Chaucer

A member of The Hanover Insurance Group

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Registered in England No. 184915 • Registered Office as above

Syndicate 1084

Annual Report and Accounts 2017

Contents

Underwriter's Report

Results and performance
The loss for the year was £16.9m (2016: £142.5m profit), and the combined ratio deteriorated to 105.6% (2016: 89.6%).

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

	2017	2016	Movement
	£m	£m	%
Gross written premium	950.3	780.9	21.7
Net written premium	643.4	572.5	12.4
Net earned premium	647.3	591.4	9.5
Underwriting result	(30.1)	64.1	(147.0)
Investment return	20.2	21.5	(6.0)
Technical (loss) / profit for the financial year	(9.9)	85.6	(111.6)
Non-technical account for the financial year	(7.0)	56.9	(112.3)
Total comprehensive (loss) / income	(16.9)	142.5	(111.9)
Combined ratio	105.6 %	89.6 %	16.0

The result reflects challenging underwriting conditions in most markets and an increase in the frequency and severity of insured catastrophe events in the second half of this year notably North Atlantic Hurricanes Harvey, Irma and Maria and two Mexican earthquakes in the third quarter and the California Wildfires in the final quarter.

Reported gross written premium increased to £950.3m from £780.9m in 2016. A large element of the increase is due to rate of exchange differences with the conversion of premiums received in US and Canadian dollars to sterling resulting in a circa £45.0m increase, following sterling weakening post the Brexit referendum, and whilst it has partially recovered, it is still not at pre referendum levels. This accounts for the largest element of the growth in the Reinsurance book where a large proportion of income is written in the first half of the year where the disparity between rates of exchange was greatest, and a key reason for growth seen in other lines.

In addition, Reinsurance income has also increased as inwards reinstatement premiums received this year are notably higher following the loss activity noted earlier.

Underlying this, the Syndicate reduced volumes in certain lines, in response to tougher underwriting conditions, although growth was achieved in target classes, where pricing and results were most robust.

Investment return decreased to £20.2m (2016: £21.5m) as a result of mark-to-market losses following an upwards shift in yield curves.

Strategy and outlook
The strength and depth of the Syndicate 1084 underwriting team, together with the broad diversity of our underwriting portfolio and our membership in the Lloyd's market, drive our ability to manage both the scale and composition of our business. These, combined with our continued active management of our portfolio and the underwriting opportunities we identify, provide a sound basis for the profitable development of the Syndicate business.

This approach will continue in 2018. We will again target our capital at those classes that offer the required margin, leveraging our expertise and strong business relationships to generate new opportunities for product and distribution development, including emerging markets. We will also develop new, future-focused risk coverage areas, beginning with Cyber. We will as ever remain selective or reduce our capital and premium volumes in those lines where rates are under most pressure.

E Lines, Active Underwriter
Chaucer Syndicate 1084
12 March 2018

Managing Agent's Report

The Directors of the Managing Agent present their report and the audited annual accounts for the year ended 31 December 2017.

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

The Managing Agent
The Managing Agent is Chaucer Syndicates Limited, whose registered office is Plantation Place, 30 Fenchurch Street, London EC3M 3AD and registered number is 00184915.

Reinsurance to Close (RITC) of the UK Division
On 7 February 2018 Lloyd's issued a direction to Chaucer Syndicates Limited to allow a Split RITC of Syndicate 1084's 2015 Year of Account.

Syndicate 1084 will RITC the part of the 2015 Year of Account which compromises the UK Division book of business to Antares Syndicate 1274. Due to the Syndicate's existing reinsurance arrangement in conjunction with the quota share arrangement with Special Purpose Arrangement (SPA) 6124, the UK Division closing reserves are net nil (gross £199.7m) and therefore the RITC will be for a nominal consideration of £1. The RITC transaction is not reflected in these financial statements.

Chaucer have also obtained the necessary rule modification from the PRA to treat this arrangement as a reinsurance to close for the purposes of the PRA rules. 'SII Firms – Lloyd's – Approved RITC', Rule 3.1.

The balance of the liabilities of the 2015 Year of Account of the Syndicate will reinsure to close into the 2016 Year of Account of Syndicate 1084 by way of an appropriate accounting entry (in accordance with paragraph (d) of the definition of 'Reinsurance to Close' in the Definitions Byelaw).

Principal activities
This report covers the business of Syndicate 1084, whose principal activity during the year continued to be the transaction of worldwide general insurance and reinsurance business in the United Kingdom.

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

Underwriting risk
Each Division of 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.

Catastrophe risk is the main component of underwriting risk and 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 catastrophe events (including the prescribed Lloyd's Realistic Disaster Scenarios) and man-made events 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. This mainly affects the property, marine and energy portfolios. Events giving rise to such aggregations are typically natural disasters such as 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 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 divisional reporting, utilising centrally prepared underwriting management information packs. Each Division reports to an Underwriting Board which in turn reports to the Underwriting Committee and through to 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
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 Underwriting Risk Management Function to ensure that underwriting procedures and discipline are followed.

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

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

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

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

Investment risk constraints, which quantify the maximum amount of investment risk permitted over a one-year time horizon, are approved by the Managing Agent's Board on an annual basis and are used to derive the maximum allocation, or risk budget, that can be allocated to each asset class.

The Managing Agent reviews and amends asset allocations in accordance with investment risk constraints. Due regard is given to the outlook for each asset class because of changes in market conditions and investment returns. Proposed asset allocations are tested using stochastic modelling techniques prior to formal adoption.

The Syndicate invests a proportion of funds in fixed income and variable yield securities managed by professional portfolio managers. Each manager operates within a defined set of investment guidelines and against an appropriate benchmark.

Refer to Note 13 for more details on the Syndicate's exposure to investment risk and processes in place for managing these risks.

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

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

The Managing Agent 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 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
Chaucer Underwriting Services Limited (CUSL) considers its staff to be a key resource and seeks to provide a good working environment for its staff that is rewarding and safe and complies with appropriate employee legislation. During the year there have been no significant injuries to staff in the workplace or any significant actions taken by any regulatory bodies with regard to staff matters.

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

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 2017, unless otherwise stated.

D C Bendle, Chief Operating Officer
R J Callan, Chief Financial Officer
T J Carroll, Independent Non-executive Director
J M Farber, Non-executive Director
J Faure, Non-executive Director (appointed 7 December 2017)
J Fowle, Chief Executive Officer and Chief Underwriting Officer
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

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
00184915

Managing Agent's independent auditors
PricewaterhouseCoopers LLP, London

Syndicate 1084 active underwriter
E Lines

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

Syndicate investment managers
Goldman Sachs Asset Management International
Opus Investment Management, Inc.

Syndicate independent 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
12 March 2018

Statement of Comprehensive Income for the year ended 31 December 2017

	Note(s)	2017 £m	2016 £m
Technical Account – General Business			
Earned premiums, net of reinsurance			
Gross premiums written	3	950.3	780.9
Outward reinsurance premiums		(306.9)	(208.4)
Net premiums written		**643.4**	**572.5**
Change in the provision for unearned premiums			
Gross amount	18	(38.8)	48.0
Reinsurers' share	18	42.7	(29.1)
Net change in provision for unearned premiums		**3.9**	**18.9**
Earned premiums, net of reinsurance		**647.3**	**591.4**
Other technical income, net of reinsurance	9	6.0	2.4
Allocated investment return transferred from the Non-Technical Account		20.2	21.5
Total technical income		**673.5**	**615.3**
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	18	(483.0)	(428.5)
Reinsurers' share	18	158.1	154.9
Net claims paid		**(324.9)**	**(273.6)**
Change in the provision for claims			
Gross amount		(232.2)	(31.2)
Reinsurers' share		135.8	12.2
Net change in the provision for claims		**(96.4)**	**(19.0)**
Claims incurred, net of reinsurance		**(421.3)**	**(292.6)**
Net operating expenses	3, 5	(262.1)	(237.1)
Total technical charges		**(683.4)**	**(529.7)**
Balance on the Technical Account – General Business		**(9.9)**	**85.6**
Non-Technical Account			
Other (expense) / income	12	(7.0)	56.9
Investment income	10	29.9	29.6
Net unrealised losses on investments	10	(2.7)	(0.2)
Investment expenses and charges	10	(7.0)	(7.9)
Allocated investment return transferred to the Technical Account - General Business		(20.2)	(21.5)
Total comprehensive (loss) / income		**(16.9)**	**142.5**

All the amounts above are in respect of continuing operations.

Statement of Financial Position as at 31 December 2017

	Note(s)	2017 £m	2016 £m
Assets			
Investments			
Other financial investments	13	926.7	1,104.0
Reinsurers' share of technical provisions			
Provision for unearned premiums	18	138.9	107.3
Claims outstanding	18	854.2	750.6
		993.1	857.9
Debtors			
Debtors arising out of direct insurance operations - intermediaries		299.2	265.8
Debtors arising out of reinsurance operations		100.6	96.1
Other debtors	14	2.6	1.7
		402.4	363.6
Other assets			
Cash at bank		10.3	15.2
Overseas deposits	15	90.7	82.6
Other assets	16	53.3	51.1
		154.3	148.9
Prepayments and accrued income			
Deferred acquisition costs	18	106.3	106.2
Other prepayments and accrued income		9.5	6.8
		115.8	113.0
Total assets		**2,592.3**	**2,587.4**
Liabilities			
Capital and reserves			
Member's balances	17	(83.3)	88.9
Technical provisions			
Provision for unearned premiums	18	455.8	454.5
Claims outstanding	13, 18, 20	1,962.8	1,830.6
		2,418.6	2,285.1
Creditors			
Creditors arising out of direct insurance operations - intermediaries		3.1	1.8
Creditors arising out of reinsurance operations		217.2	170.5
Other creditors including tax and social security	21	13.9	22.0
		234.2	194.3
Accruals and deferred income		22.8	19.1
Total liabilities		**2,592.3**	**2,587.4**

The annual accounts on pages 9 to 29 were approved by the Board of Chaucer Syndicates Limited on 12 March 2018 and signed on its behalf by:

R J Callan
Chief Financial Officer

Statement of Changes in Member's Balances for the year ended 31 December 2017

	Note	2017 £m	2016 £m
Balance as at 1 January		88.9	40.0
Total comprehensive (loss) / income	17	(16.9)	142.5
Payments of profit to member's personal reserve funds	17	(153.4)	(97.0)
Other	17	(1.9)	3.4
Balance as at 31 December		**(83.3)**	**88.9**

Statement of Cash Flows for the year ended 31 December 2017

	Note(s)	2017 £m	2016 £m
Cash flows from operating activities			
Total comprehensive (loss) / income		(16.9)	142.5
Increase in gross technical provisions		134.7	244.2
Increase in reinsurers' share of gross technical provisions		(135.2)	(60.1)
Increase in debtors		(42.8)	(64.3)
Increase in creditors		43.6	52.5
Movement in other assets / liabilities		(10.3)	(42.9)
Investment return	10	(20.2)	(21.5)
Foreign exchange		76.0	(172.7)
Other		(1.9)	3.4
Net cash generated from operating activities		**27.0**	**81.1**
Cash flows from investing activities			
Purchase of equity and debt instruments		(838.8)	(1,011.2)
Sale of equity and debt instruments		937.9	1,004.6
Investment income received		23.2	19.4
Net cash generated from investing activities		**122.3**	**12.8**
Cash flows from financing activities			
Distribution profit		(141.7)	(71.2)
Open year profit release		(11.7)	(25.8)
Net cash used in financing activities		**(153.4)**	**(97.0)**
Net decrease in cash and cash equivalents		(4.1)	(3.1)
Cash and cash equivalents at beginning of year		15.2	16.1
Foreign exchange on cash and cash equivalents		(0.8)	2.2
Cash and cash equivalents at end of year		**10.3**	**15.2**
Cash and cash equivalents consists of:			
Cash at bank		10.3	15.2
Cash and cash equivalents		**10.3**	**15.2**

Notes to the Accounts for the year ended 31 December 2017

1. Basis of preparation

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

The Syndicate annual accounts have been prepared in accordance with applicable accounting standards 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.

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

2. Accounting policies

a) Insurance contracts

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

i) Premiums written

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

ii) Unearned premiums

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

iii) Reinsurance premiums ceded

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

iv) Claims provisions and related recoveries

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

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

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.

Notes to the Accounts for the year ended 31 December 2017

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 balance sheet date.

b) Investment contracts

Amounts paid in respect of certain reinsurance contracts, which principally involve the transfer of financial risk and not significant insurance risk, are accounted for using deposit accounting, under which amounts paid are debited directly to the statement of financial position. Investment contract assets are initially recognised at fair value and subsequently carried in the statement of financial position at amortised cost and shown as 'Other assets'. Investment contract liabilities are carried in the statement of financial position at amortised cost and shown within 'Other creditors including tax and social security'. Contractual gains and losses are recognised in other technical income in the statement of comprehensive income using the effective interest rate method.

c) Net operating expenses

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

d) Cash and cash equivalents

Cash and cash equivalents includes deposits held at call with banks.

e) Foreign currencies

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

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

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

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

Notes to the Accounts for the year ended 31 December 2017

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 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.

f) Financial assets

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

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

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

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

g) 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.

h) Investment return

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

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

Investment return is initially recorded in the non technical account. A transfer is made from the non technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

i) Taxation

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

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

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

j) Pension costs

Effective 1 January 2017, CUSL operates a defined contribution scheme. Prior to this, the defined contribution scheme was operated by Chaucer Syndicates Limited. Pension contributions relating to Syndicate staff are charged to the Syndicate and included within net operating expenses. Chaucer Syndicates Limited operated a defined benefit scheme during the year which closed to future accrual at 31 December 2016.

Notes to the Accounts for the year ended 31 December 2017

2. Accounting policies (continued)

k) Key judgements and uncertainty

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

- Valuation of general insurance contract liabilities (page 13)
- Premium recognition (page 13)

Notes to the Accounts for the year ended 31 December 2017

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
2017							
Direct insurance							
Accident and health	14.1	10.0	(4.5)	(3.8)	(3.3)	(1.6)	(1.0)
Motor (third party liability)	0.7	0.7	16.0	0.9	(16.6)	1.0	-
Motor (other classes)	2.0	2.0	13.4	(0.7)	(15.0)	(0.3)	-
Marine, aviation and transport	78.2	77.1	(69.7)	(38.7)	4.0	(27.3)	103.7
Energy	49.5	52.4	(36.4)	(20.0)	2.7	(1.3)	37.3
Fire and other damage to property	60.3	57.2	(53.8)	(22.6)	9.6	(9.6)	98.7
Third party liability	175.0	168.7	(115.4)	(64.8)	7.1	(4.4)	359.9
Miscellaneous	71.9	57.8	(17.2)	(29.0)	(15.6)	(4.0)	89.6
	451.7	425.9	(267.6)	(178.7)	(27.1)	(47.5)	688.2
Reinsurance	498.6	485.6	(447.6)	(102.8)	82.2	17.4	737.3
	950.3	**911.5**	**(715.2)**	**(281.5)**	**55.1**	**(30.1)**	**1,425.5**
2016							
Direct insurance							
Accident and health	7.8	4.9	(1.0)	(1.8)	(0.3)	1.8	(1.5)
Motor (third party liability)	1.8	4.6	(7.6)	-	3.3	0.3	-
Motor (other classes)	(0.3)	33.7	(36.7)	(1.0)	3.3	(0.7)	-
Marine, aviation and transport	62.3	59.0	(52.7)	(28.9)	2.3	(20.3)	91.4
Energy	33.2	42.4	(19.1)	(18.9)	(6.7)	(2.3)	46.1
Fire and other damage to property	52.9	54.7	(23.9)	(16.4)	(15.2)	(0.8)	101.5
Third party liability	151.5	147.4	(88.3)	(52.8)	17.4	23.7	347.1
Miscellaneous	65.4	53.4	(75.8)	(33.4)	20.0	(35.8)	107.2
	374.6	400.1	(305.1)	(153.2)	24.1	(34.1)	691.8
Reinsurance	406.3	428.8	(154.6)	(103.0)	(73.0)	98.2	735.4
	780.9	**828.9**	**(459.7)**	**(256.2)**	**(48.9)**	**64.1**	**1,427.2**

* Gross operating expenses are not the same as net operating expenses shown in the Statement of Comprehensive Income because of commissions in respect of outward reinsurance received and other technical income.

All premiums were concluded in the UK.

Commission on direct insurance - gross premiums during 2017 was £94.6m (2016: £82.7m).

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

Notes to the Accounts for the year ended 31 December 2017

3. Segmental analysis (continued)

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

	2017 £m	2016 £m
UK	18.9	14.3
Other EU countries	59.0	34.1
Americas (including US)	364.0	294.3
Other	508.4	438.2
Gross premiums written	**950.3**	**780.9**

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

	2017 Gross Technical Provisions £m	2017 Net Technical Provisions £m	2016 Gross Technical Provisions £m	2016 Net Technical Provisions £m
UK	48.2	28.4	41.8	26.1
Other EU	150.1	88.4	99.8	62.3
Americas (including US)	926.4	546.0	861.2	537.9
Other	1,293.9	762.7	1,282.3	800.9
Total	**2,418.6**	**1,425.5**	**2,285.1**	**1,427.2**

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

During 2017 the Syndicate released £39.4m of technical reserves in respect of prior periods (2016: £95.7m), arising predominantly from the Energy and Marine Divisions (2016: primarily from the Energy and Treaty Divisions). These releases were due to favourable claims development on losses during 2017.

5. Net operating expenses

	2017 £m	2016 £m
Acquisition costs:		
- brokerage and commission	202.3	171.4
- other	16.0	14.9
Change in deferred acquisition costs	(1.9)	4.5
Administrative expenses	71.1	67.7
Reinsurance commissions and profit participation	(25.4)	(21.4)
	262.1	**237.1**

Administrative expenses include:

Member's standard personal expenses (Lloyd's subscriptions, New Central Fund contributions and managing agent's fees)	16.9	15.0

Notes to the Accounts for the year ended 31 December 2017

6. Auditors' remuneration

	2017 £m	2016 £m
Audit of the syndicate annual accounts	0.2	0.2
Other services pursuant to legislation including audit of regulatory returns	0.2	0.2
	0.4	**0.4**

7. Staff costs

The Managing Agent is recharged for staff costs by CUSL which employs all staff (2016: all staff were employed by the Managing Agent). The Managing Agent charges the following amounts to the Syndicate in respect of salary costs:

	2017 £m	2016 £m
Wages and salaries	26.2	24.2
Social security costs	3.3	3.3
Other pension costs	3.2	2.5
Other	0.2	0.8
	32.9	**30.8**

The average number of employees employed by CUSL (2016: the Managing Agent) but working for the Syndicate during the year was as follows:

	2017 Number	2016 Number
Administration and finance	117	106
Underwriting	106	102
Claims	29	29
Other	69	54
	321	**291**

8. Emoluments of the directors of the Managing Agent

The Directors of Chaucer Syndicates Limited received the following aggregate remuneration for services rendered to the Syndicate:

	2017 £m	2016 £m
Directors of Chaucer Syndicates Limited	1.5	1.2
Active underwriter	0.3	0.4

9. Other technical income

Other technical income relates to the recognition of contractual gains on a ceded reinsurance transaction which did not transfer significant insurance risk and was subject to deposit accounting.

Notes to the Accounts for the year ended 31 December 2017

10. Investment return

	2017 £m	2016 £m
Investment income		
Interest from financial assets at fair value through profit and loss	25.7	25.6
Interest on cash at bank	0.4	0.3
Other interest and similar income	2.1	1.8
Realised gains on investments	1.7	1.9
	29.9	29.6
Investment expenses and charges		
Investment management expenses including interest	(1.2)	(1.2)
Realised losses on investments	(5.8)	(6.7)
	(7.0)	(7.9)
Net unrealised losses on investments	(2.7)	(0.2)
Total investment return	**20.2**	**21.5**

11. Calendar year investment return

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

	2017 £m	2016 £m
Average funds	1,125.1	1,107.3
Investment return (net of expenses)	20.2	21.5
Calendar year investment return	1.8%	1.9%
Average funds available for investment by fund		
Sterling	121.6	105.5
United States Dollars	880.4	906.1
Canadian Dollars	123.1	95.7
Analysis of calendar year investment return by fund	%	%
Sterling	0.7	1.7
United States Dollars	2.1	2.2
Canadian Dollars	0.5	0.8

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

12. Other (expense) / income

Net foreign exchange losses of £7.0m (2016: gain of £56.9m) are included within other (expense) / income in the non-technical account.

Notes to the Accounts for the year ended 31 December 2017

13. Financial instruments

	2017 Cost £m	2017 Market value £m	2016 Cost £m	2016 Market value £m
Shares and other variable yield securities at fair value through profit and loss	15.3	14.9	42.9	46.4
Debt securities and other fixed income securities at fair value through profit and loss	930.3	911.8	1,035.2	1,057.6
	945.6	**926.7**	**1,078.1**	**1,104.0**

Risk policies

Market risk

Interest rate risk
The most significant proportion of risk within the Syndicate's fixed income portfolio is interest rate risk, which increases as the duration of each portfolio gets longer. In order to manage this risk duration constraints are set, relative to a benchmark to provide downside protection for increases in interest rates with duration targets of minimum 2.5 years and maximum 3.5 years for each portfolio.

	Change in interest rates %	Impact on result £m
31 December 2017	+1.0	(29.2)
	-1.0	26.6
31 December 2016	+1.0	(33.9)
	-1.0	29.0

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

Liquidity risk
The Syndicate is subject to calls on cash resources, mainly in respect of claims on insurance business, on a daily basis. The Syndicate operates and maintains a liquidity risk policy designed to ensure that cash is available to settle liabilities and other obligations when due without excessive cost to the business.

The expected payment profile of undiscounted liabilities is as follows:

					Maturity band (Years)	
	-	<1	1-3	3-5	>5	Total
	£m	£m	£m	£m	£m	£m
Other creditors	-	234.4	-	-	-	234.4
Claims outstanding	-	677.8	849.2	266.5	169.3	1,962.8
At 31 December 2017	-	**912.2**	**849.2**	**266.5**	**169.3**	**2,197.2**
Other creditors	-	194.3	-	-	-	194.3
Claims outstanding	-	616.0	806.8	243.7	164.1	1,830.6
At 31 December 2016	-	**810.3**	**806.8**	**243.7**	**164.1**	**2,024.9**

Notes to the Accounts for the year ended 31 December 2017

13. Financial instruments (continued)

Credit risk

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

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

	2017 £m	2016 £m
Debt securities	911.8	1,057.6
Cash at bank	10.3	15.2
Shares and other variable yield securities	14.9	46.4
Overseas deposits	90.7	82.6
	1,027.7	**1,201.8**
AAA	400.9	456.7
AA	193.7	269.7
A	252.0	262.8
BBB	137.1	174.2
BB or less	34.1	38.4
Not rated	9.9	-
Total assets bearing credit risk	**1,027.7**	**1,201.8**

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 2017 and at 31 December 2016.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Shares and other variable yield securities and unit trusts	14.9	-	-	14.9
Debt securities and other fixed income securities	35.7	874.4	1.7	911.8
Overseas deposits	15.2	75.5	-	90.7
At 31 December 2017	**65.8**	**949.9**	**1.7**	**1,017.4**
Shares and other variable yield securities and unit trusts	46.4	-	-	46.4
Debt securities and other fixed income securities	36.8	1,019.0	1.8	1,057.6
Overseas deposits	19.8	62.8	-	82.6
At 31 December 2016	**103.0**	**1,081.8**	**1.8**	**1,186.6**

Notes to the Accounts for the year ended 31 December 2017

13. Financial instruments (continued)

The majority of the Syndicate's investments are valued based on quoted market information or other observable market data. The Syndicate holds 0.2% (2016: 0.2%) of its net financial investments at a fair value based on estimates and recorded as Level 3 investments. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible. While such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions might result in a higher or lower fair value measurement, though this is unlikely to be significant.

14. Other debtors

	2017 £m	2016 £m
Investment sales debtors	1.2	-
Other debtors	1.4	1.7
	2.6	1.7

Other debtor is related to profit commission due from Syndicate 6124 and amounts due from Syndicate 6130. 2016 also included refunds of fees due from Lloyd's.

15. Overseas deposits

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries. The funds are required in order to protect policyholders and enable the Syndicate to operate in those markets. The Syndicate has only restricted access to these funds and no influence over their investment.

16. Other assets

This balance relates to the deposit asset arising on a ceded reinsurance transaction which did not transfer significant reinsurance risk and was subject to deposit accounting.

17. Reconciliation of movements in member's balances

	2017 £m	2016 £m
Member's balances at 1 January	88.9	40.0
Total comprehensive income	(16.9)	142.5
Payments of profit to member's personal reserve funds	(153.4)	(97.0)
Movement in member's balances in respect of tax, member's agent's fees and other	(1.9)	3.4
Member's balances at 31 December	(83.3)	88.9

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

Notes to the Accounts for the year ended 31 December 2017

18. Technical reserves

	Provisions for unearned premiums £m	Claims outstanding £m	Deferred acquisition costs* £m	Total £m
Gross				
At 1 January 2017	454.5	1,830.6	106.2	2,178.9
Exchange differences	(37.5)	(100.0)	(1.9)	(135.6)
Claims paid in year	-	(483.0)	-	(483.0)
Movement in provision	38.8	715.2	2.0	752.0
At 31 December 2017	**455.8**	**1,962.8**	**106.3**	**2,312.3**
Reinsurance				
At 1 January 2017	107.3	750.6	12.5	845.4
Exchange differences	(11.1)	(32.2)	(0.7)	(42.6)
Reinsurance recoveries in the year	-	(158.1)	-	(158.1)
Movement in provision	42.7	293.9	6.3	330.3
At 31 December 2017	**138.9**	**854.2**	**18.1**	**975.0**
Net technical provisions				
At 31 December 2017	**316.9**	**1,108.6**	**88.2**	**1,337.3**
At 31 December 2016	**347.2**	**1,080.0**	**93.7**	**1,333.5**

* Reinsurers' share of deferred acquisition cost is included in accruals and deferred income

2016 events

The Syndicate has exposure to a number of catastrophe events that occurred in 2016. The largest of these were a wildfire that started in Fort McMurray in Alberta Canada in May 2016 and an earthquake in the North Canterbury district of New Zealand in November 2016. The current estimates ultimate claims are £9.4m gross and £6.6m net for Fort McMurray and £8.1m gross and £6.6m net for the New Zealand earthquake. Net of inwards and outwards reinstatement premiums these figures become £6.3m and £6.6m respectively.

2017 events

The Syndicate has exposure to a number of catastrophe events that occurred in 2017. The largest of these are hurricanes Harvey, Irma and Maria, two earthquakes in Mexico and numerous wildfires in California. The current estimated ultimate claims for these events are £314.8m gross and £102.8m net. After inwards and outwards reinstatement premiums this reduces to £99.3m.

19. 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:

	2017	2016
Net loss ratio	65.1%	49.5%
Impact of 1% variation (£m)	6.5	5.9

Notes to the Accounts for the year ended 31 December 2017

20. Claims Development Tables

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

Pure underwriting year	2010 and prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	Total £m
Estimate of gross claims incurred									
At end of underwriting year		374.7	283.8	326.5	443.8	275.4	229.3	496.1	
One year later		635.7	468.8	619.1	694.2	520.5	488.3		
Two years later		628.6	462.0	601.4	725.0	558.6			
Three years later		615.3	446.4	576.8	714.6				
Four years later		614.3	466.9	538.9					
Five years later		604.3	455.9						
Six years later		586.6							
As at 31 December 2017	745.2	586.6	455.9	538.9	714.6	558.6	488.3	496.1	4,584.2
Less gross claims paid	553.4	491.4	355.7	372.5	410.4	252.9	122.8	62.3	2,621.4
Gross reserves	191.8	95.2	100.2	166.4	304.2	305.7	365.5	433.8	1,962.8

Pure underwriting year	2010 and prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	Total £m
Estimate of net claims incurred									
At end of underwriting year		304.5	225.7	259.7	334.8	195.8	165.7	225.5	
One year later		492.5	383.5	491.3	494.7	344.9	363.3		
Two years later		486.6	403.5	452.2	470.0	369.4			
Three years later		526.5	376.3	395.3	471.0				
Four years later		518.7	333.2	387.1					
Five years later		427.0	325.3						
Six years later		422.4							
As at 31 December 2017	541.6	422.4	325.3	387.1	471.0	369.4	363.3	225.5	3,105.6
Less net claims paid	424.6	383.6	276.9	297.6	304.6	163.9	104.7	41.1	1,997.0
Net reserves	117.0	38.8	48.4	89.5	166.4	205.5	258.6	184.4	1,108.6

Gross and net claims incurred that are denominated in non-functional currency are converted to Pound Sterling as of 31 December 2017, the most recent balance sheet date, for all years presented.

21. Other Creditors

	2017 £m	2016 £m
Amounts due to Managing Agent	7.5	15.7
Taxation	0.9	0.8
Investment purchases creditor	-	1.3
Deposit accounting creditor	3.6	3.7
Other creditors	1.9	0.5
	13.9	**22.0**

Deposit accounting creditor relates to deposit liabilities established based on the premium receivable of a fully funded transaction which has no underwriting exposure and is subject to deposit accounting.

Other creditors comprise amounts due to Service Company and Corporate Member.

Notes to the Accounts for the year ended 31 December 2017

22. 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 year and the outstanding balances due from the Syndicate at the year end:

	2017 £m	2016 £m
Managing agency fees	10.2	9.2
Expenses recharged	65.5	61.5
Balance due to Chaucer Syndicates Limited at 31 December	(7.5)	(15.7)

Subsidiaries of Chaucer Holdings Limited support the underwriting capacity of Syndicate 1084 as follows:

		Year of account	
	2017 £m	2016 £m	2015 £m
Chaucer Corporate Capital (No. 3) Limited	710.0	650.0	760.0

Chaucer Underwriting A/S, a wholly owned subsidiary of Chaucer Holdings Limited, provides underwriting services to Syndicate 1084. The Syndicate incurred the following expense during the year along with the outstanding balances at the year end from Chaucer Underwriting A/S:

	2017 £m	2016 £m
Fees paid to Chaucer Underwriting A/S	2.4	2.4
Commissions paid to Chaucer Underwriting A/S	-	0.4
Balance due from Chaucer Underwriting A/S at 31 December	0.5	0.6

Chaucer Singapore PTE, a wholly owned subsidiary of Chaucer Holdings Limited, provides underwriting services to Syndicate 1084. The Syndicate has incurred the following expense during the year along with the outstanding balances at the year end from Chaucer Singapore PTE:

	2017 £m	2016 £m
Fees paid to Chaucer Singapore PTE	2.5	3.2
Balance due from Chaucer Singapore PTE at 31 December	0.6	0.7

Chaucer Oslo AS, a wholly owned subsidiary of Chaucer Holdings Limited, provides underwriting services to Syndicate 1084. The Syndicate has incurred the following expense during the year along with the outstanding balances at the year end from Chaucer Oslo AS:

	2017 £m	2016 £m
Fees paid to Chaucer Oslo AS	0.2	0.3
Balance due from Chaucer Oslo AS at 31 December	-	0.1

Chaucer Labuan Limited, a wholly owned subsidiary of Chaucer Holdings Limited, provides underwriting services to Syndicate 1084. The Syndicate has incurred the following expenses from Chaucer Labuan Limited during the year:

	2017 £m	2016 £m
Fees paid to Chaucer Labuan Limited	0.1	0.1

Notes to the Accounts for the year ended 31 December 2017

22. Related parties (continued)

Lonham Limited, a wholly owned subsidiary of Chaucer Holdings Limited, provides underwriting services to Syndicate 1084. The Syndicate has incurred the following expense from Lonham Limited during the year:

	2017 £m	2016 £m
Fees paid to Lonham Limited	1.2	1.3
Balance due from Lonham Limited at 31 December	0.4	0.4

Sports, Leisure and Entertainment Limited (SLE), a wholly owned subsidiary of The Hanover Insurance Group, Inc., provides underwriting services to Syndicate 1084. The Syndicate has incurred the following expense from SLE during the year:

	2017 £m	2016 £m
Commissions paid to SLE	0.9	-
Balance due from SLE at 31 December	2.8	-

Opus Investment Management, Inc. (Opus) acts as an investment manager to the Syndicate. Opus is a wholly owned subsidiary of The Hanover Insurance Group, Inc., the Managing Agent's ultimate parent company. Opus has charged the Syndicate with the following investment management fees in the year:

	2017 £m	2016 £m
Investment fees	1.2	1.2

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

Syndicate 1084 and SPA 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.

The rights of this reinsurance contract will assign to Antares Syndicate 1274 following the RITC of Syndicate 1084's UK Division.

Syndicates 1084 and 6130, both managed by Chaucer Syndicates Limited, have entered into two reinsurance contracts 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.

Syndicates 1176 and 1084, both managed by Chaucer Syndicates Limited, entered into a reinsurance contract with one another in 2016, with a premium of £0.1m ($0.1m). These transactions are subject to Chaucer's internal controls which ensure that all are compliant with Lloyd's Related Party Bylaw provisions.

Notes to the Accounts for the year ended 31 December 2017

23. 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 member's FAL to meet liquidity requirements or to settle losses.

24. 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 1084 is not disclosed in these annual accounts.

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it 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 2018 was 35% (2017: 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 member's balances reported on the Statement of Financial Position on page 10, represent resources available to meet member's and Lloyd's capital requirements.

Notes to the Accounts for the year ended 31 December 2017

25. Ultimate parent company and parent undertaking of larger group of which the results of the Syndicate are included

The largest and smallest group of undertakings for which group accounts are prepared, and in which the results of the Syndicate is included, is The Hanover Insurance Group, Inc. The Managing Agent considers The Hanover Insurance Group, Inc. to be its ultimate parent company. A copy of the most recent consolidated accounts is available from the website of The Hanover Insurance Group, Inc. (www.hanover.com).

26. Subsequent events

The Managing Agent agreed terms to reinsure to close the liabilities of Syndicate 1084's UK Division into the 2016 Year of Account Syndicate 1274 with effective date 1 January 2018. Syndicate 1274 is under the management of Antares Managing Agency Limited, a related entity to Antares Underwriting Limited, which is the sole capital provider of Syndicate 6124, the SPA that provides a 100% quota share reinsurance of the Syndicate's claim liabilities. This transaction resulted in the transfer to Syndicate 1274 of gross and net technical provisions of £199.7m and £nil, respectively.

Statement of Managing Agent's Responsibilities

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

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

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

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

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

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 1084

Report on the syndicate annual accounts

Opinion

In our opinion, Syndicate 1084 annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2017 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within Syndicate 1084 Annual Report and Accounts (the "Annual Report"), which comprise the Statement of Financial Position as at 31 December 2017, the Statement of Comprehensive Income, the Statement of Changes in Members' Balances and 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the syndicate annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the managing agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is not appropriate; or
- the managing agent has not disclosed in the syndicate annual accounts any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the syndicate annual accounts are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' report thereon. The managing agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Managing Agent's Report, we also considered whether the disclosures required by Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Managing Agent's Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2017 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

Responsibilities for the syndicate annual accounts and the audit
Responsibilities of the managing agent for the syndicate annual accounts
As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 30, the managing agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the managing agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the syndicate annual accounts
Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

A further description of our responsibilities for the audit of the syndicate annual accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
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, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 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.

Other required reporting

Other matters on which we are required to report by exception
Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, 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
- certain disclosures of managing agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Andrew G Hill
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
14 March 2018