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beazley

Beazley Furlonge Limited | Syndicate 623 at Lloyd's
Annual report and accounts 2022

Insurance. Just different.

Welcome to our Annual report 2022

As a leading global specialist insurer, we are passionate about bringing an innovative and progressive approach to helping our clients mitigate the risks of the world. During 2022, the syndicate embodied this passion while delivering a strong financial performance for its members.

Contents

Highlights

Syndicate capacity
£587.2m
(2021: £514.8m)

Profit for the financial year
$26.2m
(2021: $48.9m)

Combined ratio
92%
(2021: 93%)

Gross premiums written
$868.6m
(2021: $760.7m)

Renewal rate increase
13%
(2021: 20%)

Cash and investments
$990.4m
(2021: $843.9m)

Net premiums written
$673.5m
(2021: $588.2m)

Claims ratio
57%
(2021: 57%)

Annualised investment return
(2.4%)
(2021: 1.4%)

Earned premiums, net of reinsurance
$652.7m
(2021: $526.8m)

Expense ratio
35%
(2021: 36%)

Strategic report of the managing agent

Overview

The balanced portfolio of Syndicate 623 (the 'syndicate') has underpinned its underwriting performance in recent years. The syndicate made a profit of $26.2m (2021: $48.9m) for the year ended 31 December 2022. Gross premiums written increased to $868.6m (2021: $760.7m).

The capacities of the syndicates managed by Beazley Furlonge Ltd are as follows:

	2022 £m	2021 £m
2623	2,679.0	2,348.4
623	**587.2**	**514.8**
5623	204.4	144.2
6107	67.4	70.5
3623	41.2	65.4
3622	29.7	27.8
4321	29.0	–
Total	**3,637.9**	**3171.1**

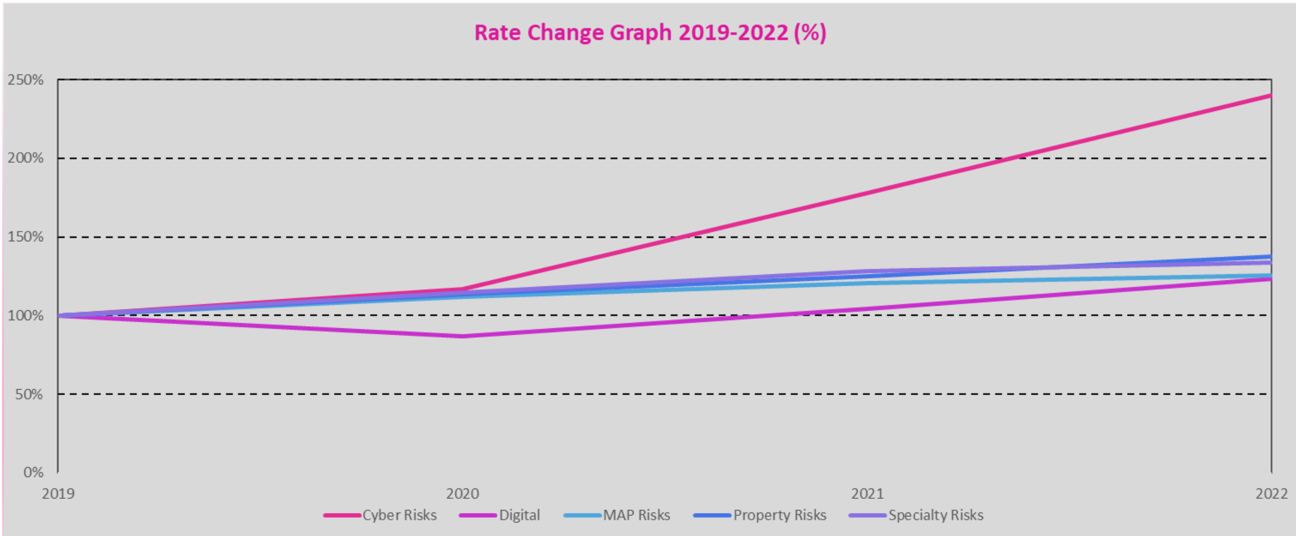
Year of account results

The 2020 year of account has closed with a loss on capacity of 2.5% having been adversely impacted by the COVID-19 pandemic losses and a number of natural catastrophes, including Hurricane Ida, Hurricane Laura and Storm Uri. Beazley has maintained an active approach to portfolio diversification and this coupled with careful risk selection has minimised the impact of these events. The 2021 year of account is currently forecasting a positive return of 5% on capacity despite having been adversely impacted by claims arising from the war in Ukraine and natural catastrophes such as Hurricanes Ida and Ian, among others. The 2022 year of account, which is still in its early stages of development, has already been impacted by losses from Hurricane Ian, the war in Ukraine, Storm Elliott and other adverse weather events. However this has been offset by strong premium growth driven by increased rates over the past 12 months. The 2022 year of account is forecast to close with a positive return on capacity which demonstrates that such loss events are within the expected range for the syndicate.

Rating environment

The loss activity during 2020 and 2021 had a continued positive effect on the rating environment with rates increasing by 13% in 2022 across the portfolio (2021: 20%). All lines of business saw increases in rates compared to 2021, with Cyber Risks increasing by 35%, Digital increasing by 18%, MAP Risks rates increasing by 4%, Specialty Risks increasing by 4% and Property Risks increasing by 10%.

An overview of the syndicate's performance by division is presented between pages 6 and 10.



Combined ratio

The combined ratio is a measure of operating performance and represents the ratio of the syndicate's total costs (excluding foreign exchange movements) to total net earned premium. The syndicate's combined ratio has improved in 2022 to 92% (2021: 93%) driven by a reduction in the expense ratio.

Claims

The claims ratio is a measure of the syndicate's claims experience and represents the ratio of net insurance claims to net earned premium. The claims ratio remained stable at 57% in 2022 (2021: 57%).

Prior year reserve releases

The syndicate has a consistent reserving philosophy, with initial reserves being set to include risk margins that may be released over time as and when any uncertainty reduces. Historically, at the Beazley plc group level, these margins have given rise to held reserves within the range of 5-10% above the actuarial estimates, which themselves include some margin for uncertainty. The margin held above the actuarial estimate for the syndicate was 4.7% at the end of 2022 (2021: 5.2%). The 2022 level of margin is just below the historical Beazley plc group level range however management deem the reserves to be appropriate. Reserve monitoring is performed at a quarterly peer review, which involves a challenge process contrasting the claims reserves of underwriters and claim managers, who make detailed claim-by-claim assessments, and the actuarial team, who provide statistical analysis. This process allows early identification of areas where claims reserves may need adjustment. During years where we experience large losses we tend to see the margin we monitor being lowered as often we hold the same estimates within both the actuarial and held reserve estimates.

During 2022 the syndicate released prior year reserves of $9.3m (2021: $33.1m). The syndicate experienced a large net release on the MAP Risks and Property Risks divisions, offset by a strengthening on the Cyber Risks division on the 2020 underwriting year. Net (releases)/strengthening are shown by division in the table below:

	2022 $m	2021 $m
Cyber Risks	5.1	(5.6)
Digital	(0.6)	(4.5)
MAP Risks	(10.8)	(8.1)
Property Risk	(3.6)	(13.0)
Specialty Risks	0.6	(1.9)
Total	**(9.3)**	**(33.1)**

Strategic report of the managing agent continued

Net operating expenses

Net operating expenses, including business acquisition costs and administrative expenses increased from $189.1m to $230.3m in 2022. The breakdown of these costs is shown below:

	2022 $m	2021 $m
Brokerage costs	172.5	143.9
Other acquisition costs	14.6	13.4
Total acquisition costs	**187.1**	**157.3**
Administrative and other expenses	35.6	28.2
Profit commissions from syndicates	**7.6**	**3.6**
Net operating expenses[1]	**230.3**	**189.1**

1 A further breakdown of net operating expenses can be seen in note 4.

Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with accounting guidelines. Other acquisition costs comprise costs that have been identified as being directly related to underwriting activity (e.g. underwriters' salaries and Lloyd's box rental). These costs are also deferred in line with premium earning patterns. Administrative expenses comprise primarily IT costs, staff costs, facilities costs, Lloyd's central costs and other support costs.

The expense ratio is a measure of net operating expenses to net earned premium. The expense ratio for 2022 is 35% (2021: 36%).

Investment performance

Growth in syndicate financial assets continued in 2022 as the business grew significantly. The value of our investments, cash and cash equivalents increased to $990.4m by year end (2021: $843.9m). Difficult financial market conditions resulted in a negative investment return during the year. We generated an investment loss of $22.3m or (2.4)% in 2022 (2021: a gain of $10.9m, 1.4%). Inflation became the key consideration for financial markets in 2022, as remaining supply-chain pressures arising from the COVID-19 pandemic were exacerbated by the conflict in Ukraine, affecting energy and food costs. Earlier expectations that higher inflation would be temporary were revised and central banks became increasingly aggressive in raising interest rates as inflation accelerated. Unusually, both Sovereign bonds and risk assets saw significant losses, as yields rose and economic growth forecasts declined.

US Treasury yields at shorter maturities increased by more than four percentage points during 2022; the biggest increase in more than half a century. We acted to reduce portfolio duration for much of the period, which helped to reduce the adverse impact of rising yields, but our fixed income investments still generated a loss of 2.7%. Global equities lost more than 18% in 2022 and our equity portfolio, which reflects our responsible investment objectives, saw modestly greater losses. However, equities make up less than 1.8% of our portfolio and all of our other capital growth investments achieved positive returns. Our hedge funds, in particular, proved resilient in the difficult market conditions, returning more than 7% in a year when the hedge fund universe recorded losses. Overall, our capital growth investments returned a small gain of 0.2%.

The investment loss in 2022 is significant, notwithstanding some recovery in the fourth quarter, as yields stabilised. However, losses were mostly the result of rising yields, which have also acted to reduce the present value of our Solvency II liabilities, such that our capital position has not been materially affected. Bond yields are now much higher than they were a year ago (our fixed income portfolio yield at 31 December 2022 was 4.7%), suggesting that future investment returns may be better than we have seen for some years. However, many of the factors that drove financial market volatility in 2022, including rampant inflation and rising interest rates, remain unresolved, such that investment returns are likely to remain volatile.

The table below details the breakdown of our portfolio by asset class:

	31 Dec 2022		31 Dec 2021	
	$m	%	$m	%
Cash at bank and in hand	19.9	2.0	6.3	0.8
Fixed and floating rate debt securities				
– Government	559.1	56.4	479.8	56.9
– Corporate bonds				
– Investment grade	268.8	27.1	211.1	25.0
– High yield	35.2	3.6	43.1	5.1
Syndicate loan to Lloyd’s central fund	6.5	0.6	7.6	0.9
Derivative financial assets	4.5	0.5	1.2	0.1
Core portfolio	**894.0**	**90.2**	**749.1**	**88.8**
Equity funds	17.6	1.8	23.1	2.7
Hedge funds	75.2	7.6	64.9	7.7
Illiquid credit assets	3.6	0.4	6.8	0.8
Total capital growth assets	**96.4**	**9.8**	**94.8**	**11.2**
Total	**990.4**	**100.0**	**843.9**	**100.0**

Comparison of return by major asset class:

	31 Dec 2022		31 Dec 2021	
	$m	%	$m	%
Core portfolio	(22.5)	(2.7)	0.7	0.1
Capital growth assets	0.2	0.2	10.2	11.3
Overall return	**(22.3)**	**(2.4)**	**10.9**	**1.4**

Reinsurance

In 2022, the amount spent on outward reinsurance was $195.1m (2021: $172.5m). As a percentage of gross premiums written it decreased in 2022 to 22.5% from 22.7% in 2021.

Outlook

The 2021 underwriting year has been impacted by a number of climate related natural catastrophes such as Hurricane Ida, Storm Uri, various flooding catastrophes and the Volker hail event. The war in Ukraine has also impacted the 2021 underwriting year. Despite this challenging claims environment the syndicate is expected to produce a positive return on capacity for 2021 underwriting year - indicating that such events are within the syndicate's expected range.

In 2022, the syndicate continued to maintain and grow a well-diversified portfolio helped by rate increases across numerous classes. Despite losses attributable to Hurricane Ian and Storm Elliot in the US, the year of account is projected to close with a positive return on capacity.

Looking ahead to 2023, we anticipate building on the strong rate increases achieved over the past year. The syndicate continues to search for growth opportunities while taking heed of the increasingly complex risk environment driven by climate change, political and macro-economic factors.

A P Cox
Active Underwriter

27 February 2023

Divisional performance commentary

Cyber Risks

	2022 $m	2021 $m
Gross premiums written	194.4	130.1
Net premiums written	138.2	94.6
Earned premiums, net of reinsurance	125.6	71.3
Claims incurred, net of reinsurance	(72.1)	(41.2)
Net operating expenses	(34.7)	(20.0)
Technical result	**18.8**	**10.1**
Claims ratio	57%	58%
Expense ratio	28%	28%
Combined ratio	85%	86%
Renewal rate change	35%	52%

Cyber Risks saw gross premiums written grow in 2022 up 49% to $194.4m (2021: $130.1m). Rates have increased across the portfolio, averaging 35% and the process of re-underwriting the book continues to deliver results in terms of profitability as the combined ratio improved to 85% (2021: 86%).

New business was strong across all geographies with the syndicate's business outside of its core US client base growing exponentially. In the US, the syndicate is seeing strong demand from the mid-market segment which is driving ongoing growth. Outside of the US, demand came from Europe, Asia, Australia and beyond, and the syndicate expects this trend to continue as business becomes increasingly aware of and keen to protect itself from the cyber threat.

The substantial rate increases observed over the last two years did begin to moderate during 2022, but they remained at very significant levels, reflecting the scale of the challenge that cyber poses. The syndicate's positive result reflects the efforts of the managing agent since October 2020, to build its cyber ecosystem, which focuses on pre-underwriting and post-loss mitigation efforts.

Beazley is a market leader in cyber and believes it needs to use that position to address the challenges the market faces. In 2022 this saw the Beazley tackle the issue of cyber catastrophes. To date no cyber attack has been big enough to create a widespread breakdown in essential services, however, the managing agent has modelled the possible scenarios and believe now is the time to actively build market awareness and the capital needed to address the threat as the market grows.

To deal with this threat, the managing agent has taken a straightforward approach that defines two extreme catastrophic scenarios where it would restrict the limits of indemnity. This prudent approach guarantees that however extreme the situation, the syndicate's clients retain meaningful financial indemnity and most important, full access to its comprehensive cyber services to respond and recover.

Looking ahead, the managing agent believes that the flattening of rate increases will continue through 2023, but expects that to just be a moderation in what have been substantial, but required, rate increases over the last two / three years. Continued strong new business demand is expected, particularly outside of the US, where the mid-market is seen as the largest area of growth for cyber products and services. In Europe and across the globe, the syndicate is seeing large corporations seeking greater cyber protection and expect the level of demand continue. Its continued focus is on maintaining and advancing its knowledge and understanding of the cyber threat and maintaining vigilance about the threat actors and their changing methods of operation as it moves forward.

Digital

	2022 $m	2021 $m
Gross premiums written	34.0	24.6
Net premiums written	28.0	20.9
Earned premiums, net of reinsurance	24.7	18.1
Claims incurred, net of reinsurance	(13.1)	(6.3)
Net operating expenses	(10.4)	(9.3)
Technical result	**1.2**	**2.5**
Claims ratio	53%	35%
Expense ratio	42%	51%
Combined ratio	95%	86%
Renewal rate change	18%	20%

The Digital division achieved gross premiums written of $34.0m (2021: $24.6m) with a technical result of $1.2m (2021: $2.5m) and a combined ratio of 95% (2021: 86%). The increased combined ratio is driven by an increase in the Digital claims ratio.

Throughout the year the managing agent has made considerable progress in technology innovation and is seeing the benefits of a multi-skilled team working across all lines of business. Digital was started to respond to demand from clients and brokers for accessible digital insurance placement for small to medium sized risks. Digital gives brokers one point of contact, supported by a cross functional team, to access multiple product lines and digital services via their preferred platform or channel.

By committing to the strategy of meeting the client where they want to be met, the managing agent is seeing success across all access points: APIs, websites, on digital market hubs and artificial intelligence enhanced email submission capabilities. Take up of each channel differs depending on location. In the US, the prevalent method of placement remains via email, but through 2022 we have seen a shift to engagement via APIs and market hubs. In Europe and the UK, web traffic has established itself as a key link in the insurance chain, while for our German business, market hubs or 'broker pools' are increasing in use.

Beazley recognises that not all small businesses are the same and neither are the risks they face. A small manufacturing business has very different exposures to business interruption risk than a small financial consultancy. The syndicate is able to effectively design and price relevant cover for a myriad of organisation types and sizes which can be accessed at the touch of a button and delivered digitally.

At its core, the syndicate has a broad specialist lines portfolio, focused on lines such as professional indemnity, management liability, tech professions errors and omissions, medical malpractice for small scale health and care services providers, event cancellation and pleasure craft. During 2022, the managing agent has also matured the way it underwrites flagship products like cyber for small business, where it is seeing significant demand and there is an opportunity to grow at pace.

The syndicate remains confident about the Digital division's growth trajectory going into 2023 and expect to see moderate rate increases across the portfolio. Service is key, and it continues to invest in the people and technology of our customer success team who support it's brokers with client queries, providing product information, or on transacting business. Similarly, the dedicated territory manager sales team continues to grow and expand it's distribution by region and by digital channel. In the year ahead, the syndicate is targeting growth in all regions. It sees plenty of opportunity to expand it's digital distribution in the US, and Europe. In 2023, the Beazley will also launch a website portal in Canada, and with support of its well established specialist teams in Toronto, Montreal and Vancouver. Although Digital is tailored for the small to medium business segment, looking ahead, the syndicate sees opportunities to direct more digitally placed larger risk business to its complex risk underwriting teams via channels such as APIs.

Divisional performance commentary continued

MAP Risks

	2022 $m	2021 $m
Gross premiums written	131.4	111.8
Net premiums written	117.7	99.9
Earned premiums, net of reinsurance	110.1	90.6
Claims incurred, net of reinsurance	(51.2)	(39.2)
Net operating expenses	(42.3)	(35.7)
Technical result	**16.6**	**15.7**
Claims ratio	47%	43%
Expense ratio	38%	40%
Combined ratio	85%	83%
Renewal rate change	4%	7%

2022 saw an improved result registered by MAP Risks with gross premiums written of $131.4m (2021: $111.8m) and a combined ratio of 85% (2021: 83%).

The 2022 result was impacted by the war in Ukraine. Despite this, MAP Risks delivered a profit for 2022.

Bringing together the syndicate's marine division with the political, accident and contingency division and portfolio underwriting has brought synergies and opportunities for cross selling. The specialist underwriting teams are leading members of the Lloyd's market and the managing agent sees positive opportunities to expand access to their technical skill and sector knowledge by leveraging it's domestic underwriting platforms, in the US and Europe alongside Asia via Singapore operations.

The rating environment remains buoyant, with an overall rate increase of 4%, the syndicate is now seeing pressure in some lines, including aviation where capacity has returned after COVID-19. The war in Ukraine has impacted a range of classes from terrorism, to marine, aviation and political risk and as a result the syndicate has seen significant uplifts in the rating environment in some of these areas.

2022 saw the syndicate's contingency underwriting recover from the impact of COVID-19 with positive premium growth and, despite recessionary fears, it is expected that trend will continue into 2023. The value of its political risk cover has been fully demonstrated by the geopolitical turmoil of the past 12 months and we are seeing heightened interest from businesses looking to protect overseas assets, and the rating environment remains robust for this class.

Property Risks

	2022 $m	2021 $m
Gross premiums written	186.3	175.9
Net premiums written	149.0	124.4
Earned premiums, net of reinsurance	143.2	113.8
Claims incurred, net of reinsurance	(86.3)	(68.4)
Net operating expenses	(53.8)	(48.4)
Technical result	**3.1**	**(3.0)**
Claims ratio	60%	60%
Expense ratio	38%	43%
Combined ratio	98%	103%
Renewal rate change	10%	10%

2022 saw the Property Risks division navigate a very dynamic marketplace in which it continued its focus on better risk selection and supporting clients to improve their risk management. The results of the corrective action taken over the past three years began to be delivered in 2022 as gross premiums written grew to $186.3m (2021: $175.9m) and the combined ratio improved to 98% (2021: 103%).

The success of work painstakingly done in recent years to address the impact of climate events and refine risk selection has seen the book progressively improve. With market conditions reaching a pivot point during 2022, the syndicate is now in a great position to reap the rewards. While Hurricane Ian will see a claims burden increase and has undoubtedly had an impact on the 2022 result, the managing agent comprehensively plans for events of this size, and it falls within its expectations for such events.

The combined expertise of the syndicate's property insurance and reinsurance operation is allowing it to look across its portfolio strategically and benefit from both detailed site level insights and high-level trends, giving it a bird’s eye view of market dynamics. Over time it believes this bottom up and top-down approach will deliver competitive advantages as it addresses the sector’s challenges of which climate change is perhaps the most urgent.

Throughout 2022 Beazley continued to further its understanding of and implement enhancements to its underwriting approach and analysis around climate risk. It aims to be ahead of the market, having actively invested in modelling tools and taking steps to embed the learnings into underwriting processes. The managing agent is also making strides in regards to the impact of climate change on non-modelled perils such as wildfire, flood, and severe convective storm.

The syndicate's non-catastrophe business continues to benefit from the work it has completed in the last few years to improve risk selection. A key driver of that has been the use of better more insightful, modelling and tools.

These focused efforts have put the syndicate firmly on the front foot to strongly build its property premium base through 2023 - not just as it responds to an immediate and much needed improvement in the rating environment - but for the long term. As the rating environment remains favourable the syndicate will lean into the market opportunity.

In contrast, as a buyer of reinsurance, the syndicate is seeing an increase in costs but balanced across the overall benefit of more effective market pricing and its dual role as a property reinsurer, it believes this environment creates excellent opportunities for the syndicate as a leading specialist property insurer.

Divisional performance commentary continued

Specialty Risks

	2022 $m	2021 $m
Gross premiums written	322.5	318.3
Net premiums written	240.6	248.4
Earned premiums, net of reinsurance	249.2	233.0
Claims incurred, net of reinsurance	(150.3)	(144.5)
Net operating expenses	(88.9)	(75.7)
Technical result	**10.0**	**12.8**
Claims ratio	60%	62%
Expense ratio	36%	33%
Combined ratio	96%	95%
Renewal rate change	4%	12%

2022 saw rates across Speciality Risks division rise by 4%, delivering gross premiums written of $322.5m (2021: $318.3m) and the achievement of a combined ratio of 96% (2021: 95%).

Specialty Risks offers scale and diversification over many different product lines, across global geographies, serving insureds from SME’s to the world’s largest companies. The distribution methods used are equally diverse and include; broker partners along the insurance value chain, cover holders, delegated authority arrangements and reinsurance. This not only creates a truly diversified book of casualty business but actively offers diversification benefits to the syndicate.

The newly combined division leverages its expertise and interconnected broker relationships to deliver strong and effective cycle management across our diverse book, by pushing and pulling the relevant levers of geographies, platforms and products and moving the syndicate's focus as market conditions evolve and change.

Beazley's focus is on active cycle management and this lets us see where risks are growing, or the rating environment is becoming unattractive and move swiftly to protect that business area. A good example of how this works is in the current D&O market cycle. The managing agent avoided growing in the depth of the soft D&O market by methodical underwriting, and when the market changed direction in 2020/21 we stepped up and seized the opportunity. As conditions have moderated since the second quarter of 2022 the managing agent has become more selective and in some instances reduced it's appetite. It is hopeful that conditions will stabilise during 2023 and it will adjust its underwriting as opportunity emerges.

This year the syndicate has seen growth across areas where innovation plays a key role, such as its Safeguard Product. Here the syndicate takes a market leading position in these smaller or niche lines and invests significantly, giving them airtime to grow at pace. This approach sees Beazley to be able to move swiftly into new or emerging areas where growth potential and client demand is high for the managing agent's solutions. Another new area for 2022 was its geographic expansion of Product Recall to Singapore alongside its overall Specialty Risks growth in the Asia Pacific region.

Beazley's underwriting capabilities are fully demonstrated by how it behaves at these moments and this includes leveraging its net growth and varying its reinsurance purchasing, to enable it to deliver market share growth and a positive result in any given year, regardless of market conditions.

Managing agent’s report

The managing agent presents its report for the year ended 31 December 2022.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 and applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland (‘FRS 102’) and Financial Reporting Standard 103: Insurance Contracts (‘FRS 103’).

Principal activity

The principal activity of Syndicate 623 is the transaction of a range of specialised insurance business at Lloyd’s, including the underwriting of professional indemnity, cyber liability, property, marine, reinsurance, accident and life, political risks and contingency business.

Business review

A review of the syndicate’s activities is included in the strategic report.

Risk governance and reporting

Beazley Furlonge Limited’s Board of Directors has the responsibility for defining and monitoring the risk appetite within which Beazley Furlonge Limited (‘BFL’) and the syndicates operate (collectively, ‘Beazley’), with key individuals and committees accountable for day-to-day management of risks and controls. Regular reporting by the risk management team in Board meetings and senior management committees ensures that risks are monitored and managed as they arise.

Climate change/Responsible business

Led by Beazley plc’s Board and supported by the Boards of Beazley Furlonge Ltd, Beazley Insurance dac, and Beazley Insurance Company Inc, Environmental, Social and Governance ('ESG') issues and climate related risks have become regular agenda items throughout 2022. In March 2021 we launched our first Responsible Business Strategy. This document, and the subsequent update which is published alongside the Beazley plc annual report and accounts, sets out the goals and targets across a wider range of ESG issues, including climate change.

In addition to the summary Responsible Business report, Beazley plc discloses its compliance with the Task Force on Climate-Related Financial Disclosures' ('TFCD') Recommendations and Recommended Disclosures at the consolidated group level in the Beazley plc annual report and accounts produced annually. The 2022 Beazley Annual report and accounts have not been published as at the date of this report but are expected to be available on the Group's website in March 2023.

Although not specifically listed in the risk categorises detailed further in this report, the Board of Beazley Furlonge Ltd deem climate risk to be inherently embedded within all risks managed across the syndicate.

Risk management

Beazley prides itself on understanding the drivers of risk, supporting and challenging management on managing those risks for the syndicate and its clients. Whilst Beazley managed the challenges that growth can bring, it remains mindful of emerging risks as well as regulatory and legal changes. The risk function continues engaging in key strategic projects to provide second line challenge and ensure the risk management framework adapts accordingly.

During the year, refinements were made to the risk management framework including our approach to articulating and monitoring risk appetite. This work will continue during 2023 to ensure the framework adapts to the risk profile and continues to embed a strong risk culture. The risk function has continued working with colleagues across the first and second lines of defence to ensure effective risk management practices remain embedded in business processes. Ultimately, this will help ensure achievement of strategic objectives. You will be able to read the details of the performance of our risk framework further in this report, but we would like to pick out some highlights for our work on risk during 2022 below.

Managing agent's report continued

Control Statement

The latest report to the Board confirmed that the control environment identified no significant failings or weaknesses in key processes and the syndicate was operating within risk appetite as at 31 December 2022 and the systems have been in place for the entirety of 2022.

Risk management oversight and framework

The Beazley Furlonge Ltd Board delegates direct oversight of the risk management function and framework to its audit and risk committees, and the primary regulated subsidiary Boards and their audit and risk committees. The Board delegates executive oversight of the risk management function and framework to the executive committee, which fulfils this responsibility primarily through its risk and regulatory committee.

The risk management framework establishes the approach to identifying, measuring, mitigating, monitoring, and reporting on key risks. The risk management framework supports the syndicate strategy and objectives.

Beazley leverages the 'three lines of defence' model, in which the risk management function is part of the second line of defence. The ongoing communication and collaboration across the three lines of defence ensures that the syndicate identifies and manages risks effectively.

A suite of risk management reports support senior management and the Board in discharging their oversight and decision-making responsibilities. The risk reports include updates on risk appetite, risk profiles, stress and scenario testing, reverse stress testing, emerging and heightened risks, a report to the remuneration committee, and the Own Risk and Solvency Assessment (ORSA) report.

The Board approved the risk appetite statements during the past year and received updates on monitoring against risk appetite throughout the year.

The business operated a control environment which supported mitigating risks to stay within risk appetite. The risk management function reviewed and challenged the control environment through various risk management activities throughout the year. In addition, the risk management function worked with the capital model and exposure management teams, particularly in relation to validation of the internal model, preparing the ORSA, monitoring risk appetite and through the business planning process. These teams provided regular reports to the underwriting governance committee which the Chief Risk Officer chairs.

The risk management plan considers, among other inputs, the inherent and residual risk scores for each risk event. The risk management function also includes results from internal audits into its risk assessment process. The internal audit function considers the risk management framework in its audit universe to derive a risk-based audit plan.

The approach to identifying emerging risks includes inputs from 'risk-owners', post-risk incident lessons learned and discussions at horizon scanning groups. The potential materiality and likelihood of impacts helps classify emerging risks which the risk management function monitors. Key emerging risks in 2022 included geopolitical risks, the macroeconomic environment (e.g., inflation, global insurance market trends) and ESG.

Principal risks the syndicate faces

Below summarises the principle risks the syndicate faces, the control environment, governance and oversight that mitigate these risks.

Key to table below:
▲ Within risk appetite
► Trending outside of risk appetite
▼ Outside of risk appetite

Principal risks and summary descriptions	Mitigation and monitoring
Insurance ▲ The risk arising from the inherent uncertainties about the occurrence, amount and timing of insurance premium, and claims liabilities. This includes risk from underwriting such as market cycle, catastrophe, reinsurance and reserves. • Market cycle: potential systematic mispricing of medium or long-tailed business that does not support revenue to invest and cover future claims; • Catastrophe: one or more large events caused by nature (e.g., hurricane, windstorm, earthquake and / or wildfire) or mankind (e.g., coordinated cyber-attack, global pandemic, losses linked to an economic crisis, an act of terrorism or an act of war and / or a political event) impacting a number of policies, and therefore giving rise to multiple losses; • Reinsurance arrangements: reinsurance may not be available or purchases not made to support the business (i.e., mismatch); and • Reserving: reserves may not be sufficiently established to reflect the ultimate paid losses.	BFL used a range of techniques to mitigate insurance risks including pricing tools, analysis of macro trends and claim frequency, including alignment with pricing and ensured exposure was not overly concentrated in any one area. especially those with higher risk. The strategic approach to exposure management and a comprehensive internal and external reinsurance programme helped to reduce volatility of profits in addition to managing net exposure with the transfer of risk. The prudent and comprehensive approach to reserving helped ensure that claims covered by the policy wording were paid, delivering the right outcome to clients. High calibre claims and underwriting professionals deliver expert service to insureds and claims handling, The underwriting committee oversaw these risks.
Credit ▲ This risk of failure of another party to perform its financial or contractual obligations in a timely manner. Exposure to credit risk from its reinsurers, brokers, and coverholders, of which the reinsurance asset was the largest exposure for the syndicate.	BFL traded with strategic reinsurance partners over the long term that support the syndicate through the cycle despite catastrophic claim events. The syndicate did not have significant concentration to reinsurers ensuring these partners meet internal approval criteria overseen by the reinsurance security committee. Credit risk arising from brokers (non-payment of premiums or claims) and coverholders being low relied on robust due diligence processes and ongoing monitoring of aged debt and financial status.
Market (asset) ▲ This is the risk that the value of the syndicate's investments could be adversely impacted by movements in interest rates, exchange rates, default rates or external market forces.	The managing agent of the syndicate pays closely observes macro environment interest rate movements and their impact on the financial assets of syndicate 623. Market risks to the direct investment funds of the syndicate are closely monitored by the Beazley plc investment committee.
Liquidity ▲ Investments and / or other assets are not available or adequate in order to settle financial obligations when they fall due.	By managing liquidity the syndicate maximised flexibility in the management of financial assets, including investment strategy, without incurring unacceptable liquidity risks over any time horizon and in doing so helps to ensure that clients and creditors were financially protected. BFL periodically assessed the liquidity position of the syndicate and is overseen by the BFL audit and risk committees. This included a benchmarking view from a third-party assessment.
Regulatory and legal ▲ Noncompliance with regulatory and legal requirements, failing to operate in line with the relevant regulatory framework in the territories where the syndicate operates leading to being unable to underwrite, manage claims, fines, etc.	The control environment supports the nature, exposure scale and complexity of the business with oversight from the risk and regulatory committee. The syndicate maintains a trusting and transparent relationship with regulators, ensuring coordinated communication and robust process, policies and procedures being followed in the business. In addition, key staff, particularly those who held defined roles with regulatory requirements, were experienced and maintained regular dialogue with regulators. The syndicate horizon scans for regulatory and legal matters and considers their potential impacts on the business.

Managing agent's report continued

Principal risks and summary descriptions	Mitigation and monitoring
Operational ▲ Failures of people, processes and systems or the impact of an external event on operations (e.g., a cyber-attack having a detrimental impact on operations) including transformation and change related risks.	Beazley attracts and nurture talented colleagues who champion diversity of thought, creating a culture of empowerment, collaboration and innovation to build an environment of employee wellbeing. The managing agent employs high calibre, motivated, loyal, and productive people with sufficient competence to perform the required duties. Beazley invests in technology and re-engineering processes to support the operation of these activities which is overseen by the operations committee. Beazley has policies and procedures across the organisation which ensure effective and efficient operations and drive productivity and quality across people, processes and systems to continue to enable scalable growth. The business continuity and disaster recovery and incident response plans help ensure the processes and systems enable our people to deliver the right outcomes for clients and overall productivity. There were effective controls in the day-to-day operations around information security, including cyber resilience to mitigate the damage that loss of access to data or the amendment of data can have on the ability to operate.
Strategic ▲ Events or decisions that potentially stop the syndicate from achieving its goals or danger of strategic choices being incorrect, or not responding effectively to changing environments in a timely manner leading to inadequate profitability, insufficient capital, financial loss or reputational damage.	The syndicate continuously addresses key strategic opportunities and challenges itself to be the highest performing sustainable specialist insurer. BFL commits to ensuring it recognises, understands, discusses, and develops a plan of action to address any significant strategic priorities in a timely fashion whilst ensuring continuity of operational effectiveness and brand reputation. BFL creates an environment that attracts, retains and develops high performing talent with diversity of thought to explore, create and build, through investing in understanding the complexity of the risks clients face and deploying expertise to create value. The executive committee and the Board oversee these risks.
Enterprise ▲ Pervasive risks impacting multiple areas of the syndicate (e.g. conduct, reputation, ESG, concentration and / or viability) occurring through real or perceived action, or lack of action taken, a regulatory body, market and / or third-party used by the business. A negative change to the syndicate reputation would have a detrimental impact to profitability and public perception.	Beazley aims to strategically create a sustainable business for its people, partners and planet through its responsible business goals. The syndicate embeds ESG principles and ambitions, focusses on reducing its carbon footprint, and contributing appropriately to its social environment. The syndicate recognises the impact of climate change. As part of its responsible business objectives, the syndicate sets out targets for its carbon footprint impact, the consideration of climate change in its underwriting and pricing and its investment portfolio. For more detail on risks and mitigations regarding climate related risks, please see the TCFD disclosures in the Beazley Annual report which is available on the Beazley corporate website from March 2023. Inclusion and diversity and peoples well-being continue to be fundamental to achieving these goals. The syndicate considers regulatory requirements and expectations and market practice, however, does not necessarily move with every prevailing market trend. The syndicate recognises the needs of our clients in everything we do. We deliver the right outcomes to our clients through the product lifecycle. The conduct review group oversees this risk.

Directors

The Directors of Beazley Furlonge Limited during the period covered by this annual report who participated on Syndicate 623 indirectly through Beazley Staff Underwriting Limited are as follows:

	2021 year of account underwriting capacity £	2022 year of account underwriting capacity £	2023 year of account underwriting capacity £
A P Cox	400,000	400,000	400,000
S M Lake	100,000	100,000	250,000
I Fantozzi	350,000	350,000	400,000
R Anarfi	–	100,000	112,143
R Quane	–	100,000	100,000

A full list of the Directors of the managing agent who held office during the year can be found on page 65 of these syndicate annual accounts.

Disclosure of information to the auditor

The Directors of the managing agent who held office at the date of approval of this managing agent's report confirm that, so far as they are each aware, there is no relevant audit information of which the syndicate's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the syndicate's auditor is aware of that information.

Auditor

Pursuant to Section 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

On behalf of the Board

S M Lake
Finance Director

27 February 2023

Statement of managing agent's responsibilities

The Directors of the managing agent are responsible for preparing the syndicate financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires the Directors of the managing agent to prepare their syndicate annual accounts for each financial year. Under that law they have elected to prepare the annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 the Directors of the managing agent must not approve the annual accounts unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period. In preparing these financial statements, the Directors of the managing agent are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- assess the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

The Directors of the managing agent are responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable them to ensure that the financial statements comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The Directors of the managing agent are responsible for the maintenance and integrity of the syndicate and financial information included on the syndicate's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

S M Lake
Finance Director

27 February 2023

Independent auditor's report to the members of Syndicate 623

Opinion

We have audited the syndicate annual accounts of syndicate 623 ('the syndicate') for the year ended 31 December 2022 which comprise the Statement of Comprehensive Income, the Statement of Changes in Members' Balances, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the syndicate annual accounts section of our report. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, including the FRC's Ethical Standard as applied to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the 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.

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 12 months from when the syndicate annual accounts are authorised for issue.

Our responsibilities and the responsibilities of the managing agent with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern.

Other information

The other information comprises the information included in the annual report and accounts, other than the syndicate annual accounts and our auditor's report thereon. The directors of the managing agent are responsible for the other information contained within the annual report and accounts.

Our opinion on the syndicate annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the syndicate annual accounts themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of Syndicate 623 continued

Opinions on other matters prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the managing agent's report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts; and
- the managing agent's report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we have not identified material misstatements in the managing agent's report.

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records; or
- certain disclosures of the managing agents' emoluments specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 16, the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the 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 in operation, disclosing as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the managing agent either intends to cease to operate the syndicate, or has no realistic alternative but to do so.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. 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.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the managing agent and management.

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the syndicate and determined that the most significant are direct laws and regulations related to elements of Lloyd's Byelaws and Regulations, and the financial reporting framework (UK GAAP), and requirements referred to by Lloyd's in the instructions. Our considerations of other laws and regulations that may have a material effect on the syndicate annual accounts included permissions and supervisory requirements of Lloyd's of London, the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We obtained a general understanding of how the syndicate is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters of the syndicate. In assessing the effectiveness of the control environment, we also reviewed significant correspondence between the syndicate, Lloyd's of London and other UK regulatory bodies; reviewed minutes of the Board and Risk Committee of the managing agent; and gained an understanding of the managing agent's approach to governance.
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related syndicate annual accounts' items.
- For both direct and other laws and regulations, our procedures involved: making enquiries of the directors of the managing agent and senior management for their awareness of any non-compliance of laws or regulations, enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, enquiring about the managing agent's methods of enforcing and monitoring compliance with such policies, and inspecting significant correspondence with Lloyd's, the FCA and the PRA.
- The syndicate operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.
- We assessed the susceptibility of the syndicate's annual accounts to material misstatement, including how fraud might occur by considering the controls that the managing agent has established to address risks identified by the managing agent, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, including complex transactions, performance targets and external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk including:
  - Reviewing accounting estimates for evidence of management bias. Supported by our Actuaries, we assessed if there were any indicators of management bias in the valuation of insurance liabilities and the recognition of estimated premium income.
  - Evaluating the business rationale for significant and/or unusual transactions.

These procedures included testing manual journals and were designed to provide reasonable assurance that the Annual Accounts were free from fraud or error.

A further description of our responsibilities for the audit of financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the syndicate's members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate and the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Niamh Byrne (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London

27 February 2023

Statement of comprehensive income

for the year ended 31 December 2022

	Notes	2022 $m	2021 $m
Gross premiums written	3	868.6	760.7
Outward reinsurance premiums		(195.1)	(172.5)
Net premiums written		**673.5**	**588.2**
Change in the gross provision for unearned premiums	14	(48.8)	(88.5)
Change in the provision for unearned premiums, reinsurers' share	14	28.0	27.1
Change in the net provision for unearned premiums		(20.8)	(61.4)
Earned premiums, net of reinsurance		**652.7**	**526.8**
Allocated investment return transferred from the non-technical account	**8**	**(22.3)**	**10.9**
Gross claims paid		(335.2)	(304.0)
Reinsurers' share of claims paid		61.3	70.4
Claims paid net of reinsurance		(273.9)	(233.6)
Change in the gross provision for claims	14	(214.9)	(137.2)
Change in the provision for claims, reinsurers' share	14	115.8	71.1
Change in the net provision for claims		(99.1)	(66.1)
Claims incurred, net of reinsurance		**(373.0)**	**(299.7)**
Net operating expenses	4	**(230.3)**	**(189.1)**
Balance on the technical account		**27.1**	**48.9**
Investment income	8	10.9	8.2
Investment expenses and charges	8	(0.8)	(0.7)
Realised (loss)/gain on investments	8	(1.4)	10.0
Unrealised loss on investments	8	(31.0)	(6.6)
Net investment return		**(22.3)**	**10.9**
Allocated investment return transferred to general business technical account		22.3	(10.9)
Loss on foreign exchange		(1.2)	(0.2)
Other income		0.3	0.2
Profit for the financial year		**26.2**	**48.9**

There were no other comprehensive gains or losses in the year.

The notes on pages 24 to 47 form part of these financial statements.

Statement of changes in members' balances

for the year ended 31 December 2022

	2022 $m	2021 $m
Members' balances brought forward at 1 January	5.5	(51.9)
Profit for the financial year	26.2	48.9
Loss collection before members agent's fees – 2018 Year of account	–	8.5
Profit distribution before members agent's fees – 2019 Year of account	(19.3)	–
Members' balances carried forward at 31 December	**12.4**	**5.5**

Members participate in syndicates by reference to years of account (YOA) and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

The notes on pages 24 to 47 form part of these financial statements.

Balance sheet
at 31 December 2022

	Notes	2022 $m	2021 $m
Assets			
Financial assets at fair value	9	**970.5**	837.6
Deposit with ceding undertakings		**1.2**	**6.5**
Reinsurers' share of technical provisions			
Provision for unearned premiums, reinsurers' share	14	103.3	76.2
Claims outstanding, reinsurers' share	14	409.7	297.9
		513.0	**374.1**
Debtors			
Debtors arising out of direct insurance operations		294.7	284.9
Debtors arising out of reinsurance operations		88.6	79.4
Other debtors	12	25.4	25.4
		408.7	**389.7**
Cash at bank and in hand	13	19.9	6.3
Deferred acquisition costs	10	96.9	87.1
Other prepayments and accrued income		8.9	4.8
Total assets		**2,019.1**	**1,706.1**
Liabilities, capital and reserves			
Capital and reserves			
Members' balances attributable to underwriting participations		12.4	5.5
Technical provisions			
Provision for unearned premiums	14	448.7	404.9
Claims outstanding	14	1,292.7	1,096.5
		1,741.4	**1,501.4**
Creditors			
Creditors arising out of direct insurance operations	15	10.5	1.4
Creditors arising out of reinsurance operations	15	130.1	99.1
Other creditors	15	95.5	76.7
		236.1	**177.2**
Financial liabilities	11	2.5	1.4
Accruals and deferred income		26.7	20.6
Total liabilities, capital and reserves		**2,019.1**	**1,706.1**

The notes on pages 24 to 47 form part of these financial statements.

The syndicate annual accounts on pages 20 to 47 were approved by the Board of Beazley Furlonge Limited on 27 February 2023 and were signed on its behalf by:

A P Cox
Active Underwriter

S M Lake
Finance Director

Cash flow statement

for the year ended 31 December 2022

	Notes	2022 $m	2021 $m
Reconciliation of profit for the financial year to net cash inflow from operating activities			
Profit for the financial year		26.2	48.9
Decrease/(increase) in deposits with ceding undertakings		5.3	(6.5)
Increase in net technical provisions		101.1	117.3
Increase in debtors		(23.1)	(89.8)
Increase in creditors		65.0	69.0
Investment return		22.3	(10.9)
Increase in deferred acquisition costs		(9.8)	(15.7)
Net cash flows from operating activities		**187.0**	**112.3**
Net purchase of investments		(163.8)	(142.4)
Cash received from investment return		8.7	17.5
Net cash outflow from investing activities		**(155.1)**	**(124.9)**
Transfer (to)/from members in respect of underwriting participations		(19.3)	8.5
Net cash (to)/ from financing activities		**(19.3)**	**8.5**
Net Increase/ (decrease) in cash and cash equivalents		**12.6**	**(4.1)**
Cash and cash equivalents at the beginning of the year		9.9	14.1
Effect of exchange rate changes on cash and cash equivalents		0.3	(0.1)
Cash and cash equivalents at the end of the year	13	**22.8**	**9.9**

The notes on pages 24 to 47 form part of these financial statements.

Notes to the syndicate annual accounts

1 Accounting policies

Basis of preparation

Syndicate 623 (the 'syndicate') comprises a group of members of the Society of Lloyd's that underwrites insurance business in the London Market.

These syndicate annual accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (the 'Regulations'), the applicable Accounting Standards in the United Kingdom and the Republic of Ireland, Financial Reporting Standard 102 'FRS 102' and the applicable Accounting Standard on insurance contracts Financial Reporting Standard 103 'FRS 103'.

The financial statements have been prepared on the historic cost basis, except for financial assets at fair value through profit or loss which are measured at fair value. The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all periods presented, unless otherwise stated. All amounts presented are stated in US dollars, being the syndicate's functional currency, and in millions, unless noted otherwise.

The financial statements of the syndicate have been prepared on a going concern basis. The syndicate's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report contained in the annual report. In addition, the Strategic report includes the syndicate's risk management objectives and the entity's objectives, policies and processes for managing its capital.

In assessing the syndicate's going concern position as at 31 December 2022, the managing agent has considered a number of factors, including the current statement of financial position and the syndicate's strategic and financial plan. The assessment concluded that, for the foreseeable future, the syndicate has sufficient capital and liquidity for the 12 months from the date the financial statements are authorised for issue.

Use of estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates and judgements that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those on which management's estimates are based. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. Estimates which are sensitive to economic, regulatory and geopolitical conditions could be impacted by significant changes in the external environment such as rising inflation, rising interest rates, climate change, the Russia-Ukraine conflict, and US legislation.

Specific to climate change, since responses to it are still developing, it is not possible to consider all possible future outcomes when determining asset and liability valuations, and timing of future cash flows, as these are not yet known. Nevertheless, the current management view is that reasonably possible changes arising from climate risks would not have a material impact on asset and liability valuations at the year-end date.

1 Accounting policies continued

Estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(a) Valuation of insurance contract liabilities

The most critical estimate included within the syndicate's balance sheet is the estimate for insurance losses incurred but not reported ('IBNR'), which is included within total technical provisions and reinsurers' share of technical provisions in the balance sheet and note 14. This estimate is critical as it outlines the current liability for future expenses expected to be incurred in relation to claims. If this estimation was to prove inadequate then an exposure would arise in future years where a liability has not been provided for.

The best estimate of the most likely ultimate outcome is used when calculating notified claims. This estimate is based upon the facts available at the time, in conjunction with the claims manager's view of likely future developments. The total estimate as at 31 December 2022 included within claims outstanding on the balance sheet is $966.3m (2021: $793.7m).

(b) Valuation of unquoted and illiquid financial assets

Determination of fair value of unquoted and illiquid assets involves judgement in model valuations, through the incorporation of both observable and unobservable market inputs. These inputs include assumptions that lead to the existence of a range of plausible valuations. Further detail on the methodologies and inputs used is described in note 9 (financial assets and liabilities) and note 10 (derivative financial instruments).

(c) Premium estimates

Premium written is initially based on the estimated premium income ('EPI') of each contract. Where premium is sourced through binders, the binder EPI is pro-rated across the binder period. Judgement is involved in determining the ultimate estimates in order to establish the appropriate premium value and, ultimately, the cash to be received. EPI estimates are updated to reflect changes in an underwriters expectation through consultation with brokers and third-party coverholders, changes in market conditions, historic experience and to reflect actual cash received for a contract.

Due to the nature of Lloyd's business and the settlement patterns of the underlying business it is also not uncommon for some contracts to take a number of years to finalise and settle, and a receivable on the balance sheet remains. The amount of estimated future premium that remains in debtors relating to years of account that are more than three years developed at 31 December 2022 is $5.2m (2021: $2.3m).

Significant accounting policies

The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(a) Premiums

Gross premiums written comprise premiums on contracts incepted during the financial year together with adjustments to premiums written in previous accounting periods and estimates for premiums from contracts entered into during the course of the year. Gross written premiums are stated before the deduction of brokerage, taxes, duties levied on premiums and other deductions.

Notes to the syndicate annual accounts continued

1 Accounting policies continued

(b) Unearned premiums

A provision for unearned premiums (gross of reinsurance) represents the part of the gross premiums written that is estimated to be earned in the following financial periods. It is calculated using the daily pro-rata method, under which the premium is apportioned over the period of risk.

(c) Claims incurred

Claims incurred represent the cost of claims and claims handling expenses paid during the financial year, together with the movement in provisions for outstanding claims, claims incurred but not reported ('IBNR') and future claims handling provisions. The provision for outstanding claims comprises amounts set aside for claims advised and IBNR.

The IBNR amount is based on estimates calculated using widely accepted actuarial techniques which are reviewed quarterly by the group actuary and annually by the independent syndicate reporting actuary. The techniques generally use projections, based on past experience of the development of claims over time, to form a view on the likely ultimate claims to be experienced. For more recent underwriting, regard is given to the variations in the business portfolio accepted and the underlying terms and conditions. Thus, the critical assumptions used when estimating claims provisions are that the past experience is a reasonable predictor of likely future claims development and that the rating and other models used to analyse current business are a fair reflection of the likely level of ultimate claims to be incurred.

A provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the managing agent. The managing agent takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

(d) Liability adequacy testing

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the claims liabilities net of deferred acquisition costs ('DAC') and unearned premium reserves. In performing these tests, current best estimates of future contractual cash flows, claims handling and administration expenses as well as investment income from the assets backing such liabilities are used.

Any deficiency is immediately charged to the statement of comprehensive income and subsequently by establishing a unexpired risk reserve provision for losses arising from liability adequacy tests.

(e) Acquisition costs

Acquisition costs comprise brokerage, premium levies, and staff related costs of the underwriters acquiring the business. The proportion of acquisition costs in respect of unearned premiums is deferred at the balance sheet date and recognised in later periods when the related premiums are earned.

(f) Foreign currencies

Foreign currency transactions are translated into the functional currency using average exchange rates applicable to the period in which the transactions take place and where the syndicate considers these to be a reasonable approximation of the transaction rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at the period end of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Non-monetary items recorded at historical cost in foreign currencies are translated using the exchange rate on the date of the initial transaction.

(g) 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 carried at market value are calculated as the difference between sale proceeds and the original cost of the investment. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, and the valuation at the previous period end or purchase value during the 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 to reflect the investment return on funds supporting underwriting business.

1 Accounting policies continued

(h) Ceded reinsurance

These are contracts entered into by the syndicate with reinsurers under which the syndicate is compensated for losses on contracts issued by the syndicate and that meet the definition of an insurance contract. Insurance contracts entered into by the syndicate under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

Any benefits to which the syndicate is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers and include reinsurers' share of provisions for claims. These balances are 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 period and the current security rating of the reinsurer involved. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

Reinsurance assets are assessed for impairment. If there is objective evidence of impairment, then the carrying amount is reduced to its recoverable amount and the impairment loss is recognised in profit or loss.

(i) Financial instruments

Financial instruments are recognised in the balance sheet at such time that the syndicate becomes a party to the contractual provisions of the financial instrument. Purchases and sales of financial assets are recognised on the trade date, which is the date the syndicate commits to purchase or sell the asset. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the syndicate's obligations specified in the contract expire, are discharged or cancelled.

Financial assets

On acquisition of a financial asset, the syndicate is required to classify the asset into the following categories: financial assets at fair value through profit or loss, loans and receivables, assets held to maturity and assets available for sale. The syndicate does not make use of the held to maturity and available for sale classifications.

Financial assets at fair value through profit or loss

Except for derivative financial instruments, all financial assets are designated as fair value through profit or loss upon initial recognition because they are managed and their performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the syndicate's key management. The syndicate's investment strategy is to invest and evaluate performance with reference to their fair values.

Fair value measurement

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. Fair value is a market-based measure and in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability.

Notes to the syndicate annual accounts continued

1 Accounting policies continued

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Upon initial recognition, attributable transaction costs relating to financial instruments at fair value through profit or loss are recognised in the income statement when incurred. Financial assets at fair value through profit or loss are continuously measured at fair value, and changes therein are recognised in the statement of comprehensive income. Net changes in the fair value of financial assets at fair value through profit or loss exclude interest and dividend income, as these items are accounted for separately.

Hedge funds, equity funds and illiquid credit assets

The syndicate participates in a number of hedge funds and related financial instruments for which there are no readily available quoted market prices. The valuation of these hedge funds is based on fair value techniques (as described above). The fair value of our hedge fund portfolio is calculated by reference to the underlying net asset values ('NAV') of each of the individual funds. Consideration is also given in valuing these funds to any restriction applied to distributions, the existence of side pocket provisions, and the timing of the latest available valuations. At certain times, the syndicate will have uncalled unfunded commitments in relation to its illiquid credit assets. These uncalled unfunded commitments are actively monitored by the syndicate and are disclosed in notes 2.6 and 10 to the financial statements. The additional investment into its illiquid credit asset portfolio is recognised on the date that this funding is provided.

(j) Insurance debtors and creditors

Insurance debtors and creditors include amounts due to and from agents, brokers and insurance contract holders. These are classified as debt instruments as they are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Insurance debtors are measured at amortised cost less any provision for impairments. Insurance creditors are stated at amortised cost. The Syndicate does not have any debtors directly with policyholders, all transactions occur via an intermediary.

(k) Other debtors

Other debtors principally consist of amounts due from members and sundry debtors and are carried at amortised cost less any impairment losses.

(l) Other creditors

Other creditors are stated at amortised cost determined on the effective interest rate method.

(m) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The best evidence of fair value of a derivative at initial recognition is the transaction price. Fair values are obtained from quoted market prices in active markets, recent market transactions, and valuation techniques which include discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivative assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and the parties intend to settle on a net basis, or realise the assets and settle the liability simultaneously.

1 Accounting policies continued

(n) Impairment of financial assets

Assessment is made at each reporting date whether there is objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the assets and that event has an impact on the estimated cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that impairment exists, the amount of the loss is measured as the difference between the assets carrying amount and the value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in profit or loss.

(o) Cash and cash equivalents

This consists of cash at bank and in hand, deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less from the date of acquisition. Cash at bank and in hand balances are classified as loans and receivables and carried at amortised cost less any impairment losses.

(p) 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 (currently at 20%) 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 US 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.

(q) Pension costs

Pension contributions relating to staff who act on behalf of the syndicate are charged to the syndicate and included within net operating expenses.

(r) Profit commission

Profit commission is charged by the managing agent at a rate of 17.5% of the profit on a year of account basis subject to the operating of a three-year deficit clause. This is charged to the syndicate as incurred but does not become payable until after the appropriate year of account closes, normally at 36 months.

2 Risk management

The syndicate has identified the risks arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite. The sections below outline the syndicate's risk appetite and explain how it defines and manages each category of risk.

2.1 Insurance risk

The syndicate's insurance business assumes the risk of loss from persons or organisations that are directly exposed to an underlying loss. Insurance risk arises from this risk transfer due to inherent uncertainties about the occurrence, amount and timing of insurance liabilities. The four key components of insurance risk are underwriting, reinsurance, claims management and reserving. Each element is considered below:

Notes to the syndicate annual accounts continued

2 Risk management continued

(a) Underwriting risk

Underwriting risk comprises four elements that apply to all insurance products offered by the syndicate:

- cycle risk – the risk that business is written without full knowledge as to the (in)adequacy of rates, terms and conditions;
- event risk – the risk that individual risk losses or catastrophes lead to claims that are higher than anticipated in plans and pricing;
- pricing risk – the risk that the level of expected loss is understated in the pricing process; and
- expense risk – the risk that the allowance for expenses and inflation in pricing is inadequate.

The syndicate's underwriting strategy is to seek a diverse and balanced portfolio of risks in order to limit the variability of outcomes.
This is achieved by accepting a spread of business over time, segmented between different products, geography and size.

The annual business plans for each underwriting team reflect the syndicate's underwriting strategy, and set out the classes of business, the territories and the industry sectors in which business is to be written. These plans are approved by the Board of Beazley Furlonge Limited and monitored by the underwriting committee.

The syndicate's underwriters calculate premiums for risks written based on a range of criteria tailored specifically to each individual risk. These factors include but are not limited to the financial exposure, loss history, risk characteristics, limits, deductibles, terms and conditions and acquisition expenses.

The syndicate also recognises that insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.
To address this, the syndicate sets out the exposure that it is prepared to accept in certain territories to a range of events such as natural catastrophes and specific scenarios which may result in large industry losses. This is monitored through regular calculation of RDS ('Realistic Disaster Scenarios'). The aggregate position is monitored at the time of underwriting a risk, and reports are regularly produced to highlight the key aggregations to which the syndicate is exposed.

The syndicate uses a number of modelling tools to monitor its exposures against the agreed risk appetite set and to simulate catastrophe losses in order to measure the effectiveness of its reinsurance programmes. Stress and scenario tests are also run using these models. The range of scenarios considered include natural catastrophes, marine, liability, political, terrorism and war events.

One of the largest types of event exposure relates to natural catastrophe events such as windstorm or earthquake. With the increasing risk from climate change impacts the frequency and severity of natural catastrophes, the managing agent continues to monitor its exposure. Where possible the syndicate measures geographic accumulations and uses its knowledge of the business, historical loss behaviour and commercial catastrophe modelling software to assess the expected range of losses at different return periods. Upon application of the reinsurance coverage purchased, the key gross and net exposures are calculated on the basis of extreme events at a range of return periods.

To manage underwriting exposures, the syndicate has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry. In 2022, the absolute maximum line that any one underwriter could commit the managed syndicate to was $27.0m (2021: absolute maximum line $27.0m). In most cases, maximum lines for classes of business were much lower than this.

These authority limits are enforced through a comprehensive sign-off process for underwriting transactions including dual sign-off for all line underwriters and peer review for all risks exceeding individual underwriters authority limits. Exception reports are also run regularly to monitor compliance.

All underwriters also have a right to refuse renewal or change the terms and conditions of insurance contracts upon renewal. Rate monitoring details, including limits, deductibles, exposures, terms and conditions and risk characteristics are also captured and the results are combined to monitor the rating environment for each class of business.

Binding authority contracts

A proportion of the syndicate's insurance risks are transacted by third parties under delegated underwriting authorities. Each third party is thoroughly vetted by the managing agent's coverholder approval group before it can bind risks, and is subject to rigorous monitoring to maintain underwriting quality and confirm ongoing compliance with contractual guidelines.

2 Risk management continued

(b) Reinsurance risk

Reinsurance risk to the syndicate arises where reinsurance contracts, put in place to reduce gross insurance risk, do not perform as anticipated, result in coverage disputes or prove inadequate in terms of the vertical or horizontal limits purchased. Failure of a reinsurer to pay a valid claim is considered a credit risk which is detailed separately below.

The syndicate's reinsurance programmes complement the underwriting team business plans and seek to protect syndicate capital from an adverse volume or volatility of claims on both a per risk and per event basis. In some cases the syndicate deems it more economic to hold capital than purchase reinsurance. These decisions are regularly reviewed as an integral part of the business planning and performance monitoring process.

The Group's reinsurance security committee ('RSC') examines and approves all reinsurers to ensure that they possess suitable security. The syndicate's ceded reinsurance team ensures that these guidelines are followed, undertakes the administration of reinsurance contracts, monitors and instigates our responses to any erosion of the reinsurance programmes.

(c) Claims management risk

Claims management risk may arise within the syndicate in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. These risks may damage the Beazley brand and undermine its ability to win and retain business or incur punitive damages. These risks can occur at any stage of the claims life-cycle.The syndicate's claims teams are focused on delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business's broader interests. Prompt and accurate case reserves are set for all known claims liabilities, including provisions for expenses.

(d) Reserving and ultimate reserves risk

Reserving and ultimate reserves risk occurs within the syndicate where established insurance liabilities are insufficient through inaccurate forecasting, or where there is inadequate allowance for expenses and reinsurance bad debt in provisions.

To manage reserving and ultimate reserves risk, our actuarial team uses a range of recognised techniques to project gross premiums written, monitor claims development patterns and stress test ultimate insurance liability balances. An external independent actuary also performs an annual review to produce a statement of actuarial opinion for the syndicate.

The objective of the syndicate's reserving policy is to produce accurate and reliable estimates that are consistent over time and across classes of business. The estimates of gross premiums written and claims prepared by the actuarial department are used through a formal quarterly peer review process to independently test the integrity of the estimates produced by the underwriting teams for each class of business. These meetings are attended by senior management, senior underwriters, actuarial, claims, and finance representatives.

A five percent increase or decrease in total claims liabilities would have the following effect on profit or loss and equity:

	5% increase in net claims reserves		5% decreases in net claims reserves	
	2022	2021	2022	2021
Sensitivity to insurance risk (claims reserves)	$m	$m	$m	$m
Impact on profit and equity	**(44.2)**	**(39.9)**	**44.2**	**39.9**

The syndicate also monitors its exposure to insurance risk by location. The below table provides an analysis of the geographical breakdown of its written premiums.

	2022	2021
	%	%
US	70	59
Europe[1]	12	16
Other	18	25
	100	**100**

1 Includes UK.

Notes to the syndicate annual accounts continued

2 Risk management continued

2.2 Market risk

Market risk arises where the value of assets and liabilities changes as a result of movements in foreign exchange rates, interest rates and market prices.

Foreign exchange risk

The functional currency of the syndicate is the US dollar and the presentation currency in which the syndicate reports its results is the US dollar. The effect of this on foreign exchange risk is that the syndicate is exposed to fluctuations in exchange rates for non-dollar denominated transactions and net assets.

The syndicate has four main settlement currencies: US dollars, sterling, Canadian dollars and euro. Transactions in all currencies are converted to US dollars on initial recognition and revalued at the reporting date. Remaining foreign exchange risk is actively managed as described below.

The syndicate's assets are broadly matched by currency to the principal underlying settlement currencies of its insurance liabilities. This helps mitigate the risk that future movements in exchange rates would materially impact the syndicate's assets required to cover its insurance liabilities.

The following table summarises the carrying value of total assets and total liabilities categorised by currency:

31 December 2022	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	218.0	110.2	52.1	380.3	1,638.8	2,019.1
Total liabilities	(213.5)	(70.3)	(117.1)	(400.9)	(1,605.8)	(2,006.7)
Net assets	**4.5**	**39.9**	**(65.0)**	**(20.6)**	**33.0**	**12.4**

31 December 2021	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	173.3	97.8	39.9	311.0	1,395.1	1,706.1
Total liabilities	(184.7)	(59.4)	(99.6)	(343.7)	(1,356.9)	(1,700.6)
Net assets	**(11.4)**	**38.4**	**(59.7)**	**(32.7)**	**38.2**	**5.5**

Sensitivity analysis

In 2022, the syndicate managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting net assets to be entirely US dollar denominated. As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure. Details of all foreign currency derivative contracts entered into with external parties are disclosed in note 11. On a forward looking basis an assessment is made of that the exposure will be mitigated in the future and appropriate currency trades put in place to reduce risk.

Fluctuations in the syndicate's trading currencies against the US dollar would result in a change to profit and net asset value. The table below gives an indication of the impact on profit and net assets of a percentage change in relative strength of US dollar against the value of sterling, Canadian dollar and euro, simultaneously. The analysis is based on the current information available and an assumption that the impact of foreign exchange on non-monetary items will be nil and is presented net of the impact of the exchange rate derivatives referenced above.

	Impact on profit for the year ended		Impact on net assets	
Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar	2022 $m	2021 $m	2022 $m	2021 $m
Dollar weakens 30% against other currencies	(6.2)	(9.8)	(6.2)	(9.8)
Dollar weakens 20% against other currencies	(4.1)	(6.5)	(4.1)	(6.5)
Dollar weakens 10% against other currencies	(2.1)	(3.3)	(2.1)	(3.3)
Dollar strengthens 10% against other currencies	2.1	3.3	2.1	3.3
Dollar strengthens 20% against other currencies	4.1	6.5	4.1	6.5
Dollar strengthens 30% against other currencies	6.2	9.8	6.2	9.8

2 Risk management continued

Interest rate risk

Some of the syndicate's financial instruments, including financial investments, cash and borrowings, are exposed to movements in market interest rates.

The syndicate manages interest rate risk by primarily investing in short duration financial investments and cash. The investment committee monitors the duration of these assets on a regular basis.

The syndicate also entered into interest rate futures contracts to manage the interest rate risk on bond portfolios.

The following table shows the average duration at the reporting date of the financial instruments that are exposed to movements in market interest rates. Duration is a commonly used measure of volatility and we believe gives a better indication than maturity of the likely sensitivity of our portfolio to changes in interest rates.

Duration 31 December 2022	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	232.7	356.7	162.4	58.2	53.1	–	–	863.1
Syndicate loan to Lloyd's central fund	–	1.4	5.1	–	–	–	–	6.5
Cash at bank and in hand	19.9	–	–	–	–	–	–	19.9
Derivative financial instruments	4.5	–	–	–	–	–	–	4.5
Total	**257.1**	**358.1**	**167.5**	**58.2**	**53.1**	**–**	**–**	**894.0**

Duration 31 December 2021	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	239.0	311.0	103.9	57.1	21.5	1.5	–	734.0
Syndicate loan to Lloyd's central fund	–	–	1.6	6.0	–	–	–	7.6
Cash at bank and in hand	6.3	–	–	–	–	–	–	6.3
Derivative financial instruments	1.1	–	–	–	0.1	–	–	1.2
Total	**246.4**	**311.0**	**105.5**	**63.1**	**21.6**	**1.5**	**–**	**749.1**

Sensitivity analysis

The syndicate holds financial assets and liabilities that are exposed to interest rate risk. Changes in interest yields, with all other variables constant, would result in changes in the capital value of debt and derivative financial instruments. This will affect reported profits and net assets as indicated in the below table:

	Impact on profit for the year ended		Impact on net assets	
Shift in yield (basis points)	2022 $m	2021 $m	2022 $m	2021 $m
150 basis point increase	(25.3)	(16.7)	(25.3)	(16.7)
100 basis point increase	(16.9)	(11.1)	(16.9)	(11.1)
50 basis point increase	(8.4)	(5.6)	(8.4)	(5.6)
50 basis point decrease	8.4	5.6	8.4	5.6
100 basis point decrease	16.9	11.1	16.9	11.1

Price risk

Financial assets and derivatives that are recognised on the balance sheet at their fair value are susceptible to losses due to adverse changes in prices. This is referred to as price risk.

Financial assets include fixed and floating rate debt securities, hedge funds, equity funds and derivative financial assets. The fixed income securities are well diversified across high quality, liquid securities. The price risk associated with these securities is predominantly interest, foreign exchange and credit risk related. The sensitivity to price risk that relates to the syndicate's hedge fund investments and equity linked funds is presented on the next page. The investment committee has established comprehensive guidelines with investment managers setting out maximum investment limits, diversification across industries and concentrations in any one industry or company.

Notes to the syndicate annual accounts continued

2 Risk management continued

Listed investments are recognised on the balance sheet at quoted bid price. If the market for the investment is not considered to be active, then the syndicate establishes fair value using valuation techniques (refer to note 9). This includes using recent arm's length market transactions, reference to current fair value of other investments that are substantially the same, discounted cash flow models and other valuation techniques that are commonly used by market participants.

	Impact on profit for the year ended		Impact on net assets	
	2022	2021	2022	2021
Change in fair value of hedge funds, equity linked funds & illiquid credit assets	$m	$m	$m	$m
30% increase in fair value	28.9	28.4	28.9	28.4
20% increase in fair value	19.3	19.0	19.3	19.0
10% increase in fair value	9.6	9.5	9.6	9.5
10% decrease in fair value	(9.6)	(9.5)	(9.6)	(9.5)
20% decrease in fair value	(19.3)	(19.0)	(19.3)	(19.0)
30% decrease in fair value	(28.9)	(28.4)	(28.9)	(28.4)

2.3 Credit risk

Credit risk arises from the failure of another party to perform its financial or contractual obligations to the syndicate in a timely manner. 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 coverholders – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the syndicate;
- investments – whereby issuer default results in the syndicate losing all or part of the value of a financial instrument and derivative financial instrument; and
- cash at bank and in hand.

The syndicate's core business is to accept significant insurance risk and the appetite for other risks is low. This protects the syndicate's capital from erosion so that it can meet its insurance liabilities.

The syndicate limits exposure to a single counterparty or a group of counterparties and analyses the geographical locations of exposures when assessing credit risk.

An approval system also exists for all new brokers, and broker performance is carefully monitored. Regular exception reports highlight trading with non-approved brokers, and the syndicate's credit control function frequently assesses the ageing and collectability of debtor balances. Any large, aged items are prioritised and where collection is outsourced, incentives are in place to support these priorities.

The investment committee has established comprehensive guidelines for the syndicate's investment managers regarding the type, duration and quality of investments acceptable to the syndicate. The performance of investment managers is regularly reviewed to confirm adherence to these guidelines.

The syndicate has developed processes to formally examine all reinsurers before entering into new business arrangements. New reinsurers are approved by the RSC, which also reviews arrangements with all existing reinsurers at least annually. Vulnerable or slow-paying reinsurers are examined more frequently.

To assist in the understanding of credit risks, A.M. Best, Moody's and Standard & Poor's (S&P) ratings are used. These ratings have been categorised below as used for Lloyd's reporting:

	A.M Best	Moody's	S&P
Tier 1	A++ to A-	Aaa to A3	AAA to A-
Tier 2	B++ to B-	Baa1 to Ba3	BBB+ to BB-
Tier 3	C++ to C-	B1 to Caa	B+ to CCC
Tier 4	D, E, F, S	Ca to C	CC to D

2 Risk management continued

The following tables summarise the syndicate's concentrations of credit risk:

31 December 2022	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	788.6	74.5	–	–	–	863.1
– syndicate loan to Lloyd's central fund	6.5	–	–	–	–	6.5
– equity funds	–	–	–	–	17.6	17.6
– hedge funds	–	–	–	–	75.2	75.2
– derivative financial assets	–	–	–	–	4.5	4.5
– illiquid credit assets	–	–	–	–	3.6	3.6
Reinsurance debtors	13.9	–	–	–	0.1	14.0
Reinsurers' share of outstanding claims	407.9	0.1	–	–	1.7	409.7
Cash at bank and in hand	19.9	–	–	–	–	19.9
Total	**1,236.8**	**74.6**	**–**	**–**	**102.7**	**1,414.1**

31 December 2021	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	656.8	77.2	–	–	–	734.0
– syndicate loan to Lloyd's central fund	7.6	–	–	–	–	7.6
– equity funds	–	–	–	–	23.1	23.1
– hedge funds	–	–	–	–	64.9	64.9
– derivative financial assets	–	–	–	–	1.2	1.2
– illiquid credit assets	–	–	–	–	6.8	6.8
Reinsurance debtors	12.7	–	–	–	2.2	12.9
Reinsurers' share of outstanding claims	295.5	0.2	–	–	0.2	297.9
Cash at bank and in hand	6.3	–	–	–	–	6.3
Total	**978.9**	**77.4**	**–**	**–**	**98.4**	**1,154.7**

Based on all evidence available, debtors arising out of insurance operations and other debtors have not been impaired and no impairment provision has been recognised in respect of these assets. An analysis of the overall credit risk exposure indicates that the syndicate has reinsurance assets that are impaired at the reporting date. The total impairment provision made in respect of these assets at 31 December 2022 is $3.4m (2021: $0.8m). This $3.4m provision in respect of overdue reinsurance recoverables is included within the debtors arising out of reinsurance operations balance of $88.6m (2021: $79.4m). No other financial assets held at year end were impaired.

Financial investments falling within the unrated category comprise hedge funds for which there is no readily available market data to allow classification within the respective tiers. Additionally, some debtors are classified as unrated in accordance with Lloyd's guidelines.

The syndicate has insurance debtors and reinsurance assets that are past due but not impaired at the reporting date. An aged analysis of these is presented below:

31 December 2022	Neither due nor impaired $m	0-3 months past due $m	3-6 months past due $m	6-12 months past due $m	Greater than 1 year past due $m	Total $m
Insurance debtors	260.6	23.4	7.3	2.9	0.5	294.7
Reinsurance assets	14.1	5.3	3.6	–	–	23.0

31 December 2021	Neither due nor impaired $m	0-3 months past due $m	3-6 months past due $m	6-12 months past due $m	Greater than 1 year past due $m	Total $m
Insurance debtors	254.9	22.4	5.5	1.3	0.8	284.9
Reinsurance assets	13.0	7.6	7.8	0.9	–	29.3

Notes to the syndicate annual accounts continued

2 Risk management continued

2.4 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The syndicate is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business. In the majority of the cases, these claims are settled from the premiums received.

The syndicate's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event. This means that the syndicate maintains sufficient liquid assets, or assets that can be translated into liquid assets at short notice and without any significant capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return.

The following is an analysis that shows the estimated timing of the net cash flows based on the net claim liabilities balance held at 31 December of each year.

Net insurance liabilities	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
31 December 2022	**263.8**	**314.5**	**160.9**	**143.8**	**883.0**
31 December 2021	**228.4**	**296.6**	**141.4**	**132.2**	**798.6**

The next two tables summarise the carrying amount at reporting date of financial instruments analysed by maturity date.

Maturity 31 December 2022	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	221.3	276.9	214.2	51.0	81.6	18.1	–	863.1
Syndicate loan to Lloyd's central fund	–	1.4	5.1	–	–	–	–	6.5
Derivative financial instruments	4.5	–	–	–	–	–	–	4.5
Cash at bank and in hand	19.9	–	–	–	–	–	–	19.9
Other debtors	25.4	–	–	–	–	–	–	25.4
Other creditors	(95.5)	–	–	–	–	–	–	(95.5)
Total	**175.6**	**278.3**	**219.3**	**51.0**	**81.6**	**18.1**	**–**	**823.9**

Maturity 31 December 2021	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	217.0	267.4	94.6	84.9	47.3	22.8	–	734.0
Syndicate loan to Lloyd's central fund	–	–	1.6	6.0	–	–	–	7.6
Derivative financial instruments	1.2	–	–	–	–	–	–	1.2
Cash at bank and in hand	6.3	–	–	–	–	–	–	6.3
Other debtors	25.4	–	–	–	–	–	–	25.4
Other creditors	(76.7)	–	–	–	–	–	–	(76.7)
Total	**173.2**	**267.4**	**96.2**	**90.9**	**47.3**	**22.8**	**–**	**697.8**

2 Risk management continued

2.5 Capital management

Capital framework at Lloyd's

The Society of 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.

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, license and ratings objectives. Although, as described below, the 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 an overall and member level respectively, not at a syndicate level. Accordingly the capital requirement in respect of Syndicate 623 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 comprises 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 participates 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, license and ratings objectives. The capital uplift applied for 2022 was 35% (2021: 35%) of the member's SCR to ultimate.

Provision of capital by members

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

Notes to the syndicate annual accounts continued

3 Analysis of underwriting result

2022	Gross premiums written $m	Gross premiums earned $m	Gross claims incurred $m	Gross operating expenses $m	Reinsurance balance $m	Underwriting result $m
Direct Insurance						
Marine aviation and transport	71.3	66.4	(30.1)	(23.7)	4.2	16.8
Fire and other damage to property	149.1	140.5	(96.7)	(45.6)	5.0	3.2
Third party liability	480.0	453.9	(315.7)	(114.1)	(1.5)	22.6
Miscellaneous	28.0	26.1	(28.3)	(8.2)	6.5	(3.9)
Total	**728.4**	**686.9**	**(470.8)**	**(191.6)**	**14.2**	**38.7**
Reinsurance accepted						
Third party liability	68.2	62.1	(32.5)	(19.2)	(2.9)	7.5
Fire and other damage to property	51.8	52.3	(38.3)	(12.8)	(1.5)	(0.3)
Marine aviation and transport	20.2	18.5	(8.5)	(6.7)	0.2	3.5
Total	**140.2**	**132.9**	**(79.3)**	**(38.7)**	**(4.2)**	**10.7**
Total Direct and Reinsurance accepted	**868.6**	**819.8**	**(550.1)**	**(230.3)**	**10.0**	**49.4**

2021	Gross premiums written $m	Gross premiums earned $m	Gross claims incurred $m	Gross operating expenses $m	Reinsurance balance $m	Underwriting result $m
Direct Insurance						
Marine aviation and transport	56.9	52.1	(18.2)	(18.7)	(2.3)	12.7
Fire and other damage to property	131.3	119.2	(74.6)	(38.7)	(6.8)	(0.9)
Third party liability	421.0	353.5	(244.2)	(88.7)	1.8	22.4
Miscellaneous	20.8	17.3	(15.4)	(6.3)	(0.5)	(4.9)
	630.0	**542.1**	**(352.4)**	**(152.4)**	**(7.8)**	**29.3**
Reinsurance accepted						
Third party liability	52.0	51.2	(30.4)	(14.8)	(1.5)	4.5
Fire and other damage to property	58.7	59.4	(52.5)	(14.5)	6.6	(1.0)
Marine aviation and transport	20.0	19.5	(5.9)	(7.4)	(1.1)	5.2
Total	**130.7**	**130.1**	**(88.8)**	**(36.7)**	**4.0**	**8.7**
Total Direct and Reinsurance accepted	**760.7**	**672.2**	**(441.2)**	**(189.1)**	**(3.8)**	**38.0**

All business was concluded in the UK.

4 Net operating expenses

	2022 $m	2021 $m
Acquisition costs[1]	198.1	173.6
Change in deferred acquisition costs	(11.0)	(16.3)
Administrative expenses	56.5	42.1
Reinsurance commissions and profit participation	(20.9)	(13.9)
Profit commissions payable	**7.6**	**3.6**
	230.3	**189.1**

1 Brokerage and commissions on direct business written was $152.4m (2021: $135.8m)

Administrative expenses include:

	2022 $m	2021 $m
Fees payable to the syndicate's auditor for the audit of these syndicate annual accounts	0.7	0.2
Fees payable to the syndicate's auditor in respect of:		
Other services pursuant to legislation	0.3	0.2
	1.0	**0.4**

Fees payable to the syndicate's auditor in relation to other services pursuant to legislation primarily relate to the review and audit of Syndicate regulatory returns.

5 Staff costs

The Syndicate and its managing agent have no employees. All staff are employed by Beazley Management Limited. The following amounts were recharged to the syndicate in respect of staff costs:

	2022 $m	2021 $m
Wages and salaries	17.3	15.2
Short-term incentive payments	7.0	7.0
Social security costs	4.5	3.9
Pension costs	3.7	3.6
	32.5	**29.7**

6 Emoluments of the Directors of Beazley Furlonge Limited

The Directors of Beazley Furlonge Limited, excluding the active underwriter, received the following aggregate remuneration charged to Syndicate 623 and included within net operating expenses:

	2022 $m	2021 $m
Emoluments and fees	1.0	1.0
	1.0	1.0

7 Active underwriter's emoluments

The aggregate amount of remuneration paid to and for the benefit of the active underwriter, which was recharged to syndicate 623 was $0.3m (2021: $0.5m).

Notes to the syndicate annual accounts continued

8 Net investment return

	2022 $m	2021 $m
Interest and dividends on financial investments at fair value through profit or loss	10.9	8.2
Realised gains on financial investments at fair value through profit or loss	15.2	12.4
Unrealised gains on financial investments at fair value through profit or loss	11.9	12.1
Realised losses on financial investments at fair value through profit or loss	(16.6)	(2.4)
Unrealised losses on financial investments at fair value through profit or loss	(42.9)	(18.7)
Investment return from financial investments	**(21.5)**	**11.6**
Investment management expenses	(0.8)	(0.7)
Net investment return	**(22.3)**	**10.9**

9 Financial assets and liabilities

	Market value		Cost	
	2022 $m	2021 $m	2022 $m	2021 $m
Financial assets at fair value				
Fixed and floating rate debt securities:				
Government issued	559.1	479.8	575.1	482.4
Corporate bonds				
- Investment grade	268.8	211.1	285.2	214.1
- High yield	35.2	43.1	38.5	40.7
Syndicate loan to Lloyd's central fund	6.5	7.6	6.4	7.7
Total debt securities and syndicate loans to Lloyd’s central fund	869.6	741.6	905.2	744.9
Equity funds	17.6	23.1	18.7	21.1
Hedge funds	75.2	64.9	59.4	51.6
Illiquid funds	3.6	6.8	3.2	6.5
Total capital growth assets	96.4	94.8	81.3	79.2
Total financial investments at fair value through profit or loss	**966.0**	**836.4**	**986.5**	**824.1**
Derivative financial instruments	4.5	1.2	–	–
Total financial assets at fair value	**970.5**	**837.6**	**986.5**	**824.1**
Financial liabilities				
Derivative financial instruments	**2.5**	**1.4**	**–**	**–**

The investment portfolio above contains $2.9m of short term deposits separately disclosed in the cash and cash equivalents note 13.

A breakdown of derivative financial instruments is disclosed in note 11.

Overseas deposits are held as a condition of conducting underwriting business in certain countries.

Valuation hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy described as follows, based on the lowest level input that is significant to the fair value measurement as a whole. If the inputs used to measure the fair value of an asset or a liability could be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Level 1 – Valuations based on quoted prices in active markets for identical instruments. An active market is a market in which transactions for the instrument occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date.

9 Financial assets and liabilities continued

Level 2 – Valuations based on quoted prices in markets that are not active, or based on pricing models for which significant inputs can be corroborated by observable market data, directly or indirectly (e.g. interest rates, exchange rates). Level 2 inputs include:

- Quoted prices similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly;
- Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads); and
- Market corroborated inputs. Included within level 2 are government bonds and treasury bills, equity funds and corporate bonds which are not actively traded, hedge funds and senior secured loans.

Level 3 – Valuations based on inputs that are unobservable or for which there is limited market activity against which to measure fair value. The availability of financial data can vary for different financial assets and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on models or inputs that are unobservable in the market, the determination of fair value requires more judgement. Accordingly the degree of judgement exercised by management in determining fair value is greatest for instruments classified in level 3. The syndicate uses prices and inputs that are current as of the measurement date for valuation of these instruments.

Valuation approach

The valuation approach for fair value assets and liabilities classified as Level 2 is as follows:

(a) For the level 2 debt securities, our fund administrator obtains the prices used in the valuation from independent pricing vendors. The independent pricing vendors derive an evaluated price from observable market inputs. These inputs are verified in their pricing assumptions such as weighted average life, discount margins, default rates, and recovery and prepayments assumptions for mortgage securities.

(b) For our hedge funds, the pricing and valuation of each fund is undertaken by administrators in accordance with each underlying fund's valuation policy. Individual fund prices are communicated by the administrators to all investors via the monthly investor statements. The fair value of the hedge fund portfolios are calculated by reference to the underlying net asset values of each of the individual funds.

The valuation approach for fair value assets and liabilities classified as Level 3 is as follows:

(a) Our illiquid credit fund investments are managed by third party managers (generally closed ended limited partnerships or open ended funds). While the funds provide full transparency on their underlying investments, the investments themselves are predominantly in private and unquoted instruments. The valuation techniques used by the fund managers to establish the fair value of the underlying private/unquoted investments may incorporate discounted cash flow models or a more market-based approach, whilst the main inputs might include discount rates, fundamental pricing multiples, recent transaction prices, or comparable market information to create a benchmark multiple.

(b) The syndicate loans are loans provided to the Central Fund at Lloyd's. These instruments are not tradeable and are valued using discounted cash flow models, designed to appropriately reflect the credit and illiquidity risk of the instruments.

The table below shows the fair values of financial instruments at 31 December 2022 and 31 December 2021, including their levels in the fair value hierarchy:

Notes to the syndicate annual accounts continued

9 Financial assets and liabilities continued

2022	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value				
Fixed and floating rate debt securities:				
– Government issued	382.7	176.4	–	559.1
– Corporate bonds				
– Investment grade	117.5	151.3	–	268.8
– High yield	6.6	28.6	–	35.2
Syndicate loan to Lloyd's central fund	–	–	6.5	6.5
Equity funds	17.6	–	–	17.6
Hedge funds	–	75.2	–	75.2
Illiquid credit assets	–	–	3.6	3.6
Derivative financial instruments	4.5	–	–	4.5
Total financial assets at fair value	**528.9**	**431.5**	**10.1**	**970.5**
Financial liabilities				
Derivative financial instruments	2.5	–	–	2.5

2021	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value				
Fixed and floating rate debt securities:				
– Government issued	411.9	67.9	–	479.8
– Corporate bonds				
– Investment grade	99.3	111.8	–	211.1
– High yield	9.9	33.2	–	43.1
Syndicate loan to Lloyd's central fund	–	–	7.6	7.6
Equity funds	23.1	–	–	23.1
Hedge funds	–	64.9	–	64.9
Illiquid credit assets	–	–	6.8	6.8
Derivative financial assets	1.2	–	–	1.2
Total financial assets at fair value	**545.4**	**277.8**	**14.4**	**837.6**
Financial liabilities				
Derivative financial instruments	1.4	–	–	1.4

Level 3 investment reconciliation

The table below shows a reconciliation from the opening balances to the closing balances of level 3 fair values:

	2022 $m	2021 $m
As at 1 January	14.4	13.0
Purchases	–	3.0
Sales	(3.6)	(1.4)
Total net gains/(losses) recognised in profit or loss	(0.7)	(0.2)
As at 31 December	**10.1**	**14.4**

Transfers between levels in the fair value hierarchy are determined by assessing the categorisation at the end of the reporting period. The following transfers between levels 1 & 2 for the period ended 31 December 2022 reflect the level of trading activities including frequency and volume derived from market data obtained from an independent external valuation tool.

9 Financial assets and liabilities continued

31 December 2022 vs 31 December 2021 transfer from level 1 to level 2	Level 1 $m	Level 2 $m
– Corporate bonds – investment grade	(54.6)	54.6
– Government Issued	(51.9)	51.9

31 December 2022 vs 31 December 2021 transfer from level 2 to level 1	Level 1 $m	Level 2 $m
– Corporate bonds – investment grade	24.6	(24.6)

Additional information is obtained from fund managers relating to the underlying assets within individual hedge funds. We identified that 77% (2021: 77%) of these underlying assets were level 1 and the remainder level 2. This enabled us to categorise hedge funds as level 2. If the inputs used to measure the fair value of an asset or a liability could be categorised in different levels of fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

10 Deferred acquisition costs

	2022 $m	2021 $m
At 1 January	87.1	71.4
Change in deferred commission	9.0	15.9
Change in other deferred costs	2.0	0.4
Exchange adjustments	(1.2)	(0.6)
Balance at 31 December	**96.9**	**87.1**

11 Derivative financial instruments

In 2022 and 2021, the syndicate entered into over-the-counter and exchange traded derivative contracts. The syndicate had the right and intention to settle each contract on a net basis.

	2022		2021	
Derivative financial instrument assets	Gross contract amount $m	Fair value of assets $m	Gross contract amount $m	Fair value of assets $m
Foreign exchange forward contract	62.9	4.5	47.0	1.2
Bond future contracts	–	–	76.4	0.1
	62.9	**4.5**	**123.4**	**1.3**

	2022		2021	
Derivative financial instrument liabilities	Gross contract amount $m	Fair value of liabilities $m	Gross contract amount $m	Fair value of liabilities $m
Foreign exchange forward contract	**81.1**	**2.5**	**67.5**	**1.4**

Foreign exchange forward contracts

The syndicate entered into over-the-counter foreign exchange forward agreements in order to economically hedge the foreign currency exposure resulting from transactions and balances held in currencies that are different to the functional currency of the syndicate.

Bond future contracts

The syndicate entered in bond futures transactions for the purpose of efficiently managing the term structure of its interest rate exposures. A negative gross contract amount represents a notional short position that generates positive fair value as interest rates rise.

Notes to the syndicate annual accounts continued

12 Other debtors

	2022 $m	2021 $m
Amounts due from members	12.6	14.0
Amount due from other related entities	–	–
Sundry debtors including taxation	12.8	11.4
	25.4	**25.4**

These balances are due within one year.

13 Cash and cash equivalents

	2022 $m	2021 $m
Cash at bank and in hand	19.9	6.3
Short term deposits	2.9	3.6
	22.8	**9.9**

Short term deposits disclosed in this table are included within financial assets.

14 Technical Provisions

	Provision for unearned premium $m	Claims outstanding $m	Unexpired risk provision $m
Gross technical provisions			
As at 1 January 2022	404.9	1,096.5	–
Movement in the technical provision	48.8	214.9	–
Exchange adjustments	(5.0)	(18.7)	–
As at 31 December 2022	**448.7**	**1,292.7**	**–**
Reinsurers' share of technical provisions			
As at 1 January 2022	76.2	297.9	–
Movement in the technical provision	28.0	115.8	–
Exchange adjustments	(0.9)	(4.0)	–
As at 31 December 2022	**103.3**	**409.7**	**–**
Net technical provisions			
As at 1 January 2022	328.7	798.6	–
As at 31 December 2022	**345.4**	**883.0**	**–**

14 Technical Provisions continued

	Provision for unearned premium $m	Claims outstanding $m	Unexpired risk provision $m
Gross technical provisions			
As at 1 January 2021	318.8	949.5	20.1
Movement in the technical provision	88.5	157.3	(20.1)
Exchange adjustments	(2.4)	(10.3)	–
As at 31 December 2021	**404.9**	**1,096.5**	**–**
Reinsurers' share of technical provisions			
As at 1 January 2021	49.5	226.9	2.0
Movement in the technical provision	27.1	73.1	(2.0)
Exchange adjustments	(0.4)	(2.1)	–
As at 31 December 2021	**76.2**	**297.9**	**–**
Net technical provisions			
As at 1 January 2021	269.3	722.6	18.1
As at 31 December 2021	**328.7**	**798.6**	**–**

Gross ratios	2012 ae %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %	2020 %	2021 %	2022 %	
Total												
12 months		63.3	62.2	62.9	63.6	72.9	68.0	65.9	73.3	64.2	63.4	
24 months		58.3	54.9	57.7	63.0	73.5	70.8	74.4	74.5	66.3		
36 months		55.0	50.9	54.1	59.9	74.2	73.8	69.1	76.0			
48 months		52.4	49.6	52.3	58.4	73.0	73.3	69.2				
60 months		50.7	51.1	52.1	57.3	73.5	74.7					
72 months		49.7	49.9	55.0	56.9	75.4						
84 months		49.0	49.3	56.1	57.2							
96 months		48.4	50.4	56.9								
108 months		48.1	50.6									
120 months		47.6										
Total ultimate losses ($m)	**1,880.4**	**166.2**	**179.8**	**211.6**	**220.8**	**332.5**	**358.5**	**364.0**	**458.5**	**500.0**	**541.9**	**5,214.2**
Less paid claims ($m)	**(1,812.9)**	**(156.3)**	**(166.2)**	**(178.2)**	**(183.7)**	**(268.0)**	**(263.8)**	**(217.6)**	**(199.0)**	**(89.3)**	**(9.3)**	**(3,544.3)**
Less unearned portion of ultimate losses ($m)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(7.6)**	**(49.9)**	**(319.7)**	**(377.2)**
Gross claims liabilities ($m)	**67.5**	**9.9**	**13.6**	**33.4**	**37.1**	**64.5**	**94.7**	**146.4**	**251.9**	**360.8**	**212.9**	**1,292.7**

Notes to the syndicate annual accounts continued

14 Technical Provisions continued

Net ratios	2012 ae %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %	2020 %	2021 %	2022 %	
Total												
12 months		61.8	60.7	60.2	60.8	68.1	65.0	62.6	68.8	60.6	57.8	
24 months		59.7	55.5	56.2	61.1	70.1	66.9	68.6	68.7	60.5		
36 months		56.3	51.3	52.8	58.7	70.4	70.4	63.3	66.8			
48 months		52.7	49.5	49.6	56.5	68.0	68.4	61.5				
60 months		50.7	49.4	49.0	54.4	68.2	67.6					
72 months		50.3	48.9	50.0	53.9	68.6						
84 months		49.5	48.3	50.8	53.7							
96 months		48.9	49.2	51.3								
108 months		48.5	49.4									
120 months		48.1										
Total ultimate losses ($m)	**1,382.4**	**141.3**	**149.3**	**158.2**	**171.1**	**251.2**	**270.9**	**277.4**	**326.4**	**364.4**	**378.0**	**3,870.6**
Less paid claims ($m)	**(1,321.6)**	**(132.9)**	**(138.1)**	**(142.1)**	**(149.8)**	**(210.7)**	**(206.4)**	**(168.2)**	**(151.1)**	**(73.8)**	**(8.0)**	**(2,702.7)**
Less unearned portion of ultimate losses ($m)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(5.6)**	**(40.4)**	**(238.8)**	**(284.8)**
Gross claims liabilities ($m)	**60.8**	**8.4**	**11.2**	**16.1**	**21.3**	**40.5**	**64.5**	**109.2**	**169.7**	**250.2**	**131.2**	**883.1**

15 Creditors

	2022 $m	2021 $m
Creditors arising out of direct insurance operations	10.5	1.4
Creditors arising out of reinsurance operations	130.1	99.1
Other Creditors		
Amount due to syndicate 2623	42.2	51.5
Amount due to syndicate 6107	17.9	13.8
Other creditors	2.8	1.0
Profit commissions	11.2	3.6
Amounts due to other related entities	21.4	6.8
Total Creditors	**236.1**	**177.2**

The above other creditors balances are payable within one year with the exception of profit commissions which are payable once the related year of account closes.

16 Related parties transactions

Beazley Furlonge Limited, the managing agency of syndicate 623, is a wholly-owned subsidiary of Beazley plc. The Directors of Beazley Furlonge Limited who have participated in syndicate 623 indirectly through Beazley Staff Underwriting Limited are disclosed in the managing agent's report from page 11.

The Directors of Beazley Furlonge Limited have shareholdings in Beazley plc which provides the capacity for syndicates 2623, 3622, 3623. Syndicate 623 writes in parallel with Syndicate 2623.

16 Related parties transactions continued

Beazley plc has the following service companies (managing general agents), which underwrite on behalf of syndicates 623 and 2623 (the 'syndicates') and write business either directly for the syndicates or via Lloyd's Brussels:

- Beazley Solutions Limited – (UK & Europe);
- Beazley Solutions International Limited – (Europe);
- Beazley USA Services, Inc. – (USA);
- Beazley Canada Limited – (Canada);
- Beazley Pte Limited – (Singapore); and
- Beazley Labuan Limited – (Malaysia).

The syndicates are charged commissions for the type of business underwritten by these companies. The commission is based on the costs incurred by these service companies in generating and servicing the business on behalf of the syndicates. As Beazley plc owns 100% of the share capital, it could receive profits from these entities in the future from the business underwritten by the names on syndicate 623.

The syndicate is charged fees from Beazley Furlonge Limited in respect of management services provided. Both Beazley Management Limited and Beazley Furlonge Limited, the managing agent of syndicate 623, are ultimately controlled by Beazley plc.

Since 2010, Syndicate 623, alongside syndicate 2623, has ceded part of its international reinsurance account to syndicate 6107 at Lloyd's, and since 2017 has also ceded part of its cyber business to syndicate 6107. Syndicate 6107 is a special purpose syndicate managed by Beazley Furlonge Limited and commissions are received by the syndicate in respect of these transactions.

The intercompany positions with other syndicates managed by Beazley Furlonge Limited at 31 December 2022 are disclosed above in note 12 (other debtors) and note 15 (Creditors).

Beazley has a 25% equity interest in Falcon Money Management Holdings Limited (Falcon), an investment management company. Syndicate 623 invests in certain funds managed by Falcon, as part of which management fees are deducted

Profit related remuneration for syndicate 623's underwriting staff is charged to the syndicate. At the balance sheet date, the syndicate has amounts due (to)/from the managing agent of $1.0m (2021: ($8.2m)). In addition to this amount, the syndicate is also carrying a profit commission payable to the managing agent of $11.2m (2021: 3.6).

The managing agent recharged expenses and fees of $81.1m (2021: $64.5m) to the syndicate in the current year.

Beazley Furlonge Limited as the managing agent of the syndicate is responsible for settling intercompany balances with other managed syndicates and net amounts due to/from other related entities.

17 Subsequent events

There have been no balance sheet events which have occurred between the reporting date and the date which the financial statements have been signed, for which an adjustment and or disclosure is required. The 2020 year of account has closed with a loss of $12.8m.

18 Foreign exchange rates

The syndicate used the following exchange rates to translate foreign currency assets, liabilities, income and expenses into US dollars, being the syndicate's presentational currency:

	2022		2021	
	Average	Year end spot	Average	Year end spot
Sterling	0.80	0.82	0.73	0.76
Canadian dollars	1.29	1.37	1.25	1.27
Euro	0.94	0.95	0.84	0.88

2020 year of account for Syndicate 623

Managing agent’s report

The syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 (the ‘Lloyd’s Regulations’) and in accordance with the Syndicate Accounting Byelaw (No.9 of 2005), including Financial Reporting Standard 102 (FRS 102) and 103 Insurance Contracts (FRS 103) in accordance with the provisions of Schedule 3 of the Large and Medium-size Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2020 year of account which has been closed by reinsurance to close at 31 December 2022; consequently the balance sheet represents the assets and liabilities of the 2020 year of account and the profit or loss account reflect the transactions for that year of account during the 36 months period until closure. The 2020 closed year of account loss of $12.8m includes a reinsurance to close surplus from the 2019 year of account of $0.6m (note 6).

Principal activity

The principal activity of syndicate 623 is the transaction of a range of specialised insurance business at Lloyd’s, including the underwriting of professional indemnity, cyber liability, property, marine, reinsurance, accident and life, and political risks and contingency business.

Directors

A list of Directors of the managing agent who held office during the current year can be found on page 65 of the syndicate annual accounts.

Disclosure of information to the auditor

The Directors of the managing agent who held office at the date of approval of this managing agent’s report confirm that, so far as they are each aware, there is no relevant audit information of which the syndicate’s auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the syndicate’s auditors are aware of that information.

Auditor

Pursuant to Section 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

On behalf of the Board

S M Lake
Finance Director

27 February 2023

Statement of managing agent’s responsibilities

The Directors of the managing agent are responsible for preparing the syndicate underwriting year accounts in accordance with the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd’s Syndicate Accounting Byelaw. They have elected to prepare the accounts in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 the Directors of the managing agent must not approve the underwriting year accounts unless they are satisfied that they give a true and fair view of the result of the underwriting year at closure. In preparing these accounts, the Directors of the managing agent are required to:

- select suitable accounting policies and then apply them consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable between the members of the syndicate affected is used;
- make judgements 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 accounts;
- assess the syndicate’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so. As explained in note 1 the Directors of the managing agent have not prepared the underwriting year accounts on a going concern basis.

The Directors of the managing agent are responsible for keeping adequate and proper accounting records that are sufficient to show and explain the syndicate’s transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable them to ensure that the underwriting year accounts comply with the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

On behalf of the Board

S M Lake
Finance Director

27 February 2023

Independent auditor's report to the members of Syndicate 623 2020 closed year of account

Opinion
We have audited the syndicate underwriting year accounts for the 2020 year of account of syndicate 623 ('the syndicate') for the three years ended 31 December 2022 which comprise the Profit or loss account, the Balance sheet, the Cash flow statement, the Statement of changes in members' balances and the related notes 1 to 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate underwriting year accounts:
- give a true and fair view of the profit for the 2020 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the syndicate underwriting year accounts section of our report. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate underwriting year accounts in the UK, including the FRC's Ethical Standard as applied to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – closure of the 2020 year of account
We draw attention to Note 1 which explains that the 2020 year of account of syndicate 623 has closed and all assets and liabilities transferred to the 2021 year of account by reinsurance to close at 31 December 2022.

As a result, the syndicate underwriting year accounts for the 2020 year of account of syndicate 623 have been prepared under basis other than going concern.

Our opinion is not modified in respect of this matter.

Other information
The other information comprises the information included in the Underwriting Year report and accounts, other than the syndicate underwriting year accounts and our auditor's report thereon. The managing agent is responsible for the other information contained within the Underwriting Year report and accounts.

Our opinion on the syndicate underwriting year accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate underwriting year accounts or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the syndicate underwriting year accounts themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor’s report to the members of Syndicate 623 2020 closed year of account continued

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Lloyd’s Syndicate Accounting Byelaw (no. 8 of 2005) requires us to report to you, if in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent’s Responsibilities set out on page 50, the managing agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 and The Lloyd’s Syndicate Accounting Byelaw (no. 8 of 2005) and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate underwriting year accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate underwriting year accounts, the managing agent is responsible for assessing the syndicate’s ability to realise its assets and discharge its liabilities in the normal course of business, disclosing, as applicable, any matters that impact its ability to do so.

Auditor’s responsibilities for the audit of the syndicate underwriting year accounts

Our objectives are to obtain reasonable assurance about whether the syndicate underwriting year accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate underwriting year accounts.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. 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.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the managing agent and management.

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the syndicate and determined that the most significant are direct laws and regulations related to elements of Lloyd’s Byelaws and Regulations, and the financial reporting framework (UKGAAP) and requirements referred to by Lloyd’s in the Instructions. Our considerations of other laws and regulations that may have a material effect on the syndicate underwriting year accounts included permissions and supervisory requirements of Lloyd’s of London, the Prudential Regulation Authority (‘PRA’) and the Financial Conduct Authority (‘FCA’).
- We obtained a general understanding of how the syndicate is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters of the syndicate. In assessing the effectiveness of the control environment, we also reviewed significant correspondence between the syndicate, Lloyd’s of London and other UK regulatory bodies; reviewed minutes of the Board and Risk Committee of the managing agent; and gained an understanding of the managing agent’s approach to governance.
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related syndicate underwriting year accounts’ items.

- For both direct and other laws and regulations, our procedures involved: making enquiries of the directors of the managing agent and senior management for their awareness of any non-compliance of laws or regulations, enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, enquiring about the managing agent's methods of enforcing and monitoring compliance with such policies, and inspecting significant correspondence with Lloyd's, the FCA and the PRA.
- The syndicate operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.
- We assessed the susceptibility of the syndicate's underwriting year accounts to material misstatement, including how fraud might occur by considering the controls that the managing agent has established to address risks identified by the managing agent, or that otherwise seek to prevent, deter, or detect fraud. We also considered areas of significant judgement, including complex transactions, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk including:
  - Reviewing accounting estimates for evidence of management bias. Supported by our Actuaries we assessed if there were any indicators of management bias in the valuation of insurance liabilities and the recognition of estimated premium income.
  - Evaluating the business rationale for significant and/or unusual transactions.

These procedures included testing manual journals and were designed to provide reasonable assurance that the underwriting accounts were free from fraud or error.

A further description of our responsibilities for the audit of financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the syndicate's members, as a body, in accordance with The Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate and the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Niamh Byrne (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

27 February 2023

Profit or loss account

2020 year of account for the 36 months ended 31 December 2022

	Notes	2020 year of account $m
Gross premiums written	3	609.6
Outward reinsurance premiums		(110.8)
Earned premiums, net of reinsurance		**498.8**
Allocated investment return transferred from the non-technical account		(1.2)
Reinsurance to close premiums received, net of reinsurance	4	418.4
		417.2
Reinsurance to close premiums payable, net of reinsurance	5	(462.4)
Gross claims paid		(367.5)
Reinsurers' share		81.2
Claims incurred, net of reinsurance		**(748.7)**
Net operating expenses	7	(178.0)
Balance on the technical account		**(10.7)**
Investment income		37.2
Investment expenses and charges	9	(0.5)
Realised loss on investments		(10.4)
Unrealised loss on investments		(27.5)
Net investment return		(1.2)
Allocated investment return transferred to the technical account		1.2
Other income		0.5
Other charges		–
Loss on foreign exchange		(2.5)
Loss for the 2020 closed year of account	**6**	**(12.7)**
Syndicate allocated capacity (£m)		422.6
Loss for the 2020 closed year of account (£m)		(10.4)
Return on capacity		(2.5)%

There were no other comprehensive gains or losses in the accounting period.

Statement of changes in members' balances

for the year ended 31 December 2022

	2020 year of account $m
Loss for the 2020 closed year of account	**(12.7)**
Amounts due from members at 31 December 2022	**(12.7)**

Members participate in syndicates by reference to years of account (YOA) and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

Balance sheet
closed at 31 December 2022

	Notes	2020 year of account $m
Assets		
Financial assets at fair value	10	417.1
Deposits due from ceding undertakings		1.2
Debtors	11	63.1
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	5	221.8
Cash at bank and in hand		8.3
Prepayments and accrued income		3.9
Total assets		**715.4**
Members' balances and liabilities		
Members' balances		
Amounts due from members	12	(12.7)
Liabilities		
Reinsurance to close premium payable to close the account – gross amount	5	666.3
Creditors	13	58.8
Accruals and deferred income		3.0
Total liabilities		**715.4**

The underwriting year accounts on pages 54 to 63 were approved by the Board of Directors on 27 February 2023 and were signed on its behalf by:

A P Cox
Active Underwriter

S M Lake
Finance Director

Cash flow statement

2020 year of account for the 36 months ended 31 December 2022

	2020 year of account $m
Reconciliation of loss for the financial year to net cash inflow from operating activities	
Loss for the financial year	(12.7)
Increase in gross reinsurance to close payable	666.3
Increase in reinsurers' share of reinsurance to close	(221.8)
Increase in deposits due from ceding undertakings	(1.2)
Increase in debtors	(63.1)
Decrease in creditors	58.8
Increase in prepayments	(3.9)
Increase in accruals	3.0
Investment return	1.2
Net cash flows from operating activities	**426.6**
Net purchase of financial instruments	(417.1)
Cash received from investment income	(1.2)
Net cash flows from investing activities	**(418.3)**
Transfer to members in respect of underwriting participations	–
Net cash flows from financing activities	–
Net increase in cash and cash equivalents	**8.3**
Cash and cash equivalents at 1 January 2020	–
Cash and cash equivalents at 31 December 2022	**8.3**

Notes to the syndicate underwriting year accounts
closed at 31 December 2022

1 Accounting policies

Basis of preparation

These underwriting accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the Regulations') and applicable Accounting Standards in the United Kingdom, including Financial Reporting Standard 102 (FRS 102) and Insurance Contracts (FRS 103). They have also been prepared in accordance with Lloyd's Syndicate Accounting Byelaw (N0.8 of 2005) and in accordance with the provisions of Schedule 3 of the Large and Medium-size Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

Whilst the Directors of the managing agent have a reasonable expectation that the syndicate has adequate resources to continue in operational existence for the foreseeable future, these financial statements represent the participation of members in the 2020 year of account which closed on 31 December 2022. The accumulated profits of the 2020 year of account will be distributed shortly after publication of these accounts. Therefore the 2020 year of account is not continuing to trade and, accordingly, the Directors have not adopted the going concern basis in the preparation of these accounts. The amounts reported would be identical if the accounts had been prepared on a going concern basis as the 2020 year of account will be closed by payment of a reinsurance to close premium, as outlined in note (a) below, which is consistent with the normal course of business for a Lloyd's syndicate and with the approach we have applied to earlier underwriting years.

The principal accounting policies applied in the preparation of these underwriting accounts are set out below. The policies have been consistently applied to all periods presented, unless otherwise stated. All amounts presented are stated in US dollars, being the syndicate's functional currency, and in millions, unless noted otherwise.

Underwriting transactions

(a) The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

(b) Gross premiums are allocated to years of account on the basis of the inception date of the policy. Commission and brokerage are charged to the year of account to which the relevant policy is allocated. Policies written under binding authorities, lineslips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums follow the year of account of the original premium. Premiums in respect of reinsurance ceded are attributed to the same year as the original risk being protected. Gross premiums are stated before the deduction of brokerage, taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the syndicate not yet notified.

(c) Gross claims paid are allocated to the same year of account as that to which the corresponding premiums are allocated and include internal and external claims settlement expenses. Reinsurance recoveries are allocated to the year of account to which the claim was charged.

(d) The reinsurance to close premium is determined by reference to outstanding liabilities, including claims incurred but not yet reported, relating to the closed year and to all previous closed years reinsured therein. Although the estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined. The reinsurance to close premium includes a provision for unearned premiums and unexpired risks at the balance sheet date, net of deferred acquisition costs.

(e) Please refer to note 1 Accounting policies in syndicate 623 annual accounts for details around measurement of insurance contracts.

Comparatives

(g) Comparatives are not provided in these syndicate underwriting year accounts as each syndicate year of account is a separate annual venture.

Investment return

(h) Investment return comprises investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. Investment return arising in each calendar year is allocated to years of account in proportion to the average funds available for investment attributable to those years. Investment returns in respect of overseas deposits are allocated to the year of account which funded these deposits.

1 Accounting policies continued

(i) The investment return is wholly allocated to the technical account.

(j) Investments are valued at market value at the balance sheet date. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, and the valuation at the previous period end or purchase value during the period.

Syndicate operating expenses

(k) Acquisition costs comprise brokerage, premium levies, and staff related costs of the underwriters acquiring the business.

Costs incurred by the managing agent in respect of the syndicate are charged to the syndicate. Where expenses do not relate to any specific year of account they are apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense.

(l) Where expenses are incurred jointly by the managing agent and the syndicate, they are apportioned as follows:

- salaries and related costs – according to the staff time spent on dealing with syndicate matters;
- accommodation costs – proportioned based on the overall staff costs allocation above; and
- other costs – as appropriate in each case.

Taxation

(m) 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 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. It is the responsibility of members to agree and settle their individual tax liabilities with the Inland Revenue.

(n) No provision has been made for any US federal income tax payable on the 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. Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

Basis of currency translation

(o) The syndicate operates in four separate currency funds of sterling, euro, US dollars and Canadian dollars. Items going through the profit or loss account in sterling, euro and Canadian dollars are translated to US dollars at the three years' average rates of exchange. Assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. The euro, sterling and Canadian dollar three years' average exchange rates ruling at 31 December 2022 are euro 0.89, sterling 0.77 and Canadian dollar 1.30.

2 Risk management

The 2020 year of account has closed and all assets and liabilities have been transferred to a reinsuring year of account. The result for the year of account was declared in sterling so there is no exchange rate risk. To this extent, the risks that it is exposed to in respect of the reported financial position and financial performance are significantly less than those relating to the open years of account as disclosed in the syndicate annual accounts. Accordingly, these underwriting year accounts do not have associated risk disclosures as required by section 34 of FRS 102. Full disclosures relating to these risks are provided in the syndicate annual accounts.

2.1 Capital management

Please refer to note 2.5 in syndicate 623 annual accounts.

Notes to the syndicate underwriting year accounts
closed at 31 December 2022 continued

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

	Gross premiums written $m	Gross premiums earned $m	Gross claim incurred $m	Gross operating expenses $m	Reinsurance balance $m	Underwriting result $m
Direct Insurance						
Marine aviation and transport	70.4	70.4	(34.2)	(24.5)	0.6	**12.3**
Fire and other damage to property	112.5	112.5	(85.6)	(36.6)	(4.6)	**(14.3)**
Third party liability	340.3	340.3	(265.5)	(90.6)	19.6	**3.8**
Miscellaneous	19.3	19.3	(47.0)	(7.3)	36.3	**1.3**
Total	**542.5**	**542.5**	**(432.3)**	**(159.0)**	**51.9**	**3.1**
Reinsurance accepted						
Marine aviation and transport	–	–	–	–	–	**–**
Fire and other damage to property	45.3	45.3	(38.6)	(10.0)	(9.1)	**(12.4)**
Third party liability	21.8	21.8	(12.8)	(9.0)	(0.2)	**(0.2)**
Miscellaneous	–	–	–	–	–	**–**
Total	**67.1**	**67.1**	**(51.4)**	**(19.0)**	**(9.3)**	**(12.6)**
Total Direct and Reinsurance accepted	**609.6**	**609.6**	**(483.7)**	**(178.0)**	**42.6**	**(9.5)**

All business was concluded in the UK.

4 Reinsurance to close premiums received

	2020 year of accounts $m
Gross reinsurance to close premiums received	572.7
Reinsurance recoveries anticipated	(154.3)
Reinsurance to close premiums received, from 2019 and earlier, net of reinsurance	**418.4**

5 Reinsurance to close premiums payable

	2020 year of account $m
Gross reinsurance to close premiums through profit and loss	689.0
Reinsurance recoveries anticipated through profit and loss	(226.6)
Foreign exchange	(17.9)
Reinsurance to close premiums payable to 2021 net of reinsurance	**444.5**

	Reported $m	IBNR $m	Total $m
Gross reinsurance to close premium payable	234.4	431.9	666.3
Reinsurance recoveries anticipated	(56.0)	(165.8)	(221.8)
Reinsurance to close premiums payable, net of reinsurance	**178.4**	**266.1**	**444.5**

6 Analysis of the 2020 year of account result

	2020 year of accounts $m
Amount attributable to business allocated to the 2020 year of account	(13.3)
Surplus on the reinsurance to close for the 2019 year of account	0.6
	(12.7)

7 Net operating expenses

	2020 year of account $m
Acquisition costs	145.9
Reinsurance commissions and profit participation	(11.2)
Administrative expenses	43.3
	178.0

Administrative expenses include:	$m
Audit services	0.1

8 Emoluments of the Directors of Beazley Furlonge Limited

An allocation of remuneration to the 2020 underwriting year of account for the Director of Beazley Furlonge Limited is based on the amounts paid between 2020 and 2022 as follows:

	2020 $m
Emoluments and fees	0.9
	0.9

9 Investment expenses and charges

	2020 year of accounts $m
Investment management expenses	0.5
	0.5

Notes to the syndicate underwriting year accounts
closed at 31 December 2022 continued

10 Financial Assets

2020	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value				
Fixed and floating rate debt securities:				
– Government issued	167.0	73.2	–	240.2
Corporate bonds				
– Investment grade credit	51.0	62.8	–	113.8
– High yield	2.9	11.8	–	14.7
Syndicate loan to Lloyd's central fund	–	–	6.5	6.5
Equity funds	7.3	–	–	7.3
Hedge funds	–	31.2	–	31.2
Illiquid credit assets	–	–	1.5	1.5
Derivative financial assets	1.9	–	–	1.9
Total financial assets at fair value	**230.1**	**179.0**	**8.0**	**417.1**
Financial liabilities				
Derivative financial instruments	2.5	–	–	2.5

11 Debtors

	2020 year of account $m
Debtors arising out of direct insurance operations – intermediaries	24.1
Debtors arising out of reinsurance operations	16.8
Other debtors	22.2
	63.1

These balances are due within one year.

12 Amounts due from members

	2020 year of account $m
Loss for the 2020 closed year of account before standard personal expenses	(1.0)
Members standard personal expenses	(11.7)
Amounts due from members at 31 December 2022	**(12.7)**

13 Creditors

	2020 year of account $m
Creditors arising out of direct insurance operations – intermediaries	1.2
Creditors arising out of reinsurance operations	6.4
Amount due to syndicate 2623	47.6
Amount due to syndicate 6107	2.8
Amounts due to related parties	–
Other creditors including taxation	0.8
	58.8

The above balances are payable within one year.

14 Related parties transactions

Beazley Furlonge Limited, the managing agency of syndicate 623, is a wholly-owned subsidiary of Beazley plc. The Directors of Beazley Furlonge Limited who have participated in syndicate 623 indirectly through Beazley Staff Underwriting Limited are disclosed in the managing agent's report of the annual accounts on page 65.

The intercompany positions with other syndicates managed by Beazley Furlonge Limited at 31 December 2022 are included in note 13 (creditors).

Beazley Furlonge Limited as the managing agent of the syndicate is responsible for settling intercompany balances with other managed syndicates and net amounts due to/from other related entities.

15 Active underwriter's emoluments

An allocation of the active underwriter's remuneration to the 2020 underwriting year of account is based on the amounts paid between 2020 and 2022 as follows:

	2020 $m
Emoluments and fees	0.3
	0.3

16 Staff costs

All staff are employed by Beazley Management Limited, with the majority of these costs incurred in sterling. The following amounts were recharged to the 2020 underwriting year of account in respect of staff costs:

	2020 $m
Wages and salaries	16.7
Short-term incentive payments	5.5
Social security costs	4.3
Pension costs	3.6
	30.1

Seven-year summary of closed year results (unaudited)

at 31 December 2022

	2020	2019	2018	2017	2016	2015	2014
Syndicate allocated capacity – £'m	422.6	366.2	350.9	304.5	257.3	230.3	242.8
Syndicate allocated capacity – $'m	536.6	483.3	456.2	408.0	403.9	393.7	369.0
Capacity utilised	93%	89%	86%	88%	79%	76%	79%
Aggregate net premiums – $'m	388.6	330.4	312.1	278.7	251.6	230.8	235.4
Underwriting profit as a percentage of gross premiums	4.5%	5.9%	0.9%	0.2%	19.3%	25.5%	27.9%
Return on capacity	(2.5)%	3.1%	(2.7%)	(2.4%)	8.7%	15.5%	18.6%
Results for an illustrative £10,000 share							
Gross premiums – $'m	11.8	11.7	11.2	11.8	12.5	13.0	12.0
Net premiums	9.2	9.0	8.9	9.2	9.8	10.0	9.7
Reinsurance to close from an earlier account	9.9	10.2	9.3	9.8	12.0	13.6	13.2
Net claims	(6.8)	(6.0)	(6.5)	(7.1)	(6.7)	(6.3)	(5.8)
Reinsurance to close the year of account	(10.9)	(11.6)	(10.5)	(10.7)	(11.7)	(13.2)	(13.1)
Underwriting profit	1.4	1.7	1.1	1.2	3.5	4.0	4.1
Profit/(loss) on foreign exchange	(0.1)	0.1	(0.2)	–	(0.1)	–	0.3
Syndicate operating expenses	(1.4)	(1.5)	(1.5)	(1.9)	(2.1)	(1.8)	(1.9)
Balance on technical account	(0.1)	0.3	(0.6)	(0.7)	1.3	2.2	2.5
Gross investment return	–	0.5	0.4	0.6	0.4	0.6	0.5
Profit/(Loss) before personal expenses	(0.1)	0.8	(0.2)	(0.1)	1.7	2.8	3.0
Illustrative personal expenses							
Illustrative personal expenses	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Managing agent's profit commission	–	(0.1)	–	–	(0.2)	(0.4)	(0.4)
Profit/(loss) after illustrative profit commission and personal expenses ($)	(0.3)	0.4	(0.4)	(0.3)	1.1	2.1	2.4
Profit/(loss) after illustrative profit commission and personal expenses (£)	(0.2)	0.3	(0.3)	(0.2)	0.9	1.5	1.9

Notes:
1 The illustrative profit commission and personal expenses are estimates of amounts which might be charged on an illustrative share of £10,000. The agency agreements for 1991 and subsequent years of account only provide for the deduction of fees and profit commission on behalf of the managing agent.
2 The effect of any minimum charges on personal expenses or deficit clauses on profit commission have been ignored.
3 Internal claims settlement expenses have been included in 'net claims'.
4 The above figures are stated before members' agents' fees.
5 Profit after illustrative profit commission and personal expenses is shown in dollars and converted to sterling at the closing rate.
6 Gross and net premium amounts shown above are net of brokerage expenses.

Managing agent corporate information

Beazley Furlonge Limited has been the managing agent of syndicate 623 throughout the period covered by this report and the registered office is 22 Bishopsgate, London, EC2N 4BQ, United Kingdom.

Directors

G P Blunden[1] – Interim Chairman
A P Cox – Active Underwriter and Chief Executive Officer
R E Quane (appointed 21/12/2022)
C C R Bannister* (appointed 08/02/2023)
R S Anarfi
I Fantozzi
N H Furlonge[1]
S M Lake
C LaSala[1]
A J Reizenstein[1]
L Santori[1]
R A Stuchbery[1]
N Wall[1]
K W Wilkins[1] (resigned 01/01/2022)
D L Roberts[1] (resigned 21/10/2022)

1 Non-Executive Director.

Company secretary

C P Oldridge

Managing agent's registered office

22 Bishopsgate
London
EC2N 4BQ
United Kingdom

Registered number

01893407

Auditor

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Banker

Deutsche Bank AG
Winchester House
London
1 Great Winchester Street
EC2N 2DB

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Syndicate 623
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