Accounts disclaimer

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Coverys Managing Agency Limited

Report and Financial Statements
Syndicate 1975
for the year ended
31 December 2022

Administration

Managing Agent:
Coverys Managing Agency Limited
5th Floor, Dixon House, 1 Lloyd's Avenue
London EC3N 3DS

Registered Number:
04690709

Bankers:
Barclays Bank plc
1 Churchill Place
London E14 5HP

Independent Auditors:
PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Managing Agent's report

Coverys Managing Agency Limited ("CMAL") presents its report for Syndicate 1975 for the year ended 31 December 2022.

Strategic report
The managing agent's report should be read in conjunction with the strategic report as it includes information required to be disclosed in the managing agent's report. This information is primarily relating to a review of the business and a description of principal risks and uncertainties, although there is more extensive disclosure of risk management on page 22.

Officers
The directors and company secretary of the managing agent who served during the year ended 31 December 2022 and up to the date of this report were as follows:

E B Bagley	Group non-executive director – resigned 25 June 2022
M Bell	Executive director
C D Charles	Non-executive director
S A Davies	Non-executive director
R D Forster	Executive director – resigned 4 August 2022
D W Hipkin	Non-executive chairman
J Marshall	Secretary
T C Mills	Group non-executive director
M A Sibthorpe	Executive director – appointed 26 July 2022

Annual General Meeting
The directors do not propose to hold an annual general meeting for the syndicate.

Independent Auditors
Pricewaterhousecoopers LLP have indicated their willingness to continue in office as the syndicate's auditors.

Disclosure of Information to Auditors
So far as each person who was a director of the managing agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing its report, of which the auditors are unaware. Having made enquiries of fellow directors and the syndicate's auditors, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information.

Approved by order of the Board of CMAL.

M A Sibthorpe
Chief Executive Officer
27 February 2023

Strategic report

The directors of CMAL present their strategic report for Syndicate 1975 for the year ended 31 December 2022.

Principal activity and review of the business

Syndicate 1975 is a specialist in insurance and reinsurance across a broad range of medical professional liability and healthcare lines and was approved by Lloyd's to commence underwriting at 1st January 2018.

We previously announced that the syndicate would cease underwriting with effect from 31 December 2022, accordingly the syndicate is now in Run-off. During 2022 the syndicate had a 100% Loss Portfolio Transfer (LPT) and 100% Group Quota Share (QS) transaction with Medical Professional Mutual Insurance Company (MPMIC) which is its Parent Company, ceding all retrospective and prospective business on a funds withheld basis. The reinsurance premium payable on the transaction in 2022 was £115.5m (2021: £28.0m).

Key Performance Indicators

The managing agent considers the following to be the key performance indicators for the syndicate:

	2022	*2021*
Gross premiums written	*£52.3m*	*£51.7m*
Loss for the year	*(£3.1m)*	*(£0.2m)*

Results

The result for the year is a loss of £3.1m.

The current year of account forecasts/actuals are as follows:

	2022 account Forecast	*2021 account Forecast*	*2020 account Actual*
Gross premiums written	*£51.2m*	*£50.8m*	*£55.8m*
Loss	*(£7.8m)*	*(£4.5m)*	*(£4.2m)*

The net combined ratio is no longer a useful indicator of the syndicate results due to the Quota Share arrangement which distorts the net premium base.

Changes in regulatory requirements are closely monitored by the managing agent and are taken into account in the planning of forward strategy.

Strategic report (continued)

Future Developments

The syndicate continues to manage the live risks within the syndicate, dealing with all amendments and servicing of broker and client requirements as well as dealing with claims arising from live risks.

Regarding the ongoing client management and underwriting of MPL business previously written by Syndicate 1975, Coverys group will look to offer underwriting capacity through Coverys Specialty Insurance Company and in due course, through our London based MGA, regulated by the FCA.

Post Balance sheet events

There have been no relevant post balance sheet events.

Other performance indicators

Staff matters

The managing agent considers the staff that it utilises from its sister company, Coverys MA Services Ltd, to be a key resource and seeks to provide a good working environment that is rewarding and safe and complies with appropriate employee legislation. We continued to develop and implement a Hybrid Working Policy, which recognises and embraces the shift in working patterns to facilitate both in-office and virtual arrangements for staff.

During the year there have been no significant injuries to staff in the workplace or any significant actions taken by any regulatory bodies with regard to staff matters.

Environmental matters

The managing agent does not consider its business to have a large adverse impact upon the environment. As a result, the agent does not manage its underwriting business by reference to any environmental key performance indicators.

The managing agent takes a responsible approach in the management of assets by striving to invest in institutions that do no harm to the environment. The asset manager incorporates Environmental, Social and Corporate Governance (ESG) factors in its assessment of investment alternatives and monitors the portfolio's ESG impact on a regular basis.

Approved by order of the Board of CMAL.

M A Sibthorpe
Chief Executive Officer
27 February 2023

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the Annual Report and the Syndicate Annual Financial Statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Regulation 5 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") requires the managing agent to prepare Syndicate Annual Financial Statements at 31 December each year which give a true and fair view of the state of affairs of the syndicate and of its profit or loss for that year.

In preparing those Syndicate Annual Financial Statements, the managing agent is required to:

- select suitable accounting policies, and apply them consistently except where relevant accounting requirements change;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Syndicate Annual Financial Statements; and
- prepare the Syndicate Annual Financial Statements on a going concern basis, unless it is inappropriate to do so.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the Syndicate Annual Financial Statements comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

Independent auditors' report to the member of Syndicate 1975

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 1975's syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2022 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); 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 accounts included within the Report and Financial Statements (the "Annual Report"), which comprise: the Balance sheet – Assets and the Balance sheet – Liabilities as at 31 December 2022; the Statement of profit or loss: Technical account – general business, the Statement of profit or loss: Non-technical account, the Statement of other comprehensive income, the Statement of cash flows, and the Statement of changes in members balances for the year then ended; the Statement of accounting policies, Risk management and the notes to the syndicate annual accounts.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and other applicable law. Our responsibilities under ISAs (UK) are further described in the *Auditors' responsibilities for the audit of the syndicate annual accounts* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, which includes the FRC's Ethical Standard, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 3, we have provided no non-audit services to the syndicate in the period under audit.

Conclusions relating to going concern

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 as a going concern for a period of at least twelve months from when the syndicate annual accounts are authorised for issue.

In auditing the syndicate annual accounts, we have concluded that the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the syndicate's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Managing Agent with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Managing Agent's report, we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us also to report certain opinions and matters as described below.

Managing Agent's Report

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 year ended 31 December 2022 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's report.

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

As explained more fully in the Statement of managing agent's responsibilities the Managing Agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the Managing Agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the syndicate is unable to continue to realise its assets and discharge its liabilities in the ordinary course of business.

Auditors' responsibilities for the audit of the syndicate annual accounts

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

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.
Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journals to increase revenue or reduce expenditure or to manipulate member's balances. We also considered management bias in accounting estimates and judgemental areas of the syndicate annual accounts such as the valuation of the technical provision for claims outstanding and estimated premium income. Audit procedures performed by the engagement team included:

- discussions with senior management involved in the Risk and Compliance functions, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- assessment of any matters reported on the whistleblowing helpline and fraud register and the results of management's investigation of such matters;
- reading key correspondence with Lloyd's in relation to compliance with laws and regulations;
- reviewing relevant meeting minutes including those of the Audit Committee;
- testing journal entries identified in accordance with our risk assessment;
- identifying and testing estimated premium income on a sample basis;
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing; and,
- testing material transactions entered into outside of the normal course of business, where relevant.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the syndicate annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

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

Other required reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- certain disclosures of Managing Agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Andrew Box (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 February 2023

Statement of profit or loss
Technical account – general business
Year ended 31 December 2022

	Notes	2022 £000	2022 £000	2021 £000	2021 £000
Earned premiums, net of reinsurance					
Gross premiums written	1	52,284		51,747	
Outward reinsurance premiums		(121,852)		(30,095)	
Net premiums written			(69,568)		21,652
Change in provision for unearned premiums:					
Gross amount		462		214	
Reinsurers' share		22,413		(366)	
Change in the net provision for unearned premiums			22,875		(152)
Earned premiums, net of reinsurance			(46,693)		21,500
Allocated investment return transferred from the non-technical account			(1,731)		(353)
Total technical (expense) / income			(48,424)		21,147
Claims incurred, net of reinsurance					
Claims paid:					
Gross amount		(13,420)		(34,068)	
Reinsurers' share		12,702		-	
Net claims paid		(718)		(34,068)	
Change in the provision for claims:					
Gross amount		(19,061)		2,402	
Reinsurers' share		67,500		27,884	
Change in the net provision for claims		48,439		30,286	
Claims incurred, net of reinsurance			47,721		(3,782)
Net operating expenses	3,4,5		(1,258)		(17,345)
Balance on the technical account for general business			(1,961)		20

The accounting policies and notes on pages 16 to 36 form part of these financial statements

Statement of profit or loss
Non-technical account
Year ended 31 December 2022

	Notes	2022 £000	2021 £000
Balance on the general business technical account		(1,961)	20
Investment income	6	563	462
Investment expenses and charges	6	(30)	(62)
Realised losses on investments	6	(287)	(447)
Unrealised losses on investments	6	(1,977)	(306)
Allocated investment return transferred to technical account – general business		1,731	353
Non-technical account charge		(1,093)	(204)
Loss for the financial year		(3,054)	(184)

Statement of other comprehensive income for the year ended 31 December 2022

	2022 £000	2021 £000
Loss for the financial year	(3,054)	(184)
Total comprehensive expense for the financial year	(3,054)	(184)

Statement of changes in members balances for the year ended 31 December 2022

	2022 £000	2021 £000
Balance due from member at 1 January	(16,615)	(32,758)
Loss collected from Member – 2019 / 2018 year of account	9,109	16,352
Total comprehensive income for the financial year	(3,054)	(184)
Member’s agent fees	(26)	(25)
Balance due from member at 31 December	(10,586)	(16,615)

There are no discontinued operations

The accounting policies and notes on pages 16 to 36 form part of these financial statements

Balance sheet - Assets
at 31 December 2022

	Notes	£000	2022 £000	£000	2021 £000
Investments					
Shares and other variable-yield securities	7	5,321		5,347	
Debt securities and other fixed-income securities	7	27,279		20,904	
Participation in investment pools	7	28,231		20,923	
			60,831		47,174
Reinsurers' share of technical provisions					
Provision for unearned premiums	2	24,466		1,244	
Claims outstanding	2	105,029		32,324	
			129,495		33,568
Debtors					
Debtors arising out of direct insurance operations	8	14,525		16,786	
Debtors arising out of reinsurance operations	8	13,113		-	
Other debtors	9	118		33	
			27,756		16,819
Other assets					
Cash at bank and in hand		13,661		10,491	
Overseas deposits		4,008		3,098	
			17,669		13,589
Prepayments and accrued income					
Deferred acquisition costs		4,479		4,213	
Other prepayments and accrued income		1,323		919	
			5,802		5,132
Total assets			241,553		116,282

The accounting policies and notes on pages 16 to 36 form part of these financial statements

Balance sheet – Liabilities
at 31 December 2022

	Notes	£000	2022 £000	£000	2021 £000
Capital and reserves					
Member's balances			(10,586)		(16,615)
Technical provisions					
Provision for unearned premiums	2	24,466		22,552	
Claims outstanding	2	107,473		79,921	
Deposits from reinsurers	2	107,186		-	
			239,125		102,473
Creditors					
Creditors arising out of direct insurance operations	10	-		-	
Creditors arising out of reinsurance operations	10	3,860		29,052	
Other creditors including taxation	10	1,125		-	
			4,985		29,052
Accruals and deferred income	10		8,029		1,372
Total liabilities			241,553		116,282

The accounting policies and notes on pages 16 to 36 form part of these financial statements

The syndicate annual accounts were approved by the Board of Directors of CMAL and were signed on its behalf by

M A Sibthorpe
Chief Executive Officer

M Bell
Finance Director

27 February 2023

Statement of cash flows
Year ended 31 December 2022

	2022 £000	2021 £000
Cash flow from operating activities		
Loss for the financial year	(3,054)	(184)
Adjustments for:		
Increase / (Decrease) in gross technical provisions	19,304	(1,722)
Increase in reinsurers' share of technical provisions	(92,209)	(28,100)
(Increase) / Decrease in debtors, prepayments & accrued income	(2,900)	3,008
(Decrease) / Increase in creditors	(27,925)	27,906
Movement in other assets/liabilities	107,186	-
Investment return	1,731	353
Other	1,579	-
Net cash generated from operating activities	3,712	1,261
Cash flows from investing activities:		
Purchase of equity & debt instruments	(85,185)	(260,001)
Sale of equity & debt instruments	74,606	245,717
Investment income received	245	(353)
Changes to market value and currency	67	(690)
Net cash used in investing activities	(10,267)	(15,327)
Cash flows from financing activities:		
Distribution loss collected	9,109	16,352
Member's agent's fees	(26)	(25)
Net cash generated from financing activities	9,083	16,327
Net increase in cash & cash equivalents in year	2,528	2,262
Cash & cash equivalents at beginning of year	10,491	8,293
Foreign exchange movements in cash and cash equivalents	642	(64)
Cash & cash equivalents at end of the year	13,661	10,491
Cash & cash equivalents comprise:		
Cash at bank and in hand	13,661	10,491
	13,661	10,491

The accounting policies and notes on pages 16 to 36 form part of these financial statements

Statement of accounting policies

General information
Syndicate 1975 is a Lloyd's syndicate domiciled in England and Wales. It is managed by CMAL, a private company limited by shares that is incorporated in England and whose registered office is 5th Floor, Dixon House, 1 Lloyd's Avenue, London, EC3N 3DS.

The syndicate commenced business on the 1st January 2018, providing traditional and innovative coverage for physicians, hospitals and other providers of healthcare.

Compliance with accounting standards
These financial statements have been prepared in accordance with United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", FRS 103 "Insurance Contracts" and regulation 5 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008). There were no material departures from those standards.

The 2022 year of account was the final year in which the syndicate wrote new business and it is therefore now in Run-off. Although the syndicate has gone into Run-off, the accounts continue to be prepared on the same basis as prior years, including methods used in calculating all estimates and assumptions. The status of the syndicate has made no material impact to the financial statements and no provision has been made for future expenses.

Basis of preparation
The financial statements have been prepared on the historical cost basis, except for financial assets at fair value through profit or loss which are measured at fair value.

Going concern basis
These financial statements are prepared on a going concern basis.

The syndicate's business activities, together with the factors likely to affect its future development, are set out in the business review contained within the strategic report. In addition, the risk management section provides details of the financial risks the syndicate is exposed to and how those risks are managed.

The directors have a reasonable expectation that the syndicate has adequate resources including the funds at Lloyd's of the member supporting the syndicate (as detailed in note 8) to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Basis of accounting
The underwriting results are determined on an annual basis of accounting. Under the annual basis of accounting, the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

Gross Premiums written
Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums on contracts incepted in prior accounting periods. Premiums are shown gross of commission payable and exclude taxes and duties levied on them.

Change in provision for gross unearned premiums
Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

Reinsurance premium ceded
Outwards reinsurance premiums comprise premiums on contracts incepting during the financial year, together with adjustments made in the year to premiums written in prior years. Outwards reinsurance premiums are disclosed gross of commissions and profit participations recoverable from reinsurers.

Statement of accounting policies (continued)

Reinsurance premium ceded (continued)
Premium charge on Retroactive reinsurance transactions are disclosed in outward reinsurance premium net of the value of reserves ceded.

Change in provision for reinsurance unearned premiums
Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns, time apportionment or look through to underlying gross exposures as appropriate.

Technical provisions - claims incurred, net of reinsurance
Gross claims incurred comprise claims and settlement expenses (both internal and external) occurring during the year and the movement in provision for outstanding claims and settlement expenses brought forward. Allowance is made for the cost of claims incurred by the balance sheet date but not reported until after the year-end. Incurred claims outstanding are reduced by anticipated salvage and other recoveries from third parties.

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not reported (IBNR). IBNR is calculated using standard actuarial techniques. Given the relatively long-tailed nature of the business written, heavy reliance is placed on loss ratios from the business plan as updated by detailed pricing work undertaken on individual risks by the pricing actuaries. Some regard is given to Lloyd's Risk Code data from the LMA where we weight the individual Risk Code triangles in line with the premiums written by class. The provision for claims also includes amounts in respect of internal and external claims handling costs.

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, the claims experience for the year and the current security rating of the reinsurance companies involved. The syndicate uses a number of statistical techniques to assist in making these estimates.

Accordingly the two most critical assumptions with regards to 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, including pricing models, for recent business are reasonable indicators of the likely level of ultimate claims to be incurred.

The level of uncertainty with regard to the estimations within these provisions generally decreases in absolute (monetary) terms with time as experience develops. In addition to these factors if there are disputes regarding coverage under policies or changes in the relevant law regarding a claim, this may increase the uncertainty in the estimation of the outcomes.

The assessment of these provisions is usually the most subjective aspect of an insurer's accounts and may result in greater uncertainty within an insurer's accounts than within those of many other businesses. The directors consider that the provisions for gross claims outstanding 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 provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly.

Statement of accounting policies (continued)

Unexpired risks provision

A provision for unexpired risks is made where claims, related expenses and deferred acquisition costs, likely to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

Net operating expenses (including acquisition costs)

Net operating costs include acquisition costs, profit and loss on exchange and amounts charged to the member through the syndicate.

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Employee costs include the cost of all employee benefits to which employees have become entitled as a result of service rendered to the entity during the reporting period, which the managing agent considers to be attributable to this syndicate.

Foreign currencies

The presentational and functional currency of the syndicate is Sterling. Transactions in US dollars, Euros and Canadian dollars are translated at the average rates of exchange for the period. Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

All monetary balance sheet assets and liabilities, including unearned premiums and deferred acquisition costs are translated into the Sterling functional currency at the rates of exchange at the balance sheet date. The profit or loss arising on the retranslation of balances to the closing rate of exchange is dealt with through the non-technical account charges within the statement of profit or loss – non-technical account.

Financial Assets and Liabilities

Classification

The full provisions of FRS 102 have been applied to the treatment of financial instruments. The accounting classification of financial assets and liabilities determines their basis of measurement and how changes in those values are presented in the profit or loss or other comprehensive income. These classifications are made at initial recognition and subsequent reclassification is only permitted in restricted circumstances.

Investments in shares and other variable yield securities and unit trusts and debt securities and other fixed income securities are classified as fair value through profit or loss as they are managed on a fair value basis. Cash at bank, deposits with credit institutions, debtors and accrued interest are classified as held at amortised cost.

Recognition

Financial assets and liabilities are recognised when the syndicate becomes party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the asset after deducting all of its liabilities.

Statement of accounting policies (continued)

Initial measurement

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Subsequent measurement

Debt instruments that are classified as payable or receivable and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

Investments in shares and other debt instruments are measured at fair value through profit or loss. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in previous calendar years in respect of the investment disposed of in the current period.

De-recognition of financial assets and liabilities

Financial assets are derecognised when and only when a) the contractual rights to the cash flow from the financial asset expire or are settled, b) the syndicate transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the syndicate, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse in time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the syndicate estimates the fair value by using a valuation technique.

Impairment of financial instruments measured at amortised cost or cost

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate, i.e. using the effective interest method.

Statement of accounting policies (continued)

Impairment of financial instruments measured at amortised cost or cost (continued)

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. The amount of the reversal is recognised in profit and loss immediately.

Offsetting

Debtors/creditors arising from insurance/reinsurance operations shown in the balance sheet include the totals of all outstanding debit and credit transactions as processed by the syndicate and through the Lloyd's central facility. No account has been taken of any offsets which may be applicable in calculating the net amounts due between the syndicate and each of its counterparty insureds, reinsurers or intermediaries as appropriate.

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable 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'.

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

Statement of accounting policies (continued)

Profit commission

Profit commission is charged by the managing agent at 15% of the profit on the year of account basis subject to the operation of a deficit clause. This is charged to the syndicate as incurred but does not crystallise until after the appropriate year of account closes, normally at 36 months.

Pension costs

Coverys MA Services Limited (CMAS), a sister company of CMAL, operates a defined contribution scheme on behalf of the managing agency. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses and other acquisition costs.

Key accounting judgements and estimation uncertainties

Of the various accounting judgements, assumptions and estimates made in the preparation of these financial statements, those relating to the determination of the technical provisions, premium income and investment valuations are considered to be those most critical to understanding the syndicate's results and financial position.

Technical provisions

The accounting policy for technical provisions is described on page 17 and the related risks are described on page 22. The gross technical provisions excluding deposits from reinsurers is £131,939k (2021: £102,473k) comprising provisions for unearned premium and outstanding claims (note 2). The most uncertain element within these technical provisions is the amount for claims outstanding which covers amounts where either the claim has been notified to the syndicate or where there has not yet been a notification or although notified there has been insufficient information to date to be certain regarding its ultimate costs. The gross amount of claims outstanding is £107,473k (2021: £79,921k). As described in the risk management section there is a thorough review process of claims notifications and reserving estimates. There is a fairly limited spread of risks written as the syndicate is highly specialised. Within the medical professional liability sector, the syndicate achieves spread by writing within the various sub sections (physicians, facilities, international and long-term care). Where investment has also been made in risk management across many of the risks; these combined should reduce the risk of a common trend of adverse development occurring.

Due to the current global inflationary pressures, an explicit allowance for future inflation has been added to the gross technical provisions. The loading was 3.4% on gross claims reserves (with no net impact).

The uncertainty within gross technical provisions is eliminated (apart from any bad debt consideration) by the LPT and QS contracts, reinsuring the balances to MPMIC.

Premium income

The accounting policy for written and earned premium income is described on page 16 and the related risks are described on page 22. The estimation of written premium includes amounts for additional or return premiums and business that may have been underwritten but not yet notified. The earning of this premium has been calculated on a basis of time apportionment. The directors consider that this represents a reasonable approximation of the overall earning risk profile of the policies written. As described in the risk management section there is detailed evaluation of premium written estimates at the time of writing risks and these are monitored and checked as remaining valid until they are received.

Investment valuations

All investments are shown at their fair value as described in the accounting policy on page 18 and details of the risks relating to investments are disclosed on page 24. All investments are highly rated securities and regularly traded on major stock exchanges so that the risks in their valuations are reduced.

Risk management

Coverys approach to syndicate risk management

The syndicate's activities expose it to a variety of financial and non-financial risks. The syndicate's core business was to accept significant insurance risk, whilst maintaining a low appetite for other risks arising in the course of conducting business. The managing agent is responsible for understanding and managing the syndicate's exposure to such risks and does this through the deployment of its enterprise risk management (ERM) framework.

The CMAL ERM framework includes an annual review, setting and Board approval of risk appetite for the syndicate as a part of the syndicate business planning (when applicable) and capital setting process. The Risk Management Function (RMF) regularly assess the risks to which the syndicate is exposed, and where deemed necessary, ensure that controls and procedures are in place to mitigate the effects of such risk to an acceptable level. A Risk and Capital Committee (RCC) meets regularly to monitor performance against the approved risk appetite using a set of key risk indicators and provide oversight and challenge to ensure the syndicate operates in a robust control environment.

Critical to the risk management of the syndicate is ensuring sufficient capital is in place to meet the solvency needs of the syndicate. An internally developed capital model ("internal model") for S1975 is used to quantify the syndicate's capital requirements based on the assessment of the risks impacting the syndicate's business and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective.

As described in note 11, the managing agent is required to prepare a Solvency Capital Requirement (SCR) return to Lloyd's annually, using the results of the internal model, to agree capital requirements for the syndicate with Lloyd's.

Syndicate risk exposures

The following provides a summary of the types of risks to which the syndicate is exposed, the materiality of the risk to the syndicate and their key drivers, and the risk management tools and procedures in place to mitigate these risks.

Insurance risk

The very nature of the syndicate's business exposes it to the likelihood that claims will arise from business written. Insurance risk is the principal risk the syndicate faces and arises from the inherent uncertainties in the occurrence, amount and timing of insurance liabilities.

The key drivers of insurance risk are:

<u>Premium risk:</u>

- **Catastrophic events** - the risk that catastrophic events occur which will lead to claims at a level not anticipated by the syndicate.
- **Rating levels (pricing)** - the risk that the expected attritional losses and anticipated catastrophic events, together with the cost of reinsurance, will result in net claims which exceed the premium income of the syndicate.

However, the syndicate will no longer be heavily exposed to premium risk due to it going into Run-off from January 2023.

<u>Reserving risk</u> - the risk that the reserves established by the syndicate at the previous year-end prove to be inadequate. There are a number of reserve components which can be drivers of reserving risk:

Insurance risk (continued)

- Reserves are established for earned premium income (the claims reserves) and unearned premium (the unearned premium reserves). There may also be an additional unexpired risk provision.
- Additionally, a reserve for Unallocated Loss Adjustment Expenses (ULAE) will also be established and an allowance made for bad debt.

Over the course of 2022, insurance risk for Syndicate 1975 has been reduced to nil through a number of risk transfer mechanisms put in place. At Q4 2021, a Loss Portfolio Transfer (LPT) with MPMIC of the 2018 and 2019 underwriting years (UWYs) was placed to reinsure out the remaining net liabilities. At Q2 2022, the LPT was extended to 2020 and 2021 UWYs, and a 100% Quota Share (QS) with MPMIC with a retrospective 1 January 2022 inception was incorporated. The QS fully reinsures unearned and unwritten exposures across all underwriting years and there is no net exposure remaining (other than ULAE). Because of the LPT and QS arrangements, there is a material net premium and net reserves decrease, and hence Insurance Risk is of limited importance for Syndicate 1975.

Additionally, as Syndicate 1975 will be in Run-off from 2023, reserving risk will be the remaining driver of gross insurance risk; however, due to the insurance risk transfer mechanisms in place as above, this will reduce the net insurance risk to nil for the syndicate.

CMAL’s Actuarial Function continues to manage reserves for Syndicate 1975 in a robust way. The Actuarial Function uses a number of actuarial techniques to project gross and net premiums and gross and net insurance liabilities on a best estimate basis. The results of these techniques are then subject to formal peer review. This is an iterative process where the internal actuaries discuss data, models, methods and assumptions in relation to the syndicate reserves. This process involves a considerable amount of challenge. Once the actuaries have completed their peer review of reserves, the results of the external actuary’s projections are then compared to those proposed by the CMAL actuarial function.

The Actuarial Function will then make a reserve recommendation to the Audit Committee and Board including (if necessary) any loadings required. The level of booked reserves requires formal approval by the Board and is subject to an external audit and further actuarial opinion. The independent reserve assessment is presented in a Statement of Actuarial Opinion (SAO) to confirm the adequacy of the reserves and is provided annually to Lloyd’s.

Market risk

The syndicate's asset holdings expose it to market risk, driven by the following sub-risk types: spread, currency, and interest rate risks. The syndicate is also exposed to liquidity risk; however, this risk is low given the investment strategy with significant cash (and cash equivalent) holdings in place.

The syndicate’s investment policy is established by the Board following recommendations by the CMAL Investment Committee. In order to mitigate market risk, the Board, through delegation to the Investment Committee, monitors the economic situation to seek to anticipate any future interest rate and spread risk movements and to take appropriate action to mitigate its effect on the value of syndicate assets. Investment risk appetite and relevant KRIs (e.g. Value at Risk (VaR), average rating, etc.) are reviewed and agreed annually in line with investment strategy and is regularly monitored to flag any deviations from the agreed risk appetites.

Market risk is quantified in the internal model using the syndicate’s asset holdings positions and an economic scenario generator (ESG) to simulate the impact of the market risks to the asset portfolio.

Liquidity risk

To mitigate liquidity risk, the Board reviews cash flow projections and maintains cash levels consistent with the needs of the syndicate. The syndicate maximises the inflow of funds from reinsurance recoveries and outstanding premiums and controls costs through the reporting of the expense budget. Additionally, there are Funds Withheld for syndicate liabilities and a credit facility with Coverys Group in place. Therefore, liquidity risk for the syndicate is very limited, as shown in the second table below.

The following table summarises the maturity profile of the syndicate's financial liabilities.

Expected cash flows	**Less than 1 year £000**	**1 to 3 years £000**	**3 to 5 years £000**	**More than 5 years £000**	**Total £000**
As at 31 December 2022					
Deposits received from reinsurers	-	107,186	-	-	107,186
Gross claims outstanding	19,054	38,618	25,123	24,678	107,473
Creditors	3,860	1,125	-	-	4,985
Total	22,914	146,929	25,123	24,678	219,644
As at 31 December 2021					
Gross claims outstanding	13,271	27,931	19,442	19,277	79,921
Creditors	29,052	-	-	-	29,052
Total	42,323	27,931	19,442	19,277	108,973

The following is an analysis of the estimated timing of net cash flows (i.e. excluding balances due to group and other reinsurers) for the net claims liabilities held at the end of the year and at the previous year-end. These forecasts are based upon current estimates and historic trends and the actual timings of these future settlements may differ materially from the estimates below.

Expected cash flows	**Less than 1 year £000**	**1 to 3 years £000**	**3 to 5 years £000**	**More than 5 years £000**	**Total £000**
2022 net claims liabilities	433	878	571	561	2,443
2021 net claims liabilities	7,904	16,634	11,578	11,481	47,597

Currency risk

The main exposure to foreign currency risk arises from insurance business originating overseas. The syndicate aims to match assets with liabilities on a regular basis to manage currency risk.

The syndicate is exposed to changes in the value of assets and liabilities due to movements in foreign exchange rates. The syndicate deals in three main currencies: Sterling, Canadian dollars and US dollars. Transactions may also take place in other currencies, although these are immediately converted to Sterling.

If the exchange rates of all non-GBP currencies moved by a foreseeable 10% either to the benefit or detriment of the syndicate at the same time, the impact on both the result for the year and the member's balances would be £719k (2021: £1,088k) with US Dollar net assets being the largest element. The syndicate monitors these currency balances and aims to ensure excessive balances beyond accumulated profits do not accrue beyond those necessary to meet overseas trust fund requirements. The syndicate has not undertaken any transactions to hedge these balances.

Interest rate risk

The syndicate's main exposure to fluctuation in interest rates arises from its effect on the valuation of funds invested in bonds and equities. In order to mitigate this risk, the Board, advised by its external investment managers, monitors the economic situation to seek to anticipate any future interest rate movement and to take appropriate action to mitigate its effect on the value of investments held.

The largest element of the syndicate's investments comprises of fixed income securities. The fair value of the investment in fixed income securities is inversely correlated to the movement in market interest rates. If market rates fall, the fair value of the syndicate's fixed interest investments would tend to rise and vice versa. Fixed income assets are predominantly invested in high quality corporate, government, supranational bonds and residential mortgage-backed securities. The investments typically have relatively short durations and terms to maturity.

	2022	**2021**
	£000	**£000**
Impact of a 50-basis point increase in interest rates on result	(136)	(105)
Impact of a 50-basis points decrease in interest rates on result	136	105
Impact of a 50-basis points increase in interest rates on net assets	(136)	(105)
Impact of a 50-basis point decrease in interest rates on net assets	136	105

Credit risk

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the syndicate are:

- **Reinsurers:** Whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the syndicate.
- **Brokers and intermediaries:** Whereby counterparties fail to pass on premiums collected or claims paid on behalf of the syndicate.
- **Financial instruments:** Whereby issuer default results in the syndicate losing all or part of the value of a financial instrument.

Reinsurance credit risk

As a consequence of the LPT and QS arrangements reinsurance credit risk is the most material risk for Syndicate 1975. Furthermore, MPMIC is the primary reinsurance counterparty and therefore the syndicate has a concentration risk from a default or disputes with its parent company.
However, MPMIC is rated A and hence the risk of default is considered to be minimal. In addition, Funds Withheld have been put in place to assist with the mitigation of reinsurance credit risk (including concentration risk due to the reinsurance contracts being concentrated with MPMIC).

There are a number of ways in which the syndicate considers and monitors reinsurance credit risk. For example, the CMAL internal model considers the financial rating of MPMIC and calculates the effect of default and disputes on the syndicate's ability to make reinsurance recoveries.

Brokers and Intermediaries

The CMAL policy is to ensure that claims funds held by third party administrators are held in segregated bank accounts and are not subject to credit risk.

Financial instruments risk

The syndicate has debtors, creditors, bank balances and investments in various currencies in the normal course of its business. The risks with regard to these transactions are detailed above and none of these financial instruments are considered to present any risks that are exceptional in their nature for their type of instrument. The syndicate does not actively enter into derivatives, hedging or other uses of financial instruments as part of its financial risk management.

Financial instruments risk (continued)

The following tables analyse the syndicate's major exposures to counterparty credit risk excluding loans and receivables, based on Standard & Poor's or equivalent rating at 31 December 2022.

	AAA £000	AA £000	A £000	≤BBB/NR £000	Total £000
As at 31 December 2022					
Variable yield securities and unit trusts	-	4,302	1,019	-	5,321
Debt securities	-	17,914	7,920	1,445	27,279
Participation in investment pools	-	28,231	-	-	28,231
Overseas deposits as investments	1,996	436	322	1,253	4,007
Reinsurers' share of claims outstanding	-	1,074	103,955	-	105,029
Reinsurance debtors	-	-	13,113	-	13,113
Cash at bank and in hand	-	3,570	10,091	-	13,661
Total credit risk	1,996	55,527	136,420	2,698	196,641
As at 31 December 2021					
Variable yield securities and unit trusts	-	4,235	1,112	-	5,347
Debt securities	-	12,444	6,807	1,653	20,904
Participation in investment pools	-	20,923	-	-	20,923
Overseas deposits as investments	1,558	700	375	465	3,098
Reinsurers' share of claims outstanding	-	2,629	29,695	-	32,324
Reinsurance debtors	-	-	-	-	-
Cash at bank and in hand	-	1,276	9,215	-	10,491
Total credit risk	1,558	42,207	47,204	2,118	93,087

Insurance receivables are not shown above but would be categorised as 'unrated' as a majority of the balance relates to insurance broker debt which falls outside credit rating requirements.

Operational risk

Much of the effect of the syndicate's exposure to operational risks is reflected in the various other risk headings above and is mitigated and managed through the exercise of controls and management actions described above. Additional exposures are in relation to business continuity or disruptions leading to delays in fulfilling obligations or additional unexpected operational costs to the business, i.e. the risk that the ability of the syndicate to fulfil its obligations will be affected by events not reflected under other headings. For example, the possible impact from the Russia/Ukraine conflict (i.e. changes to sanctions or increased cyber threats), terrorist activity, and in the management of relationships and arrangements with staff and external parties.

The following are examples of management actions or controls in place to mitigate such operational risk drivers:

- the managing agent maintains a Business Continuity Plan (BCP) which sets out the anticipated risks, assessments of the robustness and sustainability of IT infrastructure and applications, and the alternate arrangements or response procedures in place to mitigate those business continuity risks. The BCP is reviewed and updated regularly;
- there are established policies and procedures designed to achieve an appropriate commonality of interest between the syndicate and the third parties concerned; these third-party relationships are regularly monitored throughout, and contractual arrangements reviewed periodically;

Operational risk (continued)

- and the risk of loss of key staff is considered a key operational risk to the managing agent, particularly as Syndicate 1975 goes into Run-off and uncertainties remain for managing agency staff as the business transitions to alternate underwriting platforms in London. Therefore, in addition to the usual mitigation strategies such as personal development and succession planning, the managing agent implemented a retention bonus scheme for all staff during 2022 to ensure sufficiently skilled and experienced resources remain in place to reduce the risk of business disruption from unexpected departures. The resourcing needs and staff resources available will continue to be closely monitored by the management team of the managing agency to take additional action for staff retention as necessary amidst the ongoing transitioning environment.

Operational risk is monitored via regular risk and control assessments, reporting to management committees, and tested for adequate risk mitigation in place through scenario assessments. The insight from these processes is used to quantify operational risk in the internal model.

Regulatory risk

The managing agent is required to comply, inter alia, with the requirements of the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's. Failure to comply with applicable regulations could result in a variety of sanctions or fines, with the most extreme being a withdrawal of licence as a managing agent. The managing agent has established a business ethos in which best practice is the required standard for all operations, both in the commercial interests of the business and to ensure regulatory compliance. Management has also put in place appropriate monitoring structures to mitigate the risk of failing to meet this standard. The CMAL Executive Committee monitors regulatory developments to ensure the managing agent remains up to date on compliance. In addition, the Compliance function and the Risk Management functions provide oversight monitoring of adherence of compliance policies and procedures and compliance controls testing as a part of their respective second-line function responsibilities. The internal audit function supports the monitoring process via independent audits and directly reports into the CMAL Audit Committee, itself comprised of non-executive directors of the managing agent.

Regulatory risk is quantified under operational risk in the internal model.

Solvency risk

The Board sets the risk appetite in line with its strategy and ensures that sufficient capital resources are raised to cover those risks in line with regulatory and Lloyd's capital setting processes, as per the above. The CMAL Risk and Capital Committee monitors risk appetite and tolerances on behalf of the Board.

In the event of extreme adverse events, it is possible that the syndicate may not be able to settle its claim liabilities out of its own funds. The capital structure underpinning the syndicate is such that any deficits can be called from the syndicate's capital provider (member) in accordance with Lloyd's rules. In the event of any member being unable to fulfil its share of such a call, Lloyd's Central Fund may, at Lloyd's discretion, be applied to make good any deficits for the benefit of policyholders.

Notes to the annual accounts at 31 December 2022

1. Analysis of underwriting results

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

	Gross written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
2022						
Direct insurance:						
Third party liability	29,419	28,632	(16,015)	(2,606)	(12,313)	(2,302)
Reinsurance:						
Casualty	22,865	24,114	(16,467)	1,348	(6,924)	2,071
	52,284	52,746	(32,482)	(1,258)	(19,237)	(231)
2021						
Direct insurance:						
Third party liability	32,735	34,587	(21,238)	(12,409)	(1,700)	(760)
Reinsurance:						
Casualty	19,012	17,374	(10,428)	(4,936)	(876)	1,134
	51,747	51,961	(31,666)	(17,345)	(2,576)	374

Total commissions payable for direct insurance written in the year amounted to £7,188k (2021: £6,996k).

All premiums were concluded and earned in the United Kingdom.

2. Technical provisions

	2022 £000	2021 £000
Gross technical provisions		
Claims outstanding	107,473	79,921
Provision for unearned premiums	24,466	22,552
	131,939	102,473
Reinsurers' share of technical provisions		
Claims outstanding	105,029	32,324
Provision for unearned premiums	24,466	1,244
	129,495	33,568
Net technical provisions		
Claims outstanding (ULAE)	2,444	47,597
Provision for unearned premiums	-	21,308
	2,444	68,905

Notes to the annual accounts (continued)

2.Technical provisions (continued)

Reconciliation of movements in year

2022	Opening Balance £000	Mvt in tech account £000	Exchange mvt £000	Closing Balance £000
Gross provision for claims	(79,921)	(19,063)	(8,489)	(107,473)
Reinsurers' share of provision	32,324	67,500	5,205	105,029
Unearned premium	(22,552)	462	(2,376)	(24,466)
Reinsurers' share of unearned premium	1,244	22,413	809	24,466
Deferred acquisition costs	4,213	(151)	417	4,479
2021	**£000**	**£000**	**£000**	**£000**
Gross provision for claims	(81,617)	2,402	(706)	(79,921)
Reinsurers' share of provision	3,875	27,884	565	32,324
Unearned premium	(22,577)	214	(189)	(22,552)
Reinsurers' share of unearned premium	1,593	(366)	17	1,244
Deferred acquisition costs	5,992	(1,799)	20	4,213

Claims development triangulations – earned loss reserves on a pure underwriting year basis

Gross Claims development as at 31 December 2022

Pure underwriting year	2018	2019	2020	2021	2022
Estimate of gross claims incurred	£000	£000	£000	£000	£000
After one year	15,898	12,426	18,707	15,595	14,920
After two years	34,077	34,395	39,523	34,339	
After three years	47,125	27,155	34,500		
After four years	43,786	16,562			
After five years	20,266				
Less gross claims paid	8,464	2,677	1,494	453	25
Gross reserves	11,802	13,885	33,006	33,886	14,895

Balances have been translated at exchange rates prevailing at 31 December 2022.

Net Claims development as at 31 December 2022

Pure underwriting year	2018	2019	2020	2021	2022
Estimate of net claims incurred	£000	£000	£000	£000	£000
After one year	15,304	34,020	44,570	26,169	8,465
After two years	12,132	33,471	11,131	2,678	
After three years	17,790	37,935	2,371		
After four years	14,937	1,501			
After five years	541				
Less net claims paid	8,464	2,677	1,494	453	25
Net reserves	1	1	878	1,048	516

Notes to the annual accounts (continued)

2.Technical provisions (continued)

The significant balances in gross claims incurred in respect of claims provisions created at the end of the previous period are analysed as follows:

	2022 £000	2021 £000
Direct - Third party liability	65,236	51,149
Reinsurance - Casualty	42,237	28,772
	107,473	79,921
Deposits from reinsurers	107,186	-

Loss Portfolio Transfer (LPT) and Quota Share (QS)

An LPT and QS has been put into place reinsuring the loss reserves on the 2022 and prior years of account to MPMIC. This will provide stability to the syndicate on any future loss movements. The reinsurance recovery included within the Net Technical Provisions at 31 December 2022 as part of the LPT and QS was £103.7m (2021: £28.8m). Deposits from reinsurers represents the funds withheld by the syndicate due to MPMIC under the terms of the contract.

3. Net operating expenses

	2022 £000	2021 £000
Brokerage and commissions	9,343	8,746
Reinsurers' commissions and profit participations	(14,659)	-
Acquisition costs	(5,316)	8,746
Change in deferred acquisition costs	151	1,799
Administration expenses	5,655	5,727
Member's standard personal expenses	768	1,073
	1,258	17,345
Administrative expenses include:		
Auditors' remuneration		
Audit of the syndicate annual accounts	114	87
Audit-related assurance services	38	34
Other assurance services provided	84	81
	236	202

Audit-related assurance services relate to regulatory reporting to Lloyd's.
Other assurance services provided relate to the statement of actuarial opinion.

Notes to the annual accounts (continued)

4. Employees

The following amounts were recharged to the syndicate in respect of employment costs.

	2022 £000	2021 £000
Wages and salaries	3,346	3,305
Social security costs	455	406
Other pension costs	207	233
	4,008	3,944

The average number of staff recharged to the syndicate by the managing agent's service company during the year was as follows:

	2022	2021
Administration and finance	24	28
Underwriting	6	6
Claims	5	6
	35	40

5. Directors' and Active Underwriter's emoluments

The directors of CMAL received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2022 £000	2021 £000
Emoluments	588	531

Active Underwriter's emoluments

The Active Underwriter received the following aggregate remuneration charged as other acquisition costs:

Emoluments	522	403

Notes to the annual accounts (continued)

6. Investment Return

	2022 £000	2021 £000
Income from investments	563	462
Gains on the realisation of investments	7	31
Losses on the realisation of investments	(294)	(478)
Investment income	276	15
Investment expenses and charges	(30)	(62)
Unrealised gains on investments	625	97
Unrealised losses on investments	(2,602)	(403)
Allocated investment return transferred to the technical account	(1,731)	(353)

This can also be presented as follows:

	2022 £000	2021 £000
Interest and similar income		
Interest from financial instruments designated at fair value	563	462
Gains on investments	632	128
	1,195	590

7. Other financial investments

	Market value		Cost	
	2022 £000	2021 £000	2022 £000	2021 £000
Listed securities				
Shares and other variable yield securities	5,321	5,347	4,571	4,532
Debt securities and other fixed income securities	27,279	20,904	28,664	21,050
Participation in investment pools	28,231	20,923	29,000	20,963
Loans with credit institutions	-	-	838	-
	60,831	47,174	63,073	46,545

Notes to the annual accounts (continued)

7. Other financial investments (continued)

Fair value hierarchy

In accordance with FRS 102 paragraph 11.27 the above financial instruments have been classified into three levels to estimate their fair values, with Level 1 being the most reliable. The syndicate has adopted the following definitions of the fair value hierarchy:

Level 1: The unadjusted quoted prices 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
As at 31 December 2022				
Total Investments	60,081	-	750	60,831
Overseas Deposits	724	3,284	-	4,008
Total	60,805	3,284	750	64,839

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
As at 31 December 2021				
Total Investments	46,359	-	815	47,174
Overseas Deposits	404	2,695	-	3,099
Total	46,763	2,695	815	50,273

The Level 3 instrument comprises of the ‘Syndicate loans to the Central Fund’.

Notes to the annual accounts (continued)

8. Debtors – due within one year

	2022 £000	2021 £000
Direct arising out of direct insurance operations		
Policyholders	-	-
Intermediaries	14,525	16,786
Direct arising out of reinsurance operations	13,113	-
	27,638	16,786

9. Other debtors

	2022 £000	2021 £000
VAT receivable	4	32
Canadian Federal Income Tax	111	-
Sundry	3	1
	118	33

10. Creditors – due within one year

	2022 £000	2021 £000
Creditors arising out of direct insurance operations	-	-
Creditors arising out of reinsurance operations	3,860	29,052
Other creditors including taxation	1,125	-
Accruals and deferred income	8,029	1,372
	13,014	30,424

11. Regulatory capital requirements

Funds at Lloyd's

Every member of Lloyd's is required to hold additional capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are required primarily in case syndicate assets prove insufficient to meet members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's according to the nature and the amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of that business. FAL is not hypothecated to any specific syndicate participation by a member, therefore there are no specific funds available to a syndicate which can be precisely identified as its capital.

In addition to the FAL and any additional funds a member may introduce to meet losses, there is a Central Guarantee Fund controlled by Lloyd's which they may utilise to meet any syndicate liabilities that are not met by a member.

Notes to the annual accounts (continued)

11. Regulatory capital requirements (continued)

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulation Authority (PRA) under the Financial Services and Markets Act 2000 and in accordance with Solvency II requirements.

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

Although, as described below, 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 1975 is not disclosed in these financial statements.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate Run-off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participating but not 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 2022 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

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

There are no funds in syndicate held for this syndicate, accordingly all of the assets less liabilities of the syndicate, as represented by the members' balances reported on the balance sheet represent resources available to meet members' and Lloyd's capital requirements.

12. Derivatives

During the year, the syndicate has not held or purchased any derivative contracts.

13. Off-balance sheet items

The syndicate has not been party to an arrangement, which is not reflected in its balance sheet, where material risks and benefits arise for the syndicate.

Notes to the annual accounts (continued)

14. Related parties

(i) A number of executive directors of CMAL were also directors and approved persons of other UK subsidiaries within the Coverys Group (including Coverys 1975 Underwriting Limited and Coverys MA Services Limited).

(ii) During the year, the syndicate paid £5,193k (2021: £4,699k) to Coverys MA Services Limited (CMAS) in relation to management fees and a further £375k (2021: £375k) in managing agency fees to CMAL.

(iii) M Sibthorpe and M Bell are directors of CMAS.

(iv) M Sibthorpe and M Bell are directors of Coverys 1975 Underwriting Limited (Coverys 1975), a Lloyd's approved service company coverholder which intends to conduct business on behalf of the syndicate. During the year Coverys 1975 provided £nil of premium income to the syndicate. Coverys 1975's costs are recharged to the syndicate and treated as acquisition costs.

(v) The syndicate is related to Medical Professional Mutual Insurance Company (MPMIC) by virtue of common control. During the year, the syndicate entered into a Loss Portfolio Transfer and Quota Share with MPMIC in relation to the 2022 and prior YOA loss reserves. The reinsurance premium payable on the transaction in 2022 was £115.5m (2021: £28.0m).

15. Controlling Party of the Managing Agent

The ultimate Parent undertaking is Medical Professional Mutual Insurance Company, a company registered in Massachusetts, USA.

The immediate parent undertaking is Coverys UK Holding Co. Limited, which is registered in England and Wales.

Group Financial Statements are prepared by the immediate parent undertaking, Coverys UK Holding Co. Limited, a company registered in England & Wales, and can be obtained from Coverys UK Holding Co. Limited, 5th Floor, Dixon House, 1 Lloyd's Avenue London, EC3N 3DS.