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Annual Report 2018

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# Syndicate 1084

**chaucer**

 A China Re Company

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Syndicate 1084 works with brokers, coverholders and clients to protect and support business activities around the world.

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The strength and depth of the Syndicate 1084 underwriting team, combined with our continued active portfolio management and the underwriting opportunities we identify, provide a sound basis for the profitable development of our business.

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# Syndicate Information

## Directors of the Managing Agent

The Directors set out below held office throughout the year ended 31 December 2018, unless otherwise stated.

D C Bendle	Chief Operating Officer
R J Callan	Chief Financial Officer
T J Carroll	Independent Non-executive Director
J M Farber	Non-executive Director (resigned 28 December 2018)
J Faure	Non-executive Director
J Fowle	Chief Executive Officer and Chief Underwriting Officer
P M Shaw	Chief Risk Officer
C M Stooke	Chairman and Independent Non-executive Director
Dr H Zuo	Non-executive Director (appointed 13 March 2019)

## Managing Agent's company secretary

R N Barnett

## Managing Agent's registered office

Plantation Place  
30 Fenchurch Street  
London EC3M 3AD

## Managing Agent's registered number

184915

## Managing Agent's auditors

PricewaterhouseCoopers LLP, London

## Syndicate 1084 active underwriter

E Lines

## Syndicate bankers

The custodians of the Syndicate's investment funds are as follows:

Citibank N.A.

Royal Bank of Canada

## Syndicate investment managers

Goldman Sachs Asset Management International

Opus Investment Management, Inc.

## Syndicate independent auditors

PricewaterhouseCoopers LLP, London

# Underwriter's Report

## Results and performance

The loss for the year was £17.6m (2017: £16.9m loss), and the combined ratio improved slightly to 102.9% (2017: 105.6%).

The Syndicate's key performance indicators during the year were as follows:

	2018 £m	2017 £m	Movement %
Gross written premium	961.5	950.3	1.2
Net written premium	625.4	643.4	(2.8)
Net earned premium	629.3	647.3	(2.8)
Underwriting result	(11.8)	(30.1)	60.5
Investment return	11.4	20.2	(43.6)
Technical loss for the financial year	(0.4)	(9.9)	96.0
Non-technical account for the financial year	(17.1)	(7.0)	(147.1)
Total comprehensive loss	(17.6)	(16.9)	(4.7)
Combined ratio	102.8%	105.6%	2.6pts

2018 saw a second consecutive year of above average catastrophe losses driven by US windstorms Michael and Florence, tropical typhoons Jebi and Trami in Asia, and significant wildfire losses in California. These losses allied to ongoing challenging underwriting conditions in most markets have led to a disappointing result for 2018.

Reported gross written premiums are broadly in line with 2017, with net written premiums lower following an increase in retrocession protections purchased to cover our reinsurance account.

Underlying this, the Syndicate continues to actively manage the challenging underwriting conditions by reducing volumes in certain lines and targeting growth in classes where pricing and results are more robust.

Investment return decreased to £11.4m (2017: £20.2m) as a result of mark-to-market losses following an upwards shift in yield curves.

## Strategy and outlook

Syndicate 1084 continues to write a specialty underwriting portfolio, underpinned by strong and distinctive underwriting capabilities, and headlined by market leadership in selected specialty segments. The portfolio should continue to provide good balance and opportunities for profitable business development in 2019, although the Syndicate will not permit growth at the expense of lowering underwriting standards.

The 2019 Business Plan reflects this approach, with a positive response to current market conditions and the opportunities Syndicate underwriters have identified, including further development of its cyber offering, which launched in 2018. The Plan also reflects actions taken and underway to improve inadequately performing classes identified following the detailed review of these in 2017 and 2018. This also ensured that the Syndicate was well positioned for the Lloyd's Decile 10 performance review. The performance of the Syndicate should benefit from these actions in 2019, and is already seeing evidence of an improved rating environment in a number of classes where profitability has been challenging in recent years.

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# Underwriter's Report

As a UK-based insurer sourcing business through UK-based intermediaries, Brexit is increasing the complexities of accessing EEA business, although the Syndicate continues to work to identify the most effective and cost efficient methods of writing this business post Brexit. The Syndicate is making full use of the new Lloyd's Brussels platform, through which underwriters can write EEA business and then reinsure it back to Syndicate 1084.

Against a background of two challenging underwriting years for the market, the focus of Syndicate 1084 remains the leverage its underwriting expertise and strong broker relationships to deliver a satisfactory underwriting result across all classes of business in the portfolio.

## **E Lines**

Active Underwriter

Chaucer Syndicate 1084

14 March 2019

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# Managing Agent's Report

The Directors of the Managing Agent present their report and the audited annual accounts for the year ended 31 December 2018.

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

## The Managing Agent

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

## Reinsurance to Close (RITC) of the UK Division

Syndicate 1084 entered into an RITC of the part of the 2015 Year of Account, which comprised the UK Division book of business, with Antares Syndicate 1274. Due to the Syndicate's existing reinsurance arrangement, in conjunction with the quota share arrangement with Special Purpose Arrangement (SPA) 6124, the UK Division closing reserves at 31 December 2017 were net nil (gross £199.7m) and therefore the RITC was for a nominal consideration of £1. The RITC transaction is reflected in these financial statements.

Chaucer have also obtained the necessary rule modification from the PRA to treat this arrangement as a reinsurance to close for the purposes of the PRA rules 'SII Firms – Lloyd's – Approved RITC', Rule 3.1.

The balance of the liabilities of the 2015 Year of Account of the Syndicate reinsured to close into the 2016 Year of Account of Syndicate 1084 by way of an appropriate accounting entry (in accordance with paragraph (d) of the definition of 'Reinsurance to Close' in the Definitions Byelaw).

## Principal activities

This report covers the business of Syndicate 1084, whose principal activity during the year continued to be the transaction of worldwide general insurance and reinsurance business in the United Kingdom.

Principal risks and uncertainties

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

## Underwriting risk

Each Division of the Syndicate undertakes an extensive annual underwriting planning process in order to determine its targets for premium income and return on capital.

The detailed stochastic modelling of underwriting risk, both gross and net of reinsurance, using dynamic financial analysis techniques, assists with the setting and management of risk appetite.

Catastrophe risk is the main component of underwriting risk and the Syndicate uses Exceedance Probability (EP) curves as one of the tools for managing this risk. For a defined underwriting portfolio, an EP curve plots expected probability against loss size. This represents a sliding scale of risk appetite against associated exceedance probabilities.

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# Managing Agent's Report

## Managing risk aggregation

The Syndicate monitors the aggregation of underwriting exposure using specialist modelling software tools where appropriate. The Syndicate monitors its loss exposure to a suite of natural catastrophe events (including the prescribed Lloyd's Realistic Disaster Scenarios) and man-made events on a quarterly basis. Modelled loss caps are set at an underwriting business unit level for each event; this provides the underwriters with a practical tool for managing their exposures.

## Concentrations of risk

The Syndicate has exposure to losses arising through the aggregation of risks in geographical areas. This mainly affects the property, marine and energy portfolios. Events giving rise to such aggregations are typically natural disasters such as earthquakes or weather-related disasters such as hurricanes, windstorms and typhoons. Other examples include major terrorism events.

As part of the risk management process, the Syndicate assesses exposures to Realistic Disaster Scenarios every quarter to enable the Syndicate to monitor potential accumulations of underwriting exposure against a pre-determined suite of catastrophic events and to confirm no breach of underwriting risk appetite.

## Maximum lines

Underwriters manage individual risks through adherence to set maximum line sizes.

## Underwriting controls

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

## Monitoring performance against plan

The Syndicate manages performance against plan through monthly divisional reporting, utilising centrally prepared underwriting management information packs. Each Division reports to an Underwriting Board which in turn reports to the Underwriting Committee and through to the Board of the Managing Agent. This control process ensures several layers of review for underwriting risks, with particular focus on pricing, loss ratio forecasts, risk aggregation, catastrophe modelling and reinsurance protection.

## Emerging risks

An emerging risk is a risk that is perceived to be potentially significant but which may not be fully understood or allowed for in insurance terms and conditions, pricing, reserving, capital setting or the operational activities of the Syndicate. The Managing Agent has a defined emerging risk process to identify and assess the potential impact of such risks.

## Peer and independent reviews

Peer review is performed on a risk-based sample of business by a fellow underwriter to ensure adherence to sound underwriting practices. The independent review process involves detailed review of individual underwriting risks and supporting documentation. Themed underwriting reviews are conducted by the Underwriting Risk Management Function to ensure that underwriting procedures and discipline are followed.

## Internal audit

Internal audit provides assurance over the performance of the underwriting controls.

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# Managing Agent's Report

## Claims risk

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

## Reserving risk

The Syndicate's reserving policy seeks to ensure appropriate allowance for reserving risk, consistency in reserving from year to year and the equitable treatment of capital providers on the closure of a year of account.

Reserves are set on a two tier hierarchical basis.

### Tier 1: Actuarial best estimate reserves

Actuarial best estimate reserves are prepared on an underwriting year basis and are intended to be true best estimates, i.e. estimates of expected value claims reserves. These are the basis for internal reporting and the derivation of expected loss ratios for business planning.

The actuarial best estimate reserves are the responsibility of the Internal Signing Actuary. The Managing Agent's Actuarial Team calculates the reserves in conjunction with extensive discussions with 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.

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# Managing Agent's Report

## (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 each 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 Managing Agent's Board approves all risk loadings within syndicate reserves.

The assessment of actuarial best estimate reserves is a rolling quarterly process. The underwriting portfolio comprises a number of heterogeneous business types, each of which the analysis projects to ultimate. Where certain contracts or claim events obscure development trends, the analysis splits these out for separate review. The application of standard actuarial techniques to the historical 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.

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# Managing Agent's Report

## Credit risk

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

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

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

## Investment risk

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

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

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

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

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

Refer to Note 13 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 Syndicate. The Managing Agent seeks to manage this risk through business performance measures, formal disaster recovery and business continuity planning and other governing procedures which are reviewed through a structured programme of testing of processes and systems by Internal Audit and other assurance processes.

Regulatory and legal risk

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

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# Managing Agent's Report

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 Syndicate also undertakes a compliance-monitoring programme. Legal risk is the risk that exposes Chaucer 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

Chaucer Underwriting Services Limited (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.

## Brexit

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

## Environmental matters

The Managing Agent does not consider that a business such as a syndicate at Lloyd's has a large adverse impact upon the environment. As a result the agent does not manage its business by reference to any environmental key performance indicators.

## Acquisition by China Reinsurance (Group) Corporation

On 28 December 2018 China Reinsurance (Group) Corporation (China Re) became the ultimate parent of the Syndicate's corporate member following completion of its acquisition of 100% of The Hanover Insurance International Holdings Limited (subsequently renamed China Re International Holdings Limited) by China Re International Company Ltd, its wholly owned subsidiary. The subsequent integration of the two businesses may present both strategic and operational risks in the short term. A detailed and robust integration plan is being developed to minimise the impact of undertaking integration activities across both businesses.

## Directors' interests

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

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# Managing Agent's Report

## **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

14 March 2019

# Statement of Comprehensive Income

for the year ended 31 December 2018

	Notes	2018 £m	2017 £m
<b>Technical Account – General Business</b>			
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	3	961.5	950.3
Outward reinsurance premiums		(336.1)	(306.9)
<b>Net premiums written</b>		<b>625.4</b>	<b>643.4</b>
<b>Change in the provision for unearned premiums</b>			
Gross amount	18	(14.2)	(38.8)
Reinsurers' share	18	18.1	42.7
<b>Net change in provision for unearned premiums</b>		<b>3.9</b>	<b>3.9</b>
<b>Earned premiums, net of reinsurance</b>		<b>629.3</b>	<b>647.3</b>
Other technical income, net of reinsurance	9	6.1	6.0
Allocated investment return transferred from the Non-Technical Account		11.4	20.2
<b>Total technical income</b>		<b>646.8</b>	<b>673.5</b>
<b>Claims incurred, net of reinsurance</b>			
<b>Claims paid</b>			
Gross amount	18	(568.9)	(483.0)
Reinsurers' share	18	197.2	158.1
<b>Net claims paid</b>		<b>(371.7)</b>	<b>(324.9)</b>
<b>Change in the provision for claims</b>			
Gross amount		(129.3)	(232.2)
Reinsurers' share		115.1	135.8
<b>Net change in the provision for claims</b>		<b>(14.2)</b>	<b>(96.4)</b>
<b>Claims incurred, net of reinsurance</b>		<b>(385.9)</b>	<b>(421.3)</b>
Net operating expenses	3, 5	(261.3)	(262.1)
<b>Total technical charges</b>		<b>(647.2)</b>	<b>(683.4)</b>
<b>Balance on the Technical Account – General Business</b>		<b>(0.4)</b>	<b>(9.9)</b>
<b>Non-Technical Account</b>			
Other expenses	12	(17.2)	(7.0)
Investment income	10	26.4	29.9
Net unrealised losses on investments	10	(7.9)	(2.7)
Investment expenses and charges	10	(7.1)	(7.0)
Allocated investment return transferred to the Technical Account - General Business		(11.4)	(20.2)
<b>Total comprehensive loss</b>		<b>(17.6)</b>	<b>(16.9)</b>

All the amounts above are in respect of continuing operations.

# Statement of Financial Position

for the year ended 31 December 2018

	Notes	2018 £m	2017 £m
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	13	871.4	926.7
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	18	165.7	138.9
Claims outstanding	18	800.0	854.2
		<b>965.7</b>	<b>993.1</b>
<b>Debtors</b>			
Debtors arising out of direct insurance operations - intermediaries		331.7	299.2
Debtors arising out of reinsurance operations		139.3	100.6
Other debtors	14	0.8	2.6
		<b>471.8</b>	<b>402.4</b>
<b>Other assets</b>			
Cash at bank		14.4	10.3
Overseas deposits	15	90.9	90.7
Other assets	16	68.2	53.3
		<b>173.5</b>	<b>154.3</b>
<b>Prepayments and accrued income</b>			
Deferred acquisition costs	18	117.6	106.3
Other prepayments and accrued income		5.7	9.5
		<b>123.3</b>	<b>115.8</b>
<b>Total assets</b>		<b>2,605.7</b>	<b>2,592.3</b>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Member's balances	17	(186.2)	(83.3)
<b>Technical provisions</b>			
Provision for unearned premiums	18	495.6	455.8
Claims outstanding	13, 18, 20	1,965.4	1,962.8
		<b>2,461.0</b>	<b>2,418.6</b>
<b>Creditors</b>			
Creditors arising out of direct insurance operations - intermediaries		5.4	3.1
Creditors arising out of reinsurance operations		273.2	217.2
Other creditors including tax and social security	21	24.3	13.9
		<b>302.9</b>	<b>234.2</b>
Accruals and deferred income		28.0	22.8
<b>Total liabilities</b>		<b>2,605.7</b>	<b>2,592.3</b>

The annual accounts on pages 10 to 28 were approved by the Board of Chaucer Syndicates Limited on 14 March 2019 and signed on its behalf by:

**R J Callan**  
Chief Financial Officer

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# Statement of Changes in Member's Balance

for the year ended 31 December 2018

	Notes	2018 £m	2017 £m
Balance as at 1 January		(83.3)	88.9
Total comprehensive loss	17	(17.6)	(16.9)
Payments of profit to member's personal reserve funds	17	(82.2)	(153.4)
Other	17	(3.1)	(1.9)
<b>Balance as at 31 December</b>		<b>(186.2)</b>	<b>(83.3)</b>

# Statement of Cash Flows

for the year ended 31 December 2018

	Notes	2018 £m	2017 £m
<b>Cash flows from operating activities</b>			
Total comprehensive loss		(17.6)	(16.9)
Increase in gross technical provisions		42.4	134.7
Decrease / (increase) in reinsurers' share of gross technical provisions		27.4	(135.2)
Increase in debtors		(76.9)	(42.8)
Increase in creditors		73.9	43.6
Movement in other assets / liabilities		(15.1)	(10.3)
Investment return	10	(11.4)	(20.2)
Foreign exchange		(67.1)	76.0
Other		(3.0)	(1.9)
<b>Net cash generated from operating activities</b>		<b>(47.4)</b>	27.0
<b>Cash flows from investing activities</b>			
Purchase of equity and debt instruments		(711.3)	(838.8)
Sale of equity and debt instruments		824.6	937.9
Investment income received		20.0	23.2
<b>Net cash generated from investing activities</b>		<b>133.3</b>	122.3
<b>Cash flows from financing activities</b>			
Distribution profit		(82.2)	(141.7)
Open year profit release		-	(11.7)
<b>Net cash used in financing activities</b>		<b>(82.2)</b>	(153.4)
Net increase / (decrease) in cash and cash equivalents		3.7	(4.1)
Cash and cash equivalents at beginning of year		10.3	15.2
Foreign exchange on cash and cash equivalents		0.4	(0.8)
<b>Cash and cash equivalents at end of year</b>		<b>14.4</b>	10.3
Cash and cash equivalents consists of:			
Cash at bank		14.4	10.3
<b>Cash and cash equivalents</b>		<b>14.4</b>	10.3

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# Notes to the Accounts

for the year ended 31 December 2018

## 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 in the United Kingdom. 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 annual accounts.

## 2. Accounting policies

### A) Insurance contracts

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

#### i) Premiums written

Premiums written comprise premiums on contracts inception 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. Refer to reserving risk section in Managing Agent’s Report for more detail.

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.

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# Notes to the Accounts

for the year ended 31 December 2018

The Directors consider that the provisions for gross claims and related reinsurance recoveries 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 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) Investment contracts

Amounts paid in respect of certain reinsurance contracts, which principally involve the transfer of financial risk and not significant insurance risk, are accounted for using deposit accounting, under which amounts paid are debited directly to the statement of financial position. Investment contract assets are initially recognised at fair value and subsequently carried in the statement of financial position at amortised cost and shown as 'Other assets'. Investment contract liabilities are carried in the statement of financial position at amortised cost and shown within 'Other creditors including tax and social security'. Contractual gains and losses are recognised in other technical income in the statement of comprehensive income using the effective interest rate method.

C) 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, reinsurance commissions, Managing Agency costs, the costs of membership of Lloyd's and other expenses attributable to the Syndicate's underwriting.

D) Cash and cash equivalents

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

E) 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.

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# Notes to the Accounts

for the year ended 31 December 2018

## F) 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'.

## G) 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.

## H) Investment return

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

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

Investment return is initially recorded in the non technical account. A transfer is made from the non technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

## I) 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 Balances'.

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

## J) Pension costs

Effective 1 January 2017, CUSL operates a defined contribution scheme. Prior to this, the defined contribution scheme was operated by Chaucer Syndicates Limited. Pension contributions relating to Syndicate staff are charged to the Syndicate and included within net operating expenses.

## K) Key judgements and uncertainty

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

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

# Notes to the Accounts

for the year ended 31 December 2018

## 3. Segmental analysis

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

	Gross premiums written £m	Gross premiums earned £m	Gross claims incurred £m	Gross operating expenses <sup>1</sup> £m	Reinsurance balance £m	Total £m	Net technical provisions £m
<b>2018</b>							
<b>Direct insurance</b>							
Accident and health	24.8	21.1	(11.6)	(9.5)	0.1	0.1	5.8
Motor (third party liability)	4.8	3.5	(2.0)	(0.5)	-	1.0	-
Motor (other classes)	2.4	1.9	(3.2)	(0.6)	-	(1.9)	-
Marine, aviation and transport	70.7	72.5	(59.6)	(34.6)	(2.7)	(24.4)	117.9
Energy	70.4	68.8	(28.6)	(28.5)	(13.9)	(2.2)	34.7
Fire and other damage to property	82.5	78.5	(23.0)	(26.5)	(10.2)	18.8	79.4
Third party liability	156.0	151.1	(127.3)	(63.8)	7.1	(32.9)	411.7
Miscellaneous	44.9	53.5	(15.9)	(24.8)	(13.4)	(0.6)	76.5
	456.5	450.9	(271.2)	(188.8)	(33.0)	(42.1)	726.0
Reinsurance	505.0	496.4	(427.0)	(101.6)	62.5	30.3	769.3
	<b>961.5</b>	<b>947.3</b>	<b>(698.2)</b>	<b>(290.4)</b>	<b>29.5</b>	<b>(11.8)</b>	<b>1,495.3</b>
<b>2017</b>							
<b>Direct insurance</b>							
Accident and health	14.1	10.0	(4.5)	(3.8)	(3.3)	(1.6)	(1.0)
Motor (third party liability)	0.7	0.7	16.0	0.9	(16.6)	1.0	-
Motor (other classes)	2.0	2.0	13.4	(0.7)	(15.0)	(0.3)	-
Marine, aviation and transport	78.2	77.1	(69.7)	(38.7)	4.0	(27.3)	103.7
Energy	49.5	52.4	(36.4)	(20.0)	2.7	(1.3)	37.3
Fire and other damage to property	60.3	57.2	(53.8)	(22.6)	9.6	(9.6)	98.7
Third party liability	175.0	168.7	(115.4)	(64.8)	7.1	(4.4)	359.9
Miscellaneous	71.9	57.8	(17.2)	(29.0)	(15.6)	(4.0)	89.6
	451.7	425.9	(267.6)	(178.7)	(27.1)	(47.5)	688.2
Reinsurance	498.6	485.6	(447.6)	(102.8)	82.2	17.4	737.3
	950.3	911.5	(715.2)	(281.5)	55.1	(30.1)	1,425.5

<sup>1</sup> Gross operating expenses are not the same as net operating expenses shown in the Statement of Comprehensive Income because of commissions in respect of outward reinsurance received and other technical income.

All premiums were concluded in the UK.

Commission on direct insurance - gross premiums during 2018 was £98.3m (2017: £94.6m).

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

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

	2018 £m	2017 £m
UK	32.8	18.9
Other EU countries	50.9	59.0
Americas (including US)	346.3	364.0
Other	531.5	508.4
<b>Gross premiums written</b>	<b>961.5</b>	<b>950.3</b>

# Notes to the Accounts

for the year ended 31 December 2018

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

	2018 Gross technical provisions £m	2018 Net technical provisions £m	2017 Gross technical provisions £m	2017 Net technical provisions £m
UK	84.0	51.0	48.2	28.4
Other EU countries	130.3	79.2	150.1	88.4
Americas (including US)	886.5	538.6	926.4	546.0
Other	1,360.2	826.5	1,293.9	762.7
<b>Total</b>	<b>2,461.0</b>	<b>1,495.3</b>	2,418.6	1,425.5

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

During 2018 the Syndicate released £35.2m of technical reserves in respect of prior periods (2017: £39.4m), arising predominantly from the Treaty, Energy and Marine Divisions (2017: primarily from the Energy and Marine Divisions). These releases were due to favourable claims development on losses during 2018.

#### 5. Net operating expenses

	2018 £m	2017 £m
Acquisition costs:		
– brokerage and commission	206.6	202.3
– other	14.4	16.0
Change in deferred acquisition costs	2.1	(1.9)
Administrative expenses	73.4	71.1
Reinsurance commissions and profit participation	(35.2)	(25.4)
	<b>261.3</b>	<b>262.1</b>
Administrative expenses include:		
Member's standard personal expenses (Lloyd's subscriptions, New Central Fund contributions and managing agent's fees)	16.3	16.9

#### 6. Auditor remuneration

	2018 £m	2017 £m
Audit of the syndicate annual accounts	0.2	0.2
Other services pursuant to legislation including audit of regulatory returns	0.2	0.2
	<b>0.4</b>	<b>0.4</b>

#### 7. Staff costs

The Managing Agent is recharged for staff costs by CUSL which employs all staff. The Managing Agent charges the following amounts to the Syndicate in respect of salary costs:

	2018 £m	2017 £m
Wages and salaries	25.2	26.2
Social security costs	3.3	3.3
Other pension costs	2.8	3.2
Other	–	0.2
	<b>31.3</b>	<b>32.9</b>

# Notes to the Accounts

for the year ended 31 December 2018

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

	2018 Number	2017 Number
Administration and finance	130	117
Underwriting	105	106
Claims	26	29
Other	63	69
	<b>324</b>	<b>321</b>

## 8. Emoluments of the Directors of the Managing Agent

The Directors of Chaucer Syndicates Limited received the following aggregate remuneration for services rendered to the Syndicate:

	2018 £m	2017 £m
Directors of Chaucer Syndicates Limited	1.2	1.5
Active Underwriter	0.3	0.3

## 9. Other technical income

Other technical income relates to the recognition of contractual gains on a ceded reinsurance transaction which did not transfer significant insurance risk and was subject to deposit accounting.

## 10. Investment return

	2018 £m	2017 £m
<b>Investment income</b>		
Interest from financial assets at fair value through profit and loss	23.0	25.7
Interest on cash at bank	0.6	0.4
Other interest and similar income	2.1	2.1
Realised gains on investments	0.7	1.7
	<b>26.4</b>	29.9
<b>Investment expenses and charges</b>		
Investment management expenses including interest	(1.1)	(1.2)
Realised losses on investments	(6.0)	(5.8)
	<b>(7.1)</b>	(7.0)
<b>Net unrealised losses on investments</b>	<b>(7.9)</b>	(2.7)
<b>Total investment return</b>	<b>11.4</b>	20.2

# Notes to the Accounts

for the year ended 31 December 2018

## 11. Calendar year investment return

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

	2018 £m	2017 £m
Average funds	988.3	1,125.1
Investment return (net of expenses)	11.4	20.2
Calendar year investment return	1.2%	1.8%
<b>Average funds available for investment by fund</b>		
Sterling	129.9	121.6
United States Dollars	739.3	880.4
Canadian Dollars	119.1	123.1
<b>Analysis of calendar year investment return by fund</b>		
	%	%
Sterling	0.8	0.7
United States Dollars	1.1	2.1
Canadian Dollars	1.6	0.5

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

## 12. Other expenses

Net foreign exchange losses of £17.2m (2017: loss of £7.0m) are included within other expenses in the non-technical account.

## 13. Financial instruments

	Cost £m	2018 Market value £m	Cost £m	2017 Market value £m
Shares and other variable yield securities at fair value through profit and loss	49.8	51.5	15.3	14.9
Debt securities and other fixed income securities at fair value through profit and loss	825.2	819.9	930.3	911.8
	<b>875.0</b>	<b>871.4</b>	<b>945.6</b>	<b>926.7</b>

## Risk policies

### Market Risk

#### Interest rate risk

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

	Change in interest rates %	Impact on result £m
31 December 2018	+1.0	(25.8)
	-1.0	21.7
31 December 2017	+1.0	(29.2)
	-1.0	26.6

# Notes to the Accounts

for the year ended 31 December 2018

## 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 matching 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 Syndicate operates and maintains a liquidity risk policy designed to ensure that cash is available to settle liabilities and other obligations when due without excessive cost to the business.

The expected payment profile of undiscounted liabilities is as follows:

	No stated maturity £m	←1 £m	1-3 £m	3-5 £m	Maturity band (Years) →5 £m	Total £m
Other creditors	-	302.9	-	-	-	302.9
Claims outstanding	-	660.5	847.0	289.2	168.7	1,965.4
<b>At 31 December 2018</b>	<b>-</b>	<b>963.4</b>	<b>847.0</b>	<b>289.2</b>	<b>168.7</b>	<b>2,268.3</b>
Other creditors	-	234.4	-	-	-	234.4
Claims outstanding	-	677.8	849.2	266.5	169.3	1,962.8
At 31 December 2017	-	912.2	849.2	266.5	169.3	2,197.2

## Credit risk

The Syndicate holds the majority of its investments in investment grade securities and money market funds, managed by external portfolio managers. Investment managers may take 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:

	2018 £m	2017 £m
Debt securities	819.9	911.8
Cash at bank	14.4	10.3
Shares and other variable yield securities	51.5	14.9
Overseas deposits	90.9	90.7
	<b>976.7</b>	<b>1,027.7</b>
AAA	448.7	400.9
AA	201.5	193.7
A	181.7	252.0
BBB	97.7	137.1
BB or less	34.0	34.1
Not rated	13.1	9.9
<b>Total assets bearing credit risk</b>	<b>976.7</b>	<b>1,027.7</b>

## Determination of fair value hierarchy

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

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

# Notes to the Accounts

for the year ended 31 December 2018

The following table presents the Syndicate's assets measured at fair value at 31 December 2018 and 2017.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Shares and other variable yield securities and unit trusts	51.5	–	–	51.5
Debt securities and other fixed income securities	37.2	780.9	1.8	819.9
Overseas deposits	19.2	71.7	–	90.9
<b>At 31 December 2018</b>	<b>107.9</b>	<b>852.6</b>	<b>1.8</b>	<b>962.3</b>
Shares and other variable yield securities and unit trusts	14.9	–	–	14.9
Debt securities and other fixed income securities	35.7	874.4	1.7	911.8
Overseas deposits	15.2	75.5	–	90.7
At 31 December 2017	65.8	949.9	1.7	1,017.4

The majority of the Syndicate's investments are valued based on quoted market information or other observable market data. The Syndicate holds 0.2% (2017: 0.2%) of its net financial investments at a fair value based on estimates and recorded as Level 3 investments. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible. While such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions might result in a higher or lower fair value measurement, though this is unlikely to be significant.

## 14. Other debtors

	2018 £m	2017 £m
Investment sales debtors	–	1.2
Other debtors	0.8	1.4
	<b>0.8</b>	<b>2.6</b>

Other debtors comprises amounts due from Syndicate 6130 and refunds of fees due from Lloyd's. 2017 also included profit commissions due from Syndicate 6124.

## 15. 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 those markets. The Syndicate has only restricted access to these funds and no influence over their investment.

## 16. Other assets

This balance relates to the deposit asset arising on a ceded reinsurance transaction, which did not transfer significant reinsurance risk and was subject to deposit accounting.

## 17. Reconciliation of movements in member's balances

	2018 £m	2017 £m
Member's balances at 1 January	(83.3)	88.9
Total comprehensive income	(17.6)	(16.9)
Payments of profit to member's personal reserve funds	(82.2)	(153.4)
Movement in member's balances in respect of tax, member's agent's fees and other	(3.1)	(1.9)
<b>Member's balances at 31 December</b>	<b>(186.2)</b>	<b>(83.3)</b>

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

# Notes to the Accounts

for the year ended 31 December 2018

## 18. Technical reserves

	Provisions for unearned premiums £m	Claims outstanding £m	Deferred acquisition costs* £m	Total £m
<b>Gross and net technical provisions</b>				
At 1 January 2018	455.8	1,962.8	106.3	2,312.3
Exchange differences	25.6	73.0	13.4	85.2
RITC of the UK Division	-	(199.7)	-	(199.7)
Claims paid in year	-	(568.9)	-	(568.9)
Movement in provision	14.2	698.2	(2.1)	714.5
<b>At 31 December 2018</b>	<b>495.6</b>	<b>1,965.4</b>	<b>117.6</b>	<b>2,343.4</b>
<b>Reinsurance</b>				
At 1 January 2018	138.9	854.2	(18.1)	975.0
Exchange differences	8.7	30.4	(0.1)	39.0
RITC of the UK Division	-	(199.7)	-	(199.7)
Reinsurance recoveries in the year	-	(197.2)	-	(197.2)
Movement in provision	18.1	312.3	(7.3)	323.1
<b>At 31 December 2018</b>	<b>165.7</b>	<b>800.0</b>	<b>(25.5)</b>	<b>940.2</b>
<b>Net technical provisions</b>				
<b>At 31 December 2018</b>	<b>329.9</b>	<b>1,165.4</b>	<b>92.1</b>	<b>1,403.2</b>
At 31 December 2017	316.9	1,108.6	88.2	1,337.3

\*Reinsurers' share of deferred acquisition cost is included in accruals and deferred income

### 2018 events

The Syndicate has exposure to a number of catastrophe events that occurred in 2018. The largest of these are hurricanes Michael and Florence, typhoons Jebi and Trami, the Woolsey and Camp wildfires in California and losses in relation to the Ituango hydroelectric dam in Colombia. The current estimated ultimate claims for these events are £176.6m gross and £62.1m net of reinsurance. After inwards and outwards reinstatement premiums this reduces to £57.3m.

### 2017 events

The Syndicate has exposure to a number of catastrophe events that occurred in 2017. The largest of these are hurricanes Harvey, Irma and Maria, two earthquakes in Mexico and numerous wildfires in California. The current estimated ultimate claims for these events are £335.5m gross and £99.1m net of reinsurance. After inwards and outwards reinstatement premiums this reduces to £96.4m.

## 19. Sensitivity of insurance risk

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

	2018	2017
Net loss ratio	61.3%	65.1%
Impact of 1% variation (£m)	6.3	6.5

# Notes to the Accounts

for the year ended 31 December 2018

## 20. 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	2010 and prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	Total £m
<b>Estimate of gross claims incurred</b>										
At end of underwriting year		385.0	292.2	334.9	455.4	284.7	237.2	518.5	420.5	
One year later		648.2	478.3	632.2	709.6	535.2	503.3	786.4		
Two years later		637.4	468.5	610.2	736.9	570.4	554.4			
Three years later		622.0	450.4	582.5	722.9	554.0				
Four years later		616.6	470.4	543.1	687.2					
Five years later		608.4	457.9	478.8						
Six years later		588.9	429.4							
Seven years later		548.7								
<b>As at 31 December 2018</b>	679.8	548.7	429.4	478.8	687.2	554.0	554.4	786.4	<b>420.5</b>	<b>5,139.2</b>
Less gross claims paid	558.8	502.3	377.7	393.1	457.0	315.4	223.6	283.9	62.0	3,173.8
<b>Gross reserves</b>	121.0	46.4	51.7	85.7	230.2	238.6	330.8	502.5	<b>358.5</b>	<b>1,965.4</b>

Pure underwriting year	2010 and prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	Total £m
<b>Estimate of net claims incurred</b>										
At end of underwriting year		311.7	231.8	266.3	341.3	185.2	171.5	234.3	216.4	
One year later		501.3	390.5	489.5	463.8	356.0	374.3	393.0		
Two years later		492.8	377.7	420.3	470.1	378.5	412.3			
Three years later		466.2	333.8	399.8	468.6	387.5				
Four years later		439.9	335.5	390.7	473.0					
Five years later		429.4	326.8	382.6						
Six years later		423.9	325.8							
Seven years later		418.3								
<b>As at 31 December 2018</b>	511.7	418.3	325.8	382.6	473.0	387.5	412.3	393.0	<b>216.4</b>	<b>3,520.6</b>
Less net claims paid	433.1	389.2	291.3	316.0	329.8	215.1	181.5	148.2	51.0	2,355.2
<b>Gross reserves</b>	78.6	29.1	34.5	66.6	143.2	172.4	230.8	244.8	<b>165.4</b>	<b>1,165.4</b>

Gross and net claims incurred that are denominated in non-functional currency are converted to Pound Sterling as of 31 December 2018, the most recent balance sheet date, for all years presented.

# Notes to the Accounts

for the year ended 31 December 2018

## 21. Other creditors

	2018 £m	2017 £m
Amounts due to Service Companies	10.6	7.5
Taxation	0.8	0.9
Deposit accounting creditor	12.3	3.6
Other creditors	0.6	1.9
	<b>24.3</b>	13.9

Deposit accounting creditor relates to liabilities established in connection with contracts which do not transfer significant insurance risk.

Other creditors comprises profit distributions on closed years of account. 2017 comprised amounts due to the Service Company and Corporate Member.

## 22. Related parties

Chaucer Syndicates Limited, a wholly owned subsidiary of Chaucer Holdings Limited, is the Managing Agent of the Syndicate. The following table shows the expenses that Chaucer Syndicates Limited has charged the Syndicate during the year, along with the outstanding balance due from the Syndicate at the year end:

	2018 £m	2017 £m
Managing agency fees	10.1	10.2
Expenses recharged	74.3	75.0
Balance due to Chaucer Syndicates Limited at 31 December	10.6	7.5

Subsidiaries of Chaucer Holdings Limited support the underwriting capacity of Syndicate 1084 as follows:

Year of account	2018 £m	2017 £m	2016 £m
Chaucer Corporate Capital (No. 3) Limited	770.0	710.0	650.0

Chaucer Underwriting A/S, a wholly owned subsidiary of Chaucer Holdings Limited, provides underwriting services to Syndicate 1084. The Syndicate incurred the following expense during the year, along with the outstanding balance at the year end from Chaucer Underwriting A/S:

	2018 £m	2017 £m
Fees paid to Chaucer Underwriting A/S	2.4	2.4
Balance due from Chaucer Underwriting A/S at 31 December	0.4	0.5

Chaucer Singapore PTE, a wholly owned subsidiary of Chaucer Holdings Limited, provides underwriting services to Syndicate 1084. The Syndicate has incurred the following expense during the year, along with the outstanding balance at the year end from Chaucer Singapore PTE:

	2018 £m	2017 £m
Fees paid to Chaucer Singapore PTE	3.2	2.5
Balance due from Chaucer Singapore PTE at 31 December	0.7	0.6

# Notes to the Accounts

for the year ended 31 December 2018

Chaucer Oslo AS, a wholly owned subsidiary of Chaucer Holdings Limited, provides underwriting services to Syndicate 1084. The Syndicate has incurred the following expense during the year, along with the outstanding balance at the year end from Chaucer Oslo AS:

	2018 £m	2017 £m
Fees paid to Chaucer Oslo AS	0.1	0.2
Balance due from Chaucer Oslo AS at 31 December	-	-

Chaucer Labuan Limited, a wholly owned subsidiary of Chaucer Holdings Limited, provides underwriting services to Syndicate 1084. The Syndicate has incurred the following expense during the year, along with the outstanding balance at the year end from Chaucer Labuan Limited:

	2018 £m	2017 £m
Fees paid to Chaucer Labuan Limited	-	0.1
Balance due from Chaucer Labuan Limited at 31 December	0.1	-

Lonham Limited, a wholly owned subsidiary of Chaucer Holdings Limited, provides underwriting services to Syndicate 1084. The Syndicate has incurred the following expense during the year, along with the outstanding balance at the year end from Lonham Limited:

	2018 £m	2017 £m
Fees paid to Lonham Limited	1.1	1.2
Balance due from Lonham Limited at 31 December	0.3	0.4

Hanover Insurance Company (HIC) writes certain direct risks through an insurance intermediary and have a 100% reinsurance agreement with the Syndicate for those risks. HIC is a member of The Hanover Insurance Group, Inc. the Managing Agent's former ultimate parent company. The Syndicate has incurred the following expenses during the year:

	2018 £m	2017 £m
Premiums ceded to the Syndicate	3.4	4.7
Commissions paid to HIC	0.2	0.2

Sports, Leisure and Entertainment Limited (SLE), a wholly owned subsidiary of The Hanover Insurance Group, Inc., the Managing Agent's former ultimate parent company. SLE provides underwriting services to Syndicate 1084. SLE remained a related party following the acquisition of Chaucer Holdings Limited by China Re by virtue of common directorship. The Syndicate has incurred the following expense from SLE during the year, along with the outstanding balance at the year end from SLE:

	2018 £m	2017 £m
Commissions paid to SLE	1.2	0.9
Balance due from SLE at 31 December	2.8	2.8

Opus Investment Management, Inc. (Opus) acts as an investment manager to the Syndicate. Opus is a wholly owned subsidiary of The Hanover Insurance Group, Inc., the Managing Agent's former ultimate parent company. Opus has charged the Syndicate with the following investment management fees in the year:

	2018 £m	2017 £m
Investment fees	1.1	1.2

# Notes to the Accounts

for the year ended 31 December 2018

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

China Property & Casualty Reinsurance Company Limited and China Continent Property & Casualty Insurance Company Limited are wholly owned subsidiaries of the ultimate parent company. The following table shows the outstanding balances at the year end from these entities:

	2018 £m	2017 £m
Balance due to China Re at 31 December	0.1	-

Syndicates 1084 and 6130, both managed by Chaucer Syndicates Limited, have entered into three reinsurance contracts with each other. These transactions are subject to Chaucer's internal controls, which ensure that all are compliant with Lloyd's Related Party Bylaw provisions.

Syndicates 1176 and 1084, both managed by Chaucer Syndicates Limited, entered into a reinsurance contract with one another in 2016, with a premium of £0.1m. These transactions are subject to Chaucer's internal controls, which ensure that all are compliant with Lloyd's Related Party Bylaw provisions.

### 23. 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.

### 24. 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 on page 28, 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 1084 is not disclosed in these annual 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.

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# Notes to the Accounts

for the year ended 31 December 2018

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it 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 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.

Accordingly all of the assets less liabilities of the syndicate, as represented in the member's balances reported on the Statement of Financial Position on page 11, represent resources available to meet member's and Lloyd's capital requirements.

#### **25. Ultimate parent company and parent undertaking of larger group of which the results of the Syndicate are included**

The largest and smallest group of undertakings for which group financial statements are prepared is China Reinsurance (Group) Corporation, a company incorporated and registered in China. China Re became the ultimate parent of the Syndicate's corporate member on 28 December 2018 following completion of its acquisition of 100% of The Hanover Insurance International Holdings Limited (subsequently renamed China Re International Holdings Limited) by China Re International Company Ltd, its wholly owned subsidiary. Results prior to this date are included in the financial statements of the former owner, The Hanover Insurance Group Inc., and subsequent to this date are included in the financial statements of China Re (Group) Corporation. The Managing Agent considers China Re to be its ultimate parent company. A copy of the most recent consolidated financial statements is available from the website of China Reinsurance (Group) Corporation ([www.chinare.com/cn](http://www.chinare.com/cn)).

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## Statement of Managing Agent's Responsibilities

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

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

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

1. select suitable accounting policies and then apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
4. prepare the annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

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

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

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# Independent Auditors' Report to the Members of Syndicate 1084

## Report on the Syndicate annual accounts

### Our Opinion

In our opinion, Syndicate 1084 annual accounts (the “syndicate annual accounts”):

- give a true and fair view of the state of the syndicate’s affairs as at 31 December 2018 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
- 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 Reports and Accounts (the “Annual Report”), which comprise: the statement of financial position at 31 December 2018, the statement of comprehensive income for the year then ended, the statement of changes in member’s balances, the statement of cash flows, and the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the Auditors’ responsibilities for the audit of the syndicate annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

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

### Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the managing agent’s use of the going concern basis of accounting in the preparation of the syndicate annual accounts is not appropriate; or
- the managing agent has not disclosed in the syndicate annual accounts any identified material uncertainties that may cast significant doubt about the syndicate’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the syndicate annual accounts are authorised for issue.

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate’s ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the syndicate’s business and the wider economy.

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# Independent Auditors' Report to the Members of Syndicate 1084

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

## Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2018 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

## Responsibilities for the syndicate annual accounts and the audit

### Responsibilities of the managing agent for the syndicate annual accounts

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 29, the managing agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the managing agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

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# Independent Auditors' Report to the Members of Syndicate 1084

Auditors' responsibilities for the audit of the syndicate annual accounts

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

A further description of our responsibilities for the audit of the syndicate annual accounts is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other required reporting

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- the managing agent in respect of the syndicate has not kept adequate accounting records; 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.

## Andrew G Hill

For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
14 March 2019

# Lloyd's is the world's specialist insurance and reinsurance market.

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Lloyd's is the world's specialist insurance and reinsurance market.

With expertise earned over centuries, Lloyd's is the foundation of the insurance industry and the future of it. Led by expert underwriters and brokers who cover more than 200 territories, the Lloyd's market develops the essential, complex and critical insurance needed to underwrite human progress.

Backed by diverse global capital and excellent financial ratings, Lloyd's works with a global network to grow the insured world – building resilience for businesses and local communities and strengthening economic growth around the world.

