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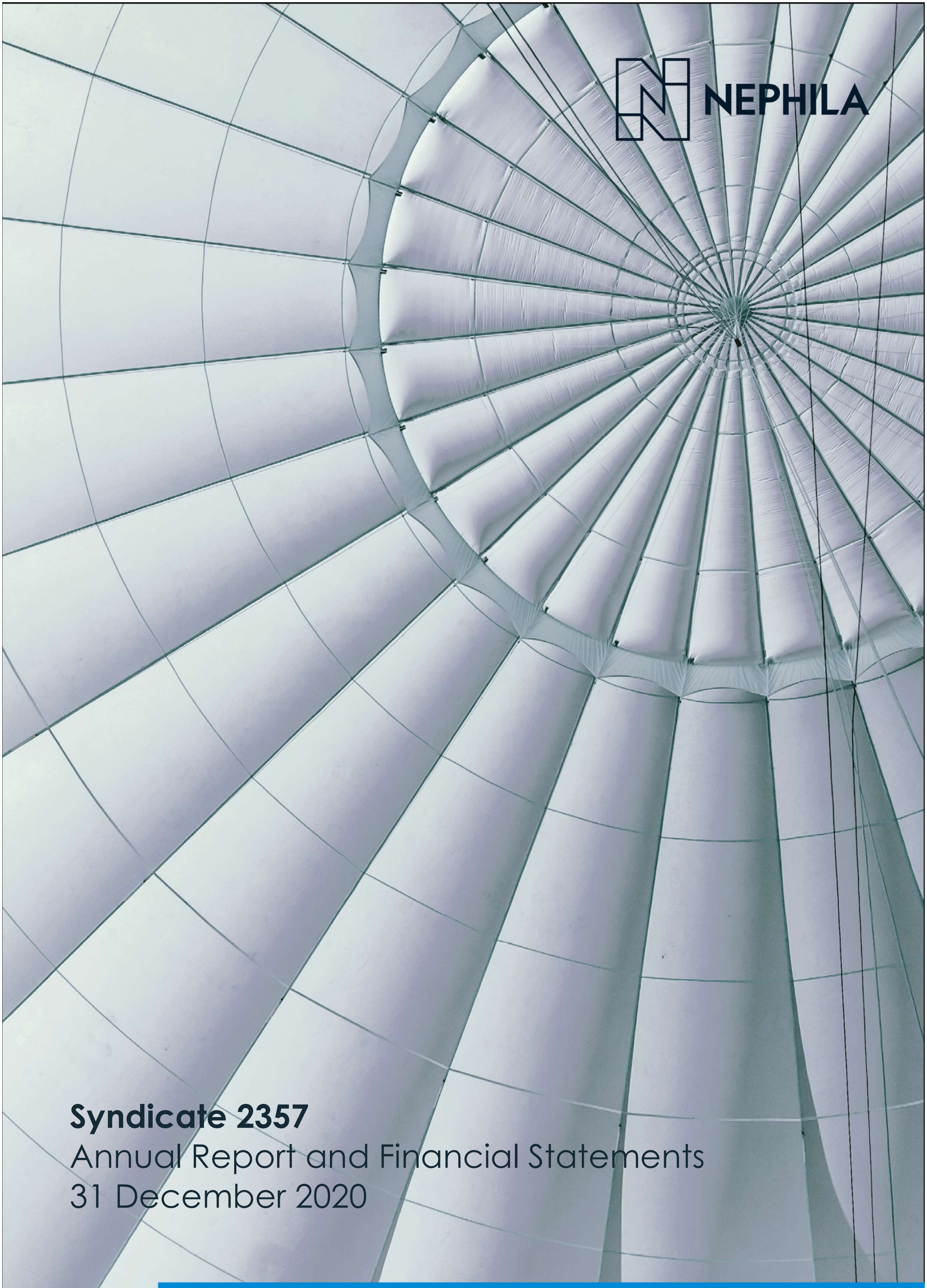

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Syndicate 2357

Annual Report and Financial Statements

31 December 2020

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Syndicate 2357

Annual Report and Financial Statements

31 December 2020

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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 2020.

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

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 reinsurance business with risks typically outside the United States.

Results

The Syndicate reported a $41.5m loss for the 2020 financial year (2019: loss of $84.4m). The calendar year combined ratio was 113.7% (2019: 134.8%).

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

	2020 $'000	**2019 $'000**
MGA Insurance	**221,809**	158,976
Reinsurance	**300,012**	314,680
Total	**521,821**	473,656

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

	2020 $'000	**2019 $'000**
Gross premiums written	**521,821**	473,656
Loss for the financial year	**(41,545)**	(84,389)
Loss ratio	**105.1%**	122.4%
Expense ratio	**8.6%**	12.4%
Combined ratio	**113.7%**	134.8%

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 2018 closed year of account and forecast results for the two open years were as follows:

	2018 YOA Closed	**2019 YOA Open**	**2020 YOA Open**
Capacity ($'000)	500,397	535,968	575,286
Result/forecast ($'000)	(144,929)	(66,556)	*
Return on capacity (%)	(29.0%)	(12.4%)	*

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

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, either of high credit rating or supported by collateralisation, where required. NSML's Outwards Reinsurance Working Group monitors reinsurer ratings and is required to approve all new and renewing 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 due to 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 Risk Management and Internal Audit. Business continuity and disaster recovery and succession plans are in place and are regularly updated and tested.

On March 11, 2020 the coronavirus (COVID-19) outbreak was officially designated a pandemic by the World Health Organisation ("WHO"), having an impact on health and economies globally. Although the fast-moving global development of COVID-19 created challenges for the insurance industry both operationally and economically, Nephila's business continuity and disaster recovery and succession plans meant the Company was well prepared to respond and adapt to ensure the Syndicate and managing agency operations continue to be managed effectively with minimal impact to customers and stakeholders. Since mid-March 2020, Nephila transitioned to a remote working environment for all staff enabling the company to function as usual with minimal disruption.

Managing agent's report – continued

Principal risks and uncertainties - continued

Operational risk - continued

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.

Group / Strategic risks

Group Risk 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).

Climate change

The Syndicate is exposed to both climate related risk and opportunities. The two major categories of risk being physical risk and transition risk. Physical risks are those relating to the physical impacts of climate change such as increased frequency and severity of climate related events or longer-term shifts in climate patterns. Transition risks are those relating to the transition to a lower carbon economy and include risks such as policy and legal risk, technology risk and reputation risk. The Syndicate underwrites a portfolio of natural catastrophe and climate risks so is more significantly impacted by physical risk, whilst also recognising and giving due consideration to transition risk.

The Syndicate's underwriting operations considers the impact of climate change and manages this risk effectively by validating and calibrating catastrophe risk models through an in-house data and research team, making adjustments to catastrophe risk models to reflect Nephila's view of the potential impacts of climate change and risks that are not captured in vendor models. The Syndicate is developing and implementing a framework for the evaluation of Environmental, Social and Governance ("ESG") factors in its underwriting approach and wider business operations. The Syndicate has clear tolerances in place to actively manage exposures and the Board regularly monitors the Syndicate's Probable Maximum Loss ("PML"). The risk to the asset side of the Syndicate's balance sheet from exposure to climate change is mitigated in part through regular reviews of the securities within the investment portfolio. Climate related stress and scenario tests are performed as part of the business planning process. These tests continue to be refined and enhanced as more information becomes available.

Given the nature of the Syndicate's portfolio, climate change is a key focus of the Board. The Board has taken steps to broaden the formal oversight, strategic understanding and risk assessment of climate change risks and opportunities and their financial impact. The work performed to date has not resulted in any material impact on the Syndicate's business strategy or changed its understanding of the impact climate related risks has on the business. This work will continue in 2021 and will take into consideration the recommendations from the Taskforce on Climate Financial Disclosures ("TCFD").

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 2021 year of account is £490.4m ($671.8m), 2020 year of account was £419.9m ($575.3m), and the 2019 year of account was £391.2m ($536.0m).

Managing agent's report – continued

Future developments - continued

The UK and the EU agreed a Brexit Withdrawal Agreement where the UK officially left the EU on 31 January 2020, but provided a transition period that lasted until least 31 December 2020. During the transition period the UK remained within the European Single Market. It is not expected that the end of the transition period will have an impact on the Syndicate's business model as the Syndicate does not currently write EEA business that is impacted by UK's exit from the European Union.

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.

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.

The global outbreak of COVID-19 resulted in wide-ranging operational changes and challenges for many businesses including Lloyd's Syndicates and managing agents. Whilst this event is ongoing and uncertainty remains as to the final outcomes, we do not expect it to have an impact on the Syndicate's ability to continue as a going concern.

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. There were no changes to directors in the year.

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
3 March 2021

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 2020 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

In auditing the financial statements, we have concluded that the managing agent’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Syndicate’s ability to continue in operations for a period of at least twelve months from when the Syndicate financial statements are authorised for issue.

- Our responsibilities and the responsibilities of the managing agent with respect to going concern are described in the relevant sections of this report.

Independent Auditor's report to the member of Syndicate 2357 - continued

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. The managing agent is responsible for the other information contained within the annual report. 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.

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 course of 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 this gives rise to a material misstatement themselves. 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 this regard.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the Syndicate and its control environment, and reviewed the Syndicate's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the Syndicate operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005); and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Syndicate's ability to operate or to avoid a material penalty. These included the requirements of Solvency II.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

ISA (UK) 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks. The presumed significant risk around revenue recognition for Syndicate 2357 has been identified as the premium earning patterns. The key judgement area is the premium earning patterns for non-linear earnings policies. We tested the earnings patterns used by Syndicate 2357 by:

- Using Deloitte actuarial specialists to review the earning patterns used by the Syndicate;
- Recalculating the monthly exposure percentages for each peril based on the risk exposure information provided by the Syndicate;
- Plotting the monthly percentages for each peril to assess the reasonableness of the earning pattern based on our knowledge of perils in a given geographical location;
- Comparing the earning patterns for 2020 with those used in prior years to identify any significant movements; and
- Recalculating the unearned premium on a sample basis by applying the earning patterns to the contracts.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with Lloyd's.

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 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
London, United Kingdom
3 March 2021

Profit and loss account

Technical account – general business

	Notes	2020 $'000	2019 $'000
Gross premiums written	4	**521,821**	473,656
Outward reinsurance premiums		**(216,437)**	(265,977)
Premiums written, net of reinsurance		**305,384**	207,679
Change in provision for unearned premiums			
– gross amount		**18,980**	48,835
– reinsurers' share		**(13,505)**	4,600
Earned premiums, net of reinsurance		**310,859**	261,114
Claims paid			
– gross amount		**(432,954)**	(425,498)
– reinsurers' share		**135,771**	160,362
Net claims paid		**(297,183)**	(265,136)
Change in the provision for claims:			
– gross amount		**(77,170)**	(43,363)
– reinsurers' share		**47,520**	(11,105)
Claims incurred, net of reinsurance		**(326,833)**	(319,604)
Net operating expenses	6	**(26,613)**	(32,430)
Balance on the technical account – general business		**(42,587)**	(90,920)

Non-technical account

	Notes	2020 $'000	2019 $'000
Investment income		**1,758**	7,949
Unrealised gains / (losses) on investments		**96**	448
Investment expenses and charges		**(97)**	(333)
(Loss) / Profit on foreign exchange		**(715)**	(1,533)
Loss for the financial year		**(41,545)**	(84,389)

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.

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Statement of changes in member's balances

	Notes	2020 $'000	2019 $'000
Balance at start of year		**(144,465)**	(159,329)
Loss for the financial year		**(41,545)**	(84,389)
Transactions with member, recorded directly in member's balances:			
– Payments of profit to member		**-**	(747)
– Collection of deficit and cash calls from member		**100,000**	100,000
Balance at end of year		**(86,010)**	(144,465)

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

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Balance sheet

Assets	Notes	2020 $'000	2019 $'000
Investments - financial investments	9	**297,238**	254,168
Reinsurers' share of provision for unearned premiums	5	**36,972**	50,477
Reinsurers' share of claims outstanding	5	**270,277**	221,679
Reinsurers' share of technical provisions		**307,249**	272,156
Debtors arising out of underwriting operations	10	**407,608**	498,993
Other debtors	14	**-**	86
Debtors – amounts falling due within one year		**407,608**	499,079
Cash and cash equivalents	12	**100,281**	129,987
Overseas deposits	13	**3,691**	4,788
Other assets		**103,972**	134,775
Deferred acquisition costs		**12,838**	8,036
Prepayments and other accrued income		**-**	-
Prepayments and accrued income		**12,838**	8,036
Total assets		**1,128,905**	1,168,214

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

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Balance sheet – continued

Liabilities	**Notes**	**2020 $'000**	2019 $'000
Member's balances		**(86,010)**	(144,465)
Provision for unearned premiums	5	**139,302**	158,275
Claims outstanding	5	**745,531**	663,748
Technical provisions		**884,833**	822,023
Creditors arising out of reinsurance operations	11	**223,998**	384,849
Other creditors	15	**100,000**	100,000
Creditors – amounts falling due within one year		**323,998**	484,849
Accruals and deferred income		**6,084**	5,807
Total liabilities		**1,214,915**	1,312,679
Total liabilities and member's balances		**1,128,905**	1,168,214

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 3 March 2021 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

	2020 $'000	2019 $'000
Operating activities		
Loss on ordinary activities	**(42,587)**	(90,920)
Adjustments for:		
Change in net technical provisions	**27,717**	3,984
Change in debtors	**91,471**	(167,725)
Change in creditors	**(160,851)**	215,426
Change in other assets / liabilities	**(3,428)**	8,262
Exchange gains / (losses)	**(1,671)**	(1,533)
Net cash flows from operating activities	**(89,349)**	(32,506)
Investing activities		
Purchase of financial investments	**(295,312)**	(254,053)
Proceeds from sale of financial investments	**252,241**	258,174
Investment income	**1,758**	7,949
Net cash flows from investing activities	**(41,313)**	12,070
Financing activities		
Payments of profit to member	**-**	(747)
Collection of deficit and cash calls from member	**100,000**	100,000
Net cash flows from financing activities	**100,000**	99,253
Net (decrease)/increase in cash and cash equivalents	**(30,662)**	78,817
Cash and cash equivalents at 1 January	**129,987**	51,170
Effect of exchange rates on opening cash and cash equivalents	**956**	-
Cash and cash equivalents at 31 December	**100,281**	129,987

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.

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 due to the timing in incidence of risk. 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.

Notes to the financial statements – continued

2. Accounting policies – continued

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, on a best estimate basis, 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.

A provision for unexpired risks is made where anticipated claims and related expenses arising after the end of the financial year in respect of contracts concluded before that date, are expected to exceed the unearned premiums under these contracts, after the deduction of any deferred acquisition costs. 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 2020 and 31 December 2019 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 2020 or 2019.

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 recognised 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. For investments where there is no active market and no similar assets in active markets, a fair value is derived from inputs that are not based on observable market data.

Realised 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:

	31 December 2020	31 December 2019
GBP	**0.730**	0.758
EUR	**0.818**	0.894
JPY	**103.007**	109.038
AUD	**1.292**	1.424
NZD	**1.387**	1.485
CAD	**1.270**	1.303

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 of the Syndicate on which it is participating but not on other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment ("ECA"). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2020 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 2020 $'000	**Net of reinsurance 2020 $'000**	Gross of reinsurance 2019 $'000	Net of reinsurance 2019 $'000
Impact of a 5% variance in:				
Claims liability	**37,277**	**23,763**	33,187	22,103

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.

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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	2020 $'000
Estimate of gross claims incurred:								
At end of first year	-	-	17	49,792	339,881	540,543	376,394	379,882
One year later	-	-	17	55,664	422,579	609,599	475,286	
Two years later	-	-	17	52,952	458,852	623,782		
Three years later	-	-	17	52,971	476,346			
Four years later	-	-	17	52,957				
Five years later	-	-	17					
Six years later	-	-						
Seven years later	-							
Incurred gross claims	-	-	17	52,957	476,346	623,782	475,286	379,882
Less cumulative gross claims paid	-	-	(17)	(24,899)	(271,060)	(479,888)	(390,048)	(96,827)
Liability for gross claims outstanding	-	-	-	28,058	205,286	143,894	85,238	283,055
Total gross claims outstanding								**745,531**

Claims development table net of reinsurance

Underwriting year	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000
Estimate of net claims incurred:								
At end of first year	-	-	17	46,775	269,911	356,254	287,399	268,055
One year later	-	-	17	48,577	308,910	382,058	337,337	
Two years later	-	-	17	47,699	327,543	385,997		
Three years later	-	-	17	47,706	332,711			
Four years later	-	-	17	47,699				
Five years later	-	-	17					
Six years later	-	-						
Seven years later	-							
Incurred net claims	-	-	17	47,699	332,711	385,997	337,337	268,055
Less cumulative net claims paid	-	-	(17)	(20,106)	(173,930)	(291,655)	(327,587)	(83,267)
Liability for net claims outstanding	-	-	-	27,593	158,781	94,342	9,750	184,788
Total net claims outstanding								**475,254**

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 2020 $'000	**Past due 2020 $'000**	**Impaired 2020 $'000**	**Total 2020 $'000**
Shares and other variable yield securities	**9,172**	**-**	**-**	**9,172**
Debt and fixed income securities	**288,066**	**-**	**-**	**288,066**
Reinsurers' share of claims outstanding	**270,277**	**-**	**-**	**270,277**
Debtors arising out of underwriting operations	**407,608**	**-**	**-**	**407,608**
Cash and cash equivalents	**100,281**	**-**	**-**	**100,281**
Overseas deposits as other assets	**3,691**	**-**	**-**	**3,691**
Other debtors	**49,810**	**-**	**-**	**49,810**
Total assets	**1,128,905**	**-**	**-**	**1,128,905**

	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

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
	2020	**2020**	**2020**	**2020**	**2020**	**2020**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Shares and other variable yield securities	**-**	**9,172**	**-**	**-**	**-**	**9,172**
Debt and fixed income securities	**288,066**	**-**	**-**	**-**	**-**	**288,066**
Reinsurers' share of claims outstanding	**-**	**207,240**	**63,037**	**-**	**-**	**270,277**
Reinsurers' share of paid claims	**-**	**87,916**	**19,579**	**-**	**-**	**107,495**
Cash and cash equivalents	**18,649**	**-**	**81,632**	**-**	**-**	**100,281**
Overseas deposits as other assets	**218**	**2,715**	**594**	**164**	**-**	**3,691**
Total debtors, other than amounts due from reinsurers	**306,933**	**307,043**	**164,842**	**164**	**-**	**778,982**

	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

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	**(367,785)**	**(283,318)**	**(66,462)**	**(27,966)**	**(745,531)**
Reinsurance creditors	**(223,998)**	**-**	**-**	**-**	**(223,998)**
As at 31 December 2020	**(591,783)**	**(283,318)**	**(66,462)**	**(27,966)**	**(969,529)**

	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)

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 2020 $'000	EUR 2020 $'000	GBP 2020 $'000	JPY 2020 $'000	Other 2020 $'000	Total 2020 $'000
Total assets	**1,018,212**	**15,014**	**11,704**	**77,021**	**6,954**	**1,128,905**
Total liabilities	**(1,111,421)**	**(20,822)**	**(935)**	**(78,830)**	**(2,907)**	**(1,214,915)**
Net exposure	**(93,209)**	**(5,808)**	**10,769**	**(1,809)**	**4,047**	**(86,010)**

	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)

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 2020.

	Net assets		**Net profit**	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
US Dollar strengthens 10%	**(720)**	11,640	**(720)**	11,640
US Dollar strengthens 20%	**(1,440)**	23,279	**(1,440)**	23,279

A weakening of US Dollar against the above currencies at 31 December 2020 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

	Net assets		Net profit	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Impact of 50 basis point increase	**(193)**	(176)	**(193)**	(176)

A decrease of 50 basis points at 31 December 2020 would have had an equal but opposite effect to the amounts shown below, on the basis that all other variables remain constant.

4. Segmental information

Segmental information is presented in respect of reportable segments. These are based on the Syndicate's management and internal reporting structures. An analysis of the underwriting result before investment return is set out below.

For the year ended 31 December 2020:

	Gross premiums written $'000	**Gross premiums earned $'000**	**Gross claims incurred $'000**	**Gross operating expenses $'000**	**Reinsurance balances earned $'000**	**Total $'000**
MGA Insurance	**221,809**	**237,453**	**(314,170)**	**(29,193)**	**2,443**	**(103,467)**
Reinsurance	**300,012**	**303,348**	**(195,954)**	**(33,477)**	**(13,037)**	**60,880**
Total	**521,821**	**540,801**	**(510,124)**	**(62,670)**	**(10,594)**	**(42,587)**

For the year ended 31 December 2019:

	Gross premiums written $'000	Gross premiums earned $'000	Gross claims incurred $'000	Gross operating expenses $'000	Reinsurance balances earned $'000	Total $'000
MGA Insurance	158,976	190,034	(104,968)	(27,863)	(55,826)	1,377
Reinsurance	314,680	332,457	(363,893)	(39,307)	(21,554)	(92,297)
Total	473,656	522,491	(468,861)	(67,170)	(77,380)	(90,920)

The MGA Insurance segment was impacted by claims as a result of Covid-19 in addition to an above average year for natural catastrophe claims, particularly as a result of multiple landfalling hurricanes in the United States.

The gross premiums written received from two (2019: 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 2020 were $22.3m (2019: $15.6m).

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

	2020 $'000	2019 $'000
Gross technical provisions		
Claims reported	**249,082**	95,063
Claims incurred but not reported	**496,449**	568,685
Unearned premiums	**139,302**	158,275
Total gross technical provisions	**884,833**	822,023
Reinsurers' share of technical provisions		
Claims reported	**58,274**	25,268
Claims incurred but not reported	**212,003**	196,411
Unearned premiums	**36,972**	50,477
Total reinsurers' share of technical provisions	**307,249**	272,156
Net technical provisions		
Claims reported	**190,808**	69,795
Claims incurred but not reported	**284,446**	372,274
Unearned premiums	**102,330**	107,798
Total net technical provisions	**577,584**	549,867

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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 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 1 January 2020	**158,275**	**663,748**	**822,023**
Foreign exchange revaluation	**7**	**4,613**	**4,620**
Movement in provision	**(18,980)**	**77,170**	**58,190**
At 31 December 2020	**139,302**	**745,531**	**884,833**
Reinsurers' share			
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 1 January 2020	**50,477**	**221,679**	**272,156**
Foreign exchange revaluation	**-**	**1,078**	**1,078**
Movement in provision	**(13,505)**	**47,520**	**34,015**
At 31 December 2020	**36,972**	**270,277**	**307,249**
Net			
At 31 December 2020	**102,330**	**475,254**	**577,584**
At 31 December 2019	107,798	442,069	549,867

Notes to the financial statements – continued

6. Net operating expenses

	2020 $'000	2019 $'000
Acquisition costs	**(53,886)**	(48,208)
Change in deferred acquisition costs	**4,801**	(4,823)
Reinsurance commissions	**36,057**	34,740
Administrative expenses	**(13,585)**	(14,139)
Total net operating expenses	**(26,613)**	(32,430)

Administrative expenses include:

	2020 $'000	2019 $'000
Member's standard personal expenses	**(11,171)**	(9,032)

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

7. Auditor's remuneration

	2020 $'000	2019 $'000
- Audit of the Syndicate annual return and annual report and accounts	**(89)**	(86)
- Other services pursuant to Regulations and Lloyd's Byelaws	**(102)**	(97)
- Non-audit fees	**(64)**	(58)
Total auditor's remuneration	**(255)**	(241)

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.

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Notes to the financial statements – continued

9. Financial investments

	Cost	Cost	**Fair value**	Fair value
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000
Shares and other variable yield securities				
- Designated at fair value through profit or loss	**9,100**	1,927	**9,172**	1,927
Debt securities and other fixed income securities				
- Designated at fair value through profit or loss	**288,042**	251,793	**288,066**	252,241
Total financial investments	**297,142**	253,720	**297,238**	254,168

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 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
2020				
Shares and other variable yield securities	**-**	**-**	**9,172**	**9,172**
Debt securities and other fixed income securities	**288,066**	**-**	**-**	**288,066**
Total financial investments	**288,066**	**-**	**9,172**	**297,238**
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

Notes to the financial statements – continued

10. Debtors arising out of underwriting operations

	2020 $'000	2019 $'000
Amounts due from intermediaries – due within one year	**407,608**	498,993
Total debtors arising out of underwriting operations	**407,608**	498,993

11. Creditors arising out of reinsurance operations

	2020 $'000	2019 $'000
Amounts due to intermediaries – due within one year	**(223,998)**	(384,849)
Total creditors arising out of reinsurance operations	**(223,998)**	(384,849)

12. Cash and cash equivalents

	2020 $'000	2019 $'000
Cash at bank and in hand	**81,632**	15,470
Short-term deposits with financial institutions	**18,649**	114,517
Total cash and cash equivalents	**100,281**	129,987

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

	2020 $'000	2019 $'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

	2020 $'000	2019 $'000
Amounts due to group companies	**(100,000)**	(100,000)
Total other creditors	**(100,000)**	(100,000)

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 2020 were managing agent fees of $7.5m (2019: $4.5m) and service charges of $0m (2019: $1.9m).

The immediate parent undertaking of Nephila Syndicate Management Limited is Nephila Syndicate Management Holdings Ltd, a company incorporated and registered in the United Kingdom. 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. 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.

Nephila Syndicate Holdings Ltd extended a loan of $100m to the Syndicate in 2019. The amount outstanding to Nephila Syndicate Holdings Ltd at 31 December 2020 was $100m (2019: $100m).

Syndicate 2357 purchased quota share reinsurance costing $59.7m (2019: $74.1m) from Demeter Re for its reinsurance business. The amount outstanding to Demeter Re at 31 December 2020 was $104.8m (2019: $184.4m).

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 2021, $19.9m will be collected from the member for the deficit on the 2018 closing year of account.

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