
Syndicate 1176

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 A China Re Company

Syndicate 1176 is the world's leading insurer of nuclear risk.

Nuclear risk predominantly comprises cover for physical damage loss to civil nuclear power stations, as well as nuclear liability, where the Syndicate issues policies with terms, which have withstood the test of time. The Syndicate also provides coverage within the wider nuclear fuel cycle, with insurance involvement from raw uranium and nuclear fuel (including manufacturing facilities) to the shipment and storage of waste.

The Syndicate's main exposures derive from the power that nuclear energy produces in a power station because this is where most of the value from nuclear energy emanates. The Syndicate has been operating in a unique market niche and on a profitable basis since its inception in 1991.

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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

00184915

Managing Agent's independent auditors

PricewaterhouseCoopers LLP, London

Syndicate 1176 active underwriter

M G Dawson

Syndicate bankers

The custodian of the Syndicate's investment funds is Citibank N.A.

Syndicate investment manager

Goldman Sachs Asset Management International

Syndicate independent auditors

PricewaterhouseCoopers LLP, London

Underwriter's Report

Background

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

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

Nuclear power

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

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

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

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

Underwriter's Report

Property damage

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

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

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

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

Windstorms, hurricanes and cyclones

In terms of other perils, the Syndicate remains confident that exposure to windstorm is low. In the 50 years of operating nuclear sites, there has never been a significant loss to a nuclear facility from a windstorm event. The largest insured windstorm loss to date was from a spares warehouse on a nuclear site from Hurricane Andrew in 1992. While the warehouse was damaged, with losses in the region of \$200m, there was no damage to the nuclear unit. All the plants in the vicinity of the tracks of Hurricanes Harvey, Irma and Maria in 2017, and Hurricanes Florence and Michael in 2018 performed to plan and, as expected, there were no significant claims advices from these events.

Earthquake and tsunami

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

Underwriter's Report

Liability

The Syndicate provides limited nuclear liability coverage to most non-US nuclear power stations. The coverage issued normally has an aggregate limit for the lifetime of the nuclear site, and also claims typically have to be made within ten years of an occurrence. These policies, which normally include terrorism coverage, are enshrined in national nuclear laws and international conventions, and typically the national government retains exposure in excess of insurer policy limits. The policy includes damage caused by an incident as a result of terrorism (see below) or any other incident leading to nuclear liability such as cyber. Cyber protection of nuclear plants is considered paramount, but details of such protection remain confidential. We consider the chance of a cyber-attack leading to a significant release of radiation, leading to offsite damage, to be remote.

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

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

There is a general need for increased liability limits worldwide. Historically, the bulk of the exposure has been with governments, which are increasingly looking for the nuclear insurance market to provide additional capacity. Looking forward, the revision of current international nuclear conventions will result in additional capacity and coverage being sought by operators. In the UK for instance, the indemnity for a nuclear accident is expected to increase from £140m (Sterling currency) to in the region of €700m (Euro currency) and thereafter will increase by €100m, for each of the subsequent five years to take the capacity need to €1.2bn. Further, international nuclear conventions have been revised to incorporate additional coverage. The Syndicate has been working closely with the UK Government and the nuclear pool to understand the implications of the revised coverage. Anticipating the move to increased liability coverage, the Syndicate increased the liability share of maximum exposure to 50%. These additional exposures are gradually being introduced, but will take some time to be adopted throughout the world. France adopted increased limits during 2017, with Canada as expected adopting the increased limits and coverage in January 2017. The Syndicate has been working closely with these countries to provide the coverage and this resulted in a planned increase in liability income during 2017. The adoption of the larger liability limits is expected to be slow, but to occur over the next few years. This has resulted in a planned increase in premium over the next few years. The adoption of these changes requires national governments approval. The Syndicate's business plan estimated that liability would be approximately circa 30% of premium income in 2017.

Anticipating the adoption of the wider coverage and limits in 2018, leading to increased premium, the Syndicate pre-empted its capacity from £37.5m to £46.5m for the 2018 account. Regrettably, the Syndicate was advised in mid-December 2017 that the adoption of the revised Conventions was delayed until 2019. Accordingly, the pre-emption was premature, and the additional premium planned for 2018 will now be expected to flow through in 2019, with £3m of additional premium planned in 2019 as a result of the increased liability business undertaken following the Conventions adoption. If the Conventions are not adopted, which seems uncertain, the £3m additional premium will not be realised.

Underwriter's Report

Terrorism

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

Transit

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

Construction

The Syndicate has been open to the modest expansion of our business to include Construction risks, and has committed a modest line to a new facility insuring the new-builds expected over the coming years. The business is different in that the projects themselves are expected to take at least seven years to complete. Whilst the values of the projects only increase gradually over this time, resulting in small incremental exposures in the early years, the values towards the end of the project are high. Accordingly, whilst considerable premium is expected on a risk by risk basis, it is held to earn over the life of the project. The result is that there is little expected profit over the early years. Over the longer term, the accounts are expected to be profitable, but there can be no certainty in this regard. The Syndicate's line on these projects is expected to be well below that written for operational plants at a probable maximum loss of circa \$15m. This exposure which is less than 2% of the normal contract loss is expected to be retained net. The overall premium income in the first year was less than £500,000 and the development of this line is slow, but we remain open to consider this business, providing we follow respected leaders. Our approach is deliberately cautious and we will learn and develop as appropriate over the years.

Premium income

Historically the Syndicate generated approximately 80% of premium income from nuclear property risk and 20% from nuclear liability risk. This was planned to be 66 % property and 34% liability during 2018, but due to the delay in adoption of the new liability Conventions is expected to revert to the planned 2017 level of circa 30% for liability. This premium is planned for 2019, and if the Conventions are adopted in 2019, it is expected that the share of premium will be 66% property and 34% liability.

Outward reinsurance arrangements

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

There was one single facultative reinsurance placement outside of these arrangements during 2016 as a result of excess exposure on a particular risk. The ceded premium was \$100,000 (gross) and the reinsurance was placed at original terms with a related party, Syndicate 1084 at Chaucer.

Underwriter's Report

Business placements

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

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

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

The Syndicate underwrites a significant exposure, which is up to eight times the net capacity level committed to the UK Pool, although there are few exposures at this level. This means that in the event of a significant nuclear accident at one of the top exposures, a £10,000 share on the Syndicate is expected to suffer a loss of up to £80,000. Any further loss, however unlikely, would be in addition. Aside from inter-pool reciprocal exchange of risk and terrorism reinsurance for property risks, at pool level, reinsurance is no longer purchased. The maximum exposure retained by the pools currently suggests a maximum loss in the region of £260m; there are less than 10 risks at this level. In addition, this should be offset by the normal level of profit in a year reducing the impact of a single loss. The Syndicate wishes to make it clear that, in the event of a material nuclear loss, an immediate cash call will be made, many multiples in excess of the Syndicate's capacity. Any further loss would be in addition. The Syndicate wishes to draw the members' attention to the possibility of increased loss because of exchange rate fluctuations. The Syndicate carefully monitors its exposures on a monthly basis to mitigate this risk.

Underwriting performance

2016 Year of Account

The plan was for a premium income of £28m, the latest forecast shows an expected ultimate premium gross of acquisition costs of £30.4m. The main reason for the additional premium was the renewal of a 2014 extended policy in 2016, together with the effect of Sterling's devaluation following the Brexit referendum. We have received a number of losses for 2016, in both power and non-power areas; one following a fire in France, one as a result of possible contamination in a fuel plant and finally a loss advice in an Asian nuclear power plant. The total property losses advised to date are within forecast loss expectancy. The final profit achieved on the 2016 account is £16.6m, representing a return on capacity of 47.6%.

Underwriter's Report

2017 Year of Account

The current estimated premium income gross of acquisition costs for the Syndicate is £31.2m against a planned income of £31.6m. The premium achieved is despite losing some business and with some shares of business being placed with a competitor. The impact of Sterling's weakness has been an increase in exposure, but also an increase in income, despite some lost business, because of extensions to 2017 policies, rather than normal renewals in 2018. Obviously, any non-Sterling losses will also be higher when converted back to Sterling. At the time of writing, the Syndicate's maximum retained line is £260m, which whilst is within the maximum of £270m, has at times been at the upper level. Currency fluctuation is a risk borne by Names and disclosed in the plan. At this stage, the Syndicate is forecasting a profit in the range of between 25% - 45% return on capacity.

2018 Year of Account

The current anticipated premium gross of acquisition costs for the Syndicate is £28.6m. This is less than planned income of £34.8m, which included the assumption that the revised liability Conventions would ratify, which has not happened. The plan was revised in Q1 2018 when it became apparent that the liability Conventions would not ratify and because of a number of other premium estimate fluctuations. The net effect was a revised plan (excluding the Conventions and other smaller income losses) of £30.2m. The reason the Syndicate is currently off budget is because a number of accounts were extended, attaching to the 2017 year, rather than being renewed in 2018. These should renew as expected in 2019. Accordingly, 2018 is now a lower forecast income, despite the benefits of a weaker Sterling showing. We have also lost some business, shares of some business have been chipped away by competitors and pressure continues from some insureds to retain more business, via self-insurance. The effect overall is a reduction in exposures from plan for 2018, which we are anticipating will be made up for in 2019.

Brexit

As a UK-based insurer sourcing business through UK-based intermediaries, Brexit is increasing the complexities of accessing direct EEA business, and those UK-based intermediaries, which do not have an EEA subsidiary or equivalence, must find an alternative route to access EEA business. Lloyd's has mandated that all EEA business must be underwritten through its platform, Lloyd's Brussels, and then reinsured back to the Syndicate writing the business. The majority of business that we write is reinsurance from other international pools and so we do not expect to transact this through Lloyd's Brussels. In addition, we do not expect a "no deal" Brexit to affect this business. Of course, there will remain a small part of our portfolio where uncertainties caused by a "no deal" Brexit make the mechanics of transacting business more difficult. In response, we are working out the most effective and cost efficient methods of writing business in the EEA post Brexit. As with any UK-based insurer, we expect Brexit to increase costs and reduce influence on EEA business, which is unfortunate. In the event that there is a material change to our plans because of Brexit, we will notify Lloyd's and capital providers accordingly.

China Reinsurance (Group) Corporation

Chaucer's ultimate holding company has changed following the sale of The Hanover Insurance International Holdings Ltd, which includes our Managing Agent, Chaucer Syndicates Ltd to China Reinsurance (Group) Corporation ("China Re"). I have a very strong relationship with both the Chinese nuclear industry and China Re, going back over 25 years. I am supportive of the transaction and see the longer-term relationship to be positive. China is the fastest growing market we have and so to have a strengthened business relationship should be positive.

Underwriter's Report

Outlook

Whilst Brexit is causing us some pause for thought and China Re's acquisition of Chaucer is a change, the other factor we are dealing with is increased competition, both from other markets and self-insurance. Accordingly exposures are reduced. Brexit though has led to weaker Sterling and so we have a short-term positive to premium. However, to my mind the devaluation of Sterling is a false boost as we lose value compared to the other global currencies. So increased profits, as a result of Sterling's devaluation are in my view false, in relation to the wider world. That being said, the low carbon agenda is suggesting some opportunity for longer term growth. I have already referenced China, but we in the UK nuclear power industry are, in a measured way, looking to develop our existing nuclear output, with New Build. This is best illustrated by the Hinkley Point C project which is being led by EDF, the French utility, who are building the new units in Somerset. Other examples include new units in the United Arab Emirates, which are expected to produce power in the next year or so. We are actively involved in the projected insurance at both these sites and so we should in the longer term see some real growth, rather than seemingly showing some growth as a result of the Sterling's devaluation. The main focus will be on nuclear insurance and this will continue.

Whilst the timing of the introduction of the new liability limits is uncertain the Syndicate hopes to grow over the next couple of years. The maximum line increased with the pre-emption of the Syndicate from £270m to £300m for 2019, however this is not expected to be utilised unless the liability Conventions are ratified.

While the Syndicate operates in a competitive arena, competition comes from self-insurance schemes set up by the nuclear industry and other nuclear insurers, which are increasing their drive to gain market share. Despite this competition, the Syndicate has remained, and expects to continue, as a leading insurer of nuclear risk. While we still see opportunities as insurers in the specialist area of nuclear insurance, the volatility and exposure within the portfolio, is real. We have already planned for higher losses and have continued with increased loss ratios within the plan. With increased loss ratios, it might be assumed that higher rates would be possible. However, this is difficult in the current market, as a result of increased competition and the ability for operators to self-insure through industry mutuals. As mentioned before, the returns expected should be less than the history has shown, but there is considerable volatility around this statement.

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

Michael Dawson

Active Underwriter

14 March 2019

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.

Principal activities

This Report covers the business of Syndicate 1176, whose principal activity during the year continued to be the transaction of worldwide nuclear insurance and reinsurance business in the United Kingdom and overseas.

Review of the business and future developments

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

	2018 £000	2017 £000
Gross written premiums	29,141	31,452
Total comprehensive income	21,540	20,500
Combined ratio ¹	30.7%	33.8%

¹ The combined ratio is the ratio of net claims incurred and net operating expenses to net premiums earned. A lower combined ratio represents better performance.

Total comprehensive income primarily comprises net earned premium of £29.6m (2017: £31.5m), offset by net incurred claims of £0.8m (2017: £2.3m) and net operating expenses of £8.3m (2017: £8.3m). The reduction in net incurred claims is driven by favourable prior year development of £8.8m (2017: £10.1m).

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

Principal risks and uncertainties

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

Underwriting risk

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

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

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

Managing Agent's Report

Managing risk aggregation

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

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

Underwriting controls

Underwriting authorities, underwriting peer, independent and expert review procedures and the audit and review of delegated arrangements, all contribute to the strength of the underwriting control environment.

Underwriting planning process

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

Monitoring performance against plan

The Syndicate manages performance against plan through monthly reporting of detailed underwriting management information. The Syndicate reports to an Underwriting Board, then to an Underwriting Committee, which ultimately reports to the Managing Agent's Board. This control process ensures that several layers of review occur for underwriting risks, with the focus being on the main components of risk, notably pricing, loss ratio selection, reserving, experience variations, reinsurance protection and catastrophe modelling.

Emerging risks

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

Peer, independent and underwriting risk reviews

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

Internal audit

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

Managing Agent's Report

Claims risk

While claims events are inherently uncertain and volatile, the Claims function has experience covering a wide range of business classes. The Managing Agent has management controls in place to mitigate claims risk; some of these controls are outlined below.

Claims settlement and reserving authority limits

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

Peer review

The 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, based on different aspects of the claims handling process including significant movements, catastrophes, and static claims. These reports are communicated both within the business and with key external stakeholders, including Lloyd's Claims Management.

Management of external experts

The Managing Agent appoints third party loss adjusters, surveyors and legal advisors for claims investigation and assessment services. The development of long standing relationships with key experts and agreed Terms of Engagement ensures that the Syndicate receives a high quality service. Direct contact with external experts is also actively encouraged. However, this process is not exclusive. If no suitable expert exists on the 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 the Underwriter.

Managing Agent's Report

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 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:

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

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

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

(b) Annually accounted Syndicate reserves

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

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

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

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

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

Managing Agent's Report

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 did not purchase reinsurance in 2018.

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

Investment risk

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

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

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

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

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

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

Operational risk

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

Managing Agent's Report

Regulatory and legal risk

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

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

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

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 the 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.

Acquisition by China Re

On 28 December 2018 China Reinsurance (Group) Corporation (China Re) became the ultimate parent of the Syndicate's primary 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 have any participation in the Syndicate's premium income capacity.

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 order of 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 £000	2017 £000
Technical Account – General Business			
Earned premiums, net of reinsurance			
Gross premiums written	3	29,141	31,452
Outward reinsurance premiums		43	–
Net premiums written		29,184	31,452
Change in the provision for unearned premiums			
Gross amount	16	452	102
Reinsurers' share	16	–	(34)
Net change in the provision for unearned premiums		452	68
Earned premiums, net of reinsurance			
		29,636	31,520
Allocated investment return transferred from the Non-Technical Account		127	333
Total technical income		29,763	31,853
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	16	(8,240)	(669)
Net claims paid		(8,240)	(669)
Change in the provision for claims			
Gross amount	16	7,474	(1,649)
Reinsurers' share	16	(19)	1
Net change in the provision for claims		7,455	(1,648)
Claims incurred, net of reinsurance			
		(784)	(2,317)
Net operating expenses	3, 5	(8,299)	(8,338)
Total technical charges		(9,083)	(10,655)
Balance on the Technical Account – General Business			
		20,680	21,198
Non-Technical Account			
Other income / (expenses)	11	860	(698)
Investment income	9	1,459	1,115
Net unrealised losses	9	(671)	(449)
Investment expenses and charges	9	(661)	(333)
Allocated investment return transferred to the Technical Account – General Business		(127)	(333)
Total comprehensive income	15	21,540	20,500

All the amounts above are in respect of continuing operations.

Statement of Financial Position

for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Assets			
Investments			
Other financial investments	12	48,585	59,152
Reinsurers' share of technical provisions			
Provision for unearned premiums	16	–	–
Claims outstanding	16	1	11
		1	11
Debtors			
Debtors arising out of direct insurance operations - intermediaries		11,399	7,646
Debtors arising out of reinsurance operations		26,106	20,348
Other debtors	13	26	29
		37,531	28,023
Other assets			
Cash at bank		774	5,332
Overseas deposits	14	286	399
		1,060	5,731
Prepayments and accrued income			
Deferred acquisition costs		995	1,082
Other prepayments and accrued income		584	502
		1,579	1,584
Total assets		88,756	94,501
Liabilities			
Capital and reserves			
Members' balances	15	28,089	25,731
Technical provisions			
Provision for unearned premiums	16	17,095	17,253
Claims outstanding	12, 16, 18	39,661	46,840
		56,756	64,093
Creditors			
Creditors arising out of direct insurance operations - intermediaries		90	43
Creditors arising out of reinsurance operations		–	669
Other creditors including taxation and social security	19	231	347
		321	1,059
Accruals and deferred income		3,590	3,618
Total liabilities		88,756	94,501

The annual accounts on pages 12 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

Statement of Changes in Member's Balance

for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Balance as at 1 January		25,731	19,544
Total comprehensive income	15	21,540	20,500
Payments of profit to members' personal reserve funds	15	(19,061)	(14,247)
Other	15	(121)	(66)
Balance as at 31 December		28,089	25,731

Statement of Cash Flows

for the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Cash flows from operating activities			
Total comprehensive income		21,540	20,500
Increase / (decrease) in gross technical provisions		(7,337)	672
(Increase) / decrease reinsurers' share of technical provisions		10	–
Increase in debtors		(9,503)	(928)
(Decrease) / increase in creditors		(766)	1,471
Movement in other assets / liabilities		113	62
Investment return	9	(127)	(333)
Foreign exchange		306	803
Other		(122)	(66)
Net cash generated from operating activities		4,114	22,181
Cash flows from investing activities			
Purchase of equity and debt instruments		(58,148)	(91,657)
Sale of equity and debt instruments		67,737	74,233
Investment income received		798	782
Net cash used in investing activities		10,387	(16,642)
Cash flows from financing activities			
Distribution profit		(12,844)	(10,785)
Open year profit release		(6,217)	(3,462)
Net cash used in financing activities		(19,061)	(14,247)
Net (decrease) in cash and cash equivalents		(4,560)	(8,708)
Cash and cash equivalents at beginning of year		5,332	14,042
Foreign exchange on cash and cash equivalents		2	(2)
Cash and cash equivalents at end of year		774	5,332
Cash and cash equivalents consists of:			
Cash at bank		774	5,332
Cash and cash equivalents		774	5,332

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

Having assessed the principal risks, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the accounts.

2. Accounting policies

A) Insurance contracts

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

i) Premiums written

Premiums written comprise premiums on contracts 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.

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

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

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

Notes to the Accounts

for the year ended 31 December 2018

v) Unexpired risks provision

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

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

vi) Deferred acquisition costs

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

B) Net operating expenses

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

C) Cash and cash equivalents

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

D) Foreign currencies

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

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

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

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

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

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'.

Notes to the Accounts

for the year ended 31 December 2018

F) Financial liabilities

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

G) Investment return

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

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

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

H) Taxation

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

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

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

I) Pension costs

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. Chaucer Syndicates Limited operated a defined benefit scheme during the year which closed to future accrual at 31 December 2016.

J) Profit commission

Profit commission is incurred by the Syndicate at a rate of 15% of profit, subject to the operation of a deficit clause on the 2016 and prior years of account.

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 accounts are:

- Valuation of general insurance contract liabilities (page 16)
- Premium recognition (page 16)

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 £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000	Net technical provisions £000
2018							
Direct insurance							
Fire and other damage to property	7,875	8,147	1,160	(2,471)	-	6,837	12,794
Third party liability	1,027	1,003	72	(235)	-	839	2,784
	8,902	9,150	1,232	(2,706)	-	7,676	15,578
Reinsurance	20,239	20,443	(1,997)	(5,593)	24	12,876	41,177
	29,141	29,593	(765)	(8,299)	24	20,552	56,755
2017							
Direct insurance							
Fire and other damage to property	7,607	7,786	(408)	(2,810)	-	4,568	15,397
Third party liability	1,724	1,658	64	(33)	-	1,689	3,357
	9,331	9,444	(344)	(2,843)	-	6,257	18,754
Reinsurance	22,121	22,110	(1,974)	(5,495)	(33)	14,608	45,328
	31,452	31,554	(2,318)	(8,338)	(33)	20,865	64,082

All premiums were concluded in the UK.

Commissions on direct insurance, gross premiums during 2018 was £0.2m (2017: £0.3m).

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

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

	2018 £000	2017 £000
UK	1,279	2,358
Americas (including US)	3,476	6,130
Other	24,386	22,964
Gross premiums written	29,141	31,452

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

	2018 Gross technical provisions £000	2018 Net technical provisions £000	2017 Gross technical provisions £000	2017 Net technical provisions £000
UK	2,491	2,491	4,804	4,803
Americas (including US)	6,771	6,771	12,492	12,490
Other	47,494	47,493	46,797	46,789
Total	56,756	56,755	64,093	64,082

Notes to the Accounts

for the year ended 31 December 2018

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

During the year, the Syndicate released £8.3m of technical reserves in respect of prior years (2017: £10.1m) arising predominantly from the nuclear property class (2017: predominantly from the nuclear property class).

5. Net operating expenses

	2018 £000	2017 £000
Acquisition costs - brokerage and commissions	875	1,024
Change in deferred acquisition costs	127	(99)
Administrative expenses	7,297	7,413
	8,299	8,338
Administrative expenses include:		
Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission)	5,890	5,858

6. Auditors' remuneration

	2018 £000	2017 £000
Audit of the Syndicate annual accounts	59	57
Other services pursuant to legislation, including the audit of the regulatory return	59	57
	118	114

7. Staff costs

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	5	5
Underwriting	2	2
Other	2	2
	9	9

8. Emoluments of the Directors of the Managing Agent

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

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

	2018 £000	2017 £000
Active Underwriter	197	145

Notes to the Accounts

for the year ended 31 December 2018

9. Investment return

	2018 £000	2017 £000
Investment income		
Income from financial assets at fair value through profit and loss	429	363
Interest on cash at bank	128	69
Other interest and similar income	834	650
Gains on the realisation of investments	68	33
	1,459	1,115
Investment expenses and charges		
Investment management expenses, including interest	(26)	(49)
Losses on the realisation of investments	(635)	(284)
	(661)	(333)
Net unrealised losses on investments	(671)	(449)
Total investment return	127	333

10. Calendar year investment return

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

	2018 £000	2017 £000
Average funds	55,193	55,557
Investment return	127	333
Calendar year investment return	0.2%	0.6%
Average funds available for investment by fund		
Sterling	48,731	48,093
United States Dollars	4,946	5,650
Canadian Dollars	1,515	1,814
Analysis of calendar year investment return by fund	%	%
Sterling	0.1	0.6
United States Dollars	1.4	0.8
Canadian Dollars	1.5	0.7

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

11. Other income / (expenses)

Net foreign exchange gains of £0.9m (2017: £0.7m losses) are included within other income / (expenses) in the non-technical account.

Notes to the Accounts

for the year ended 31 December 2018

12. Financial instruments

	Cost £000	2018 Market value £000	Cost £000	2017 Market value £000
Shares and other variable yield securities at fair value through profit and loss	8,431	8,637	9,587	9,389
Debt securities and other fixed income securities at fair value through profit and loss	41,123	39,948	50,266	49,763
	49,554	48,585	59,853	59,152

Risk policies

Interest rate risk

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

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

	Change in interest rates %	Impact on result £000
31 December 2018	+1.0	(1,126)
	-1.0	957
31 December 2017	+1.0	(1,541)
	-1.0	1,607

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

	No stated maturity £000	←1 £000	1-3 £000	3-5 £000	→5 £000	Maturity band (Years) Total £000
Other creditors	-	321	-	-	-	321
Claims outstanding	-	10,404	17,326	7,849	4,082	39,661
At 31 December 2018	-	10,725	17,326	7,849	4,082	39,982
Other creditors	-	1,059	-	-	-	1,059
Claims outstanding	-	12,584	23,250	7,414	3,592	46,840
At 31 December 2017	-	13,643	23,250	7,414	3,592	47,899

Notes to the Accounts

for the year ended 31 December 2018

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 £000	2017 £000
Debt securities	39,948	49,763
Cash at bank	774	5,332
Shares and other variable yield securities	8,637	9,389
Overseas deposits	286	399
	49,645	64,883
AAA	16,588	20,130
AA	18,037	25,946
A	9,671	16,848
BBB	5,268	1,906
BB or less	81	53
Total assets bearing credit risk	49,645	64,883

Determination of fair value hierarchy

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

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

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

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities and unit trusts	8,637	–	–	8,637
Debt securities and other fixed income securities	11,281	28,667	–	39,948
Overseas deposits	21	265	–	286
At 31 December 2018	19,939	28,932	–	48,871
Shares and other variable yield securities and unit trusts	9,389	–	–	9,389
Debt securities and other fixed income securities	14,384	35,379	–	49,763
Overseas deposits	19	380	–	399
At 31 December 2017	23,792	35,759	–	59,551

13. Other debtors

	2018 £000	2017 £000
Other debtors	26	29
	26	29

Other debtors primarily relates to NRI pool overseas taxes.

Notes to the Accounts

for the year ended 31 December 2018

14. Overseas deposits

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

15. Reconciliation of movements in members' balances

	2018 £000	2017 £000
Members' balances at 1 January	25,731	19,544
Total comprehensive income	21,540	20,500
Payments of profit to members' personal reserve funds	(19,061)	(14,247)
Movement in members' balance in respect of members' agent's fees	(94)	(80)
Movement in members' balance in respect of tax and other	(27)	14
Members' balances at 31 December	28,089	25,731

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

16. Technical reserves

	Provisions for unearned premiums £000	Claims outstanding £000	Deferred acquisition costs £000	Total £000
Gross and net technical provisions				
At 1 January 2018	17,253	46,840	1,082	63,011
Exchange adjustments	294	295	40	549
Claims paid in year	-	(8,240)	-	(8,240)
Movement in provision	(452)	766	(127)	441
At 31 December 2018	17,095	39,661	995	55,761
Reinsurance				
At 1 January 2018	-	11	-	11
Exchange adjustments	-	9	-	9
Movement in provision	-	(19)	-	(19)
At 31 December 2018	-	1	-	1
Net technical provisions				
At 31 December 2018	17,095	39,660	995	55,760
At 31 December 2017	17,253	46,829	1,082	63,000

17. Sensitivity of insurance risk

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

	2018	2017
Net loss ratio	2.6%	7.4%
Impact of 1% variation (£000)	296	315

Notes to the Accounts

for the year ended 31 December 2018

18. 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 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Total £000
Estimate of gross claims incurred										
At end of underwriting year		9,238	6,165	11,900	5,213	7,583	10,514	7,523	6,647	
One year later		20,787	7,258	11,614	6,243	9,980	13,617	8,733		
Two years later		17,497	4,361	7,266	4,826	5,980	10,876			
Three years later		16,709	2,999	6,807	3,786	5,418				
Four years later		16,232	2,563	5,385	3,216					
Five years later		15,713	2,152	4,965						
Six years later		15,329	1,768							
Seven years later		14,924								
As at 31 December 2018	3,524	14,924	1,768	4,965	3,216	5,418	10,876	8,733	6,647	60,071
Less gross claims paid	1,245	13,601	118	3,022	138	1,899	371	5	11	20,410
Gross reserves	2,279	1,323	1,650	1,943	3,078	3,519	10,505	8,728	6,636	39,661

Pure underwriting year	2010 and prior £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Total £000
Estimate of net claims incurred										
At end of underwriting year		9,238	6,165	11,900	5,213	7,583	10,502	7,523	6,647	
One year later		20,787	7,258	11,614	6,243	9,980	13,605	8,733		
Two years later		17,497	4,361	7,266	4,826	5,980	10,875			
Three years later		16,709	2,999	6,807	3,786	5,418				
Four years later		16,232	2,563	5,385	3,216					
Five years later		15,713	2,152	4,965						
Six years later		15,329	1,768							
Seven years later		14,924								
As at 31 December 2018	3,524	14,924	1,768	4,965	3,216	5,418	10,875	8,733	6,647	60,071
Less net claims paid	1,245	13,601	118	3,022	138	1,899	371	5	11	20,410
Net reserves	2,279	1,323	1,650	1,943	3,078	3,519	10,504	8,728	6,636	39,660

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.

19. Other creditors

	2018 £000	2017 £000
Due to Managing Agent	231	347
	231	347

Notes to the Accounts

for the year ended 31 December 2018

20. Related parties

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

	2018 £000	2017 £000
Managing agency fees	1,903	1,938
Profit commission	3,801	3,618
Year-end balance due to Chaucer Syndicates Limited at 31 December	4,032	3,965

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

A subsidiary of Chaucer Holdings Limited supports the underwriting capacity of the Syndicate as follows:

Year of account	2018 £000	2017 £000	2016 £000
Chaucer Corporate Capital (No. 3) Limited	26,484	21,358	19,934

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

21. Funds at Lloyd's

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

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

22. Capital

Capital framework at Lloyd's

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

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

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

Lloyd's capital setting process

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

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 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 2018 was 35% (2017: 35%) of the member's SCR "to ultimate".

Provision of capital by members

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

Accordingly all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the Statement of Financial Position on page 13, represent resources available to meet members' and Lloyd's capital requirements.

23. Ultimate parent company

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).

Statement of Managing Agent's Responsibilities

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

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

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

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

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

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

Independent Auditors' Report to the Members of Syndicate 1176

Report on the Syndicate annual accounts

Opinion

In our opinion, Syndicate 1176 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 profit and cash flows for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland); and
- 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 members' balances, the statement of cash flows, the accounting policies, 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.

Independent Auditors' Report to the Members of Syndicate 1176

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.

Independent Auditors' Report to the Members of Syndicate 1176

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. 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.

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.

