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Syndicate 2088

Annual Report and Accounts 2021

Contents

Syndicate Information

Directors of the Managing Agent

D C Bendle	Chief Operating Officer
R J Callan	Chief Financial Officer
J Faure	Senior Independent Non-Executive Director
J Fowle	Chief Executive Officer
P A Jardine	Chairman and Independent Non-executive Director
N J Stacey (appointed 8 January 2021)	Chief Underwriting Officer
L S Watkins	Independent Non-Executive Director
Dr H Zuo	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 2088 active underwriter
J Sutcliffe

Syndicate banker
The custodian of the Syndicate's investment funds is as follows:
Citibank N.A.

Syndicate investment manager
Conning Asset Management Limited

Syndicate independent auditors
PricewaterhouseCoopers LLP, London
7 More London Riverside
London
SE1 2RT

Underwriter's Report

The Syndicate has been in run-off since 1 January 2020 following agreement of a run-off plan with Lloyd's. During the year, the Syndicate's strategy was focused on the effective and orderly run-off of Syndicate liabilities.

All underwriting matters were managed by the Managing Agent's underwriting teams under Letters of Authority granted to underwriters with appropriate knowledge and experience of the various classes historically underwritten by Syndicate 2088 with oversight provided by the Syndicate Run-off Committee.

The Syndicate has been fully operational throughout the various Covid-19 related lockdowns with staff working successfully from home without comprising the quality of service provided to clients and brokers.

Results and performance
The loss for the year was £24.7m (2020: £2.7m loss).
The Syndicate's key financial performance indicators during the year were as follows:

	2021	**2020**	**Movement**
	£m	**£m**	**£m**
Gross written premium	(5.1)	(0.6)	(4.5)
Net written premium	(5.1)	(1.0)	(4.1)
Net earned premium	0.7	35.5	(34.8)
Underwriting result	(26.6)	(2.7)	(23.9)
Investment return	-	3.5	(3.5)
Technical (loss) / profit for the financial year	(26.6)	0.8	(27.4)
Non-technical account for the financial year	1.9	(3.5)	5.4
Total comprehensive loss	(24.7)	(2.7)	(22.0)
Amount due (from) / to member	(3.2)	21.5	(24.7)

Gross written premium is £(5.1)m (2020: £(0.6)m), driven by reductions to premium estimates across a number of classes following review against premiums received.

Claims incurred net of reinsurance are £24.3m (2020: £19.5m), primarily driven by recognition of a risk premium to facilitate Reinsurance to Close ("RITC").

Net operating expenses are £3.0m (2020: £18.6m) which include commission and administration expenses. The decrease is primarily driven by the reduction of Syndicate operations in 2021.

Investment return allocated to the technical account is £5k (2020: £3.5m). The decrease is driven by unrealised losses on fixed income investments.

Underwriting outlook
The Managing Agent has closed Syndicate 2088, with its liabilities accepted by Syndicate 1084's 2020 Year of Account via an RITC contract as at 31 December 2021. Syndicate 1084 is also managed by Chaucer Syndicates Limited. The RITC transaction is not reflected in these annual accounts.

J Sutcliffe, Active Underwriter
Chaucer Syndicate 2088
2 March 2022

Managing Agent's Report

The Directors of the Managing Agent present their report and the audited annual accounts for the year ended 31 December 2021.

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 2088, whose principal activity was to transact worldwide general insurance and reinsurance business in the United Kingdom.

The 2019 Year of Account is the last year of Account on which Syndicate 2088 participated.

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

Underwriting risk
Syndicate 2088 went into run-off on 1 January 2020. Underwriting activities throughout 2021 have been limited to endorsements, referrals and other mid-term adjustments to continue the ongoing servicing of the run-off portfolio.

During 2021 the Managing Agent continued to issue Letters of Authority and implement appropriate underwriting controls including peer review to manage the risk relating to ongoing servicing activities. The Managing Agent monitored Syndicate performance against the annual run-off plan through quarterly reporting to the S2088 Run-Off Committee.

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

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

Peer review
The Managing Agent currently commissions an external random peer review of its claims procedures on a quarterly basis. This review incorporates both qualitative and quantitative measures and findings are collated and reported to relevant committees.

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

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

Reserving risk
The reserving policy for the Syndicate sought 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 were set on a two tier hierarchical basis.

Tier 1: Actuarial best estimate reserves
Actuarial best estimate reserves were prepared on an underwriting year basis and are intended to be true best estimates, i.e. estimates of expected value claims reserves. These were the basis for internal reporting and the derivation of expected loss ratios for business planning. The actuarial best estimate reserves were the responsibility of the Reserving Committee. The Managing Agent’s Actuarial Team calculated the reserves in conjunction with extensive discussions with underwriting, claims and reinsurance staff.

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

(a) Underwriting year Syndicate reserves
Underwriting year Syndicate reserves were prepared on an underwriting year basis and equal the Tier 1 reserves plus any reserve risk loadings.

The only risk loading applied to the underwriting year Syndicate reserves is the risk premium recognised to facilitate the RITC with Syndicate 1084.

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

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

The External Signing Actuary recommended risk loadings to the Managing Agent’s Reserving Committee. The Reserving Committee approves risk loadings as a component of the Syndicate’s total reserves.

The assessment of actuarial best estimate reserves is a rolling quarterly process. The underwriting portfolio comprises a number of heterogeneous business types, each of which the analysis projects to ultimate. Where certain contracts or claim events obscure development trends, the analysis splits these out for separate review. The application of standard actuarial techniques to the historical attritional, large and catastrophe claims data supported the estimation of ultimate loss ratios. The analysis also drew 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 were materially different from expected development based on the existing methodology, then that methodology was reassessed and, where appropriate, amended. The analysis took credit for reinsurance recoveries and provided for the possibility of reinsurer failure.

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

Financial Risks

Credit risk

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

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

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

Investment risk

The Managing Agent’s approach was that investment activities were 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, were 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, were approved by the Managing Agent’s Board on an annual basis to derive the maximum allocation, or risk budget, that can be allocated to each asset class.

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

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

Refer to Note 10 for more details on the Syndicate’s exposure to investment risk and processes in place for managing these risks.

Operational risk

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

Regulatory and legal risk

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

The Managing Agent was required to comply with the requirements of the Prudential Regulatory Authority, Financial Conduct Authority and Lloyd’s. Lloyd’s requirements include those imposed on the Lloyd’s market by overseas regulators, particularly in respect of US situs business. The Managing Agent had a Compliance Officer, who monitored regulatory developments and assessed the impact on agency policy. The Compliance Officer also undertook a compliance-monitoring programme.

Legal risk is the risk that exposes the Managing Agent to actual or potential legal proceedings. The Managing Agent has legal risk resource which monitored legal developments and assesses impact on the business.

Conduct risk
Conduct risk is the risk of treating our customers unethically or unfairly by delivering inappropriate outcomes due to improper attitudes, systems, controls and governance. The Managing Agent operated a suitable risk management and governance framework across the Syndicate which monitored the various areas of potential exposure to conduct risk matters and ensures appropriate design and performance of controls and the effective escalation and resolution of items as required.

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

Climate related risks
The Managing Agent's Board was responsible for the effectiveness and oversight of the risk management system and the general management and mitigation of risks including climate change risk. It had delegated the detailed regular oversight of climate related risk management processes and activities to its Risk and Capital Committee.

The major climate risks were recognised as Physical, Transition and Liability risks, which are monitored through the Managing Agent's Enterprise Risk Management (ERM) framework processes.

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.

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.

Physical Risks
The Syndicate was materially exposed through its underwriting portfolio to weather events and catastrophe risk, however the risk is now minimal due to the Syndicate's limited ongoing exposure to new weather events.

Liability Risks
The Syndicate was exposed to liability risks from climate change through its portfolio of liability products.

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

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

The Syndicate experienced underwriting losses arising from Covid-19 and the related recessionary impact in 2020, as part of the normal course of its activities. 2021 has not seen further material losses or deterioration on pre-existing Covid-19 reserves. The Syndicate had limited exposure to Business Interruption (BI) cover within the underwriting portfolios, and the Supreme Court ruling on BI has not materially increased the expected losses within the Casualty, Marine, Property Treaty (re)insurance.

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

Directors' interests
The Directors who held office 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.

Approved by the Board of Chaucer Syndicates Limited.

R J Callan
Chief Financial Officer
2 March 2022

Statement of Comprehensive Income for the year ended 31 December 2021

	Note(s)	2021 £000	2020 £000
Technical Account – General Business			
Earned premiums, net of reinsurance			
Gross premiums written	3	(5,099)	(606)
Outward reinsurance premiums		1	(374)
Net premiums written		**(5,098)**	**(980)**
Change in the provision for unearned premiums			
Gross amount	13	6,727	40,080
Reinsurers' share	13	(900)	(3,644)
Net change in the provision for unearned premiums		**5,827**	**36,436**
Earned premiums, net of reinsurance		**729**	**35,456**
Investment income		5	3,495
Total technical income		**734**	**38,951**
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	13	(176,306)	(54,311)
Reinsurers' Share	13	2,946	12,490
Net claims paid		**(173,360)**	**(41,821)**
Change in the provision for claims			
Gross amount		156,545	21,641
Reinsurers' share		(7,473)	598
Net change in the provision for claims		**149,072**	**22,239**
Claims incurred, net of reinsurance		(24,288)	(19,582)
Net operating expenses	3, 5	(2,996)	(18,585)
Total technical charges		**(27,284)**	**(38,167)**
Balance on the Technical Account – General Business		**(26,550)**	**784**
Non-Technical Account			
Other income / (expense)		2,013	(5,193)
Investment income	9	1,067	5,316
Net unrealised (losses) / gains	9	(644)	219
Investment expenses and charges	9	(531)	(352)
Allocated investment return transferred to the Technical Account – General Business		(5)	(3,495)
Total comprehensive loss		**(24,650)**	**(2,721)**

All the amounts above are in respect of discontinued operations.

Statement of Financial Position as at 31 December 2021

	Notes	2021 £000	2020 £000
Assets			
Investments			
Other financial investments	10	62,970	97,400
Reinsurers' share of technical provisions			
Provision for unearned premiums	13	13	915
Claims outstanding	13, 15	30,039	37,169
		30,052	38,084
Debtors - amounts due within one year			
Debtors arising out of direct insurance operations		151	4,120
Debtors arising out of reinsurance operations		7,281	133,946
Other debtors	11	63	8,072
		7,495	146,138
Other assets			
Cash and cash equivalents		5,638	13,779
Overseas deposits	12	3,125	4,951
		8,763	18,730
Prepayments and accrued income			
Other prepayments and accrued income		541	455
Deferred acquisition costs	13	744	2,926
		1,285	3,381
Total assets		**110,565**	**303,733**
Liabilities			
Capital and Reserves			
Member's balance		(3,211)	21,469
Technical provisions			
Provision for unearned premiums	13	2,266	9,014
Claims outstanding	10, 13, 15	98,715	256,881
		100,981	265,895
Creditors – amounts due within one year			
Creditors arising out of reinsurance operations		5,082	5,377
Other creditors including tax and social security	16	7,713	9,045
		12,795	14,422
Creditors - amounts due after one year			
Creditors arising out of reinsurance operations		-	508
Accruals and deferred income		-	1,439
Total liabilities		**110,565**	**303,733**

The annual accounts on pages 8 to 24 were approved by the Board of Chaucer Syndicates Limited on 2 March 2022 and signed on its behalf by:

R J Callan
Chief Financial Officer

Statement of Changes in Member's Balance for the year ended 31 December 2021

	Balance attributable to underwriting £000	Funds in Syndicate £000	Member's balance £000
Balance as at 1 January 2020	(67,029)	104,688	**37,659**
Loss for the financial year	(2,718)	(3)	**(2,721)**
Loss funding – 2017 year of account	25,662	-	**25,662**
Funds in Syndicate capital release	-	(39,131)	**(39,131)**
Balance as at 31 December 2020	**(44,085)**	**65,554**	**21,469**
Balance as at 1 January 2021	(44,085)	65,554	**21,469**
Profit / (loss) for the financial year	(25,751)	1,101	**(24,650)**
Loss funding - 2018 year of account	21,899	-	**-**
Funds in Syndicate capital release	-	(21,899)	**-**
Funds in Syndicate capital injection	(4,442)	4,442	**-**
Other	-	(30)	**(30)**
Balance as at 31 December 2021	**(52,379)**	**49,168**	**3,211**

Statement of Cash Flows for the year ended 31 December 2021

	Note	2021 £000	2020 £000
Cash flows from operating activities			
Total comprehensive loss		(24,650)	(2,721)
Decrease in gross technical provisions		(167,725)	(53,839)
Decrease in reinsurers' share of gross technical provisions		8,434	3,194
Decrease in debtors		132,094	61,485
Decrease in creditors		(864)	(13,543)
Movement in other assets/liabilities		7,236	11,325
Investment return	9	108	(5,183)
Foreign exchange		(115)	831
Net cash (used in) / generated from operating activities		**(45,482)**	**1,549**
Cash flows from investing activities			
Purchase of equity and debt instruments		(279,022)	(108,588)
Sale of equity and debt instruments		313,797	113,607
Investment income received		2,715	2,302
Other		(160)	-
Net cash generated from investing activities		**37,330**	**7,321**
Cash flows from financing activities			
Distribution loss		17,457	25,662
Net Funds in Syndicate capital release		(17,487)	(39,131)
Net cash used in financing activities		**(30)**	**(13,469)**
Net decrease in cash and cash equivalents		(8,182)	(4,599)
Cash and cash equivalents at beginning of year		13,779	18,190
Foreign exchange on cash and cash equivalents		41	188
Cash and cash equivalents at end of year		**5,638**	**13,779**
Cash and cash equivalents consist of:			
Cash at bank		5,638	13,779
Cash and cash equivalents		**5,638**	**13,779**

Notes to the Accounts for the year ended 31 December 2021

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.

The 2019 year of account of the Syndicate has closed and all assets and liabilities transferred to the 2020 year of account of Syndicate 1084 by reinsurance to close. The Syndicate has no successor year of account. As a result the Syndicate is no longer a going concern. The reinsurance to close occurs in the normal course of business for a syndicate year of account at the 36 months stage of development. The Annual Accounts have therefore been prepared on a basis other than going concern where the recorded assets and liabilities represent the amounts that would be realised and discharged in the normal course of business were the going concern basis adopted. The Directors confirm that this basis of accounting is appropriate.

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.

Notes to the Accounts for the year ended 31 December 2021

2. Accounting policies (continued)

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.

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

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

v) Unexpired risks provision

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

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

vi) Deferred acquisition costs

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

b) Net operating expenses

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

c) Cash and cash equivalents

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

d) Foreign currencies

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

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

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 2021

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 that does not relate to Funds in Syndicate has been wholly allocated to the Technical Account.

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

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

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

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

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

Notes to the Accounts for the year ended 31 December 2021

2. Accounting policies (continued)

k) Critical accounting judgements and estimation 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 12)
- Premium recognition (page 12)

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**
2021						
Direct insurance						
Fire and other damage to property	(348)	(246)	(936)	25	(148)	(1,305)
Accident and health	(1,153)	2,475	(13,466)	(2,165)	(1,905)	(15,061)
Marine, aviation and transport	(88)	(17)	104	(17)	(67)	3
	(1,589)	2,212	(14,298)	(2,157)	(2,120)	(16,363)
Reinsurance	(3,510)	(584)	(5,463)	(839)	(3,305)	(10,191)
	(5,099)	**1,628**	**(19,761)**	**(2,996)**	**(5,425)**	**(26,554)**
2020						
Direct insurance						
Fire and other damage to property	526	2,362	(1,537)	(1,093)	517	249
Accident and health	2,608	20,551	(15,957)	(12,078)	3,167	(4,317)
Marine, aviation and transport	301	1,157	(297)	(723)	285	422
	3,435	24,070	(17,791)	(13,894)	3,969	(3,646)
Reinsurance	(4,041)	15,404	(14,879)	(4,691)	5,101	935
	(606)	**39,474**	**(32,670)**	**(18,585)**	**9,070**	**(2,711)**

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

During the year, the Syndicate increased net technical reserves by £23.6m in respect of prior years (2020: £2.8m), predominantly due to the recognition of the risk premium at RITC".

5. Net operating expenses

	2021 £000	**2020 £000**
Acquisition costs:		
- brokerage and commission	(1,767)	2,812
- other	-	65
Change in deferred acquisition costs	2,175	11,185
Administrative expenses	2,588	4,523
	2,996	**18,585**
Administrative expenses include:		
Member's standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission)	7	-

Notes to the Accounts for the year ended 31 December 2021

6. Auditors' remuneration

	2021 £000	2020 £000
Audit of the Syndicate annual accounts	109	120
Other services pursuant to legislation	51	57
	160	**177**

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

CUSL recharges staff costs to the Syndicate via China Re Underwriting Agency Limited ("CRUA"), a service provider to the Syndicate. The following amounts relate to amounts recharged by CUSL to the Syndicate in respect of staff costs:

	2021 £000	2020 £000
Wages and salaries	711	1,269
Social security costs	55	114
Other pension costs	54	103
	820	**1,486**

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

	2021 Number	2020 Number
Administration and finance	3	3
Other	2	7
	5	**10**

8. Emoluments of the directors of the Managing Agent

The Directors of Chaucer Syndicates Limited and the Active Underwriter of the Syndicate were not remunerated in respect of their services to the Syndicate in 2021 or 2020.

Notes to the Accounts for the year ended 31 December 2021

9. Investment return

	2021 £000	2020 £000
Investment income		
Income from financial assets at fair value through profit and loss	1,188	2,138
Interest on cash and cash equivalents	3	54
Other interest and similar income	(150)	2,987
Realised gains on investments	26	137
	1,067	**5,316**
Investment expenses and charges		
Investment management expenses, including interest	-	(140)
Realised losses on investments	(531)	(212)
	(531)	(352)
Net unrealised gains on investments	(644)	219
Total investment return	**(108)**	**5,183**

10. Financial instruments

	2021 Cost £000	2021 Market value £000	2020 Cost £000	2020 Market value £000
Shares and other variable yield securities	622	622	622	622
Debt securities and other fixed income securities at fair value through profit and loss	63,214	62,188	96,273	96,778
Deposits with ceding undertakings	160	160	-	-
	63,996	**62,970**	**96,895**	**97,400**

Risk policies

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

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

	Change in interest rates %	Impact on result £000
31 December 2021	+0.5	(296)
	-0.5	296
31 December 2020	+0.5	(395)
	-0.5	395

Notes to the Accounts for the year ended 31 December 2021

10. Financial instruments (continued)

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

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

The expected payment profile of undiscounted liabilities is as follows:

	Maturity band (Years)				
	<1	**1-3**	**3-5**	**>5**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Creditors	12,795	-	-	-	12,795
Claims outstanding	33,803	34,615	16,196	14,101	98,715
At 31 December 2021	**46,599**	**34,615**	**16,196**	**14,101**	**111,511**
Creditors	14,422	508	-	-	14,930
Claims outstanding	197,355	31,062	14,964	13,500	256,881
At 31 December 2020	**211,777**	**31,570**	**14,964**	**13,500**	**271,811**

Credit risk
The Syndicate holds the majority of its investments as highly rated corporate bonds, managed by an 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. 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:

	2021	**2020**
	£000	**£000**
Debt securities	62,188	96,778
Cash and cash equivalents	5,638	13,779
Shares and other variable yield securities	622	622
Overseas deposits	3,125	4,951
Deposits with ceding undertakings	160	-
Reinsurer' share of claims outstanding	30,039	37,169
	101,772	**153,299**
AAA	21,987	36,728
AA	15,014	28,026
A	62,475	87,596
BBB	2,000	257
BB or less	78	153
Not rated	218	539
Total assets bearing credit risk	**101,772**	**153,299**

Notes to the Accounts for the year ended 31 December 2021

10. 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 Managing Agent's assets measured at fair value at 31 December 2021 and at 31 December 2020.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities and unit trusts	-	-	622	622
Debt securities and other fixed income securities	62,188	-	-	62,188
Overseas deposits	-	3,125	-	3,125
At 31 December 2021	**62,188**	**3,125**	**622**	**65,935**
Shares and other variable yield securities and unit trusts	-	-	622	622
Debt securities and other fixed income securities	96,778	-	-	96,778
Overseas deposits	-	4,951	-	4,951
At 31 December 2020 (restated)	**96,778**	**4,951**	**622**	**102,351**

11. Other debtors

	2021 £000	2020 £000
Other debtors falling due within one year	63	8,072
	63	**8,072**

Other debtors primarily relate overseas taxes paid on behalf of the Corporate Member.

12. Overseas deposits

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

Notes to the Accounts for the year ended 31 December 2021

13. Technical reserves

	Provisions for unearned premiums £000	Claims outstanding £000	Deferred acquisition costs £000	Total £000
Gross and net technical provisions				
At 1 January 2021	**9,014**	**256,881**	**2,926**	**262,969**
Exchange adjustments	(21)	(1,620)	(7)	(1,634)
Claims paid in the year	-	(176,306)	-	(176,306)
Movement in provision	(6,727)	19,760	(2,175)	15,208
At 31 December 2021	**2,266**	**98,715**	**744**	**100,237**
Reinsurance				
At 1 January 2021	915	37,169	-	38,084
Exchange adjustments	(2)	343	-	341
Reinsurance recoveries in the year	-	(2,946)	-	(2,946)
Movement in provision	(900)	(4,527)	-	(5,427)
At 31 December 2021	**13**	**30,039**	**-**	**30,052**
Net technical provisions				
At 31 December 2021	**2,253**	**68,676**	**744**	**70,185**
At 31 December 2020	**8,099**	**219,712**	**2,926**	**224,885**

14. Sensitivity of insurance risk

The following table shows the impact of a 1% variation in the loss ratio on profit or loss and member’s balance:

	2021	2020
Impact of 1% variation (£000)	7	355

Notes to the Accounts for the year ended 31 December 2021

15. Claims development tables

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

Pure underwriting year	**2012 £000**	**2013 £000**	**2014 £000**	**2015 £000**	**2016 £000**	**2017 £000**	**2018 £000**	**2019 £000**	**Total £000**
Estimate of gross claims incurred									
At end of underwriting year	20,688	17,221	17,330	21,192	32,056	73,282	71,441	43,420	
One year later	35,369	32,613	34,197	44,509	62,735	127,966	140,716	58,173	
Two years later	35,036	32,418	36,014	47,747	70,727	135,175	85,190	66,886	
Three years later	35,775	32,058	35,980	48,588	75,199	49,811	166,778		
Four years later	35,130	32,109	37,450	48,813	73,100	138,577			
Five years later	34,890	32,138	37,181	49,244	73,312				
Six years later	34,574	32,092	37,181	49,245					
Seven years later	34,559	32,092	37,181						
Eight years later	34,228	32,092							
Nine years later	34,228								
As at 31 December 2021	34,228	32,092	37,181	49,245	73,312	138,577	166,778	66,886	598,299
Less gross claims paid	34,228	32,092	37,181	48,920	72,646	124,308	120,864	29,345	499,584
Gross reserves	-	-	-	325	666	14,269	45,914	37,541	98,715

Pure underwriting year	**2012 £000**	**2013 £000**	**2014 £000**	**2015 £000**	**2016 £000**	**2017 £000**	**2018 £000**	**2019 £000**	**Total £000**
Estimate of net claims incurred									
At end of underwriting year	17,975	15,590	15,129	19,240	28,666	61,874	66,162	31,931	
One year later	32,265	28,881	30,168	39,959	54,397	107,977	122,806	42,471	
Two years later	31,844	29,001	31,974	45,959	55,664	119,046	64,680	51,184	
Three years later	32,364	30,871	35,156	44,377	59,647	24,377	146,268		
Four years later	33,483	28,937	34,208	44,608	56,812	113,142			
Five years later	31,788	28,753	33,936	44,990	57,024				
Six years later	31,591	28,756	33,936	44,991					
Seven years later	31,575	28,756	33,936						
Eight years later	31,646	28,756							
Nine years later	31,646								
As at 31 December 2021	31,646	28,756	33,936	44,991	57,024	113,142	146,268	51,184	506,947
Less net claims paid	31,646	28,756	33,936	44,666	58,112	104,418	111,953	24,784	438,271
Net reserves	-	-	-	325	(1,088)	8,724	34,315	26,400	68,676

Gross and net claims incurred that are denominated in non-functional currency are converted to Pound Sterling as of 31 December 2021, the most recent balance sheet date, for all years presented.

Notes to the Accounts for the year ended 31 December 2021

16. Other creditors including tax and social security

	2021 £000	2020 £000
Other creditors due within one year	7,713	9,045
	7,713	**9,045**

Other creditors largely relate to inter-company balances.

17. Related parties

Chaucer Syndicates Limited, a wholly owned subsidiary of China Reinsurance (Group) Corporation, is the Managing Agent of the Syndicate. The following table shows the expenses that Chaucer Syndicates Limited charged the Syndicate during the year and the outstanding balances due from the Syndicate at the year end:

	2021 £000	2020 £000
Managing agency fees	7	-
Year-end balance due to Chaucer Syndicates Limited at 31 December	-	552

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

	Year of account 2019 £000
China Re UK Limited	70,350

China Re Underwriting Agency Limited, a wholly owned subsidiary of China Reinsurance (Group) Corporation, passed on expenses recharged to the Syndicate by Chaucer Underwriting Services Limited. The Syndicate incurred the following expense during the year along with the outstanding balances at the year end from China Re Underwriting Agency Limited:

	2021 £000	2020 £000
Fees paid to China Re Underwriting Agency Limited	4,570	4,824
Balance due to China Re Underwriting Agency Limited at 31 December	7,550	8,930

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

	2021 £000	2020 £000
Balance due from China Reinsurance (Group) Corporation at 31 December	12,099	11,596

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

Notes to the Accounts for the year ended 31 December 2021

17. Related parties (continued)

	2021 £000	2020 £000
Premium receivable due from CPCR at 31 December	4,269	1,762
Net balance due from CPCR at 31 December	4,452	7,662

18. Funds at Lloyd’s

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

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

19. Capital

Capital framework at Lloyd’s

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

Within this supervisory framework, Lloyd’s applies capital requirements at member level and centrally to ensure that Lloyd’s complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives. Although, as described below, Lloyd’s capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd’s capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 2088 is not disclosed in these accounts.

Lloyd’s capital setting process

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

A syndicate may 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 2021 was 35% (2020: 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.

Notes to the Accounts for the year ended 31 December 2021

20. Funds in Syndicate

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

At 31 December 2021, £49.2m of investments were held as Funds in Syndicate (2020: £65.6m). The investments realised a profit of £1.1m for the year to 31 December 2021 (2020: £3k loss). The balance of £49.2m is included within member's balance on the Syndicate's statement of financial position and is owed exclusively to China Re UK Limited.

21. Ultimate parent company

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

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

22. Restatement of comparatives

Following a review of the fair value hierarchy in 2021, Overseas deposits were identified as not being presented appropriately within the 2020 Annual Accounts, and should have been presented as level 2 assets in Note 10. Accordingly, the £5.0m balance in the 2020 comparatives has been restated to be a level 2 asset within these 2021 Annual Accounts (previously reported as a level 1 asset), with a net nil impact to total assets.

23. Subsequent events

The Managing Agent agreed terms to RITC the liabilities of Syndicate 2088 into the 2020 Year of Account of Syndicate 1084 effective 31 December 2021. Syndicate 1084 is also managed by Chaucer Syndicates Limited. This transaction resulted in the transfer to Syndicate 1084 of gross and net technical provisions of £100.2m and £70.2m, respectively. The RITC transaction is not reflected in these annual accounts.

The Syndicate benefitted from Whole Account Stop Loss ("WASL) protection provided by various subsidiaries of China Reinsurance (Group) Corporation. On 9 February 2022, these WASL contracts were commuted effective 1 January 2022. The WASL commutation has no impact on these 2021 Annual Accounts but will result in a £17.4m increase to Syndicate 1084's technical provisions in 2022 upon settlement, offset by increases in funds received and reductions in reinsurance creditors. There will be no impact to net assets to either syndicate arising from this commutation.

Statement of Managing Agent's Responsibilities

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

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

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

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

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

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

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

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

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

Independent Auditors' Report To The Member Of Syndicate 2088

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, 2088's syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2021 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and 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 2021 (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2021; the statement of comprehensive income, the statement of cash flows, and the statement of changes in member's balance 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.

Emphasis of matter – Basis of preparation and closure of syndicate

Without modifying our opinion, we draw attention to note 23 which explains that the 2019 year of account of the syndicate has closed and all assets and liabilities transferred to the 2020 year of account of Syndicate 1084 by reinsurance to close. The Syndicate has no successor year of account.

As a result, the Syndicate is no longer a going concern. The reinsurance to close occurs in the normal course of business for a syndicate year of account at the 36 months stage of development. The syndicate annual accounts have therefore been prepared on a basis other than going concern where the recorded assets and liabilities represent the amounts that would be realised and discharged in the normal course of business were the going concern basis adopted.

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us also to report certain opinions and matters as described below.

Managing Agent's Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2021 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 the syndicate is unable to continue to realise its assets and discharge its liabilities in the ordinary course of business.

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

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

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

- discussions with the Board, management, compliance function and internal audit function of the Managing Agent, including consideration of known or suspected instances of fraud and non-compliance with laws and regulations;

- evaluation and testing of the operating effectiveness of management's controls designed to prevent or detect misstatements in the syndicate annual accounts;

- testing and challenging where appropriate the assumptions and judgements made by management in their significant accounting estimates, particularly in relation to the estimation of claims outstanding;

- identifying and testing journal entries, particularly journal entries with unusual account combinations, posted to unusual accounts or posted by unexpected users; and

- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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 member in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- certain disclosures of Managing Agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Deepti Vohra (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 March 2022