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**Syndicate 6124**

**Report and Accounts 2016**

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## Managing Agent's Report

The Directors of the Managing Agent present their report and the audited accounts for the period ended 31 December 2016.

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

### The Managing Agent

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

### Strategic Report

#### Principal activities

Syndicate 6124 was established for the 2015 year of account as a special purpose syndicate with effect from 30 June 2015 ("Completion Date"). Its sole activity is to reinsure the UK division policies originally underwritten by Syndicate 1084 (Reinsured Account) as part of the transfer of Syndicate 1084's UK division to Markerstudy Limited (Markerstudy), a specialist in motor insurance products and complementary services.

The transaction was executed through a 100% quota share reinsurance agreement with Syndicate 1084 for prior claim liabilities and in-force policies written by Syndicate 1084's UK division and the sale of two legal entities by Chaucer Syndicates Limited associated with the business. The sole capital provider to the Syndicate is Antares Underwriting Limited, a wholly owned subsidiary of Qatar Insurance Company SAQ (QIC).

The Run-off Manager is R J Callan who is also Chief Financial Officer for the Managing Agent. The Run-Off Manager, together with a Run-Off Committee, is tasked with ensuring an orderly and controlled run-off of the reinsured account.

#### Reinsured Account

The reinsured policies include UK motor and Small or Medium Sized Enterprises (SME) commercial accounts originally underwritten by Syndicate 1084 and comprise the net liabilities under or pursuant to policies:

- Expiring prior to 30 June 2015
- Incepting and unexpired as at 30 June 2015
- Underwritten under a facilitation agreement between completion date and 30 September 2015
- Protected by the motor excess of loss reinsurance protections purchased

#### Review of the business and future developments

The result for the year is a profit of £8.8m attributable to the underwriting profit (net earned premiums minus net claims incurred and net operating expenses) of £2.1m, return on investments of £6.4m and other income £0.3m. The Syndicate is fully earned, so there is no further earning on legacy business.

The Syndicate has entered into a quota share arrangement with QIC, at a cost of £37.0m, which covers 25% of unpaid losses relating to the Syndicate net technical provisions at 1st November 2016.

The Managing Agency is looking to close both Syndicate 6124, and the associated UKD portfolio of Syndicate 1084, by means of an external RITC with Syndicate 1274 (a related party) as soon as practical in 2018 post closure of the 2015 Year of Account. The RITC is subject to approval from Lloyd's and subject to a PRA waiver.

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

	2016	2015
	£m	£m
Net claims incurred	14.2	(248.9)
Total comprehensive income	8.8	2.4

## **Principal risks and uncertainties**

The following paragraphs describe the principal risks and uncertainties facing the Syndicate.

### **Underwriting risk**

As a run-off syndicate there is no further underwriting activity and therefore limited underwriting risk to the syndicate.

### **Claims risk**

While claims events are inherently uncertain and volatile, the claims department is an experienced team covering a wide range of business classes. The Managing Agent has various management controls in place to mitigate claims risk; some of these controls have been agreed with its outsource provider and are outlined below.

#### *Claims settlement and reserving authority limits*

The Managing Agent's outsource provider 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 a peer review, carried out by its outsource provider on a monthly basis. This review incorporates both qualitative and quantitative measures and findings are collated and reported to relevant committees and Board.

#### *Monthly reporting*

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

#### *Management of external experts*

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

### **Reserving risk**

The Syndicate's reserving policy seeks to ensure appropriate allowance for reserving risk and consistency in reserving from year to year.

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. Markerstudy's Actuarial Team calculates the reserves in conjunction with extensive discussions with underwriting, claims and reinsurance functions of the Markerstudy Group. These reserves are then reviewed by the Managing Agent's Actuarial Team.

#### *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 (for example potential Courts Act or Periodic Payment Order Claims)

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 based on recommendations of the Syndicate Run-off Committee.

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

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

Although the risk loadings provide important protection against adverse developments in reserves, the degree of subjectivity in the reserving process, the exposure to unpredictable external influences including in this case the exposure to actual and potential Periodic Payment Order losses (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 Syndicate purchased additional reinsurance cover, when it was established, to protect the in-force and facilitation period business. As the Syndicate is in run-off there will be no new inwards policies written by the Syndicate and it is not anticipated that any new reinsurance will be purchased following the quota share arrangement with QIC.

The Managing Agent reviewed all reinsurer counterparties and set 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 regular monitoring, with the assistance of outside expertise, of the credit rating and financial exposure to all approved reinsurers.

The Syndicate's reinsurance program is predominantly comprised of reinsurers rated strong or better by Standard & Poor's (or equivalent).

**Investment risk**

As the Syndicate is in run-off the primary objective of the investment portfolio is to ensure sufficient funds are available to meet obligations as they become due. The Syndicate achieves this through approximate cash flow matching or laddering, and by matching the duration of the remaining liabilities to the duration of the assets backing those liabilities.

For assets identified as backing liabilities, investments are limited to cash and high quality fixed income securities only. Assets deemed to be in excess of the total projected liabilities may be invested in longer-term assets with a higher risk profile.

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

The Syndicate delegates day-to-day management of the investments and individual security selection to a third-party investment manager. The investment manager operates within a defined set of investment guidelines and against appropriate benchmarks.

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.

Refer to Note 11 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, robust outsourcing protocols including service level agreements with the Markerstudy Group and other governing procedures which are reviewed through a structured programme of testing of processes and systems by Internal Audit and other assurance processes.

#### *Regulatory and legal risk*

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

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

#### *Conduct risk*

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

#### *Staff matters*

The Managing Agent considers its staff to be a key resource and seeks to provide a good working environment for its staff that is rewarding and safe and complies with appropriate employee legislation. During the period 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.

### **Ogden rates**

The UK government has announced that from 20 March 2017 the Ogden discount rate deducted from personal injury compensation awards will change from the current 2.5% to negative 0.75%. This results in an increase in the cost of such awards. The Managing Agent has assessed the adequacy of the booked reserves in light of this development, and the impact has been reflected in the Syndicate's reserves, in line with the Syndicate's reserving policy.

### **Environmental matters**

The Managing Agent does not consider that a business such as a syndicate at Lloyd's has a large adverse impact upon the environment. As a result the agent does not manage its business by reference to any environmental key performance indicators.

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

The Directors set out below held office throughout the year ended 31 December 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 6124 run-off manager**

R J Callan

### **Syndicate bankers**

The custodians of the Syndicate's investment funds are as follows:  
Citibank N.A.

### **Syndicate investment managers**

Credit Suisse (UK) Limited  
Five Cabot Square, London, E14 4QR

### **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', written in a cursive style.

R J Callan  
Chief Financial Officer  
13 March 2017

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

	Notes	2016 £m	July to December 2015 £m
<b>Technical Account – General Business</b>			
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	3	(0.9)	316.8
Outward reinsurance premiums		(36.4)	(8.6)
<b>Net premiums written</b>		<b>(37.3)</b>	<b>308.2</b>
<b>Change in the provision for unearned premiums</b>			
Gross amount	14	41.0	(41.0)
Reinsurers' share	14	(2.9)	2.9
<b>Net change in provision for unearned premiums</b>		<b>38.1</b>	<b>(38.1)</b>
<b>Earned premiums, net of reinsurance</b>		<b>0.8</b>	<b>270.1</b>
Allocated investment return transferred from the Non-Technical Account		6.4	1.0
<b>Total technical income</b>		<b>7.2</b>	<b>271.1</b>
<b>Claims incurred, net of reinsurance</b>			
<b>Claims paid</b>			
Gross amount	14	(72.8)	(58.1)
Reinsurers' share	14	1.9	-
<b>Net claims paid</b>		<b>(70.9)</b>	<b>(58.1)</b>
<b>Change in the provision for claims</b>			
Gross amount		43.1	(195.5)
Reinsurers' share		42.0	4.7
<b>Net change in the provision for claims</b>		<b>85.1</b>	<b>(190.8)</b>
<b>Claims incurred, net of reinsurance</b>		<b>14.2</b>	<b>(248.9)</b>
Net operating expenses	3, 5	(12.9)	(19.9)
<b>Total technical charges</b>		<b>1.3</b>	<b>(268.8)</b>
<b>Balance on the Technical Account – General Business</b>		<b>8.5</b>	<b>2.3</b>
<b>Non-Technical Account</b>			
Other income	10	0.3	0.1
Investment income	8	5.1	3.4
Net unrealised gains/(losses) on investments	8	3.0	(1.6)
Investment expenses and charges	8	(1.7)	(0.8)
Allocated investment return transferred to the Technical Account - General Business		(6.4)	(1.0)
<b>Total comprehensive income</b>	13	<b>8.8</b>	<b>2.4</b>

All the amounts above are in respect of continuing operations.

## Statement of Financial Position as at 31 December 2016

	Notes	2016 £m	2015 £m
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	11	97.1	194.3
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	14	-	2.9
Claims outstanding	14	46.7	4.7
		<u>46.7</u>	<u>7.6</u>
<b>Debtors</b>			
Debtors arising out of reinsurance operations		16.4	18.8
Other debtors	12	-	1.2
		<u>16.4</u>	<u>20.0</u>
<b>Other assets</b>			
Cash at bank and in hand		8.1	16.9
		<u>8.1</u>	<u>16.9</u>
<b>Prepayments and accrued income</b>			
Other prepayments and accrued income		1.0	-
Deferred acquisition costs		-	6.9
		<u>1.0</u>	<u>6.9</u>
<b>Total assets</b>		<u><b>169.3</b></u>	<u><b>245.7</b></u>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Member's balances	13	11.2	2.4
<b>Technical provisions</b>			
Provision for unearned premiums	14	-	41.0
Claims outstanding	14	152.4	195.5
		<u>152.4</u>	<u>236.5</u>
<b>Creditors</b>			
Creditors arising out of reinsurance operations		1.4	3.1
Amounts owed to credit institutions		-	0.3
Other creditors including tax and social security	17	1.0	2.2
		<u>2.4</u>	<u>5.6</u>
Accruals and deferred income		3.3	1.2
<b>Total liabilities</b>		<u><b>169.3</b></u>	<u><b>245.7</b></u>

The accounts on pages 7 to 24 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 Member's Balances for the period ended 31 December 2016

	Note	2016 £m	July to December 2015 £m
Balance as at 1 January / beginning of the period		2.4	-
Profit for the year	13	8.8	2.4
<b>Balance as at 31 December</b>		<b>11.2</b>	<b>2.4</b>

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

	Note	2016 £m	July to December 2015 £m
<b>Cash flows from operating activities</b>			
Operating result		8.8	2.4
(Decrease)/Increase in gross technical provisions		(84.1)	15.0
Increase in reinsurers' share of gross technical provisions		(39.2)	(7.6)
Decrease in debtors		9.6	6.6
(Decrease)/Increase in creditors		(0.8)	5.4
Movement in other assets/liabilities		-	(5.7)
Investment return	8	(6.4)	(1.0)
<b>Net cash generated (used in) / from operating activities</b>		<b>(112.1)</b>	<b>15.1</b>
<b>Cash flows from investing activities</b>			
Purchase of equity and debt instruments		(16.9)	(42.8)
Sale of equity and debt instruments		112.1	50.1
Sale/(Purchase) of derivatives		3.3	(10.0)
Investment income received		5.1	4.2
<b>Net cash generated from investing activities</b>		<b>103.6</b>	<b>1.5</b>
Net (decrease) / increase in cash and cash equivalents		(8.5)	16.6
Cash and cash equivalents at start of year		16.6	-
Cash and cash equivalents at end of year		8.1	16.6
Cash at bank and in hand		8.1	16.9
Overdrafts		-	(0.3)
Cash and cash equivalents at end of year		8.1	16.6

There were no cash flows from financing activities.

### Supplemental information

The Syndicate underwrote a quota share reinsurance contract with Syndicate 1084 in 2015. This transaction involved the transfer of significant non cash assets and liabilities and this activity, detailed below, has been excluded from the statement of cash flows above.

	2016 £m	2015 £m
Transfer of Investments	-	194.9
Assignment of rights of premium receivables	-	27.7
Assignment of other insurance liabilities	-	(1.1)
	-	221.5

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

### 1. Basis of preparation

The Syndicate 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 accounts have been prepared under regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("IAD"), and reflect the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) as modified by the IAD.

The Syndicate annual accounts have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year. The accounts have been prepared on the basis that the Syndicate will close in 2018.

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 acquisition costs 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 period, 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.

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

### 2. Accounting policies (continued)

Explicit consideration is given to Periodical Payment Order (PPO) settlements, which typically require an initial lump sum payment plus an annual payment to the claimant for the rest of their lifetime, increasing with inflation. A list is maintained of claims that may settle as PPOs along with additional assumptions about the level, timing and probability of those potential PPO payments. Reserves are set to allow for the expected additional cost if those claims settle as PPOs. Separate IBNR reserves are also held to allow for PPOs arising from future claim notifications or current known claims not currently identified as potential PPOs.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

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

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

#### v) Unexpired risks provision

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

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

#### vi) Deferred acquisition costs

Acquisition costs, which comprise commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

#### b) Net operating expenses

Net operating expenses expected to be incurred to closure are recognised in the statement of comprehensive income. 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 equivalent on the Statement of Financial Position represent cash balances and money market deposits lodged with banks. Bank overdrafts are repayable on demand and are recognised as a component of cash and cash equivalents.

#### 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.

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

### 2. Accounting policies (continued)

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. Unquoted equity investments are initially carried at cost as the best estimate of fair value and are adjusted thereafter whenever events or changes in circumstances indicate that the carrying amount may not approximate to fair value. The fair value of an unquoted equity security is calculated using the most appropriate valuation technique, such as reference to current fair values of another instrument that is substantially the same, discounted cash flow analysis or option pricing models.

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.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the statement of comprehensive income. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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 period, 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.



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

### 2. Accounting policies (continued)

#### 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 member's agent is gross of tax.

#### i) Key judgements and uncertainties

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 11).
- Assessment of expected expenses to closure (page 12).

## Notes to the Accounts for the period 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 £m	Gross premiums earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m	Total £m	Net technical provisions £m
<b>2016</b>							
<b>Direct insurance</b>	-	-	-	-	-	-	-
<b>Reinsurance</b>	(0.9)	40.1	(29.7)	(12.9)	4.6	2.1	105.7
	<b>(0.9)</b>	<b>40.1</b>	<b>(29.7)</b>	<b>(12.9)</b>	<b>4.6</b>	<b>2.1</b>	<b>105.7</b>

	Gross premiums written £m	Gross premiums earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m	Total £m	Net technical provisions £m
<b>July to December 2015</b>							
<b>Direct insurance</b>	-	-	-	-	-	-	-
<b>Reinsurance</b>	316.8	275.8	(253.6)	(19.9)	(1.0)	1.3	228.9
	<b>316.8</b>	<b>275.8</b>	<b>(253.6)</b>	<b>(19.9)</b>	<b>(1.0)</b>	<b>1.3</b>	<b>228.9</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. As this is a run-off book of business, a negative premium is as expected representing return premiums following cancellations.

Commission on direct insurance, gross premiums during 2016 was £nil (2015: £nil)

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

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

### 3. Segmental analysis (continued)

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

	2016 £m	July to December 2015 £m
UK	(0.9)	316.8
<b>Gross premiums written</b>	<b>(0.9)</b>	<b>316.8</b>

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

	2016 Gross Technical Provisions £m	2016 Net Technical Provisions £m	2015 Gross Technical Provisions £m	2015 Net Technical Provisions £m
UK	152.4	105.7	236.5	228.9
<b>Total</b>	<b>152.4</b>	<b>105.7</b>	<b>236.5</b>	<b>228.9</b>

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

During 2016 the Syndicate released £5.1m of technical reserves in respect of prior periods. These releases were due to favourable claims development on attritional losses during 2016.

### 5. Net operating expenses

	2016 £m	July to December 2015 £m
Acquisition costs:		
- brokerage and commission	-	21.3
Change in deferred acquisition costs	6.9	(6.9)
Administrative expenses	6.0	5.5
	<b>12.9</b>	<b>19.9</b>
Administrative expenses include:		
Expense accruals to closure	2.5	-
Member's standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, managing agent's fess and profit commission)	1.1	0.7

### 6. Auditors' remuneration

	2016 £m	July to December 2015 £m
Audit of the syndicate accounts	0.1	0.1
Other services pursuant to legislation including audit of regulatory returns	-	-
	<b>0.1</b>	<b>0.1</b>

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

### 7. Employees and Directors

The Syndicate has no employees.

The Syndicate was not recharged any expenses during the period relating to the remuneration of the Directors of Chaucer Syndicates Limited.

Under the standard managing agent's agreement, Chaucer Syndicates Limited receives an annual fee for services provided.

### 8. Investment return

	2016 £m	July to December 2015 £m
<b>Investment income</b>		
Income from financial assets at fair value through profit and loss	4.9	3.2
Dividend income	0.2	0.2
	<u>5.1</u>	<u>3.4</u>
<b>Investment expenses and charges</b>		
Losses on the realisation of investments	(1.1)	(0.4)
Investment expenses and charges including interest	(0.6)	(0.4)
	<u>(1.7)</u>	<u>(0.8)</u>
<b>Net unrealised gains/(losses) on investments</b>	3.0	(1.6)
<b>Total investment return</b>	<u>6.4</u>	<u>1.0</u>

### 9. Calendar year investment return

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

	2016 £m	July to December 2015 £m
<b>Average funds</b>	163.1	211.4
Investment return (net of expenses)	6.4	1.0
Calendar year investment return	4.0%	0.7%
<b>Average funds available for investment by fund</b>		
Sterling	161.2	209.9
United States Dollars	1.9	1.5
<b>Analysis of calendar year investment yield by fund</b>	%	%
Sterling	4.3	0.7
United States Dollars	5.8	2.1

### 10. Other income

Net foreign exchange gains of £0.3m (2015 £0.1m) are included within other income in the non-technical account.

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

### 11. Financial instruments

	Cost £m	2016 Market value £m
Shares and other variable yield securities at fair value through profit and loss	2.9	3.7
Debt securities and other fixed income securities at fair value through profit and loss	85.7	86.0
Other investments at fair value through profit and loss	6.7	7.4
	<b>95.3</b>	<b>97.1</b>

#### Risk policies

##### Market risk

###### *Interest rate risk*

A significant proportion of risk within the Syndicate's fixed income portfolio is interest rate risk which increases with the duration of the portfolio. In order to manage this risk duration constraints are set, relative to a target, to provide downside protection for increases in interest rates. The investment portfolio target duration is the estimated duration of the liabilities, this value is revised on a quarterly basis and the investment portfolio rebalanced. A permitted duration range for the investment portfolio has been set around the target.

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 £m
31 December 2016	+1.0	(2.0)
	-1.0	1.8
31 December 2015	+1.0	(4.2)
	-1.0	4.1

###### *Currency risk*

The Syndicate is essentially asset liability currency matched as all assets and liabilities are GBP denominated. There is a small de-minimis allocation to non-GBP assets within the investment portfolio however the amount does not constitute a material risk.

###### *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 Syndicate has forecasted its projected liabilities' run-off pattern and has approximately matched cash flows from the investment portfolio to meet these outflows as they become due.

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

### 11. Financial assets (continued)

The expected payment profile of undiscounted liabilities is as follows:

	Maturity band (Years)					Total £m
	No stated maturity £m	<1 £m	1-3 £m	3-5 £m	>5 £m	
Creditors	-	2.4	-	-	-	2.4
Claims outstanding	-	43.9	51.8	25.9	30.8	152.4
<b>At 31 December 2016</b>	<b>-</b>	<b>46.3</b>	<b>51.8</b>	<b>25.9</b>	<b>30.8</b>	<b>154.8</b>

	Maturity band (Years)					Total £m
	No stated maturity £m	<1 £m	1-3 £m	3-5 £m	>5 £m	
Creditors	-	5.6	-	-	-	5.6
Claims outstanding	-	76.3	67.9	25.6	25.7	195.5
<b>At 31 December 2015</b>	<b>-</b>	<b>81.9</b>	<b>67.9</b>	<b>25.6</b>	<b>25.7</b>	<b>201.1</b>

#### Credit risk

The Syndicate holds the majority of its investments in high-quality investment grade securities and money market funds, managed by an external portfolio manager. The Investment manager may take credit risk as a tactical enhancement to fixed income returns when suitable opportunities arise within average portfolio minimum credit quality limits set for the portfolio the risk budget set for the manager. The Investment fund manager mitigates 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
Shares and other variable yield securities	3.7	5.1
Debt securities	86.0	179.2
Cash at bank and in hand	8.1	16.9
Derivatives assets	7.4	10.0
	<u>105.2</u>	<u>211.2</u>
AAA	18.4	56.5
AA	13.5	43.1
A	41.5	62.0
BBB	21.0	35.4
BB or less	5.1	2.8
Not rated	5.7	11.4
Total assets bearing credit risk	<u>105.2</u>	<u>211.2</u>

The Syndicate maintains strict control limits on open derivative positions, by both amount and term. The amount subject to credit risk at any one time is limited to the current fair value of derivative financial assets.

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

### 11. Financial assets (continued)

#### 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 (ie developed using market data) for the asset or liability, either directly or indirectly (Level 2); and
- Inputs are unobservable (ie for which market data is unavailable) for the asset or liability (Level 3).

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

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Shares and other variable yield securities and unit trusts	3.7	-	-	3.7
Debt securities and other fixed income securities	-	44.9	41.1	86.0
Derivatives	-	7.4	-	7.4
<b>At 31 December 2016</b>	<b>3.7</b>	<b>52.3</b>	<b>41.1</b>	<b>97.1</b>
Shares and other variable yield securities and unit trusts	5.1	-	-	5.1
Debt securities and other fixed income securities	-	73.0	106.2	179.2
Derivatives	-	10.0	-	10.0
<b>At 31 December 2015</b>	<b>5.1</b>	<b>83.0</b>	<b>106.2</b>	<b>194.3</b>

### 12. Other debtors

	2016 £m	2015 £m
Recoverable expenses paid on behalf of cedant	-	1.1
Other debtors	-	0.1
	<b>-</b>	<b>1.2</b>

### 13. Reconciliation of movements in member's balances

	2016 £m	2015 £m
Member's balances at 1 January / beginning of the period	2.4	-
Profit for the financial year / period	8.8	2.4
Member's balances at 31 December	<b>11.2</b>	<b>2.4</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 period ended 31 December 2016

### 14. Technical reserves

	Provisions for unearned premiums £m	Claims outstanding £m	Deferred acquisition costs £m	Total £m
<b>Gross</b>				
At 1 January 2016	41.0	195.5	6.9	229.6
Claims paid in year	-	(72.8)	-	(72.8)
Movement in provision	(41.0)	29.7	(6.9)	(4.4)
At 31 December 2016	-	<b>152.4</b>	-	<b>152.4</b>
<b>Reinsurance</b>				
At 1 January 2016	2.9	4.7	-	7.6
Reinsurance recoveries in the year	-	1.9	-	1.9
Movement in provision	(2.9)	40.1	-	37.2
At 31 December 2016	-	<b>46.7</b>	-	<b>46.7</b>
<b>Net technical provisions</b>				
At 31 December 2015	<b>38.1</b>	<b>190.8</b>	<b>6.9</b>	<b>222.0</b>
At 31 December 2016	-	<b>105.7</b>	-	<b>105.7</b>

#### 2015 events

The Syndicate has no exposure to catastrophe events that occurred in 2015.

#### 2016 events

The Syndicate has no exposure to catastrophe events that occurred in 2016.

### 15. Sensitivity of Insurance Risk

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

	2016	2015
Net loss ratio	87.0%	92.1%
Impact of 1% variation (£m)	3.7	2.7



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

### 16. Claims Development Triangles

The development of insurance liabilities provides a measure of the Syndicate's ability to estimate the ultimate value of claims. 2015 is the only underwriting year of the Syndicate.

Pure underwriting year	2015 £m	Total £m
<i>Estimate of gross claims incurred</i>		
At end of underwriting year	253.6	253.6
One year later	283.3	283.3
As at 31 December 2016	283.3	283.3
Less gross claims paid	130.9	130.9
Gross reserves	<u>152.4</u>	<u>152.4</u>
<i>Estimate of net claims incurred:</i>		
At end of underwriting year	248.9	248.9
One year later	234.7	234.7
As at 31 December 2016	234.7	234.7
Less net claims paid	129.0	129.0
Net reserves	<u>105.7</u>	<u>105.7</u>

### 17. Other Creditors

	2016 £m	2015 £m
Amounts due to outsource service provider	0.5	1.2
Amounts owed to S1084	0.2	-
Other creditors	0.3	1.0
	<u>1.0</u>	<u>2.2</u>

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

### 18. Related parties

Chaucer Syndicates Limited, a wholly owned subsidiary of Chaucer Holdings Limited, is the Managing Agent of the Syndicate. The following table shows the expenses that Chaucer Syndicates Limited has charged the Syndicate during the period and the outstanding balances due from the Syndicate at the year-end:

	2016 £m	2015 £m
Managing agency fees	1.1	0.3
Balance due to Chaucer Syndicates Limited at 31 December	0.2	-

Syndicates 1084 and 6124, both managed by Chaucer Syndicates Limited, have entered into a reinsurance contract with one another. These transactions are subject to Chaucer's internal controls which ensure that all are compliant with Lloyd's Related Party Bylaw provisions.

With effect from 1st November 2016 Syndicate 6124 has entered into a Quota Share Reinsurance Treaty contract with Qatar Insurance Company SAQ, Doha (QIC) to cover 25% of losses paid on or after 1st November, 2016 arising from losses incurred by the Reinsured. The Reinsurer receives the proportionate benefit of the Reinsured's inuring excess of loss reinsurance programmes.

A premium of £37.0m was paid, calculated as 25% of the Syndicate's net technical provisions (including provision for bad debts) at the effective date. The premium was settled through the sale of Syndicate Investments. The balance due from QIC at 31 December is £1.9m.

QIC is a related entity to Antares Underwriting Limited, which is Syndicate 6124's sole capital provider.

### 19. 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.

### 20. 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 6124 is not disclosed in these accounts.

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

### 20. Capital (Continued)

#### 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 is 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% 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 member's balances on each syndicate on which it participates.

Accordingly all of the assets less liabilities of the syndicate, as represented in the member's balances reported on the Statement of Financial Position on page 8, represent resources available to meet member's and Lloyd's capital.

### 21. Ultimate parent company

The Managing Agent considers The Hanover Insurance Group, Inc. to be its ultimate parent company.

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

The Managing Agent is responsible for preparing the Syndicate report and 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 accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The 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 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 accounts; and
4. prepare the 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 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 accounts may differ from legislation in other jurisdictions.

# **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 6124**

## **Report on the syndicate accounts**

### **Our Opinion**

In our opinion, Syndicate 6124's syndicate accounts (the "syndicate 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 accounts for the period ended 31 December 2016, included within Syndicate 6124 Report and Accounts (the "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 Member's Balances for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the accounting policies and the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate 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 accounts are prepared is consistent with the syndicate accounts.

### **Other matters on which we are required to report by exception**

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

- we have not received all the information and explanations we require for our audit; or
- the Managing Agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

## **Responsibilities for the syndicate accounts and the audit**

### **Our responsibilities and those of the Managing Agent**

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 25, the Managing Agent is responsible for the preparation of the syndicate 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 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 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 accounts sufficient to give reasonable assurance that the syndicate 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 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 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 Report to identify material inconsistencies with the audited syndicate accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Andrew B Hill (Senior statutory auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

14 March 2017