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Syndicate 1176

Report, Annual Accounts and Underwriting Year Accounts

31 December 2022

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Syndicate Information

Directors of the Managing Agent

D C Bendle

R J Callan

J Faure

J Fowle

P A Jardine

N J Stacey

L S Watkins

Dr H Zuo

Z Wang (appointed 19 August 2022)

Chief Operating Officer

Chief Financial Officer

Senior Independent Non-Executive Director

Chief Executive Officer

Chairman and Independent Non-executive Director

Chief Underwriting Officer

Independent Non-Executive Director

Group Non-Executive Director

Group Non-Executive Director

Managing Agent's company secretary

R N Barnett

Managing Agent's registered office

52 Lime Street

London EC3M 7AF

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 banker

The custodian of the Syndicate's investment funds is:

Citibank N.A.

Syndicate investment manager

Goldman Sachs Asset Management International

Syndicate independent auditors

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. Further increased awareness of the impact of carbon emissions to the planet are driving momentum away from fossil fuels to renewable energy production, including nuclear. The recent conflict in Ukraine has highlighted the risk of relying on gas producers, and the resultant need for "home grown" energy at more stable prices.

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.

Energy prices have recently been volatile. 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. This has led to many countries re-investigating the merits of nuclear power, including the possibility of developing smaller modular reactors. Whilst currently the main new development remains as large-scale nuclear units, it is hoped that, in the future, the new nuclear build will be extended to include smaller modular reactors. One of the areas of debate to be had within society is where these modular reactors, which are cheaper and less prone to design creep, should be built. At present many of the historic transmission and distribution lines (i.e., the grid, that carries electricity) are old and around 20% of generating production is lost in the transmission process. This would encourage the new smaller modular reactors to be built closer to main cities, which would reduce loss through distribution. However, the general public have not become engaged in the issue of siting of new nuclear builds and it remains to be seen quite what the enthusiasm for "local" new nuclear would be. These are important issues that need to be part of a national debate on manageable cost, safe, secure low carbon energy capacity in the future.

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

Underwriter's Report

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.

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. 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 has resulted in additional

Underwriter's Report

capacity and coverage being sought by operators. In the UK for instance, the indemnity for a nuclear accident increased at 1 January 2022 from £140m to €700m and thereafter will increase by €100m, for each of the subsequent five years to take the capacity needed to €1.2bn. This means that the UK liability limit increased to €800m at 1 January 2023. Further, international nuclear conventions have been revised to incorporate additional coverage. Anticipating the move to increased liability coverage, several years ago, the Syndicate increased the liability share of maximum exposure to 50%.

Increased income and exposure remain uncertain though, due to the Syndicate's reluctance to take on the new discovery period for losses, which has been extended from 10 years to 30 years in the EU and UK. The Syndicate has resisted the extension to the discovery period and has not written the revised convention liability business with a new 30 year tail. In the UK the Syndicate has argued to the Government that the capital required for the extended reporting period means that this risk is unattractive for insurers, at affordable premium levels. This has resulted in the UK Government providing an indemnity to UK operators for 20 years in excess of 10 years, for those markets cautious about the extended reporting period. The Syndicate has also suggested to the UK Government that the 30-year discovery period could be underwritten, were a demonstrable trigger to be incorporated, which would ensure that claims payments would only be made if a release of radiation, beyond an agreed trigger threshold, occurred. Other markets have taken a more accommodative approach to the extended reporting period, including the nuclear industry's own self-insurance schemes. The fact that the UK and EU member state Governments have allowed considerable limits of liability (estimated to be up to €300m per site) to be placed with these self-insurance operations presents a challenge to the Syndicate's future premium growth. Further, the wider industry could be impacted in the event of a systemic loss or losses over 30 years as these self-insurance entities may not have the resources available to pay the losses. The risk would then fall back to these Governments, who assumed the losses would be paid by credible insurers. The Syndicate continues to work with the UK and EU member state Governments as well as the nuclear industry to try and ensure the definition of nuclear event is clarified and that exposure to the 30-year discovery period does not lead to a systemic loss. Systemic loss concern is exacerbated due to factors such as "judicial creep", whereby courts in the future could look to assert that historic small releases of radiation have harmed people, leading to widespread claims, reminiscent of the aggregation of historic asbestos/pollution losses. The Syndicate is convinced that with clear policy wordings, or an agreed trigger beyond which liability would attach, that the extended reporting period can be covered. Without clarity the Syndicate is cautious of coverage which could result in reduced business in the future. The Syndicate continues to work with Governments to try and reach a long-term satisfactory coverage position.

The Syndicate liability book comprised 32% of total gross premiums written 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,

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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 is planned to be 66% property and 34% liability for the 2023 year of account.

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 has resulted in EEA required 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 in 2019, with a small portion of premium ceded since 2019, with £0.6m in planned in 2023.

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, Nuclear Risk Insurers Ltd (NRI Ltd), 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.

NRI Ltd 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 has no further involvement in the small exposure it had to Russian risks, following international sanctions introduced. It does maintain a small exposure in Ukraine for some liability policies, but there is an appropriate war exclusion clause in place.

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 £300m; 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. During 2022, as a result of weakening on Sterling, exposures were at one time as high as £350m on two risks. These reduced towards the year end as Sterling strengthened somewhat. As they are renewed the exposure should revert to c.£300m at the time of writing, but renewed exposures can also fluctuate in line with Sterling's volatility.

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 exposure to currency risk as detailed in Note 11.

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Brexit

Following the decision to leave the EU, UK nuclear insurers, including Syndicate 1176, have not been able to directly transact EEA business in the UK. Accordingly, the Syndicate's EEA business has been 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, was set up and approved by the Central Bank of Ireland to operate from Dublin. All EEA risks have been placed through NRI Europe since 1 January 2021.

Covid-19

Aside from the limited underwriting exposure to the Covid-19 pandemic, the team working on behalf of the Syndicate adapted well to the working environment during the UK lockdowns. It is a credit to the small team involved in the direct syndicate operations and more generally to the wider support we receive from our Managing Agent. Thankfully we are now all back to a more normal working environment.

Underwriting performance

2020 Year of Account

The plan was for a premium income of £34.9m, the closing result shows premium gross of acquisition costs of £30.8m. The fall against plan is largely driven by delays in the ratification of the new liability conventions. 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 2020 account is £21.6m, representing a return on capacity of 46.5%.

2021 Year of Account

The plan was for a premium income of £34.0m, which was lower than planned due to continued delay in the ratification of the revised liability conventions. The current forecast premium gross of acquisition costs for the Syndicate is £27.1m. To date the Syndicate has received a few claims notifications, all within expectations, and the current forecast level of profit for 2021 is expected to represent between 12.5% and 32.5% of capacity.

2022 Year of Account

The 2022 account had an original planned income of £31.5m, which included c.£4.0m of income that was expected from the final implementation of the revised liability conventions. However, some markets, particularly the nuclear industry's own self-insurance schemes as well as some foreign pools took the 30 year exposure, which resulted in this business not being placed through the Syndicate. The Syndicate did achieve some new liability business, particularly in the UK where the Government provided an indemnity to those insurers not willing to accept the risk associated with 30-year liability business. Rating levels have had some modest increases and the net effect from these, together with some lost liability business and the weakness in Sterling has resulted in an expected premium for 2022 of £27.7m. There has been one notified loss in Scandinavia which has been reserved at the year end, within loss expectations. With considerable exposure remaining, profitability on the 2022 account is uncertain, but 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 Gross Written Premium	Actual Gross Written Premium	Planned Net Loss Ratio	Actual Net current Loss Ratio
2020	£34.9m	£30.8m	52.0%	0.5%
2021	£34.0m	£26.3m	50.4%	27.6%
2022	£31.5m	£32.8m	52.0%	45.4%

Outlook

Until the liability conventions reporting period for claims language is clarified the Syndicate is cautious about significant opportunity for premium growth. Underlying Syndicate exposures are being reduced by competitors and the short-term boost in income from the revised conventions in the UK with the 10 - 30 year reporting period being retained by Government, is uncertain in the future. The low carbon agenda is suggesting some opportunity for longer term growth, but this is well into the future. China and our relationship with China Re is leading to the opportunity for longer-term growth in China. 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 and the announced Sizewell C project which are being led by EDF - the French utility. Other examples include new units in the United Arab Emirates, which started producing power in 2020 and for which the Syndicate is, through NRI Ltd, the lead reinsurer and further units being commissioned in China. In the longer term we are optimistic that the small modular reactors and low carbon agenda will lead to increased nuclear capacity and

Underwriter's Report

increased insurance needs globally. Despite underlying competition and the liability challenges that this report has explained, the Syndicate has remained, and expects to continue, to be 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 and strong capital to our ultimate clients. 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.

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. In particular, I would like to thank and pay tribute to Dr Ron Cameron who has been an adviser to the Syndicate since 2010. Ron retired from this role in 2022 and we were delighted that Jasbir Sidhu joined the Syndicate on Ron's retirement. Jasbir is a nuclear engineer, a specialist in probabilistic risk assessment of nuclear plants and is currently President of the UK's Nuclear Energy Institute.

Michael Dawson
Active Underwriter
27 February 2023

Managing Agent's Report

The Directors of the Managing Agent present their report and the audited annual accounts for the year ended 31 December 2022.

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 52 Lime Street, London EC3M 7AF 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:

	2022	2021
	£000	£000
Gross written premiums	28,116	26,310
Total comprehensive income	19,567	18,916
Combined ratio ¹	32.6%	25.8%
Amount due to members	25,885	23,982

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 £29.3m (2021: £26.7m) offset by net incurred claims of £0.7m (2021: £(0.9)m) and net operating expenses of £8.9m (2021: £7.8m). The increase in net incurred claims is driven by the inclusion of a new Scandinavian loss reserve on 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.

Managing Agent's Report

Underwriting controls

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

Underwriting planning process

The Underwriting Team undertakes 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 the Syndicate Underwriting Committee, and then to the Chaucer 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 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.

Managing Agent's Report

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.

Managing Agent's Report

Financial Risks

Credit risk

The Syndicate does not bear significant exposure to credit risk from reinsurers since it cedes a small proportion of its book of business. To date, no recoveries have been made and therefore the Managing Agent considers the Syndicate's exposure to credit risk on outwards reinsurance to be negligible.

The Syndicate's Credit Risk arises from exposure to international pools however this is deemed as low risk.

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

Operational risk

This is the risk that events caused by people, processes, systems or external events lead to losses to the Syndicate. The Managing Agent seeks to manage this risk through business performance measures, formal disaster recovery and operational resilience 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 the Syndicate's 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.

Managing Agent's Report

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 related risks

The Managing Agent's Board is responsible for the effectiveness and oversight of the risk management system and the general management and mitigation of risks including climate change risk. It has delegated the detailed regular oversight of climate related risk management processes and activities to its Risk and Capital Committee, who monitor the effectiveness of the risk management framework including internal controls.

The Managing Agent recognises that risks arising from climate change may arise over different time horizons. However, the current assessment is that the physical risks of climate change will not materially impact the performance of the Syndicate because the risks insured are not materially exposed to natural catastrophe or climate change risks. The Syndicate's principal exposures are nuclear installations, typically at locations chosen for their naturally low incidence of natural catastrophe and hence inherently low risk. This assessment is subject to continual review and could change – see transition risk section below. In delivering its business strategy, the Managing Agent is committed to considering and addressing those risks, including those that are longer term and extend beyond the usual business and strategy planning timescales.

There are also longer time horizon climate risks, such as acute and chronic risks that crystallise as sea level and temperature rises. The current assessment does not highlight any significant risks, but the Managing Agent's existing risk identification and assessment processes and future developments will continue to seek to capture any potential risks.

Therefore, Syndicate's most material current climate change exposure is to Transition risk.

In delivering its business strategy, the Managing Agent is committed to considering and addressing those risks, including those that are longer term and extend beyond its usual business and strategy planning timescales.

The Managing Agent has been working to improve the understanding, approach, management and reporting and disclosure of climate risks. Headline changes during 2022 are:

- Strengthening of the climate risk governance at all levels of the risk governance structure.
- Commissioned an external review of Chaucer's voluntary TCFD disclosure and to provide a roadmap of developments and an assessment of future sustainability disclosure reporting.

Climate risk strategy

The Managing Agent will continue to develop its strategy to bolster the management of the risks and opportunities arising from climate change. Planned actions include:

- The Syndicate will support the energy transition from fossil fuels to low carbon energy production by providing underwriting capacity for nuclear risks, which are planned to grow in the UK and globally.
- Exposure management activities undertaken to date have demonstrated the importance of data collection, in particular for modelling exposures and assessing loss scenarios. The Managing Agent will improve exposure data categorisation to improve the assessment of any exposures the Syndicate has to climate change risk. The Syndicate will prioritise the assessment of exposure to vulnerable regions and will insist that the exposure to these vulnerable regions is adequately priced when accepting risk.
- The Managing Agent plans to enhance its due diligence process to understand the potential current and future impacts of climate risks on material existing counterparty arrangements and all future material counterparty arrangements.

Identification and assessment of climate risks

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 considers that the financial risks from climate change can be managed through existing 1st, 2nd and 3rd line of defence frameworks and in particular risk management processes and activities. The ongoing, forward-looking ORSA process and annual ORSA Report which documents the various risk management and capital assessment activities also support the Managing Agent in managing climate risk by clearly assessing and reporting its 'Own View' of risk.

Managing Agent's Report

The Managing Agent has been developing specific risk management tools and processes to address climate risks and ensure the sustainability of its business and targeted performance of the Syndicate. Existing strategies implemented to date include:

- Enhanced focus on catastrophe perils where climate change is identified as a driver of increased risk, including improved modelling capability and reporting;
- Enhanced risk management capability and framework specifically adapted to improve understanding and management of climate change risks;
- Adaptations to processes in the ERM framework ensure that the identification and assessment of long-term risks is considered with a focus on key risk categories;
- Changes to investment strategy to mitigate the transition risks of climate change;
- Formation of an ESG Group and the ongoing development of an ESG strategy and objectives which will contribute to the mitigation of climate-related operational risks;
- Development of Own View of Risk which is core to managing climate risk; and
- Production of a quarterly Climate Change Risk Dashboard highlighting the material climate risk exposures categorising these risks into Physical and Transitional risk types, recognising the time horizon around expected emergence of issues.

Whilst existing approaches are an effective foundation, the characteristics of climate risks, including time-horizon and potential to impact all risk categories requires that new approaches are also developed to supplement the foundation. These developments are being undertaken with reference to the PRA's Supervisory Statement 3/19.

Transition Risks

The Syndicate's investment portfolio is exposed to transition risk, and in particular, any impacts to the liquidity of the portfolio as a result of policy changes and/or risks associated with the transition to a low carbon economy. Risk management actions taken to date are:

- Continual monitoring of the investment portfolio against multiple climate change and ESG-related screens to ensure the Managing Agent has as much foresight as possible to any potential issues which may arise;
- The Managing Agent is in the process of formalising risk appetites and investment strategies for the Syndicate which fully embed ESG considerations to investment decisions; and
- Quantitative scenario testing of the investment portfolio to understand the potential impact to the assets the Syndicate holds, across a range of time horizons.

The Syndicate has a very short-dated portfolio and is a hold to maturity investor. As such, the risk from climate change on the portfolio is seen as minimal. The periodic reinvestment of a portion of the portfolio provides flexibility in investment decisions and the ability to react to developing market conditions.

The Syndicate could also be exposed to transition risk arising from uncertainty as to the depth and degree of alignment between the climate change policies of the different jurisdictions that the Syndicate operates in. In a scenario where transition targets diverge, chronic and acute physical risks may worsen and have the potential to impact the Syndicate's exposures by significantly increasing them if not mitigated. Further, transition risk could cause much deeper, wider disruption including that to the financial system if industry were forced to predict when or if transition policies may be introduced across different regions.

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. During 2022 the impact of the pandemic and its related operational risk have lessened. CUSL staff have returned to all office locations and Chaucer has implemented a hybrid working model allowing for business continuity if there is a rise in Covid-19 cases in the future.

Managing Agent's Report

Directors' interests

The Directors who held office during 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
27 February 2023

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 2022 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, including 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 2022 (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2022; 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, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 6, we have provided no non-audit services to the syndicate in the period under audit.

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

Independent Auditors' Report to the Members of Syndicate 1176

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 2022 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

Independent Auditors' Report to the Members of Syndicate 1176

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 risk of unfair or inequitable treatment of closing years of account. Audit procedures performed by the engagement team 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, the Prudential Regulation 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 Report;
- 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, posted by unexpected users, containing unusual words, manual revenue journals and post-close journals;
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing; and
- assessing the appropriateness of closing the 2020 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.

Independent Auditors' Report to the Members of Syndicate 1176

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
27 February 2023

Statement of Comprehensive Income for the year ended 31 December 2022

	Note(s)	2022 £000	2021 £000
Technical Account – General Business			
Earned premiums, net of reinsurance			
Gross premiums written	3	28,116	26,310
Outward reinsurance premiums		(565)	(606)
Net premiums written		27,551	25,704
Change in the provision for unearned premiums			
Gross amount	15	1,785	1,028
Reinsurers' share	15	(15)	(37)
Net change in the provision for unearned premiums		1,770	991
Earned premiums, net of reinsurance		29,321	26,695
Allocated investment return transferred from the Non-Technical Account		(1,743)	(400)
Total technical income		27,578	26,295
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	15	227	(61)
Net claims paid		227	(61)
Change in the provision for claims			
Gross amount	15	(933)	881
Reinsurers' share	15	46	118
Net change in the provision for claims		(887)	999
Claims incurred, net of reinsurance		(660)	938
Net operating expenses	3, 5	(8,902)	(7,814)
Total technical charges		(9,562)	(6,876)
Balance on the Technical Account – General Business		18,016	19,419
Non-Technical Account			
Foreign exchange gain/(loss)		1,551	(503)
Investment income	9	809	759
Net unrealised losses on investments	9	(1,995)	(411)
Investment expenses and charges	9	(557)	(748)
Allocated investment return transferred to the Technical Account – General Business		1,743	400
Total comprehensive income	14	19,567	18,916

All the amounts above are in respect of continuing operations.

Statement of Financial Position as at 31 December 2022

	Note(s)	2022 £000	2021 £000
Assets			
Investments			
Other financial investments	11	30,181	38,726
Reinsurers' share of technical provisions			
Provision for unearned premiums	15	191	206
Claims outstanding	15	379	333
		<u>570</u>	<u>539</u>
Debtors			
Debtors arising out of direct insurance operations - intermediaries		8,547	9,754
Debtors arising out of reinsurance operations		24,137	23,284
Other debtors	12	301	272
		<u>32,985</u>	<u>33,310</u>
Other assets			
Cash and cash equivalents		18,582	9,466
Overseas deposits	13	533	605
		<u>19,115</u>	<u>10,071</u>
Prepayments and accrued income			
Deferred acquisition costs	15	844	726
Other prepayments and accrued income		262	252
		<u>1,106</u>	<u>978</u>
Total assets		<u>83,957</u>	<u>83,624</u>
Liabilities			
Capital and reserves			
Members' balances	14	25,885	23,982
Technical provisions			
Provision for unearned premiums	15	14,739	15,652
Claims outstanding	11, 15, 17	38,646	37,582
		<u>53,385</u>	<u>53,234</u>
Creditors			
Creditors arising out of direct insurance operations - intermediaries		178	-
Creditors arising out of reinsurance operations		549	527
Other creditors including taxation and social security	18	381	2,506
		<u>1,108</u>	<u>3,033</u>
Accruals and deferred income		3,579	3,375
Total liabilities		<u>83,957</u>	<u>83,624</u>

The annual accounts on pages 19 to 36 were approved by the Board of Chaucer Syndicates Limited on 24 February 2023 and signed on its behalf by:

R J Callan
Chief Financial Officer

Statement of Changes in Members' Balances for the year ended 31 December 2022

	Note	2022 £000	2021 £000
Balance as at 1 January		23,982	23,352
Total comprehensive income	14	19,567	18,916
Payments of profit to members' personal reserve funds	14	(17,624)	(18,243)
Other	14	(40)	(43)
Balance as at 31 December		25,885	23,982

Statement of Cash Flows for the year ended 31 December 2022

	Note	2022 £000	2021 £000
Cash flows from operating activities			
Total comprehensive income		19,567	18,916
Decrease in gross technical provisions		(726)	(1,743)
Increase in reinsurers' share of technical provisions		(31)	(81)
Decrease / (Increase) in debtors		1,178	(5,174)
Decrease in creditors		(1,725)	(1,403)
Movement in other assets/liabilities		100	(41)
Investment return	9	1,743	400
Foreign exchange		(634)	183
Other		(40)	(42)
Net cash generated from operating activities		19,432	11,015
Cash flows from investing activities			
Purchase of equity and debt instruments		(15,116)	(23,296)
Sale of equity and debt instruments		21,672	37,904
Investment income received		751	660
Other		-	(4)
Net cash generated from investing activities		7,307	15,264
Cash flows from financing activities			
Distribution profit		(11,928)	(12,810)
Open year profit release		(5,696)	(5,433)
Net cash used in financing activities		(17,624)	(18,243)
Net increase in cash and cash equivalents		9,115	8,036
Cash and cash equivalents at beginning of year		9,466	1,430
Foreign exchange on cash and cash equivalents		1	-
Cash and cash equivalents at end of year		18,582	9,466
Cash and cash equivalents consist of:			
Cash at bank		18,582	9,466
Cash and cash equivalents		18,582	9,466

Notes to the Accounts for the year ended 31 December 2022

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.

2. Accounting policies

a) Insurance contracts

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

i) Premiums written

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

ii) Unearned premiums

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

iii) Reinsurance premiums ceded

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

iv) Claims provisions and related recoveries

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

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

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

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

Notes to the Accounts for the year ended 31 December 2022

2. Accounting policies (continued)

iv) Claims provisions and related recoveries (continued)

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

Finally, the Actuarial Function applies a bespoke approach for allowing for excess IBNR where existing methods would not otherwise adequately allow for future inflation expectations. In particular, where future calendar year inflation is forecast to be different to past experience. This approach considers both frequency and severity and expectations of economic and excess inflation (including social inflation) applied to the specific drivers of loss for classes written by the Syndicate.

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

v) Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

vi) Deferred acquisition costs

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

b) Net operating expenses

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

c) Cash and cash equivalents

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

d) Foreign currencies

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

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

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

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

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

Notes to the Accounts for the year ended 31 December 2022

2. Accounting policies (continued)

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.

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 charged by the Managing Agent at a rate of 15% of profit subject to the operation of a deficit clause. Where profit commission is charged, it is included in members' standard personal expenses within administrative expenses.

k) Key judgements and uncertainty

In applying the 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 23)
- Measurement of pipeline premium (page 23)

Notes to the Accounts for the year ended 31 December 2022

3. Segmental analysis

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

	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000	Net technical provisions £000
2022							
Direct insurance							
Fire and other damage to property	5,541	6,016	303	(1,872)	(147)	4,300	6,542
Third party liability	1,806	2,004	555	(580)	(48)	1,931	5,671
	<u>7,347</u>	<u>8,020</u>	<u>858</u>	<u>(2,452)</u>	<u>(195)</u>	<u>6,231</u>	<u>12,213</u>
Reinsurance	20,769	21,881	(1,564)	(6,450)	(339)	13,528	40,602
	<u>28,116</u>	<u>29,901</u>	<u>(706)</u>	<u>(8,902)</u>	<u>(534)</u>	<u>19,759</u>	<u>52,815</u>
2021							
Direct insurance							
Fire and other damage to property	7,292	7,731	322	(2,142)	(170)	5,741	8,244
Third party liability	1,376	1,365	219	(424)	(16)	1,144	6,121
	<u>8,668</u>	<u>9,096</u>	<u>541</u>	<u>(2,566)</u>	<u>(186)</u>	<u>6,885</u>	<u>14,365</u>
Reinsurance	17,642	18,242	279	(5,248)	(339)	12,934	38,330
	<u>26,310</u>	<u>27,338</u>	<u>820</u>	<u>(7,814)</u>	<u>(525)</u>	<u>19,819</u>	<u>52,695</u>

All premiums were concluded in the UK.

Commission on gross premiums written as direct insurance business, during 2022, was £0.1m (2021: £0.02m).

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:

	2022 £000	2021 £000
UK	1,181	1,105
Americas (including US)	2,111	2,047
Other	24,824	23,158
Gross premiums written	<u>28,116</u>	<u>26,310</u>

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

	2022 Gross technical provisions £000	2022 Net technical provisions £000	2021 Gross technical provisions £000	2021 Net technical provisions £000
UK	2,242	2,218	2,236	2,213
Americas (including US)	4,154	4,108	4,141	4,099
Other	46,989	46,489	46,857	46,383
Total	<u>53,385</u>	<u>52,815</u>	<u>53,234</u>	<u>52,695</u>

Notes to the Accounts for the year ended 31 December 2022

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

During the year, the Syndicate released £9.8m of technical reserves in respect of prior years (2021: £9.6m) arising from the nuclear property and nuclear liability classes (2021: from the nuclear property and nuclear liability classes).

5. Net operating expenses

	2022	2021
	£000	£000
Acquisition costs - brokerage and commissions	463	176
Change in deferred acquisition costs	-	405
Administrative expenses	8,439	7,233
	8,902	7,814

Administrative expenses include:

Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission)	5,919	5,709
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6. Auditors' remuneration

	2022	2021
	£000	£000
Audit of the Syndicate annual accounts	113	103
Other services pursuant to legislation	52	47
	165	150

Other services pursuant to legislation relate to the audit and review of Lloyd's regulatory returns as required by Lloyd's byelaws.

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:

	2022	2021
	Number	Number
Administration and finance	5	5
Underwriting	2	2
Other	2	2
	9	9

Notes to the Accounts for the year ended 31 December 2022

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.

	2022 £000	2021 £000
Active Underwriter	245	197

9. Investment return

	2022 £000	2021 £000
Investment income		
Income from financial assets at fair value through profit and loss	524	672
Interest on cash and cash equivalents	143	6
Other interest and similar income	113	70
Realised gains on investments	29	11
	809	759
Investment expenses and charges		
Investment management expenses, including interest	(20)	(81)
Realised losses on investments	(537)	(667)
	(557)	(748)
Net unrealised losses on investments	(1,995)	(411)
Total investment return	(1,743)	(400)

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:

	2022 £000	2021 £000
Average funds	43,922	42,759
Investment return	(1,743)	(400)
Calendar year investment return	(4.0%)	(0.9%)
Average funds available for investment by fund		
Sterling	35,786	34,796
United States Dollars	4,349	5,571
Canadian Dollars	3,786	2,392
Analysis of calendar year investment return by fund		
	%	%
Sterling	(5.2)	(1.2)
United States Dollars	1.6	0.0
Canadian Dollars	1.6	0.2

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.

Notes to the Accounts for the year ended 31 December 2022

11. Financial instruments

	Cost £000	2022 Market value £000	Cost £000	2021 Market value £000
Shares and other variable yield securities at fair value through profit and loss	7,071	7,022	8,286	8,340
Debt securities and other fixed income securities at fair value through profit and loss	25,750	23,155	31,014	30,382
Deposits with ceding undertakings	4	4	4	4
	32,825	30,181	39,304	38,726

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.

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

	2022 £000	2021 £000
50 basis points increase	(303)	(429)
50 basis points decrease	303	425
100 basis points increase	(605)	(858)
100 basis points decrease	605	807
200 basis points increase	(1,210)	(1,716)
200 basis points decrease	1,211	1,160

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.

Notes to the Accounts for the year ended 31 December 2022

11. Financial instruments (continued)

The expected payment profile of undiscounted liabilities is as follows:

	Maturity band (Years)				Total £000
	<1 £000	1-3 £000	3-5 £000	>5 £000	
Creditors	1,108	-	-	-	1,108
Claims outstanding	9,150	13,300	7,743	8,453	38,646
At 31 December 2022	10,258	13,300	7,743	8,453	39,754
Creditors	3,033	-	-	-	3,033
Claims outstanding	9,196	12,656	7,409	8,321	37,582
At 31 December 2021	12,229	12,656	7,409	8,321	40,615

Credit risk

The Syndicate holds the majority of its investments in investment grade securities and money market funds, managed by the external portfolio manager. The Investment manager 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 the manager. The Investment fund manager mitigates credit risk through diversification and by setting maximum limits for individual counterparties.

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

	2022 £000	2021 £000
Debt securities	23,155	30,382
Cash and cash equivalents	18,582	9,466
Shares and other variable yield securities	7,022	8,340
Overseas deposits	533	605
Reinsurers' share of claims outstanding	379	333
Deposits with ceding undertakings	4	4
	49,675	49,130
AAA	30,044	23,415
AA	10,413	12,434
A	6,539	8,961
BBB	2,431	4,154
BB or less	248	166
Total assets bearing credit risk	49,675	49,130

Notes to the Accounts for the year ended 31 December 2022

11. Financial instruments (continued)

Determination of fair value hierarchy

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

- The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable (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 2022 and at 31 December 2021.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities and unit trusts	6,541	-	481	7,022
Debt securities and other fixed income securities	-	23,155	-	23,155
Overseas deposits	-	533	-	533
At 31 December 2022	6,541	23,688	481	30,710
Shares and other variable yield securities and unit trusts	7,828	-	512	8,340
Debt securities and other fixed income securities	-	30,382	-	30,382
Overseas deposits	-	605	-	605
At 31 December 2021	7,828	30,987	512	39,327

12. Other debtors

	2022 £000	2021 £000
Other debtors	301	272
	301	272

Other debtors primarily relate to overseas taxes.

13. Overseas deposits

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

Notes to the Accounts for the year ended 31 December 2022

14. Reconciliation of movements in members' balances

	2022 £000	2021 £000
Members' balances at 1 January	23,982	23,352
Total comprehensive income	19,567	18,916
Payments of profit to members' personal reserve funds	(17,624)	(18,243)
Movement in members' balance in respect of members' agent's fees	(91)	(85)
Movement in members' balance in respect of tax and other	51	42
Members' balances at 31 December	25,885	23,982

Members participate on the Syndicate 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.

15. Technical reserves

	Provisions for unearned premiums £000	Claims outstanding £000	Deferred acquisition costs £000	Total £000
Gross and net technical provisions				
At 1 January 2022	15,652	37,582	726	52,508
Exchange adjustments	872	131	118	885
Claims paid in year	-	227	-	227
Movement in provision	(1,785)	706	-	(1,079)
At 31 December 2022	14,739	38,646	844	52,541
Reinsurance				
At 1 January 2022	206	333	-	539
Movement in provision	(15)	46	-	31
At 31 December 2022	191	379	-	570
Net technical provisions				
At 31 December 2022	14,548	38,267	844	51,971
At 1 January 2022	15,446	37,249	726	51,969

16. 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:

	2022	2021
Net loss ratio	2.3%	-3.5%
Impact of 1% variation (£000)	293	267

Notes to the Accounts for the year ended 31 December 2022

17. 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	2012 and prior £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	2020 £000	2021 £000	2022 £000	Total £000
<i>Estimate of gross claims incurred</i>												
At end of underwriting year		11,961	5,255	7,625	10,558	7,584	6,721	6,721	7,627	6,377	8,410	
One year later		11,665	6,277	10,014	13,654	8,786	9,216	10,369	8,711	7,486	-	
Two years later		7,278	4,837	5,990	11,415	6,129	6,871	6,378	5,491	-	-	
Three years later		6,815	3,794	5,426	6,875	4,273	5,940	5,843	-	-	-	
Four years later		5,392	3,223	4,968	6,334	3,560	3,966	-	-	-	-	
Five years later		4,970	2,477	3,846	5,786	3,002	-	-	-	-	-	
Six years later		4,602	1,973	3,467	5,365	-	-	-	-	-	-	
Seven years later		4,232	1,440	2,963	-	-	-	-	-	-	-	
Eight years later		3,860	933	-	-	-	-	-	-	-	-	
Nine years later		3,482	-	-	-	-	-	-	-	-	-	
As at 31 December 2022	22,809	3,482	933	2,963	5,365	3,002	3,966	5,843	5,491	7,486	8,410	69,750
Less gross claims paid	22,254	3,022	138	1,899	3,268	52	378	67	25	1	-	31,104
Gross reserves	555	460	795	1,064	2,097	2,950	3,588	5,776	5,466	7,485	8,410	38,646

Notes to the Accounts for the year ended 31 December 2022

17. Claims development tables (continued)

Pure underwriting year	2012 and prior £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	2020 £000	2021 £000	2022 £000	Total £000
<i>Estimate of net claims incurred</i>												
At end of underwriting year		11,961	5,255	7,625	10,545	7,584	6,721	6,676	7,438	6,219	8,264	
One year later		11,665	6,277	10,014	13,642	8,786	9,216	10,343	8,538	7,339	-	
Two years later		7,278	4,837	5,990	11,413	6,129	6,871	6,377	5,406	-	-	
Three years later		6,815	3,794	5,426	6,874	4,273	5,940	5,842	-	-	-	
Four years later		5,392	3,223	4,968	6,333	3,560	3,966	-	-	-	-	
Five years later		4,970	2,477	3,846	5,786	3,002	-	-	-	-	-	
Six years later		4,602	1,973	3,467	5,365	-	-	-	-	-	-	
Seven years later		4,232	1,440	2,963	-	-	-	-	-	-	-	
Eight years later		3,860	933	-	-	-	-	-	-	-	-	
Nine years later		3,482	-	-	-	-	-	-	-	-	-	
As at 31 December 2022	22,809	3,482	933	2,963	5,365	3,002	3,966	5,842	5,406	7,339	8,264	69,371
Less net claims paid	22,254	3,022	138	1,899	3,268	52	378	67	25	1	-	31,104
Net reserves	555	460	795	1,064	2,097	2,950	3,588	5,775	5,381	7,338	8,264	38,267

Gross and net claims incurred that are denominated in non-functional currency are converted to Pound Sterling as of 31 December 2022, the most recent balance sheet date, for all years presented.

Notes to the Accounts for the year ended 31 December 2022

18. Other creditors including taxation and social security

	2022	2021
	£000	£000
Due to Managing Agent	251	2,426
Due to Service Companies	112	71
Other creditors	18	9
	381	2,506

19. Related parties

Chaucer Syndicates Limited and Chaucer Underwriting Services Limited, wholly owned subsidiaries of China Reinsurance (Group) Corporation, act as Managing Agent and service company respectively for the Syndicate. Chaucer Syndicates Limited and Chaucer Underwriting Services Limited charged the Syndicate with the following expenses during the year along with the outstanding balance at the year end:

	2022	2021
	£000	£000
Managing agency fees	2,218	2,178
Profit commission	3,593	3,240
Expenses recharged	112	71
Year-end balance due to Chaucer Syndicates Limited at 31 December	3,844	5,666
Year-end balance due to Chaucer Underwriting Services Limited at 31 December	112	71

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		
	2022	2021	2020
	£000	£000	£000
Chaucer Corporate Capital (No. 3) Limited	26,484	26,484	26,484

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

20. Funds at Lloyd's

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

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

Notes to the Accounts for the year ended 31 December 2022

21. 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 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 is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2022 was 35% (2021: 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 20, represent resources available to meet members' and Lloyd's capital requirements.

22. Ultimate parent company

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

Statement of Managing Agent's Responsibilities

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

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

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

1. select suitable accounting policies and then apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
4. prepare the 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.

SYNDICATE 1176 – 2020 Year of Account

Underwriting Year Accounts

31 December 2022

Managing Agent's Report

The Managing Agent presents its report at 31 December 2022 for the 2020 closed year of account.

This report is prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No 8 of 2005). It accompanies the underwriting year accounts prepared on an underwriting year basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations ("the 2008 Regulations").

A list of Directors of the Managing Agent who held office during the year ended 31 December 2022 is on page 1 of the Syndicate Annual Reports and Accounts.

Review of the business

The gross premiums written for the 2020 year of account were £30.8m compared to the Syndicate's 2019 year of account's gross premiums written of £28.7m.

The plan was for a premium income of £34.9m, the closing result shows premium gross of acquisition costs of £30.8m. The fall against plan is largely driven by delays in the ratification of the new liability conventions. 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 2020 year of account is £21.6m, representing a return on capacity of 46.5%.

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.

Approved by order of the Board of Chaucer Syndicates Limited

R J Callan
Chief Financial Officer
27 February 2023

Independent Auditors' Report to the Members of Syndicate 1176

Report on the audit of the syndicate underwriting year financial statements

Opinion

In our opinion, 1176's syndicate underwriting year financial statements for the 2020 year of account for the 36 months ended 31 December 2022 (the "underwriting year financial statements"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2022 and of its profit and cash flows for the 2020 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including 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 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

We have audited the underwriting year financial statements included within the Underwriting Year Accounts, which comprise: the Statement of Financial Position as at 31 December 2022; the Statement of Comprehensive Income for the Closed 2020 Year of Account for the 36 months then ended; and the notes to the underwriting year financial statements, 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)"), including ISA (UK) 800, 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 underwriting year financial statements* 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 underwriting year financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter – Basis of preparation

Without modifying our opinion, we draw attention to note 1 of the underwriting year financial statements, which describes the basis of preparation. In particular, as these underwriting year financial statements relate to a closed underwriting year of account, matters relating to going concern are not relevant to these underwriting year financial statements. The underwriting year financial statements are prepared in accordance with a special purpose framework for the specific purpose as described in the *Use of this report* paragraph below. As a result, the underwriting year financial statements may not be suitable for another purpose.

Reporting on other information

The other information comprises all of the information in the Underwriting Year Accounts other than the underwriting year financial statements and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the underwriting year financial statements 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 underwriting year financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the underwriting year financial statements 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 underwriting year financial statements 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.

Independent Auditors' Report to the Members of Syndicate 1176

Responsibilities for the underwriting year financial statements and the audit

Responsibilities of the Managing Agent for the underwriting year financial statements

As explained more fully in the Statement of Managing Agent's Responsibilities, the Managing Agent is responsible for the preparation of the underwriting year financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view of the result for the 2020 closed year of account. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of underwriting year financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibilities for the audit of the underwriting year financial statements

Our objectives are to obtain reasonable assurance about whether the underwriting year financial statements 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 underwriting year financial statements.

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 underwriting year financial statements. We also considered those laws and regulations that have a direct impact on the underwriting year financial statements 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 underwriting year financial statements (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 by the engagement team 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, the Prudential Regulation 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 Underwriting Year 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, posted by unexpected users, containing unusual words, manual revenue journals and post-close journals;
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing; and
- assessing the appropriateness of closing the 2020 year of account and testing and challenging where appropriate the equity of the estimate for reinsurance to close premium charged.

Independent Auditors' Report to the Members of Syndicate 1176

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 underwriting year financial statements. 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 underwriting year financial statements 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 Part C of the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) 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 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), 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
- the underwriting year financial statements 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
27 February 2023

Statement of Comprehensive Income for the closed 2020 year of account for the 36 months ended 31 December 2022

	Note(s)	£000
Syndicate allocated capacity		46,403
Technical account – general business		
Earned premiums, net of reinsurance		
Gross premiums written	3	30,839
Outward reinsurance premiums		(737)
Earned premiums, net of reinsurance		30,102
Reinsurance to close premium received, net of reinsurance	4	22,788
		52,890
Allocated investment return transferred from the non-technical account		(1,470)
Claims incurred, net of reinsurance		
Gross claims paid		226
Reinsurance to close premium payable, net of reinsurance	4	(23,175)
		(22,949)
Net operating expenses	5	(8,405)
Balance on the technical account - general business	9	20,066
Non-technical account		
Foreign exchange gain		1,510
Investment income	8	818
Investment expenses and charges	8	(625)
Net unrealised losses on investments	8	(1,663)
Allocated investment return transferred to the Technical Account – General Business		1,470
Total comprehensive income for the 2020 closed year of account		21,576

There is no other comprehensive income in the accounting period other than those dealt with in the Statement of Comprehensive Income. The underwriting year has closed: all items therefore relate to discontinued operations.

Statement of Financial Position as at 31 December 2022

	Note(s)	£000
Assets		
Investments	10	24,241
Cash and cash equivalents		14,866
Debtors arising out of direct insurance operations		1,115
Debtors arising out of reinsurance operations		2,782
Other debtors		298
Overseas deposits		289
Prepayments and accrued income		191
Total Assets		43,782
Liabilities		
Amounts due to members	11	15,424
Reinsurance to close premiums payable to close the account – net amount	4	23,175
Other creditors	12	3,547
Accruals and deferred income		1,636
Total Liabilities		43,782

The notes on pages 45 to 51 form an integral part of these underwriting year accounts.

The underwriting year accounts on pages 43 to 51 were approved by the Board of Chaucer Syndicates Limited on 24 February 2023 and were signed on its behalf by:

R J Callan
Chief Financial Officer

Notes to the Underwriting Year Accounts

1. Basis of preparation

These accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and applicable Accounting Standards in the United Kingdom, comprising Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS102") as modified by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2020 year of account which has been closed by reinsurance to close as at 31 December 2022. Consequently, the Statement of Financial Position represents the assets and liabilities of the 2020 year of account at the date of closure. The underwriting account reflects the transactions for that year of account during the three-year period until closure. The Statement of Comprehensive Income reflect the transactions for that year of account during the three year period until closure.

These accounts cover the three years from the date of inception of the 2020 year of account to the date of closure. Accordingly, this is the only reporting period and so corresponding amounts are not shown. As these underwriting year accounts relate to a closed underwriting year of account, matters relating to going concern are not relevant to these underwriting year accounts.

2. Accounting policies

The accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

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 attaching to the 2020 underwriting year. 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 Statement of Comprehensive Income.

ii) Unearned premiums

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

iii) Reinsurance premium 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 paid and related recoveries

Gross claims paid include internal and external claims settlement expenses and are attributed to the same year of account as the original premium for the underlying policy.

Notes to the Underwriting Year Accounts

2. Accounting policies (continued)

v) Reinsurance to close premium payable

The net reinsurance to close premium is determined on the basis of estimated outstanding liabilities and related claims settlement costs, including claims incurred but not reported, net of estimated collectible reinsurance recoveries relating to the closed year of account and all previous years of account reinsured therein.

The estimate of 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. It 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 of 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.

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

Finally, the Actuarial Function applies a bespoke approach for allowing for excess IBNR where existing methods would not otherwise adequately allow for future inflation expectations. In particular, where future calendar year inflation is forecast to be different to past experience. This approach considers both frequency and severity and expectations of economic and excess inflation (including social inflation) applied to the specific drivers of loss for classes written by the Syndicate.

The Directors consider that the estimates of gross claims are fairly stated on the basis of the information currently available to them. However, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the reinsurance to close premium so determined.

b) Foreign currencies

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

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

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

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

c) 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).

Notes to the Underwriting Year Accounts

2. Accounting policies (continued)

c) Financial assets (continued)

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'.

d) 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. The returns on the overseas deposits are allocated to the year of account as notified by Lloyd's. The returns on other assets arising in a calendar year are apportioned to years of account open during the calendar year in proportion to the average funds available for investment on each year of account.

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 three years, together with the reversal of unrealised gains and losses recognised during the three years 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.

e) Cash and cash equivalents

Cash and cash equivalents on the Statement of Financial Position represent cash balances and money market deposits lodged with banks.

f) Operating expenses

Syndicate operating expenses are allocated to the year of account for which they are incurred and primarily comprise a fixed fee paid to the Managing Agency to cover the Managing Agent's fee and the running costs of the Syndicate.

g) 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' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States or Canadian Federal Income Tax payable on underwriting results or investment earnings. 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.

h) Pension costs

Chaucer Underwriting Services Limited (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.

i) Profit commission

Profit commission is charged by the Managing Agent at a rate of 15% of profit subject to the operation of a deficit clause. Where profit commission is charged, it is included in members' standard personal expenses within administrative expenses.

Notes to the Underwriting Year Accounts

3. Segmental analysis

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

	Gross premiums written ³ £000	Gross premiums earned £000	Gross claims incurred ¹ £000	Net operating expenses £000	Reinsurance balance ² £000	Total £000
Direct insurance:						
Fire and Other damage	7,049	7,049	(534)	(2,054)	(183)	4,278
Third Party Liability	2,121	2,121	(950)	(353)	(38)	780
	9,170	9,170	(1,484)	(2,407)	(221)	5,058
Reinsurance acceptances:						
Reinsurance	21,535	21,535	(4,256)	(6,100)	(431)	10,748
Movements in respect of RITC received	22,922	22,922	(17,294)	102	-	5,730
Total	53,627	53,627	(23,034)	(8,405)	(652)	21,536

1. Gross claims incurred comprise gross claims paid and gross reinsurance to close premium payable.
2. The reinsurance balance comprises reinsurance premiums ceded less reinsurance recoveries on claims paid and reinsurance recoveries anticipated on reinsurance to close (RITC) payable.
3. Movement in 2019 & prior year of account premium of £134k has been included within Movements in respect of RITC received

All premiums are concluded in the UK.

4. Reinsurance premium to close the 2020 and prior years of account

	Reported £000	IBNR £000	Total £000
Reinsurance to close premium received			
Gross reinsurance to close premium receivable	2,921	19,868	22,789
Reinsurance to close premium receivable, reinsurers' share	-	(1)	(1)
Reinsurance to close premium received, net of reinsurance	2,921	19,867	22,788
Reinsurance to close premium payable			
Gross reinsurance to close premium payable	3,516	19,744	23,260
Reinsurance to close premium payable, reinsurer's share	-	(85)	(85)
Reinsurance to close premium payable, net of reinsurance	3,516	19,659	23,175

The reinsurance to close is effected with the 2021 year of account of Syndicate 1176.

Notes to the Underwriting Year Accounts

5. Net operating expenses

	£000
Acquisition costs – brokerage and commissions	834
Administration expenses	7,571
	<u>8,405</u>
Administrative expenses include:	
Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission)	6,183

6. Auditors' remuneration

	£000
Audit of the Syndicate 2020 underwriting year accounts	<u>20</u>

7. 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 in relation to the 2020 year of account.

	£000
Active Underwriter	<u>197</u>

8. Investment return

	£000
Investment income	
Income from financial assets at fair value through profit and loss	560
Interest on cash and cash equivalents	117
Other interest and similar income	111
Realised gains on investments	30
	<u>818</u>
Investment expenses and charges	
Investment management expenses, including interest	(64)
Realised losses on investments	(561)
	<u>(625)</u>
Net unrealised losses on investments	(1,663)
Total investment return	<u>(1,470)</u>

Notes to the Underwriting Year Accounts

9. Balance on technical account

	£000
Balance excluding investment return and operating expenses (other than acquisition costs):	
Total comprehensive income attributable to business allocated to the 2020 pure year of account	23,479
Total comprehensive income attributable to business reinsured into the 2020 year of account	5,628
	<u>29,107</u>
Allocated investment return transferred from the non-technical account	(1,470)
Net operating expenses other than acquisition costs	(7,571)
	<u>20,066</u>

10. Investments

	Cost £000	Market Value £000
Shares and other variable yield securities at fair value through profit and loss	5,759	5,713
Debt securities and other fixed income securities at fair value through profit and loss	20,600	18,524
Deposits with ceding undertakings	4	4
	<u>26,363</u>	<u>24,241</u>

11. Amounts due to members

	£000
Total comprehensive income for the 2020 closed year of account	21,576
Transfers to members' personal reserve funds	(6,152)
	<u>15,424</u>

12. Other creditors

	£000
Inter year loans	3,384
Reinsurance ceded	101
Insurance creditors	58
Other creditors	4
	<u>3,547</u>

Notes to the Underwriting Year Accounts

13. 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 balances at the year end:

	2020
	£000
Year of Account	
Managing Agency fees	2,018
Profit commission	3,824
	<u>5,842</u>

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

	2020
	£000
Year of Account	
Chaucer Corporate Capital (No. 3) Limited	<u>26,484</u>

Syndicate 1176 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 46%) of the Pool. Any profit or loss from these operations is paid to the Syndicate. The Pool underwrote premium of £24.0m on behalf of the Syndicate. The year-end balance due from the Pool is £1.2m and is included within debtors arising out of direct insurance operations.

14. 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).

Seven Year Summary (unaudited)

at 31 December 2022

	2014	2015	2016	2017	2018	2019	2020
Syndicate allocated capacity (£000)	31,666	31,666	34,931	37,480	46,500	46,470	46,403
Number of underwriting members	255	266	233	274	307	311	315
Aggregate net premiums (£000)	26,626	24,834	29,857	30,976	28,044	28,494	30,102
Results for an illustrative share of £10,000	£	£	£	£	£	£	£
Gross premiums	8,042	7,842	8,547	8,265	6,026	6,170	6,646
Net premiums	8,042	7,842	8,547	8,267	6,031	6,132	6,487
Premium for the reinsurance to close an earlier year of account	6,696	8,019	7,373	6,483	4,365	4,497	4,911
Net claims	(22)	(409)	(2,360)	(745)	(84)	(71)	49
Premium for the reinsurance to close the year of account	(8028)	(8,137)	(6,898)	(5,447)	(4,495)	(4,904)	(4,994)
Syndicate operating expenses	(462)	(718)	(694)	(567)	(531)	(577)	(499)
Balance on technical account	6,226	6,597	5,968	7,991	5,286	5,077	5,954
Investment return	332	105	53	299	284	32	(317)
Other income/(charges)	274	(47)	151	34	82	(110)	325
Total comprehensive income for the closed year	6,832	6,655	6,172	8,324	5,652	4,999	5,962
Illustrative profit commission -Managing Agent's share	(945)	(916)	(847)	(1,164)	(779)	(689)	(824)
Illustrative personal expenses ^{1,2}	(614)	(589)	(539)	(583)	(457)	(473)	(488)
Total comprehensive income after illustrative profit commission and illustrative personal expenses	5,273	5,150	4,786	6,577	4,416	3,837	4,650
Percentage applicable for an illustrative share of £10,000	%	%	%	%	%	%	%
Gross premiums	80.4	78.4	85.5	82.7	60.3	61.7	66.5
Net premiums	80.4	78.4	85.5	82.7	60.3	61.3	64.9
Balance on technical account to gross premiums	77.4	84.1	69.8	96.7	87.7	82.3	89.6

1. Illustrative personal expenses comprise managing agent's fee, Lloyd's subscription, and contribution to Lloyd's Central Guarantee Fund. The managing agent's fee, where applicable, has been calculated so as to disregard the minimum charge to any member underwriting for less than a certain premium limit.

2. Illustrative personal expenses have been shown for individual Names and MAPAs.

Under the standard agency agreements in force an underwriting member who dies prior to 31 December in any year does not participate in that year; if death occurs on 31 December the underwriting member participates fully in that year.

Statement of Managing Agent's Responsibilities

The managing agent is responsible for preparing Syndicate Underwriting Year Accounts in accordance with applicable law and Lloyd's Syndicate Accounting Byelaw.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Syndicate Accounting Byelaw (No. 8 of 2005) (the "Lloyd's Regulations") require the managing agent to prepare Syndicate Underwriting Year Accounts for each Syndicate in respect of any underwriting year which is being closed by reinsurance to close at 31 December.

The managing agent must prepare Syndicate Underwriting Year Accounts which give a true and fair view of the result of the closed year of account.

In preparing the Syndicate underwriting year accounts, the managing agent is required to:

- select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the Syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same Syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
- make judgements and estimates that are reasonable and prudent;
- take into account all income and charges relating to a closed year of account in the underwriting account prepared in respect of that year of account, without regard to the date of receipt or payment; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the underwriting year accounts.

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 underwriting year accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.