Polo Managing Agency Limited

Report and Annual Accounts
Syndicate 1975
for the year ended
31 December 2023

Administration

Managing Agent:
Polo Managing Agency Limited
'The Grange'
Cheltenham
Gloucestershire
United Kingdom
GL52 8YQ

Registered Number:
03935227

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

The directors of PMA present their report for Syndicate 1975 ("the Syndicate") for the year ended 31 December 2023.

The management of the Syndicate novated from Coverys Managing Agency Limited to Polo Managing Agency Limited ("the Managing Agent" or "PMA") on the 2 October 2023.

The managing agent's report includes information 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 23.

Officers

The directors of the Managing Agent who served during the year ended 31 December 2023 and up to the date of this report were as follows:

P Andrews - Chief Executive Officer (Appointed 22/5/23)

M J Bishop - Finance Director (Appointed 5/6/23)

I J Bremner - Chair, Non-Executive Director

K D Curtis - Non-Executive Director

J Hummerston - Director of Underwriting

P M Laws - Risk & Compliance Director

S Minshall - Non-Executive Director

R Richardson-Bunbury - Chief Actuary

M Sebold-Bender – Non-Executive Director

P Smith - Managing Director

S G J Sykes - Chief Executive Officer (Resigned 24/03/2023)

Z Szalkai - Director

P I Wooldridge - Director

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.

It was previously announced that the Syndicate would cease underwriting with effect from 31 December 2022, accordingly the Syndicate remains in Run-off.

In the calendar year 2022, insurance risk for Syndicate 1975 was 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.

This QS is placed on a funds withheld basis. The LPT is also placed on a funds withheld basis. The reinsurance premium paid on the LPT and QS transactions in 2022 was £115.5m.

Key Performance Indicators

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

	2023	*2022*
Gross premiums written	*£8.7*	*£52.3*
Net operating expenses	*£4.0*	*£1.3*
Loss for the year	*(£1.1)*	*(£3.1m)*

Results

The result for the year is a loss of £1.1m.

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

	2022 account Forecast	*2021 account Actual*
Gross premiums written	*£52.0m*	*£51.7m*
Loss	*(£5.5m)*	*(£4.0m)*

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. The last underwriting year of account is 2022 with the Syndicate now in run-off. On this basis management focus on the profit and maintenance of adequate liquidity.

Changes in regulatory requirements are closely monitored by the managing agent and are considered in the run-off of the portfolio.

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.

It is expected that next year the Syndicate 1975 will reinsure to close.

Post Balance sheet events

There have been no relevant post balance sheet events.

Other performance indicators

Staff matters

The managing agent considers its staff to be a key resource and seeks to provide a good working environment for its staff that is rewarding and safe and complies with appropriate employee legislation. During the year there have been no significant injuries to staff in the workplace nor any significant actions taken by any regulatory bodies with regards 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.

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 PMA.

M J Bishop
Chief Financial Officer
23rd February 2024

Statement of Managing Agent's responsibilities

The Managing Agent is responsible for preparing the Syndicate Report and Annual Accounts in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.
The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The 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 those Syndicate Report and Annual Accounts, 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 Accounts; and
- prepare the Syndicate Report and Annual Accounts 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 accounts 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, 1975's syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2023 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 Annual accounts (the "Annual Report"), which comprise: the Balance sheet – Assets and the Balance sheet – Liabilities as at 31 December 2023; 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 2023 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

23rd February 2024

Statement of profit or loss
Technical account – general business
Year ended 31 December 2023

	Notes	2023 £000	2023 £000	2022 £000	2022 £000
Earned premiums, net of reinsurance					
Gross premiums written	1	8,702		52,284	
Outward reinsurance premiums		(8,702)		(121,852)	
Net premiums written			-		(69,568)
Change in provision for unearned premiums:					
Gross amount		22,198		462	
Reinsurers' share		(22,197)		22,413	
Change in the net provision for unearned premiums			-		22,875
Earned premiums, net of reinsurance			-		(46,693)
Allocated investment return transferred from the non-technical account			3,112		(1,731)
Total technical income/(expense)			3,112		(48,424)
Claims incurred, net of reinsurance					
Claims paid:					
Gross amount		(13,177)		(13,420)	
Reinsurers' share		12,789		12,702	
Net claims paid		(388)		(718)	
Change in the provision for claims:					
Gross amount		(10,681)		(19,061)	
Reinsurers' share		10,470		67,500	
Change in the net provision for claims		(211)		48,439	
Claims incurred, net of reinsurance			(599)		47,721
Net operating expenses	3,4,5		(4,024)		(1,258)
Balance on the technical account for general business			(1,511)		(1,961)

The accounting policies and notes on pages 16 to 38 form part of these annual accounts.

Statement of profit or loss
Non-technical account
Year ended 31 December 2023

	Notes	2023 £000	2022 £000
Balance on the general business technical account		(1,511)	(1,961)
Investment income	6	948	563
Investment expenses and charges	6	(36)	(30)
Realised gains/(losses) on investments	6	(46)	(287)
Unrealised gains/(losses) on investments	6	2,245	(1,977)
Allocated investment return transferred to technical account – general business		(3,112)	1,731
Non-technical account credit/(charge)		385	(1,093)
Loss for the financial year		(1,126)	(3,054)

Statement of other comprehensive income for the year ended 31 December 2023

	2023 £000	2022 £000
Loss for the financial year	(1,126)	(3,054)
Total comprehensive expense for the financial year	(1,126)	(3,054)

Statement of changes in members balances for the year ended 31 December 2023

	2023 £000	2022 £000
Balance due from member at 1 January	(10,586)	(16,615)
Loss collected from Member – 2020 / 2019 year of account	4,222	9,109
Total comprehensive income for the financial year	(1,126)	(3,054)
Member's agent fees	-	(26)
Balance due from member at 31 December	(7,490)	(10,586)

There are no discontinued operations.

The accounting policies and notes on pages 16 to 38 form part of these annual accounts.

Balance sheet - Assets
As at 31 December 2023

	Notes	£000	2023 £000	£000	2022 £000
Investments					
Shares and other variable-yield securities	7	5,028		5,321	
Debt securities and other fixed-income securities	7	23,247		27,279	
Participation in investment pools	7	36,058		28,231	
			64,333		60,831
Reinsurers' share of technical provisions					
Provision for unearned premiums	2	1,550		24,466	
Claims outstanding	2	110,577		105,029	
			112,127		129,495
Debtors					
Debtors arising out of direct insurance operations	8	5,730		14,525	
Debtors arising out of reinsurance operations	8	5,762		13,113	
Other debtors	9	3,327		118	
			14,819		27,756
Other assets					
Cash at bank and in hand		8,176		13,661	
Overseas deposits		2,912		4,008	
			11,088		17,669
Prepayments and accrued income					
Deferred acquisition costs		451		4,479	
Other prepayments and accrued income		657		1,323	
			1,108		5,802
Total assets			203,475		241,553

The accounting policies and notes on pages 16 to 38 form part of these annual accounts.

Balance sheet – Liabilities
As at 31 December 2023

	Notes	£000	2023 £000	£000	2022 £000
Capital and reserves					
Member's balances			(7,490)		(10,586)
Technical provisions					
Provision for unearned premiums	2	1,549		24,466	
Claims outstanding	2	113,230		107,473	
Deposits from reinsurers	2	90,846		107,186	
			205,626		239,125
Creditors					
Creditors arising out of reinsurance operations	10	2,838		3,860	
Other creditors including taxation	10	1,063		1,125	
			3,901		4,985
Accruals and deferred income	10		1,437		8,029
Total liabilities			203,475		241,553

The accounting policies and notes on pages 16 to 38 form part of these annual accounts.

The Syndicate annual accounts were approved by the Board of Directors of PMA and were signed on its behalf by:

M J Bishop
Chief Financial Officer

23rd February 2024

Statement of cash flows
Year ended 31 December 2023

	2023 £000	2022 £000
Cash flow from operating activities		
Loss for the financial year	(1,126)	(3,054)
Adjustments for:		
(Decrease) / increase in gross technical provisions	(17,160)	19,304
Decrease / (increase) in reinsurers' share of technical provisions	17,368	(92,209)
Decrease / (Increase) in debtors, prepayments & accrued income	13,000	(2,900)
(Decrease) in creditors	(17,580)	(27,925)
Movement in other (liabilities)/assets	(864)	107,186
Investment return	(3,112)	1,731
Other	3,865	1,579
Net cash (used)/generated from operating activities	(5,609)	3,712
Cash flows from investing activities:		
Purchase of equity & debt instruments	(4,902)	(85,185)
Sale of equity & debt instruments	271	74,606
Investment income received	1,033	245
Changes to market value and currency	-	67
Net cash used in investing activities	(3,598)	(10,267)
Cash flows from financing activities:		
Distribution loss collected	4,222	9,109
Member's agent's fees	-	(26)
Net cash generated from financing activities	4,222	9,083
Net (decrease)/increase in cash & cash equivalents in year	(4,985)	2,528
Cash & cash equivalents at beginning of year	13,661	10,491
Foreign exchange movements in cash and cash equivalents	(500)	642
Cash & cash equivalents at end of the year	8,176	13,661
Cash & cash equivalents comprise:		
Cash at bank and in hand	8,176	13,661
	8,176	13,661

The accounting policies and notes on pages 16 to 38 form part of these annual accounts.

Statement of accounting policies

General information
Syndicate 1975 is a Lloyd's syndicate domiciled in England and Wales. It is managed by PMA, a private company limited by shares that is incorporated in England and whose registered office is 'The Grange', Cheltenham, Gloucestershire, United Kingdom, GL52 8YQ.

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 annual accounts 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 annual accounts and no provision has been made for future expenses.

Basis of preparation
The annual accounts 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.

Insurers reporting under FRS 102 have to apply the prescribed formats for primary statements in accordance with Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('Schedule 3'). Therefore, the income statement is split into a technical account and a non-technical account.

The Syndicate ceased underwriting new business as at 31 December 2022. The intention at the end of 2024 is for the Syndicate to Reinsure to Close ("RITC"), effective as of 1 January 2025. No further adjustments are necessary to the amounts at which the net assets are included in these annual accounts and the business is expected to run-off in a solvent manner. FRS 102 and 103 have been consistently applied to all years presented. There have been no material changes in accounting policies.

Going concern basis
These annual accounts 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 Managing Agents 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 accounts.

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:

Statement of accounting policies (continued)

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, allocated to a year of account in accordance with the underlying risks being protected or in relation to the coverage period of the contract as appropriate. Any reinsurance premium adjustments are charged to a year of account according to the basis on which the adjustments concerned are calculated. Reinsurance premium ceded is also disclosed gross of commissions and profit participations recoverable from reinsurers.

Premiums charged 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, reliance continues to be placed on loss ratios originally from the business plan, but updated by detailed pricing work undertaken on individual risks by the pricing actuaries, and this is supplemented with insights from claims experience as the business develops. Some regard is given to Lloyd's Risk Code data from the LMA where PMA weights 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 annual accounts and may result in greater uncertainty within an insurer's annual 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 annual accounts 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.

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. There is no provision recognised in the 2023 annual accounts or comparatives.

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. From the novation date employee costs are not charged directly to the Syndicate but included in the managing agency fee payable to PMA.

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 charge" within the statement of profit or loss – non-technical account.

Statement of accounting policies (continued)

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.

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.

Statement of accounting policies (continued)

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.

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. Account has been taken for offsets relating to MPMIC QS/LPT balances which may be applicable in calculating the net amounts due between the Syndicate and MPMIC where balances due are greater than three months.

Statement of accounting policies (continued)

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.

Pension costs

Coverys MA Services Limited ("CMAS"), a sister company of Coverys Managing Agency Limited ("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. From the novation date pension costs are not charged directly to the Syndicate but included in the managing agency fee payable to PMA.

Key accounting judgements and estimation uncertainties

Of the various accounting judgements, assumptions and estimates made in the preparation of these annual accounts, 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.

Statement of accounting policies (continued)

Technical provisions

The accounting policy for technical provisions is described on page 17 and the related risks are described on page 23. The gross technical provisions excluding deposits from reinsurers is £114,779k (2022: £131,939k) 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 £110,660k (2022: £107,473k). 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 5.1% (2022: 3.4%) on gross claims reserves (with no net impact).

The uncertainty within gross technical provisions is eliminated (apart from any bad debt consideration and ULAE) 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 17 and the related risks are described on page 23. 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 19 and details of the risks relating to investments are disclosed on page 27. All investments are highly rated securities and regularly traded on major stock exchanges so that the risks in their valuations are reduced.

Risk management

Managing Agent 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 PMA ERM framework includes an annual review, setting and Board approval of risk appetites 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 risks to an acceptable level. A Board Risk Committee meets regularly to monitor performance against the approved risk appetites using a set of key risk indicators and provide oversight and challenge to ensure the Syndicate operates within 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

Insurance risk refers to fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the firm at the time of underwriting.

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:

Underwriting and Pricing risk:

- **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.

Risk management (continued)

Insurance risk (continued)

However, the Syndicate is no longer heavily exposed to Underwriting and Pricing risk due to it going into run-off from January 2023 and thus premium exposure is limited to mid-term adjustments.

Reserving risk - 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:

- 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.

In the calendar year 2022, insurance risk for Syndicate 1975 was 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). In 2023 as a result of the LPT and QS arrangements, there is a no net premium and net reserves decrease, hence Insurance Risk is of limited importance for Syndicate 1975.

Additionally, as Syndicate 1975 is in run-off from 2023, reserving risk remains the driver of gross insurance risk; however, due to the insurance risk transfer mechanisms in place noted above, this has reduced the net insurance risk to nil for the Syndicate.

Post novation, PMA's Actuarial Function manages 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, prior to presentation at the Reserving Committee, where reserves are reviewed ahead of the Audit Committee. 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 PMA actuarial function.

The Actuarial Function will then make a reserve recommendation to the Audit Committee and Syndicate Management Committee ("SMC") including 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

Market risk refers to the risk of assets and liabilities valuations being affected by financial market factors such as exchange rates, interest rates, investment returns and balance sheet revaluations in respect of changes in the risk-free rates used for discounting.

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 SMC following recommendations by the managing agency and the investment manager. In order to mitigate market risk, the Board, through

Risk management (continued)

Market risk (continued)

delegation to the SMC, 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 to simulate the impact of the market risks to the asset portfolio.

Liquidity risk

Liquidity risk is defined as the risk that assets held to settle liabilities as they fall due are either unable to be realised or they are only realisable at materially below market value.

Liquidity in this context refers to the availability of funds, or certainty that funds will be available without significant losses, to honour all cash outflow commitments (both on and off-balance sheet) as they fall due. These commitments are generally met through cash inflows, supplemented by assets, readily convertible to cash.

To mitigate liquidity risk, the agency monitors cash flow projections and maintains cash levels consistent with the needs of the Syndicate, providing commentary into the SMC. The Syndicate maximises the inflow of funds from reinsurance recoveries and outstanding premiums and controls costs through the reporting of the expense budget. As there are Funds Withheld for syndicate liabilities, 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 2023					
Deposits received from reinsurers	-	90,846	-	-	90,846
Gross claims outstanding	27,413	43,071	23,855	18,891	113,230
Creditors	2,838	1,063	-	-	3,901
Total	30,251	134,980	23,855	18,891	207,977
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

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.

Risk management (continued)

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
2023 net claims liabilities	642	1009	559	443	2,653
2022 net claims liabilities	433	878	571	561	2,443

Currency risk

The main exposure to foreign currency risk arises from Syndicate business originating overseas. The Syndicate seeks to mitigate the risk by looking to match the estimated foreign currency denominated liabilities with assets denominated in the same currency where possible.

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 £112k (2022: £719k) 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 comprise 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.

	2023 £000	2022 £000
Impact of a 50-basis point increase in interest rates on result	(116)	(136)
Impact of a 50-basis points decrease in interest rates on result	116	136
Impact of a 50-basis points increase in interest rates on net assets	(116)	(136)
Impact of a 50-basis point decrease in interest rates on net assets	116	136

Risk management (continued)

Credit risk

Credit risk is defined as the risk that the Syndicate's counterparties fail to meet their financial obligations in full as they fall due, leading to financial losses. 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 corporate members 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 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 PMA 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.

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 2023.

Risk management (continued)

	AAA £000	AA £000	A £000	≤BBB/NR £000	Total £000
As at 31 December 2023					
Variable yield securities and unit trusts	143	-	4,754	131	5,028
Debt securities	-	21,326	1,615	306	23,247
Participation in investment pools	-	25,622	10,435	-	36,057
Overseas deposits as investments	1,656	360	300	596	2,912
Reinsurers' share of claims outstanding	-	5,009	105,568	-	110,577
Reinsurance debtors	-	-	5,762	-	5,762
Cash at bank and in hand	-	5,520	2,656	-	8,176
Total credit risk	1,799	57,837	131,090	1,033	191,759
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

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

Operational risk

Operational risk arises from human error, failure in processes (including fraud) and/ or systems and from external events impacting the business. 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 include business continuity or disruptions, in particular relating to IT systems and data availability, 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;

Risk management (continued)

Operational risk (continued)

- The PMA Operations Committee is responsible for monitoring the implementation of operational resilience requirements and to consider the work undertaken to date on the existing client base and also the future strategy / framework for new clients. The managing agent has determined that no 'important business services', as defined by operational resilience requirements, are currently being provided in relation to the Syndicate's business.

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 Risk & Compliance Director monitors regulatory developments to ensure the managing agent remains up to date on compliance issues. 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 PMA 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 Syndicate Management Committee and the Risk Committee monitor 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 2023

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
2023						
Direct insurance: Third party liability	5,273	18,904	(13,895)	(6,602)	(3,432)	(5,025)
Reinsurance: Casualty	3,429	11,996	(9,963)	2,578	(4,208)	402
	8,702	30,900	(23,858)	(4,024)	(7,640)	(4,623)
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)

Total commissions payable for direct insurance written in the year amounted to £3,620k (2022: £7,188k).

All premiums were concluded and earned in the United Kingdom.

2. Technical provisions

	2023 £000	2022 £000
Gross technical provisions		
Claims outstanding	113,230	107,473
Provision for unearned premiums	1,550	24,466
	114,780	131,939
Reinsurers' share of technical provisions		
Claims outstanding	110,577	105,029
Provision for unearned premiums	1,550	24,466
	112,127	129,495
Net technical provisions		
Claims outstanding (inc ULAE)	2,653	2,444
	2,653	2,444

Notes to the annual accounts (continued)

2.Technical provisions (continued)

Reconciliation of movements in year

2023	Opening Balance £000	Mvt in tech account £000	Exchange mvt £000	Closing Balance £000
Gross provision for claims	(107,473)	(10,681)	4,924	(113,230)
Reinsurers' share of provision	105,029	10,470	(4,922)	110,577
Unearned premium	(24,466)	22,197	719	(1,550)
Reinsurers' share of unearned premium	24,466	(22,197)	(719)	1,550
Deferred acquisition costs	4,479	(3,896)	(132)	451
2022	**£000**	**£000**	**£000**	**£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

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

Gross Claims development as at 31 December 2023

Pure underwriting year	2018	2019	2020	2021	2022
Estimate of gross claims incurred	£000	£000	£000	£000	£000
After one year	15,088	11,774	17,919	14,920	14,231
After two years	32,322	32,612	37,927	32,829	30,298
After three years	44,653	25,749	33,217	39,572	-
After four years	41,450	15,725	21,622	-	-
After five years	34,007	19,451	-	-	-
After six years	14,797	-	-	-	-
Less gross claims paid	3,455	4,306	1,750	2,629	368
Gross reserves	11,342	15,145	19,872	36,942	29,929

Balances have been translated at exchange rates prevailing at 31 December 2023.

Net Claims development as at 31 December 2023

Pure underwriting year	2018	2019	2020	2021	2022
Estimate of net claims incurred	£000	£000	£000	£000	£000
After one year	14,526	11,494	17,046	14,289	540
After two years	32,269	31,737	36,410	1,481	1,278
After three years	42,238	10,524	2,301	3,779	-
After four years	24,727	2,540	2,341	-	-
After five years	9,094	4,308	-	-	-
After six years	1,095	-	-	-	-
Less net claims paid	1,093	4,306	1,750	2,629	368
Net reserves	2	2	591	1,150	910

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:

	2023 £000	2022 £000
Direct - Third party liability	69,501	65,236
Reinsurance - Casualty	43,729	42,237
	113,230	107,473
Deposits from reinsurers	90,846	107,186

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

In previous years an LPT and QS was put into place reinsuring the loss reserves on the 2022 and prior years of account to MPMIC. This was to provide stability to the Syndicate on any future loss movements. The reinsurance recovery included within the Net Technical Provisions at 31 December 2023 as part of the LPT and QS was £99.5m (2022: £103.7m). Deposits from reinsurers represents the funds withheld by the Syndicate due to MPMIC under the terms of the contract.

3. Net operating expenses

	2023 £000	2022 £000
Brokerage and commissions	5,132	9,343
Reinsurers' commissions and profit participations	(8,920)	(14,659)
Acquisition costs	(3,788)	(5,316)
Change in deferred acquisition costs	3,896	151
Administration expenses	3,915	5,655
Member's standard personal expenses	-	768
	4,024	1,258

	2023 £000	2022 £000
Administrative expenses include:		
Auditors' remuneration		
Audit of the Syndicate annual accounts	126	114
Audit-related assurance services	41	38
Other assurance services provided	90	84
	257	236

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.

	2023 £000	2022 £000
Wages and salaries	2,173	3,346
Social security costs	255	455
Other pension costs	128	207
	2,556	4,008

The average number of staff recharged to the Syndicate by the Coverys managing agent's service company prior to novation, during the year was as follows:

	2023	2022
Administration and finance	22	24
Underwriting	2	6
Claims	3	5
	27	35

Post novation staff costs are included in the Managing Agent fee charged to the Syndicate (see Note 16). Managing Agency staff work across numerous Syndicates and therefore it is not possible to disclose the average employee information.

5. Directors' and Active Underwriter's emoluments

The aggregate emoluments of the Directors and staff of the Managing Agency are met by Polo Managing Agency Limited and are disclosed within the annual accounts of that company and were charged in the annual accounts of Polo Managing Agency Limited. No emoluments of the Directors or staff of Polo Managing Agency Limited were directly charged to the syndicate. No other compensation was payable to key management personnel.

Prior to novation, the directors of CMAL received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2023 £000	2022 £000
Emoluments	263	588

Active Underwriter's emoluments

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

	2023 £000	2022 £000
Emoluments	59	522

Notes to the annual accounts (continued)

6. Investment Return

	2023 £000	2022 £000
Income from investments	948	563
Gains on the realisation of investments	305	7
Losses on the realisation of investments	(351)	(294)
Investment income	902	276
Investment expenses and charges	(35)	(30)
Unrealised gains on investments	2,596	625
Unrealised losses on investments	(351)	(2,602)
Allocated investment return transferred to the technical account	3,112	(1,731)

This can also be presented as follows:

Interest and similar income		
Interest from financial instruments designated at fair value	948	563
Gains on investments	2,901	632
	3,849	1,195

7. Other financial investments

	Market value		Cost	
	2023 £000	2022 £000	2023 £000	2022 £000
Listed securities				
Shares and other variable yield securities	5,028	5,321	5,082	4,571
Debt securities and other fixed income securities	23,247	27,279	23,125	28,664
Participation in investment pools	36,058	28,231	35,040	29,000
Loans with credit institutions	-	-	-	838
	64,333	60,831	63,247	63,073

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 2023				
Total Investments	55,082	8,467	784	64,333
Overseas Deposits	192	2,720	-	2,912
Total	55,274	11,187	784	67,245

	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

The Level 3 instrument comprises the Syndicate loans to the Lloyd's Central Fund.

Notes to the annual accounts (continued)

8. Debtors – due within one year

	2023 £000	2022 £000
Direct arising out of direct insurance operations		
Intermediaries	5,730	14,525
Direct arising out of reinsurance operations	5,762	13,113
	11,492	27,638

No debtors are due greater than one year.

9. Other debtors

	2023 £000	2022 £000
VAT receivable	2	4
Canadian Federal Income Tax	107	111
Funds in transit	3,150	-
Sundry	68	3
	3,327	118

10. Creditors – due within one year

	2023 £000	2022 £000
Creditors arising out of reinsurance operations	2,838	3,860
Other creditors including taxation	1,063	1,125
Accruals and deferred income	1,438	8,029
	5,339	13,014

No creditors are due greater than one year.

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.

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 annual accounts.

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 is 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 Uplift (ECU). 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% 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

The Syndicate is related to Medical Professional Mutual Insurance Company ("MPMIC") by virtue of common control. During the calendar year 2022, the Syndicate entered a 100% QS transaction for the 2022 year of account with MPMIC on a funds withheld basis. In the same year the syndicate endorsed the existing Loss Portfolio Transfer in place for the 2018 and 2019 years of account, to include the 2020 and 2021 years of account also with MPMIC.

MPMIC is the parent of ProMutual Group Inc.("PMGI") which is the parent of wholly aligned Corporate Member, Coverys Capital Limited.

15. Controlling Party of the Managing Agent

The managing agent's immediate parent undertaking is Marco Capital Holdings (UK) Limited, a company incorporated in England and Wales. Registered address 24 Monument Street, 4th Floor, London, United Kingdom, EC3R 8AJ. Floor), London, United Kingdom, EC3N 3AJ.

The managing agent's ultimate parent undertaking is Marco Capital Holdings Limited, a company incorporated in Malta. Registered address is 171 Old Bakery Street, Valletta, VLT1455, Malta.

The ultimate controlling party is Oaktree Capital Group, LLC.

16. Disclosure of Interest

PMA provided services and support to the Syndicate in its capacity as Managing Agent. In the year, Managing Agency Fees of £0.6m were charged to the syndicate. At the yearend £0.6m was owed to PMA by the Syndicate.

Managing Agent's interest

During 2023 PMA was the Managing Agent for four Syndicates. Syndicates 1347, 1975, 1996 and 1254.

On 1 January 2023, PMA took on the management of Syndicate in a box 1347
On 13 July 2023, PMA took on management of Syndicate in a box 1996
On 2 October 2023, PMA took on the management of Syndicate 1975

The annual accounts of the Managing Agency can be obtained by application to the Registered Office (see page 2).