k) Key judgements and uncertainty

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

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

## Notes to the Accounts for the year ended 31 December 2016

### 3. Segmental analysis

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

	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses* £000	Reinsurance balance £000	Total £000	Net technical provisions £000
<b>2016</b>							
<b>Direct insurance</b>							
Fire and other damage to property	5,091	5,024	(2,686)	(1,194)	-	1,144	18,566
Third party liability	2,889	2,813	(231)	(582)	-	2,000	2,512
	7,980	7,837	(2,917)	(1,776)	-	3,144	21,078
<b>Reinsurance</b>	20,341	19,824	(8,052)	(4,334)	(22)	7,416	42,333
	<b>28,321</b>	<b>27,661</b>	<b>(10,969)</b>	<b>(6,110)</b>	<b>(22)</b>	<b>10,560</b>	<b>63,411</b>
<b>2015</b>							
<b>Direct insurance</b>							
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
<b>Reinsurance</b>	20,054	18,126	(987)	(5,322)	-	11,817	36,422
	<b>26,610</b>	<b>24,114</b>	<b>(846)</b>	<b>(6,923)</b>	<b>-</b>	<b>16,345</b>	<b>50,767</b>

\* 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 2016 and 2015.

All premiums were concluded in the UK.

Commissions on direct insurance, gross premiums during 2016 was £0.2m (2015: £0.2m).

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

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

	2016 £000	2015 £000
UK	1,092	1,403
Americas (including US)	3,489	1,032
Other	23,740	24,175
<b>Gross premiums written</b>	<b>28,321</b>	<b>26,610</b>

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

	2016 Gross Technical Provisions £000	2016 Net Technical Provisions £000	2015 Gross Technical Provisions £000	2015 Net Technical Provisions £000
UK	2,448	2,446	2,676	2,676
Americas (including US)	7,818	7,813	1,969	1,969
Other	53,191	53,152	46,122	46,122
<b>Total</b>	<b>63,457</b>	<b>63,411</b>	<b>50,767</b>	<b>50,767</b>

## Notes to the Accounts for the year ended 31 December 2016

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

During the year, the Syndicate released £2.6m of technical reserves in respect of prior periods (2015: £8.7m) arising predominantly from the nuclear liability class.

### 5. Net operating expenses

	2016 £000	2015 £000
Acquisition costs - brokerage and commissions	666	683
Change in deferred acquisition costs	(9)	(11)
Administrative expenses	5,453	6,251
	<b>6,110</b>	<b>6,923</b>

Administrative expenses include:

Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission)	4,252	4,895
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### 6. Auditors' remuneration

	2016 £000	2015 £000
Audit of the Syndicate annual accounts	57	64
Other services pursuant to legislation, including the audit of the regulatory return	57	61
	<b>114</b>	<b>125</b>

### 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:

	2016 Number	2015 Number
Administration and finance	5	4
Underwriting	2	2
Other	1	2
	<b>8</b>	<b>8</b>

### 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.

	2016 £000	2015 £000
Active Underwriter	145	145

## Notes to the Accounts for the year ended 31 December 2016

### 9. Investment return

	2016 £000	2015 £000
<b>Investment income</b>		
Income from financial assets at fair value through profit and loss	814	755
Interest on cash at bank and in hand	64	43
Other interest and similar income	61	127
Gains on the realisation of investments	99	98
	1,038	1,023
<b>Investment expenses and charges</b>		
Investment management expenses, including interest	(29)	(29)
Losses on the realisation of investments	(220)	(304)
<b>Net unrealised gains/(losses) on investments</b>	329	(262)
<b>Total investment return</b>	1,118	428

### 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:

	2016 £000	2015 £000
<b>Average funds</b>	47,102	46,586
Investment return	1,118	428
Calendar year investment return	2.4%	0.9%
<b>Average funds available for investment by fund</b>		
Sterling	38,777	37,391
United States Dollars	5,512	6,038
Canadian Dollars	2,813	3,157
<b>Analysis of calendar year investment return by fund</b>	%	%
Sterling	2.7	1.1
United States Dollars	0.5	0.2
Canadian Dollars	0.6	0.6

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

### 11. Other income

Net foreign exchange gains of £2.0m (2015: £0.3m gains) are included within other income in the non-technical account.



## Notes to the Accounts for the year ended 31 December 2016

### 12. Financial instruments

	Cost £000	2016 Market value £000	Cost £000	2015 Market value £000
Shares and other variable yield securities at fair value through profit and loss	12,423	12,980	12,672	12,781
Debt securities and other fixed income securities at fair value through profit and loss	30,053	29,998	27,397	27,012
	<b>42,476</b>	<b>42,978</b>	<b>40,069</b>	<b>39,793</b>

### 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 2016	+1.0	(1,025)
	-1.0	982
31 December 2015	+1.0	(815)
	-1.0	786

#### *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 2016

### 12. Financial instruments (continued)

The expected payment profile of undiscounted liabilities is as follows:

	Maturity band (Years)					Total £000
	No stated maturity £000	<1 £000	1-3 £000	3-5 £000	>5 £000	
Other creditors	-	775	-	-	-	775
Claims outstanding	-	10,864	23,061	8,045	3,367	45,337
<b>At 31 December 2016</b>	<b>-</b>	<b>11,639</b>	<b>23,061</b>	<b>8,045</b>	<b>3,367</b>	<b>46,112</b>
Other creditors	-	55	-	-	-	55
Claims outstanding	-	11,257	12,113	5,865	5,427	34,662
<b>At 31 December 2015</b>	<b>-</b>	<b>11,312</b>	<b>12,113</b>	<b>5,865</b>	<b>5,427</b>	<b>34,717</b>

#### Credit risk

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

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

	2016 £000	2015 £000
Debt securities	29,998	27,012
Cash at bank and in hand	14,042	10,494
Shares and other variable yield securities	12,980	12,781
Overseas deposits	462	386
	<b>57,482</b>	<b>50,673</b>
AAA	19,278	18,679
AA	14,400	11,710
A	23,291	19,799
BBB	469	480
BB or less	44	5
Total assets bearing credit risk	<b>57,482</b>	<b>50,673</b>

#### Determination of fair value hierarchy

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

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

## Notes to the Accounts for the year ended 31 December 2016

### 12. Financial instruments (continued)

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

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities and unit trusts	12,980	-	-	12,980
Debt securities and other fixed income securities	5,345	24,653	-	29,998
Overseas deposits	170	292	-	462
<b>At 31 December 2016</b>	<b>18,495</b>	<b>24,945</b>	<b>-</b>	<b>43,440</b>
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
<b>At 31 December 2015</b>	<b>16,778</b>	<b>23,401</b>	<b>-</b>	<b>40,179</b>

### 13. Other debtors

	2016 £000	2015 £000
Other debtors	108	169
	<b>108</b>	<b>169</b>

### 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

	2016 £000	2015 £000
Members' balances at 1 January	24,167	28,034
Profit for the financial year	13,678	17,080
Payments of profit to members' personal reserve funds	(18,138)	(20,677)
Movement in members' balance in respect of members' agent's fees	(146)	(131)
Movement in members' balance in respect of tax and other	(17)	(139)
<b>Members' balances at 31 December</b>	<b>19,544</b>	<b>24,167</b>

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

## Notes to the Accounts for the year ended 31 December 2016

### 16. Technical reserves

	Provisions for unearned premiums £000	Claims outstanding £000	Deferred acquisition costs £000	Total £000
<b>Gross and net technical provisions</b>				
At 1 January 2016	16,105	34,662	907	49,860
Exchange adjustments	1,355	416	168	1,603
Claims paid in year	-	(710)	-	(710)
Movement in provision	660	10,969	9	11,620
At 31 December 2016	<b>18,120</b>	<b>45,337</b>	<b>1,084</b>	<b>62,323</b>
<b>Reinsurance</b>				
At 1 January 2016	-	-	-	-
Movement in provision	34	12	-	46
At 31 December 2016	34	12	-	46
<b>Net technical provisions</b>				
At 31 December 2016	<b>18,086</b>	<b>45,325</b>	<b>1,084</b>	<b>62,327</b>
At 31 December 2015	<b>16,105</b>	<b>34,662</b>	<b>907</b>	<b>49,860</b>

### 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:

	2016	2015
Net loss ratio	39.7%	3.5%
Impact of 1% variation (£000)	276	241

## Notes to the Accounts for the year ended 31 December 2016

### 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	2016 £000	Total £000
<i>Estimate of gross claims incurred</i>								
At end of underwriting year		9,262	6,202	11,941	5,242	7,612	10,556	50,815
One year later		20,833	7,292	11,648	6,266	10,003		56,042
Two years later		17,506	4,375	7,275	4,834			33,990
Three years later		16,716	3,005	6,813				26,534
Four years later		16,238	2,567					18,805
Five years later		15,719						15,719
As at 31 December 2016	13,771	15,719	2,567	6,813	4,834	10,003	10,556	64,263
Less gross claims paid	1,246	13,601	118	3,279	40	642	-	18,926
Gross reserves	12,525	2,118	2,449	3,534	4,794	9,361	10,556	45,337

Pure underwriting year	2010 and prior £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	Total £000
<i>Estimate of net claims incurred</i>								
At end of underwriting year		9,262	6,202	11,941	5,242	7,612	10,544	50,803
One year later		20,833	7,292	11,648	6,266	10,003		56,042
Two years later		17,506	4,375	7,275	4,834			33,990
Three years later		16,716	3,005	6,813				26,534
Four years later		16,238	2,567					18,805
Five years later		15,719						15,719
As at 31 December 2016	13,771	15,719	2,567	6,813	4,834	10,003	10,544	64,251
Less net claims paid	1,246	13,601	118	3,279	40	642	-	18,926
Net reserves	12,525	2,118	2,449	3,534	4,794	9,361	10,544	45,325

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

### 19. Other creditors

	2016 £000	2015 £000
Due to Managing Agent	-	15
	-	15

## Notes to the Accounts for the year ended 31 December 2016

### 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:

	2016 £000	2015 £000
Managing agency fees	1,645	1,626
Profit commission	2,414	3,014
Year-end balance due to Chaucer Syndicates Limited at 31 December	2,414	3,029

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:

	2016 £000	Year of account	
	£000	2015 £000	2014 £000
Chaucer Corporate Capital (No. 3) Limited	19,934	18,035	18,035

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

### 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 2016

### 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 accounts.

#### 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 2017 was 35% (2016: 35%) of the member's SCR 'to ultimate'.

#### Provision of capital by members

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

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the Statement of Financial Position 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. The Managing Agent considers The Hanover Insurance Group, Inc. to be its ultimate parent company. A copy of the most recent consolidated accounts is available from the website of The Hanover Insurance Group, Inc. ([www.hanover.com](http://www.hanover.com)).

## **Statement of Managing Agent's Responsibilities**

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

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

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

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

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

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of the accounts 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 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

### **What we have audited**

The syndicate annual accounts for the year ended 31 December 2016, included within Syndicate 1176 Annual Report and Accounts (the "Annual Report"), comprise:

- the Statement of Comprehensive Income for the year then ended;
- the Statement of Financial Position as at 31 December 2016;
- the Statement of Changes in 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 29, 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.

A handwritten signature in black ink that reads "Thomas" followed by a stylized flourish.

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

14 March 2017

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