Chaucer

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Syndicate 2088

Annual Report and Accounts 2019

Contents

Underwriter's Report

Results and performance
The loss for the year was £5.3m (2018: £26.4m loss). The combined ratio improved to 108.6% (2018: 119.0%) The Syndicate's key financial performance indicators during the year were as follows:

	2019	2018	Movement
	£m	£m	£m
Gross written premium	123.4	188.8	(65.4)
Net written premium	102.6	171.3	(68.7)
Net earned premium	152.3	150.7	1.6
Underwriting result	(13.1)	(28.6)	15.5
Investment return	5.1	0.3	4.8
Technical loss for the financial year	(8.0)	(28.2)	20.2
Non-technical account for the financial year	2.6	1.9	0.7
Total comprehensive loss	(5.3)	(26.4)	21.1
Combined ratio	108.6%	119.0%	10.4pts
Amount due to member	37.7	24.0	13.7

Note: 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.

Gross written premium was £123.4m (2018: £188.8m). The decrease is the result of Syndicate management deciding to discontinue participation on a whole account quota share that provided the Syndicate with 50% of its premium income. During the year, Syndicate management challenged underwriters to optimise their portfolio's profitability by improving risk selection, challenging commissions and increasing rates. Underwriters have embraced the Decile 10 process and looked to rehabilitate or non-renew underperforming business.

The Syndicate incurred a net loss ratio of 71.5% (2018: 78.4%). The decrease in the loss ratio is primarily due to the improvements to risk selection discussed above and lower severity of 2019 catastrophe events compared to 2018.

The net operating expense ratio of 37.1% (2018: 40.5%) includes commission and administration expenses. The decrease is primarily driven by a lower administration expense ratio as a result of lower expenses being recharged by service companies.

Investment return allocated to the technical account has increased by £4.8m following an increase in interest income on funds withheld contracts.

Strategy and Outlook
On 28 December 2018 China Reinsurance (Group) Corporation (China Re) became the ultimate parent of the Syndicate's Managing Agent following completion of its acquisition of 100% of The Hanover Insurance International Holdings Limited (subsequently renamed China Re International Holdings Limited) by China Re International Company Ltd, its wholly owned subsidiary. Following the acquisition, it was decided that Chaucer Syndicates Limited would become Managing Agent of the Syndicate. The novation of the managing agency agreement from Catlin Underwriting Agencies Limited to Chaucer Syndicates Limited completed on 1st April 2019.

As part of the 2020 business planning process and in consultation with China Re it was decided that Syndicate 2088 would be merged into Chaucer Syndicate 1084 for the 2020 Underwriting Year. Future Syndicate strategy is now concerned with the effective and orderly run-off of Syndicate liabilities, with a view to closure of the Syndicate at 2021 year-end via a reinsurance to close arrangement with Chaucer Syndicate 1084.

J Sutcliffe, Active Underwriter
Chaucer Syndicate 2088
4 March 2020

Managing Agent's Report

The Directors of the Managing Agent present their report and the audited annual accounts for the year ended 31 December 2019.

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.
The management of Syndicate 2088 passed from Catlin Underwriting Agencies Limited to Chaucer Syndicates Limited on 1st April 2019.

Principal activities
This report covers the business of Syndicate 2088, 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
The Underwriting Team undertake an extensive annual underwriting planning process in order to determine its targets for premium income and return on capital for the Syndicate.

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 Managing Agent 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 Managing Agent monitors the aggregation of underwriting exposure using specialist modelling software tools where appropriate. The Managing Agent monitors the Syndicate's 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 exposures.

Concentrations of risk
The Syndicate has exposure to losses arising through the aggregation of risks in geographical areas. 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 Managing Agent assesses the Syndicate's exposures to Realistic Disaster Scenarios every quarter to enable the Managing Agent 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 Managing Agent operates a number of underwriting controls, details of which are set out below.

Monitoring performance against plan
The Managing Agent manages Syndicate performance against plan through monthly reporting of detailed underwriting management information. Reports are provided to an Underwriting Board, then to an Underwriting Committee, which ultimately reports to the Managing Agent's Board. This control process ensures that several layers of review occur for underwriting risks, with the focus being on the main components of risk, notably

pricing, loss ratio selection, reserving, experience variations, reinsurance protection and catastrophe modelling.

Emerging risks
An emerging risk is a risk that 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 Managing Agent. The Managing Agent has a defined emerging risk process to identify and assess the potential impact of such risks.

Peer, independent and underwriting risk 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. Themed underwriting reviews are conducted by the Underwriting Risk Management Function to ensure that underwriting procedures and discipline are followed.

Internal audit
The Managing Agent's internal audit function provides assurance over the performance of the underwriting controls.

Claims risk
While claims events are inherently uncertain and volatile, the Managing Agent's 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 Managing Agent currently commissions an external random peer review of its claims procedures 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 that 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 Managing Agent's panel for any one particular claim, an 'Expert Exception' process operates to ensure a timely appointment of an appropriate expert.

Reserving risk
The reserving policy for the Syndicate 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 Reserving Committee. 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 the 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 External Signing Actuary recommends risk loadings to the Managing Agent's Reserving Committee. The Reserving Committee approves risk loadings as a component of the Syndicate's total 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 reviewed all reinsurer counterparties with whom the Syndicate wished to conduct business and set credit thresholds for the total potential recoveries due from each reinsurer. The review included 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 securities managed by a professional portfolio manager. The investment manager operates within a defined set of investment guidelines and against an appropriate benchmark.

Refer to Note 10 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 Managing Agent. 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 Compliance Officer also undertakes a compliance-monitoring programme.

Legal risk is the risk that exposes the Managing Agent 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
All of the staff of the Managing Agent are employed by Chaucer Underwriting Services Limited (CUSL). 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.

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.

Brexit
The potential effects of Britain's decision to leave the European Union (EU) and related consequences will be impacted by the following risk factors: (i) effectiveness of the strategies to mitigate the loss of the Managing Agent's licensing permissions in European Union member states e.g. use of the Lloyd's Brussels platform; (ii) volatile financial market conditions in the U.K. and the European market; and (iii) foreign exchange volatility.

The Managing Agent has implemented a number of measures and controls to mitigate the impact of Brexit and to allow for continuity of operations following Britain's exit from the EU, this includes the ability to place business through Lloyd's Brussels.

Directors of the Managing Agent
The Directors set out below held office throughout the year ended 31 December 2019 and up to the date of signing the annual accounts, unless otherwise indicated:

D C Bendle, Chief Operating Officer
R J Callan, Chief Financial Officer
T J Carroll, Independent Non-executive Director (resigned 15 March 2019)
J Faure, Non-executive Director
J Fowle, Chief Executive Officer and Chief Underwriting Officer
P M Shaw, Chief Risk Officer
C M Stooke, Chairman and Independent Non-executive Director
L S Watkins, Independent Non-executive Director (appointed 31 January 2020)
Dr H Zuo, Non-Executive Director (appointed 13 March 2019)

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 2088 active underwriter
J Sutcliffe

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

Syndicate investment managers
Conning Asset Management Limited

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 China Reinsurance (Group) Corporation Audit Committee meeting.

Approved by the Board of Chaucer Syndicates Limited.

R J Callan
Chief Financial Officer
4 March 2020

Statement of Comprehensive Income for the year ended 31 December 2019

	Note(s)	2019 £000	2018 £000
Technical Account – General Business			
Earned premiums, net of reinsurance			
Gross premiums written	3	123,432	188,803
Outward reinsurance premiums		(20,841)	(17,486)
Net premiums written		**102,591**	**171,317**
Change in the provision for unearned premiums			
Gross amount	13	50,920	(21,785)
Reinsurers' share	13	(1,226)	1,127
Net change in the provision for unearned premiums		**49,694**	**(20,658)**
Earned premiums, net of reinsurance		**152,285**	**150,659**
Investment income		5,150	322
Total technical income		**157,435**	**150,981**
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	13	(101,587)	(57,832)
Reinsurers' Share	13	16,761	15,593
Net claims paid		**(84,826)**	**(42,239)**
Change in the provision for claims			
Gross amount		(29,209)	(79,271)
Reinsurers' share		5,159	3,340
Net change in the provision for claims		**(24,050)**	**(75,931)**
Claims incurred, net of reinsurance		(108,876)	(118,170)
Net operating expenses	3, 5	(56,551)	(61,040)
Total technical charges		**(165,427)**	**(179,210)**
Balance on the Technical Account – General Business		**(7,992)**	**(28,229)**
Non-Technical Account			
Other (expense) / income		(554)	593
Investment income	9	7,880	1,561
Net unrealised gains	9	580	76
Investment expenses and charges	9	(105)	(56)
Allocated investment return transferred to the Technical Account – General Business		(5,150)	(322)
Total comprehensive loss		**(5,341)**	**(26,377)**

All the amounts above are in respect of continuing operations.

Statement of Financial Position as at 31 December 2019

	Notes	2019 £000	2018 £000
Assets			
Investments			
Other financial investments	10	112,849	88,581
Reinsurers' share of technical provisions			
Provision for unearned premiums	13	4,579	5,810
Claims outstanding	13, 15	39,058	34,335
		43,637	40,145
Debtors - amounts due within one year			
Debtors arising out of direct insurance operations		17,579	11,625
Debtors arising out of reinsurance operations		96,955	82,530
Other debtors	11	3,545	1,624
		118,079	95,779
Debtors - amounts due after one year			
Debtors arising out of reinsurance operations		96,420	150,896
Other debtors	11	2,663	984
		99,083	151,880
Other assets			
Cash at bank		18,190	31,680
Overseas deposits	12	3,054	1,258
		21,244	32,938
Prepayments and accrued income			
Other prepayments and accrued income		1,028	633
Deferred acquisition costs	13	13,395	29,558
		14,423	30,191
Total assets		**409,315**	**439,514**
Liabilities			
Capital and Reserves			
Member's balance		37,659	24,046
Technical provisions			
Provision for unearned premiums	13	49,049	100,531
Claims outstanding	10, 13, 15	288,956	262,747
		338,005	363,278
Creditors – amounts due within one year			
Creditors arising out of reinsurance operations		17,307	29,422
Other creditors including tax and social security	16	4,390	12
		21,697	29,434
Creditors - amounts due after one year			
Creditors arising out of reinsurance operations		3,230	2,386
Other creditors including tax and social security	16	-	4,930
		3,230	7,316
Accruals and deferred income		8,724	15,440
Total liabilities		**409,315**	**439,514**

The annual accounts on pages 8 to 24 were approved by the Board of Chaucer Syndicates Limited on 4 March 2020 and signed on its behalf by:

R J Callan
Chief Financial Officer

Statement of Changes in Member's Balance for the year ended 31 December 2019

	Balance attributable to underwriting £000	Funds in Syndicate £000	Member's balance £000
Balance as at 1 January 2018	(40,984)	39,040	**(1,944)**
Profit / (Loss) for the financial year	(29,920)	3,543	**(26,377)**
Profit distribution – 2015 year of account	2,095	-	**2,095**
Funds in Syndicate capital injection	-	50,272	**50,272**
Balance as at 31 December 2018	**(68,809)**	**92,855**	**24,046**
Balance as at 1 January 2019	(68,809)	92,855	**24,046**
Profit / (Loss) for the financial year	(7,326)	1,985	**(5,341)**
Loss funding - 2016 year of account	9,106	-	**9,106**
Funds in Syndicate capital injection	-	9,848	**9,848**
Balance as at 31 December 2019	**(67,029)**	**104,688**	**37,659**

Statement of Cash Flows for the year ended 31 December 2019

	Note	2019 £000	2018 £000
Cash flows from operating activities			
Total comprehensive loss		(5,341)	(26,377)
(Decrease) / increase in gross technical provisions		(21,312)	100,536
Increase in reinsurers' share of gross technical provisions		(3,929)	(979)
Decrease / (increase) in debtors		31,425	(42,296)
Decrease in creditors		(10,924)	(15,600)
Movement in other assets/liabilities		13,118	(3,490)
Investment return	9	(8,355)	(1,581)
Foreign exchange		(313)	(185)
Net cash (used in) / generated from operating activities		**(5,631)**	**10,028**
Cash flows from investing activities			
Purchase of equity and debt instruments		(26,422)	(63,327)
Other		(622)	-
Net cash used in investing activities		**(27,044)**	**(63,327)**
Cash flows from financing activities			
Distribution loss		9,106	2,095
Net Funds in Syndicate capital injection		9,848	50,272
Net cash generated from financing activities		**18,954**	**52,367**
Net (decrease) in cash and cash equivalents		(13,721)	(933)
Cash and cash equivalents at beginning of year		31,680	31,134
Foreign exchange on cash and cash equivalents		231	1,479
Cash and cash equivalents at end of year		**18,190**	**31,680**
Cash and cash equivalents consists of:			
Cash at bank		18,190	31,680
Cash and cash equivalents		**18,190**	**31,680**

Notes to the Accounts for the year ended 31 December 2019

1. Basis of preparation

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

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

Having assessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the accounts. Whilst the syndicate has been placed into run-off, it will continue in operation for the foreseeable future in accordance with a plan approved by the directors.

2. Accounting policies

a) Insurance contracts

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

i) Premiums written

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

ii) Unearned premiums

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

iii) Reinsurance premiums ceded

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

iv) Claims provisions and related recoveries

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

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

These methods generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

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

Notes to the Accounts for the year ended 31 December 2019

2. Accounting policies (continued)

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

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

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

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

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

c) Cash and cash equivalents
Cash and cash equivalents include deposits held at call with banks.

d) Foreign currencies
The functional and presentation currency of the Syndicate is Pound Sterling.

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

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

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

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

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

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

Notes to the Accounts for the year ended 31 December 2019

2. Accounting policies (continued)

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

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

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

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

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

Investment return is initially recorded in the Non-Technical Account. A transfer is made from the Non-Technical Account to the General Business Technical Account. Investment return that does not relate to Funds in Syndicate has been wholly allocated to the Technical Account.

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

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

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

i) Pension costs
CUSL operates a defined contribution scheme. Pension contributions relating to CUSL staff working for the Syndicate are charged to the Syndicate and included within net operating expenses.

j) Profit commission
Profit commission is incurred by the Syndicate at a rate of 15% of profit.

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

- Valuation of general insurance contract liabilities (page 12)
- Premium recognition (page 12)

Notes to the Accounts for the year ended 31 December 2019

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
2019						
Direct insurance						
Fire and other damage to property	4,292	3,798	(2,130)	(1,051)	(401)	216
Accident and health	48,894	44,162	(25,568)	(15,521)	(3,015)	58
Marine, aviation and transport	1,375	1,299	(1,448)	(488)	(96)	(733)
	54,561	49,259	(29,146)	(17,060)	(3,512)	(459)
Reinsurance	68,871	125,093	(101,650)	(39,491)	3,365	(12,683)
	123,432	**174,352**	**(130,796)**	**(56,551)**	**(147)**	**(13,142)**
2018						
Direct insurance						
Fire and other damage to property	3,163	2,661	(2,180)	(756)	(538)	(813)
Accident and health	33,100	23,744	(15,705)	(9,158)	(2,222)	(3,341)
Marine, aviation and transport	1,650	1,427	(821)	(701)	(100)	(195)
	37,913	27,832	(18,706)	(10,615)	(2,860)	(4,349)
Reinsurance	150,890	139,186	(118,397)	(50,425)	5,434	(24,202)
	188,803	**167,018**	**(137,103)**	**(61,040)**	**2,574**	**(28,551)**

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

During the year, the Syndicate increased net technical reserves by £8.8m in respect of prior years (2018: £1.5m) as a result of deteriorations on a whole account quota share of AXA XL.

5. Net operating expenses

	2019 £000	2018 £000
Acquisition costs:		
- brokerage and commission	32,819	54,691
- other	-	(3)
Change in deferred acquisition costs	16,368	(6,014)
Administrative expenses	7,726	12,366
Reinsurance commissions and profit participation	(362)	-
	56,551	**61,040**

Administrative expenses include:

Member's standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission)	717	2,964

Notes to the Accounts for the year ended 31 December 2019

6. Auditors' remuneration

	2019 £000	2018 £000
Audit of the Syndicate annual accounts	124	113
Other services pursuant to legislation, including the audit of the regulatory return	42	38
	166	**151**

7. Staff costs

The Syndicate is recharged for staff costs incurred by China Re Underwriting Agency Limited ("CRUA"), which up to 30 June 2019 employed the staff working for the Syndicate. From 1 July 2019, all staff working for the Syndicate became employed by CUSL through a TUPE arrangement. From this point forward the Managing Agent recharged staff costs to CUSL, and subsequently charged CRUA, which in turn recharged the Syndicate. The following amounts relate to amounts recharged by CRUA to the Syndicate in respect of staff costs:

	2019 £000	2018 £000
Wages and salaries	3,362	4,093
Social security costs	544	526
Other pension costs	302	326
	4,208	**4,945**

The average number of employees working for the Syndicate during the year was as follows:

	2019 Number	2018 Number
Administration and finance	5	5
Underwriting	17	17
Other	15	12
	37	**34**

8. Emoluments of the directors of the Managing Agent

The Directors of Chaucer Syndicates Limited were not remunerated in respect of their services to the Syndicate.

The Active Underwriter received the following aggregate remuneration for services rendered to the Syndicate:

	2019 £000	2018 £000
Active Underwriter	444	550

9. Investment return

	2019 £000	2018 £000
Investment income		
Income from financial assets at fair value through profit and loss	2,295	1,000
Interest on cash at bank	256	352
Other interest and similar income	4,793	50
Realised gains on investments	536	159
	7,880	**1,561**

Notes to the Accounts for the year ended 31 December 2019

9. Investment return (continued)

	2019 £000	2018 £000
Investment expenses and charges		
Investment management expenses, including interest	(79)	(46)
Realised losses on investments	(26)	(10)
	(105)	(56)
Net unrealised gains on investments	580	76
Total investment return	**8,355**	**1,581**

10. Financial instruments

	2019 Cost £000	2019 Market value £000	2018 Cost £000	2018 Market value £000
Loans with credit institutions	622	622	-	-
Debt securities and other fixed income securities at fair value through profit and loss	111,787	112,227	88,501	88,581
	112,409	**112,849**	**88,501**	**88,581**

Risk policies

Interest rate risk
The most significant proportion of risk within the Syndicate's fixed income portfolio is interest rate risk, which increases as the duration of each portfolio gets longer. In order to manage this risk duration constraints are set, relative to a benchmark to provide downside protection for increases in interest rates; the average duration of each fund under management may not exceed 0.5 years.

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

	Change in interest rates %	Impact on result £000
31 December 2019	+0.5	(442)
	-0.5	442
31 December 2018	+0.5	(563)
	-0.5	563

Currency risk
The Syndicate writes a significant proportion of insurance business in currencies other than sterling, which gives rise to exposure to currency risk. The Syndicate mitigates this through a policy of broadly matching Syndicate 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 Managing Agent operates and maintains a liquidity risk policy designed to ensure that Syndicate cash is available to settle liabilities and other obligations when due without excessive cost to the business.

Notes to the Accounts for the year ended 31 December 2019

10. Financial instruments (continued)

The expected payment profile of undiscounted liabilities is as follows:

	No stated maturity £000	<1 £000	1-3 £000	3-5 £000	>5 £000	Total £000
					Maturity band (Years)	
Creditors	-	21,697	3,230	-	-	24,927
Claims outstanding	-	131,903	132,609	13,017	11,427	288,956
At 31 December 2019	-	**153,600**	**135,839**	**13,017**	**11,427**	**313,883**
Creditors	-	29,434	7,316	-	-	36,750
Claims outstanding	-	94,074	152,661	8,671	7,341	262,747
At 31 December 2018	-	**123,508**	**159,977**	**8,671**	**7,341**	**299,497**

Credit risk

The Syndicate holds the majority of its investments as highly rated corporate bonds, managed by external portfolio managers. Investment managers may expose the Syndicate to 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:

	2019 £000	2018 £000
Debt securities	112,227	88,581
Cash at bank	18,190	31,680
Overseas deposits	3,054	1,258
Loans with credit institutions	622	-
Reinsurer' share of claims outstanding	39,058	34,335
	173,151	**155,854**
AAA	46,269	34,335
AA	32,753	22,113
A	91,914	97,869
BBB	123	866
BB or less	100	-
Not rated	1,992	671
Total assets bearing credit risk	**173,151**	**155,854**

Determination of fair value hierarchy

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

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

Notes to the Accounts for the year ended 31 December 2019

10. Financial instruments (continued)

The following table presents the Managing Agent's assets measured at fair value at 31 December 2019 and at 31 December 2018.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Debt securities and other fixed income securities	112,227	-	-	112,227
Loans with credit institutions	-	-	622	622
Overseas deposits	3,054	-	-	3,054
At 31 December 2019	**115,281**	**-**	**622**	**115,903**
Debt securities and other fixed income securities	88,581	-	-	88,581
Overseas deposits	1,258	-	-	1,258
At 31 December 2018	**89,839**	**-**	**-**	**89,839**

11. Other debtors

	2019 £000	2018 £000
Other debtors falling due within one year	3,545	1,624
Other debtors falling due after one year	2,663	984
	6,208	**2,608**

Other debtors primarily relate to interest income due in lieu of funds withheld on quota share contracts written.

12. Overseas deposits

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

Notes to the Accounts for the year ended 31 December 2019

13. Technical reserves

	Provisions for unearned premiums £000	Claims outstanding £000	Deferred acquisition costs £000	Total £000
Gross and net technical provisions				
At 1 January 2019	**100,531**	**262,747**	**29,558**	**333,720**
Exchange adjustments	(562)	(3,000)	205	(3,767)
Claims paid in the year	-	(101,587)	-	(101,587)
Movement in provision	(50,920)	130,796	(16,368)	96,244
At 31 December 2019	**49,049**	**288,956**	**13,395**	**324,610**
Reinsurance				
At 1 January 2019	5,810	34,335	-	40,145
Exchange adjustments	(5)	(436)	-	(441)
Reinsurance recoveries in the year	-	(16,761)	-	(16,761)
Movement in provision	(1,226)	21,920	-	20,694
At 31 December 2019	4,579	39,058	-	43,637
Net technical provisions				
At 31 December 2019	**44,470**	**249,898**	**13,395**	**280,973**
At 31 December 2018	**94,721**	**228,412**	**29,558**	**293,575**

14. 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 balance:

	2019	2018
Net loss ratio	71.5%	78.4%
Impact of 1% variation (£000)	1,523	1,507

Notes to the Accounts for the year ended 31 December 2019

15. 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	**2012 and prior £000**	**2013 £000**	**2014 £000**	**2015 £000**	**2016 £000**	**2017 £000**	**2018 £000**	**2019 £000**	**Total £000**
Estimate of gross claims incurred									
At end of underwriting year		17,836	17,976	21,932	33,232	76,493	74,875	45,110	
One year later		33,777	35,477	45,991	64,942	133,109	146,793		
Two years later		33,564	37,349	49,337	73,172	140,686			
Three years later		33,183	37,285	50,155	77,920				
Four years later		33,230	38,778	50,383					
Five years later		33,255	38,489						
Six years later		33,205							
Seven years later									
As at 31 December 2019	35,827	33,205	38,489	50,383	77,920	140,686	146,793	45,110	568,413
Less gross claims paid	35,827	33,205	38,489	50,022	65,409	29,099	21,596	5,810	279,457
Gross reserves	-	-	-	361	12,511	111,587	125,197	39,300	288,956

Pure underwriting year	**2012 and prior £000**	**2013 £000**	**2014 £000**	**2015 £000**	**2016 £000**	**2017 £000**	**2018 £000**	**2019 £000**	**Total £000**
Estimate of net claims incurred									
At end of underwriting year		16,141	15,686	19,913	29,717	64,568	69,375	33,118	
One year later		29,896	31,298	41,291	56,363	112,407	128,263		
Two years later		30,022	33,154	47,411	57,613	123,850			
Three years later		31,875	36,319	45,795	61,807				
Four years later		29,935	35,387	46,030					
Five years later		29,746	35,094						
Six years later		29,749							
Seven years later									
As at 31 December 2019	32,734	29,749	35,094	46,030	61,807	123,850	128,263	33,118	490,645
Less net claims paid	32,734	29,749	35,094	45,617	54,453	19,270	18,020	5,810	240,747
Net reserves	-	-	-	413	7,354	104,580	110,243	27,308	249,898

Gross and net claims incurred that are denominated in non-functional currency are converted to Pound Sterling as of 31 December 2019, the most recent balance sheet date, for all years presented.

Notes to the Accounts for the year ended 31 December 2019

16. Other creditors including tax and social security

	2019 £000	2018 £000
Other creditors due within one year	4,390	12
Other creditors due after one year	-	4,930
	4,390	**4,942**

Other creditors largely relate to inter-company balances.

17. Related parties

Chaucer Syndicates Limited, a wholly owned subsidiary of China Reinsurance (Group) Corporation, 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:

	2019 £000	2018 £000
Managing agency fees	552	-
Year-end balance due to Chaucer Syndicates Limited at 31 December	552	-

A subsidiary of China Reinsurance (Group) Corporation supports the underwriting capacity of Syndicate 2088 as follows:

		Year of account	
	2019 £000	2018 £000	2017 £000
China Re UK Limited	70,350	136,390	110,455

China Re Underwriting Agency Limited, a wholly owned subsidiary of China Reinsurance (Group) Corporation, provides underwriting services to the Syndicate. The Syndicate incurred the following expense during the year along with the outstanding balances at the year end from China Re Underwriting Agency Limited:

	2019 £000	2018 £000
Fees paid to China Re Underwriting Agency Limited	4,268	5,074
Balance due to China Re Underwriting Agency Limited at 31 December	11,572	14,124

China Reinsurance (Group) Corporation underwrites a whole account stop loss treaty of Syndicate 2088. The syndicate had the following balance with China Re (Group) Corporation at 31 December:

	2019 £000	2018 £000
Balance due to/(from) China Reinsurance (Group) Corporation at 31 December	794	(191)

Notes to the Accounts for the year ended 31 December 2019

17. Related parties (continued)

China Property and Casualty Reinsurance Company Limited ("CPCR"), a wholly owned subsidiary of China Reinsurance (Group) Corporation, cedes reinsurance treaty business to Syndicate 2088 and underwrites a whole account stop loss treaty of the Syndicate's 2017 year of account. The Syndicate had the following balances due from CPCR at 31 December:

	2019 £000	2018 £000
Premium receivable due from CPCR at 31 December	39,701	24,661
Net balance due from CPCR at 31 December	960	4,483

18. 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.

19. 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 2088 is not disclosed in these accounts.

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2019 was 35% (2018: 35%) of the member's SCR 'to ultimate'.

Notes to the Accounts for the year ended 31 December 2019

19. Capital (continued)

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.

20. Funds in Syndicate

China Re (UK) Limited, the sole corporate member of the Syndicate, holds investments in the Syndicate to be used as collateral to support the Syndicate's capital requirements, or Funds at Lloyd's. These investments give the Syndicate the ability to manage these funds under the same Investment Management Agreement as the other funds of the Syndicate that are held in the premium trust funds.

At 31 December 2019, £104.7m of investments were held as Funds in Syndicate (2018: £92.9m). The investments realised a profit of £2.0m for the year to 31 December 2019 (2018: £1.3m). The balance of £104.7m is included within member's balance on the Syndicate's statement of financial position and is owed exclusively to China Re (UK Limited).

21. Ultimate parent company

The Managing Agent's immediate parent company is Chaucer Capital Investments Limited.

The largest and smallest group of undertakings for which group financial statements are prepared, and in which the results of the Managing Agent are included, is China Reinsurance (Group) Corporation. The Company considers China Reinsurance (Group) Corporation to be its ultimate parent company. A copy of the most recent consolidated financial statements is available from the website of China Reinsurance (Group) Corporation (www.chinare.com/cn).

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 accounts on the basis that the Syndicate will continue to write future business unless the Syndicate is unable to continue to realise its assets and discharge its liabilities in the ordinary course of business.

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

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

Report on the syndicate annual accounts

Opinion

In our opinion, Syndicate 2088's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2019 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with 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 the Annual Report and Accounts (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2019; the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Member's Balance for the year then ended; and the Notes to the Accounts, which include a description of the 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

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.

We have nothing to report in respect of the above matters.

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. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the syndicate's business and the wider economy.

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 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 The 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 2019 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 25, 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 member 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
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; 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.

Deepti Vohra (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2020