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Syndicate 2358

Annual Report and Financial Statements
31 December 2023

Syndicate 2358
Annual Report and Financial Statements

31 December 2023

Contents

Directors and administration

Managing agent

Nephila Syndicate Management Limited

Executive directors

C N Bare	Resigned 22 April 2023
A G Beatty	
G C Butterworth	Resigned 1 April 2023
J A H G Cartwright	Appointed 25 January 2023
S G Drysdale	Appointed 5 January 2024
A I U Haq	Resigned 25 January 2023
A J Wilkinson	Appointed 8 February 2024

Non-executive directors

R J S Bucknall	
W A Guffey	
W F Majors	Resigned 7 December 2023
T A Riddell	
J E Street	
L Taylor	Appointed 2 August 2023

Managing agent's registered office

Walsingham House
35 Seething Lane
London
EC3N 4AH

Managing agent's registered number

11103467

Active underwriter

R J Louden

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 Limited ("NSML") present their annual report, which incorporates the strategic review, together with the audited financial statements for the year ended 31 December 2023.

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 2358 ("the Syndicate"), whose principal activity is underwriting general insurance and reinsurance business at Lloyd's of London ("Lloyd's"). The Syndicate, which commenced underwriting with capacity of £50.0m ($63.5m) on the 2022 year of account and grew to £90.0m ($114.3m) for the 2023 year of account, writes a portfolio of specialty risks.

Results

The Syndicate reported a $5.5m profit for the 2023 financial year (2022: profit of $2.3m). The calendar year combined ratio was 94.4% (2022: 88.3%).

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

	2023 $'000	2022 $'000
Casualty	**29,683**	18,857
Motor	**14,540**	7,480
Marine	**2,627**	795
Aviation	**12,125**	7,404
Property	**47,116**	11,515
Inwards Reinsurance	**14,740**	2,547
Total	**120,831**	48,598

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

	2023 $'000	2022 $'000
Gross premiums written	**120,831**	48,598
Profit for the financial year	**5,464**	2,282
Loss ratio	**59.7%**	48.6%
Expense ratio	**34.7%**	39.7%
Combined ratio	**94.4%**	88.3%

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

It is too early in the development of the 2023 year of account to accurately assess the likely ultimate outcomes. The first disclosure of a formal forecast, range and return on capacity will be made at 24 months. The estimated result for the 2022 year of account was as follows:

	2023 YOA Open	**2022 YOA Open**
Capacity ($'000)	114,300	63,500
Result/forecast ($'000)	*	10,266
Return on capacity (%)	*	16.2%

Managing agent's report – continued

Principal risks and uncertainties

The NSML Board has overall responsibility and accountability for the 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 (rating of A- or better from an external credit rating agency) or supported by collateralisation, where required. NSML's Executive Committee monitors reinsurer ratings and is required to approve all new and renewing reinsurers before business is placed with them.

Market risk

The Syndicate is exposed to market risk through fluctuations in interest rates or exchange rates. Exposure to foreign exchange movements arises where there are mismatches between assets and liabilities within the currencies in which the Syndicate transacts. NSML's policy is to maintain, where possible, income and expenditure in the core currencies in which they are received or paid. Any surplus or deficit arising as a result of this policy is subject to review by the Executive Committee and where required currency trades are performed with the aim of eliminating currency mismatches.

The Syndicate's exposure to changes in interest rates arises though its investment portfolio. NSML seeks to minimise this risk by investing only in 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, all funds are held in cash or in highly liquid money market funds whilst the Syndicate builds liquidity. Cash flow projections, under both normal and stressed conditions, are reviewed on a regular basis to identify potential liquidity strains to allow timely remedial action to 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.

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.

Managing agent's report – continued

Principal risks and uncertainties - continued

Operational risk - continued

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 have 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 has limited exposure to the two major categories of climate change risk, physical risk and transition risk, which aligns with the overarching syndicate strategy and business model. 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 accesses business via consortia, quota share or binding authorities, with no direct open market deals. Climate change and ESG factors are considered as part of partner selection as well as within their underwriting product offerings and the Syndicate supports Lloyd's ambition toward a net zero future by supporting portfolios which:

- are not reliant on carbon intensive industries or sectors, unless partners can demonstrate their customers have clear and credible transition plans;
- demonstrate consideration for environmental, societal and governance concerns; and
- comply with ESG mandates or guidance from our regulators

There is a robust governance framework in place to ensure that this ambition is maintained.

The syndicate business planning process includes a qualitative assessment specifically for physical and transitional climate risk for each class of business which is discussed by a management committee before being approved by the Board.

In addition, the Syndicate has articulated its climate risk appetite and there are clear tolerances in place to actively manage risk exposures, with regular Board monitoring and reporting. Transition risk exposures on the asset side of the Syndicate's balance sheet from climate change is limited given the composition of the Syndicate's investment portfolio.

Climate risk scenario tests, developed using the Bank of England's Climate Biennial Exploratory Exercise (CBES) methodology, were presented to the NSML Board in Q4 2022. These scenarios continue to be refined and enhanced as more information becomes available and will be tailored to the Syndicate's portfolio and changing risk profile as new risk partners and/or classes of business are added.

The Syndicate has considered the principles of the PRA 3/19 Supervisory Statement on financial risks arising from climate change and implemented them into its processes where relevant. 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 have on the business. The Syndicate will continue to monitor the climate risk landscape throughout 2024 and respond to regulations where appropriate.

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Managing agent's report – continued

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 2024 year of account is $190.5m (£150m).

Post balance sheet events

There have been no post balance sheet events to report at the time of issuing these 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:-

J A H G Cartwright	Appointed 25 January 2023
A I U Haq	Resigned 25 January 2023
G C Butterworth	Resigned 1 April 2023
C N Bare	Resigned 22 April 2023
L Taylor	Appointed 2 August 2023
W F Majors	Resigned 7 December 2023
S G Drysdale	Appointed 5 January 2024
A J Wilkinson	Appointed 8 February 2024

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
26 February 2024

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 the 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 members of Syndicate 2358

Report on the audit of the syndicate annual financial statements

Opinion

In our opinion the syndicate annual financial statements of Syndicate 2358 (the 'syndicate'):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2023 and of its profit 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 balance sheet;
- the statement of changes in members' balances;
- the statement of cash flows;
- the accounting policies; and
- the related notes 1 to 17.

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 members of Syndicate 2358 - 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 members of Syndicate 2358 - 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 frameworks 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 the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) 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 including relevant internal specialists such as actuarial specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address them are described below:

- Estimation of accrued premium income relating to pipeline premium due to the syndicate but not yet notified requires significant management judgement and therefore there is potential for management bias through manipulation of core assumptions. In response our testing included comparing management's estimates to the evidence of the pipeline premium accrual provided by the third parties as well as against actual premiums received and our own developed estimate to total recorded amount of estimated premium income.
- Valuation of technical provisions includes assumptions and methodology requiring significant management judgement and involves complex calculations, and therefore there is potential for management bias. There is also a risk of overriding controls by making late adjustments to the technical provisions. In response to these risks, we involved our actuarial specialists to review the assumptions and methodology applied to the technical provisions and we tested the late journal entries to technical provisions.

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, 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, reviewing internal audit reports and reviewing correspondence with Lloyd's, the FCA and the PRA

Independent Auditor's report to the members of Syndicate 2358 - 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.

Adam Knight (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
27 February 2024

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Profit and loss account

For the year ended 31 December 2023

Technical account – general business

	Notes	2023 $'000	2022 $'000
Gross premiums written	4	120,831	48,598
Outward reinsurance premiums		(2,628)	(2,421)
Premiums written, net of reinsurance		118,203	46,177
Change in provision for unearned premiums			
– gross amount	5	(41,455)	(28,012)
– reinsurers' share	5	318	1,275
Earned premiums, net of reinsurance		**77,066**	**19,440**
Claims paid			
– gross amount		(7,211)	(57)
– reinsurers' share		6	-
Net claims paid		(7,205)	(57)
Change in the provision for claims:			
– gross amount	5	(39,375)	(9,464)
– reinsurers' share	5	577	68
Claims incurred, net of reinsurance		**(46,003)**	**(9,453)**
Net operating expenses	6	**(26,728)**	**(7,710)**
Balance on the technical account – general business		**4,335**	**2,277**

Non-technical account

	Notes	2023 $'000	2022 $'000
Investment income		**985**	**41**
Profit / (loss) on foreign exchange		**144**	**(36)**
Profit for the financial year		**5,464**	**2,282**

All of the amounts above are in respect of continuing operations.

There is no other comprehensive income in the accounting period other than that reported within the technical and non-technical accounts. Accordingly, a separate statement of comprehensive income has not been presented.

The notes 1 to 17 form an integral part of these financial statements.

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Statement of changes in members' balances

For the year ended 31 December 2023

	Notes	2023 $'000	2022 $'000
Balance at start of year		**2,282**	**-**
Profit for the financial year		5,464	2,282
Transactions with members, recorded directly in members' balances: – (Distribution) / collection of surplus / deficit and cash calls from members		-	-
Balance at end of year		**7,746**	**2,282**

The notes 1 to 17 form an integral part of these financial statements.

Balance sheet

As at 31 December 2023

Assets	Notes	2023 $'000	2022 $'000
Investments - financial investments	9	**5,459**	**1,184**
Reinsurers' share of provision for unearned premiums	5	1,635	1,198
Reinsurers' share of claims outstanding	5	651	68
Reinsurers' share of technical provisions		**2,286**	**1,266**
Debtors arising out of underwriting operations	10	37,704	17,454
Debtors arising out of reinsurance operations	10	4,230	-
Debtors – amounts falling due within one year		**41,934**	**17,454**
Cash and cash equivalents	11	53,623	14,482
Overseas deposits	12	3,301	356
Other assets		**56,924**	**14,838**
Deferred acquisition costs		20,222	7,947
Other prepayments and accrued income		1,800	2,515
Prepayments and accrued income		**22,022**	**10,462**
Total assets		**128,625**	**45,204**

The notes 1 to 17 form an integral part of these financial statements.

Balance sheet – continued

As at 31 December 2023

Liabilities	**Notes**	**2023 $'000**	**2022 $'000**
Members' balances		**7,746**	**2,282**
Provision for unearned premiums	5	70,123	27,937
Claims outstanding	5	49,208	9,304
Technical provisions		**119,331**	**37,241**
Creditors arising out of reinsurance operations	13	508	1,496
Other creditors	14	965	3,643
Creditors – amounts falling due within one year		**1,473**	**5,139**
Accruals and deferred income		**75**	**542**
Total liabilities		**120,879**	**42,922**
Total liabilities and members' balances		**128,625**	**45,204**

The notes 1 to 17 form an integral part of these financial statements.

These financial statements were approved by the Board of Nephila Syndicate Management Limited on 26th February 2024 and signed on its behalf by:

J A H G Cartwright
Finance Director

Statement of cash flows

For the year ended 31 December 2023

	2023 $'000	2022 $'000
Operating activities		
Profit on ordinary activities	**4,335**	**2,277**
Adjustments for:		
Change in net technical provisions	81,070	35,975
Change in debtors	(24,480)	(17,454)
Change in creditors	(3,666)	5,139
Change in other assets / liabilities	(14,972)	(10,276)
Exchange losses	(153)	(36)
Net cash flows from operating activities	**42,134**	**15,625**
Investing activities		
Purchase of financial investments	(5,459)	(1,184)
Sale of financial investments	1,184	-
Investment income	985	41
Net cash flows from investing activities	**(3,290)**	**(1,143)**
Net cash flows from financing activities	**-**	-
Net increase in cash and cash equivalents	**38,844**	**14,482**
Cash and cash equivalents at 1 January	14,482	-
Effect of exchange rates on opening cash and cash equivalents	297	-
Cash and cash equivalents at 31 December	**53,623**	**14,482**

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.

2. Accounting policies

Critical accounting judgements and key sources of estimation uncertainty

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.

Critical judgements in applying the syndicate's accounting policies

There are no critical judgements, apart from those involving estimations in the process of applying the syndicate's accounting policies.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

i. Provision for claims outstanding

The provision for claims comprises amounts set aside for reported claims and incurred but not reported ('IBNR') claims. The estimate of IBNR is subject to a greater degree of uncertainty than reported claims as it is based on statistical techniques of estimation applied by actuaries as outlined below. Provision for claims outstanding is disclosed in note 5.

ii. Premium recognition – accrued premium

Gross written premiums are a key estimate for the syndicate. Estimates are made for pipeline premium, representing amounts due to the syndicate not yet notified or received. Gross written premium is disclosed in note 4.

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Notes to the financial statements – continued

2. Accounting policies – continued

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 premium, representing amounts due to the syndicate not yet notified.

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.

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.

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

Notes to the financial statements – continued

2. Accounting policies – continued

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.

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 2023 and 31 December 2022 the Syndicate did not have an unexpired risk provision.

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 2023 or 2022.

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.

Notes to the financial statements – continued

2. Accounting policies – continued

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.

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 2023	**31 December 2022**
GBP	**0.787**	**0.833**
EUR	**0.906**	**0.942**
JPY	**141.535**	**132.258**
AUD	**1.472**	**1.475**
NZD	**1.583**	**1.583**
CAD	**1.323**	**1.358**

Notes to the financial statements – continued

2. Accounting policies – continued

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 deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to the members 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.

Profit commission

NSML has agreed contractual terms with the capital providers to the Syndicate for the payment of profit commissions based on the performance of the individual years of account of the Syndicate subject to certain conditions. Profit commissions are accrued in line with the contractual terms and the development of the result of the underlying years of account.

Amounts charged to the Syndicate do not become payable until after the appropriate year of account closes, normally at 36 months, although the Managing Agent may receive payments on account of anticipated profit commissions in line with interim profits released to members.

3. Risk management

Governance framework

The NSML Board is responsible for managing the risks of the Syndicate and has a comprehensive governance structure and 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.

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 2358 is not disclosed in these financial statements.

Notes to the financial statements – continued

3. Risk management – continued

Capital management objectives, policies and approach - continued

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 2023 was 35% (2022: 35%) of the member's SCR 'to ultimate'.

Provision of capital by members

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

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 risk mitigation programme. 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.

Notes to the financial statements – continued

3. Risk management – continued

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 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, claim inflation factors, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

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

Sensitivities

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

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit and members' 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 and that the level of reinsurance recoveries arising from changes in gross claims will not be proportional to the gross losses.

	Gross of reinsurance 2023 $'000	Net of reinsurance 2023 $'000	Gross of reinsurance 2022 $'000	Net of reinsurance 2022 $'000
Impact of a 5% variance in:				
Claims liability	**2,460**	**2,428**	**465**	**462**

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

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Notes to the financial statements – continued

3. Risk management – continued

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.

Claims development is expected when the underwriting year is as an early stage of development as the premiums to which the claims relate are earned.

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.

Claims development table gross of reinsurance

Underwriting year	2022 $'000	2023 $'000
Estimate of gross claims incurred:		
At end of first year	9,489	28,578
One year later	28,066	
Gross incurred claims	28,066	28,578
Less cumulative gross claims paid	(6,521)	(915)
Liability for gross claims outstanding	21,545	27,663
Total gross claims outstanding		**49,208**

Claims development table net of reinsurance

Underwriting year	2022 $'000	2023 $'000
Estimate of net claims incurred:		
At end of first year	9,069	28,445
One year later	27,542	
Net incurred claims	27,542	28,445
Less cumulative net claims paid	(6,515)	(915)
Liability for net claims outstanding	21,027	27,530
Total net claims outstanding		**48,557**

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 Syndicate's portfolio. The policy is monitored by the Executive Committee.
- Reinsurance is placed with counterparties that either have a credit rating of 'A-' or better from an external credit rating agency or, where reinsurance is placed with unrated reinsurers, exposure is required to be 100% collateralised through the depositing of funds held in trust to the Syndicate Concentration of risk is avoided by following policy guidelines in respect of counterparties' limits. If the counterparty is downgraded or does not have the required credit rating, then collateral is sought to mitigate any risk where required. This is monitored by the Executive Committee, which may approve exceptions in certain circumstances.

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 2023 $'000	Past due 2023 $'000	Impaired 2023 $'000	Total 2023 $'000
Shares and other variable yield securities	5,459	-	-	**5,459**
Reinsurers' share of claims outstanding	651	-	-	**651**
Debtors arising out of underwriting operations	41,934	-	-	**41,934**
Cash and cash equivalents	53,623	-	-	**53,623**
Overseas deposits as other assets	3,301	-	-	**3,301**
Total assets[1]	**104,968**	-	-	**104,968**

	Neither past due or impaired 2022 $'000	Past due 2022 $'000	Impaired 2022 $'000	Total 2022 $'000
Shares and other variable yield securities	1,184	-	-	**1,184**
Reinsurers' share of claims outstanding	68	-	-	**68**
Debtors arising out of underwriting operations	17,454	-	-	**17,454**
Cash and cash equivalents	14,482	-	-	**14,482**
Overseas deposits as other assets	356	-	-	**356**
Total assets[1]	**33,544**	-	-	**33,544**

[1] Total assets excludes non-monetary items including deferred acquisition costs and reinsurers' share of unearned premiums.

Notes to the financial statements – continued

3. Risk management – continued

Financial risk - continued

Credit risk - continued

The tables below provide 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 have not been rated.

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

	AAA	AA	A	BBB	Less than BBB	Not Rated	Total
	2023	2023	2023	2023	2023	2023	2023
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Shares and other variable yield securities	5,459	-	-	-	-	-	**5,459**
Reinsurers' share of claims outstanding	-	116	535	-	-	**-**	**651**
Reinsurers' share of paid claims	-	1	5	-	-	**-**	**6**
Cash and cash equivalents	30,781	-	22,842	-	-	**-**	**53,623**
Overseas deposits as other assets	1,907	194	247	236	188	529	**3,301**
Total assets[1]	**38,147**	**311**	**23,629**	**236**	**188**	**529**	**63,040**

	AAA	AA	A	BBB	Less than BBB	Not Rated	Total
	2022	2022	2022	2022	2022	2022	2022
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Shares and other variable yield securities	1,184	-	-	-	-	**-**	**1,184**
Reinsurers' share of claims outstanding	-	11	57	-	-	**-**	**68**
Reinsurers' share of paid claims	-	-	-	-	-	**-**	**-**
Cash and cash equivalents	14,482	-	-	-	-	**-**	**14,482**
Overseas deposits as other assets	204	57	32	31	-	32	**356**
Total assets[1]	**15,870**	**68**	**89**	**31**	**-**	**32**	**16,090**

[1] Total assets excludes non-monetary items including deferred acquisition costs and reinsurers' share of unearned premiums.

Notes to the financial statements – continued

3. Risk management – continued

Financial risk

Credit risk

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.

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 tables below summarise 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	(21,027)	(17,414)	(5,228)	(5,539)	**(49,208)**
Reinsurance creditors	(508)	-	-	-	**(508)**
As at 31 December 2023	**(21,535)**	**(17,414)**	**(5,228)**	**(5,539)**	**(49,716)**

	Within 1 year $’000	**1-2 years $’000**	**3-5 years $’000**	**Over 5 years $’000**	**Total $’000**
Claims outstanding	(3,751)	(3,701)	(1,220)	(632)	**(9,304)**
Reinsurance creditors	(1,496)	-	-	-	**(1,496)**
As at 31 December 2022	**(5,247)**	**(3,701)**	**(1,220)**	**(632)**	**(10,800)**

Notes to the financial statements – continued

3. Risk management – continued

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, Australian Dollar, Canadian Dollar, Japanese Yen and New Zealand Dollar. 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.

The following tables summarise the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date.

	USD 2023 $'000	**EUR 2023 $'000**	**GBP 2023 $'000**	**CAD 2023 $'000**	**JPY 2023 $'000**	**AUD 2023 $'000**	**NZD 2023 $'000**	**Total 2023 $'000**
Total assets	78,029	9,098	14,887	18,003	649	7,501	458	**128,625**
Total liabilities	(77,277)	(9,391)	(14,586)	(12,359)	(532)	(6,320)	(414)	**(120,879)**
Net Assets / (liabilities)	**752**	**(293)**	**301**	**5,644**	**117**	**1,181**	**44**	**7,746**

	USD 2022 $'000	**EUR 2022 $'000**	**GBP 2022 $'000**	**CAD 2022 $'000**	**JPY 2022 $'000**	**AUD 2022 $'000**	**NZD 2022 $'000**	**Total 2022 $'000**
Total assets	25,046	3,385	9,904	4,926	260	1,460	223	**45,204**
Total liabilities	(24,656)	(2,786)	(9,347)	(4,253)	(286)	(1,375)	(219)	**(42,922)**
Net Assets / (liabilities)	**390**	**599**	**557**	**673**	**(26)**	**85**	**4**	**2,282**

Notes to the financial statements – continued

3. Risk management – continued

Market risk – continued

Sensitivity to changes in foreign exchange rates

The tables below give 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 2023.

		Net assets		Net profit
	2023 $'000	2022 $'000	**2023 $'000**	2022 $'000
US Dollar strengthens 10%	**(699)**	(189)	**(699)**	(189)
US Dollar strengthens 20%	**(1,399)**	(378)	**(1,399)**	(378)

A weakening of US Dollar against the above currencies at 31 December 2023 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.

	Net assets		**Net profit**	
	2023 $'000	**2022 $'000**	**2023 $'000**	**2022 $'000**
Impact of 50 basis point increase	**(39)**	**(11)**	**(27)**	**(11)**

A decrease of 50 basis points at 31 December 2023 would have had an equal but opposite effect to the amounts shown below, on the basis that all other variables remain constant.

Notes to the financial statements – continued

4. Segmental information

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

For the year ended 31 December 2023:

	Gross premiums written $'000	Gross premiums earned $'000	Gross claims incurred $'000	Gross operating expenses $'000	Reinsurance balances earned $'000	Total $'000
Casualty	29,683	19,115	(9,778)	(6,404)	(1,261)	1,672
Motor	14,540	12,340	(6,129)	(4,346)	-	1,865
Marine	2,627	1,778	(743)	(655)	(11)	369
Aviation	12,125	7,840	(11,372)	(2,165)	(135)	(5,832)
Property	47,116	28,753	(12,790)	(10,636)	(42)	5,285
Total direct	**106,091**	**69,826**	**(40,812)**	**(24,206)**	**(1,449)**	**3,359**
Reinsurance acceptances	14,740	9,550	(5,774)	(2,500)	(300)	976
Total	**120,831**	**79,376**	**(46,586)**	**(26,706)**	**(1,749)**	**4,335**

For the year ended 31 December 2022:

	Gross premiums written $'000	Gross premiums earned $'000	Gross claims incurred $'000	Gross operating expenses $'000	Reinsurance balances earned $'000	Total $'000
Casualty	18,857	6,473	(3,460)	(2,618)	(310)	85
Motor	7,480	2,810	(1,401)	(1,234)	-	175
Marine	795	345	(173)	(157)	-	15
Aviation	7,404	5,626	(2,000)	(1,442)	(591)	1,593
Property	11,515	4,364	(2,101)	(1,946)	-	317
Total direct	**46,051**	**19,618**	**(9,135)**	**(7,397)**	**(901)**	**2,185**
Reinsurance acceptances	2,547	968	(386)	(460)	(30)	92
Total	**48,598**	**20,586**	**(9,521)**	**(7,857)**	**(931)**	**2,277**

Commissions on direct insurance gross premiums written during 2023 were $20.3m (2022: $4.7m).

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.

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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

	2023 $'000	2022 $'000
Gross technical provisions		
Claims reported	16,560	294
Claims incurred but not reported	32,648	9,010
Unearned premiums	70,123	27,937
Total gross technical provisions	**119,331**	**37,241**
Reinsurers' share of technical provisions		
Claims reported	382	-
Claims incurred but not reported	269	68
Unearned premiums	1,635	1,198
Total reinsurers' share of technical provisions	**2,286**	**1,266**
Net technical provisions		
Claims reported	16,178	294
Claims incurred but not reported	32,379	8,942
Unearned premiums	68,488	26,739
Total net technical provisions	**117,045**	**35,975**

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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 2022	-	-	-
Foreign exchange revaluation	(75)	(160)	(235)
Movement in provision	28,012	9,464	37,476
At 1 January 2023	27,937	9,304	37,241
Foreign exchange revaluation	731	529	1,260
Movement in provision	41,455	39,375	80,830
At 31 December 2023	**70,123**	**49,208**	**119,331**
Reinsurers' share			
At 1 January 2022	-	-	-
Foreign exchange revaluation	(77)	-	(77)
Movement in provision	1,275	68	1,343
At 1 January 2023	1,198	68	1,266
Foreign exchange revaluation	119	6	125
Movement in provision	318	577	895
At 31 December 2023	**1,635**	**651**	**2,286**
Net			
At 31 December 2023	**68,488**	**48,557**	**117,045**
At 31 December 2022	26,739	9,236	35,975

Notes to the financial statements – continued

6. Net operating expenses

	2023 $'000	2022 $'000
Acquisition costs	**(34,364)**	(13,575)
Change in deferred acquisition costs	**12,063**	7,971
Reinsurance commission	**(22)**	147
Administrative expenses	**(4,405)**	(2,253)
Total net operating expenses	**(26,728)**	**(7,710)**

Administrative expenses include:

	2023 $'000	2022 $'000
Members' standard personal expenses	**(2,983)**	(1,604)

Members' standard personal expenses comprise member subscriptions, new central fund contributions, managing agent fees and profit commissions.

7. Auditor's remuneration

	2023 $'000	2022 $'000
- Audit of the Syndicate annual return and annual report and accounts	**(154)**	(145)
- Other services pursuant to Regulations and Lloyd's Byelaws	**(48)**	(45)
- Non-audit fees	**(67)**	(56)
Total auditor's remuneration	**(269)**	**(246)**

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

Fees payable to Deloitte LLP for the audit of the annual accounts of Nephila Syndicate Management Limited are $30.8k (2022: $27.6k). Fees payable for audit-related assurance services provided to the managing agent are $7k (2022: $6k). There were no other fees payable for the provision of other non-audit services.

8. Emoluments of directors of Nephila Syndicate Management Limited.

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

The Syndicate's active underwriter, R J Louden, 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 2023 $'000	Cost 2022 $'000	Fair value 2023 $'000	Fair value 2022 $'000
Shares and other variable yield securities				
- Designated at fair value through profit or loss	**5,459**	1,184	**5,459**	1,184
Total financial investments	**5,459**	1,184	**5,459**	1,184

There was no material change in fair value for financial instruments held at fair value 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
2023				
Shares and other variable yield securities	5,459	-	-	5,459
Total financial investments	**5,459**	**-**	**-**	**5,459**
2022				
Shares and other variable yield securities	1,184	-	-	1,184
Total financial investments	1,184	-	-	1,184

Notes to the financial statements – continued

10. Debtors arising out of underwriting operations

	2023 $'000	2022 $'000
Amounts due from intermediaries – due within one year	**37,704**	17,454
Amounts due from ceding insurers and intermediaries under reinsurance business – due within one year	**4,230**	-
Total debtors arising out of underwriting operations	**41,934**	17,454

11. Cash and cash equivalents

	2023 $'000	2022 $'000
Cash at bank and in hand	**22,842**	14,482
Short-term deposits with financial institutions	**30,781**	-
Total cash and cash equivalents	**53,623**	**14,482**

12. Overseas deposits

Overseas deposits $3.3m (2022: $0.4m) which are lodged as a condition of conducting underwriting business in certain countries.

13. Creditors arising out of reinsurance operations

	2023 $'000	2022 $'000
Amounts due to intermediaries – due within one year	**508**	1,496
Total creditors arising out of reinsurance operations	**508**	1,496

14. Other creditors

	2023 $'000	2022 $'000
Amounts due to group companies	**965**	3,643
Total other creditors	**965**	3,643

All amounts are expected to be payable within one year.

Notes to the financial statements – continued

15. Related parties

Nephila Syndicate Management Limited ('NSML') is the managing agent of Syndicate 2358. Fees of $0.8m for the provision of services and support were charged by NSML to Syndicate 2358 during the year (2022: $0.5m). Performance related fees payable to NSML of $0.6m have been accrued at the period end (2022: $0.2m). Total accrued performance fees stood at $0.8m at the period end (2022: $0.2m). Additionally, NSML incurred costs of $0.4m in the previous period of which $0.1m remained outstanding at 31 December 2023 (31 December 2022: $0.4m) and is expected to be repaid in 2024. All outstanding balances are unsecured without conditions or guarantees.

The immediate parent undertaking of NSML 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.

In 2022, the Syndicate entered into an unsecured loan agreement for $3.0m with NSML to provide start-up liquidity to enable the Syndicate to commence underwriting activities. Interest of 0.75% per annum was payable by the Syndicate under this agreement. During the year $3.9k was charged in this respect (2022: $22.5k). Both the loan and interest were repaid in full during the year.

16. 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.

17. Off balance sheet items

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

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