



ANNUAL REPORT 2012

1084

We continue to make significant progress as a business, underpinning our commitment to clients with a focus on underwriting quality and control.

Our production and business development activities in 2013 will aim at building stronger business relationships with our direct customers in the UK, our chosen brokers, coverholders and cedants to ensure that we are on their shortlists for our targeted business in Lloyd's, through our international network and via the agency network of our US parent, The Hanover Insurance Group, Inc. Plans to further improve the quality of our service proposition to brokers are underway aiming to create the best possible response to their enquiries.

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Underwriter's Report

Underwriting performance

2012 was a better year for the international insurance industry, with both the frequency and severity of natural catastrophe events significantly reduced after the travails of 2011. The first half of 2012 was benign, although activity then increased, being dominated by crop reinsurance losses from the US drought in the third quarter and Superstorm Sandy in the final quarter, which affected our US property treaty and marine cargo and specie accounts. It was also a benign year for man-made catastrophe events, with the exception of the grounding and partial sinking of the Costa Concordia cruise ship in January, which affected our marine hull, liability and excess of loss accounts.

Chaucer Syndicate 1084 benefited from the improved conditions to record an underwriting profit of £68.0m (2011: loss of £40.6m), with strong performances in particular from our Aviation, Energy and Specialist Lines Divisions. The combined ratio for 2012 decreased to 90.4% (2011: 105.7%). After investment income the Syndicate produced a profit for the year of £110.2m (2011: loss of £15.0m). Gross written premiums were £906.1m (2011: £884.5m) and net earned premiums were £708.1m in 2012 (2011: £708.1m).

Underwriting outlook

Underwriting opportunities are now increasing, and terms and conditions improving, across the majority of those marine and property classes affected by Superstorm Sandy. Away from these classes, after such a benign year for losses, no significant rate rises are expected in 2013, with energy flattening and both the aviation and international liability markets remaining weak, albeit with liability experiencing some localised pockets of strengthening. UK motor rates should also continue to reduce in 2013 following significant increases in 2010 and 2011.

In response, and in line with our focus on protecting and enhancing our underwriting margins, our objective in 2013 remains the active management of our broad-based underwriting portfolio. We will target those areas where potential returns on capital are most attractive, most notably in certain marine and property lines of business, while being more selective where rates are under pressure, particularly in certain casualty and aviation lines of business.

Divisional performance

The following table provides a summary of divisional level underwriting performance.

	Energy £m	Property £m	Marine £m	Aviation £m	Specialist Lines £m	International Liability £m	UK £m	Run-off £m	Syndicate 1084 £m
2012									
Gross written premiums	182.8	162.5	179.1	42.7	72.9	61.3	204.5	0.3	906.1
Net earned premiums	120.1	135.2	137.4	32.2	62.4	35.3	185.2	0.3	708.1
Underwriting profit / (loss)	26.1	11.6	11.2	9.1	8.6	(9.5)	7.5	3.4	68.0
2011									
Gross written premiums	157.9	197.9	171.9	40.2	66.5	46.4	194.8	8.9	884.5
Net earned premiums	102.7	160.1	136.3	33.9	61.5	18.6	186.1	8.9	708.1
Underwriting (loss) / profit	(13.9)	(57.7)	8.4	7.4	(1.4)	(3.8)	10.6	9.8	(40.6)

This is prepared on a divisional basis and is not in accordance with the segmental analysis per Note 3 of the audited annual accounts.

Energy Division

The Division recorded an excellent underwriting profit of £26.1m (2011: loss of £13.9m) as underwriting conditions improved and claims activity diminished. Gross premium income increased to £182.8m (2011: £157.9m) as growth in both onshore and offshore operating income offset liability and engineering reductions as we exited certain lines of business. The combined ratio fell to 78.3% (2011: 113.5%).

Upstream

Our approach in 2012 continued actions began in 2010 to focus our underwriting on business interruption exposures, the drilling contractor segment, conservative deployment of Gulf of Mexico wind aggregate and our best practice approach to writing liability business.

We continued to develop our existing portfolios in London, Singapore and Houston and successfully launched our operation in Oslo to strengthen our interests in the Scandinavian region. Although we continued to tighten our upstream account, we increased income in 2012 as rates continued to rise following 2011 losses.

Underwriter's Report

Liability

In 2012, we re-wrote the energy liability account to concentrate on exploration and production (including contractors and midstream), offshore construction and renewable energy (through the G Cube binder) business. We withdrew from onshore US pipeline and utility business. In addition to these changes, we took actions to reposition the account, renewing risks where we were able to move our aggregate exposures higher up liability towers and declining to renew risks that did not fit our new portfolio structure of reduced overall aggregate levels.

Construction

The number of new medium (US\$500m) and mega (+US\$1bn) sized energy construction projects launched continued to decline in 2012, while we remained selective in our underwriting choices, with a focus on high quality assureds, where we ideally had a pre-existing operating risk relationship. We continue to lead business where possible, including in Singapore, where we are the established lead market for construction risks.

Downstream

The impact of the Canadian Oil Sands loss and a spate of natural catastrophes in 2011 on the downstream energy market began to reduce in 2012 as an absence of significant losses and the arrival of new capacity trimmed back rate rises. However, the market still requires further rises in 2013 to provide underwriters with a fair return. We increased income in 2012 and expect further positive development of the account in 2013.

Midstream

We increased our midstream income in 2012 as the market continued to harden following recent losses. This also enabled us to introduce further stand-alone midstream accounts and to consolidate growth of our exploration and production account.

We continued development of our overseas offices in 2012 and successfully launched midstream energy in our Buenos Aires office since the South American energy market offers a number of excellent growth opportunities. While larger downstream risks typically come to London, many small to mid-size renewable and midstream accounts are placed in the local markets. These risks tend to be of good quality and support adequate terms and conditions.

Renewables

Having established ourselves as a full participant and a potential lead in this sector, we have benefited from an increase in new submissions from the main brokers. This has enabled us to achieve spread and to set terms and conditions on the account. Our position was further strengthened by increasing our capacity on the G Cube binder in 2012. The renewable account continues to grow steadily and we expect this to continue in 2013 as a number of construction projects worldwide become operational. We also continue to work with our overseas offices to develop opportunities.

Power and engineering

Having exited the London market in 2011, we currently write engineering and power through Singapore. In 2012, we focussed the account on energy-related construction and away from civil projects. Following natural catastrophe losses in 2011, the market hardened significantly in 2012, with rate increases as high as 25% on some accounts. Overall income remained flat.

Property Division

In 2012, the Division completed actions begun in 2011 to restructure the portfolio to produce a greater treaty focus, after analysis had identified that US catastrophe exposed business was most successfully written through this account. We also reanalysed a number of other territories within our portfolio in 2012, subsequently increasing the treaty focus for Japan, Turkey and Greece.

Except for the impact of Superstorm Sandy, 2012 was quiet from a catastrophe perspective. This, combined with rate increases achieved across the portfolio following significant market losses in 2010 and 2011, enabled us to achieve an underwriting profit of £11.6m (2011: loss of £57.7m) on a premium income of £162.5m (2011: £197.9m). The combined ratio decreased to 91.4% (2011: 136.0%).

International facultative

Development of our Latin American portfolio through Buenos Aires continued as expected, with income lower in 2012 than 2011 as actions were taken to rebalance the portfolio. In London, where the majority of income is written, we withdrew from writing catastrophe exposed business in Japan, Turkey and Greece. The portfolio benefited from improved prices in both 2011 and 2012.

International treaty

Following the catastrophe losses of 2010 and 2011, we reviewed this account in 2012 to reposition our underwriting in a number of territories and to reduce our exposure to both frequency and severity in non-peak territories. Our Danish office, from where we write our European (ex UK and France) portfolio, was also integrated into the London International Property team to ensure improved balance between our European and International portfolios at the 2013 renewal season. The portfolio benefited from improved prices in both 2011 and 2012.

Underwriter's Report

International binders

In 2012, we reduced our binder count from over 100 to 60, after undertaking a number of in-depth account reviews, and repositioned our line-sizing on the portfolio to improve underwriting margin following a number of disappointing underwriting years, exacerbated by the frequency and severity of catastrophe losses. We achieved rate improvements from the majority of coverholders in 2012.

Treaty

We rewrote the US treaty portfolio on both a risk and catastrophe basis following the 2011 US tornado losses, as we increased our attachment point on a significant share of the portfolio. Income reduced as a result of this action, despite achieving double digit pricing improvements. We also reviewed our crop portfolio following losses from the US drought in 2012 and reduced our proportional engineering account, while retaining our excess of loss account to take advantage of significant rate rises.

Marine Division

The Division produced a strong result, with an underwriting profit of £11.2m (2011: £8.4m), despite the impact of major market events Costa Concordia and Superstorm Sandy at either end of 2012. The combined ratio decreased to 91.8% (2011: 93.8%). Premium income increased to £179.1m (2011: £171.9m) as we took advantage of good underwriting conditions for political risk and related classes.

Hull, liability and war

The hull and liability market suffered both a high frequency and cost of losses in 2012, dominated by the Costa Concordia cruise ship grounding and partial sinking in January. We have exposure to Costa Concordia but avoided the other major losses. We also have limited exposure to Superstorm Sandy.

Against this background, hull and liability rates rose in 2012 and this should continue through 2013. This has enabled further re-underwriting of the account, including our withdrawal from certain areas where rates remain inadequate, notably the majority of German hull risks and all cable risks. We have also continued our expansion of Danish and Northern Scandinavian risks through our underwriter presence in Copenhagen.

At the end of 2012 we successfully structured the provision of underwriting support for a brown water hull and liability facility in the United States working directly with our colleagues within The Hanover Insurance Group. We are delighted to have helped demonstrate the underwriting benefits to the syndicate and group of our close working relationship.

A significant proportion of war income was generated from additional breach premiums for Gulf of Aden and West African transits in 2012, although, as forecast, piracy resistance improved. We, along with our ship-owners, remain highly vigilant in the face of a consistently high threat level.

Cargo and specie

Our recruitment of a new, highly experienced, class underwriter to complement the existing team enabled us to broaden our broker relationships in 2012 and then to secure our year end renewal targets. The sector remains competitive, with a constant influx of new capacity, although our strong market relationships enabled us to maintain both our account and pricing integrity. Superstorm Sandy impacted both our cargo and specie accounts, although our avoidance of automobile accounts significantly reduced our cargo exposure.

Political risk

European banking problems in the first half of 2012 saw temporary paralysis of the trade finance banking market, significantly reducing the volume of political risk business generated from client banks. However, these difficulties also caused large non-banking clients to employ the political risk market to manage their emerging market exposures. Overall, this inflow of traditional mobile asset and simple contract risks into Lloyd's was sufficient to replace the lost business and to stabilise Lloyd's prices. Banking clients returned to the political risk market in the second half of 2012 and we expect increasing demand for our products given the ever present background of global instabilities and uncertainties, with countries in the Middle East and Latin America currently highlighted.

Premium income for both the political risks and trade credit accounts increased significantly in 2012, providing a springboard for actions planned to increase per risk lines sizes in 2013.

Political violence

We continued to grow our political violence account in 2012, with actions taken to widen our risk base, including the launch of a UK domestic strategy and expansion of South East Asia capacity through our Singapore office. While competition for Lloyd's business was fierce in certain areas, our commitments to broker service and leadership, especially for more difficult to place risks, enabled us to maintain both volumes and rating integrity. There were no major political violence losses in 2012.

Underwriter's Report

Marine excess of loss

We repositioned our portfolio in 2012 to reduce our exposure to both attritional and catastrophe aggregate losses. This enabled us to produce manageable losses from Costa Concordia and Superstorm Sandy. After several difficult years, the outlook for this market is now more positive after rate increases in 2012 and the expectation of further rises in 2013.

Aviation Division

Our Division recorded an underwriting profit of £9.1m in 2012 (2011: £7.4m) on premium income of £42.7m (2011: £40.2m), despite challenging market conditions due to continuing over capacity.

Airline hull and liability rates reduced throughout 2012, with the downward trend accelerating in the final quarter. Our premium levels remained robust as fleet values and passenger numbers rose. We expect pressure on rates to continue in 2013 in the absence of major losses.

The general aviation account remained stable, with modest reductions balanced by increases on poorer performing accounts, although reductions are now becoming more prevalent. The 2011 Reno air show tragedy did not affect rates.

Our refueller, products and airport account continues to perform well, but again rates are under pressure and are likely to remain so in 2013.

Specialist Lines Division

Trading conditions remained challenging as over capacity continued to dampen efforts to improve rates. These remained flat in 2012, with the modest improvements achieved in North American professions and financial institutions being offset by continued soft market conditions in casualty treaty and institutional healthcare. Against this background, premium income was little changed in total at £72.9m (2011: £66.5m), as growth in the weaker sectors. The underwriting profit increased to £8.6m (2011: loss of £1.4m), as our consistent discipline over the last decade continues to pay dividends, delivering reserve redundancy from prior years.

International Liability Division

2012 was the second full underwriting year for our International Liability Division. Since launch in late 2010, we have developed both our team and our underwriting proposition to enable us to generate premium income of £61.3m in 2012 (2011: £46.4m). The Division recorded an underwriting loss of £9.5m in 2012 (2011: loss of £3.8m). This is a long-tail account that continues to develop satisfactorily, with incurred loss ratios achieved within business plan expectations.

We continue to target specialist Lloyd's brokers and locally domiciled coverholders to access small to medium sized accounts for over half of our business, mostly in a lead capacity. We are pleased that despite difficult market conditions in all areas of our business, we have achieved a healthy portfolio balance, at class, geographical and attachment point levels.

UK Division

Favourable market conditions combined with selective underwriting enabled Chaucer Insurance, our UK Division, to produce an underwriting profit of £7.5m (2011: £10.6m) on premium income of £204.5m (2011: £194.8m). The combined ratio increased to 96.0% (2011: 94.3%).

After the three years of strong rate increases that were required to return the market to profitability, particularly in the private car and commercial vehicle sectors, rates began to reduce in 2012. Premium rates for our portfolio decreased by 2.7% (2011: increase 15.3%), with standard private car prices decreasing by 8.4% (2011: increase 21.6%).

In 2012, work continued through specialist units within our claims department to reduce the costs of credit hire and to detect fraudulent claims. The cost for UK motor insurers of claim farming in particular has been a major problem, exacerbating the cost of third party bodily injury motor claims. We welcome the majority of proposed legislative changes that come into force in 2013, including the cessation of claim referral fees, and the recently announced Competition Commission review.

In October 2012, ahead of the legal requirement, all our premium pricing became gender neutral. We expect the market impact of gender neutral pricing to take a few months to become clear since each insurer must amend pricing factors to exclude gender. We have little presence in the young drivers segment, the area of greatest expected change following the introduction of gender neutral pricing.

Private car

This business accounts for over half of our underwriting portfolio. Our products are available via brokers and on all of the major aggregator sites, which now take the greatest share of private motor products in the UK. Premium income from our Chaucer Direct website, which receives customer enquiries from aggregator sites, grew to £35.9m in 2012 (2011: £20.9m).

Underwriter's Report

Specialist motor

Our specialist motor account comprises specialist vehicles, family fleets, schemes, motorcycles and motor trade, with each distributed through a small number of specialist intermediaries. These segments are less cyclical than private car and the account, which represents for just over a fifth of total UK Division premium, continues to develop positively.

Commercial motor

This comprises fleet and commercial vehicle and accounts for over a quarter of our UK portfolio. Our fleet account contains a mix of vehicles, including private car, commercial vehicles, haulage and coaches, which we write primarily through the Lloyd's broker market. The portfolio mainly focuses on medium and small fleets, where price competition is less intense. Unlike the private car market, the fleet market did not experience significant rate increases between 2009 and 2011, and we have gradually reduced our account volumes in response. During 2012, the fleet market began to see signs of above inflation rate increases and we are well placed to take advantage of opportunities that arise. The commercial vehicle market followed that of the private car, with large rate increases during 2010 and 2011 and reductions in 2012.

SME commercial

We generated premium income of £9.4m from UK employers and public liability insurance and combined commercial products (2011: £7.1m) and we plan further expansion in 2013, with our electronic trading platform now being available to brokers. We are pleased with the performance of this account despite never ceasing price competition restricting our growth.

Business development

We continue to make significant progress as a business, underpinning our commitment to clients with a focus on underwriting quality and control. Our production and business development activities in 2013 will aim at building stronger business relationships with our direct customers in the UK, our chosen brokers, coverholders and cedants to ensure that we are on their shortlists for our targeted business in Lloyd's, through our international network and via the agency network of our US parent, The Hanover Insurance Group, Inc. Plans to further improve the quality of our service proposition to brokers are underway aiming to create the best possible response to their enquiries.

In addition, we are creating an integrated Treaty Practice pulling together our eight specialist teams of treaty underwriters, including property, casualty, and marine, to provide treaty brokers with access to a single centre of treaty underwriting service and expertise for their clients.

Conclusions

This has been an excellent year for the syndicate with the hard work of the last three years combining with a more benign market loss experience. I would like to thank all members of the Syndicate 1084 team for their sterling efforts in 2012. Our underwriting outlook is encouraging and I believe that the strength and depth of our underwriting teams, together with the broad diversity and continued active management of our portfolio, provide a sound basis for the profitable development of Syndicate 1084 in 2013.

John Fowle, Active Underwriter

Chaucer Syndicate 1084

12 March 2013

Managing Agent's Report

The Directors of the Managing Agent present their report and the audited annual accounts for the year ended 31 December 2012. 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 184915.

Principal activities

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

Review of the business and future developments

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

	2012 £m	2011 £m
Gross written premiums	906.1	884.5
Profit / (loss) for the financial year	110.2	(15.0)
Combined ratio ¹	90.4%	105.7%

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.

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. Underwriting risk appetite defines acceptable probability of different levels of net underwriting loss, expressed as a percentage of net tangible assets for both a single event and accumulated events over 12 months.

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.

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) on a monthly 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 sectors. 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 (RDS) 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.

Terms and conditions of contracts

Other than UK motor insurance, all of the policies underwritten have maximum indemnity limits per insured event. In addition, the number of reinstatements per policy is limited and deductibles and policy exclusions further limit risk.

UK motor insurance is unlimited by statute but the Syndicate buys reinsurance to limit any potential maximum loss arising from any one assured.

Managing Agent's Report

Underwriting controls

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

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 on a monthly basis.

Underwriting risk review

Themed underwriting reviews are conducted by the underwriting risk review department to ensure that underwriting procedures and discipline are followed.

Internal audit

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

Emerging risks

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

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, reserving adequacy, risk aggregation, catastrophe modelling and reinsurance protection.

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.

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.

Monthly reporting

Various reports are produced based on several different aspects of the claims handling function such as, significant movements, catastrophes, and static claims. These reports are communicated at various levels both within the business and with key external stakeholders, including the Lloyd's Franchise Performance Directorate.

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 helps to ensure that the Syndicate receives a high quality service, with direct contact 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 is in place to ensure orderly appointment of an appropriate individual.

Managing Agent's Report

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 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

Syndicate reserves are the level of reserves booked at a syndicate level. 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:

- 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.

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.

Managing Agent's Report

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

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

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

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 although no limit is set for the minimum duration of each portfolio enabling managers to switch to cash or variable rate securities, if considered appropriate.

Currency risk

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

Equity risk

The Syndicate had one small investment fund holding in 2011 that matured in 2012.

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.

Credit risk

The Syndicate holds the majority of its investments in high-quality 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. Money market fund managers mitigate credit risk through diversification and by setting maximum limits for individual counterparties.

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

The Managing Agent is required to comply with the requirements of the Financial Services 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. 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 has a Compliance Officer, who monitors regulatory developments and assesses the impact on agency policy. The Syndicate also undertakes a compliance-monitoring programme.

Staff matters

The Managing Agent 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 were no significant injuries to staff in the workplace or any significant actions taken by any regulatory bodies with regard to staff matters.

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.

Managing Agent's Report

Directors of the Managing Agent

The directors set out below held office throughout the year ended 31 December 2012, unless otherwise stated.

B P Bartell, Chief Underwriting Officer

G C Butterworth, Director - Risk Officer
(resigned 31 December 2012)

M C Carrillo, Finance Director
(resigned 31 December 2012)

T J Carroll, Independent Non-executive Director

K D Curtis, Chief Finance Officer

J Fowle, Active Underwriter for Chaucer Syndicate 1084
(resigned 31 December 2012)

D B Greenfield, Non-executive Director

S J Helson, Director - Third Party Syndicates
(resigned 31 December 2012)

D S Mead, Chief Operating Officer

J D Perkins, Director - Group Actuary
(resigned 31 December 2012)

A S Robinson, Non-executive Director

C M Stooke, Independent Non-executive Director

R A Stuchbery, Chief Executive Officer

G M Wood, Independent Non-executive Director
(resigned 31 December 2012)

G M Wood was Chairman throughout the year; **C M Stooke** replaced him as Chairman on 31 December 2012.

Following a review of corporate governance, those directors who have resigned on 31 December 2012 (other than G M Wood), together with the executive officers listed above and other executives, were appointed to a newly formed Management Board. The Management Board has authority to approve the Annual Report and Accounts of the Syndicate.

Directors' interests

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

Disclosure of information to the auditors

The Directors each confirm that:

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

Auditors

PricewaterhouseCoopers LLP has signified its willingness to continue in office as the independent auditor to the Syndicate. Approved by order of the Board of Chaucer Syndicates Limited.

K D Curtis

Chief Finance Officer

12 March 2013

Managing Agent's company secretary

A J Goodenough

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

J Fowle

Syndicate bankers

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

Citibank N.A.
Lloyds TSB
Royal Bank of Canada

Syndicate investment managers

Amundi (UK) Limited
GenRe NEAM
Wellington
Opus Investment management, Inc.

Syndicate auditors

PricewaterhouseCoopers LLP, London

Profit and Loss Account

for the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Technical Account – General Business			
Earned premiums, net of reinsurance			
Gross premiums written	3	906.1	884.5
Outward reinsurance premiums		(181.8)	(169.6)
Net premiums written		724.3	714.9
Change in the provision for unearned premiums			
Gross amount	15	(25.3)	(23.0)
Reinsurers' share	15	9.1	16.2
Net change in provision for unearned premiums		(16.2)	(6.8)
Earned premiums, net of reinsurance		708.1	708.1
Allocated investment return transferred from the Non-Technical Account		42.2	25.6
Total technical income		750.3	733.7
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	15	(465.2)	(421.0)
Reinsurers' share	15	91.3	38.7
Net claims paid		(373.9)	(382.3)
Change in the provision for claims			
Gross amount		(28.2)	(218.2)
Reinsurers' share		34.8	100.6
Net change in the provision for claims		6.6	(117.6)
Claims incurred, net of reinsurance		(367.3)	(499.9)
Net operating expenses	3, 5	(272.8)	(248.8)
Total technical charges		(640.1)	(748.7)
Balance on the Technical Account – General Business		110.2	(15.0)
Non-Technical Account			
Investment income	9	34.1	33.9
Net unrealised gains on investments	9	17.3	1.2
Investment expenses and charges	9	(9.2)	(9.5)
Allocated investment return transferred to the Technical Account - General Business		(42.2)	(25.6)
Profit / (loss) for the financial year	14	110.2	(15.0)

All the amounts above are in respect of continuing operations.

Statement of Total Recognised Gains and Losses

for the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Technical Account – General Business			
Profit / (loss) for the financial year	14	110.2	(15.0)
Currency translation differences	14	(3.3)	2.6
Total recognised gains and losses relating to the financial year		106.9	(12.4)
Prior year adjustment	14	-	2.1
Total recognised gains since last the annual report and financial statements		106.9	(10.3)

Balance Sheet

at 31 December 2012

	Notes	2012 £m	2011 £m
Assets			
Investments			
Other financial investments	11	994.4	962.2
Deposits with ceding undertakings	18	1.2	1.2
Reinsurers' share of technical provisions			
Provision for unearned premiums	15	66.7	59.7
Claims outstanding	15	374.6	351.3
		441.3	411.0
Debtors			
Debtors arising out of direct insurance operations - intermediaries		134.5	101.6
Debtors arising out of reinsurance operations		159.7	149.0
Other debtors	12	1.7	34.1
		295.9	284.7
Other assets			
Cash at bank and in hand	18	26.6	59.6
Overseas deposits	13, 18	83.0	65.9
		109.6	125.5
Prepayments and accrued income			
Deferred acquisition costs		104.5	102.3
Other prepayments and accrued income		7.6	9.2
		112.1	111.5
Total assets		1,954.5	1,896.1
Liabilities			
Capital and reserves			
Members' balances	14	(29.3)	(70.7)
Technical provisions			
Provision for unearned premiums	15	481.4	468.2
Claims outstanding	15	1,349.9	1,359.7
		1,831.3	1,827.9
Creditors			
Creditors arising out of direct insurance operations - intermediaries		1.1	0.1
Creditors arising out of reinsurance operations		121.3	112.3
Other creditors including tax and social security	16	24.1	5.7
		146.5	118.1
Accruals and deferred income		6.0	20.8
Total liabilities		1,954.5	1,896.1

The annual accounts on pages 12 to 26 were approved by the Board of Chaucer Syndicates Limited on 12 March 2013 and signed on its behalf by:

K D Curtis
Chief Finance Officer

Statement of Cash Flows

for the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Reconciliation of operating profit / (loss) to net cash inflow from operating activities			
Operating profit / (loss) on ordinary activities		110.2	(15.0)
Changes in market value and exchange rates	17, 18	22.8	14.2
(Decrease) / increase in net technical provisions		(26.9)	134.5
Increase in debtors		(11.8)	(52.3)
Increase in creditors		13.6	30.5
Movement in members' balance in respect of tax and other	14	(3.8)	2.8
Net cash inflow from operating activities		104.1	114.7
Transfer to members in respect of underwriting participations	14	(65.0)	(40.9)
	17, 18	39.1	73.8
Cash flows funded / invested as follows:			
(Decrease) / increase in cash holdings	17, 18	(30.9)	31.8
Increase in overseas deposits	17, 18	17.9	15.8
Net portfolio investments	17, 18, 19	52.1	26.2
Net investment of cash flows	17, 18	39.1	73.8

Notes to the Accounts

for the year ended 31 December 2012

1. Basis of preparation

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 and the provisions of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ('the ABI SORP') dated December 2005, as amended in December 2006, with the exception of foreign exchange gains or losses which are recorded in the technical account.

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.

2. Accounting policies

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.

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.

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.

Claims provisions and related recoveries

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

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

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

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

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

The directors consider that the provisions for gross claims 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.

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.

Notes to the Accounts

for the year ended 31 December 2012

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.

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.

Cash at bank and in hand

Cash at bank and in hand on the balance sheet represent cash balances and money market deposits lodged with banks.

Foreign currencies

Transaction in US dollars and Canadian dollars are translated at the average rates of exchange for the period. Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date transaction is processed.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. Non-monetary assets and liabilities denominated in US dollars and Canadian dollars are translated at the rate of exchange at the balance sheet date, non-monetary assets and liabilities denominated in other foreign currencies are included at the rate of exchange ruling at the date transaction was processed.

Exchange differences arising on the retranslation of US dollar and Canadian dollar opening balance sheet items at the closing balance sheet rate and the retranslation of the US dollar and Canadian dollar profit and loss accounts for the year from the average rate to the closing balance sheet rate are taken to reserves and included in the Statement of Total Recognised Gains and Losses.

The rates of exchange used to translate monetary balances at the period end in foreign currencies into sterling are as follows:

	31 December 2012	31 December 2011
US Dollars	1.63	1.55
Canadian Dollars	1.62	1.58
Euros	1.23	1.20

Investments

Investments are initially recognised at current value plus transaction costs and subsequently at current value at balance sheet date. For this purpose listed investments are stated at market value (bid price) and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date.

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.

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 balance sheet under the heading 'Other debtors'.

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

Notes to the Accounts

for the year ended 31 December 2012

Pension costs

Chaucer Syndicates Limited operates a defined benefit and a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and included within net operating expenses.

Profit commission

Profit commission is to be charged by the managing agent at a rate of 15% of the profit, on a year of account basis. This is charged to the Syndicate as incurred but does not become payable until after the appropriate year of account closes, normally at 36 months.

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 ¹ £m	Reinsurance balance £m	Total £m	Net technical provisions £m
2012							
Direct insurance							
Accident and health	-	-	(1.4)	(0.1)	0.4	(1.1)	2.1
Motor (third party liability)	28.2	29.5	(25.1)	(6.9)	4.1	1.6	114.1
Motor (other classes)	167.5	153.0	(135.2)	(36.4)	20.1	1.5	162.5
Marine, aviation and transport	38.2	39.1	(29.0)	(13.2)	0.2	(2.9)	55.8
Energy	79.0	75.3	(7.0)	(26.9)	(20.8)	20.6	122.3
Fire and other damage to property	42.7	44.4	(33.4)	(18.0)	5.3	(1.7)	78.0
Third party liability	86.7	76.3	(60.9)	(31.4)	0.3	(15.7)	195.2
Miscellaneous	25.9	24.9	(6.1)	(8.5)	(3.9)	6.4	29.9
	468.2	442.5	(298.1)	(141.4)	5.7	8.7	759.9
Reinsurance	437.9	438.3	(195.3)	(131.4)	(52.3)	59.3	630.1
	906.1	880.8	(493.4)	(272.8)	(46.6)	68.0	1,390.0
2011							
Direct insurance							
Accident and health	0.3	0.3	1.9	(0.1)	(0.5)	1.6	2.5
Motor (third party liability)	34.4	64.8	(71.5)	(13.2)	0.3	(19.6)	102.1
Motor (other classes)	160.9	130.1	(65.4)	(31.1)	(3.3)	30.3	154.5
Marine, aviation and transport	37.6	39.0	(17.4)	(12.7)	(2.7)	6.2	50.6
Energy	67.9	72.6	(93.1)	(25.6)	14.4	(31.7)	155.3
Fire and other damage to property	51.9	57.0	(58.4)	(19.4)	7.6	(13.2)	84.0
Third party liability	99.5	82.2	(42.7)	(25.9)	(1.3)	12.3	176.9
Miscellaneous	35.3	34.3	(13.5)	(7.7)	(3.2)	9.9	28.3
	487.8	480.3	(360.1)	(135.7)	11.3	(4.2)	754.2
Reinsurance	396.7	381.2	(279.1)	(113.1)	(25.4)	(36.4)	662.7
	884.5	861.5	(639.2)	(248.8)	(14.1)	(40.6)	1,416.9

¹ Gross operating expenses are the same as net operating expenses shown in the profit and loss account as no commissions in respect of outward reinsurance were received and set off in arriving at the net expenses for 2012 and 2011.

All premiums were concluded in the UK.

Commission on direct insurance, gross premiums during 2012 was £89.3m (2011: £85.2m).

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

Notes to the Accounts

for the year ended 31 December 2012

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

	2012 £m	2011 £m
UK	212.6	207.5
Other EU countries	33.6	48.9
Americas (including US)	191.5	173.3
Other	468.4	454.8
Gross premiums written	906.1	884.5

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

During 2012 the Syndicate released £53.0m of technical reserves in respect of prior periods (2011: £82.0m), arising predominantly from the Energy, Aviation and Specialist Lines Divisions (2011: primarily from the Property, Marine and Energy Divisions). These releases were due to satisfactory claims development on catastrophes and other claims in 2012.

5. Net operating expenses

	2012 £m	2011 £m
Acquisition costs:		
- brokerage and commission	172.8	161.1
- other	6.9	(4.1)
Change in deferred acquisition costs	(4.8)	1.6
Administrative expenses	91.7	85.0
Net foreign exchange losses	6.2	5.2
	272.8	248.8

Administrative expenses include:

Members' standard personal expenses (Lloyd's subscriptions, New Central Fund contributions, managing agent's fees and profit commission)	16.0	27.8
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Further detail on the impact of foreign currency exchange rate fluctuation on the value of technical provisions is provided in Note 15.

6. Auditors' remuneration

	2012 £m	2011 £m
Audit of the syndicate annual accounts	0.23	0.03
Other services pursuant to legislation including audit of regulatory returns PricewaterhouseCoopers LLP	0.17	0.10
Ernst & Young LLP	-	0.03
	0.40	0.16

In 2012 the allocation basis of audit fees to entities owned or managed within Chaucer Group was revised to accurately reflect the fees incurred by each entity.

Notes to the Accounts

for the year ended 31 December 2012

7. Staff costs

The Managing Agent employs all staff and recharges the following amounts to the Syndicate in respect of salary costs:

	2012 £m	2011 £m
Wages and salaries	45.4	28.5
Social security costs	5.4	3.1
Other pension costs	3.2	3.3
Other	0.8	0.9
	54.8	35.8

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

	2012 Number	2011 Number
Administration and finance	193	159
Underwriting	217	213
Claims	157	159
Investments	-	1
Other	41	36
	608	568

8. Emoluments of the Directors of the Managing Agent

The Directors of Chaucer Syndicates Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2012 £m	2011 £m
Directors of Chaucer Syndicates Limited	2.6	0.7
Active Underwriter	0.5	0.2

9. Investment return

	2012 £m	2011 £m
Investment income		
Income from financial investments	32.0	27.8
Realised gains on investments	2.1	6.1
	34.1	33.9
Investment expenses and charges		
Realised losses on investments	(8.2)	(8.6)
Investment expenses and charges, including interest	(1.0)	(0.9)
	(9.2)	(9.5)
Net unrealised gains on investments	17.3	1.2
Total investment return	42.2	25.6

Notes to the Accounts

for the year ended 31 December 2012

10. Calendar year investment yield

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

	2012 £m	2011 £m
Average funds	1,084.0	1,052.0
Investment return (net of expenses)	42.2	25.6
Calendar year investment yield	3.9%	2.4%
Average funds available for investment by fund		
Sterling	329.7	387.0
United States Dollars	696.3	604.4
Canadian Dollars	58.0	60.6
Analysis of calendar year investment yield by fund		
	%	%
Sterling	5.4	2.3
United States Dollars	3.4	2.8
Canadian Dollars	1.8	1.3

Average fund is the average of bank balances, overseas deposits, inter-syndicate loans 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.

11. Other financial investments

	2012 Cost £m	2012 Market value £m	2011 Cost £m	2011 Market value £m
Shares and other variable yield securities and unit trusts	92.1	92.1	181.4	178.6
Debt securities and other fixed income securities	781.0	794.4	616.7	615.7
Deposits with credit institutions	107.9	107.9	167.9	167.9
	981.0	994.4	966.0	962.2
Equities	-	-	2.0	0.4
Hedge funds	0.4	0.4	2.5	1.4
Bonds	781.0	794.4	616.7	615.7
Deposits with credit institutions	107.9	107.9	167.9	167.9
Money market funds	91.7	91.7	176.9	176.8
	981.0	994.4	966.0	962.2

12. Other debtors

	2012 £m	2011 £m
Proceeds from sale of investments	0.2	23.0
Amounts due from Managing Agent	0.3	11.1
Other debtors	1.2	-
	1.7	34.1

At the year end, the Syndicate had liquidated certain investment holdings, proceeds from which were still receivable at year end. Other debtors is comprised of refunds of fees due from Lloyd's and amounts due from Chaucer service companies in Denmark and the UK.

Notes to the Accounts

for the year ended 31 December 2012

13. Other assets

Other assets comprise overseas deposits which 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.

14. Reconciliation of movements in members' balances

	2012 £m	2011 £m
Members' balances at 1 January	(70.7)	(17.6)
Profit / (loss) for the financial year	110.2	(15.0)
Other recognised gains and losses relating to the financial year	(3.3)	2.6
Payments of profit to members' personal reserve funds	(65.0)	(40.9)
Movement in members' balances in respect of tax, members' agent's fees and other	(0.5)	0.2
Members' balances at 31 December	(29.3)	(70.7)

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 that year of account in respect of their membership of a particular year.

A prior year adjustment of £2.1m relating to the impact of an accounting policy change on foreign exchange translation in respect of deferred acquisition costs and provision for unearned premiums was made in 2011 and is included in members' balances at 1 January 2011. These balances, which were previously translated at historical rates of exchange, are now being translated at closing rates which is considered to be more appropriate.

15. Technical reserves

	Provisions for unearned premiums £m	Claims outstanding £m	Total £m
Gross			
At 1 January 2012	468.2	1,359.7	1,827.9
Exchange differences	(12.1)	(38.0)	(50.1)
Claims paid in year	-	(465.2)	(465.2)
Movement in provision	25.3	493.4	518.7
At 31 December 2012	481.4	1,349.9	1,831.3
Reinsurance			
At 1 January 2012	59.7	351.3	411.0
Exchange differences	(2.1)	(11.5)	(13.6)
Reinsurance recoveries in the year	-	(91.3)	(91.3)
Movement in provision	9.1	126.1	135.2
At 31 December 2012	66.7	374.6	441.3
Net technical provisions			
At 31 December 2012	414.7	975.3	1,390.0
At 31 December 2011	408.5	1,008.4	1,416.9

Notes to the Accounts

for the year ended 31 December 2012

2012 events

Included within the technical provisions as at 31 December 2012 are reserves for Superstorm Sandy. Sandy developed from a tropical wave in the western Caribbean Sea on 22 October, which quickly strengthened to a Tropical Storm and on 24 October became a hurricane. After passing through a number of Caribbean islands it emerged into the North Atlantic. There it re-strengthened before making landfall in New Jersey late on 29 October as a post-tropical cyclone with hurricane strength winds and a wind diameter of over 1,000 nautical miles. Much of the damage done in New Jersey and New York was due to flooding caused by storm surge. Total losses to the Syndicate are currently estimated at £19.8m net of reinsurance and reinstatement premiums. Losses have impacted the Property (£12.1m) and Marine (£7.7m) divisions.

	£m
Estimated ultimate gross loss	
Superstorm Sandy	29.4
Estimated ultimate net loss (after reinstatement premiums and reinsurance)	
Superstorm Sandy	19.8

Ultimate gross loss is claims only.

Figures are prepared at rates of exchange in place at the end of the year.

Reinsurance

The Syndicate's reinsurance protecting the losses in the above table are with reinsurers rated BBB (adequate) or better by Standard & Poor's, as analysed below:

Rating bands (as at 15 March 2012)	Superstorm Sandy %
Lloyd's syndicates (A+)	33
AA	14
A (excluding Lloyd's syndicates)	50
BBB	3
	100

16. Other creditors

	2012 £m	2011 £m
Amounts due to Managing Agent	20.1	1.8
Taxation	2.9	2.4
Other creditors	1.1	1.5
	24.1	5.7

Other creditors comprise amounts due to members and the Chaucer service company in Singapore.

Notes to the Accounts

for the year ended 31 December 2012

17. Movement in cash, opening and closing portfolio investments net of financing

	2012 £m	2011 £m
Net cash (outflow) / inflow for the year	(30.9)	31.8
Cash flow		
Increase in overseas deposits	17.9	15.8
Increase in portfolio investments	52.1	26.2
Movement arising from cash flows	39.1	73.8
Changes in market value and exchange rates	(22.8)	(14.2)
Total movement in portfolio investments net of financing	16.3	59.6
Portfolio investments at 1 January	1,088.9	1,029.3
Portfolio investments at 31 December	1,105.2	1,088.9

18. Movement in cash, portfolio investments and financing

	At 1 January 2012 £m	Cash flow £m	Changes to market value and currencies £m	At 31 December 2012 £m
Cash at bank and in hand	59.6	(30.9)	(2.1)	26.6
Overseas deposits	65.9	17.9	(0.8)	83.0
	125.5	(13.0)	(2.9)	109.6
Portfolio investments				
Shares and other variable yield securities	178.6	(81.2)	(5.3)	92.1
Debt securities and other fixed income securities	615.7	187.0	(8.3)	794.4
Deposits with credit institutions	167.9	(53.7)	(6.3)	107.9
Deposits with ceding undertakings	1.2	-	-	1.2
	963.4	52.1	(19.9)	995.6
Total cash, portfolio investments and financing	1,088.9	39.1	(22.8)	1,105.2

19. Net cash outflow on portfolio investments

	2012 £m	2011 £m
Purchase of shares and other variable yield securities and unit trusts	(611.7)	(1,636.5)
Purchase of debt securities and other fixed income securities	(434.0)	(485.9)
Increase in deposits with ceding undertakings	-	4.0
Sale of shares and other variable yield securities and unit trusts	692.9	1,736.2
Sale of debt securities and other fixed income securities	247.0	286.0
Increase in deposits with credit institutions	53.7	70.0
Net cash outflow on portfolio investments	(52.1)	(26.2)

Notes to the Accounts

for the year ended 31 December 2012

20. Related parties

Chaucer Syndicates Limited, a wholly owned subsidiary of Chaucer Holdings PLC, is the Managing Agent of the Syndicate. Chaucer Syndicates Limited charged the Syndicate with the following expenses during the year:

	2012 £m	2011 £m
Managing agency fees	8.3	8.5
Expenses recharged	77.5	50.0
Profit commission	0.9	11.4
Balance due to Chaucer Syndicates Limited at 31 December	(20.1)	(13.3)
Balance due from Chaucer Syndicates Limited at 31 December (Note 12)	0.3	11.1

The balances due to and from the Managing Agent do not carry the right of offset and are therefore disclosed separately.

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

Year of account	2012 £m	2011 £m	2010 £m
Chaucer Corporate Capital (No. 2) Limited	-	788.8	713.0
Chaucer Corporate Capital (No. 3) Limited	795.8	-	-

Chaucer Latin America S.A, a subsidiary of Chaucer Holdings PLC, provides underwriting services to Syndicate 1084. The Syndicate incurred the following expense from Chaucer Latin America S.A during the year:

	2012 £m	2011 £m
Fees paid to Chaucer Latin America S.A	0.5	0.6

Chaucer Underwriting A/S, a subsidiary of Chaucer Holdings PLC, provides underwriting services to Syndicate 1084. The Syndicate incurred the following expense from Chaucer Underwriting A/S during the year:

	2012 £m	2011 £m
Commissions paid to Chaucer Underwriting A/S	1.9	2.4
Balance due from Chaucer Underwriting A/S at 31 December	2.0	3.9

Chaucer Singapore PTE, a subsidiary of Chaucer Holdings PLC, provides underwriting services to Syndicate 1084. The Syndicate has incurred the following expense from Chaucer Singapore PTE during the year:

	2012 £m	2011 £m
Fees paid to Chaucer Singapore PTE	2.4	2.5
Balance due to Chaucer Singapore PTE at 31 December	0.7	0.7

Chaucer Oslo AS, a subsidiary of Chaucer Holdings PLC, provides underwriting services to Syndicate 1084. The Syndicate has incurred the following expense from Chaucer Singapore PTE during the year:

	2012 £m	2011 £m
Fees paid to Chaucer Oslo AS	0.3	-
Balance due to Chaucer Oslo AS at 31 December	0.4	-

Notes to the Accounts

for the year ended 31 December 2012

Chaucer Insurance Services Limited (CISL), a fellow subsidiary and related party of Chaucer Syndicates Limited, is a regulated insurance intermediary. The Syndicate incurred the following expense from CISL during the year:

	2012 £m	2011 £m
Commissions paid to CISL	3.4	0.9
Balance due from CISL at 31 December	9.4	6.0

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

	2012 £m	2011 £m
Premiums ceded to the Syndicate	2.0	-
Commissions paid to HIC	(0.1)	-
Balance due from HIC at 31 December	1.9	-

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 ultimate parent company. Opus has charged the Syndicate with the following investment management fees in the year:

	2012 £m	2011 £m
Investment fees	0.7	0.2

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 FSA 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. 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 accounts are prepared, and in which the results of the Syndicate is included, is The Hanover Insurance Group, Inc. (THG), a company incorporated and registered in the United States of America. THG became the ultimate parent of the Syndicate's primary corporate member following completion of its acquisition of 100% of Chaucer Holdings PLC through Hanover International Insurance Holdings Limited (formerly 440 Tessera Limited), its wholly owned subsidiary, on 1 July 2011. A copy of the most recent consolidated accounts is available from the website of The Hanover Insurance Group, Inc. (www.hanover.com).

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 financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report to the Members of Syndicate 1084

We have audited the Syndicate annual accounts for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the managing agent and the auditors

As explained more fully in the Statement of Managing Agent's Responsibilities, set out on page 27, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the syndicate annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the syndicate annual accounts. In addition, we read all the financial and non-financial information in the Underwriter's Report and Managing Agent's Report to identify material inconsistencies with the audited syndicate annual accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on syndicate annual accounts

In our opinion the syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2012 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; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Managing Agent's Report for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

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

Andrew Moore (Senior statutory auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

12 March 2013

Lloyd's is the world's specialist insurance market, conducting business in over 200 countries and territories worldwide. Lloyd's brings together a unique concentration of specialist underwriting expertise and talent, backed by excellent financial ratings which cover the whole market.

As at 31 December 2012, 87 traditional syndicates operate in Lloyd's, each with its own specialties and areas of expertise. Together, they interact daily with brokers to create insurance solutions for businesses around the world. Lloyd's, as at 31 December 2012, insures 95% of FTSE 100 and 97% of Dow Jones industrial average companies. Lloyd's capital base is diverse and today 85% of Lloyd's capital comes from corporate bodies – primarily the international insurance industry.

Lloyd's enjoys strong financial security and every policy is supported by an A (excellent) rating from the rating agency A.M. Best, A+ (strong) rating from Standard & Poor's and A+ (strong) rating from Fitch Ratings.

Lloyd's is regulated by the Financial Services Authority.

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