Chaucer

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Syndicate 2088

Annual Report and Accounts 2020

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 (appointed 17 September 2020)	Chairman and Independent Non-executive Director
P M Shaw (resigned 31 March 2020)	Chief Risk Officer
N J Stacey (appointed 8 January 2021)	Chief Underwriting Officer
C M Stooke (resigned 31 October 2020)	Chairman and Independent Non-Executive Director
L S Watkins (appointed 31 January 2020)	Independent Non-Executive Director
Dr H Zuo	Non-Executive Director

Managing Agent's company secretary
R N Barnett

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

Managing Agent's registered number
00184915

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

Syndicate 2088 active underwriter
J Sutcliffe

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

Syndicate investment managers
Conning Asset Management Limited

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

Underwriter's Report

Strategy and Outlook

Syndicate 2088 went into run-off on 1 January 2020 following agreement of a run-off plan with Lloyd's. Oversight of the Syndicate has transferred to the Syndicate Run-off Committee. The Syndicate's strategy is focused on the effective and orderly run-off of Syndicate liabilities, with a view to closure of the Syndicate at 2021 year-end via a reinsurance to close arrangement with Chaucer Syndicate 1084.

All underwriting matters are managed by Chaucer'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. The Syndicate's staff and infrastructure seamlessly adjusted to the National Lockdowns and work from home mandates, without comprising the quality of service provided to clients and brokers.

Results and performance
The loss for the year was £2.7m (2019: £5.3m). The combined ratio improved to 107.6% (2019: 108.6%).
The Syndicate's key financial performance indicators during the year were as follows:

	2020	2019	Movement
	£m	£m	£m
Gross written premium	(0.6)	123.4	(124.0)
Net written premium	(1.0)	102.6	(103.6)
Net earned premium	35.5	152.3	(116.8)
Underwriting result	(2.7)	(13.1)	10.4
Investment return	3.5	5.1	(1.7)
Technical profit / (loss) for the financial year	0.8	(8.0)	8.8
Non-technical account for the financial year	(3.5)	2.6	(6.2)
Total comprehensive loss	(2.7)	(5.3)	2.6
Combined ratio	107.6%	108.6%	1.0pts
Amount due to member	21.5	37.7	(16.2)

Note: The combined ratio is the ratio of net claims incurred and net operating expenses to net premiums earned. A lower combined ratio represents better performance.

Gross written premium has reduced significantly to £(0.6)m (2019: £123.4m) driven by the move into run-off, as well as the by the cancellation of some facilities and downwards premium adjustments throughout 2020, partly due to the early commutation of several intra-group whole account quota share contracts.

The Syndicate incurred a net loss ratio of 55.2% (2019: 71.5%). This decrease to the net loss ratio is primarily due to an increased proportion of losses being absorbed by Whole Account Stop Loss recoveries.

The net operating expense ratio of 52.4% (2019: 37.1%) includes commission and administration expenses. The increase is primarily driven by sliding scale commissions on a number of whole account quota share contracts that increased following improvements to the loss ratios on those contracts, and fixed costs forming a greater proportion of net premium earned following the move into run-off.

Investment return allocated to the technical account has decreased to £3.5m (2019: £5.1m) following a decrease on interest income on funds withheld contracts.

J Sutcliffe, Active Underwriter
Chaucer Syndicate 2088
4 March 2021

Managing Agent's Report

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

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

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

Principal activities
This report covers the business of Syndicate 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 and from this point underwriting activities were limited to endorsements, referrals and other mid-term adjustments to continue the ongoing servicing of the run-off portfolio.

The Managing Agent continues 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 monitors 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 seeks to ensure appropriate allowance for reserving risk, consistency in reserving from year to year and the equitable treatment of capital providers on the closure of a year of account. Reserves are set on a two tier hierarchical basis.

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

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

(a) Underwriting year Syndicate reserves
Underwriting year Syndicate reserves are prepared on an underwriting year basis and equal the Tier 1 reserves plus any reserve risk loadings. The intention of such risk loadings is to match areas within the Syndicate where the perception is that there is a particularly high risk that the best estimate reserve may be inadequate. Such areas include, but are not limited to, the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Setting of appropriate risk appetites related to climate change exposures;
- The deeper integration of climate risk monitoring processes into the ERM framework, including pricing, underwriting and due diligence of third parties including operational outsourcing partners and counterparties;
- Consideration of risk management processes and activities that can be developed or introduced that take into account the varied time horizons of climate change risk; and

- Continued specific ERM risk assessments as requested by the Managing Agent's Board to support their view and decision making of specific areas of climate change risk.

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

- The degree that underwriting activities are exposed to climate change transition, physical and liability risks;
- The potential increase in risk exposure in turn leading to potential increased claims as a result of natural catastrophes;
- The risks and opportunities contributed by energy efficient or low carbon products.

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

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

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

The Syndicate has experienced underwriting losses arising from Covid-19 and the related recessionary impact, as part of the normal course of its activities. The Syndicate has limited exposure to Business Interruption (BI) cover within the underwriting portfolios, and the recent Supreme Court ruling on BI has not materially increased the expected losses within the 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 throughout the year and up to the date of signing the annual accounts are detailed on page 1.

None of the Directors of the Managing Agent has any participation in the Syndicate's premium income capacity.

Disclosure of information to the auditors
The Directors each confirm that:

- So far as they are aware, there is no relevant audit information of which the Syndicate's Auditors are unaware, and
- They have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Independent Auditors
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the China Reinsurance (Group) Corporation Audit Committee meeting.

Approved by the Board of Chaucer Syndicates Limited.

R J Callan
Chief Financial Officer
4 March 2021

Statement of Comprehensive Income for the year ended 31 December 2020

	Note(s)	2020 £000	2019 £000
Technical Account – General Business			
Earned premiums, net of reinsurance			
Gross premiums written	3	(606)	123,432
Outward reinsurance premiums		(374)	(20,841)
Net premiums written		**(980)**	**102,591**
Change in the provision for unearned premiums			
Gross amount	13	40,080	50,920
Reinsurers' share	13	(3,644)	(1,226)
Net change in the provision for unearned premiums		**36,436**	**49,694**
Earned premiums, net of reinsurance		**35,456**	**152,285**
Investment income		3,495	5,150
Total technical income		**38,951**	**157,435**
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	13	(54,311)	(101,587)
Reinsurers' Share	13	12,490	16,761
Net claims paid		**(41,821)**	**(84,826)**
Change in the provision for claims			
Gross amount		21,641	(29,209)
Reinsurers' share		598	5,159
Net change in the provision for claims		**22,239**	**(24,050)**
Claims incurred, net of reinsurance		(19,582)	(108,876)
Net operating expenses	3, 5	(18,585)	(56,551)
Total technical charges		**(38,167)**	**(165,427)**
Balance on the Technical Account – General Business		**784**	**(7,992)**
Non-Technical Account			
Other expense		(5,193)	(554)
Investment income	9	5,316	7,880
Net unrealised gains	9	219	580
Investment expenses and charges	9	(352)	(105)
Allocated investment return transferred to the Technical Account – General Business		(3,495)	(5,150)
Total comprehensive loss		**(2,721)**	**(5,341)**

All the amounts above are in respect of continuing operations.

Statement of Financial Position as at 31 December 2020

	Notes	2020 £000	2019 £000
Assets			
Investments			
Other financial investments	10	97,400	112,849
Reinsurers' share of technical provisions			
Provision for unearned premiums	13	915	4,579
Claims outstanding	13, 15	37,169	39,058
		38,084	43,637
Debtors - amounts due within one year			
Debtors arising out of direct insurance operations		4,120	17,579
Debtors arising out of reinsurance operations		133,946	96,955
Other debtors	11	8,072	3,545
		146,138	118,079
Debtors - amounts due after one year			
Debtors arising out of reinsurance operations		-	96,420
Other debtors	11	-	2,663
		-	99,083
Other assets			
Cash at bank		13,779	18,190
Overseas deposits	12	4,951	3,054
		18,730	21,244
Prepayments and accrued income			
Other prepayments and accrued income		455	1,028
Deferred acquisition costs	13	2,926	13,395
		3,381	14,423
Total assets		**303,733**	**409,315**
Liabilities			
Capital and Reserves			
Member's balance		21,469	37,659
Technical provisions			
Provision for unearned premiums	13	9,014	49,049
Claims outstanding	10, 13, 15	256,881	288,956
		265,895	338,005
Creditors – amounts due within one year			
Creditors arising out of reinsurance operations		5,377	17,307
Other creditors including tax and social security	16	9,045	4,390
		14,422	21,697
Creditors - amounts due after one year			
Creditors arising out of reinsurance operations		508	3,230
Accruals and deferred income		1,439	8,724
Total liabilities		**303,733**	**409,315**

The annual accounts on pages 9 to 26 were approved by the Board of Chaucer Syndicates Limited on 4 March 2021 and signed on its behalf by:

R J Callan
Chief Financial Officer

Statement of Changes in Member's Balance for the year ended 31 December 2020

	Balance attributable to underwriting £000	Funds in Syndicate £000	Member's balance £000
Balance as at 1 January 2019	(68,809)	92,855	**24,046**
Profit / (Loss) for the financial year	(7,326)	1,985	**(5,341)**
Loss funding – 2016 year of account	9,106	-	**9,106**
Funds in Syndicate capital injection	-	9,848	**9,848**
Balance as at 31 December 2019	**(67,029)**	**104,688**	**37,659**
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 injection	-	(39,131)	**(39,131)**
Balance as at 31 December 2020	**(44,085)**	**65,554**	**21,469**

Statement of Cash Flows for the year ended 31 December 2020

	Note	2020 £000	2019 (restated) £000
Cash flows from operating activities			
Total comprehensive loss		(2,721)	(5,341)
Decrease in gross technical provisions		(53,839)	(21,312)
Decrease / (increase) in reinsurers' share of gross technical provisions		3,194	(3,929)
Decrease in debtors		61,485	31,425
Decrease in creditors		(13,543)	(10,924)
Movement in other assets/liabilities		11,325	13,118
Investment return	9	(5,183)	(8,355)
Foreign exchange		831	(313)
Net cash generated from / (used in) operating activities		**1,549**	**(5,631)**
Cash flows from investing activities			
Purchase of equity and debt instruments		(108,588)	(27,044)
Sale of equity and debt instruments		113,607	-
Investment income received		2,302	-
Net cash generated from / (used in) investing activities		**7,321**	**(27,044)**
Cash flows from financing activities			
Distribution loss		25,662	9,106
Net Funds in Syndicate capital (release) / injection		(39,131)	9,848
Net cash (used in) / generated from financing activities		**(13,469)**	**18,954**
Net decrease in cash and cash equivalents		(4,599)	(13,721)
Cash and cash equivalents at beginning of year		18,190	31,680
Foreign exchange on cash and cash equivalents		188	231
Cash and cash equivalents at end of year		**13,779**	**18,190**
Cash and cash equivalents consists of:			
Cash at bank		13,779	18,190
Cash and cash equivalents		**13,779**	**18,190**

Notes to the Accounts for the year ended 31 December 2020

1. Basis of preparation

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

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

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

Part VII transfer

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

Following the sanction of the scheme by the High Court on 25 November 2020, the scheme took effect on 30 December 2020 and the Members and former Members of the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Brussels, together with cash of £4.2m. On the same date, under the Reinsurance Agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of £4.2m. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's income statement or balance sheet.

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

2. Accounting policies

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

i) Premiums written
Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified. Both the cash transferred for the Part VII transfer and the premium subsequently received back from Lloyd's Brussels have been included in the gross written premiums line of the income statement.

Notes to the Accounts for the year ended 31 December 2020

2. Accounting policies (continued)

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.

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.

Notes to the Accounts for the year ended 31 December 2020

2. Accounting policies (continued)

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

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

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

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

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

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

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

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

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.

Notes to the Accounts for the year ended 31 December 2020

2. Accounting policies (continued)

h) Taxation

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

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

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

i) Pension costs

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

j) Profit commission

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

k) Critical accounting judgements and estimation uncertainty

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

- Valuation of general insurance contract liabilities (page 14)
- Premium recognition (page 13)

Notes to the Accounts for the year ended 31 December 2020

3. Segmental analysis

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

	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	£000	£000	£000	£000	£000	£000
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)**
2019						
Direct insurance						
Fire and other damage to property	4,292	3,798	(2,130)	(1,051)	(401)	216
Accident and health	48,894	44,162	(25,568)	(15,521)	(3,015)	58
Marine, aviation and transport	1,375	1,299	(1,448)	(488)	(96)	(733)
	54,561	49,259	(29,146)	(17,060)	(3,512)	(459)
Reinsurance	68,871	125,093	(101,650)	(39,491)	3,365	(12,683)
	123,432	**174,352**	**(130,796)**	**(56,551)**	**(147)**	**(13,142)**

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

During the year, the Syndicate increased net technical reserves by £2.8m in respect of prior years (2019: £8.8m) as a result of deteriorations on a whole account quota share of a property and casualty (re)insurance group.

5. Net operating expenses

	2020	2019
	£000	£000
Acquisition costs:		
- brokerage and commission	2,812	32,819
- other	65	-
Change in deferred acquisition costs	11,185	16,368
Administrative expenses	4,523	7,726
Reinsurance commissions and profit participation	-	(362)
	18,585	**56,551**
Administrative expenses include:		
Member's standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission)	-	717

Notes to the Accounts for the year ended 31 December 2020

6. Auditors' remuneration

	2020 £000	2019 £000
Audit of the Syndicate annual accounts	120	124
Other services pursuant to legislation, including the audit of the regulatory return	57	42
	177	**166**

7. Staff costs

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

	2020 £000	2019 £000
Wages and salaries	1,269	3,362
Social security costs	114	544
Other pension costs	103	302
	1,486	**4,208**

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

	2020 Number	2019 Number
Administration and finance	3	5
Underwriting	-	17
Other	7	15
	10	**37**

8. Emoluments of the directors of the Managing Agent

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

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

	2020 £000	2019 £000
Active Underwriter	-	444

Notes to the Accounts for the year ended 31 December 2020

9. Investment return

	2020 £000	2019 £000
Investment income		
Income from financial assets at fair value through profit and loss	2,138	2,295
Interest on cash at bank	54	256
Other interest and similar income	2,987	4,793
Realised gains on investments	137	536
	5,316	**7,880**
Investment expenses and charges		
Investment management expenses, including interest	(140)	(79)
Realised losses on investments	(212)	(26)
	(352)	(105)
Net unrealised gains on investments	219	580
Total investment return	**5,183**	**8,355**

10. Financial instruments

	2020 Cost £000	2020 Market value £000	2019 (restated) Cost £000	2019 (restated) 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	96,273	96,778	111,787	112,227
	96,895	**97,400**	**112,409**	**112,849**

Risk policies

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

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

	Change in interest rates %	Impact on result £000
31 December 2020	+0.5	(395)
	-0.5	395
31 December 2019	+0.5	(442)
	-0.5	442

Notes to the Accounts for the year ended 31 December 2020

10. Financial instruments (continued)

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

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

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	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**
Creditors	21,697	3,230	-	-	24,927
Claims outstanding	131,903	132,609	13,017	11,427	288,956
At 31 December 2019	**153,600**	**135,839**	**13,017**	**11,427**	**313,883**

Credit risk
The Syndicate holds the majority of its investments as highly rated corporate bonds, managed by external portfolio managers. Investment managers may expose the Syndicate to credit risk as a tactical enhancement to fixed income returns when suitable opportunities arise within the risk budget set for each manager. Investment fund managers mitigate credit risk through diversification and by setting maximum limits for individual counterparties.

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

	2020	**2019 (restated)**
	£000	**£000**
Debt securities	96,778	112,227
Cash at bank	13,779	18,190
Shares and other variable yield securities	622	622
Overseas deposits	4,951	3,054
Reinsurer' share of claims outstanding	37,169	39,058
	153,299	**173,151**
AAA	36,728	46,269
AA	28,026	32,753
A	87,596	91,914
BBB	257	123
BB or less	153	100
Not rated	539	1,992
Total assets bearing credit risk	**153,299**	**173,151**

Notes to the Accounts for the year ended 31 December 2020

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 2020 and at 31 December 2019.

	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	96,778	-	-	96,778
Overseas deposits	4,951	-	-	4,951
At 31 December 2020	**101,729**	**-**	**622**	**102,351**
Shares and other variable yield securities and unit trusts	-	-	622	622
Debt securities and other fixed income securities	112,227	-	-	112,227
Overseas deposits	3,054	-	-	3,054
At 31 December 2019 (restated)	**115,281**	**-**	**622**	**115,903**

11. Other debtors

	2020 £000	2019 £000
Other debtors falling due within one year	8,072	3,545
Other debtors falling due after one year	-	2,663
	8,072	**6,208**

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

12. Overseas deposits

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

Notes to the Accounts for the year ended 31 December 2020

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 2020	**49,049**	**288,956**	**13,395**	**324,610**
Exchange adjustments	45	(10,434)	715	(11,104)
Claims paid in the year	-	(54,311)	-	(54,311)
Movement in provision	(40,080)	32,670	(11,184)	3,774
At 31 December 2020	**9,014**	**256,881**	**2,926**	**262,969**
Reinsurance				
At 1 January 2020	4,579	39,058	-	43,637
Exchange adjustments	(20)	(2,487)	-	(2,507)
Reinsurance recoveries in the year	-	(12,490)	-	(12,490)
Movement in provision	(3,644)	13,088	-	9,444
At 31 December 2020	**915**	**37,169**	**-**	**38,084**
Net technical provisions				
At 31 December 2020	**8,099**	**219,712**	**2,926**	**224,885**
At 31 December 2019	**44,470**	**249,898**	**13,395**	**280,973**

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:

	2020	2019
Net loss ratio	55.2%	71.5%
Impact of 1% variation (£000)	355	1,523

Notes to the Accounts for the year ended 31 December 2020

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	20,603	17,158	17,266	21,116	31,877	72,626	71,758	43,293	
One year later	35,220	32,491	34,009	44,296	62,343	127,027	141,223	62,686	
Two years later	34,896	32,311	35,843	47,520	70,304	134,231	148,140		
Three years later	35,635	31,960	35,816	48,391	74,911	141,194			
Four years later	35,002	32,012	37,341	48,576	73,797				
Five years later	34,765	32,046	37,006	48,812					
Six years later	34,455	31,989	37,006						
Seven years later	34,436	31,989							
Eight years later	34,108								
As at 31 December 2020	34,108	31,989	37,006	48,812	73,797	141,194	148,140	62,686	577,732
Less gross claims paid	34,108	31,989	37,006	48,660	72,169	35,545	40,397	20,977	320,851
Gross reserves	-	-	-	152	1,628	105,649	107,743	41,709	256,881

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	17,913	15,538	15,079	19,176	28,512	61,334	66,530	31,918	
One year later	32,137	28,783	30,007	39,761	54,055	107,199	123,453	48,831	
Two years later	31,723	28,899	31,832	45,742	55,333	118,263	127,156		
Three years later	32,248	30,782	35,018	44,189	59,430	117,623			
Four years later	33,376	28,848	34,127	44,387	59,472				
Five years later	31,684	28,661	33,787	44,579					
Six years later	31,492	28,665	33,787						
Seven years later	31,472	28,665							
Eight years later	31,343								
As at 31 December 2020	31,343	28,665	33,787	44,579	59,472	117,624	127,156	48,831	491,457
Less net claims paid	31,343	28,665	33,787	44,427	59,506	20,999	34,297	18,721	271,745
Net reserves	-	-	-	152	(34)	96,625	92,859	30,110	219,712

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

Notes to the Accounts for the year ended 31 December 2020

16. Other creditors including tax and social security

	2020 £000	2019 £000
Other creditors due within one year	9,045	4,390
	9,045	**4,390**

Other creditors largely relate to inter-company balances.

17. Related parties

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

	2020 £000	2019 £000
Managing agency fees	-	552
Year-end balance due to Chaucer Syndicates Limited at 31 December	552	552

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

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

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

	2020 £000	2019 £000
Fees paid to China Re Underwriting Agency Limited	4,824	4,268
Balance due to China Re Underwriting Agency Limited at 31 December	8,930	11,572

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

	2020 £000	2019 £000
Balance due to China Reinsurance (Group) Corporation at 31 December	11,596	794

Notes to the Accounts for the year ended 31 December 2020

17. Related parties (continued)

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

	2020 £000	2019 £000
Premium receivable due from CPCR at 31 December	1,762	39,701
Net balance due from CPCR at 31 December	7,662	960

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.

Notes to the Accounts for the year ended 31 December 2020

19. Capital (continued)

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

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 2020, £65.6m of investments were held as Funds in Syndicate (2019: £104.7m). The investments realised a loss of £3k for the year to 31 December 2020 (2019: £2.0m profit). The balance of £65.6m 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

In 2020, the loan to Lloyd's Central Fund to support Lloyd's Brussels Subsidiary was determined to be more appropriately reported within Shares and Other Variable Yield Securities in Note 10. Accordingly, the £622k balance in the 2019 comparatives has been restated within these 2020 Annual Accounts (previously reported as Loans to Credit Institutions), with a net nil impact to total assets. The comparative Statement of Cash Flows for the year ended 31 December 2019 has also been restated to correctly reclassify the balance of £0.6m from Loans to Credit Institutions to Purchase of equity and debt instruments.

Statement of Managing Agent's Responsibilities

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

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

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

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

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

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

4. prepare the 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 2020 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 (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2020; the Statement of Comprehensive Income, the Statement of Cash Flows, and the Statement of Changes in Member's Balances for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and other applicable law. Our responsibilities under ISAs (UK) are further described in the *Auditors' responsibilities for the audit of the syndicate annual accounts* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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

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

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

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

Managing Agent's Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2020 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the syndicate annual accounts and the audit

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

In preparing the syndicate annual accounts, the Managing Agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless 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 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. Audit procedures performed included:

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

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
4 March 2021