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beazley

Beazley Furlonge Limited | Syndicate 5623 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

£204.4m

(2021: £144.2m)

Claims ratio

57%

(2021: 75%)

Gross premiums written

$252.8m

(2021: $161.1m)

Expense ratio

27%

(2021: 24%)

Earned premiums, net of reinsurance

$198.5m

(2021: $123.1m)

Combined ratio

84%

(2021: 99%)

Profit for the financial year

$28.0m

(2021: Profit $1.6m)

Strategic report of the managing agent

Overview

Syndicate 5623 (the 'syndicate') is a special purpose arrangement syndicate to write market facility business via a quota share from syndicate 3623 (the 'host').

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**	**3,171.1**

The result for the syndicate for the year ended 31 December 2022 is a profit of $28.0m (2021: profit of $1.6m).

Year of account results

The 2020 year of account has closed with a profit on capacity of 9.8%. The 2021 year of account is currently forecasting a return on capacity of 2%. The 2022 year of account is also forecasting a positive return on capacity.

Rating environment

Premium rates charged for renewal business increased by 5.5% during 2022 (2021: increased by 16%).

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 for 2022 was 84% (2021: 99%), largely due to a more favourable claims ratio.

Claims

The claims ratio is a measure of the syndicate's claims experience and represents the ratio of its net insurance claims to net earned premium. The 2022 claims ratio for syndicate 5623 was 57% (2021: 75%). This improving claims ratio is a function of the syndicate being less impacted by 2022 claim events relative to 2021.

Net operating expenses

Net operating expenses, including business acquisition costs and administrative expenses, were $52.7m (2021: $30.0m). The breakdown of these costs is shown below:

	2022 $m	2021 $m
Brokerage costs	42.5	24.7
Other acquisition costs	0.1	0.1
Total acquisition costs	**42.6**	**24.8**
Administrative and other expenses	10.1	5.2
Net operating expenses[1]	**52.7**	**30.0**

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

As a percentage of net earned premium, brokerage costs are 21% (2021: 20%). Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with accounting guidelines. Other acquisition costs compromise 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, 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 27% (2021: 24%).

Reinsurance

Syndicate 5623 did not purchase any outwards reinsurance during 2022 (2021: nil). However the syndicate does receive the benefit from reinsurance contracts entered into by the host syndicate 3623 as the result is ceded net of such reinsurance contracts.

Outlook

Syndicate 5623's fifth year in business saw ongoing success, both in achieving its business plan and delivering strong results. The 2020 year of account has closed with a return on capacity of 9.8%. The 2021 underwriting year has been impacted by a number of climate related natural catastrophes such as Hurricanes Ida and Ian, Storms Uri and Elliot, various flooding catastrophes and the Volker hail event. The war in Ukraine has also impacted the 2022 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.

From 1 January 2023, Syndicate 5623 will move from a Special Purpose Arrangement (SPA) to full syndicate status. Beazley's Smart Tracker Syndicate 5623 has been granted full syndicate status by Lloyd's, effective 1 January 2023.

The syndicate previously operated under a Special Purpose Arrangement (SPA) which, was backed by third-party capital. Launched in 2018, the syndicate has been profitable for all closed years of account to date. It will continue to provide clients with follow capacity across a diversified mix of classes, delivering the benefits of access to Lloyd's specialist marketplace with a low expense ratio.

Beazley Smart Tracker works by designing and selecting approved leaders into a bespoke facility that meets the needs of brokers and their clients and there is a strong pipeline of brokers asking for support. The syndicate writes business ranging from large cross-class facilities, to single class quota shares, and consortia. The syndicate's underwriters manage participation on facilities to deliver an optimised business plan portfolio, with the ability to scale participation on lines of business seeing the most positive rate change. The 2022 underwriting year has experienced strong premium growth and with an expense ratio of 27% in 2022 (2021 24%) is demonstrating the success of its low-cost tracker model. This growth was achieved through a difficult claims environment as the 2021 underwriting year was adversely impacted by natural catastrophe events such as Hurricane Ida and Storm Uri.

W J Roscoe
Active Underwriter

27 February 2023

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 (‘FRS102’) and Financial Reporting Standard 103: Insurance Contracts (‘FRS103’).

Principal activity

The principal activity of syndicate 5623 is the reinsurance of market facilities underwritten by syndicate 3623 at Lloyd’s. The syndicate was granted full syndicate status by Lloyd's from 1 January 2023 and will therefore begin writing business directly.

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 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.

Control Statement

The latest chief risk officer 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 plc Board delegates direct oversight of the risk management function and framework to its audit and risk committee, 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.

Managing agent's report continued

Principal risks and summary descriptions	Mitigation and monitoring
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.
Group ▲ The risk of an occurrence in one area of BFL, which adversely affects another area in the syndicate resulting in financial loss and / or reputational damage. This also includes a deterioration in culture which leads to inappropriate behaviour, actions and / or decisions including dilution of culture or negative impact on the brand.	Risk culture was centred on principles of transparency, accountability, and awareness. This expected outcome continued to help maintain a strong risk culture that supported the embedding of risk management such that it makes a difference and was overseen by the Board. An effective risk culture supported strong risk management, encouraged sound risk taking, created an awareness of risks and emerging risks. The executive committee and the Board oversaw this risk.
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. Beazley 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.
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.

Principal risks and summary descriptions	Mitigation and monitoring
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

A list of Directors of the managing agent who held office during the year can be found on page 40 of this syndicate annual report.

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 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 5623

Opinion

We have audited the syndicate annual accounts of Syndicate 5623 ('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 12, 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, 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 5623 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 8, 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	252.8	161.1
Change in the gross provision for unearned premiums	9	(54.3)	(38.0)
Earned premiums		**198.5**	**123.1**
Allocated investment return transferred from the non-technical account	**5**	**(4.0)**	**0.9**
Gross claims paid		(24.9)	(10.8)
Change in the gross provision for claims	9	(88.8)	(81.8)
Claims incurred		**(113.7)**	**(92.6)**
Net operating expenses	4	**(52.7)**	**(30.0)**
Balance on the technical account		**28.1**	**1.4**
Investment income	5	(4.0)	0.9
Allocated investment return transferred to general business technical account		4.0	(0.9)
(Loss)/gain on foreign exchange		(0.1)	0.2
Profit for the financial year		**28.0**	**1.6**

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

Balance sheet

at 31 December 2022

	Notes	2022 $m	2021 $m
Assets			
Debtors			
Debtors arising out of reinsurance operations		117.7	69.1
Other debtors	6	210.3	124.3
		328.0	193.4
Cash at bank and in hand		**23.4**	3.8
Deferred acquisition costs	7	**34.7**	21.4
Total assets		**386.1**	218.6
Liabilities, capital and reserves			
Capital and reserves			
Members' balances attributable to underwriting participations		23.7	(2.2)
Technical provisions			
Provision for unearned premiums	9	135.2	81.3
Claims outstanding	9	225.9	139.4
		361.1	220.7
Creditors			
Creditors arising out of reinsurance operations	8	1.0	–
Amounts due from other related entities	8	0.2	0.1
		1.2	0.1
Accruals and deferred income		**0.1**	–
Total liabilities, capital and reserves		**386.1**	218.6

The notes on pages 15 to 25 form part of these financial statements.

The syndicate annual accounts on pages 12 to 25 were approved by the Board of Beazley Furlonge Limited on 27 February 2023 and were signed on its behalf by:

A P Cox
Chief Executive Officer

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 in the year		28.0	1.6
Increase in technical provisions		140.4	118.4
Increase in deferred acquisition costs		(13.3)	(10.2)
Increase in debtors		(134.5)	(105.0)
Increase in creditors		1.1	–
Investment return		4.0	(0.9)
Net cash flows from operating activities		**25.7**	**3.9**
Cash (paid)/received from investment return		(4.0)	0.9
Net cash flows (used in)/provided by investing activities		**(4.0)**	**0.9**
Transfer (to)/from members in respect of underwriting participations		(2.1)	(1.0)
Net cash flows (used in)/provided by financing activities		**(2.1)**	**1.0**
Net increase in cash and cash equivalents		**19.6**	**3.8**
Cash and cash equivalents at the beginning of the year		3.8	–
Effect of exchange rate changes on cash and cash equivalents		–	–
Cash and cash equivalents at the end of the year		**23.4**	**3.8**

Statement of changes in members' balances

for the year ended 31 December 2022

	2022 $m	2021 $m
Members' balances brought forward at 1 January	(2.2)	(2.8)
Total comprehensive Income for the financial year	28.0	1.6
Profit distribution before members agent's fees – 2018 Year of account	–	(1.0)
Profit distribution before members agent's fees – 2019 Year of account	(2.1)	–
Members' balances carried forward at 31 December	**23.7**	**(2.2)**

The notes on pages 15 to 26 form part of these financial statements.

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.

Notes to the syndicate annual accounts

1 Accounting policies

Basis of preparation

Syndicate 5623 (the 'syndicate') comprises a group of members of the Society of Lloyd's that underwrites insurance business in the London Market. The address of the syndicate's managing agent is given on page 41.

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. 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.

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 9. 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 is $180.1m (2021: $114.8m).

Notes to the syndicate annual accounts continued

1 Accounting policies continued

(b) Premium estimates

Premium written is initially based on the estimated premium income ('EPI') of each contract. 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, coverholders and internal counterparty views, 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 insurance receivables relating to years of account that are more than three years developed at 31 December 2022 is $3.4m (2021: $0.1m).

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 represent premium on business commencing in the financial year together with adjustments to premiums written in previous accounting periods and estimates from contracts entered into during the course of the year. Gross premiums are stated before the deduction of brokerage, taxes and duties levied on them. Estimates are made in the host syndicate for pipeline premiums, representing amounts due to the syndicate not yet notified, as well as adjustments made in the year to premiums written in prior accounting periods. The syndicate's share of these estimates is included within these financial statements.

(b) Unearned premiums

A provision for unearned premiums represents that part of the gross premiums written that is estimated will be earned in the following or subsequent financial periods. It is calculated using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

(c) Provision & Claims

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 claims outstanding comprises amounts set aside for claims advised and IBNR.

The IBNR amount is based on estimates calculated using widely accepted actuarial techniques (e.g. chain ladder) 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 an unexpired risk provision for losses arising from liability adequacy tests.

1 Accounting policies continued

(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.

(g) 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.

(h) Profit commission

Profit commission is charged by the ceding syndicate 3623 as a percentage of profit after an expense allowance on a year of account basis subject to the operating of a two-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.

(i) Insurance debtors and creditors

Insurance debtors and creditors are recognised the host syndicate is on risk. These include amounts only due from host syndicate. These are classified as 'insurance debtors and creditors' 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.

(j) Cash at bank and in hand

This consists of cash at bank and in hand and deposits held at call with banks.

(k) Other debtors

Other debtors principally consist of intercompany debtor balances 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) Investment return

Investment return consists of the syndicate's share of the host syndicate's investment return.

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.

Notes to the syndicate annual accounts continued

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:

(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 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 facility. 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. Stress and scenario tests are also run using these models. The range of scenarios considered includes natural catastrophe, cyber, 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. The key gross exposures are calculated on the basis of extreme events at a range of return periods.

To manage underwriting exposures, the host 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 host syndicate to was $22.5m (2021: absolute maximum line $21.2m). 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.

Binding authority contracts

A proportion of the host 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) Claims management risk

Claims management risk may arise within the syndicate in the event of inaccurate or incomplete claims reporting for facilities underwritten. As a follow syndicate which delegates claims authority to approved brokers, consortia or coverholders, the syndicate relies on accurate claims reporting from third parties.

The host 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. Case reserves are set for all known claims liabilities, including provisions for expenses, as soon as a reliable estimate can be made of the claims liability.

(c) 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	(11.3)	(7.0)	11.3	7.0

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	12	6
Europe[1]	13	13
Other	75	81
	100	**100**

1 Includes UK

2.2 Market risk

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

Foreign exchange risk

The functional currency of the syndicate is US dollars and the presentation currency in which the syndicate reports its results is US dollars. 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.

Notes to the syndicate annual accounts continued

2 Risk management continued

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	28.8	7.5	16.0	52.3	333.8	386.1
Total liabilities	(32.3)	(3.6)	(16.0)	(51.9)	(310.5)	(362.4)
Net assets	**(3.5)**	**3.9**	**–**	**0.4**	**23.3**	**23.7**

31 December 2021	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	18.8	4.4	7.9	31.0	187.6	218.6
Total liabilities	(19.7)	(3.3)	(9.8)	(32.8)	(188.0)	(220.7)
Net assets	**(0.9)**	**1.0**	**(1.9)**	**(1.8)**	**(0.4)**	**(2.1)**

Fluctuations in the syndicate's trading currencies against the US dollar would result in a change to profit and to 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.

	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	0.1	(0.5)	0.1	(0.5)
Dollar weakens 20% against other currencies	0.1	(0.4)	0.1	(0.4)
Dollar weakens 10% against other currencies	–	(0.2)	–	(0.2)
Dollar strengthens 10% against other currencies	–	0.2	–	0.2
Dollar strengthens 20% against other currencies	(0.1)	0.4	(0.1)	0.4
Dollar strengthens 30% against other currencies	(0.1)	0.5	(0.1)	0.5

2.3 Credit risk

Credit risk arises from the failure of another party to perform its financial or contractual obligations to the syndicate or host syndicate in a timely manner. The primary sources of credit risk for the syndicate are:

- brokers and coverholders – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the host syndicate; and
- investments – whereby issuer default results in the host syndicate losing all or part of the value of a financial instrument and derivative financial instrument.

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

An approval system also exists for all new brokers, and broker performance is carefully monitored by the host syndicates. Regular exception reports highlight trading with non-approved brokers, and the host syndicates' 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.

2 Risk management continued

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

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
Reinsurance debtors	117.7	–	–	–	–	117.7
Cash at bank and in hand	23.4	–	–	–	–	23.4
Total	**141.1**	**–**	**–**	**–**	**–**	**141.1**

31 December 2021	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Reinsurance debtors	69.1	–	–	–	–	69.1
Cash at bank and in hand	3.8	–	–	–	–	3.8
Total	**72.9**	**–**	**–**	**–**	**–**	**72.9**

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.

The syndicate has no insurance debtors and reinsurance assets that are past due but not impaired at the reporting date.

2.4 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. As syndicate 5623 is a special purpose arrangement syndicate, operating on a cash withheld basis for its reinsurance, liquidity risk is managed by the host syndicate.

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 5623 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 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.

Notes to the syndicate annual accounts continued

2 Risk management continued

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.

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the balance sheet on page 16, represent resources available to meet members' and Lloyd's capital requirements.

3 Analysis of underwriting result

2022 **Reinsurance accepted**	Gross premiums written $m	Gross premiums earned $m	Gross claim incurred $m	Gross operating expenses $m	Reinsurance balance $m	Underwriting result $m
Third party liability	125.1	102.7	(66.2)	(28.5)	–	8.0
Fire and other damage to property	99.8	72.8	(35.8)	(17.9)	–	19.1
Marine aviation and transport	27.9	23.0	(11.7)	(6.3)	–	5.0
Total	**252.8**	**198.5**	**(113.7)**	**(52.7)**	**–**	**32.1**

2021 **Reinsurance accepted**	Gross premiums written $m	Gross premiums earned $m	Gross claim incurred $m	Gross operating expenses $m	Reinsurance balance $m	Underwriting result $m
Third party liability	86.7	64.4	(44.0)	(16.4)	–	4.0
Fire and other damage to property	55.4	43.6	(36.8)	(10.0)	–	(3.2)
Marine aviation and transport	19.0	15.1	(11.8)	(3.6)	–	(0.3)
Total	**161.1**	**123.1**	**(92.6)**	**(30.0)**	**–**	**0.5**

All business was concluded in the UK and is all reinsurance related.

4 Net operating expenses

	2022 $m	2021 $m
Acquisition costs[1]	54.2	33.5
Change in deferred acquisition costs	(11.7)	(8.7)
Administrative expenses	(0.4)	(0.6)
Reinsurance commissions and profit participation	8.3	5.8
Profit commission	2.3	–
	52.7	**30.0**

1 Brokerage and commissions on direct business written was $nil (2021: $nil).

4 Net operating expenses continued

Administrative expenses include:

	2022 $m	2021 $m
Fees payable to the syndicate's auditor for the audit of these syndicate annual accounts	0.1	0.1
Fees payable to the syndicate's auditor and its associates in respect of:		
Other services pursuant to legislation	0.1	0.2
	0.2	**0.3**

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 Net investment return

	2022 $m	2021 $m
Interest and dividends	(4.0)	0.9

6 Other debtors

	2022 $m	2021 $m
Amount due from syndicate 3623	208.7	122.9
Amount due from members	1.6	1.4
	210.3	**124.3**

These balances are due within one year.

7 Deferred acquisition costs

	2022 $m	2021 $m
At 1 January	21.4	11.2
Change in deferred acquisition costs	11.6	8.7
Change in deferral of overriding commission[1]	1.7	1.5
Balance at 31 December	**34.7**	**21.4**

1 Change in deferral of overriding commission has been included within net operating expenses in the profit or loss account.

8 Creditors

	2022 $m	2021 $m
Creditors arising out of reinsurance operations	1.0	–
Amounts due from other related entities	0.2	0.1
	1.2	**0.1**

The above creditor balances are payable within one year.

Notes to the syndicate annual accounts continued

9 Technical Provisions

	Provision for unearned premium $m	Claims $m
Gross technical provisions		
As at 1 January 2022	**81.3**	**139.4**
Movement in the provision	54.3	88.8
Exchange adjustments	(0.4)	(2.3)
As at 31 December 2022	**135.2**	**225.9**

	Provision for unearned premium $m	Claims $m
Gross technical provisions		
As at 1 January 2021	43.6	58.7
Movement in the technical provision	37.9	81.9
Exchange adjustments	(0.2)	(1.2)
As at 31 December 2021	**81.3**	**139.4**

Gross/net ultimate claims	2018 %	2019 %	2020 %	2021 %	2022 %	Total %
Total						
12 months	66.3	72.9	76.6	75.5	73.2	
24 months	66.4	73.4	74.5	70.3		
36 months	54.9	69.2	63.0			
48 months	55.1	68.8				
60 months	59.7					
Total ultimate losses ($m)	7.7	30.8	55.2	107.8	206.7	408.2
Less paid claims ($m)	(5.5)	(9.5)	(13.6)	(11.3)	(2.6)	(42.5)
Less unearned portion of ultimate losses ($m)	—	—	(2.8)	(18.5)	(118.5)	(139.8)
Gross claims liabilities ($m)	**2.2**	**21.3**	**38.8**	**78.0**	**85.6**	**225.9**

10 Related parties transactions

The business written by syndicate 5623 is ceded from syndicate 3623, for which syndicate 5623 pays a profit commission. This profit commission payable is disclosed in note 4 and the overrider commission is included within operating expenses. The proportion of overrider commission in respect of unearned premium is deferred at the balance sheet date and recognised in later periods when the related premiums are earned.

The intercompany position with syndicate 3623 at 31 December 2022 is disclosed above in note 6 (other debtors).

The directors of Beazley Furlonge Limited who held office during the period covered by this report have shareholdings in Beazley plc which provides the capacity for syndicates 2623, 3622 and 3623.

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.

11 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

12 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 profit of $10.0m. It is the intention that these funds will be distributed to the members reserve funds in May 2023.

2020 year of account for Syndicate 5623

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 Insurance Contracts 103 (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 profit $10.0m includes a reinsurance to close profit from the 2019 year of account (note 7).

Principal activity

Please refer to the Managing agent's report in syndicate 5623 annual accounts for details around the principal activities of the syndicate.

Directors

A list of directors of the managing agent who held office during the current year can be found on page 40 of this document.

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 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 5623 2020 closed year of account

Opinion
We have audited the syndicate underwriting year accounts for the 2020 year of account of syndicate 5623 ('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 10, 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 5623 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 5623 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 annual report, 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 annual 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 5623 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 28, 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		83.1
Earned premiums, net of reinsurance		**83.1**
Allocated investment return transferred from the non-technical account		(1.2)
Reinsurance to close premiums received, net of reinsurance	4	26.5
		25.3
Gross claims paid		(17.8)
Reinsurance to close premiums payable	5	(57.1)
Claims incurred, net of reinsurance		**(74.9)**
Net operating expenses	6	(23.5)
Balance on the technical account		**10.0**
Profit on foreign exchange		–
Investment income		(1.2)
Allocated investment return transferred to the technical account		1.2
Profit for the 2020 closed year of account	**7**	**10.0**
Syndicate allocated capacity (£m)		83.5
Profit for the 2020 closed year of account (£m)		**8.2**
Return on capacity		9.8%

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

Balance sheet
closed at 31 December 2022

	Notes	2020 year of account $m
Assets		
Debtors	8	43.7
Cash at bank and in hand		23.4
Total assets		**67.1**
Members' balances and liabilities		
Members' balances		
Amounts due to members	9	10.0
Liabilities		
Reinsurance to close premium payable to close the account – gross amount	5	57.1
Total liabilities		**67.1**

The syndicate underwriting year accounts on pages 32 to 38 were approved by the Board of Directors on 27 February 2023 and were signed on its behalf by:

A P Cox
Chief Executive Officer

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	
Profit for the 2020 closed year of account	10.0
Increase in gross reinsurance to close payable	57.1
Increase in debtors	(43.7)
Investment income received	1.2
Net cash flows from operating activities	**24.6**
Net purchases of financial instruments	–
Investment income received	(1.2)
Net cash flows from investing activities	**(1.2)**
Transfer to members in respect of underwriting participations	–
Net cash flows from financing activities	–
Net movement in cash and cash equivalents	**23.4**
Cash and cash equivalents at 1 January 2020	–
Cash and cash equivalents at 31 December 2022	**23.4**

Statement of changes in members' balances

for the 36 months ended 31 December 2022

	2020 year of account $m
Profit for the 2020 closed year of account	10.0
Amounts due to members at 31 December 2022	**10.0**

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.

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 5623 annual accounts for details around measurement of insurance contracts.

Comparatives

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

Investment return

(g) Investment return consists of the syndicates share of the host syndicate's investment return. The investment return is wholly allocated to the technical account.

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

1 Accounting policies continued

Syndicate operating expenses

(h) Costs are borne by the host syndicate and are charged to the syndicate via an overrider commission.

Taxation

(i) 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.

(j) 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'.

(k) 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

(l) 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 5623 annual accounts.

3 Analysis of underwriting result

All business was concluded in the UK and relates to reinsurance.

4 Reinsurance to close premiums received

	2020 year of accounts $m
Gross reinsurance to close premiums received	26.5
Reinsurance to close premiums received, from 2019 and earlier, net of reinsurance	**26.5**

5 Reinsurance to close premiums payable

	2020 year of account $m
Gross reinsurance to close premiums through profit and loss	57.1
Foreign exchange	–
Reinsurance to close premiums payable to 2021 net of reinsurance	**57.1**

	Reported $m	IBNR $m	Total $m
Reinsurance to close premium payable	7.2	49.9	57.1
Reinsurance to close premiums payable	**7.2**	**49.9**	**57.1**

6 Net operating expenses

	2020 year of account $m
Acquisition costs	18.9
Reinsurance commissions and profit participation	4.3
Administrative expenses	0.3
	23.5

Administrative expenses include:	$m
Audit services	0.1

7 Analysis of the 2020 year of account result

	2020 year of account $m
Amount attributable to business allocated to the 2020 year of account	7.2
Profit on the reinsurance to close for the 2019 year of account	2.8
	10.0

8 Debtors

	2020 year of account $m
Debtors arising out of direct insurance operations	0.8
Amounts due from other syndicates	41.4
Other debtors	1.5
	43.7

These balances are due within one year.

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

9 Amounts due to members

	2020 year of account $m
Profit for the 2020 closed year of account before standard personal expenses	10.4
Members standard personal expenses	(0.4)
Amounts due to members at 31 December 2022	**10.0**

10 Related parties transactions
Please refer to page 24 of the syndicate annual accounts for further details of related party transactions for the 2020 year of account.

The business written by syndicate 5623 is ceded from syndicate 3623, for which syndicate 5623 pays a profit commission. This profit commission payable and the overrider commission is included within operating expenses. As at the balance sheet date, the syndicate has no intercompany balances outstanding with the managing agent.

Beazley Furlonge Limited, the managing agent of syndicate 5623, is a wholly-owned subsidiary of Beazley plc.

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.

Three-year summary of closed year results (unaudited)

at 31 December 2022

	2020	2019	2018
Syndicate allocated capacity – £’m	83.5	63.1	22.5
Syndicate allocated capacity – $’m	106.1	83.3	29.3
Capacity utilised	78.3%	42.8%	28.3%
Aggregate net premiums – $’m	83.1	35.7	8.3
Underwriting profit as a percentage of gross premiums	27.3%	8.6%	29.7%
Return on capacity	9.8%	2.1%	3.2%
Results for an illustrative £10,000 share	$	$	$
Gross premiums – $'000	8.0	5.7	3.7
Net premiums	8.0	5.7	3.7
Reinsurance to close from an earlier account	2.4	0.5	–
Net claims	(2.1)	(1.5)	(1.2)
Reinsurance to close the year of account	(6.8)	(4.2)	(1.5)
Underwriting profit	1.5	0.5	1.1
Profit on foreign exchange	0.1	–	–
Syndicate operating expenses	(0.2)	(0.4)	(0.7)
Balance on technical account	1.4	0.1	0.4
Gross investment return	(0.1)	0.2	0.1
Profit before personal expenses	1.3	0.3	0.5
Illustrative personal expenses			
Managing agent’s profit commission	–	–	(0.1)
Profit after illustrative profit commission and personal expenses ($)	1.3	0.3	0.4
Profit after illustrative profit commission and personal expenses (£)	1.0	0.2	0.3

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 5623 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 Chair
A P Cox – Chief Executive Officer
R E Quane (appointed 21/12/2022)
C C R Bannister[1] (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 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.

Active underwriter

W J Roscoe

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

Beazley Furlonge Limited

Syndicate 5623 at Lloyd's
22 Bishopsgate
London
EC2N 4BQ

T +44 (0)20 7667 0623

info@beazley.com
www.beazley.com

Syndicate 5623
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investor.relations.beazley.com