Chaucer

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Syndicate 1176

Annual Report and Accounts 2020

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Syndicate Information

Directors of the Managing Agent

D C Bendle	Chief Operating Officer
R J Callan	Chief Financial Officer
J Faure	Senior Independent Non-Executive Director
J Fowle	Chief Executive Officer
P A Jardine (appointed 17 September 2020)	Chairman and Independent Non-executive Director
P M Shaw (resigned 31 March 2020)	Chief Risk Officer
N J Stacey (appointed 8 January 2021)	Chief Underwriting Officer
C M Stooke (resigned 31 October 2020)	Chairman and Independent Non-Executive Director
L S Watkins (appointed 31 January 2020)	Independent Non-Executive Director
Dr H Zuo	Non-Executive Director

Managing Agent’s company secretary
R N Barnett

Managing Agent’s registered office
30 Fenchurch Street
London EC3M 3AD

Managing Agent’s registered number
00184915

Managing Agent's independent auditor
PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Syndicate active underwriter
M G Dawson

Syndicate bankers
The custodian of the Syndicate’s investment funds is:
Citibank N.A.

Syndicate investment manager
Goldman Sachs Asset Management International

Syndicate independent auditor
PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Underwriter’s Report

Background

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

Nuclear risk predominantly comprises cover for physical damage loss to civil nuclear power stations, as well as nuclear liability, where the Syndicate issues policies with terms which have withstood the test of time. The Syndicate also provides coverage within the wider nuclear fuel cycle, with insurance involvement from raw uranium and nuclear fuel (including manufacturing facilities) to the shipment and storage of waste. The Syndicate’s main exposures derive from the power that nuclear energy produces in a power station because this is where most of the value from nuclear energy emanates. The Syndicate has been operating in a unique market niche and on a profitable basis since its inception in 1991.

Nuclear power

Man has an insatiable need for power. In a developing world, even the poorest countries are in a phase of rapid power production. Against this background, there is a reducing supply of the fossil fuels, which have provided much of the power to the world’s leading countries. All power stations produce energy through the rotation of a generator. The power needed to turn the generator is produced through the rotation of a turbine, through water, wind or, most commonly, steam propulsion. Steam is produced by the boiling of water using a heat source; typically gas, coal, oil or nuclear fission.

The difference between a conventional fossil fuel station and a nuclear power station is that the heat is produced by nuclear fission. Other than this main heat source, a nuclear power station is similar to a fossil fuel station. Because the nuclear core is potentially damaging, considerable safety standards have been adopted to ensure that there is a very small risk of a significant nuclear accident.

Since the nuclear industry’s formation in the early 1950s there has only been one significant core melt nuclear event paid by the insurance market, at Three Mile Island in the US in 1979. Since then safety standards have improved materially and the insurance industry has typically only suffered the occasional non-nuclear loss of an attritional nature. Following the Fukushima accident in March 2011, an extensive review of the Syndicate’s potential catastrophe exposure was undertaken, and exposure is considered to be limited. This topic is further explored below, however, as a generality, nuclear power stations are not built in areas where natural catastrophe is expected and are not normally built in cities where an accumulation of risk with other businesses could occur. There has never been a significant insured nuclear loss from natural catastrophe.

Despite the recent volatility in oil prices, power generation is largely dominated by non-oil generation, including gas, coal, renewables and nuclear generation, which is growing, albeit slowly. This is being led by two macro influencers; security of supply – where countries are nervous of relying on energy supply from often volatile areas, politically; and a low carbon agenda – where most of the world agrees that generation from coal is just too abusive to the environment. Future ideas such as carbon capture and nuclear fusion remain on the horizon, where they have remained for many years.

Property damage

The Syndicate provides physical damage cover and business interruption within the nuclear fuel cycle. The largest values that the Syndicate insures are normally nuclear power stations, although the Syndicate also covers manufacturers of nuclear fuel and radioisotopes, their transport and ultimately their safe storage.

The probabilistic risk assessment of each unit suggests that there is limited catastrophe exposure. The Syndicate traditionally has excluded cover for earthquake in Japan and, following the Fukushima tsunami event, the Syndicate has undertaken extensive analysis of each site insured and the potential for catastrophe loss; including assessment of the plant location, construction, the coverage offered, deductible levels and exposure.

In general, though nuclear power plants are not built in areas where there is significant catastrophe exposure; if there is some residual exposure, construction and safety procedures are introduced to minimise the risk.

An analysis of cyber exposure has been undertaken and whilst there remains some residual risk, the Syndicate believes the exposure is limited. Cyber protection of nuclear plants is considered paramount, but details of such protection remain confidential.

Following the emergence of the Covid–19 Pandemic a review of policies and risks has been undertaken, to consider whether loss or exposure could emerge. All significant insured sites have operated throughout the pandemic and there is no known specific Pandemic cover offered, indeed there is little business interruption exposure.

Windstorms, hurricanes and cyclones

In terms of other perils, the Syndicate Underwriter remains confident that exposure to windstorm is low. In the 60 years of operating nuclear sites, there has never been a significant loss to a nuclear facility from a windstorm event. The largest insured windstorm loss to date was from a spares warehouse on a nuclear site from Hurricane Andrew in 1992. While the warehouse was damaged, with losses in the region of $200m, there was no damage to the nuclear unit. All the plants in the vicinity of the tracks of recent hurricanes and typhoons performed to plan and, as expected, there were no significant claims advices from these events.

Earthquake and tsunami

Policies with exposures in Japan currently exclude cover for damage arising from earthquake or tsunami perils. While historically a product was considered for a small aggregate sub-limit, with significant deductibles and a satisfactory price, this was never pursued. Were it to be requested, following extensive safety upgrades at Japanese plants, this cover could be considered. But the sub-limit, deductible and price would be all important. Outside Japan, studies have been undertaken on the two nuclear sites in California. One is approximately 200km from San Francisco and the other is approximately 100km from Los Angeles (this plant was closed in 2014 as a result of economic assessment; there remains some residual risk, during closure, but this is much reduced from that of an operating plant). Both were built to withstand earthquake, and even if some damage was incurred, it is considered a low risk that damage to plants would coincide with damage to the main conurbations of San Francisco and Los Angeles. Separate studies have also been made of tsunami risk. One site is located on top of a cliff and so tsunami damage is not considered possible; the other has significant sea walls and the backup generators (which were swamped and failed in the Japanese tsunami) are located in watertight bunkers. Elsewhere, exposures have been considered and there does not appear to be significant peril exposure.

Liability

The Syndicate provides limited nuclear liability coverage to most non-US nuclear power stations. The coverage issued normally has an aggregate limit for the lifetime of the nuclear site, and also claims typically have to be made within ten years of an occurrence. These policies, which normally include terrorism coverage, are enshrined in national nuclear laws and international conventions, and typically the national government retains exposure in excess of insurer policy limits. The policy includes damage caused by an incident as a result of terrorism (see below) or any other incident leading to nuclear liability such as cyber. Cyber protection of nuclear plants is considered paramount, but details of such protection remain confidential. We consider the chance of a cyber-attack leading to a significant release of radiation, leading to offsite damage, to be remote. Strict liability would also follow, were damage to occur following any incident, other than war. This means for instance that were a worker to fall sick, on duty from any illness, including Covid-19, and cause a nuclear incident that releases nuclear material that causes damage, that the nuclear liability policy would be expected to respond. That said, there are multiple layers of safety and such a likelihood is not considered credible.

The Syndicate also writes non-nuclear incidental liability policies for much smaller limits, which do not benefit from international conventions. These are designed to cover incidental risks such as contractors or visitors to nuclear sites.

The Syndicate historically underwrote reinsurance of the US Nuclear Pool for liability business. The policy had a strict limit and a large fund was available to cover losses either notified or occurring within a ten-year period. As a result of the industry's desire to be more involved in self-insurance, this reinsurance was discontinued from 31 December 1998. While the Syndicate is not currently involved in any US liability business and remains cautious generally, were an acceptable risk offered, the Syndicate would consider it, subject to normal underwriting acceptance procedures.

There is a general need for increased liability limits worldwide. Historically, the bulk of the exposure has been with governments, which are increasingly looking for the nuclear insurance market to provide additional capacity. Looking forward, the revision of current international nuclear conventions will result in additional capacity and coverage being sought by operators. In the UK for instance, the indemnity for a nuclear accident is expected to increase from £140m (Sterling currency) to in the region of €700m (Euro currency) and thereafter will increase by €100m, for each of the subsequent five years to take the capacity need to €1.2bn. Further, international nuclear conventions have been revised to incorporate additional coverage. The Syndicate has been working closely with the UK Government and the nuclear pool to understand the implications of the revised coverage. Anticipating the move to increased liability coverage, the Syndicate increased the liability share of maximum exposure to 50%. These additional exposures are gradually being introduced, but will take some time to be adopted throughout the world. France adopted increased limits during 2017, with Canada as expected adopting the increased limits and coverage in January 2017. The Syndicate has been working closely with these countries to provide the coverage and this resulted in a planned increase in liability income during 2017. The adoption of the larger liability limits is expected to be slow, but to occur over the next few years. This has resulted in a planned increase in premium over the next few years. The adoption of these changes requires national governments approval. The Syndicate's business plan estimated that liability would be approximately circa 37% of premium income in 2021. Adoption of the revised Conventions has been subject to a number of delays, with the UK adoption now not expected until 2022. Accordingly, the additional premium originally planned for 2021 is now expected to flow through in 2022.

Terrorism

In many countries, property terrorism is excluded or excess coverage is provided through government reinsurance schemes such as Pool Re (Nuclear) in the UK (for fire and explosion property insurance) and under TRIPRA (Terrorism Risk Insurance Program Reauthorization Act 2007) in the US. Coverage is given where terrorism risk is considered to be lower. Further liability limits do not exclude strict liability under nuclear conventions for terrorism. While there are significant protections against terrorism, and the construction of power stations makes significant loss from terrorism unlikely, the Syndicate normally limits exposure to 50% of the maximum property net line for terrorism.

Transit

The Syndicate generates a small amount of premium insuring the transit of nuclear fuel and waste. The limits are typically modest and there has never been a significant transit loss. Transit of nuclear materials is undertaken to strict international standards and involves the highest safety procedures.

Construction

The Syndicate has been open to the modest expansion of business to include Construction risks, and has committed a modest line to insuring the new-builds expected over the coming years. The business is different in that the projects themselves are expected to take at least seven years to complete. Whilst the values of the projects only increase gradually over this time, resulting in small incremental exposures in the early years, the values towards the end of the project are high. Accordingly, whilst considerable premium is expected on a risk by risk basis, it is held to earn over the life of the project. The result is that there is little expected profit over the early years. Over the longer term, the accounts are expected to be profitable, but there can be no certainty in this regard. The Syndicate's line on these projects is expected to be well below that written for operational plants at a probable maximum loss of circa $15m. This exposure which is less than 2% of the normal contract loss is expected to be retained net. The overall premium income is planned as modest at less than 1% of total premium income, and the development of this line is slow, but we remain open to consider this business, providing we follow respected leaders. Our approach is deliberately cautious and we will learn and develop as appropriate over the years.

Premium income

Historically the Syndicate generated approximately 80% of premium income from nuclear property risk and 20% from nuclear liability risk. This was planned to be 63% property and 37% liability for the 2021 years of account, but due to the delay in adoption of the new liability conventions is expected to revert to the planned 2020 level of circa 30% for liability.

Outward reinsurance arrangements

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

Brexit planning has resulted in a few risks being underwritten through Lloyd's Brussels. Lloyd's Brussels is not a Pool and as such can only undertake reinsurance with the syndicate. This means that in order to allow for reinsurance with other nuclear pools, the reinsurance needs to be undertaken at syndicate level. The Syndicate sought approval from Lloyd's to these arrangements and £0.9m of income has been ceded in 2019 and 2020, with up to £1.6m planned for 2021.

Business placements

Most of the Syndicate's business comes through international pools of nuclear capacity. Countries that have nuclear capacity have established nuclear pools to insure domestic risks. As few pools have sufficient domestic capacity, the national pools reinsure on a reciprocal basis with the other foreign pools. The Syndicate is the leading participant of the British Nuclear Pool, NRI Limited, and owns a share of the associated management company in proportion to its share (approximately 45%) of the Pool. Any profit or loss from these operations is paid to the Syndicate account.

Nuclear Risk Insurers Ltd (NRI - The British Nuclear Pool) insured business is reciprocally reinsured with non-UK countries' nuclear pools for a share of their indigenous risks. The Syndicate also participates as a local insurer in the Canadian, Chinese, Japanese and South African nuclear pools. The exposures and premiums received from the pools are net of the inter-pool reciprocal reinsurances. In addition, the Syndicate provides reinsurance capacity to nuclear insurance mutual organisations and underwrites some open market business. The Syndicate is careful to aggregate net exposures to ensure that these are within the limits set.

The Syndicate historically avoided nuclear reactors located in the former Soviet Union. However, Russian nuclear reactors are now insurable following considerable improvements in safety enhancements that have been undertaken over the past decade.

The Syndicate underwrites a significant exposure, which is up to eight times the net capacity level committed to the UK Pool, although there are few exposures at this level. This means that in the event of a significant nuclear accident at one of the top exposures, a £10,000 share on the Syndicate is expected to suffer a loss of up to £80,000. Any further loss, however unlikely, would be in addition. Aside from inter-pool reciprocal exchange of risk and terrorism reinsurance for property risks, at pool level, a small amount of reinsurance is purchased at syndicate level from business flowing through Lloyd’s Brussels. Lloyd’s have approved special arrangements in respect of the syndicate’s EEA business. The maximum exposure retained by the pools currently suggests a maximum loss in the region of £270m; there are less than 10 risks at this level. In addition, this should be offset by the normal level of profit in a year reducing the impact of a single loss. The Underwriter wishes to make it clear that, in the event of a material nuclear loss, an immediate cash call will be made, many multiples in excess of the Syndicate’s capacity. Any further loss would be in addition. The Underwriter wishes to draw the members’ attention to the possibility of increased loss because of exchange rate fluctuations. The Managing Agent carefully monitors the Syndicate’s exposures on a monthly basis to mitigate this risk.

Brexit

Following the decision to leave the EU, UK nuclear insurers, including Syndicate 1176 are no longer able to directly transact EEA business in the UK. Accordingly the syndicate’s EEA business is transacted through Lloyd’s Brussels and reinsured back into syndicate 1176. NRI Ltd (the UK Pool) is also no longer able to act as coverholder for EEA risks, accordingly a subsidiary of NRI Ltd, NRI Europe has been set up and approved by the Central Bank of Ireland to operate from Dublin. This new coverholder was approved in mid-December, just in time for the January 1st renewals. This took considerable time to execute in 2020 and will add approximately £0.3m of expense in 2021.

Covid-19

Aside from the limited underwriting exposure to the Covid-19 pandemic, the team working on behalf of the Syndicate has adapted well to the working environment in place since the UK lock-down in March 2020. All key renewals, reporting requirements and controls have been followed in this remote working environment. It is a credit to the small team involved in the direct syndicate operations and more generally to the wider support we receive from Chaucer. It has been an extraordinary year and my thanks go to all in responding effectively to the challenges presented.

Underwriting performance

2018 Year of Account

The plan was for a premium income of £35.8m, the closing result shows premium gross of acquisition costs of £28.0m. We have received very few claims and those we did receive were settled at less than reserved. The total property losses advised to date are within forecast loss expectancy. The final profit achieved on the 2018 account is £20.5m, representing a return on capacity of 44.2%. This is less than in recent years, due to the increased stamp capacity, and fewer reserve releases, together with increased competition for business.

2019 Year of Account

The plan was for a premium income of £34.5m, however the current forecast premium gross of acquisition costs for the Syndicate is £28.3m. We have lost some business, as our share of some business has come under pressure from competitors, and some insureds are electing to retain more risk via self-insurance. To date the syndicate has received a few claims notifications, all within expectations, and the current forecast level of profit for 2019 is £11.4m within a range of 12.5% - 32.5% return on capacity.

2020 Year of Account

The 2020 account had an original planned income of £35.9m, which included c.£4.0m of income from the revised liability conventions. As mentioned earlier in this report, the ratification of the new liability conventions is now not expected until 2022, accordingly the additional income was not received in the 2020 year of account. The revised anticipated income for 2020 is £29.1m. This will be kept under review in 2021 as Sterling has recently appreciated following the Brexit process. Underlying all of this is a gradual chipping away of income by competitors, together with increased self-insurance by operators. Rating levels are broadly flat as nuclear underwriting tries to be consistent on pricing rather than follow the dramatic cyclical changes witnessed on some other areas of account. With considerable exposure remaining, profitability on the 2020 account is uncertain, if the current loss advice continues, we should achieve an ultimate underwriting profit.

To illustrate performance against plan the following key metrics are useful:

Underwriting Year	Planned Net Premium Income	Actual Net Premium Income To Date	Planned Net Loss Ratio	Actual Net Loss Ratio
2018	£35.8m	£28.0m	52.1%	3.5%
2019	£34.5m	£28.3m	51.5%	36.5%
2020	£34.9m	£34.9m	52.0%	40.4%

Outlook

Until the liability conventions are introduced, the Syndicate is unlikely to see significant opportunity for growth. Underlying Syndicate exposures are being reduced by competitors and the short-term boost in income arising from Sterling's devaluation could cause some reduction in income in 2021; obviously there should be a corresponding reduction in exposure, if rates are stable. The low carbon agenda is suggesting some opportunity for longer term growth. China and our increased relationship with China Re is leading to the opportunity for longer-term growth. In the UK we are, in a measured way, looking to develop our existing nuclear output, with New Build. This is best illustrated by the Hinkley Point C project which is being led by EDF, the French utility, who are building the new units in Somerset. Other examples include new units in the United Arab Emirates, which started producing power in 2020 and for which the Syndicate is, through NRI, the lead reinsurer. Despite underlying competition, the Syndicate has remained, and expects to continue, a leading insurer of nuclear risk. While we still see opportunities as insurers in the specialist area of nuclear insurance, the volatility and exposure within the portfolio, is real. The Syndicate has worked hard to sell stable rating to our ultimate clients, this means that even in an environment of, in some cases, significant rate increases being achieved on non-nuclear power business, the Syndicate is not planning to increase rating levels materially. We hope that this consistency of supply in underwriting capacity and stability in terms of coverage and pricing, will continue to be appreciated by our ultimate customers. Overall, looking ahead the returns expected should be less than the history has shown, but there is considerable volatility around this statement.

I would like to take this opportunity to thank the team working on behalf of the Syndicate for their help. It is an efficient team that provides a real level of expertise in a highly specialised segment and I appreciate their support.

Michael Dawson
Active Underwriter
4 March 2021

Managing Agent's Report

The Directors of the Managing Agent present their report and the audited annual accounts for the year ended 31 December 2020.

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 30 Fenchurch Street, London EC3M 3AD and registered number is 00184915.

Principal activities
This Report covers the business of Syndicate 1176, whose principal activity during the year continued to be the transaction of worldwide nuclear insurance and reinsurance business in the United Kingdom and overseas, underwriting at Lloyd's of London.

Review of the business and future developments
The Syndicate's key financial performance indicators during the year were as follows:

	2020	2019
	£000	£000
Gross written premiums	29,370	28,081
Total comprehensive income	18,626	22,072
Combined ratio [1]	38.8%	27.7%
Amount due to members	23,352	28,162

[1] 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.

Total comprehensive income primarily comprises net earned premium of £28.0m (2019: £28.8m) offset by net incurred claims of £2.9m (2019: £(0.7)m) and net operating expenses of £8.0m (2019: £8.7m). The increase in net incurred claims is driven by the inclusion of a reserve for legal costs on defending Covid-19 claims and a new loss reserve to a Nuclear Power Plant in Asia which suffered physical damage, both to the Nuclear Property class.

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

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

Underwriting risk
The Managing Agent separately defines underwriting risk appetite in respect of market losses and Syndicate specific losses, with appetite for the former being greater.

Underwriting risk appetite is expressed at the highest level, as a maximum event-specific net underwriting loss as a percentage of Syndicate capacity for an annual year of account. Where appropriate, stochastic modelling of underwriting risk using dynamic financial analysis techniques supports this approach.

The Managing Agent Board approves the risk appetite limit, after considering the relativity between 'willing to lose' and potential forecast profitability for each year of account. The risk appetite will therefore reflect the view of forecast profitability, utilising the Syndicate's latest business plan assumptions.

Managing risk aggregation
Underwriting exposure is controlled via risk policy coding systems, setting of maximum lines, setting of jurisdiction limits, strict underwriter authority limits, Realistic Disaster Scenario monitoring, reinsurance programme design, policy limitations and exclusions, imposed deductibles and policy wording and coverage clauses.

The Managing Agent records and monitors individual risk exposures on a regular basis to ensure these remain within the policies and guidelines set.

Underwriting controls
The Managing Agent operates a number of underwriting controls, details of which are set out below.

Underwriting planning process
The Underwriting Team undertake an extensive annual underwriting planning process in order to determine targets for premiums written and profitability for the coming year. Factors taken into account in determining the targets include the risk appetite agreed by the Managing Agent with the principal and other capital providers, anticipated policy pricing, terms and conditions, expected claims frequency and cost, and reinsurance cost and efficacy.

Monitoring performance against plan
The Managing Agent manages 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 function has experience covering a wide range of business classes. The Managing Agent has management controls in place to mitigate claims risk; some of these controls are outlined below.

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

Peer review
The 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, based on 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 ensures that the Syndicate receives a high quality service. Direct contact with external experts is also actively encouraged. However, this process is not exclusive. If no suitable expert exists on the 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 internal Signing Actuary. The Managing Agent's Actuarial Team calculates the reserves in conjunction with extensive discussions with the Underwriter.

Tier 2: Syndicate reserves
Determination of Syndicate reserves is a two-stage process: first, they are determined on an underwriting year basis and then they are converted to an annually accounted basis.

(a) Underwriting year Syndicate reserves
Underwriting year Syndicate reserves are prepared on an underwriting year basis and equal the Tier 1 reserves plus any reserve risk loadings. The intention of such risk loadings is to match areas within 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:

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

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

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

(b) Annually accounted Syndicate reserves
Annually accounted Syndicate reserves are the underwriting year Syndicate reserves converted to an annually accounted basis, plus additional loadings.

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

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

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

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

Financial Risks

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.

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

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

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

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

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

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

Refer to Note 12 for more detail on the Syndicate's exposure to investment risks and the processes in place for managing these risks.

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

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

The Managing Agent's Compliance function supports and monitors the compliance of the business with regulatory and legal requirements whilst promoting successful business practices and meeting business objectives through advice and guidance. The exposure to regulatory risk is managed by monitoring regulatory compliance with the requirements of the Prudential Regulatory Authority, Financial Conduct Authority and Lloyd's and other domestic and international regulatory requirements.

Legal risk is the risk that exposes 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.

Climate Change
The Managing Agent's Board is responsible for overseeing climate-change risk. It has delegated the detailed regular oversight of climate related risk management processes and activities to its Risk and Capital Committee.

The major climate risks are recognised as Physical, Transition and Liability risks, which are monitored through the Managing Agent's Enterprise Risk Management (ERM) framework processes. The Managing Agent uses the following risk management process to monitor these risks:

Climate Change Risk Dashboard:
The Dashboard takes a qualitative approach to assessing and reporting climate risk whilst ensuring it has a current view of Syndicate's risks. Further, the dashboard allows for the identification of risks across a span of time horizons.

Modelling of Catastrophe exposures:
The Syndicate has some exposure to catastrophe risk as a market-leading underwriter of nuclear insurance and reinsurance protection. Detailed modelling assessments of the Syndicate's exposures are reported to the Managing Agency's Board and Risk and Capital Committee, including highlighting where the frequency and impact of exposures may be as a result of climate risks. The Managing Agent has in place an extensive programme of model development to form its own view of risk and adapt the offerings from model vendors. The model output provides an assessment of the key risks from well-studied exposures such as North America Hurricane. These models enable a range of metrics to be set, including risk appetites and limits that are continuously monitored. An experienced research team examine the latest science on the impact of climate change in both the long and short term, building it in to our view of catastrophe risks.

Investment Portfolio Analysis:
The Managing Agent has conducted analysis of the investment portfolio to demonstrate potential exposure from liquidity and regulatory transitional risks and inform the Managing Agent's Board and Risk and Capital Committee more widely regarding Environmental, Social and Governance (ESG) factors.

General Insurance Stress Test:
The Managing Agent is fully engaged with the regulatory scenario testing required by the Prudential Regulatory Authority and will use the experience of the General Insurance Stress Test to inform and develop its scenario testing approach to take into account climate risks.

Given that climate risks are complex, multi-channelled and deep as well as broad, and further that the time horizons involved in the monitoring is beyond typical ERM reporting, the Managing Agent will continue to develop the ERM framework to manage the financial risks of climate change during 2021. This will include:

- Setting of appropriate risk appetites related to climate change exposures;
- The deeper integration of climate risk monitoring processes into the ERM framework, including pricing, underwriting and due diligence of third parties including operational outsourcing partners and counterparties;
- Consideration of risk management processes and activities that can be developed or introduced that take into account the varied time horizons of climate change risk; and
- Continued specific ERM risk assessments as requested by the Managing Agent's Board to support their view and decision making of specific areas of climate change risk.

Alongside the Managing Agent's development of a specific strategy for managing climate change risk, the Syndicate information provided to its Risk and Capital Committee will be augmented to include:

- The degree that underwriting activities are exposed to climate change transition, physical and liability risks;

- The potential increase in risk exposure in turn leading to potential increased claims as a result of natural catastrophes;
- The risks and opportunities contributed by energy efficient or low carbon products.

Brexit
The Managing Agent has implemented a number of measures and controls to mitigate the impact of Brexit to allow for continuity of operations following Britain's exit from the EU following the end of the Brexit transition period on 31 December 2020. The Managing Agent has been able to place direct EU business through Lloyd's Brussels Subsidiary since 1 January 2019, which in turn has been reinsured back into the Syndicate. Consequently, the Syndicate has been able to effectively transact EEA insurance business throughout this period. On 30th December 2020, all direct EEA business was transferred to Lloyd's Brussels Subsidiary via a Part VII transfer and immediately reinsured back into the Syndicate via a 100% quota share. Refer to note 1 for more detail.

The Managing Agent continues to monitor the situation as the full impact to the U.K. and European Market becomes clear.

Covid-19
The Managing Agent has exposure to the Covid-19 pandemic, primarily through operational risk related to business disruption, and principally through its outsourcing arrangement with CUSL. Business continuity has been fully maintained through effective remote working strategies applied to all the office locations where CUSL staff work, and through the implementation of the Chaucer Pandemic Plan which has been designed to ensure the safety of its staff whilst maintaining business operations.

The Syndicate has received no notifications of losses from Covid-19 and has recorded modest reserves for legal expenses that may be incurred in defending any future claim. The Syndicate has limited exposure to Business Interruption (BI) cover within the underwriting portfolios, and the recent Supreme Court ruling on BI has not materially increased the expected losses within the Nuclear Property (re)insurance class.

Risk management processes will continue to monitor and report on the developing pandemic situation to the Board and its sub-committees.

Directors' interests
The Directors who held office throughout the year and up to the date of signing the annual accounts are detailed on page 1.

None of the Directors of the Managing Agent has 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 order of the Board of Chaucer Syndicates Limited.

R J Callan
Chief Financial Officer
4 March 2021

Statement of Comprehensive Income for the year ended 31 December 2020

	Note(s)	2020 £000	2019 £000
Technical Account – General Business			
Earned premiums, net of reinsurance			
Gross premiums written	3	29,370	28,081
Outward reinsurance premiums		(578)	(303)
Net premiums written		**28,792**	**27,778**
Change in the provision for unearned premiums			
Gross amount	16	(875)	902
Reinsurers' share	16	88	155
Net change in the provision for unearned premiums		**(787)**	**1,057**
Earned premiums, net of reinsurance		**28,005**	**28,835**
Allocated investment return transferred from the Non-Technical Account		1,413	1,416
Total technical income		**29,418**	**30,251**
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	16	(522)	(2,915)
Net claims paid		**(522)**	**(2,915)**
Change in the provision for claims			
Gross amount	16	(2,553)	3,530
Reinsurers' share	16	168	49
Net change in the provision for claims		**(2,385)**	**3,579**
Claims incurred, net of reinsurance		**(2,907)**	**664**
Net operating expenses	3, 5	(7,953)	(8,653)
Total technical charges		**(10,860)**	**(7,989)**
Balance on the Technical Account – General Business		**18,558**	**22,262**
Non-Technical Account			
Other income / (expense)	11	68	(190)
Investment income	9	1,349	1,442
Net unrealised gains	9	361	592
Investment expenses and charges	9	(297)	(618)
Allocated investment return transferred to the Technical Account – General Business		(1,413)	(1,416)
Total comprehensive income	15	**18,626**	**22,072**

All the amounts above are in respect of continuing operations.

Statement of Financial Position as at 31 December 2020

	Note(s)	2020 £000	2019 £000
Assets			
Investments			
Other financial investments	12	54,574	47,375
Reinsurers' share of technical provisions			
Provision for unearned premiums	16	243	155
Claims outstanding	16	215	46
		458	201
Debtors			
Debtors arising out of direct insurance operations - intermediaries		9,073	11,001
Debtors arising out of reinsurance operations		18,480	17,694
Other debtors	13	143	230
		27,696	28,925
Other assets			
Cash at bank		1,430	8,752
Overseas deposits	14	564	360
		1,994	9,112
Prepayments and accrued income			
Deferred acquisition costs	16	1,065	958
Other prepayments and accrued income		354	361
		1,419	1,319
Total assets		**86,141**	**86,932**
Liabilities			
Capital and reserves			
Members' balances	15	23,352	28,162
Technical provisions			
Provision for unearned premiums	16	16,558	16,129
Claims outstanding	12, 16, 18	38,419	35,941
		54,977	52,070
Creditors			
Creditors arising out of direct insurance operations - intermediaries		6	94
Creditors arising out of reinsurance operations		99	259
Other creditors including taxation and social security	19	452	2,337
		557	2,690
Accruals and deferred income		7,255	4,010
Total liabilities		**86,141**	**86,932**

The annual accounts on pages 13 to 32 were approved by the Board of Chaucer Syndicates Limited on 4 March 2021 and signed on its behalf by:

R J Callan
Chief Financial Officer

Statement of Changes in Members' Balances for the year ended 31 December 2020

	Note	2020 £000	2019 £000
Balance as at 1 January		28,162	28,089
Total comprehensive income	15	18,626	22,072
Payments of profit to members' personal reserve funds	15	(23,320)	(21,899)
Other	15	(116)	(100)
Balance as at 31 December		**23,352**	**28,162**

Statement of Cash Flows for the year ended 31 December 2020

	Note	2020 £000	2019 *as restated £000
Cash flows from operating activities			
Total comprehensive income		18,626	22,072
Increase / (decrease) in gross technical provisions		2,907	(4,686)
Increase in reinsurers' share of technical provisions		(257)	(200)
Decrease in debtors		1,129	8,865
Increase in creditors		1,112	2,789
Movement in other assets/liabilities		(204)	(74)
Investment return	9	(1,413)	(1,416)
Foreign exchange		404	609
Other		(117)	(134)
Net cash generated from operating activities		**22,187**	**27,825**
Cash flows from investing activities			
Purchase of equity and debt instruments		(40,894)	(72,014)
Sale of equity and debt instruments		33,653	73,243
Investment income received		1,052	824
Net cash (used in) / generated from investing activities		**(6,189)**	**2,053**
Cash flows from financing activities			
Distribution profit		(15,442)	(13,158)
Open year profit release		(7,878)	(8,741)
Net cash used in financing activities		**(23,320)**	**(21,899)**
Net (decrease) / increase in cash and cash equivalents		(7,322)	7,979
Cash and cash equivalents at beginning of year		8,752	774
Foreign exchange on cash and cash equivalents		-	(1)
Cash and cash equivalents at end of year		**1,430**	**8,752**
Cash and cash equivalents consists of:			
Cash at bank		1,430	8,752
Cash and cash equivalents		**1,430**	**8,752**

Notes to the Accounts for the year ended 31 December 2020

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.

Part VII transfer

On 30 December 2020, the Members and former Members of the Syndicate, as comprised for each of the relevant years of account between 1993 and April 2019 (or October 2020 in the case of German reinsurance), transferred all relevant policies (and related liabilities) underwritten by them for those years of account to Lloyd’s Insurance Company S.A. (‘Lloyd’s Brussels’), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the Members of the Syndicate entered into a 100% Quota Share Reinsurance Agreement whereby Lloyd’s Brussels reinsured all risks on the same policies back to the relevant open years of account of the Syndicate which wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account.

Following the sanction of the scheme by the High Court on 25 November 2020, the scheme took effect on 30 December 2020 and the Members and former Members of the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd’s Brussels, together with cash of £77k. On the same date, under the Reinsurance Agreement, Lloyd’s Brussels reinsured the same risks back, together with an equal amount of cash of £77k. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate’s income statement or balance sheet.

Current year underwriting results for the transferred policies have been reported in the same classes of business as in prior years, as the effective date of the transfer was 30 December 2020, and in line with Society of Lloyd’s guidance no movements were processed on these policies on 31 December 2020. In future years, results relating to these risks will be reported under the Inwards Reinsurance class of business, reflecting the new contractual arrangement with Lloyd’s Brussels.

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. Both the cash transferred for the Part VII transfer and the premium subsequently received back from Lloyd’s Brussels have been included in the gross written premiums line of the income statement.

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.

Notes to the Accounts for the year ended 31 December 2020

2. Accounting policies (continued)

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.

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.

Notes to the Accounts for the year ended 31 December 2020

2. Accounting policies (continued)

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.

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

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

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

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

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

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

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

Notes to the Accounts for the year ended 31 December 2020

2. Accounting policies (continued)

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

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

i) Pension costs

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) Key judgements and uncertainty

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

- Valuation of general insurance contract liabilities (page 18)
- Premium recognition (page 17)

Notes to the Accounts for the year ended 31 December 2020

3. Segmental analysis

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

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	**Total**	Net technical provisions*
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
2020							
Direct insurance							
Fire and other damage to property	7,522	7,302	(842)	(2,140)	(99)	4,221	7,523
Third party liability	1,952	1,891	(211)	(509)	(9)	1,162	10,509
	9,474	9,193	(1,053)	(2,649)	(108)	5,383	18,032
Reinsurance	19,896	19,302	(2,022)	(5,304)	(214)	11,762	36,487
	29,370	**28,495**	**(3,075)**	**(7,953)**	**(322)**	**17,145**	**54,519**
2019							
Direct insurance							
Fire and other damage to property	8,395	8,655	(876)	(2,620)	3	5,162	9,824
Third party liability	2,697	2,787	138	(647)	(36)	2,242	2,832
	11,092	11,442	(738)	(3,267)	(33)	7,404	12,656
Reinsurance	16,989	17,541	1,353	(5,386)	(66)	13,442	39,213
	28,081	**28,983**	**615**	**(8,653)**	**(99)**	**20,846**	**51,869**

* The 2020 net technical provisions are prepared on a consistent basis to 2019. However, the impact of the Part VII transfer would lead to a £1.2m reclassification between direct insurance and reinsurance.

All premiums were concluded in the UK.

Commission on gross premiums written as direct insurance business, during 2020, was £0.3m (2019: £0.3m).

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

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

	2020	**2019**
	£000	**£000**
UK	1,234	1,205
Americas (including US)	2,285	4,255
Other	25,851	22,621
Gross premiums written	**29,370**	**28,081**

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

	2020 Gross technical provisions	**2020 Net technical provisions**	**2019 Gross technical provisions**	**2019 Net technical provisions**
	£000	**£000**	**£000**	**£000**
UK	2,309	2,290	2,235	2,226
Americas (including US)	4,277	4,241	7,890	7,860
Other	48,391	47,988	41,945	41,783
Total	**54,977**	**54,519**	**52,070**	**51,869**

Notes to the Accounts for the year ended 31 December 2020

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

During the year, the Syndicate released £9.5m of technical reserves in respect of prior years (2019: £11.2m) arising from across the nuclear property and nuclear liability classes (2019: from across the nuclear property and nuclear liability classes).

5. Net operating expenses

	2020 £000	2019 £000
Acquisition costs - brokerage and commissions	1,059	822
Change in deferred acquisition costs	(170)	27
Administrative expenses	7,064	7,804
	7,953	**8,653**
Administrative expenses include:		
Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission)	5,532	6,116

6. Auditors' remuneration

	2020 £000	2019 £000
Audit of the Syndicate annual accounts	90	64
Other services pursuant to legislation, including the audit of the regulatory return	44	64
	134	**128**

7. Staff costs

All staff are employed by a related group undertaking, CUSL.

Syndicate expenses, including the audit fee, are incurred by CUSL and recharged to the Syndicate via Chaucer Syndicates Limited as a flat fee included in administrative expenses.

The average number of employees employed by CUSL but working for the Syndicate during the year was as follows:

	2020 Number	2019 Number
Administration and finance	5	5
Underwriting	2	2
Other	2	2
	9	**9**

Notes to the Accounts for the year ended 31 December 2020

8. Emoluments of the directors of the Managing Agent

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

The Active Underwriter received the following consultancy fees, incurred by a related group undertaking and recharged to the Syndicate within Managing Agency fees.

	2020 £000	2019 £000
Active Underwriter	197	197

9. Investment return

	2020 £000	2019 £000
Investment income		
Income from financial assets at fair value through profit and loss	915	338
Interest on cash at bank	108	225
Other interest and similar income	189	739
Gains on the realisation of investments	137	140
	1,349	1,442
Investment expenses and charges		
Investment management expenses, including interest	(11)	(9)
Losses on the realisation of investments	(286)	(609)
	(297)	**(618)**
Net unrealised gains on investments	361	592
Total investment return	**1,413**	**1,416**

Notes to the Accounts for the year ended 31 December 2020

10. Calendar year investment return

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

	2020 £000	2019 £000
Average funds	50,764	48,684
Investment return	1,413	1,416
Calendar year investment return	2.8%	2.9%
Average funds available for investment by fund		
Sterling	39,378	37,978
United States Dollars	8,113	8,444
Canadian Dollars	3,273	2,262
Analysis of calendar year investment return by fund	**%**	**%**
Sterling	3.3	3.2
United States Dollars	0.8	1.8
Canadian Dollars	0.9	1.7

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

11. Other income / (expense)

Net foreign exchange gains of £0.1m (2019: £0.2m loss) are included within other income / (expense) in the non-technical account.

12. Financial instruments

	2020 Cost £000	2020 Market value £000	2019 (restated) Cost £000	2019 (restated) Market value £000
Shares and other variable yield securities at fair value through profit and loss	24,617	23,900	14,402	14,048
Debt securities and other fixed income securities at fair value through profit and loss	30,895	30,674	33,909	33,327
	55,512	**54,574**	**48,311**	**47,375**

Risk policies

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

Notes to the Accounts for the year ended 31 December 2020

12. Financial instruments (continued)

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 2020	+1.0	(904)
	-1.0	951
31 December 2019	+1.0	(982)
	-1.0	1,033

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 Managing Agent 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 cash is available to settle liabilities and other obligations when due without excessive cost to the business.

The liquidity risk policy sets limits for cash required to meet expected cash flows. It includes a contingency funding plan, which details the process and provisions for liquidating assets and/or raising additional funds required to meet liabilities in extreme circumstances.

The expected payment profile of undiscounted liabilities is as follows:

	Maturity band (Years)				
	<1 £000	1-3 £000	3-5 £000	>5 £000	Total £000
Other creditors	557	-	-	-	557
Claims outstanding	9,795	17,302	8,039	3,283	38,419
At 31 December 2020	10,352	17,302	8,039	3,283	38,976
Other creditors	2,690	-	-	-	2,690
Claims outstanding	8,346	16,177	7,867	3,551	35,941
At 31 December 2019	11,036	16,177	7,867	3,551	38,631

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 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.

Notes to the Accounts for the year ended 31 December 2020

12. Financial instruments (continued)

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

	2020	2019 (restated)
	£000	£000
Debt securities	30,674	33,327
Cash at bank	1,430	8,752
Shares and other variable yield securities	23,900	14,048
Overseas deposits	564	360
Reinsurers' share of claims outstanding	215	46
	56,783	**56,533**
AAA	32,202	22,676
AA	8,700	12,183
A	12,333	18,019
BBB	3,399	3,630
BB or less	149	25
Total assets bearing credit risk	**56,783**	**56,533**

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).

The following table presents the Syndicate's assets measured at fair value at 31 December 2020 and at 31 December 2019.

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Shares and other variable yield securities and unit trusts	17,649	5,739	512	23,900
Debt securities and other fixed income securities	3,966	26,708	-	30,674
Overseas deposits	30	534	-	564
At 31 December 2020	**21,645**	**32,981**	**512**	**55,138**
(restated)				
Shares and other variable yield securities and unit trusts	13,934	-	114	14,048
Debt securities and other fixed income securities	7,825	25,502	-	33,327
Overseas deposits	13	347	-	360
At 31 December 2019	**21,772**	**25,849**	**114**	**47,735**

Notes to the Accounts for the year ended 31 December 2020

13. Other debtors

	2020 £000	2019 £000
Other debtors	143	230
	143	**230**

Other debtors primarily relates to overseas taxes.

14. Overseas deposits

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

15. Reconciliation of movements in members' balances

	2020 £000	2019 £000
Members' balances at 1 January	28,162	28,089
Total comprehensive income	18,626	22,072
Payments of profit to members' personal reserve funds	(23,320)	(21,899)
Movement in members' balance in respect of members' agent's fees	(95)	(96)
Movement in members' balance in respect of tax and other	(21)	(4)
Members' balances at 31 December	**23,352**	**28,162**

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

Notes to the Accounts for the year ended 31 December 2020

16. Technical reserves

	Provisions for unearned premiums £000	Claims outstanding £000	Deferred acquisition costs £000	Total £000
Gross and net technical provisions				
At 1 January 2020	**16,129**	**35,941**	**958**	**51,112**
Exchange adjustments	(446)	(75)	(63)	(458)
Claims paid in year	-	(522)	-	(522)
Movement in provision	875	3,075	170	3,780
At 31 December 2020	**16,558**	**38,419**	**1,065**	**53,912**
Reinsurance				
At 1 January 2020	155	46	-	201
Exchange adjustments	-	1	-	1
Movement in provision	88	168	-	256
At 31 December 2020	243	215	-	458
Net technical provisions				
At 31 December 2020	**16,315**	**38,204**	**1,065**	**53,454**
At 31 December 2019	**15,974**	**35,895**	**958**	**50,911**

17. Sensitivity of insurance risk

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

	2020	2019
Net loss ratio	10.4%	(2.3%)
Impact of 1% variation (£000)	(280)	288

Notes to the Accounts for the year ended 31 December 2020

18. Claims development tables

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

Pure underwriting year	2010 and prior £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	2020 £000	Total £000
Estimate of gross claims incurred												
At end of underwriting year		9,217	6,114	11,843	5,180	7,547	10,477	7,485	6,606	6,615	7,523	
One year later		20,771	7,213	11,567	6,215	9,951	13,585	8,702	9,130	10,285	-	
Two years later		17,495	4,348	7,262	4,823	5,977	11,330	6,102	6,844	-	-	
Three years later		16,708	2,998	6,805	3,786	5,417	6,867	4,257	-	-	-	
Four years later		16,231	2,562	5,385	3,216	4,962	6,327	-	-	-	-	
Five years later		15,714	2,152	4,965	2,472	3,841	-	-	-	-	-	
Six years later		15,330	1,768	4,598	1,969	-	-	-	-	-	-	
Seven years later		14,924	1,383	4,230	-	-	-	-	-	-	-	
Eight years later		14,468	999	-	-	-	-	-	-	-	-	
Nine years later		13,966	-	-	-	-	-	-	-	-	-	
As at 31 December 2020	9,449	13,966	999	4,230	1,969	3,841	6,327	4,257	6,844	10,285	7,523	69,690
Less gross claims paid	8,680	13,453	118	3,022	138	1,899	3,265	52	374	255	15	31,271
Gross reserves	769	513	881	1,208	1,831	1,942	3,062	4,205	6,470	10,030	7,508	38,419

Notes to the Accounts for the year ended 31 December 2020

18. Claims development tables (continued)

Pure underwriting year	2010 and prior £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	2020 £000	Total £000
Estimate of net claims incurred												
At end of underwriting year		9,217	6,114	11,843	5,180	7,547	10,477	7,474	6,606	6,570	7,334	
One year later		20,771	7,213	11,567	6,215	9,951	13,585	8,690	9,130	10,259	-	
Two years later		17,495	4,348	7,262	4,823	5,977	11,330	6,101	6,844	-	-	
Three years later		16,708	2,998	6,805	3,786	5,417	6,867	4,257	-	-	-	
Four years later		16,231	2,562	5,385	3,216	4,962	6,327	-	-	-	-	
Five years later		15,714	2,152	4,965	2,472	3,841	-	-	-	-	-	
Six years later		15,330	1,768	4,598	1,969	-	-	-	-	-	-	
Seven years later		14,924	1,383	4,230	-	-	-	-	-	-	-	
Eight years later		14,468	999	-	-	-	-	-	-	-	-	
Nine years later		13,966	-	-	-	-	-	-	-	-	-	
As at 31 December 2020	9,449	13,966	999	4,230	1,969	3,841	6,327	4,257	6,844	10,259	7,334	69,475
Less net claims paid	8,680	13,453	118	3,022	138	1,899	3,265	52	374	255	15	31,271
Net reserves	769	513	881	1,208	1,831	1,942	3,062	4,205	6,470	10,004	7,319	38,204

Gross and net claims incurred that are denominated in non-functional currency are converted to Pound Sterling as of 31 December 2020, the most recent balance sheet date, for all years presented.

Notes to the Accounts for the year ended 31 December 2020

19. Other creditors including tax and social security

	2020 £000	2019 £000
Due to Managing Agent	244	337
Investments proceeds creditor	208	-
Due to Syndicate 1084	-	2,000
	452	**2,337**

20. Related parties

Chaucer Syndicates Limited, a wholly owned subsidiary of China Reinsurance (Group) Corporation, is the Managing Agent of the Syndicate. Chaucer Syndicates Limited has charged the Syndicate with the following expenses during the year along with the outstanding balance at the year end:

	2020 £000	2019 £000
Managing agency fees	2,018	1,983
Profit commission	3,262	3,896
Year-end balance due to Chaucer Syndicates Limited at 31 December	3,506	4,233

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

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

			Year of account
	2020 £000	2019 £000	2018 £000
Chaucer Corporate Capital (No. 3) Limited	26,484	26,484	26,484

Syndicate 1176 and 1084 entered into a foreign exchange transaction in December 2019, with Syndicate 1176 owing £2.0m to Syndicate 1084 at 31 December 2019 as a result of this transaction. The total amount owed was paid in January 2020.

These transactions are subject to the Managing Agent's internal controls, which ensure that all are compliant with Lloyd's Related Party Bylaw provisions.

21. Funds at Lloyd's

Every member is required to hold capital at Lloyd's, which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's, based on Prudential Regulatory Authority requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and an assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the Managing Agent, no amount has been shown in these accounts by way of such capital resources. However, the Managing Agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

22. Capital

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000 and in accordance with Solvency II legislation.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly the capital requirement in respect of Syndicate 1176 is not disclosed in these accounts.

Lloyd's capital setting process

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

A syndicate may be comprise 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 2020 was 35% (2019: 35%) of the member's SCR 'to ultimate'.

Provision of capital by members

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

Accordingly all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the Statement of Financial Position on page 14, represent resources available to meet members' and Lloyd's capital requirements.

23. 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).

24. Restatement of comparatives

In 2020, the loan to Lloyd's Central Fund to support Lloyd's Brussels Subsidiary was determined to be more appropriately reported within Shares and Other Variable Yield Securities in Note 12. Accordingly, the £0.1m balance in the 2019 comparatives has been restated within these 2020 Annual Accounts (previously reported as Loans to Credit Institutions), with a net nil impact to total assets. The comparative Statement of Cash Flows for the year ended 31 December 2019 has also been restated to correctly reclassify the balance of £0.1m from Loans to Credit Institutions to Purchase of equity and debt instruments.

Statement of Managing Agent's Responsibilities

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

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

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

1. select suitable accounting policies and then apply them consistently;

2. make judgements and estimates that are reasonable and prudent;

3. state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and

4. prepare the annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 1176

Report on the audit of the syndicate annual accounts

Opinion
In our opinion, 1176's syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); 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 2020; the Statement of Comprehensive Income, the Statement of Cash Flows, and the Statement of Changes in Members' Balances for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

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 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
Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue as a going concern for a period of at least twelve months from when the syndicate annual accounts are authorised for issue.

In auditing the syndicate annual accounts, we have concluded that the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is appropriate.

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

Our responsibilities and the responsibilities of the Managing Agent with respect to going concern are described in the relevant sections of this report.

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 The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires 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 2020 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to the risk of fraud in revenue recognition and management override of controls, including the potential for management bias in significant accounting estimates, particularly in relation to claims outstanding and estimated premium income and the unfair or inequitable treatment of closing years of account. Audit procedures performed included:

- inspecting relevant meeting minutes, including those of the Board, Risk & Capital Committee and Audit Committee of the Managing Agent, and correspondence with regulatory authorities, including Lloyd's of London, Prudential Regulatory Authority and the Financial Conduct Authority;
- discussions with the Board, management, compliance function and internal audit function of the Managing Agent, including consideration of known or suspected instances of fraud and non-compliance with laws and regulations;
- evaluation and testing of the operating effectiveness of management's controls designed to prevent or detect misstatements in the Annual Accounts;
- testing and challenging where appropriate the assumptions and judgements made by management in their significant accounting estimates, particularly in relation to the estimation of claims outstanding and the estimation of estimated premium income;
- identifying and testing journal entries, particularly journal entries with unusual account combinations, posted to unusual accounts or posted by unexpected users; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.
- assessing the appropriateness of closing the 2018 year of account and testing and challenging where appropriate the equity of the estimate for reinsurance to close premium charged.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the syndicate annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 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

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

- we have not obtained 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 2021