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Syndicate 2357
Annual Report and Financial Statements
31 December 2019

Syndicate 2357

Annual Report and Financial Statements

31 December 2019

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Directors and administration

Managing agent

Nephila Syndicate Management Limited

Executive directors

C N Bare
A G Beatty
G C Butterworth
A I U Haq

Non-executive directors

R J S Bucknall
W A Guffey
W F Majors
J W Ramage
T A Riddell

Managing agent's registered office

Walsingham House
35 Seething Lane
London
EC3N 4AH

Managing agent's registered number

11103467

Active underwriter

G C Butterworth

Bankers

Citibank N.A.

Investment managers

Amundi UK Limited
41 Lothbury
London
EC2R 7HF

Registered auditor

Deloitte LLP
1 New Street Square
London
EC4A 3HQ

Managing agent's report

Introduction

The directors of Nephila Syndicate Management Ltd ("NSML") present their annual report, which incorporates the strategic review, together with the audited financial statements for the year ended 31 December 2019.

The audited financial statements are prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulation 2008 and applicable Accounting Standards in the United Kingdom, including FRS 102 and FRS 103.

Principal activity and review of the business

NSML is the managing agent for Syndicate 2357 ("the Syndicate"), whose principal activity is underwriting general insurance and reinsurance business at Lloyd's of London ("Lloyd's"). NSML assumed management of the Syndicate from Asta Managing Agency Ltd in October 2019.

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

Results

The Syndicate reported an \$84.4m loss for the 2019 financial year (2018: loss of \$155.2m). The calendar year combined ratio was 134.8% (2018: 155.9%).

Gross premiums written by class of business for the calendar year was as follows:

	2019 \$'000	2018 \$'000
MGA Insurance	158,976	294,189
Reinsurance	314,680	312,851
Total	473,656	607,040

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

	2019 \$'000	2018 \$'000
Gross premiums written	473,656	607,040
Loss for the financial year	(84,389)	(155,202)
Loss ratio	122.4%	138.0%
Expense ratio	12.4%	17.9%
Combined ratio	134.8%	155.9%

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

The Syndicate's underwriting year of account results for the 2017 closed year of account and forecast results for the two open years were as follows:

	2017 YOA Closed	2018 YOA Open	2019 YOA Open
Capacity (\$'000)	301,426	482,135	516,407
Result/forecast (\$'000)	(161,734)	(137,228)	*
Return on capacity (%)	(53.7%)	(28.5%)	*

*A formal forecast range for the 2019 year of account is not released at the time of publishing the Q1 2020 QMA.

Managing agent's report – continued

Principal risks and uncertainties

The NSML Board has overall responsibility and accountability for establishment and oversight of the Syndicate's risk management framework. The Board has responsibility for identifying and assessing all material risks and reviewing the Syndicate's actual risk exposure against stated risk appetite on a regular basis. The principal risks and uncertainties to which the Syndicate is exposed are set out below.

Insurance risk

Insurance risk includes the risk associated with inaccurate or inadequate pricing of insurance policies, inappropriate or poorly controlled underwriting guidelines or authority limits (underwriting risk), higher frequency or severity of claims experience (claims risk), or inadequate or insufficient loss reserving (reserving risk). The NSML Board manages insurance risk through the approved business plan, which sets out targets for volumes, pricing, line sizes and exposure metrics by class of business. The Board has in place controls and governance processes designed to monitor performance against the business plan through the year.

Credit risk

Credit risk is the risk of financial loss to the Syndicate if a counterparty fails to discharge a contractual obligation. The notable exposure for the Syndicate is reinsurance counterparty risk which is the risk of default by one or more of the Syndicate's reinsurers and intermediaries. NSML's policy is that the Syndicate will only reinsure with approved reinsurers, supported by collateralisation, where required. NSML's Outwards Reinsurance Working Group 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. NSML'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 Executive Committee.

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

Liquidity Risk

Liquidity risk 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 holds invested funds in high credit quality and short duration investments. Cash flow projections, under both normal and stressed conditions, are reviewed on a regular basis to identify potential liquidity strains so remedial action can be taken.

Operational risk

This is the risk that errors caused by people, processes, systems and external events lead to losses to the Syndicate. NSML seeks to manage this risk using 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 and succession plans are in place and are regularly updated and tested.

Regulatory risk is the risk that regulatory requirements are not identified and/or implemented or are misinterpreted and/or not complied with resulting in regulatory penalties. NSML 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. NSML's Director of Risk and Compliance is responsible for monitoring business activity and regulatory developments and assesses any impact on NSML.

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.

Managing agent's report – continued

Principal risks and uncertainties - continued

Group / Strategic risks

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 2020 year of account is £419.9m (\$554.3m), the 2019 year of account was £391.2m (\$516.4m), and the 2018 year of account was £365.3m (\$482.1m).

Lloyd's established an insurance company in Brussels (Lloyd's Insurance Company S.A.) to ensure that insurance buyers across Europe can continue to access the specialist underwriting expertise within the Lloyd's market following the United Kingdom's exit from the European Union. All insurance risks and certain reinsurance risks from the European Economic Area (EEA) were underwritten by Lloyd's Brussels from 1 January 2019. Lloyd's Brussels 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.

The Syndicate does not currently write EEA business that is impacted by UK's 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.

Post balance sheet events

Details of post balance sheet events are disclosed in note 19 of the financial statements.

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:-

C N Bare	Appointed 6 September 2019
R J S Bucknall	Appointed 6 September 2019
G C Butterworth	Appointed 6 September 2019
W A Guffey	Appointed 6 September 2019
A I U Haq	Appointed 6 September 2019
W F Majors	Appointed 6 September 2019
J W Ramage	Appointed 6 September 2019
T A Riddell	Appointed 6 September 2019
G E Swayne	Resigned 6 September 2019

Managing agent's report – continued

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 Managing Agent 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

As permitted under the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding an annual meeting this year.

On behalf of the Board:

A G Beatty
CEO
5 March 2020

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 ("the Regulations") require the managing agent to prepare Syndicate annual financial statements as 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 financial statements, the managing agent is required to:

- select suitable accounting policies, which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and accounting 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 financial statements; and
- prepare the annual financial statements on the going concern basis unless it is inappropriate to presume that the Syndicate will continue in business.

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 to the member of Syndicate 2357

Report on the audit of the Syndicate annual financial statements

Opinion

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

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2019 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 profit and loss account;
- the statement of changes in member's balances;
- the balance sheet;
- the statement of cash flows;
- 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 to the member of Syndicate 2357 - continued

Other information

The managing agent is responsible for the other information. The other information comprises the information included in the annual report, 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 to the member of Syndicate 2357 - 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 have 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 ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
London, United Kingdom
5 March 2020

Profit and loss account

Technical account – General business

	Notes	2019 \$'000	2018 \$'000
Gross premiums written	4	473,656	607,040
Outward reinsurance premiums		(265,977)	(246,664)
Premiums written, net of reinsurance		207,679	360,376
Change in provision for unearned premiums			
– gross amount		48,835	(99,184)
– reinsurers' share		4,600	23,635
Earned premiums, net of reinsurance		261,114	284,827
Claims paid			
– gross amount		(425,498)	(264,192)
– reinsurers' share		160,362	59,214
Net claims paid		(265,136)	(204,978)
Change in the provision for claims:			
– gross amount		(43,363)	(353,915)
– reinsurers' share		(11,105)	165,729
Claims incurred, net of reinsurance		(319,604)	(393,164)
Net operating expenses	6	(32,430)	(50,962)
Balance on the technical account – general business		(90,920)	(159,299)

Non-Technical account

	Notes	2019 \$'000	2018 \$'000
Investment income		7,949	3,362
Unrealised gains / (losses) on investments		448	681
Investment expenses and charges		(333)	-
(Loss) / Profit on foreign exchange		(1,533)	54
Loss for the financial year		(84,389)	(155,202)

All the amounts above are in respect of continuing operations.

There are no recognised gains and losses in the year other than those dealt with in the technical and non-technical accounts and therefore a statement of total recognised gains or losses has not been prepared.

The notes 1 to 19 form an integral part of these financial statements.

Statement of changes in member's balances

	Notes	2019 \$'000	2018 \$'000
Balance at start of year		(159,329)	12,585
Loss for the financial year		(84,389)	(155,202)
Transactions with member, recorded directly in member's balances:			
– Payments of profit to member		(747)	(16,712)
– Collection of cash calls from member		100,000	-
Balance at end of year		(144,465)	(159,329)

The notes 1 to 19 form an integral part of these financial statements.

Balance sheet

Assets	Notes	2019 \$'000	2018 \$'000
Investments - financial investments	9	254,168	258,174
Reinsurers' share of provision for unearned premiums	5	50,477	45,877
Reinsurers' share of claims outstanding	5	221,679	232,414
Reinsurers' share of technical provisions		272,156	278,291
Debtors arising out of underwriting operations	10	498,993	331,354
Other debtors	14	86	-
Debtors – amounts falling due within one year		499,079	331,354
Cash and cash equivalents	12	129,987	51,170
Overseas deposits	13	4,788	3,243
Other assets		134,775	54,413
Deferred acquisition costs		8,036	12,810
Prepayments and other accrued income		-	-
Prepayments and accrued income		8,036	12,810
Total assets		1,168,214	935,042

The notes 1 to 19 form an integral part of these financial statements.

Balance sheet – continued

Liabilities	Notes	2019 \$'000	2018 \$'000
Member's balances		(144,465)	(159,329)
Provision for unearned premiums	5	158,275	206,396
Claims outstanding	5	663,748	617,778
Technical provisions		822,023	824,174
Creditors arising out of reinsurance operations	11	384,849	269,394
Other creditors	15	100,000	29
Creditors – amounts falling due within one year		484,849	269,423
Accruals and deferred income		5,807	774
Total liabilities		1,312,679	1,094,371
Total liabilities and member's balances		1,168,214	935,042

The notes 1 to 19 form an integral part of these financial statements.

These financial statements were approved by the Board of Nephila Syndicate Management Limited on 5 March 2020 and signed on its behalf by:

A I U Haq
Finance Director

Statement of cash flows

Reconciliation of operating profit to net cash outflows from operating activities

	2019 \$'000	2018 \$'000
Operating activities		
Loss on ordinary activities	(90,920)	(159,299)
Adjustments for:		
Change in net technical provisions	(3,984)	262,192
Change in debtors	(167,725)	(197,388)
Change in creditors	215,426	149,572
Change in other assets / liabilities	8,262	(10,839)
Exchange gains / (losses)	(1,533)	54
Net cash flows from operating activities	(32,506)	44,292
Investing activities		
Purchase of financial investments	(254,053)	(257,493)
Proceeds from sale of financial investments	258,174	225,224
Investment income	7,949	3,362
Net cash flows from investing activities	12,070	(28,907)
Financing activities		
Payments of profit to member	(747)	(16,712)
Collection of cash calls from member	100,000	-
Net cash flows from financing activities	99,253	(16,712)
Net (decrease)/increase in cash and cash equivalents	78,817	(1,327)
Cash and cash equivalents at 1 January	51,170	52,497
Cash and cash equivalents at 31 December	129,987	51,170

Notes to the financial statements

1. Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance 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.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

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 directors have 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 continue to adopt 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.

2. Accounting Policies

Use of estimates

In the preparation of the financial statements, the directors of NSML 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:

- provision for claims outstanding (refer to claims accounting policy);
- estimates of future premiums (refer to premiums accounting policy);
- premium earning patterns (refer to 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.

Premiums

Premiums written comprise premiums on contracts incepted during the financial year. 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, as well as adjustments made to premiums written in prior accounting periods including portfolio transfers.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct inwards business.

Notes to the financial statements – continued

2. Accounting policies - continued

Unearned premiums

Premiums written are recognised as earned over the period of the policy on a time apportionment basis having regard to the incidence of risk. In some cases a non-linear earnings pattern is considered appropriate. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired period of policies in force at the balance sheet 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.

Claims

Claims incurred represent the cost of claims and settlement expenses paid during the financial year, together with the movement in provisions for outstanding claims and claims incurred but not reported ('IBNR'). Reinsurance recoveries are accounted for in the same period as the incurred claims for the related business.

The provision for claims comprises amounts set aside for claims notified and IBNR. The amount included in respect of IBNR is based on statistical techniques of estimation applied by actuaries and reviewed annually by external consulting actuaries. These techniques generally use projections, based on past experience of the development of claims over time, to form a view of the likely ultimate claims to be experienced. 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.

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.

Sensitives of claims incurred and claims development table are included in note 3 of the financial statements.

Deferred acquisition costs

Acquisition costs comprise the direct expenses of concluding insurance contracts written during the financial year. Acquisition costs are accrued over a period equivalent to that over which the underlying business is underwritten and are charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date.

Liability adequacy testing

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the claims liabilities net of deferred acquisition costs and unearned premium reserves. If that assessment shows that the carrying amount of insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in the profit and loss account, initially by writing off associated deferred acquisition costs and then by establishing a provision for unexpired risks.

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 2019 and 31 December 2018 the Syndicate did not have an unexpired risk provision.

Notes to the financial statements – continued

2. 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 profit and loss account.

Gains or losses on buying reinsurance are recognised in the profit and loss account immediately at the date of purchase and are not amortised. There were no such gains recognised in 2019 or 2018.

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 profit and loss account.

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.

Investment return

All investment return is recognized in the non-technical account.

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 or losses represent the difference between the net sales proceeds and purchase price.

Unrealised gains and losses represent the difference between the valuation at the balance sheet date and their purchase price. The movement in unrealised gains and losses therefore includes the reversal of previously recognised unrealised gains and losses on investments disposed of in the current year.

Investments

All financial assets are designated as fair value through the profit or loss account upon initial recognition because they are managed and their performance is evaluated on a fair value basis.

These financial assets are initially recognised at fair value with any transaction costs being expensed through the profit and loss account. For quoted investments where there is an active market, the fair value is the quoted bid price at the balance sheet date. For quoted investments where there is no active market, the fair value is determined by reference to prices for similar assets in active markets.

Realised gains and losses and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit and loss are included in the profit and loss account in the period in which they arise.

Notes to the financial statements – continued

2. Accounting policies - continued

Cash and cash equivalents

Cash and cash equivalents represent cash balances, money market deposits with banks and other short-term highly liquid investments purchased within three months of maturity.

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.

Foreign currencies

Foreign currency transactions are converted to the presentational and functional currency of the Syndicate (US dollar) using the exchange rates prevailing at the date of the transactions. Assets and liabilities denominated in foreign currency are revalued to functional currency at year end exchange rates and the resultant differences are recognised as gains and losses in the non-technical account.

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

	Year Ended 2019	Year Ended 2018
GBP	0.758	0.787
EUR	0.894	0.874
JPY	109.038	110.094
AUD	1.424	1.425
NZD	1.485	1.496
CAD	1.303	1.370

Tax

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 20%) deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to the member 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

NSML does not charge the Syndicate a profit commission.

Notes to the financial statements – continued

3. Risk management

Governance framework

The NSML Board is responsible for managing the risks of the syndicate and has a comprehensive governance structure alongside a risk management framework in place. The risk management framework enables risks to be identified, assessed, managed and reported. The Board also has a suite of comprehensive risk appetite statements which reflect the Syndicate's risk profile, business strategy and financial goals.

The Board is also responsible for ensuring that the Syndicate's Internal Model is embedded in the operation of its business and that the model is used to improve both the understanding of risk and the quality of the decision making at all levels across the business.

Risk management is an integral part of the Syndicate's decision-making and routine management and is incorporated within the strategic and operational planning processes. As part of the risk management framework, NSML has comprehensive policies and procedures in place which outline controls and business conduct standards for day to day operations. Employees are expected to manage risk as defined through their roles. This ensures that an assessment of risk remains central to decision-making.

The Governance, Risk and Compliance Function maintains the risk and governance frameworks and this includes investigation and challenge around issues and events which may affect the Syndicate's understanding or management of risk.

Risk assessments are conducted on new projects, processes, systems and commercial activities to ensure that these are aligned with the Syndicate's objectives and goals. Any risks or opportunities arising from these assessments are identified, analysed and reported to the Board or appropriate committee.

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 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.

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 2019 was 35% of the member's SCR 'to ultimate'.

Notes to the financial statements – continued

3. Risk management - continued

Capital management objectives, policies and approach - continued

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.

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 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.

The Reserve Committee oversees 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 Board.

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

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: one-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.

Notes to the financial statements – continued

3. Risk management - continued

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.

	Gross of reinsurance 2019 \$'000	Net of reinsurance 2019 \$'000	Gross of reinsurance 2018 \$'000	Net of reinsurance 2018 \$'000
Impact of a 5% variance in: Claims liability	33,187	22,103	30,889	19,268

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

Claims development table

The following tables 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.

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.

Notes to the financial statements – continued

3. Risk management - continued

Claims development table gross of reinsurance

Underwriting year	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000	2017 \$'000	2018 \$'000	2019 \$'000
Estimate of gross claims incurred:							
At end of first year	-	-	17	49,792	339,881	536,546	366,661
One year later	-	-	17	55,664	421,833	602,904	
Two years later	-	-	17	52,911	458,061		
Three years later	-	-	17	52,928			
Four years later	-	-	17				
Five years later	-	-					
Six years later	-	-					
Incurring gross claims	-	-	17	52,928	458,061	602,904	366,661
Less cumulative gross claims paid	-	-	(17)	(24,480)	(241,502)	(391,159)	(159,665)
Liability for gross claims outstanding	-	-	-	28,448	216,559	211,745	206,995
Total gross claims outstanding							663,748

Claims development table net of reinsurance

Underwriting year	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000	2017 \$'000	2018 \$'000	2019 \$'000
Estimate of net claims incurred:							
At end of first year	-	-	17	46,775	269,911	354,255	277,666
One year later	-	-	17	48,577	308,537	378,710	
Two years later	-	-	17	47,678	327,148		
Three years later	-	-	17	47,685			
Four years later	-	-	17				
Five years later	-	-					
Six years later	-	-					
Incurring net claims	-	-	17	47,685	327,148	378,710	277,666
Less cumulative net claims paid	-	-	(17)	(19,950)	(163,156)	(260,439)	(145,595)
Liability for net claims outstanding	-	-	-	27,735	163,992	118,271	132,071
Total net claims outstanding							442,069

Notes to the financial statements – continued

3. Risk management - continued

Financial risk

Credit risk

Credit risk is the risk of loss if a counterparty fails to meet its contractual obligations resulting in a financial loss to the Syndicate. The Syndicate is exposed to credit risk primarily through its investment and insurance activities

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 Executive Committee.
- 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 Outwards Reinsurance Working Group and the Executive Committee.

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 balance sheet. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements.

	Neither past due or impaired 2019 \$'000	Past due 2019 \$'000	Impaired 2019 \$'000	Total 2019 \$'000
Shares and other variable yield securities	1,927	-	-	1,927
Debt and fixed income securities	252,241	-	-	252,241
Reinsurers' share of claims outstanding	221,679	-	-	221,679
Debtors arising out of underwriting operations	498,993	-	-	498,993
Cash and cash equivalents	129,987	-	-	129,987
Overseas deposits as other assets	4,788	-	-	4,788
Other debtors	58,599	-	-	58,599
Total assets	1,168,214	-	-	1,168,214

	Neither past due or impaired 2018 \$'000	Past due 2018 \$'000	Impaired 2018 \$'000	Total 2018 \$'000
Shares and other variable yield securities	-	-	-	-
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 and cash equivalents	51,170	-	-	51,170
Overseas deposits as other assets	3,243	-	-	3,243
Other debtors	58,687	-	-	58,687
Total assets	935,042	-	-	935,042

Notes to the financial statements – continued

3. Risk management - continued

Financial risk - continued

Credit risk – continued

The table below provides information regarding the credit risk exposure of the Syndicate 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.

	AAA	AA	A	BBB	Less than BBB & not rated	Total
	2019	2019	2019	2019	2019	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Shares and other variable yield securities	-	1,927	-	-	-	1,927
Debt and fixed income securities	252,241	-	-	-	-	252,241
Reinsurers' share of claims outstanding	-	221,679	-	-	-	221,679
Reinsurers' share of paid claims	-	201,177	-	-	-	201,177
Cash and cash equivalents	114,517	-	15,470	-	-	129,987
Overseas deposits as other assets	3,069	393	1,010	316	-	4,788
Total debtors, other than amounts due from reinsurers	369,827	425,176	16,480	316	-	811,799

	AAA	AA	A	BBB	Less than BBB & not rated	Total
	2018	2018	2018	2018	2018	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Shares and other variable yield securities	-	-	-	-	-	-
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 and cash equivalents	37,821	-	13,349	-	-	51,170
Overseas deposits as other assets	2,188	474	384	197	-	3,243
Total debtors, other than amounts due from reinsurers	298,183	283,844	13,733	197	-	595,957

Maximum credit exposures

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.

Notes to the financial statements – continued

3. Risk management - continued

Liquidity risk

Liquidity risk is the risk that cash may not be available, or that assets cannot be liquidated at a reasonable price, to pay obligations when they fall due. The Syndicate is exposed to daily calls on its available cash resources mainly from claims arising through insurance and reinsurance contracts. In respect of business underwritten in certain international regions there is a requirement to collateralise regulated trust funds in respect of gross insurance liabilities. This puts an additional burden on the Syndicate's liquidity.

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.

	Within 1 year \$'000	1-2 years \$'000	3-5 years \$'000	Over 5 years \$'000	Total \$'000
Claims outstanding	(343,427)	(262,245)	(43,846)	(14,230)	(663,748)
Reinsurance creditors	(384,849)	-	-	-	(384,849)
As at 31 December 2019	(728,276)	(262,245)	(43,846)	(14,230)	(1,048,597)
	Within 1 year \$'000	1-2 years \$'000	3-5 years \$'000	Over 5 years \$'000	Total \$'000
Claims outstanding	(310,103)	(234,833)	(56,896)	(15,946)	(617,778)
Reinsurance creditors	(269,394)	-	-	-	(269,394)
As at 31 December 2018	(579,497)	(234,833)	(56,896)	(15,946)	(887,172)

Market risk

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 transacts insurance business in Pound Sterling, Euro, US Dollar and Japanese Yen. Assets are held in each of these currencies to generally match the corresponding liabilities.

The Syndicate is exposed to movements in foreign exchange where there is a mismatch between assets and liabilities in any of these currencies representing profits or losses recognised from the Syndicate's insurance operations. When a mismatch occurs the Syndicate looks to limit this mismatch exposure, wherever possible.

Notes to the financial statements – continued

3. Risk management – continued

Market risk – continued

Currency risk - continued

The table below summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date.

	USD 2019 \$'000	EUR 2019 \$'000	GBP 2019 \$'000	JPY 2019 \$'000	Other 2019 \$'000	Total 2019 \$'000
Total assets	1,082,006	11,667	4,418	60,272	9,851	1,168,214
Total liabilities	(1,110,076)	(16,009)	(949)	(181,649)	(3,996)	(1,312,679)
Net exposure	(28,070)	(4,342)	3,469	(121,377)	5,855	(144,465)
	USD 2018 \$'000	EUR 2018 \$'000	GBP 2018 \$'000	JPY 2018 \$'000	Other 2018 \$'000	Total 2018 \$'000
Total assets	882,328	4,445	2,113	36,007	10,149	935,042
Total liabilities	(1,029,542)	(1,287)	(999)	(60,094)	(2,449)	(1,094,371)
Net exposure	(147,214)	3,158	1,114	(24,087)	(7,700)	(159,329)

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 2019.

	Net assets		Net Profit	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
US Dollar strengthens 10%	11,640	1,211	11,640	1,211
US Dollar strengthens 20%	23,279	2,423	23,279	2,423

A weakening of US Dollar against the above currencies at 31 December 2019 would have had an equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

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.

Notes to the financial statements – continued

3. Risk management – continued

Market risk – continued

Interest rate risk - continued

A decrease of 50 basis points at 31 December 2019 would have had an equal but opposite effect to the amounts shown below, on the basis that all other variables remain constant.

	Net assets		Net Profit	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Impact of 50 basis point increase	(176)	(184)	(176)	(184)

4. Segmental information

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

For the year ended 31 December 2019:

	Gross premiums written \$'000	Gross premiums earned \$'000	Gross claims incurred \$'000	Net operating expenses \$'000	Reinsurance balance \$'000	Total \$'000
MGA Insurance	158,976	190,034	(104,968)	3,839	(87,528)	1,377
Reinsurance	314,680	332,457	(363,893)	(36,269)	(24,592)	(92,297)
Total	473,656	522,491	(468,861)	(32,430)	(112,120)	(90,920)

For the year ended 31 December 2018:

	Gross premiums written \$'000	Gross premiums earned \$'000	Gross claims incurred \$'000	Net operating expenses \$'000	Reinsurance balance \$'000	Total \$'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)
Total	607,040	507,856	(618,107)	(50,962)	1,914	(159,299)

The gross premiums written received from two (2018: two) customers were individually greater than 10 per cent of the total gross premiums written. All premiums were concluded in the UK.

Commissions on direct insurance gross premiums written during 2019 were \$15.6m (2018: \$18.7m).

The reinsurance balance is the aggregate total of all those items included in the technical account of the profit and loss account which relate to reinsurance.

Notes to the financial statements – continued

5. Technical provisions

The gross liabilities for claims reported, loss adjustment expenses and claims incurred but not reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of the current and prior year are not material.

Total technical provisions

	2019 \$'000	2018 \$'000
Gross technical provisions		
Claims reported	95,063	96,432
Claims incurred but not reported	568,685	521,346
Unearned premiums	158,275	206,396
Total gross technical provisions	822,023	824,174
Reinsurers' share of technical provisions		
Claims reported	25,268	5,941
Claims incurred but not reported	196,411	226,473
Unearned premiums	50,477	45,877
Total reinsurers' share of technical provisions	272,156	278,291
Net technical provisions		
Claims reported	69,795	90,491
Claims incurred but not reported	372,274	294,873
Unearned premiums	107,798	160,519
Total net technical provisions	549,867	545,883

Notes to the financial statements – continued

5. Technical provisions – continued

Movement in technical provisions

	Provision for unearned premiums \$'000	Claims outstanding \$'000	Total \$'000
Gross			
At 1 January 2018	107,610	266,152	373,762
Foreign exchange revaluation	(398)	(2,289)	(2,687)
Movement in provision	99,184	353,915	453,099
At 1 January 2019	206,396	617,778	824,174
Foreign exchange revaluation	714	2,607	3,321
Movement in provision	(48,835)	43,363	(5,472)
At 31 December 2019	158,275	663,748	822,023
Reinsurers' share			
At 1 January 2018	22,242	67,829	90,071
Foreign exchange revaluation	-	(1,144)	(1,144)
Movement in provision	23,635	165,729	189,364
At 1 January 2019	45,877	232,414	278,291
Foreign exchange revaluation	-	370	370
Movement in provision	4,600	(11,105)	(6,505)
At 31 December 2019	50,477	221,679	272,156
Net			
At 31 December 2019	107,798	442,069	549,867
At 31 December 2018	160,519	385,364	545,883

Notes to the financial statements – continued

6. Net operating expenses

	2019 \$'000	2018 \$'000
Acquisition costs	(48,208)	(53,509)
Change in deferred acquisition costs	(4,823)	7,334
Reinsurance commissions	34,740	7,663
Administrative expenses	(14,139)	(12,450)
Total net operating expenses	(32,430)	(50,962)

Administrative expenses include:

	2019 \$'000	2018 \$'000
Member's standard personal expenses	(9,032)	(7,404)

Member's standard personal expenses comprise member subscriptions, new central fund contributions and managing agent fees.

7. Auditor's remuneration

	2019 \$'000	2018 \$'000
- Audit of the Syndicate annual return and annual report and accounts	(86)	(83)
- Other services pursuant to Regulations and Lloyd's Byelaws	(97)	(94)
- Non-audit fees	(58)	(54)
Total auditor's remuneration	(241)	(231)

Non-audit fees relate to work to issue a Statement of Actuarial Opinion on the technical provisions of the Syndicate.

8. Emoluments of directors of Nephila Syndicate Management Ltd.

The aggregate emoluments of the Directors and staff of the Managing Agent are met by Nephila Syndicate Management Limited and are disclosed within the financial statements of that company.

The Syndicate's active underwriter, G C Butterworth, received emoluments in respect of the role of active underwriter for the Syndicate through Nephila Syndicate Services Limited.

No other compensation was payable to key management personnel.

Notes to the financial statements – continued

9. Financial investments

	Cost	Cost	Fair Value	Fair Value
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
Shares and other variable yield securities				
- Designated at fair value through profit or loss	1,927	-	1,927	-
Debt securities and other fixed income securities				
- Designated at fair value through profit or loss	251,793	257,493	252,241	258,174
Total financial investments	253,720	257,493	254,168	258,174

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.

Financial investments are classified using the fair value hierarchy in accordance with the FRS 102.

The levels within the fair value hierarchy are defined as follows:

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

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
2019				
Shares and other variable yield securities	-	-	1,927	1,927
Debt securities and other fixed income securities	252,241	-	-	252,241
Total financial investments	252,241	-	1,927	254,168
2018				
Shares and other variable yield securities	-	-	-	-
Debt securities and other fixed income securities	258,174	-	-	258,174
Total financial investments	258,174	-	-	258,174

Notes to the financial statements – continued

10. Debtors arising out of underwriting operations

	2019 \$'000	2018 \$'000
Amounts due from intermediaries – due within one year	498,993	331,354
Total debtors arising out of underwriting operations	498,993	331,354

11. Creditors arising out of reinsurance operations

	2019 \$'000	2018 \$'000
Amounts due to intermediaries – due within one year	(384,849)	(269,394)
Total creditors arising out of reinsurance operations	(384,849)	(269,394)

12. Cash and cash equivalents

	2019 \$'000	2018 \$'000
Cash at bank and in hand	15,470	13,349
Short-term deposits with financial institutions	114,517	37,821
Total cash and cash equivalents	129,987	51,170

13. Overseas deposits as other assets

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

14. Other debtors

	2019 \$'000	2018 \$'000
Amounts due from group companies	86	-
Total other debtors	86	-

All amounts are expected to be recovered within one year.

Notes to the financial statements – continued

15. Other creditors

	2019 \$'000	2018 \$'000
Amounts due to group companies	(100,000)	-
VAT creditor	-	(29)
Total other creditors	(100,000)	(29)

All amounts are expected to be payable within one year.

16. Related parties

NSML took over as Managing Agent of Syndicate 2357 from Asta Managing Agency Limited in October 2019. The total fees charged for provision of services and support to Syndicate 2357 in 2019 were managing agent fees of \$4.5m (2018: \$3.6m) and service charges of \$1.9m (2018: \$2.9m).

The immediate parent undertaking of Nephila Syndicate Management Limited is Nephila Holdings Limited, a company incorporated and registered in Bermuda. The ultimate parent and controlling party is Markel Corporation, a company incorporated and registered in the United States of America. Group financial statements for Markel Corporation are available from 4521 Highwoods Parkway, Glen Allen, Virginia 23060-6148, USA.

Syndicate 2357's dedicated capital provider is Nephila 2357 Ltd, whose ultimate parent is Nephila Syndicate Holdings Ltd, a company incorporated and registered in Bermuda. Nephila Syndicate Holdings Ltd extended a loan of \$100m (2018: \$nil) to the Syndicate.

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

Syndicate 2357 purchased quota share reinsurance costing \$74.1m (2018: \$83.4m) from Demeter Re for its reinsurance business. The amount outstanding to Demeter Re at 31 December 2019 was \$184.4m (2018: \$113.6m).

17. Funds at Lloyd's

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

The level of FAL that Lloyd's requires a member to maintain is ultimately determined by Lloyd's taking account, inter alia, of a number of factors including the nature and amount of underwriting risk assumed by the member and the assessment of the reserving risk in respect of business that has already been underwritten. FAL is not under the management of the managing agent, so no amounts have been shown in these financial statements to reflect it. The managing agent is able to make a call on member's FAL to meet liquidity requirements and to settle losses should this be required.

The FAL requirement is provided by a combination of the member as well as by Poseidon Re.

18. Off balance sheet items

The Syndicate has not been party to any arrangement which is not reflected the balance sheet, where material risks and benefits arise for the Syndicate.

19. Post balance sheet events

During 2020, \$41.7m will be collected from the member for the deficit on the 2017 closing year of account.



NEPHILA