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**Syndicate 6130**

**Report and Accounts 2016**

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## Underwriter's Report

Syndicate 6130 was established on 1<sup>st</sup> May 2016 as part of a strategic partnership between Chaucer and AXA Africa Speciality Risks to support the development of specialty insurance business in Africa. The partnership utilises AXA's African distribution network combined with the long standing underwriting expertise of Chaucer.

### Underwriting performance

Despite challenging underwriting market conditions, with over capacity and high levels of competition prevalent in most markets in 2016, Syndicate 6130 produced reported gross written premium of \$9,252k from the targeted core areas of focus: Political Risks, Political Violence, Energy and Property

The Syndicate generated an underwriting loss of \$832k. After investment income, the loss for the period was \$828k.

At this early stage of development of the Syndicate, the costs of reinsurance and administrative expenses have a significant effect on the Syndicate's profitability, which should reduce as the scale of the Syndicate increases. The combined ratio for 2016 was 193%.

### Underwriting outlook

Absent a major market event, excess capacity and intense competition will remain key features of the Insurance market in 2017, and this will continue to impact pricing levels for all classes. However, while we expect this pressure to continue, continuation of the recent uptick in loss frequency across most classes, combined with weakening prior year developments, further softening should become less aggressive

### Segmental performance

The following table provides a summary of divisional level underwriting performance.

	Energy	Property	Political Risk & Political Violence	Total
2016	\$'000	\$'000	\$'000	\$'000
Gross written premiums	590	441	8,221	9,252
Underwriting loss	97	75	660	832

### Energy

The low oil price, which settled at around \$50 a barrel (compared to around \$110 in early 2014), and intense competition for business continued to weigh heavily on the energy market in 2016. Development and construction activity in the industry remained quiet as the oil and gas industry lacked the confidence to press ahead with the investment needed to secure future long-term production targets.

The focus in 2017 will be to continue the development of the account, aiming to further develop connections and sources of business in African countries in both the traditional and renewable energy sectors.

### Property

After a number of more benign loss years, market conditions remained challenging in 2016, with further increases in global capacity, greater cedant retentions and an ever-growing impetus to combine risks under broader facilities.

While we expect market conditions in 2017 to remain tough, we anticipate that rate reductions will slow as we reach the bottom of the cycle. In addition, the partnership between AXA and Chaucer will allow the underwriting team to influence pricing in a greater proportion of our portfolio in 2017.

### Political Classes

Chaucer is an established leader for political risk and violence in emerging markets. In 2016, these classes were the greatest source of business for the Syndicate.

Fallout from the weakening demand, and lower prices, for commodities that began in 2015, hit the trade credit market, especially in emerging markets, in 2016. The challenge on revenue, profit and cash flow made it harder to service debts and made defaults more common in many commodity-related industries.

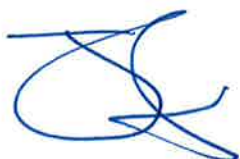
While the results of the market have been affected by a higher incidence of loss in this class, the loss experience of the Syndicate has been good to date, whilst demand for the product is increasing. The focus in 2017 remains on a technical underwriting approach, meeting core client needs.

The Political Violence account has also benefitted from good loss experience in 2016, despite well publicised instability in a number of African countries.

**Business development**

Our focus remains on the further growth and development of the African Specialty insurance market, and delivering sustainable, profitable growth of the Syndicate in the Lloyd's market, particularly in the Property and Energy accounts, whilst still providing brokers and clients with a single destination for all major classes of African business.

AXA and Chaucer will continue to invest in our underwriting teams as well as the pricing, modelling and performance measurement capabilities to support this.

A handwritten signature in blue ink, appearing to be 'J Fowle', with a stylized, overlapping loop structure.

J Fowle, Chief Underwriting Officer  
Syndicate 6130  
13 March 2017

## Managing Agent's Report

The directors of the Managing Agent present their report and the audited accounts for the period from 1 May 2016 to 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

This report covers the business of Syndicate 6130, which was established for the 2016 year of account as a Special Purpose Syndicate. The principal activity of the Syndicate is to underwrite quota share reinsurance of Chaucer Syndicate 1084 in respect to African specialty insurance and reinsurance business in the United Kingdom.

The quota share contract with Chaucer Syndicate 1084 operates on a funds withheld basis.

#### Review of the business and future developments

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

	<b>2016</b>
	<b>\$'000</b>
Gross written premiums	9,252
Loss for the financial period	828
Combined ratio <sup>1</sup>	193%

<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 undertakes an extensive annual underwriting planning process in order to determine its targets for premium income and return on capital.

The detailed stochastic modelling of underwriting risk, both gross and net of reinsurance, using dynamic financial analysis techniques, assists with the setting and management of risk appetite.

Big losses are the largest contributor to underwriting risk, this as a result of the low volumes of business, high line sizes and low diversification between classes. As premium volumes grow this may change.

The Syndicate uses Exceedance Probability (EP) curves as one of the tools for managing this risk. For a defined underwriting portfolio, an EP curve plots expected probability against loss size. This represents a sliding scale of risk appetite against associated exceedance probabilities.

##### Managing risk aggregation

The Syndicate monitors the aggregation of underwriting exposure using specialist modelling software tools where appropriate. The Syndicate monitors its loss exposure to a suite of natural and man-made catastrophe events (including the prescribed Lloyd's Realistic Disaster Scenarios) on a quarterly basis. Modelled loss caps are set at an underwriting business unit level for each event; this provides the underwriters with a practical tool for managing their exposures.

### *Concentrations of risk*

The Syndicate has exposure to losses arising through the aggregation of risks in geographical sectors due to the concentrated geographical nature of the business. Events giving rise to such aggregations are typically man-made and natural disasters such as political risk / violence events, earthquakes or weather-related disasters such as hurricanes, windstorms and typhoons. Other examples include major terrorism events.

As part of the risk management process, the Syndicate assesses exposures to Realistic Disaster Scenarios every quarter to enable the Syndicate to monitor potential accumulations of underwriting exposure against a pre-determined suite of catastrophic and big loss events and to confirm no breach of underwriting risk appetite.

### *Maximum lines*

Underwriters manage individual risks through adherence to set maximum line sizes.

### *Underwriting controls*

The Syndicate operates a number of underwriting controls, details of which are set out below.

### *Monitoring performance against plan*

The Syndicate manages performance against plan through monthly reporting; utilising centrally prepared underwriting management information packs. The Syndicate provides reports to the Syndicate Management Committee ('SMC'), the Underwriting Committee and the Board of the Managing Agent. This control process ensures several layers of review for underwriting risks, with particular focus on pricing, loss ratio forecasts, risk aggregation, catastrophe modelling and reinsurance protection.

### *Emerging risks*

An emerging risk is perceived to be potentially significant but which may not be fully understood or allowed for in insurance terms and conditions, pricing, reserving, capital setting or the operational activities of the Syndicate. The Managing Agent has a defined emerging risk process to identify and assess the potential impact of such risks.

### *Peer and independent reviews*

The Managing Agency operates a peer review process on all managed syndicates. A peer review is performed on a risk-based sample of business by a fellow underwriter to ensure adherence to sound underwriting practices. The independent review process involves detailed review of individual underwriting risks and supporting documentation.

### *Underwriting risk review*

Themed underwriting reviews are conducted by the Managing Agent's Underwriting Risk Management Function across all Syndicates to ensure that underwriting procedures and discipline are followed.

### *Internal audit*

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

### **Claims risk**

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

### *Claims settlement and reserving authority limits*

The Managing Agent employs strict claims handling authority limits. All transactions in excess of an individual claims handler's authority are referred in a tiered approach to a colleague with the requisite knowledge and experience.

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

### *Management of external experts*

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

### **Reserving risk**

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

Reserves are set on a two tier hierarchical basis.

#### *Tier 1: Actuarial best estimate reserves*

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

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

#### *Tier 2: Syndicate reserves*

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

##### **(a) Underwriting year syndicate reserves**

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

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

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

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

##### **(b) Annually accounted syndicate reserves**

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

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

The assessment of actuarial best estimate reserves is a rolling quarterly process. The underwriting portfolio comprises a number of heterogeneous business types, each of which the analysis projects to ultimate. Where certain contracts or claim events obscure development trends, the analysis splits these out for separate review. The application of standard actuarial techniques to the historical attritional, large and catastrophe claims data supports the estimation of ultimate loss ratios. The analysis also draws on external data or market



data or non-standard methodologies where appropriate. Whenever actual development of premiums or claims within a reserving category during a quarter is materially different from expected development based on the existing methodology, then that methodology is reassessed and, where appropriate, amended. The analysis takes credit for reinsurance recoveries and provides for the possibility of reinsurer failure.

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

Although the risk loadings provide important protection against adverse developments in reserves, the degree of subjectivity in the reserving process, the exposure to unpredictable external influences (e.g. the legal environment) and the quantum of reserves relative to net tangible assets, mean that reserving remains a significant source of risk to the Syndicate.

### **Credit risk**

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

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

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

### **Investment risk**

The Syndicate currently operates on funds withheld basis with a notional investment return accrued based on the amount of funds withheld. This notional return is calculated using a market quoted floating interest rate and an additional fixed 'spread'. This limits the amount of investment risk the Syndicate is exposed to.

The preservation of capital and maintenance of sufficient liquidity are at the heart of the financial market risk policies adopted by the Managing Agent. As the Syndicate develops the Investment risk assumed and the investment approach may change.

### **Operational risk**

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

#### *Regulatory and legal risk*

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

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

#### *Conduct risk*

Conduct risk is the risk of treating our customers unethically or unfairly by delivering inappropriate outcomes due to improper attitudes, systems, controls and governance. The Managing Agent operates a suitable risk

management and governance framework across the syndicate which monitors the various areas of potential exposure to conduct risk matters and ensures appropriate design and performance of controls and the effective escalation and resolution of items as required.

#### *Staff matters*

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

#### **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 period ended 31 December 2016, unless otherwise stated.

C M Stooke	Chairman and Independent Non-executive Director	
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)
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 6130 active underwriter**

J Fowle

#### **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 the Board of Chaucer Syndicates Limited.



R J Callan  
Chief Financial Officer  
13 March 2017

## Statement of Comprehensive Income for the period from 1 May 2016 to 31 December 2016

	Notes	Period ended 31 December 2016 \$'000
<b>Technical Account – General Business</b>		
<b>Earned premiums, net of reinsurance</b>		
Gross premiums written	3	9,252
Outward reinsurance premiums		(3,690)
<b>Net premiums written</b>		<b>5,562</b>
<b>Change in the provision for unearned premiums</b>		
Gross amount	12	(7,490)
Reinsurers' share	12	2,820
<b>Net change in provision for unearned premiums</b>		<b>(4,670)</b>
<b>Earned premiums, net of reinsurance</b>		<b>892</b>
Allocated investment return transferred from the Non-Technical Account		4
<b>Total technical income</b>		<b>896</b>
<b>Claims incurred, net of reinsurance</b>		
<b>Claims paid</b>		
Gross amount	12	(3)
Reinsurers' share	12	-
<b>Net claims paid</b>		<b>(3)</b>
<b>Change in the provision for claims</b>		
Gross amount		(1,146)
Reinsurers' share		503
<b>Net change in the provision for claims</b>		<b>(643)</b>
<b>Claims incurred, net of reinsurance</b>		<b>(646)</b>
Net operating expenses	4	(1,078)
<b>Total technical charges</b>		<b>(1,724)</b>
<b>Balance on the Technical Account – General Business</b>		<b>(828)</b>
<b>Non-Technical Account</b>		
Investment income	8	4
Allocated investment return transferred to the Technical Account - General Business		(4)
<b>Loss for the financial period</b>	11	<b>(828)</b>

All the amounts above are in respect of continuing operations.

## Statement of Financial Position as at 31 December 2016

	Notes	2016 \$'000
<b>Assets</b>		
<b>Reinsurers' share of technical provisions</b>		
Provision for unearned premiums	12	2,820
Claims outstanding	12	502
		<u>3,322</u>
<b>Debtors</b>		
Debtors arising out of reinsurance operations		6,678
Other debtors	10	4
		<u>6,682</u>
<b>Prepayments and accrued income</b>		
Deferred acquisition costs	12	1,920
		<u>1,920</u>
<b>Total assets</b>		<u><b>11,924</b></u>
<b>Liabilities</b>		
<b>Capital and reserves</b>		
Member's balances	11	(828)
<b>Technical provisions</b>		
Provision for unearned premiums	12	7,487
Claims outstanding	12	1,144
		<u>8,631</u>
<b>Creditors</b>		
Creditors arising out of reinsurance operations		4,121
<b>Total liabilities</b>		<u><b>11,924</b></u>



R J Callan  
Chief Financial Officer  
13 March 2017

**Statement of Changes in Members' Balances for the period from 1 May 2016 to 31 December 2016**

	Note	Period ended 31 December 2016 \$'000
Balance as at 1 May		-
Loss for the period	11	(828)
<b>Balance as at 31 December</b>		<b>(828)</b>

## Statement of Cash Flows for the period from 1 May 2016 to 31 December 2016

	Notes	Period ended 31 December 2016 \$'000
Loss for the period		(828)
Increase in gross technical provisions		9,105
Increase in reinsurers' share of gross technical provisions		(3,323)
Increase in debtors		(9,249)
Increase in creditors		4,299
Investment income	8	(4)
<b>Net cash flows from operating activities</b>		<u>-</u>
Cash and cash equivalents at inception		<u>-</u>
<b>Cash and cash equivalents at end of year</b>		<u>-</u>

# Notes to the Accounts for the period from 1 May 2016 to 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.

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

The Syndicate 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.

## 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 inception during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified.

#### 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 Statement of Financial Position 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 Statement of Financial Position 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 Statement of Financial Position date based on statistical methods. Refer to reserving risk section in Managing Agent's Report for more detail.

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 from 1 May 2016 to 31 December 2016

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.

### 2. Accounting policies (continued)

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. 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 related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the Statement of Financial Position date.

#### b) Net operating expenses

Net operating expenses are recognised on an accruals basis. These comprise the Syndicate's operating expenses such as profit commission, acquisition costs, Managing Agency costs, the costs of membership of Lloyd's and other expenses attributable to the Syndicate's underwriting.

#### c) Foreign currencies

The functional and presentation currency of the Syndicate is United States Dollars.

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

## Notes to the Accounts for the period from 1 May 2016 to 31 December 2016

other comprehensive income, and in the non-technical account where the gain is required to be recognised within profit or loss.

### **d) 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.

### **e) 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 overseas tax payable by members on underwriting results.

### **f) Key judgements and uncertainty**

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

- Valuation of general insurance contract liabilities.
- Premium recognition.

## Notes to the Accounts for the period from 1 May 2016 to 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>Reinsurance acceptances</b>							
Energy	590	287	(148)	(166)	(70)	(97)	(191)
Property	441	184	(132)	(68)	(59)	(75)	(216)
Political Risks & Political Violence	8,221	1,291	(869)	(1,019)	(63)	(660)	(2,982)
	<b>9,252</b>	<b>1,762</b>	<b>(1,149)</b>	<b>(1,253)</b>	<b>(192)</b>	<b>(832)</b>	<b>(3,389)</b>

\* Gross operating expenses are not the same as net operating expenses shown in the Statement of Comprehensive Income account because of commissions in respect of outward reinsurance received.

All premiums were concluded in the UK.

Commission on direct insurance - gross premiums during 2016 was nil.

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:

	<b>2016 \$'000</b>
Africa	6,392
Other	2,860
<b>Gross premiums written</b>	<b>9,252</b>

### 4. Net operating expenses

	<b>2016 \$'000</b>
Acquisition costs:	
Brokerage and commission	2,565
Change in deferred acquisition costs	(1,920)
Administrative expenses	608
Reinsurance commissions and profit participation	(175)
	<b>1,078</b>

Administrative expenses consist of Members' standard personal expenses, Lloyd's subscriptions, New Central Fund contributions and managing agent's fees.

## Notes to the Accounts for the period from 1 May 2016 to 31 December 2016

### 5. Auditors' remuneration

	2016 \$'000
Audit of the syndicate accounts	39
	<u>39</u>
Audit fees were borne by a related party	

### 6. Staff costs

The Syndicate did not employ any staff in the period. Staff costs in relation to the Syndicate's operations were borne by a related party.

### 7. Emoluments of the directors of the Managing Agent

The directors of Chaucer Syndicates Limited received no remuneration in relation to the Syndicate. All such costs were borne by a related party.

### 8. Investment Income

	2016 \$'000
<b>Investment income</b>	
Interest received on funds withheld balance	4
	<u>4</u>

### 9. Financial instruments

#### Risk policies

#### Market risk

##### Currency risk

The Syndicate writes a proportion of insurance business in currencies other than US Dollars, which gives rise to exposure to currency risk. The Syndicate mitigates this through a policy of matching assets and liabilities by currency.

##### Liquidity risk

As the quota share arrangement with Syndicate 1084 operates on a funds withheld basis, there is no day to day exposure to liquidity risk.

2016

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	
	Claims outstanding	-	-	-	1,016	
Creditors	4,121	-	-	-	-	4,121
<b>At 31 December 2016</b>	<u>4,121</u>	<u>-</u>	<u>-</u>	<u>1,016</u>	<u>128</u>	<u>5,265</u>

## Notes to the Accounts for the period from 1 May 2016 to 31 December 2016

<b>10. Other debtors</b>	<b>2016 \$'000</b>
Interest Income receivable	4
	<u>4</u>

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

	<b>2016 \$'000</b>
Member's balances at 1 May	-
Loss for the period from 1 May 2016 to 31 December 2016	(828)
Member's balances at 31 December	<u>(828)</u>

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.

### 12. Technical provisions

	Provisions for unearned premiums \$'000	Claims outstanding \$'000	Deferred acquisition costs* \$'000	Total \$'000
<b>Gross</b>				
At 1 May 2016	-	-	-	-
Movement in provision	7,487	1,144	(2,054)	6,577
At 31 December 2016	<u>7,487</u>	<u>1,144</u>	<u>(2,054)</u>	<u>6,711</u>
<b>Reinsurance</b>				
At 1 May 2016	-	-	-	-
Movement in provision	(2,820)	(502)	134	(3,188)
At 31 December 2016	<u>(2,820)</u>	<u>(502)</u>	<u>134</u>	<u>(3,322)</u>
<b>Net technical provisions</b>				
At 31 December 2016	<u>4,667</u>	<u>642</u>	<u>(1,920)</u>	<u>3,389</u>

\* Reinsurers' share of deferred acquisition cost is included in prepayments and accrued income.

### 13. 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:

	<b>2016</b>
Net loss ratio	72%
Impact of 1% variation (\$'000)	9

## Notes to the Accounts for the period from 1 May 2016 to 31 December 2016

### 14. Claims Development Triangles

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

Pure underwriting year	2016	Total
	\$'000	\$'000
<i>Estimate of gross claims incurred</i>		
At end of underwriting year	1,144	1,144
As at 31 December 2016	1,144	1,144
Gross reserves	<u>1,144</u>	<u>1,144</u>
<i>Estimate of Net claims incurred</i>		
At end of underwriting year	642	642
As at 31 December 2016	642	642
Gross reserves	<u>642</u>	<u>642</u>

### 15. 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 \$'000
Managing agency fees	250
Balance due to Chaucer Syndicates Limited at 31 December	(90)

AXA Global P&C is a member of the AXA Group. The Syndicate has purchased reinsurance from this company, which in turn has purchased back to back cover from an unrelated third-party reinsurer. The following table shows the costs and the outstanding balances due from the Syndicate at the year-end:

	2016 \$'000
Reinsurance	3,690
Balance due to AXA Global P&C at 31 December	(2,110)

### 16. 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 period from 1 May 2016 to 31 December 2016

### 17. 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 6130 is not disclosed in these financial statements.

#### Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it 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 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 10, represent resources available to meet members' and Lloyd's capital requirements.

### 18. Ultimate parent company

The largest and smallest group of undertakings for which group accounts are prepared, and in which the results of the Syndicate is included is AXA, a company incorporated in France. The Managing Agent considers The Hanover Insurance Group, Inc. to be its ultimate parent company. A copy of the most recent consolidated accounts of AXA can be obtained from 25, avenue Matignon 75008, Paris, France.

## **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 financial statements may differ from legislation in other jurisdictions.



# **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 6130**

## **Report on the syndicate accounts**

### **Our Opinion**

In our opinion, Syndicate 6130'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 loss and cash flows for the period from 1 May 2016 to the 31 December 2016;
- 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 for the period from 1 May 2016 to the 31 December 2016, included within Syndicate 6130 Report and Accounts (the "Report"), comprise:

- the Statement of Financial Position as at 31 December 2016;
- the Statement of Comprehensive Income account for the for the period from 1 May 2016 to the 31 December 2016;
- the Statement of Other Comprehensive Income for the for the period from 1 May 2016 to the 31 December 2016;
- the Statement of Changes in Members' Balances;
- the Statement of Cash Flows;
- the accounting policies, and
- the notes to the syndicate 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 period 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 21, 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 G Hill (Senior statutory auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

14 March 2017