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Nephila Syndicate 2357

Syndicate Annual Report and Accounts
31 December 2018

Contents

Directors and Administration

Managing Agent

Asta Managing Agency Ltd

Directors

T A Riddell (Chairman)*
R P Barke
C V Barley
L Harfitt
A J Hubbard*
D J G Hunt
P A Jardine*
M D Mohn*
S P A Norton
J W Ramage*
K Shah*
R A Stevenson*
J M Tighe

Non Executive Directors*

Company Secretary

N J Burdett

Managing Agent's Registered Office

5th Floor
Camomile Court
23 Camomile Street
London
EC3A 7LL

Managing Agent's Registered Number

1918744

Active Underwriter

A Beatty	(Resigned 31 December 2018)
G Butterworth	(Appointed 1 January 2019)

Bankers

Citibank NA

Registered Auditor

Deloitte LLP, London

Managing agent's report

The directors of the Managing Agent present their annual report, which incorporates the strategic review, together with the financial statements and auditor's report for the year ended 31 December 2018. The Syndicate's Managing Agent is a company registered in England and Wales.

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").

Results

The total recognised result for the calendar year 2018 is a loss of $155.2m (2017: loss of $120.6m).

The Syndicate presents its results under FRS102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. In accordance with FRS102, the Syndicate has identified its insurance contracts and accounted for them in accordance with FRS103.

Principal activity and review of the business

The Syndicate's principal activity continues to be the underwriting of direct insurance and reinsurance business in the Lloyd's market.

The Syndicate writes predominately MGA insurance and property reinsurance business primarily in the United States. The Syndicate also writes weather business with risks typically outside the United States.

Gross written premium by class of business for the calendar year was as follows;

	2018 $'000	**2017 $'000**
MGA Insurance	294,189	126,610
Reinsurance	312,851	203,934
	607,040	330,544

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

	2018 $'000	**2017 $'000**	**Change %**
Gross written premiums	607,040	330,544	84%
Loss for the financial year	(155,202)	(120,567)	(29%)
Total comprehensive loss	(155,202)	(120,567)	(29%)
Combined ratio	155.9%	166.7%	7%

The combined ratio is the ratio of net claims incurred and net operating expenses to net premiums earned. Lower ratios represent better performance.

The performance of the Syndicate has been assessed by measuring, as a percentage of underwriting capacity, the 36-month result on a funded accounting basis for a "closed" underwriting year of account.

The return on capacity for the 2016 closed year of account as at 31 December 2018 is shown below together with forecasts for the two open years of account.

	2016 YOA Closed	2017 YOA Open	2018 YOA Open
Capacity ($'000)	154,558	290,008	463,872
Result/forecast ($'000)	17,878	(143,540)	(131,690)
Return on capacity (%)	11.6%	(49.5%)	(28.4%)

Principal risks and uncertainties

The Syndicate sets risk appetite annually, which is approved by the Agency as part of the Syndicate's business planning and Solvency Capital Requirement ('SCR') process. The Agency Risk and Solvency Committee meets at least quarterly to oversee the risk management framework. The Syndicate Board, a sub-committee of the Agency Board, reviews the risk profile as reflected in the risk register, and monitors performance against risk appetite using a series of key risk indicators. The principal risks and uncertainties facing the Syndicate are as follows:

Insurance Risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Syndicate Board manages insurance risk through the approved business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Syndicate Board then monitors performance against the business plan through the year. Reserve adequacy is monitored through quarterly review by the Syndicate actuary and the Reserving Committee.

Credit Risk

The key aspect of credit risk is reinsurance counterparty risk which is the risk of default by one or more of the Syndicate's reinsurers and intermediaries. The Syndicate Board's policy is that the Syndicate will only reinsure with approved reinsurers, supported by collateralisation, where required. The Agency Reinsurance Security Committee monitors reinsurer ratings and is required to approve all new reinsurers before business is placed with them.

Market Risk

Market risk exposure impacting the Syndicate relates to fluctuations in interest rates or exchange rates. The Syndicate is exposed to foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Agency's policy is to maintain received income or incurred expenditure in the core currencies in which they were received or paid. Any surplus or deficit in a core currency would be subject to review by the Syndicate Board.

Exposure to changes in interest rates arises from the Syndicate's investment portfolio. The Agency seeks to minimise this risk through investing in either fixed interest securities or high quality floating rate notes.

The Syndicate Board ensures that the Syndicate's investments are held in high quality instruments.

Liquidity Risk

This is the risk that the Syndicate will not be able to meet its obligations as they fall due, owing to a shortfall in cash. To mitigate this risk the Syndicate Board reviews cash flow projections regularly and ensures that, where needed, the Syndicate has liquidity facilities in place or has utilised the option of a cash call from capital providers.

Operational Risk

This is the risk that errors caused by people, processes, systems and external events lead to losses to the Syndicate. The Agency seeks to manage this risk through the use of an operational risk and control framework throughout the Syndicate, detailed procedures manuals and a structured programme of testing of processes and systems by internal audit. Business continuity and disaster recovery plans are in place and are regularly updated and tested.

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency is required to comply with the requirements of the Financial Conduct Authority (FCA), Prudential Regulatory Authority (PRA) and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. The Agency has a compliance officer who is responsible for a team of four that monitor business activity and regulatory developments and assesses any effects on the Agency.

The Syndicate has no appetite for failing to treat customers fairly. The Syndicate manages and monitors its conduct risk through a suite of risk indicators and reporting metrics as part of its documented conduct risk framework.

Group / Strategic Risk

This is the risk of contagion that arises from being associated with key stakeholders and the impact that activities and events that occur within other connected or third parties has on the business.

Strategic risk covers the risks faced by the Syndicate due to changes in underlying strategy of the business or that of its key stakeholders (including strategic conflicts of interest).

Future Developments

The Syndicate will continue to transact the current classes of general direct insurance and reinsurance business. If opportunities arise to write new classes of business, these will be investigated at the appropriate time.

The capacity for the 2019 year of account is £391.2m ($496.8m), the 2018 year of account is £365.3m ($463.9m), and the 2017 year of account is £228.4m ($290.0m).

The Lloyd's Board (previously called the Franchise Board) has given in principle approval to Nephila's plan to form its own managing agency, subject to regulatory authorisation. Nephila Syndicate Management Ltd ("NSML") have submitted an application to the PRA/FCA.

Significant uncertainty remains associated with the UK's planned exit from the European Union. The risks to UK economic growth remain significant as the terms of the UK's exit from the EU remain unclear.

To mitigate the risk of losing access to EEA business and mitigate the impact of the Lloyd's syndicates losing EEA passporting rights, Lloyd's have set up an EU regulated insurance company (LIC) in Brussels to underwrite EEA-exposed business from 1 January 2019. This is a fully operational, capitalised insurance company under Solvency II. It is authorised and regulated by the National Bank of Belgium and regulated by the Financial Services and Markets Authority and licensed to write non-life risks across the EEA and the UK.

The Syndicate does not currently write EEA business that is impacted by the UK's planned exit from the European Union, and should this change, the Syndicate will make the operational changes required to be able to write business through Lloyd's Brussels.

Going Concern

In assessing going concern for the Syndicate, the Directors reviewed the budgets and forecasts as well as the available sources of capital and the uses of that capital and associated cash flow for the Syndicate. After consideration of these factors, the Directors have concluded that it is appropriate to adopt the going concern basis of accounting.

Directors

Details of the Directors of the Managing Agent that were serving at the year end and up to the date of signing of the Syndicate annual accounts are provided on page 3. Changes to directors were as follows:-

R P Barke	Appointed 1 January 2018
P A Jardine	Appointed 1 November 2018
R A Stevenson	Appointed 1 November 2018
C Chow*	Resigned 28 February 2019
N J Burdett*	Appointed 1 March 2019

*Company Secretary

Disclosure of information to the auditor

So far as each person who was a director of the Managing Agent at the date of approving the report is aware, there is no relevant audit information, being information needed by the Syndicate auditor in connection with the auditor's report, of which the auditor is unaware. Having made enquiries of fellow directors of the Agency and the Syndicate's auditor, each director has taken all the steps that he or she ought to have taken as a director to become aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Auditor

The Managing Agent intends to reappoint Deloitte LLP as the Syndicate's auditor.

Syndicate Annual General Meeting

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding an annual meeting this year; objections to this proposal or the intention to reappoint the auditor for a further 12 months can be made by Syndicate members before 26 April 2018.

On behalf of the Board

N J Burdett
Company Secretary
19 March 2019

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the Syndicate 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) including FRS 102 and FRS 103. The Financial Reporting Standard applicable in the UK and Republic of Ireland. The Syndicate 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:

- select suitable accounting policies and then apply them consistently subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate accounts; and
- prepare the Syndicate accounts on the going concern basis unless it is inappropriate to presume 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 adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent auditor's report

Independent auditor's report to the members of Syndicate 2357

Report on the audit of the syndicate annual financial statements

Opinion

In our opinion the syndicate annual financial statements of Syndicate 2357 (the 'syndicate'):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 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 financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in members' balances;
- the cash flow statement; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the syndicate annual financial statements section of our report.

We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual financial statements in the UK, including the Financial Reporting Council's (the FRC's) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the managing agent's use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the managing agent has not disclosed in the syndicate annual financial statements 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 financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Independent auditor's report continued

Other information

The managing agent is responsible for the other information. The other information comprises the information included in the annual report and accounts, other than the syndicate annual financial statements and our auditor's report thereon. Our opinion on the syndicate annual financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the syndicate annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the syndicate annual financial statements 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 in respect of these matters.

Responsibilities of managing agent

As explained more fully in the managing agent's responsibilities statement, the managing agent is responsible for the preparation of the syndicate annual financial statements and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of syndicate annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual financial statements, the managing agent is responsible for assessing the syndicate's ability to continue in operation, disclosing, as applicable, matters related to the syndicate's ability to continue in operation and to use the going concern basis of accounting unless the managing agent intends to cease the syndicate's operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the syndicate annual financial statements

Our objectives are to obtain reasonable assurance about whether the syndicate annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 financial statements.

A further description of our responsibilities for the audit of the syndicate annual financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report continued

Report on other legal and regulatory requirements

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

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 financial year for which the financial statements are prepared is consistent with the financial statements; and
- the managing agent's report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we have not identified any material misstatements in the managing agent's report.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the syndicate's members, as a body, in accordance with regulation 10 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Downes (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
19 March 2019

Income Statement

Technical account - General business

For the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Gross premiums written	3	607,040	330,544
Outward reinsurance premiums		(246,664)	(112,303)
Net written premiums		360,376	218,241
Change in the provision for unearned premiums			
Gross amount		(99,184)	(49,515)
Reinsurers' share		23,635	14,466
Change in the net provision for unearned premiums	4	(75,549)	(35,049)
Earned premiums, net of reinsurance		284,827	183,192
Allocated investment return transferred from the non-technical account		4,043	788
Claims paid			
Gross amount		(264,192)	(111,524)
Reinsurers' share		59,214	9,229
Net claims paid		(204,978)	(102,295)
Changes in claims outstanding			
Gross amount		(353,915)	(234,174)
Reinsurers' share		165,729	64,784
Change in the net provision for claims	4	(188,186)	(169,390)
Claims incurred, net of reinsurance		(393,164)	(271,685)
Net operating expenses	5	(50,962)	(33,711)
Balance on technical account – general business		(155,256)	(121,416)

Income statement continued

Non-technical account - General business

For the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Balance on technical account – general business		(155,256)	(121,416)
Investment return	8	4,043	788
Allocated investment return transferred to the general business technical account		(4,043)	(788)
Exchange gains		54	849
Loss for the financial year		**(155,202)**	**(120,567)**

All the amounts above are in respect of continuing operations.

The notes on pages 18 to 40 form part of these financial statements.

Statement of comprehensive income

The Syndicate had no recognised gains and losses this year or last year other than those included in the Income Statement. Therefore, the directors of the Managing Agent have not presented a Statement of Comprehensive Income.

Statement of changes in member's balances

For the year ended 31 December 2018

	2018 $'000	2017 $'000
At 1 January	12,585	31,288
Loss for the financial year	(155,202)	(120,567)
Payments of profit to the member	(16,712)	(18,136)
Collection of cash calls from the member	-	120,000
At 31 December	**(159,329)**	**12,585**

Statement of financial position

As at 31 December 2018

	Notes	2018 $'000	2017 $'000
ASSETS			
Investments			
Financial investments	9	295,995	225,497
Reinsurers' share of technical provisions			
Provision for unearned premiums	4	45,877	22,242
Claims outstanding	4	232,414	67,829
		278,291	90,071
Debtors			
Debtors arising out of underwriting operations	10	331,354	133,848
Other debtors		-	118
		331,354	133,966
Cash and other assets			
Cash at bank and in hand	12	13,349	52,224
Other assets	13	3,243	691
		16,592	52,915
Prepayments and accrued income			
Deferred acquisition costs	4	12,810	5,504
Other prepayments and accrued income		-	-
		12,810	5,504
Total assets		935,042	507,953

The notes on pages 18 to 40 form part of these financial statements.

Statement of financial position continued

As at 31 December 2018

	Notes	2018 $'000	2017 $'000
MEMBER'S BALANCE AND LIABILITIES			
Capital and reserves			
Member's balances		(159,329)	12,585
Liabilities			
Technical provisions			
Provision for unearned premiums	4	206,396	107,610
Claims outstanding	4	617,778	266,152
		824,174	373,762
Creditors			
Creditors arising out of reinsurance operations	11	269,394	119,851
Other creditors		29	-
		269,423	119,851
Accruals and deferred income		774	1,755
Total liabilities		1,094,371	495,368
Total member's balances and liabilities		935,042	507,953

The notes on pages 18 to 40 form part of these financial statements.

The financial statements on pages 13 to 40 were approved by board of directors on 19 March 2019 and were signed on its behalf by:

D J G Hunt
Director
19 March 2019

Statement of cash flows

For the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Loss on ordinary activities		(155,256)	(121,416)
Adjustment for:			
Increase in gross technical provisions		450,412	285,005
Increase in reinsurers' share of gross technical provisions		(188,220)	(79,277)
Increase in debtors		(197,388)	(100,589)
Increase in creditors		149,572	91,309
Movement in other assets/liabilities		(10,839)	(4,375)
Investment return		(4,043)	(788)
Exchange gains		54	849
Net cash inflows from operating activities		44,292	70,718
Cash flows from investing activities			
Purchase of financial investments		(257,493)	(225,032)
Sale of financial investments		225,224	70,125
Investment income received	8	3,362	596
Net cash (outflows) from investing activities		(28,907)	(154,311)
Cash flows from financing activities			
Payments of profit to member		(16,712)	(18,136)
Collection of cash calls from member		-	120,000
Net cash (outflows)/inflows from financing activities		(16,712)	101,864
Net (decrease)/increase in cash and cash equivalents		(1,327)	18,271
Cash and cash equivalents at beginning of year		52,497	34,226
Cash and cash equivalents at end of year	12	51,170	52,497

Notes to the financial statements

For the year ended 31 December 2018

1. Basis of preparation

Statement of compliance

The financial statements have been prepared in compliance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

Having taken into account the risks and uncertainties and the performance of the Syndicate as disclosed in the managing agent's report, which incorporates the strategic report, and after making inquiries, the Managing Agent has a reasonable expectation that continued capital support will be in place such that the Syndicate will continue to write business for the foreseeable future. Accordingly, the Financial Statements have been prepared using the going concern basis of accounting.

The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value. The financial statements are prepared in US dollars which is the functional and presentational currency of the Syndicate and rounded to the nearest $'000.

As permitted by FRS 103 the Syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

The Syndicate has elected to early-apply the March 2016 amendments to FRS 102, *Fair value hierarchy disclosures*. As a result, the fair value hierarchy disclosures, including comparatives, shown in Note 9 are now prepared on a basis consistent with the measurement of the financial instruments.

2. Accounting Policies

Use of estimates

In the preparation of the financial statements, the directors of the Managing Agent have made judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the accounts, and the reported amounts of income and expenses during the reporting period. Actual results may differ from those estimates. Significant items subject to such estimates and assumptions include:

(i) provision for claims outstanding (refer to claims incurred accounting policy);

(ii) estimates of future premiums (refer to gross premiums accounting policy);

(iii) premium earning patterns (refer to provisions for unearned premiums accounting policy)

Significant Accounting Policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Syndicate's annual accounts.

Accounting policies continued

Gross Premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods including portfolio transfers.

They are recognised on the date on which the policy commences. Gross written premiums are stated gross of brokerage payable and exclude taxes and duties levied on them.

The main assumption underlying future premium is that past premium development can be used to project future premium development.

Reinsurance Premiums

Reinsurance written premiums comprise the total premiums payable for the whole cover provided by contracts entered into the period, including portfolio premiums payable, and are recognised on the date on which during the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Outwards reinsurance premiums are accounted for and earned in the same accounting period as the premiums for the related direct or inwards reinsurance business being reinsured.

Claims Incurred

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date, but not reported until after the year end.

The provision for claims comprises amounts set aside for claims notified and claims incurred, but not yet reported (IBNR).

The amount included in respect of IBNR is based on statistical techniques of estimation applied by actuaries. These techniques generally involve projecting from past experience of 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. The provision for claims also includes amounts in respect of internal and external claims handling costs. 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 reinsurers' share of provisions for claims is based on calculated 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 and the claims experience for the year. The Syndicate uses a number of statistical techniques to assist in making these estimates.

Accordingly, 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 that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

Accounting policies continued

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, 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 financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Provisions for unearned premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. In respect of insurance and reinsurance business, written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard where appropriate, to the incidence of risk, in some cases on a non-linear earnings pattern. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Unexpired risks

A provision for unexpired risks is made where claims and related expenses likely to arise 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 separately by reference to classes of business which are managed together, after taking into account relevant investment return.

At 31 December 2018 and 31 December 2017 the Syndicate did not have an unexpired risk provision.

Deferred acquisition costs

Acquisition costs comprise costs arising from the conclusion of insurance and reinsurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio. It is not the policy of the Syndicate to reallocate a portion of indirect costs, such as the advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies, to acquisition costs.

Deferred acquisition costs are costs arising from conclusion of insurance and reinsurance contracts that are incurred during the reporting period but which relate to a subsequent reporting period and which are carried forward to subsequent reporting periods.

Deferred acquisition costs are amortised over the period in which the related premiums are earned.

Accounting policies continued

Reinsurance assets

The Syndicate cedes insurance and reinsurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Syndicate may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. The impairment loss is recorded in the income statement.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised in 2018 or 2017.

Ceded reinsurance arrangements do not relieve the Syndicate from its obligations to policyholders.

Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance and reinsurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance and reinsurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

Insurance and reinsurance receivables are not recognised when the derecognition criteria for financial assets have been met.

Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

Foreign currencies

The Syndicate's functional currency and presentational currency is US dollars.

Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions. Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date.

Exchange differences are recorded in the non-technical account.

Accounting policies continued

The following balance sheet rates of exchange have been used in the preparation of these accounts:

	2018 Year End	2017 Year End
GBP	0.787	0.741
EUR	0.874	0.837
JPY	110.094	112.881
AUD	1.425	1.281
NZD	1.496	1.407

Financial liabilities

The Syndicate's financial liabilities include trade and other payables, borrowings and insurance payables, where applicable. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

A financial liability is derecognised when the obligation under the liability is discharged or expires.

Financial investments

Investments are stated at current value at the balance sheet date. For this purpose, listed investments are stated at bid-market value 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 were traded on the balance sheet date or the last trading day before that date.

In applying FRS 102, the Syndicate has chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU).

Amounts included within Shares and other variable securities include CIS/Unit Trusts where funds are invested in a single entity which invests in investments. These are treated as cash instruments with the carrying value and purchase price being the same.

Financial instruments that are classified as fair value through the profit or loss account are assigned a level using a fair value hierarchy that reflects the significance of the inputs used in these measurements.

Level 1 financial instruments comprise government bonds that are regularly traded, deposits with credit institutions and collective investment schemes which comprise Money Market Funds.

- Bonds have been valued at fair value using quoted prices in an active market.
- Deposits with credit institutions are included at cost plus accrued income.

Accounting policies continued

- Money Market Funds are valued on a stable net asset value (NAV) basis. Money Market Funds are readily convertible into cash, are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short-term commitments.

Level 2 financial instruments are less regularly traded government and agency bonds, supranational bonds, corporate bonds, currency derivatives, bond futures, and fund investments.

- Bonds are included in the balance sheet at bid price using prices supplied by the custodian or by the investment managers, who obtain market data from numerous independent pricing services. The prices used are reconciled against a common market pricing source.

- Currency derivatives and bond futures are included at market price.

- Investments in regulated collective investment schemes are valued on the NAVs of each of the individual funds as published publicly by the managers.

- Investments in pooled investments in unregulated investment schemes are valued based on the underlying NAVs of each of the individual funds. Hedge fund NAVs are provided by the administrators of the schemes.

- Investments in investment pools are valued on the valuations supplied by the investment manager (Lloyd's).

Level 3 financial instruments have a fair value derived from inputs that are not based on observable market data. The Syndicate does not currently hold any level 3 financial instruments.

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. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, 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 to reflect the investment return on funds supporting underwriting business.

Accounting policies continued

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 (currently at 20%) deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their member's agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any other overseas tax payable by members on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the balance sheet under the heading 'other debtors'.

Profit commission

Profit commission is charged by the Managing Agent on the profit on a Year of Account basis. The profit commission is 0.75% of net income before reinsurance for the 2018 Year of Account and the 2017 Year of Account.

Pension costs

The Managing Agent operates a defined contribution scheme. Pension contributions to Syndicate staff are charged to the Syndicate and included within net operating expenses.

Syndicate Operating Expenses

Where expenses are incurred by the Managing Agent or on behalf of the Managing Agent on the administration of managed Syndicates, these expenses are apportioned using various methods depending on the type of expense. Expenses which are incurred jointly for the Managing Agent and managed Syndicates are apportioned between the Managing Agent and the Syndicates depending on the amount of work performed, resources used and volume of business transacted.

3. Segmental analysis

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

2018	**Gross premiums written**	**Gross premium earned**	**Gross claims incurred**	**Net operating expenses**	**Reinsurance balance**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
MGA Insurance	294,189	222,887	(213,989)	(29,084)	(54,910)	(75,096)
Reinsurance	312,851	284,969	(404,118)	(21,878)	56,824	(84,203)
	607,040	507,856	(618,107)	(50,962)	1,914	(159,299)

2017	**Gross premiums written**	**Gross premium earned**	**Gross claims incurred**	**Net operating expenses**	**Reinsurance balance**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
MGA Insurance	126,610	99,190	(215,972)	(17,242)	1,974	(132,050)
Reinsurance	203,934	181,839	(129,726)	(16,469)	(25,798)	9,846
	330,544	281,029	(345,698)	(33,711)	(23,824)	(122,204)

The Gross Written Premium received from two (2017: two) customers were individually greater than 10 per cent of the total Gross Written Premium.

All premiums were concluded in the UK.

Commissions on direct insurance gross premiums written during 2018 were $18.7m (2017: $7.2m).

The reinsurance balance is the aggregate total of all those items included in the technical account of the income statement which relate to reinsurance.

4. Technical provisions

	2018		
	Gross provisions $'000	Reinsurance assets $'000	Net $'000
Claims outstanding			
Balance at 1 January	266,152	(67,829)	198,323
Change in claims outstanding	353,915	(165,729)	188,186
Effect of movements in exchange rates	(2,289)	1,144	(1,145)
Balance at 31 December	**617,778**	**(232,414)**	**385,364**
Claims notified	96,432	(5,941)	90,491
Claims incurred but not reported	521,346	(226,473)	294,873
Balance at 31 December	**617,778**	**(232,414)**	**385,364**
Unearned premiums			
Balance at 1 January	107,610	(22,242)	85,368
Change in unearned premiums	99,184	(23,635)	75,549
Effect of movements in exchange rates	(398)	-	(398)
Balance at 31 December	**206,396**	**(45,877)**	**160,519**
Deferred acquisition costs			
Balance at 1 January	5,504	-	5,504
Change in deferred acquisition costs	7,334	-	7,334
Effect of movements in exchange rates	(28)	-	(28)
Balance at 31 December	**12,810**	**-**	**12,810**

	2017		
	Gross provisions $'000	Reinsurance assets $'000	Net $'000
Claims outstanding			
Balance at 1 January	31,923	(3,018)	28,905
Change in claims outstanding	234,174	(64,784)	169,390
Effect of movements in exchange rates	55	(27)	28
Balance at 31 December	**266,152**	**(67,829)**	**198,323**
Claims notified	96,821	(6,074)	90,747
Claims incurred but not reported	169,331	(61,755)	107,576
Balance at 31 December	**266,152**	**(67,829)**	**198,323**
Unearned premiums			
Balance at 1 January	56,834	(7,776)	49,058
Change in unearned premiums	49,515	(14,466)	35,049
Effect of movements in exchange rates	1,261	-	1,261
Balance at 31 December	**107,610**	**(22,242)**	**85,368**
Deferred acquisition costs			
Balance at 1 January	910	-	910
Change in deferred acquisition costs	4,592	-	4,592
Effect of movements in exchange rates	2	-	2
Balance at 31 December	**5,504**	**-**	**5,504**

5. Net operating expenses

	2018 $'000	2017 $'000
Acquisition costs	(53,509)	(33,590)
Change in deferred acquisition costs	7,334	4,592
Administrative expenses	(12,450)	(9,398)
Reinsurance commissions	7,663	4,685
Net operating expenses	(50,962)	(33,711)

Member's standard personal expenses amounting to $7.4m (2017: $5.3m) are included in administrative expenses. Member's standard personal expenses include Lloyd's subscriptions, new central fund contributions, managing agency fees and profit commission.

6. Auditor's remuneration

	2018 $'000	2017 $'000
Audit of the syndicate annual return and annual report and accounts	(83)	(72)
Other services pursuant to Regulations and Lloyd's Byelaws	(94)	(87)
	(177)	(159)

Auditor's remuneration is included as part of the administrative expenses in note 5 to the financial statements.

7. Emoluments of the directors of Asta Managing Agency Ltd

The aggregate emoluments of the Directors and staff of the Managing Agency are met by Asta Managing Agency Ltd and are disclosed within the financial statements of that company, with the exception of J M Tighe, S P A Norton, D J G. Hunt and L Harfitt. J M Tighe and S P A Norton's remuneration is disclosed in the financial statements of Asta Capital Ltd and the remuneration of D J G Hunt and L Harfitt is disclosed in the financial statements of Asta Insurance Markets Ltd and were all charged in the accounts of Asta Managing Agency Ltd.

No emoluments of the Directors or staff of Asta Managing Agency Ltd were directly charged to the Syndicate. The emoluments of the active underwriter are borne by Nephila Group.

No other compensation was payable to key management personnel.

8. Investment return

	2018	2017
	$'000	$'000
Income from other financial investments	3,362	596
Gains on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	-	-
Total investment income	3,362	596
Unrealised gains on investments		
- Fair value through profit or loss designated upon initial recognition	681	192
Investment expenses and charges	-	-
Total investment return	4,043	788

9. Financial investments

	2018		
	Carrying value	Purchase price	Listed (Par)
	$'000	$'000	$'000
Shares and other variable yield securities and units in unit trusts			
- Designated at fair value through profit or loss	37,821	37,821	37,821
Debt securities and other fixed income securities			
- Designated at fair value through profit or loss	258,174	257,493	259,054
	295,995	295,314	296,875

	2017		
	Carrying value	Purchase price	Listed (Par)
	$'000	$'000	$'000
Shares and other variable yield securities and units in unit trusts			
- Designated at fair value through profit or loss	273	273	273
Debt securities and other fixed income securities			
- Designated at fair value through profit or loss	225,224	225,032	225,652
	225,497	225,305	225,925

Financial investments continued

There was no material change in fair value for financial instruments held at fair value (other than derivatives) attributable to own credit risk in the current or comparative period.

The following table shows financial investments recorded at fair value analysed between the three levels in the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
31 December 2018				
Shares and other variable yield securities and units in unit trusts (Included in note 12)	-	37,821	-	37,821
Debt securities and other fixed income securities	258,174	-	-	258,174
Total	258,174	37,821	-	295,995

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
31 December 2017				
Shares and other variable yield securities and units in unit trusts (Included in note 12)	-	273	-	273
Debt securities and other fixed income securities	225,224	-	-	225,224
Total	225,225	273	-	225,497

Included in the level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example, assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Syndicate's own models whereby the significant inputs into the assumptions are market observable.

10. Debtors arising out of Underwriting Operations

	2018 $'000	2017 $'000
Due within one year – intermediaries	331,354	133,848
	331,354	133,848

11. Creditors arising out of Reinsurance Operations

	2018 $'000	2017 $'000
Due within one year	(269,394)	(119,851)
	(269,394)	(119,851)

12. Cash and cash equivalents

	2018 $'000	2017 $'000
Cash at bank and in hand	13,349	52,224
Short-term deposits with financial institutions	37,821	273
	51,170	52,497

Cash held is subject to Lloyd's Trust Fund regulations and restrictions. Short-term deposits with financial institutions are included within financial investments (note 9).

13. Other assets

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

14. Related parties

Asta provides services and support to Syndicate 2357 in its capacity as Managing Agent. Managing agency fees of $3.6m (2017: $2.7m) and service charges of $2.9m (2017: $2.6m) were recharged by Asta to the Syndicate during 2018. As at 31 December 2018 an amount of $0.0m (2017: $0.0m) was owed to Asta in respect of services provided. Syndicate 2357 has recorded $0.0m (2017: $0.3m) in respect of profit commission to Asta.

From time to time, syndicates managed by Asta enter into (re)insurance contracts with one another. All such transactions are subject to Asta's internal controls which ensure that all are compliant with Lloyd's Related Party Bylaw provisions. All transactions are entered into on an arms-length basis.

Syndicate 2357's dedicated capital provider is Nephila 2357 Ltd, whose ultimate parent is Nephila Syndicate Holdings Ltd, a company based in Bermuda. The syndicate has paid $0.0m expenses on behalf of Nephila 2537 Ltd (2017: $0.0m) and $0.0m is due at 31 December 2018 (2017: $0.0m).

Syndicate 2357 benefits from collateralised reinsurance provided by Poseidon Re Ltd, a class III Bermuda reinsurer, and Demeter Re Ltd, a class III Bermuda reinsurer. Nephila Syndicate Holdings Ltd, Poseidon Re Ltd and Demeter Re Ltd are all managed by Nephila Capital Limited, a company based in Bermuda.

Related parties continued

Syndicate 2357 purchased quota-share reinsurance costing $74.1m (2017: $68.4m) from Poseidon Re for its reinsurance business. Syndicate 2357 purchased index based reinsurance costing $7.0m (2017: $0.0m) from Poseidon Re for its MGA insurance business. The amount outstanding to Poseidon Re at 31 December 2018 was $137.3m (2017: $84.3m).

The Syndicate purchased quota share reinsurance costing $83.4m (2017: $25.8m) from Demeter Re for its weather business. The amount outstanding to Demeter Re at 31 December 2018 was $113.6m ($2017: $33.3m).

15. Disclosure of interests

Managing Agent's interest

During 2018 Asta was the managing agent for ten Syndicates and three Special Purpose Arrangements. Syndicates 1729, 1897, 1980, 2357, 2525, 2689, 2786, 3268, 4242 and 5886 as well as Special Purpose Arrangements 6123, 6126 and 6131 were managed on behalf of third party capital providers.

On 1 January 2018 Asta took on management of Syndicates 1980, 3268 as well as Special Purpose Arrangement 6131.

The Managing Agency provides administrative services to Syndicates and undertakes a number of ancillary roles for clients.

The Financial Statements of the Managing Agency can be obtained by application to the Registered Office (see page 3).

16. 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 member's underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA 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 the 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 annual accounts by way of such capital resources. However, the managing agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses.

17. Off-balance sheet items

The Syndicate has not been party to any arrangement, which is not reflected in its statement of financial position, where material risks and benefits arise for the Syndicate.

18. Risk management

a) Governance framework

The Syndicate's risk and financial management framework aims to protect the Syndicate's members capital from events that might otherwise prevent the Syndicate from meeting its policyholder obligations, while maximising the returns to its members.

The directors recognise the critical importance of having efficient and effective risk management systems in place.

Asta maintains a risk management function for the Syndicate with clear terms of reference from the Syndicate Board, its committees and sub committees. Asta supplements this with a clear organisational structure with documented delegated authorities and responsibilities from the main Asta managing agency board to the Syndicate who perform the underwriting activities. Lastly, the Syndicate policy framework sets its risk management and control and business conduct standards for operations. Asta reviews and monitors each policy to ensure compliance with the policy throughout the Syndicate.

The Syndicate board approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the Syndicate goals, and specify reporting requirements. The Syndicate board places significant emphasis on the assessment and documentation of risks and controls, including the articulation of the Syndicate's risk appetite.

b) Capital management objectives, policies and approach

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.

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

Although 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 Nephila Syndicate 2357 is not disclosed in these financial statements.

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.

Risk management continued

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 on which it participating but not other member's 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 a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2017 was 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 member's balances on each Syndicate on which it participates. Accordingly, the ending member's balances reported on the statement of financial position on page 15, represent resources available to meet member's and Lloyd's capital requirements.

c) Insurance risk

The principal risk the Syndicate faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Syndicate purchases reinsurance as part of its risks mitigation programme. From time to time, the Syndicate purchases index based reinsurance. The Syndicate also has two proportional reinsurance arrangements in place. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts.

Sub-committees of the Syndicate board oversee the management of reserving risk. The use of standardised and internal modelling techniques, as well as benchmarking and the review of claims development are key in mitigating reserving risk.

The purpose of these underwriting, reinsurance and reserving strategies is to limit exposure to catastrophes or large losses based on the Syndicate's risk appetite as decided by the Syndicate board.

The Syndicate uses both its own and commercially available risk management software to assess catastrophe exposure.

Risk management continued

However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

Key assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each underwriting year.

Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: once-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivities

The claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit and member's balances.

The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

2018	**Five Percent increase**	**Five Percent decrease**
	$'000	**$'000**
Gross	30,889	(30,889)
Net	19,268	(19,268)

2017	**Five Percent increase**	**Five Percent decrease**
	$'000	**$'000**
Gross	13,308	(13,308)
Net	9,916	(9,916)

The method used for deriving sensitivity information and significant assumptions did not change from the previous period.

Risk management continued

Claims development table

The tables below show the Syndicate's cumulative incurred claims development, including both claims notified and IBNR for each underwriting year, together with the cumulative payments to date on a gross and net of reinsurance basis at the balance sheet date.

The Syndicate has elected to translate estimated claims and claims payments at a consistent rate of exchange as determined at the balance sheet date.

Underwriting year	**2014 $'000**	**2015 $'000**	**2016 $'000**	**2017 $'000**	**2018 $'000**
Estimate of cumulative gross claims incurred:					
At end of underwriting year	-	17	49,792	339,881	535,923
One year later	-	17	55,664	421,828	
Two years later	-	17	52,907		
Three years later	-	17			
Four years later	-				
Less cumulative gross paid	-	(17)	(22,700)	(193,825)	(176,355)
Liability for gross outstanding claims	-	-	30,207	228,003	359,568
Total gross outstanding claims					**617,778**

Underwriting year	**2014 $'000**	**2015 $'000**	**2016 $'000**	**2017 $'000**	**2018 $'000**
Estimate of cumulative net claims incurred:					
At end of underwriting year	-	17	46,774	269,911	353,943
One year later	-	17	48,577	308,534	
Two years later	-	17	47,676		
Three years later	-	17			
Four years later	-				
Less cumulative net paid	-	(17)	(19,381)	(143,937)	(161,471)
Liability for net outstanding claims	-	-	28,295	164,597	192,472
Total net outstanding claims					**385,364**

The uncertainty associated with the ultimate claims experience of an underwriting year is greatest when the underwriting year is at an early stage of development and when the risk margin for future experience potentially being more adverse than has been assumed is at its highest. As claims develop, and the ultimate cost of the claims becomes more certain, the relative level of margin should decrease. Due, however, to the uncertainty inherent in the claims estimation process, initial reserves may not always be in a surplus.

Risk management continued

d) Financial risk

1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the exposure to credit risk:

- Investment guidelines are established setting out the quality of investments to be included within the Syndicates portfolio. The policy is monitored by the Investment Committee and/or Syndicate Board.

- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits. If the counterparty is downgraded or does not have a good credit rating, then collateral is sought to mitigate any risk. This is monitored by the Reinsurance Security Committee, a sub committee of the Syndicate Board.

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements.

2018	**$'000**			
	Neither past due or impaired	**Past due**	**Impaired**	**Total**
Shares and other variable yield securities	37,821	-	-	37,821
Debt and fixed income securities	258,174	-	-	258,174
Reinsurers' share of claims outstanding	232,414	-	-	232,414
Debtors arising out of underwriting operations	331,354	-	-	331,354
Cash at bank and in hand	13,349	-	-	13,349
Overseas deposits as other assets	3,243	-	-	3,243
Other debtors	58,687	-	-	58,687
Total	935,042	-	-	935,042

Risk management continued

2017	$'000			
	Neither past due or impaired	Past due	Impaired	Total
Shares and other variable yield securities	273	-	-	273
Debt and fixed income securities	225,224	-	-	225,224
Reinsurers' share of claims outstanding	67,829	-	-	67,829
Debtors arising out of underwriting operations	133,848	-	-	133,848
Cash at bank and in hand	52,224	-	-	52,224
Overseas deposits as other assets	691	-	-	691
Other debtors	27,864	-	-	27,864
Total	507,953	-	-	507,953

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2017 by classifying assets according to independent credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated.

Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

2018			$'000				
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Shares and other variable yield securities	-	-	37,821	-	-	-	37,821
Debt and fixed income securities	258,174	-	-	-	-	-	258,174
Reinsurers' share of claims outstanding	-	232,414	-	-	-	-	232,414
Reinsurers' share of paid claims	-	50,956	-	-	-	-	50,956
Cash at bank and in hand	-	-	13,349	-	-	-	13,349
Overseas deposits as other assets	2,188	474	384	197	-	-	3,243
Total	260,362	283,844	51,554	197	-	-	595,957

Risk management continued

2017	$'000						
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Shares and other variable yield securities	-	-	273	-	-	-	273
Debt and fixed income securities	225,224	-	-	-	-	-	225,224
Reinsurers' share of claims outstanding	-	67,829	-	-	-	-	67,829
Reinsurers' share of paid claims	-	9,098	-	-	-	-	9,098
Cash at bank and in hand	-	-	52,224	-	-	-	52,224
Overseas deposits as other assets	434	115	93	49	-	-	691
Total	225,658	77,042	52,590	49	-	-	355,339

Maximum credit exposure

It is the Syndicate's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business.

During the year, no credit exposure limits were exceeded.

2) Liquidity risk

Liquidity risk is the risk that the Syndicate may not have enough cash to pay insurance and reinsurance claims and other liabilities. The Syndicate tries to reduce this risk by reviewing its expected cash obligations on a quarterly basis and keeping adequate cash on deposit to meet those obligations.

The table below summarises the maturity profile of the Syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance and reinsurance liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

2018	$'000					
	No stated maturity	0-1 Year	1-3 Years	3-5 Years	More than 5 years	Total
Claims outstanding	-	310,103	234,833	56,896	15,946	617,778
Reinsurance creditors	-	269,394	-	-	-	269,394
Total	-	579,497	234,833	56,896	15,946	887,172

Risk management continued

2017			$'000			
	No stated maturity	0-1 Year	1-3 Years	3-5 Years	More than 5 years	Total
Claims outstanding	-	151,748	89,124	18,759	6,521	266,152
Reinsurance creditors	-	119,851	-	-	-	119,851
Total	-	271,599	89,124	18,759	6,521	386,003

3) Market risk

a) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Syndicate's functional currency is US Dollars and its exposure to foreign exchange risk arises primarily with respect to transactions in Euro, Japanese Yen, GB Pounds and New Zealand Dollars. The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

The table below summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date, as follows:

2018			$'000			
	GBP	USD	EUR	JPY	OTHER	Total
Total Assets	2,113	882,328	4,445	36,007	10,149	935,042
Total Liabilities	(999)	(1,029,542)	(1,287)	(60,094)	(2,449)	(1,094,371)
Net Assets	1,114	(147,214)	3,158	(24,087)	7,700	(159,329)

2017			$'000			
	GBP	USD	EUR	JPY	OTHER	Total
Total Assets	1,343	488,331	2,705	6,976	8,598	507,953
Total Liabilities	0	(489,231)	0	(1,612)	(4,525)	(495,368)
Net Assets	1,343	(900)	2,705	5,364	4,073	12,585

The Syndicate matches its currency position so holds net assets across a number of currencies. The Syndicate takes into consideration the underlying currency of the Syndicate's required capital and invests its assets proportionately across these currencies so as to protect the solvency of the Syndicate, against variation in foreign exchange rates. As a result, the Syndicate holds a significant proportion of its assets in foreign currency assets.

Risk management continued

Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on profit of a percentage change in the relative strength of US Dollar against the value of the Syndicate's settlement currencies simultaneously. The analysis is based on the information as at 31st December 2018.

	Impact on profit and member's balance	
	2018 **$'000**	**2017** **$'000**
US Dollar weakens		
10% against other currencies	(1,211)	(1,348)
20% against other currencies	(2,423)	(2,697)
US Dollar strengthens		
10% against other currencies	1,211	1,348
20% against other currencies	2,423	2,697

b) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Syndicate to cash flow interest risk, whereas fixed rate instruments expose the Syndicate to fair value interest risk.

The Syndicate has no significant concentration of interest rate risk. Insurance liabilities are not discounted and therefore are not exposed to interest rate risk.

	2018 **$'000**	**2017** **$'000**
Interest Rate Risk		
Impact of 50 basis point increase on result	(184)	584
Impact of 50 basis point decrease on result	184	(584)
Impact of 50 basis point increase on net assets	(184)	584
Impact of 50 basis point decrease on net assets	184	(584)

The method used for deriving sensitivity information and significant variables did not change from the previous period.

19. Post balance sheet events

During 2019, the following amounts are proposed to be transferred to/(from) the member.

	$'000
2016 Year of account – Closing year profit release	747
2018 Year of account – Open year cash call	(100,000)
	(99,253)