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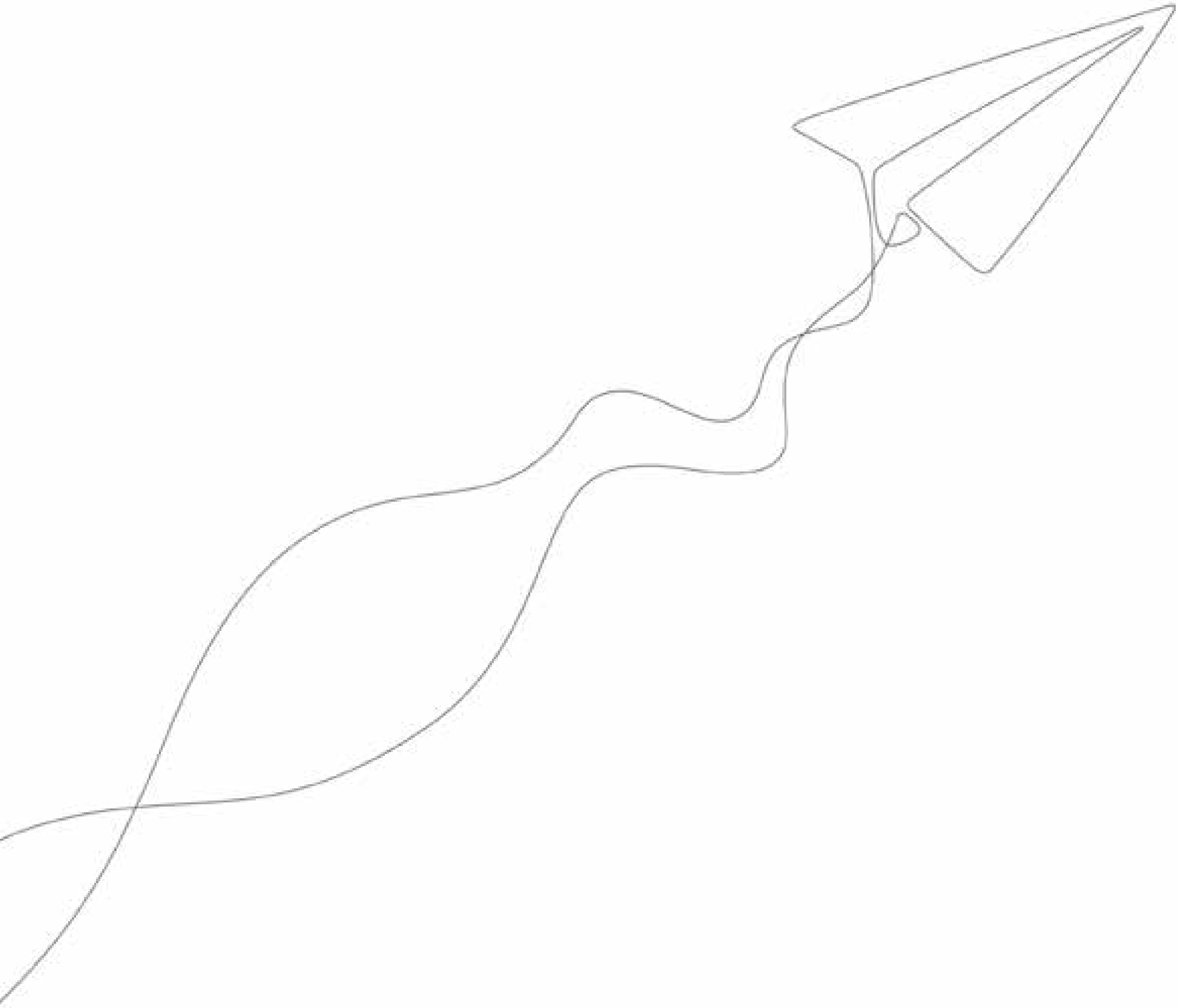
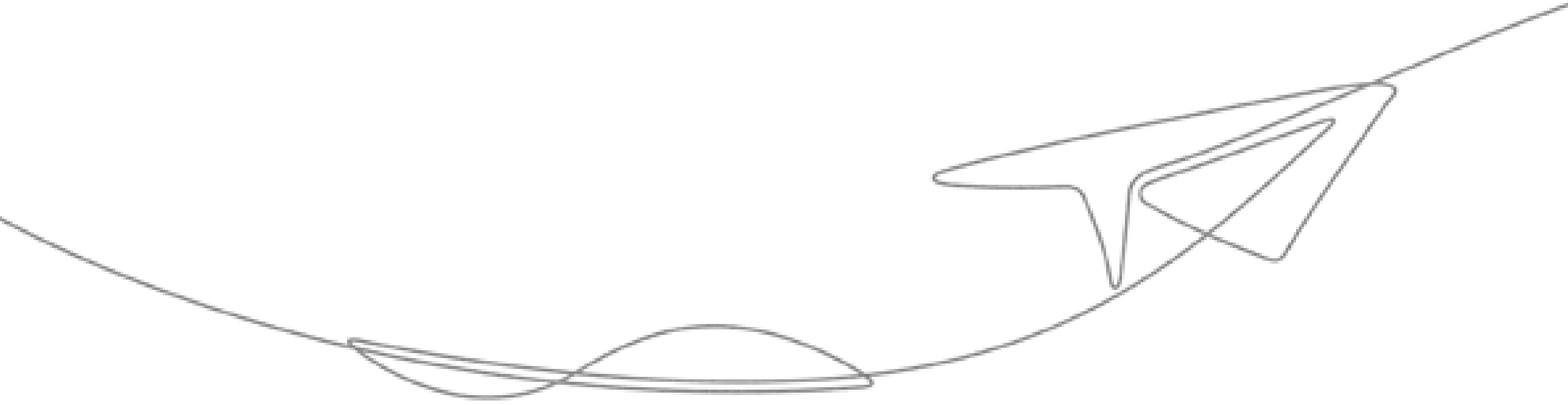


Explore. Create. Build...

Beazley Furlonge Limited | Syndicate 623 at Lloyd's
Annual report 2021

Welcome to our Annual report 2021



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 2021, the syndicate embodied this passion while delivering a strong financial performance for its members.

Contents

Highlights

Syndicate capacity
£514.8m
(2020: £422.6m)

Profit for the financial year
$48.9m
(2020: Loss $28.5m)

Combined ratio
92%
(2020: 110%)

Gross premiums written
$760.7m
(2020: $589.9m)

Renewal rate increase
20%
(2020: 15%)

Cash and investments
$843.9m
(2020: $712.5m)

Net premiums written
$588.2m
(2020: $488.9m)

Claims ratio
57%
(2020: 75%)

Annualised investment return
1.4%
(2020: 2.9%)

Earned premiums, net of reinsurance
$526.8m
(2020: $455.9m)

Expense ratio
35%
(2020: 35%)

Strategic report of the managing agent

Overview

The balanced portfolio of syndicate 623 (the ‘syndicate’) has underpinned its underwriting performance in recent years. The syndicate made a profit of $48.9m (2020: loss $28.5m) for the year ended 31 December 2021 aided by the subsiding of the COVID-19 claims related spike seen in 2020. The syndicate has benefited from effective cycle management over the past few years, reducing its exposure to natural catastrophe business with its risk budget reducing from $111m in 2021 to $93m on the 2022 underwriting year. Gross premiums written increased to $760.7m (2020: $589.9m).

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

	2021 £m	2020 £m
2623	2,348.4	1,932.4
623	**514.8**	**422.6**
5623	144.2	83.5
6107	70.5	69.5
3623	65.4	71.9
3622	27.8	25.9
Total	**3,171.1**	**2,605.8**

Year of account results

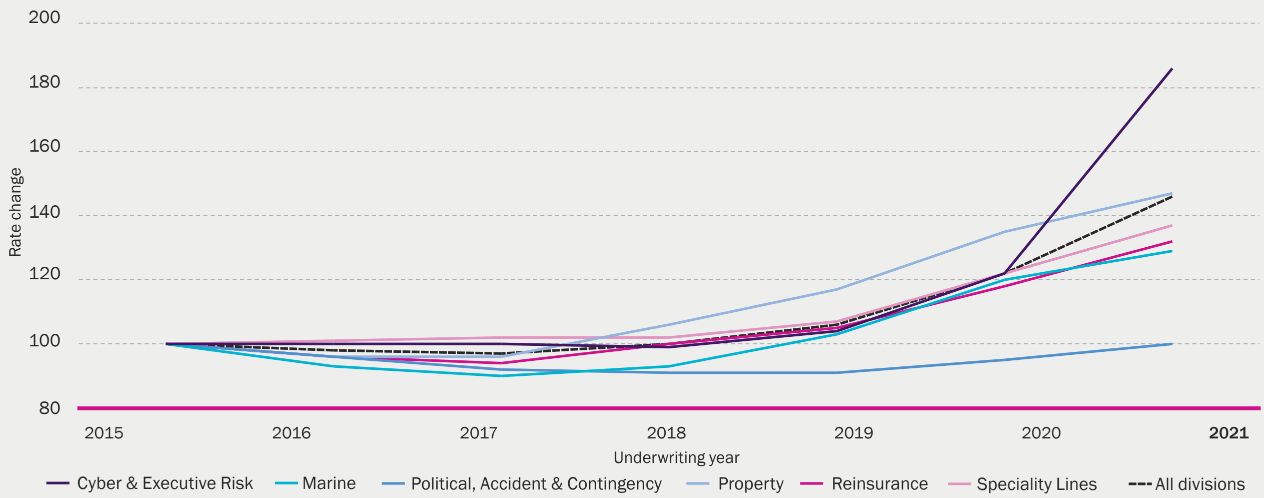
The 2019 year of account has closed with a return on capacity of 3.1% despite having being adversely impacted by some large claims attributable to the COVID-19 pandemic and natural catastrophes such as Hurricanes Laura, Sally, Delta and Zeta, Storm Dorian and Typhoons Faxai and Hagibis. The syndicate has maintained an active approach to portfolio diversification and this coupled with careful risk selection has minimised the impact of these events, culminating in sizeable claims releases across the 2019 underwriting year. The 2020 year of account is currently forecasting a breakeven return on capacity having been adversely impacted by claims arising from the COVID-19 pandemic and natural catastrophes such as Hurricanes Laura, Zeta, Delta and Derecho Weather. The 2021 year of account, which is still in its early stages of development, has already been impacted by losses from Hurricane Ida, Storm Uri and the civil unrest in South Africa. However this has been offset by strong premium growth driven by increased rates over the past 12 months.

Rating environment

The loss activity during 2019 and 2020 had a continued positive effect on the rating environment with rates increasing by 20% in 2021 across the portfolio (2020: 15%). Most of our lines of business saw increases in rates compared to 2020, with Marine increasing by 8%, Property increasing by 9%, Reinsurance rates increasing by 12%, Specialty Lines increasing by 12% and Cyber & Executive Risk increasing by 52%. Rates on renewals in our Political, Accident & Contingency division also increased by 6%.

An overview of the syndicate’s performance by division is presented between pages 7 and 12.

Rate change graph 2015-2021 (%)



Combined ratio

The combined ratio of an insurance provider is a measure of its operating performance and represents the ratio of its total costs (including claims and expenses) to total net earned premium. A combined ratio under 100% indicates an underwriting profit. The calculation of the combined ratio for the syndicate includes all claims and other costs of the syndicate but excludes foreign exchange gains or losses. We believe this represents the most transparent and useful measure of operating performance as it ensures that all of the costs of being in business are captured, whether directly linked to underwriting activity or not. The syndicate's combined ratio has improved in 2021 to 92% (2020: 110%) driven by a reduction in the claims ratio.

Claims

The claims ratio of an insurance provider is a measure of the claims experience and represents the ratio of its net insurance claims to net earned premium. With the spike in claims seen in 2020 due to the COVID-19 pandemic, 2021 delivered a claims environment which was more in line with our long term average. The claims ratio improved to 57% in 2021 (2020: 75%).

Whilst there is a small amount of exposure to the ongoing pandemic in 2022 and beyond, where cover was bought well in advance, these are discrete policies and are taken account of within all guidance. A combination of the above has resulted in a decrease in syndicate net claims in 2021 to $299.7m (2020: $341.3m).

Prior year reserve releases

The syndicate has a consistent reserving philosophy, with initial reserves being set to include risk margins that may be released over time as and when any uncertainty reduces. Historically these margins have given rise to held reserves within the range of 5-10% above the actuarial estimates, which themselves include some margin for uncertainty. The margin held above the actuarial estimate was 5.2% at the end of 2021 (2020: 5.8%). Reserve monitoring is performed at a quarterly peer review, which involves a challenge process contrasting the claims reserves of underwriters and claim managers, who make detailed claim-by-claim assessments, and the actuarial team, who provide statistical analysis. This process allows early identification of areas where claims reserves may need adjustment. During years where we experience large losses we tend to see the margin we monitor being lowered as often we hold the same estimates within both the actuarial and held reserve estimates.

During 2021 the syndicate released prior year reserves of $33.1m (2020: $16.5m). The syndicate's Marine, Property and Specialty Lines divisions all produced large releases on the 2019 underwriting year while Cyber & Executive Risk produced a net release of $4.4m despite an increase in ransomware claims activity on the 2020 underwriting year. The syndicate has taken action in the Property division to remediate selected areas of the account, including the entering into a 90% Loss Portfolio Transfer (LPT) of the divisions Engineering classes in March 2021, contributing to the release of $9.0m in the division.

These reserve releases are shown by division in the table below:

	2021 $m	2020 $m
Cyber & Executive Risk	4.4	1.5
Marine	10.1	1.9
Political, Accident & Contingency	(2.0)	(0.7)
Property	9.0	0.7
Reinsurance	4.0	4.9
Specialty Lines	7.6	8.2
Total	**33.1**	**16.5**
Releases as a percentage of net earned premium	6.3%	3.6%

Strategic report of the managing agent
continued

Net operating expenses
Net operating expenses, including business acquisition costs and administrative expenses increased from $161.6m to $185.5m in 2021. The breakdown of these costs is shown below:

	2021 $m	2020 $m
Brokerage costs	143.9	127.0
Other acquisition costs	13.4	12.3
Total acquisition costs	**157.3**	**139.3**
Administrative and other expenses	28.2	22.3
Net operating expenses[1]	**185.5**	**161.6**

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

Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with accounting guidelines.

Other acquisition costs comprise costs that have been identified as being directly related to underwriting activity (e.g. underwriters' salaries and Lloyd's box rental). These costs are also deferred in line with premium earning patterns.

Administrative expenses comprise primarily IT costs, staff costs, facilities costs, Lloyd's central costs and other support costs.

The expense ratio of an insurance provider is a measure of the net operating expenses to net earned premium. The expense ratio for 2021 is 35% (2020: 35%).

Investment performance
Recent rapid growth in the syndicate's financial assets continued in 2021, as the value of our investments, cash and cash equivalents increased to $843.9m by year end (2020: $712.5m). We generated an investment return of $10.9m, or 1.4% (2020: $18.3m, 2.9%) on these assets during the year. This outcome is modestly ahead of our expectations at the beginning of the period and reflects differing fortunes for the different elements of our portfolio.

The global economy continued to recover strongly from the initial shock of the COVID-19 pandemic throughout the year, despite the fact that COVID-19 has remained very much in focus. Monetary and fiscal policies have remained generally accommodative, helping to support an ongoing rally in global equities, but also adding to the growing inflationary pressures generated by global supply chain disruptions. Bond yields rose from the very low levels prevailing at the beginning of the year, as markets began to discount future normalisation in interest rates, resulting in poor conditions for fixed income returns during this period.

Our core fixed income investments returned just 0.1% in 2021, as mark to market capital losses, generated by rising yields, offset most of the modest income from these investments. We maintained reduced duration in our portfolio for much of the year, limiting capital losses, and made increasing use of inflation-linked debt securities, which performed well as inflation concerns grew. These actions helped ensure a positive, though modest, return from our fixed income investments. Our capital growth investments returned 11.3%, led by the very strong performance of global equities in the period. Overweight exposure to US markets and our focus on solutions tracking ESG indices both helped our equity portfolio outperform the global equity universe. Our other capital growth exposures, including hedge funds and illiquid credit investments, also performed well.

Looking ahead, the yield of our fixed income portfolio has risen to 0.9%, from 0.6% in December 2020, suggesting that the outlook for fixed income returns has improved, but remains modest. However, yields may rise further as monetary policy tightens in 2022, creating further headwinds for fixed income returns. It may be that we are again reliant on our capital growth investments to generate good returns, but there is no guarantee of this, particularly to shorter horizons. Overall, our expectations for investment returns remain modest, with the returns at the start of 2022 showing signs of the aforementioned headwinds.

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

	31 Dec 2021		31 Dec 2020	
	$m	%	$m	%
Cash at bank and in hand	6.3	0.8	13.1	1.8
Fixed and floating rate debt securities				
– Government	479.8	56.9	327.6	46.0
– Corporate bonds				
– Investment grade credit	211.1	25.0	249.0	34.9
– High yield	43.1	5.1	25.7	3.6
Syndicate loan to Lloyd's central fund	7.6	0.9	8.1	1.1
Derivative financial assets	1.2	0.1	4.0	0.6
Core portfolio	**749.1**	**88.8**	**627.5**	**88.0**
Equity linked funds	23.1	2.7	21.1	3.0
Hedge funds	64.9	7.7	59.0	8.3
Illiquid credit assets	6.8	0.8	4.9	0.7
Total capital growth assets	**94.8**	**11.2**	**85.0**	**12.0**
Total	**843.9**	**100.0**	**712.5**	**100.0**

Comparison of return by major asset class:

	31 Dec 2021		31 Dec 2020	
	$m	%	$m	%
Core portfolio	0.7	0.1	15.2	2.7
Capital growth assets	10.2	11.3	3.1	3.9
Overall return	**10.9**	**1.4**	**18.3**	**2.9**

Reinsurance

Reinsurance is purchased for a number of reasons:

- to mitigate the impact of catastrophes such as hurricanes and non-natural catastrophes such as cyber attacks;
- to enable the syndicate to put down large lead lines on risks we underwrite; and
- to manage capital to lower levels.

In 2021, the amount spent on outward reinsurance was $172.5m (2020: $101.0m). As a percentage of gross premiums written it increased to 22.7% from 17.1% in 2020.

Solvency II

The Solvency II regime came into force on 1 January 2016. Beazley continues to provide Solvency II pillar 3 reporting to Lloyd's for the syndicate. Under Solvency II requirements, the syndicate is required to produce a Solvency Capital Requirement ('SCR') which sets out the amount of capital that is required to reflect the risks contained within the business. Lloyd's reviews the syndicate's proposed SCR each year in conjunction with the syndicate's business plan.

Solvency capital requirement

The current SCR has been established using our Solvency II approved internal model which has been run within the regime as prescribed by Lloyd's. In order to perform the capital assessment, we have made significant investments in both models and process:

- we use sophisticated mathematical models that reflect the key risks in the business allowing for probability of occurrence, impact if they do occur, and interaction between risk types. A key focus of these models is to understand the risk posed to individual teams, and to the business as a whole, of a possible deterioration in the underwriting cycle; and
- the internal model process is embedded so that teams can see the direct and objective link between underwriting decisions and the capital allocated to that team. This gives a consistent and comprehensive picture of the risk/reward profile of the business and allows teams to focus on strategies that improve return on capital.

Strategic report of the managing agent
continued

Outlook

The claims environment in 2020 was particularly challenging with the COVID-19 pandemic and a number of climate related natural catastrophes such as Hurricanes Laura, Sally, Delta and Zeta. Nevertheless, the 2020 year of account is currently forecasting a breakeven return on capacity.

In 2021, the syndicate continued to maintain and grow a well-diversified portfolio helped by rate increases across numerous classes. Despite natural catastrophe events such as Hurricane Ida and Storm Uri, civil unrest in South Africa and the continuation of ransomware attacks, the syndicate produced a low-90's combined ratio.

Looking ahead to 2022, we anticipate building on the strong rate increases of 20% achieved over the past year. The recent tragic invasion of Ukraine which has sparked war in Eastern Europe is an ongoing reminder of the complexities the syndicate faces when navigating risk. However with the challenges of 2020 now firmly in the rear view mirror and exceptionally strong premium growth on the 2021 underwriting year, the syndicate is positioned well to deliver positive future results.

A P Cox

Active Underwriter

2 March 2022

Cyber & Executive Risk (CyEx)

	2021 $m	2020 $m
Gross premiums written	232.4	148.4
Net premiums written	170.1	123.6
Earned premiums, net of reinsurance	136.4	113.1
Claims incurred, net of reinsurance	(83.2)	(76.6)
Net operating expenses	(39.3)	(33.8)
Technical result	**13.9**	**2.7**
Claims ratio	61%	68%
Expense ratio	29%	30%
Combined ratio	90%	98%
Renewal rate change	52%	18%

Cyber & Executive Risk saw gross premiums written grow in 2021 up 57% to $232.4m (2020: $148.4m). Rate has increased across the portfolio, averaging 52% and the process of re-underwriting the book continues to deliver results in terms of profitability as the combined ratio improved to 90% (2020: 98%).

The syndicate has continued to invest in its Cyber business and ecosystem to ensure it is on the front foot of the evolving threat landscape and helping clients on their quest to be more resilient to cyber-attacks. The appointment of Raf Sanchez as the Global Head of Cyber Services will enable the syndicate to enhance this further as it moves into 2022.

The proactive underwriting remediation action taken on the book, in response to ransomware (as reported at the half year), continues to pay dividends and positive claims trends are being seen across the syndicate's portfolio since October 2020. For the clients, this continued investment in the syndicate's Cyber ecosystem, which puts emphasis on risk management measures and services, is helping them build a deeper understanding of evolving threats, building greater resilience, minimising the likelihood of a successful attack and thus contributing to a safer and more secure society.

The hardening market conditions combined with the syndicate's underwriting actions have resulted in it writing less cyber exposure than previous years but with increased premium. The syndicate has seen rate more than doubling for the second half of 2021. As it moves in to 2022 the syndicate will continue to grow the Cyber business as long as it sees continued positive developments with loss trends, market conditions and clients adopting its risk managed based approach.

The syndicate is also pleased to be able to expand its Lodestone operations with the introduction of a UK branch. Lodestone, established in 2016, is a Beazley group owned Cyber security firm which is an integral part of the syndicate's Cyber ecosystem and Cyber services offering. Rates across the Directors & Officers portfolio allowed the syndicate to continue executing on its strategy to strengthen its existing relationships with core partners by taking a larger share of both primary and lower excess layers. As the syndicate grows, it continues to focus on ensuring it maintains a balanced portfolio that delivers against its focused underwriting strategy whilst continuing to leverage data sources to refine the portfolio mix and equip its clients with the education, tools and resources that enable them to take positive action in this area.

The syndicate's Safeguard product continues to grow market share. By leveraging the success it has had with the service led approach in Cyber it has been able to offer a product that helps institutions become safer environments for all, through a combination of investment in strong risk prevention services, support and training coupled with risk transfer.

The syndicate's Mergers & Acquisition book remains well diversified across geography and deal size and is performing well. Management are pleased with the remediation of the syndicate's employment practices liability book and it is confident with the portfolio mix it now has. It will continue to maintain a watchful eye on this book as the post COVID-19 landscape evolves and as liability claims around the return to work including potential litigation against vaccination requirements may escalate. To date the syndicate has seen no major recession risk from the pandemic.

The outlook for next year is positive. The syndicate is prepped for growth in the areas where it can add significant value and the opportunity exists. As always, it remains focused on portfolio optimisation and being agile in real time decision making to ensure the book is always responsive to change and the needs of its clients.

Strategic report of the managing agent
continued

Marine

	2021 $m	2020 $m
Gross premiums written	76.9	70.5
Net premiums written	70.2	64.5
Earned premiums, net of reinsurance	65.0	62.1
Claims incurred, net of reinsurance	(20.9)	(33.1)
Net operating expenses	(25.0)	(22.2)
Technical result	**19.1**	**6.8**
Claims ratio	32%	53%
Expense ratio	38%	36%
Combined ratio	70%	89%
Renewal rate change	8%	16%

The Marine division achieved gross premiums written of $76.9m (2020: $70.5m) with a profit of $19.1m (2020: $6.8m) and a combined ratio of 70% (2020: 89%). The result was largely driven by the Cargo, Aviation, Liability, Hull and War portfolios which have seen strong rate rises across the board. In some areas, the syndicate has benefitted from a relatively benign claims period due to the ongoing restrictions caused by the pandemic.

The combination of experience, flexibility and client focus shown by the underwriting teams continues to differentiate the syndicate, contributing to its outperformance. By focusing on the strong underwriting framework, risk selection and clarity of terms and conditions, it has remained true to its core ethos of underwriting where it makes sense to do so and this is reflected in the results.

From a claims perspective the syndicate believes its Hurricane Ida exposure, which is largely driven by shipyards in and around Louisiana, will be limited. Its exposure to other market headlining events, including the Ever Given, is also limited in line with our expectations.

Climate change remains a key area of focus and the syndicate is committed to working with its insureds and the industry to help clients transition to a more sustainable future. The syndicate works hard to ensure it maintains a tight focus and balance managing its climate risk exposure with its responsibilities. The syndicate is very mindful of the impact of what it does and the need to underwrite responsibly.

Whilst relatively small, the Satellite portfolio continues to perform well and has seen positive growth this year. A robust and expanding space industry, fuelled by demand for mobility, data and broadband applications, supports the syndicate's long term growth prospects.

Across the Marine book the syndicate is hopeful that rates will continue on their positive trajectory, although the speed of change has undoubtedly slowed. With new entrants, including MGAs and start-ups the market has become more competitive, however, the syndicate remains confident of its market leading position and the growth opportunities that lie ahead for a specialist such as the syndicate.

Political, Accident & Contingency

	2021 $m	2020 $m
Gross premiums written	34.9	28.1
Net premiums written	29.7	20.7
Earned premiums, net of reinsurance	25.6	20.7
Claims incurred, net of reinsurance	(18.2)	(58.3)
Net operating expenses	(10.1)	(9.8)
Technical result	**(2.7)**	**(47.4)**
Claims ratio	71%	282%
Expense ratio	39%	47%
Combined ratio	110%	329%
Renewal rate change	6%	4%

2021 saw an improved result registered by Political, Accident & Contingency with gross premiums written of $34.9m (2020: $28.1m) and a combined ratio of 110% (2020: 329%).

Unsurprisingly the syndicate saw rate increases in the contingency book as events got under way again. It continues to be a leader in this market and over the last 12 months have re-shaped the team adding both depth and breadth of expertise and is pleased to have appointed Andrew Duxbury as Head of Contingency.

Committing to finding progressive solutions for clients, the syndicate is proud to have worked in partnership with the UK Government and the wider insurance market to create a scheme to provide COVID-19 specific cancellation cover for the events industry. By creating an insurance scheme like this the syndicate is contributing to the restart of the events industry and providing a much needed kick start to the traditional Contingency market.

The syndicate remain vigilant about ongoing losses related to the pandemic, but the risk has reduced significantly, most exposed events have taken place or were cancelled, and it is confident that its exposure is limited. The Political Risk portfolio is performing well. To date there has been no unexpected loss activity however the outlook is one of cautious optimism as the world gets back on its feet. The Terrorism book saw relatively flat ratings despite a challenging loss environment. Growth in this book was largely driven through the syndicate's deadly weapons protection product and its expectation is that this will continue through 2022. Growth in Accident & Health was also positive throughout the year with the PA Direct portfolio performing particularly well mainly due to increasing the involvement with existing clients.

After a year of re-building, moving forward the plan is to continue to expand and grow the business and with a strong team in place, the aim is to take advantage of the positive market conditions.

Strategic report of the managing agent
continued

Property

	2021 $m	2020 $m
Gross premiums written	128.6	103.4
Net premiums written	96.6	85.6
Earned premiums, net of reinsurance	85.5	79.2
Claims incurred, net of reinsurance	(46.6)	(64.2)
Net operating expenses	(37.3)	(30.7)
Technical result	**1.6**	**(15.7)**
Claims ratio	54%	81%
Expense ratio	44%	39%
Combined ratio	98%	120%
Renewal rate change	9%	15%

2021 saw the syndicate navigate a very dynamic marketplace in which it continued its focus on better risk selection and supporting clients to improve their risk management. The results of the corrective action taken over the past three years began to be delivered in 2021 as gross premiums written grew to $128.6m (2020: $103.4m) and posted a combined ratio of 98% (2020: 120%).

The syndicate is pleased to have successfully navigated its way through the challenging environment by focusing diligently on delivering improved bottom-line results through better risk selection. Through the stable and consistent execution of this strategy it has carefully and purposefully grown its book. The syndicate's strategy has also included a shift in its approach to distribution to ensure a balanced pipeline from both wholesale and retail brokers and it has taken advantage of the changes in team to build significant bench strength across its geographies. Most recently Simon Wilson was appointed as head of the UK Open Market business to accelerate this process further.

The syndicate has also continued to grow and develop its Jewellery, Fine Art, and Specie (JFAS) business by further diversifying the portfolio and has now deployed underwriters in Shanghai, Singapore, Paris, and Miami to support the London platform. This coverage dovetails well with the existing large risk and commercial JFAS business as well as complementing its product offerings in the High Value Homeowners segment. This increased diversification of business, coupled with consistent rate increases and careful risk selection has enabled the JFAS team to grow profitably in 2021.

Whilst overall the hurricane season saw no unexpected loss activity, the Texas Winter storms during the first quarter of 2021 had an impact on the syndicate results. Whilst maintaining a responsive approach to portfolio diversification has helped shield it for the most part, it does however, continue to remind brokers and clients that the threat of climate change continues, and these unusual patterns of loss are a threat it must prepare and price for.

The syndicate continue to use data and analytics to deliver product innovation. In Property, this includes exploring and developing parametric product offerings where clients have limited access to cover as climate related risk increases. Its first parametric product being a wind product was recently launched to protect against cyclone for a specific region in the world.

The syndicate is also continuing to embed new tools, API's, and analytics into its systems that will enable its underwriters to analyse risks with a deeper understanding and make informed decisions that will increase the diversity and profitability of the book. This continuous improvement will enhance the syndicate underwriting processes which will enable it to be responsive to the macro environment pivoting resource and focus as required.

The syndicate remains focused on profitability, while diversifying and evolving its book to manage volatility. Next year it will continue its growth trajectory and seek out progressive solutions that helps respond to and help clients better manage the challenge of a changing climate.

Reinsurance

	2021 $m	2020 $m
Gross premiums written	47.2	41.1
Net premiums written	27.8	26.6
Earned premiums, net of reinsurance	28.3	26.0
Claims incurred, net of reinsurance	(21.8)	(18.4)
Net operating expenses	(10.1)	(9.3)
Technical result	**(3.6)**	**(1.7)**
Claims ratio	77%	71%
Expense ratio	36%	36%
Combined ratio	113%	107%
Renewal rate change	12%	13%

2021 saw rates across the reinsurance division rise, by 12%, delivering gross premiums written of $47.2m (2020: $41.1m). It was an active year from a catastrophe perspective contributing to a loss of $3.6m (2020: loss of $1.7m) and combined ratio of 113% (2020: 107%).

Having effectively managed the potential impact of wildfire and specific geographic risk appetite changes in areas such as the US and Caribbean, the syndicate continue to recalibrate its approach to secondary perils including flood, hail and freeze. Hurricane Ida demonstrated that primary perils also remain a significant threat as it delivered an impactful loss as its strength continued once it had made landfall leading to flooding in New York and New Jersey. However, by executing against the strategy of moving away from frequency and seek higher attachments the syndicate limited the overall potential loss from this event.

Climate related risk is clearly on the radar. Given the unpredictable nature of these losses, the potential protection gap is significant, for example only 50% of 2021's European flood damage is estimated to have been insured. As a responsible reinsurance provider the syndicate is looking at how the growing loss potential of secondary perils might be addressed whilst delivering sustainable reinsurance capacity to a marketplace that needs it. This could include moving towards an affirmative coverage process of underwriting, with perils specifically included rather than excluded, which would deliver greater security and transparency to the clients.

The rating environment going into 2022 is strong and the syndicate will maintain its current portfolio mix. The exposure management team will continue to leverage sophisticated data sources, coupled with the syndicate's own information to provide a view of the likely future probable maximum loss of both primary and secondary perils. This approach is enabling the syndicate to determine appropriate pricing and terms and conditions as it enter a phase of climate variability which the events of 2021 so dramatically highlighted.

Strategic report of the managing agent
continued

Specialty Lines

	2021 $m	2020 $m
Gross premiums written	240.7	198.4
Net premiums written	193.8	167.9
Earned premiums, net of reinsurance	186.0	154.8
Claims incurred, net of reinsurance	(109.0)	(90.7)
Net operating expenses	(63.7)	(55.8)
Technical result	**13.3**	**8.3**
Claims ratio	59%	59%
Expense ratio	34%	36%
Combined ratio	93%	95%
Renewal rate change	12%	15%

Specialty Lines is seeing the benefits of its hard work and investment of recent years in re-underwriting and re-pricing across the book, writing gross premiums written of $240.7m (2020: $198.4m). The rating environment remains strong with an average increase of 12% contributing to a profit of $13.3m (2020: $8.3m) and the achievement of a combined ratio of 93% (2020: 95%).

In 2021 the syndicate continued to benefit from the hardening market, particularly across the International Financial Lines and Financial Institutions markets. In the second half it saw a deceleration of rate increases in these two sectors, after four years of material increases and expect a stable market in 2022. In classes where rate increase has been less extreme, it expect to continue firming through 2022.

The claims environment was relatively benign during the pandemic. However, as anticipated litigation and the size of demands has increased as courts re-opened. The syndicate remain appropriately reserved and is keeping a close eye on COVID-19 litigation, social justice matters and recession related claims, noting recessional exposure is decreasing, as the world returns to growth.

Social inflation remains in sharp focus. There has been both a generational shift in expectations of corporate behaviour and a heightened expectation of the value of bodily injury claims which adds complexity to achieving fair settlement of related claims. The syndicate has been expecting this, have planned for it and it has been the focus of our underwriting actions over the last two years.

The evolving footprint of the Speciality Lines products continues. Its Product Recall capabilities has expanded from the US into Canada and Asia, and it has continued to evolve its Management Liability suite of products. The international book has continued its successful expansion across our chosen territories and the syndicate will continue to focus on building out wider and enhanced solutions where possible, whilst growing market share where appropriate.

The syndicate is immensely proud of the work it has done to build out its small digital business via the myBeazley platform and thrilled that it has now found a new home within its newly formed Beazley Digital team under the stewardship of Ian Fantozzi. Its digital proposition is competitive and the opportunity exciting for this business segment.

The work done over the past several years on optimising the syndicate portfolio and pricing strategy to grow its risk exposure is bearing fruit. The focus on core products, coupled with stringent underwriting appetite and guidelines gives confidence that even with the challenges of social inflation and the macro-economic environment the syndicate is positioned well for the future.

Managing agent's report

The managing agent presents its report for the year ended 31 December 2021.

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'). Underwriting year accounts for the 2019 closed year of account will be made available to the Syndicate members 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 and are available on pages 60-74 of this document.

Principal activity

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

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, ESG issues and climate related risk have become regular agenda items throughout 2021. 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 Environmental, Social and Governance (ESG) issues, including climate change.

In addition to the summary Responsible Business report, Beazley plc has disclosed its compliance with the TCFD's Recommendations and Recommended Disclosures at the consolidated group level in the Beazley plc annual report and accounts. The 2021 Beazley Annual report and accounts can be found here: https://reports.beazley.com/2021-annual/

Risk management

As a risk-taking organisation, we pride ourselves on understanding the drivers of risk for our clients and our business and in seeking ways to mitigate it. As the syndicate continues its journey of change and growth, the risk function is focused on delivering complementary risk oversight improvements.

The last two years of navigating the pandemic have demonstrated just how quickly a risk can change. It demonstrated the importance of the syndicate continuing to monitor the development of other significant risks. As an example, the risk that cyber threats pose to the global economy, to society and to Beazley has climbed up the risk function's agenda. Similarly, the changing scale and profile of natural catastrophe risk driven by climate change has become apparent. The Climate change and responsible business section of this report sets out our approach to risk in managing climate change.

As a risk function we must be ready to explore the changing risk landscape. By creating a risk culture that embeds risk management into our daily operations, built around a robust risk framework, we are able to manage challenges to our assumptions about risks as they arise, whilst protecting our business and those of our clients.

Managing agent's report
continued

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 from our work on risk during 2021 below.

During 2021 we have been actively enhancing the risk management framework to ensure it supports our risk oversight responsibilities and effective challenge of the changing risk landscape. This includes risks arising from our growth plans, and the business' programme of operational enhancement. Our risk framework will also need to adapt to ensure it remains able to manage an increasingly complex risk and controls environment. Just as importantly, we will need to stress test management's assumptions about risk mitigation to ensure they will remain resilient should risks crystallise.

While we manage the challenges that growth and operational enhancement can bring, we also need to address emerging and climate risks as well as regulatory and legal changes such as preparing for the Beazley plc implementation of IFRS 17, IFRS 9 and BEIS proposals for governance reform. The risk function is actively engaged in these initiatives to provide second line oversight and ensure the risk framework adapts accordingly.

Key to the success of the performance of risk management across the business has been building the collaboration between Beazley's assurance functions, in particular the compliance and risk teams under the new structure, to deliver a more robust second line oversight function. As we move forward, working with our colleagues across the business to further embed risk management into our business processes will ensure that we are able to achieve our goals supported by a robust risk culture.

Control statement
The latest chief risk officer report to the Board has confirmed that the control environment has not identified any significant failings or weaknesses in key processes.

Risk management philosophy
The syndicate's risk management philosophy is to balance the risks the business takes on with the associated cost of controlling these risks, whilst also operating within the risk appetite agreed by the Board. In addition, our risk management processes are designed to continuously monitor our risk profile against risk appetite and to exploit opportunities as they arise.

Risk management strategy
The Beazley Furlonge Limited Board has delegated executive oversight of the risk management department to the executive committee, which in turn has delegated immediate oversight to the risk and regulatory committee. The Board has also delegated oversight of the risk management framework to the risk committee.

Clear roles, responsibilities and accountabilities are in place for the management of risks and controls, and all employees are aware of the role they play in all aspects of the risk management process, from identifying sources of risk to playing their part in the control environment. The impact of each risk is recorded in the risk register on a 1:10 likelihood of that risk manifesting in the next 12 months. A risk owner has been assigned responsibility for each risk, and it is the responsibility of that individual to periodically assess the impact of the risk and to ensure appropriate risk mitigation procedures are in place. External factors facing the business and the internal controls in place are routinely reassessed and changes made when necessary.

On an annual basis the Board agrees the risk appetite for each risk event and this is documented in the risk management framework document. The residual financial impact is managed in a number of ways, including:

- mitigating the impact of the risk through the application of controls;
- transferring or sharing risk through outsourcing and purchasing insurance and reinsurance; and
- tolerating risk in line with the risk appetite.

In addition, the following core risk management principles have been adopted:

- there is a culture of risk awareness, in which risks are identified, assessed, challenged and managed;
- risk management is a part of the wider governance environment in which challenge is sought and welcomed;
- risk mitigation techniques employed are fit for purpose and proportionate to the business;
- risk management is a core capability for all employees;
- risk management is embedded in day-to-day activities;
- risk management processes are robust and supported by verifiable management information; and
- risk management information and reporting are timely, clear, accurate and appropriately escalated.

Risk management framework

The managing agent takes an enterprise-wide approach to managing risk, following the syndicate's risk management framework. The framework establishes our approach to identifying, measuring, mitigating and monitoring the syndicate's key risks. The managing agent has adopted the 'three lines of defence' framework. Across the business there are two defined risk-related roles: risk owner and control reporter. Each risk event is owned by the risk owner, who is a senior member of staff. Risk owners, with support and challenge provided by the risk management team, perform a risk assessment twice a year, including an assessment of heightened and emerging risks.

Business risk management
Risk ownership

- Identifies risk
- Assesses risk
- Mitigates risk
- Monitors risk
- Records status
- Remediates when required

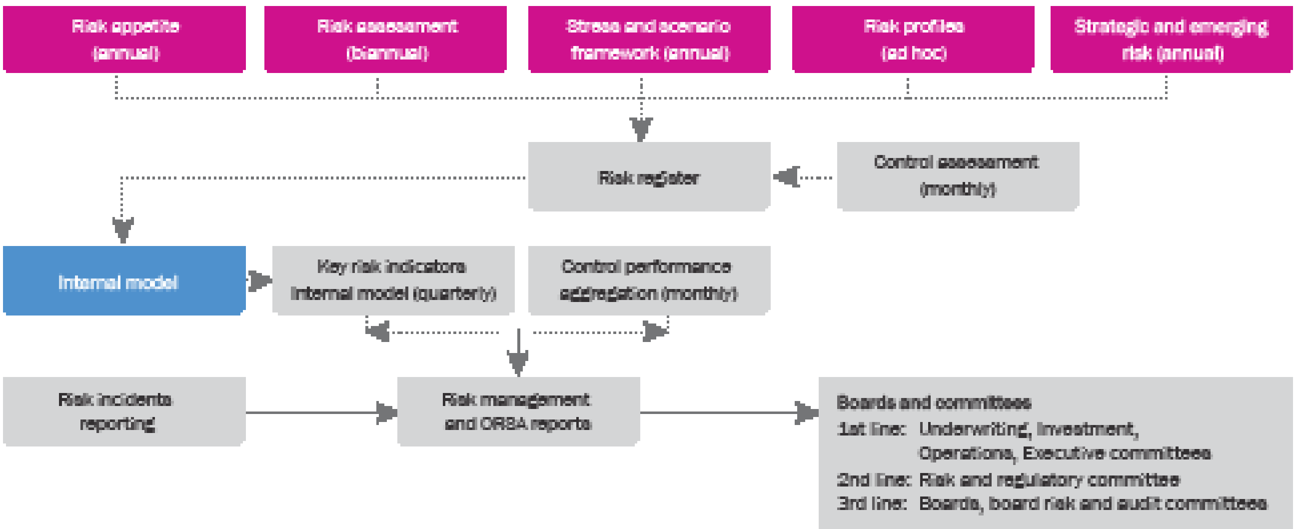
Risk management
Risk oversight

- Challenge that risks are being identified
- Assess the risk mitigation strategy
- Monitor that controls are operating effectively
- Reports to committees and Board on risk and control issues with risk management opinions

Internal audit
Risk assurance

- Independently tests control design
- Independently tests control operation
- Reports to committees and Board

The risk management framework comprises a number of risk management components, which when added together describe how risk is managed on a day-to-day basis. The framework includes a risk register that captures the risk universe (approximately 50 risk events grouped into eight risk categories: insurance, market, credit, liquidity, operational, regulatory and legal, Group and strategic), the risk appetite set by the Board, and the control environment that is operated by the business to remain within the risk appetite and which is monitored and signed off by control reporters.



The diagram above illustrates the components of the risk management framework as operated across Beazley.

Managing agent's report
continued

In summary, the Board identifies risk, assesses risk and sets risk appetite. The business then implements a control environment which describes how the business should operate to stay within risk appetite. The risk management function reviews and challenges these assessments and reports to the Board on how well the business is operating, using a risk management report.

For each risk, the risk management report brings together a view of how successfully the business is managing risk and whether there have been any events that we can learn from (risk incidents). Finally, the framework is continually evaluated and where appropriate improved, through the consideration of stress and scenario testing, themed reviews using risk profiles, and an assessment of strategic and emerging risks.

During 2021 the risk management framework was enhanced with regards to evidencing risk management challenge, assessing emerging risks and assessing risk culture. A suite of risk management reports are provided to the Boards and committees to assist senior management and Board members to discharge their oversight and decision making responsibilities. The risk reports include the risk appetite statement, the risk management report, risk profiles, stress and scenario testing, reverse stress testing, an emerging and strategic report, a report to the Beazley plc remuneration committee and the Own Risk and Solvency Assessment (ORSA) report.

The internal audit function considers the risk management framework in the development of its audit universe to determine its annual risk-based audit plan. The plan is based on, among other inputs, the inherent and residual risk scores as captured in the risk register. Finally, a feedback loop operates, with recommendations from the internal audit reviews being assessed by the business and the risk management function for inclusion in the risk register as appropriate.

The risks to financial performance

The Board of the managing agent monitors and manages risks grouped into eight categories, which cover the universe of risk that could affect the syndicate. The Board confirm that they have undertaken a robust assessment of the principal and emerging risks and uncertainties that the syndicate faces. The Board considers insurance and strategic risk categories to be the most significant for Beazley. Refer to below for further discussion of climate change risk, and how it interacts with the risks and uncertainties discussed here.

Insurance risk

Given the nature of the syndicate's business, the key risks that impact financial performance arise from insurance activities. The main insurance risks can be summarised in the following categories:

- **Market cycle risk:** The risk of systematic mispricing of the medium-tailed Specialty Lines and Cyber & Executive risk business, which could arise due to a change in the US tort environment, changes to the supply and demand of capital, and companies using incomplete data to make decisions. This risk would affect multiple classes within the Specialty Lines and Cyber & Executive divisions across a number of underwriting years. The managing agent uses a range of techniques to mitigate this risk including sophisticated pricing tools, analysis of macro trends, analysis of claim frequency and the expertise of our experienced underwriters and claims managers.
- **Natural catastrophe risk:** The risk of one or more large events caused by nature affecting a number of policies and therefore giving rise to multiple losses. Given the syndicate's risk profile, such an event could be a hurricane, major windstorm, earthquake or wildfires. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.
- **Non-natural catastrophe risk:** This risk is similar to natural catastrophe risk except that multiple losses arise from one event caused by mankind. Given the syndicate's risk profile, examples include a coordinated cyber-attack, global pandemic, losses linked to an economic crisis, an act of terrorism, an act of war or a political event. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.
- **Reserve risk:** The syndicate has a consistent reserving philosophy. However, there is a risk that the reserves put aside for expected losses turn out to be insufficient. This could be due to any of the three drivers of risk described above. The managing agent uses a range of techniques to mitigate this risk including a detailed reserving process which compares estimates established by the claims team with a top-down statistical view developed by the actuarial team. A suite of metrics is also used to ensure consistency each year.
- **Anti-selection risk:** There is a risk that poorer than average risks are included in market facilitates. This risk is managed through the underwriting selection criteria and ongoing monitoring for each market facility.
- **Single risk losses:** Given the size of policy limits offered on each risk, it is unlikely that the poor performance of one policy will have a material impact on the syndicate's financial performance.

Strategic risk

Alongside these insurance risks, the success of the syndicate depends on the execution of an appropriate strategy. The main strategic risks can be summarised as follows:

- **Strategic decisions:** The syndicate's performance would be affected in the event of making strategic decisions that do not add value. The managing agent on behalf of the syndicate mitigates this risk through the combination of recommendations and challenge from Non-Executive Directors, debate at the Beazley plc executive committee and input from the strategy and performance group (a group of approximately 30+ senior individuals from across different disciplines at Beazley).
- **Environment:** There is a risk that the chosen strategy cannot be executed because of the environmental conditions within which the syndicate operates, thereby delaying the timing of the strategy.
- **Communication:** Having the right strategy and environment is of little value if the strategy is not communicated internally so that the whole Group is heading in the same direction, or if key external stakeholders are not aware of the syndicate's progress against its strategy.
- **Senior management performance:** There is a risk that senior management could be overstretched or could fail to perform, which would have a detrimental impact on the syndicate's performance. The performance of the senior management team is monitored by the chief executive and culture and people team and overseen by the Beazley plc nomination committee.
- **Reputation:** Although reputational risk is a consequential risk, i.e. it emerges upon the occurrence of another risk manifesting, it has the potential to have a significant impact on an organisation. The Beazley Management limited staff who work on behalf of the syndicate are expected to act honourably by doing the right thing.
- **Flight:** There is a risk that the managing agent could be unable to deliver its strategy due to the loss of key personnel. The syndicate has controls in place to identify and monitor this risk, for example through succession planning.
- **Crisis management:** This is the risk caused by the destabilising effect of the syndicate having to deal with a crisis and is mitigated by having a detailed crisis management plan.
- **Corporate transaction:** There is a risk that Beazley could undertake a corporate transaction which did not return the expected value to the syndicate. This risk is mitigated through the due diligence performed, the financial structure of transactions and the implementation activity.

Under the environment risk heading, the Board identifies and analyses emerging and strategic risk on an annual basis for discussion at the Beazley Boards' strategy day in May.

Other enterprise risks

The remaining six risk categories monitored by the Board are:

- **Market (asset) risk:** This is the risk that the value of investments could be adversely impacted by movements in interest rates, exchange rates, default rates or external market forces. This risk pertains to the direct investment funds of syndicate 623. This risk is monitored by the investment committee.
- **Operational risk:** This is the risk of failures of people, processes and systems or the impact of an external event on the syndicate's operations, and is monitored by the operations committee. An example would be a cyber-attack having a detrimental impact on our operations.
- **Credit risk:** The syndicate has credit risk to its reinsurers, brokers and coverholders of which the reinsurance asset is the largest. The underwriting committee monitors this risk. There is also credit risk associated with the amounts due on assets held and managed by syndicate 2623.
- **Regulatory and legal risk:** This is the risk that the syndicate might fail to operate in line with the relevant regulatory framework in the territories where it does business. Of the eight risk categories, the Board has the lowest tolerance for this risk. This risk is monitored by the risk and regulatory committee.
- **Liquidity risk:** This is the risk that the syndicate might not have sufficient liquid funds following a catastrophic event. The investment committee monitors this risk to ensure there is sufficient liquidity which, given the nature of the asset portfolio, is currently small.
- **Group risk:** The key risk is a deterioration in the Group's culture which leads to inappropriate behaviour, actions or decisions. This is monitored through engagement surveys, staff feedback and regular dialogue with senior management. The other main Group risk is that one Group entity operates to the detriment of another Group entity or entities including 3rd party syndicates managed by the Board, such as syndicate 623. The Beazley plc Board monitors this risk through the reports it receives from each entity.

Managing agent's report
continued

Financial crime risk
The managing agent also considered anti-bribery and corruption risk across all risk categories. We are committed to ensuring that all business is conducted in an ethical and honest manner, and that we are not involved in any illicit activity defined under the UK Bribery Act 2010 and US Foreign Corrupt Practices Act 1977. This risk includes the risk of bribery and corruption we are exposed to and manifests itself in the susceptibility to unethical or dishonest influences whereby illicit payments and/or inducements are either made or received.

Such activity has severe reputational, regulatory and legal consequences, including fines and penalties.

Considerations relevant to this risk include the nature, size and type of transactions, the jurisdiction in which transactions occur, and the degree to which agents or third parties are used during such transactions.

Every employee and individual acting on the syndicate's behalf is responsible for maintaining our reputation. We have a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all aspects of our business. In doing so, we aim to recruit and retain high-calibre employees who carry out their responsibilities honestly, professionally and with integrity. We maintain a number of policies designed to prevent any risk of bribery and corruption, which are communicated to all employees and supplemented with appropriate training.

Climate change risk
The changing global climate is recognised as an important emerging risk due to its widespread potential impact on the global population, environment and economy. A key aspect of the syndicate's business model is to support our clients who have been affected by natural catastrophes, helping them return to pre-catastrophe conditions as soon as possible. As a speciality insurer, various classes of business we underwrite are subject to the effect climate change presents to the risk environment. More detailed information on Beazley's focus on responsible business and sustainability can be found within the annual report of Beazley plc (available at **www.beazley.com**).

As part of the underwriting process, we work with our insureds to understand the risks facing their organisation, including applicable climate related risks, to tailor insurance coverages to mitigate the associated financial risks.

We acknowledge and accept that over time climate change could impact the risks facing our insureds and we aim to manage the resulting risk to the syndicate as described below:

- **Pricing risk:** This is the risk that current pricing levels do not adequately consider the prospective impact of climate change, resulting in systemic underpricing of climate-exposed risks. The syndicate's business planning process establishes how much exposure in certain classes of business or geographic area we wish to accept. We benefit from a feedback loop between our claims and underwriting teams to ensure that emerging claims trends and themes can be contemplated in the business planning process, the rating tools and the underwriter's risk-by-risk transactional level considerations. Our underwriters are empowered to think about climate risk during their underwriting process in order to determine the implication on each risk.
- **Catastrophe risk:** This is the risk that current models do not adequately capture the impact of climate change on the frequency, severity or nature of natural catastrophes or other extreme weather events (e.g. wildfires) that could drive higher-than-expected insured losses. The syndicate utilises commercial catastrophe models to facilitate the estimation of aggregate exposures based on the syndicate's underwriting portfolio. These catastrophe models are updated to reflect the latest scientific perspectives. Catastrophe models are evolving to include new or secondary perils which may be related to climate change. In addition, the syndicate runs a series of Natural Catastrophe Realistic Disaster Scenarios (RDS) on a monthly basis which monitor the syndicate's exposure to certain scenarios that could occur. These RDS include hurricanes in the US, typhoons in Japan, European windstorms and floods in the UK.
- **Reserve risk:** This is the risk that established reserves are not sufficient to reflect the ultimate impact climate change may have on paid losses. This includes unanticipated liability risk losses arising from our clients facing litigation if they are held to be responsible for contributing to climate change, or for failing to act properly to respond to the various impacts of climate change. With support from the Beazley actuarial team, claims teams and other members of management the syndicate establishes financial provisions for our ultimate claims liabilities. The syndicate maintains a prudent approach to reserving to help mitigate the uncertainty within the reserves estimation process.

- **Asset risk:** This is the risk that climate change has a significant impact across a number of industries which may negatively impact the value of investments in those companies. The managing agent considers the impact of climate change on the syndicate's asset portfolio by seeking to incorporate an assessment of environmental risks in the investment process. The managing agent subscribes to the research services of a specialist company in the field of environmental, social and governance research and have integrated their proprietary ratings into the internal credit process applied to investments in corporate debt securities. A minimum standard for environmental, social and governance performance is defined and companies not meeting the required standard will be excluded from the approved list of issuers. The analysis also includes consideration of the sustainability of each company with regard to the potential decline in demand in specific sectors.
- **External event risk:** This is the risk that the physical impact of climate related events has a material impact on our own people, processes and systems leading to increased operating costs or the inability to deliver uninterrupted client service. The syndicate has business continuity plans in place to minimize the risk of an interrupted client service in the event of a disaster.
- **Commercial management risk:** The syndicate aims to minimise where possible the environmental impact of our business activities and those that arise from the occupation of our office spaces. As we operate in leased office spaces our ability to direct environmental impacts is limited. However we do choose office space with climate change mitigation in mind, and engage with our employees, vendors and customers in an effort to reduce overall waste and our environmental footprint.
- **Credit risk:** As a result of material natural catastrophe events, there is a risk that our reinsurance counterparties are unable to pay reinsurance balances due to the syndicate. If the frequency or severity of these events is increased due to climate change this could cause a corresponding increase in credit risk. An important consideration when placing our reinsurance programme is evaluation of our counterparty risk. Every potential reinsurer is evaluated through a detailed benchmarking which considers financial strength ratings, capital metrics, performance metrics and other considerations.
- **Regulatory and legal risk:** Regulators, investors and other stakeholders are becoming increasingly interested in companies' responses to climate change. Failure to appropriately engage with these stakeholders and provide transparent information may result in the risk of reputational damage or increased scrutiny. The syndicate regularly monitors the regulatory landscape to ensure that we can adhere to any changes in relevant laws and regulations. This includes making any necessary regulatory or statutory filings with regard to climate risk.
- **Liquidity risk:** Linked to the underwriting and credit risks noted above, there is a risk that losses resulting from unprecedented natural disasters or extreme weather could erode the ability of the syndicate to pay claims and remain solvent. Beazley establishes capital at a 1:200 level based on the prevailing business plan.

Directors

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

	2020 year of account underwriting capacity £	2021 year of account underwriting capacity £	2022 year of account underwriting capacity £
A P Cox	400,000	400,000	400,000
S M Lake	100,000	100,000	100,000
D A Horton	400,000	400,000	–
A S Pryde	350,000	350,000	–
I Fantozzi	350,000	350,000	350,000
R Anarfi	–	–	100,000

A full list of the Directors of the managing agent who held office during the year can be found on page 76 of these syndicate annual accounts.

Managing agent’s report
continued

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

2 March 2022

Statement of managing agent's responsibilities

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires the Directors of the managing agent to prepare their syndicates 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

2 March 2022

Independent auditor's report to the members of Syndicate 623

Opinion
We have audited the syndicate annual accounts of syndicate 623 ('the syndicate') for the year ended 31 December 2021 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 19, 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 2021 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.

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.

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 21, 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.

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

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.

Stuart Wilson (Senior statutory auditor)

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

3 March 2022

Statement of comprehensive income

for the year ended 31 December 2021

	Notes	2021 $m	2020 $m
Gross premiums written	3	760.7	589.9
Outward reinsurance premiums		(172.5)	(101.0)
Net premiums written	3	**588.2**	**488.9**
Change in the gross provision for unearned premiums	14	(88.5)	(45.0)
Change in the provision for unearned premiums, reinsurers' share	14	27.1	12.0
Change in the net provision for unearned premiums		(61.4)	(33.0)
Earned premiums, net of reinsurance	3	**526.8**	**455.9**
Allocated investment return transferred from the non-technical account	8	10.9	18.3
Gross claims paid		(304.0)	(308.2)
Reinsurers' share of claims paid		70.4	82.6
Claims paid net of reinsurance		(233.6)	(225.6)
Change in the gross provision for claims	14	(137.2)	(134.8)
Change in the provision for claims, reinsurers' share	14	71.1	19.1
Change in the net provision for claims		(66.1)	(115.7)
Claims incurred, net of reinsurance		**(299.7)**	**(341.3)**
Net operating expenses	4	**(185.5)**	**(161.6)**
Balance on the technical account		**52.5**	**(28.7)**
Investment income	8	8.2	10.9
Investment expenses and charges	8	(0.7)	(0.7)
Realised gains on investments	8	10.0	6.2
Unrealised (loss)/gain on investments	8	(6.6)	1.9
		10.9	**18.3**
Allocated investment return transferred to general business technical account		(10.9)	(18.3)
Loss on foreign exchange		(0.2)	–
Other income	9	0.2	0.2
Profit commission		(3.6)	–
Profit/(loss) for the financial year		**48.9**	**(28.5)**

All of the above operations are continuing.

The notes on pages 29 to 58 form part of these financial statements.

Statement of changes in members' balances

for the year ended 31 December 2021

	2021 $m	2020 $m
Members' balances brought forward at 1 January	(51.9)	(28.9)
Total comprehensive Income/(Loss) for the financial year	48.9	(28.5)
Loss collection before members agent's fees – 2017 Year of account	–	5.5
Loss collection before members agent's fees – 2018 Year of account	8.5	–
Members' balances carried forward at 31 December	**5.5**	**(51.9)**

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

The notes on pages 29 to 58 form part of these financial statements.

Balance sheet

at 31 December 2021

	Notes	2021 $m	2020 $m
Assets			
Financial assets at fair value	10	**837.6**	**699.4**
Deposit with ceding undertakings		**6.5**	**–**
Reinsurers' share of technical provisions			
Provision for unearned premiums, reinsurers' share	14	76.2	49.5
Claims outstanding, reinsurers' share	14	297.9	226.9
Unexpired risk provision, reinsurers' share	14	–	2.0
		374.1	**278.4**
Debtors			
Debtors arising out of direct insurance operations		284.9	155.7
Debtors arising out of reinsurance operations		79.4	116.0
Other debtors	12	25.4	28.7
		389.7	**300.4**
Cash at bank and in hand	13	**6.3**	**13.1**
Deferred acquisition costs	18	**87.1**	**71.4**
Other prepayments and accrued income		**4.8**	**4.3**
Total assets		**1,706.1**	**1,367.0**
Liabilities, capital and reserves			
Capital and reserves			
Members' balances attributable to underwriting participations		5.5	(51.9)
Technical provisions			
Provision for unearned premiums	14	404.9	318.8
Claims outstanding	14	1,096.5	949.5
Unexpired risk provision	14	–	20.1
		1,501.4	**1,288.4**
Creditors			
Creditors arising out of direct insurance operations	15	1.4	2.2
Creditors arising out of reinsurance operations	15	99.1	56.4
Other creditors	15	76.7	55.0
		177.2	**113.6**
Financial liabilities	10	**1.4**	**1.7**
Accruals and deferred income		**20.6**	**15.2**
Total liabilities, capital and reserves		**1,706.1**	**1,367.0**

The notes on pages 29 to 58 form part of these financial statements.

The syndicate annual accounts on pages 25 to 58 were approved by the Board of Beazley Furlonge Limited on 2 March 2022 and were signed on its behalf by:

A P Cox
Active Underwriter

S M Lake
Finance Director

Cash flow statement

for the year ended 31 December 2021

	Notes	2021 $m	2020 $m
Reconciliation of total comprehensive profit/(loss) for the financial year to net cash inflow from operating activities			
Profit/(loss) for the financial year		48.9	(28.5)
Increase in ceding undertakings		(6.5)	–
Increase in net technical provisions		117.3	162.1
Increase in debtors		(89.8)	(51.2)
Increase in creditors		69.0	75.1
Investment return		(10.9)	(18.3)
Increase in deferred acquisition costs		(15.7)	(5.9)
Net cash flows from operating activities		**112.3**	**133.3**
Net purchase of investments		(142.4)	(171.6)
Cash received from investment return		17.5	16.4
Net cash outflow from investing activities		**(124.9)**	**(155.2)**
Transfer from members in respect of underwriting participations		8.5	5.5
Net cash from financing activities		**8.5**	**5.5**
Net decrease in cash and cash equivalents		**(4.1)**	**(16.4)**
Cash and cash equivalents at the beginning of the year		14.1	29.3
Effect of exchange rate changes on cash and cash equivalents		(0.1)	1.2
Cash and cash equivalents at the end of the year	13	**9.9**	**14.1**

The notes on pages 29 to 58 form part of these financial statements.

Notes to the syndicate annual accounts

1 Accounting policies

Basis of preparation

Syndicate 623 (the 'syndicate') comprises a group of members of the Society of Lloyd's that underwrites insurance business in the London Market. The address of the syndicate's managing agent is given on page 76.

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 syndicate has undertaken a change in the presentation for certain premiums payable which required restatement of the prior year balances. For more information please see note 15 to these financial statements. The financial statements have been prepared on the historic cost basis, except for financial assets at fair value through profit or loss which are measured at fair value. The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all periods presented, unless otherwise stated. All amounts presented are stated in US dollars, being the syndicate's functional currency, and in millions, unless noted otherwise.

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

In assessing the syndicate's going concern position as at 31 December 2021, the directors have 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 financial statement are authorised for issue.

Part VII transfer

On 30 December 2020, the member of the syndicate, as comprised for each of the relevant years of account between 1993 and April 2020, transferred all relevant policies (and related liabilities) underwritten by them for those years of account to Lloyd's Insurance Company S.A. ('Lloyd's Brussels'), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the member of the syndicate entered into a 100% Quota Share Reinsurance Agreement whereby Lloyd's Brussels reinsured all risks on the same policies back to the relevant open years of account of the syndicate which wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account.

Following the sanction of the scheme by the High Court on 25 November 2020, the scheme took effect on 30 December 2020 and the member of the syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Brussels, together with cash of $40.7m. On the same date, under the Reinsurance Agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of $40.7m. The combined effect of the two transactions had no economic impact for the syndicate, and accordingly there is no impact on the syndicate's profit or loss statement and balance sheet.

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 changes in future economic conditions could be impacted by significant changes in the economic and regulatory environment, such as COVID-19, climate change, US legislation and Brexit.

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.

Notes to the syndicate annual accounts *continued*

1 Accounting policies *continued*

Estimates and underlying assumptions 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.

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 reinsurer' share of technical provisions in the balance sheet and note 14. This estimate is critical as it outlines the current liability for future expenses expected to be incurred in relation to claims. If this estimation was to prove inadequate then an exposure would arise in future years where a liability has not been provided for. The total estimate as at 31 December 2021 is included within claims outstanding in the balance sheet is $793.7m (2020: $660.5).

Another critical estimate within insurance liabilities is the estimation of an unexpired risk reserve ('URR') for the expected value of net claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date which exceeds the unearned premium reserve. Any deficiency resulting from this liability adequacy test is recognised in the statement of profit or loss and additional liability as required is recognised as URR in the balance sheet. If this estimation was to prove inadequate, the unexpired risk reserve provision could be understated. The total estimate for URR gross of reinsurers' shares at 31 December 2021 was nil (2020: $20.1m). The total estimate for URR net of reinsurers' shares at 31 December 2021 was nil (2020: $18.1m).

Another critical area of estimation is the syndicate's financial assets and liabilities. Information about estimation uncertainty related to the syndicate's financial assets and liabilities is described in this statement of accounting policies and in note 10 (financial assets and liabilities) and note 11 (derivative financial instruments).

Other key estimates contained within the syndicate close process are premium estimates and the earning pattern of recognising premium over the life of the contract. In the syndicate the premium written is initially based on the estimated premium income ('EPI') of each contract. Where premium is sourced through binders, the binder EPI is pro-rated across the binder period. This is done on a straight-line basis unless the underlying writing pattern from the prior period indicates the actual underlying writing pattern is materially different. The underwriters adjust their EPI estimates as the year of account matures. As the year of account closes premiums are adjusted to match the actual/expected signed premium for long tail classes. An accrual for estimated future reinstatement premiums is retained. Premiums are earned on a straight-line basis over the life of each contract. At a portfolio level this is considered to provide a reasonable estimate for the full year of the pattern of risk over the coverage period.

Estimation techniques are necessary to quantify the future premium on all syndicate business written and are commonly used within the Lloyd's insurance market. The majority of the estimation arises within the binder and lineslip estimates where the premium amounts are dependent on the volume of policies that are insured under the binder/lineslip over the coverage period. In these cases underwriters estimate an initial premium volume and then adjust throughout the life of the binder/lineslip as and when new information becomes available. The process of determining the EPI is based on a number of factors, which can include:

- Coverholder business plan documents supplied prior to binding;
- Historical trends of business written;
- Current and expected market conditions for this line of business; and
- Life to date bordereaux submissions versus expectation.

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 as such remain a receivable on the balance sheet. 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 2021 is $2.3m (2020: $2.1m).

Significant accounting policies

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

a) Premiums

Gross premiums written comprise premiums on contracts incepted during the financial year. 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, as well as adjustments made in the year to premiums written in prior accounting periods. For the year ending 31 December 2020, gross premiums written includes a one off transfer of business to Lloyd's Brussels and subsequent inward reinsurance of business from Lloyd's Brussels to reflect the Part VII transfer. The net impact of this transaction is nil.

1 Accounting policies *continued*

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 and 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 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 external actuaries. 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.

Reinsurance recoveries are accounted for in the same period as the incurred claims for the related business. The reinsurers' share of provisions for claims is based on calculated amounts for outstanding claims and projections for IBNR, net of estimated irrecoverable amounts having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved.

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 profit or loss and subsequently by establishing a URR provision for losses arising from liability adequacy tests.

e) Acquisition costs

Acquisition costs comprise brokerage, premium levy, 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 profit or loss. Non-monetary items recorded at historical cost in foreign currencies are translated using the exchange rate on the date of the initial transaction.

g) Deposits with ceding undertakings

Deposits with ceding undertakings represents funds held by Lloyd's Brussels on behalf of the syndicate to settle Part VII claims. These funds are measured at cost less allowance for impairment.

h) Investment return

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

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and the original cost of the investment. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, and the valuation at the previous period end or purchase value during the period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business.

Notes to the syndicate annual accounts *continued*

1 Accounting policies *continued*

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

i) Ceded reinsurance

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

Any benefits to which the syndicate is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers and include reinsurers' share of provisions for claims. These balances are based on calculated amounts of outstanding claims and projections for IBNR and URR, net of estimated irrecoverable amounts having regard to the reinsurance programme in place for the class of business, the claims experience for the period and the current security rating of the reinsurer involved. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The syndicate assesses its reinsurance assets for impairment. If there is objective evidence of impairment, then the carrying amount is reduced to its recoverable amount and the impairment loss is recognised in profit or loss.

j) Financial instruments

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

Financial liabilities are derecognised if the syndicate's obligations specified in the contract expire, are discharged or cancelled.

Financial assets

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

Financial assets at fair value through profit or loss

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

Fair value measurement

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.

When available, the syndicate measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the syndicate establishes fair value using a valuation technique. Valuation techniques include using recent orderly transactions between market participants (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the syndicate, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The syndicate calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

1 Accounting policies *continued*

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. These prices are monitored and deemed to approximate exit price. Where the syndicate has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the syndicate and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the syndicate believes a third-party market participant would take them into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

Hedge funds, equity funds and illiquid credit assets

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

k) Insurance debtors and creditors

Insurance debtors and creditors are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. 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.

l) Other debtors

Other debtors principally consist of intercompany debtor balances and sundry debtors and are carried at amortised cost less any impairment losses.

m) Other creditors

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

n) Hedge accounting and derivative financial instruments

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

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

Notes to the syndicate annual accounts *continued*

1 Accounting policies *continued*

o) Impairment of financial assets

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

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

p) Cash and cash equivalents

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

q) 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.

r) Pension costs

Beazley Furlonge Limited operates a defined benefit scheme. Pension contributions relating to staff who act on behalf of the syndicate are charged to the syndicate and included within net operating expenses.

s) Related party transactions

As the syndicate is wholly owned by Beazley plc, the syndicate has taken advantage of the exemption contained in FRS 102.1 and has therefore not disclosed transactions or balances with other wholly owned entities forming part of the Group.

t) Profit commission

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

2 Risk management

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

2.1 Insurance risk

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

2 Risk management *continued*

a) Underwriting risk

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

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

The syndicate's underwriting strategy is to seek a diverse and balanced portfolio of risks in order to limit the variability of outcomes.

This is achieved by accepting a spread of business over time, segmented between different products, geography and size.

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

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

The syndicate also recognises that insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

To address this, the syndicate sets out the exposure that it is prepared to accept in certain territories to a range of events such as natural catastrophes and specific scenarios which may result in large industry losses. This is monitored through regular calculation of RDS. The aggregate position is monitored at the time of underwriting a risk, and reports are regularly produced to highlight the key aggregations to which the syndicate is exposed.

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

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

To manage underwriting exposures, the syndicate has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry. In 2021, the absolute maximum line that any one underwriter could commit the managed syndicate to was $27.0m (2020: absolute maximum line $27.0m). In most cases, maximum lines for classes of business were much lower than this.

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

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

Notes to the syndicate annual accounts *continued*

2 Risk management *continued*

Binding authority contracts

A proportion of the syndicate's insurance risks are transacted by third parties under delegated underwriting authorities. Each third party is thoroughly vetted by our 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.

Operating divisions

In 2021, the syndicate's business consisted of six operating divisions. The following table provides a breakdown of gross premiums written by division:

	2021 %	2020 %
Cyber & Executive Risk	30	25
Marine	10	12
Political, Accident & Contingency	5	5
Property	17	17
Reinsurance	6	7
Specialty Lines	32	34
Total	**100**	**100**

b) Reinsurance risk

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

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

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

c) Claims management risk

Claims management risk may arise within the syndicate in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. These risks may damage the Beazley brand and undermine its ability to win and retain business or incur punitive damages. These risks can occur at any stage of the claims life-cycle.

The syndicate's claims teams are focused on delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business's broader interests. Prompt and accurate case reserves are set for all known claims liabilities, including provisions for expenses.

d) Reserving and ultimate reserves risk

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

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

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

2 Risk management *continued*

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	
Sensitivity to insurance risk (claims reserves)	2021 $m	2020 $m	2021 $m	2020 $m
Impact on profit	(39.9)	(37.0)	39.9	37.0

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.

	2021 %	2020 %
US	59	59
Europe[1]	16	17
Other	25	24
	100	100

1 Includes UK.

2.2 Financial risk

The focus of financial risk management for the syndicate is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance contracts. The goal of the investment management process is to optimise the risk-adjusted investment income and risk-adjusted total return by investing in a diversified portfolio of securities, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

2.3 Strategic risk

This is the risk that Beazley Furlonge Limited's strategy is inappropriate or that Beazley Furlonge Limited is unable to implement its strategy. There is no tolerance for any breach of guidance issued by the Board, and where events supersede the strategic plan this is escalated at the earliest opportunity through Beazley Furlonge Limited's monitoring tools and governance structure.

Senior management responsibilities

Management stretch is the risk that business growth might result in an insufficient or overly complicated management team structure, thereby undermining accountability and control within the syndicate. As the syndicate expands its worldwide business in the UK, North America, Europe, South America and Asia, management stretch may make the identification, analysis and control of risks more complex. On a day-to-day basis, Beazley Furlonge Limited's management structure encourages organisational flexibility and adaptability, while ensuring that activities are appropriately co-ordinated and controlled. By focusing on the needs of their customers and demonstrating both progressive and responsive abilities, staff, management and outsourced service providers are expected to excel in service and quality. Individuals and teams are also expected to transact their activities in an open and transparent way.

These behavioural expectations reaffirm low risk tolerance by aligning interests to ensure that routine activities, projects and other initiatives are implemented to benefit and protect resources of both local business segments and the syndicate as a whole.

2.4 Market risk

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

Foreign exchange risk

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

Notes to the syndicate annual accounts
continued

2 Risk management *continued*

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

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

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

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

31 December 2020	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	125.2	74.0	25.1	224.3	1,142.7	1,367.0
Total liabilities	(168.0)	(47.4)	(82.4)	(297.8)	(1,121.1)	(1,418.9)
Net assets	**(42.8)**	**26.6**	**(57.3)**	**(73.5)**	**21.6**	**(51.9)**

Sensitivity analysis

In 2021, the syndicate managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting net assets to be entirely US dollar denominated. As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure. Details of all foreign currency derivative contracts entered into with external parties are disclosed in note 11. On a forward looking basis an assessment is made of that the exposure will be mitigated in the future and appropriate currency trades put in place to reduce risk.

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

	Impact on profit for the year ended		Impact on net assets	
Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar	2021 $m	2020 $m	2021 $m	2020 $m
Dollar weakens 30% against other currencies	(9.8)	(22.1)	(9.8)	(22.1)
Dollar weakens 20% against other currencies	(6.5)	(14.7)	(6.5)	(14.7)
Dollar weakens 10% against other currencies	(3.3)	(7.4)	(3.3)	(7.4)
Dollar strengthens 10% against other currencies	3.3	7.4	3.3	7.4
Dollar strengthens 20% against other currencies	6.5	14.7	6.5	14.7
Dollar strengthens 30% against other currencies	9.8	22.1	9.8	22.1

Interest rate risk

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

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

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

2 Risk management *continued*

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

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

Duration 31 December 2020	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	193.3	230.0	77.1	45.1	43.6	13.2	–	602.3
Syndicate loan to Lloyd's central fund	–	–	–	1.7	6.4	–	–	8.1
Cash at bank and in hand	13.1	–	–	–	–	–	–	13.1
Derivative financial instruments	4.0	–	–	–	–	–	–	4.0
Total	**210.4**	**230.0**	**77.1**	**46.8**	**50.0**	**13.2**	**–**	**627.5**

The change in the duration of Syndicate loans is reflects a change in the repayment timeline assumption set by Lloyd's. This revision now reflects a five year repayment timeline from the collection date.

Sensitivity analysis

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

	Impact on profit for the year ended		Impact on net assets	
Shift in yield (basis points)	2021 $m	2020 $m	2021 $m	2020 $m
150 basis point increase	(16.7)	(15.6)	(16.7)	(15.6)
100 basis point increase	(11.1)	(10.4)	(11.1)	(10.4)
50 basis point increase	(5.6)	(5.2)	(5.6)	(5.2)
50 basis point decrease	5.6	5.2	5.6	5.2
100 basis point decrease	11.1	10.4	11.1	10.4

Price risk

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

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

Listed investments are recognised on the balance sheet at quoted bid price. If the market for the investment is not considered to be active, then the syndicate establishes fair value using valuation techniques (refer to note 10). This includes using recent arm's length market transactions, reference to current fair value of other investments that are substantially the same, discounted cash flow models and other valuation techniques that are commonly used by market participants.

2 Risk management *continued*

Change in fair value of hedge funds, equity linked funds & illiquid credit assets	Impact on profit for the year ended 2021 $m	Impact on profit for the year ended 2020 $m	Impact on net assets 2021 $m	Impact on net assets 2020 $m
30% increase in fair value	28.4	33.3	28.4	33.3
20% increase in fair value	19.0	22.2	19.0	22.2
10% increase in fair value	9.5	11.1	9.5	11.1
10% decrease in fair value	(9.5)	(11.1)	(9.5)	(11.1)
20% decrease in fair value	(19.0)	(22.2)	(19.0)	(22.2)
30% decrease in fair value	(28.4)	(33.3)	(28.4)	(33.3)

2.5 Operational risk

Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or from external events.

There are a number of business activities for which the syndicate uses the services of a third-party company, such as data entry and credit control. These service providers are selected against rigorous criteria and formal service level agreements are in place, and regularly monitored and reviewed.

Beazley Furlonge Limited also recognises that it is necessary for people, systems and infrastructure to be available to support the syndicate's operations. They have therefore taken significant steps to mitigate the impact of business interruption which could follow a variety of events, including the loss of key individuals and facilities. The syndicate operates a formal disaster recovery plan which, in the event of an incident, allows the movement of critical operations to an alternative location within 24 hours.

Beazley Furlonge Limited actively manages operational risks and minimises them where appropriate. This is achieved by implementing and communicating guidelines to staff and other third parties. Beazley Furlonge Limited also regularly monitors the performance of its controls and adherence to these guidelines through the risk management reporting process.

Key components of Beazley Furlonge Limited's operational control environment include:

- solvency capital requirement (SCR) modelling of operational risk exposure and scenario testing;
- management review of activities;
- documentation of policies and procedures;
- preventative and detective controls within key processes;
- contingency planning; and
- other systems controls.

2.6 Credit risk

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

- reinsurers – whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the syndicate;
- brokers and coverholders – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the syndicate;
- investments – whereby issuer default results in the syndicate losing all or part of the value of a financial instrument and derivative financial instrument; and
- cash at bank and in hand.

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

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

2 Risk management *continued*

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

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

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

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

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

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

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

31 December 2020	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	541.5	60.8	–	–	–	602.3
– syndicate loan to Lloyd's central fund	8.1	–	–	–	–	8.1
– equity funds	–	–	–	–	21.1	21.1
– hedge funds	–	–	–	–	59.0	59.0
– derivative financial assets	–	–	–	–	4.0	4.0
– illiquid credit assets	–	–	–	–	4.9	4.9
Reinsurers' share of outstanding claims	224.9	0.3	–	–	3.7	228.9
Reinsurance debtors	28. 6	0.1	–	–	0.1	28.8
Cash at bank and in hand	13.1	–	–	–	–	13.1
Total	**816.2**	**61.2**	**–**	**–**	**92.8**	**970.2**

Notes to the syndicate annual accounts *continued*

2 Risk management *continued*

Based on all evidence available, debtors arising out of insurance operations and other debtors have not been impaired and no impairment provision has been recognised in respect of these assets. An analysis of the overall credit risk exposure indicates that the syndicate has reinsurance assets that are impaired at the reporting date. The total impairment provision made in respect of these assets at 31 December 2021 is $0.8m (2020: $0.9m). This $0.8m provision in respect of overdue reinsurance recoverables is included within the debtors arising out of reinsurance operations balance of $79.4m (2020: $116.0m). No other financial assets held at year end were impaired.

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

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

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

31 December 2020	Neither due nor impaired $m	0-3 months past due $m	3-6 months past due $m	6-12 months past due $m	Greater than 1 year past due $m	Total $m
Insurance debtors	132.9	15.9	4.1	2.8	–	155.7
Reinsurance assets	28.7	3.3	0.1	–	–	32.1

2.7 Regulatory and legal risk

Regulatory and legal risk is the risk arising from not complying with regulatory and legal requirements. The operations of Beazley Furlonge Limited are subject to legal and regulatory requirements within the jurisdictions in which it operates and Beazley Furlonge Limited's compliance function is responsible for ensuring that these requirements are adhered to.

2.8 Liquidity risk

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

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

The following is an analysis by business segment of the estimated timing of the net cash flows based on the net claims liabilities balance held at 31 December 2021:

31 December 2021	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Cyber & Executive Risk	55.5	89.5	37.7	14.1	196.8	2.2
Marine	26.4	24.4	8.2	4.1	63.1	1.8
Political, Accident & Contingency	18.6	13.2	3.4	3.2	38.4	1.9
Property	43.3	32.6	8.1	4.3	88.3	1.6
Reinsurance	22.8	19.2	5.6	4.6	52.2	2.0
Specialty Lines	61.8	117.7	78.4	101.9	359.8	4.0
Net insurance liabilities	**228.4**	**296.6**	**141.4**	**132.2**	**798.6**	

2 Risk management *continued*

31 December 2020	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Cyber & Executive Risk	46.6	78.1	33.4	12.3	170.4	2.2
Marine	26.7	24.3	8.6	4.1	63.7	1.8
Political, Accident & Contingency	27.6	19.2	4.6	4.6	56.0	1.9
Property	40.7	34.5	9.0	6.5	90.7	1.6
Reinsurance	22.8	19.3	5.7	4.8	52.6	2.0
Specialty Lines	54.9	99.5	65.9	87.0	307.3	4.0
Net insurance liabilities	**219.3**	**274.9**	**127.2**	**119.3**	**740.7**	

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

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

Maturity 31 December 2020	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	199.3	198.3	65.6	33.3	51.8	54.1	–	602.4
Syndicate loan to Lloyd’s central fund	–	–	–	1.7	6.4	–	–	8.1
Derivative financial instruments	4.0	–	–	–	–	–	–	4.0
Cash at bank and in hand	13.1	–	–	–	–	–	–	13.1
Other debtors	28.7	–	–	–	–	–	–	28.7
Other creditors	(55.0)	–	–	–	–	–	–	(55.0)
Total	**190.1**	**198.3**	**65.6**	**35.0**	**58.2**	**54.1**	**–**	**601.3**

2.9 Capital management

Capital framework at Lloyd’s

The Society of Lloyd’s is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (‘PRA’) under the Financial Services and Markets Act 2000.

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

Although, as described below, Lloyd’s capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd’s capital requirements apply at overall and member level respectively, not at syndicate level. Accordingly the capital requirement in respect of syndicate 623 is not disclosed in these financial statements.

Lloyd’s capital setting process

In order to meet Lloyd’s requirements, each syndicate is required to calculate its Solvency Capital Requirement 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, licence and ratings objectives. The capital uplift applied for 2021 was 35% (2020: 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.

3 Segmental analysis

2021	Cyber & Executive Risk $m	Marine $m	Political, Accident & Contingency $m	Property $m	Treaty Reinsurance $m	Specialty Lines $m	Unallocated $m	Total $m
Gross premiums written	232.4	76.9	34.9	128.6	47.2	240.7	–	760.7
Net premiums written	170.1	70.2	29.7	96.6	27.8	193.8	–	588.2
Gross earned premiums	180.9	71.6	30.3	117.8	47.8	223.8	–	672.2
Outward reinsurance premiums earned	(44.5)	(6.6)	(4.7)	(32.3)	(19.5)	(37.8)	–	(145.4)
Earned premiums, net of reinsurance	**136.4**	**65.0**	**25.6**	**85.5**	**28.3**	**186.0**	**–**	**526.8**
Gross claims	(131.3)	(24.1)	(27.2)	(68.2)	(47.1)	(143.3)	–	(441.2)
Reinsurers share	48.1	3.2	9.0	21.6	25.3	34.3	–	141.5
Claims incurred, net of reinsurance	**(83.2)**	**(20.9)**	**(18.2)**	**(46.6)**	**(21.8)**	**(109.0)**	**–**	**(299.7)**
Operating expenses before foreign exchange	(39.3)	(25.0)	(10.1)	(37.3)	(10.1)	(63.7)	–	(185.5)
Technical result before items below	**13.9**	**19.1**	**(2.7)**	**1.6**	**(3.6)**	**13.3**	**–**	**41.6**
Loss on foreign exchange	–	–	–	–	–	–	(0.2)	(0.2)
Other income	–	–	–	–	–	–	0.2	0.2
Profit commission	–	–	–	–	–	–	(3.6)	(3.6)
Investment income	–	–	–	–	–	–	10.9	10.9
Profit/(loss) for the financial year	**13.9**	**19.1**	**(2.7)**	**1.6**	**(3.6)**	**13.3**	**7.3**	**48.9**
Claims ratio	61%	32%	71%	54%	77%	59%	–	57%
Expense ratio	29%	38%	39%	44%	36%	34%	–	35%
Combined ratio	90%	70%	110%	98%	113%	93%	–	92%

The expense ratios shown are calculated excluding any gain or loss on foreign exchange.

3 Segmental analysis *continued*

2020	Cyber & Executive Risk $m	Marine $m	Political, Accident & Contingency $m	Property $m	Treaty Reinsurance $m	Specialty Lines $m	Unallocated $m	Total $m
Gross premiums written	148.4	70.5	28.1	103.4	41.1	198.4	–	589.9
Net premiums written	123.6	64.5	20.7	85.6	26.6	167.9	–	488.9
Gross earned premiums	134.5	68.2	28.3	94.7	39.9	179.3	–	544.9
Outward reinsurance premiums earned	(21.4)	(6.1)	(7.6)	(15.5)	(13.9)	(24.5)	–	(89.0)
Earned premiums, net of reinsurance	**113.1**	**62.1**	**20.7**	**79.2**	**26.0**	**154.8**	**–**	**455.9**
Gross claims	(97.9)	(31.8)	(103.2)	(74.0)	(15.5)	(120.6)	–	(443.0)
Reinsurers share	21.3	(1.3)	44.9	9.8	(2.9)	29.9	–	101.7
Claims incurred, net of reinsurance	**(76.6)**	**(33.1)**	**(58.3)**	**(64.2)**	**(18.4)**	**(90.7)**	**–**	**(341.3)**
Operating expenses before foreign exchange	(33.8)	(22.2)	(9.8)	(30.7)	(9.3)	(55.8)	–	(161.6)
Technical result before items below	**2.7**	**6.8**	**(47.4)**	**(15.7)**	**(1.7)**	**8.3**	**–**	**(47.0)**
Loss on foreign exchange	–	–	–	–	–	–	–	–
Other income	–	–	–	–	–	–	0.2	0.2
Investment income	–	–	–	–	–	–	18.3	18.3
Profit/(loss) for the financial year	**2.7**	**6.8**	**(47.4)**	**(15.7)**	**(1.7)**	**8.3**	**18.5**	**(28.5)**
Claims ratio	68%	53%	282%	81%	71%	59%	–	75%
Expense ratio	30%	36%	47%	39%	36%	36%	–	35%
Combined ratio	98%	89%	329%	120%	107%	95%	–	110%

The expense ratios shown are calculated excluding any profit or loss on foreign exchange.

The teams are classified in Schedule 3 of the Companies Act 2006 as:

- Cyber & Executive Risk – miscellaneous;
- Marine – marine, aviation and transport;
- Political, Accident & Contingency – accident and health;
- Property – fire and other damage to property;
- Reinsurance – reinsurance; and
- Specialty Lines – third party liability.

All business was concluded in the UK.

Notes to the syndicate annual accounts
continued

4 Net operating expenses

	2021 $m	2020 $m
Acquisition costs[1]	173.6	144.5
Change in deferred acquisition costs	(16.3)	(5.2)
Administrative expenses	42.1	30.4
Reinsurance commissions and profit participation	(13.9)	(8.1)
	185.5	**161.6**

1 Brokerage and commissions on direct business written was $135.8m (2020: $82.8m).

Administrative expenses include:

	2021 $000	2020 $000
Fees payable to the syndicate's auditor for the audit of these syndicate annual accounts	217.8	128.7
Fees payable to the syndicate's auditor and its associates in respect of:		
Other services pursuant to legislation	185.8	167.3
	403.6	**296.0**

Managing agent fees paid to Beazley Furlonge Limited in respect of services provided to the syndicate amounted to $3.9m (2020: $3.0m).

5 Staff costs

The Syndicate and its managing agent have no employees. All staff are employed by Beazley Management Limited, with the majority of these costs incurred in sterling.

The Syndicate did not directly incur staff costs during the year (2020: nil). The following amounts were recharged to the syndicate in respect of staff costs:

	2021 $m	2020 $m
Wages and salaries	15.2	12.0
Short-term incentive payments	7.0	2.4
Social security costs	3.9	2.6
Pension costs	3.6	2.3
	29.7	**19.3**

6 Emoluments of the Directors of Beazley Furlonge Limited

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

	2021 $m	2020 $m
Emoluments and fees	1.0	0.8
	1.0	**0.8**

7 Active underwriter's emoluments

The aggregate amount of remuneration paid to and for the benefit of the active underwriter, which was recharged to syndicate 623, was $0.5m (2020: $0.1m).

8 Net investment income

	2021 $m	2020 $m
Interest and dividends on financial investments at fair value through profit or loss	8.2	10.9
Interest on cash and cash equivalents	–	–
Realised gains on financial investments at fair value through profit or loss	12.4	13.7
Unrealised gains on financial investments at fair value through profit or loss	12.1	12.4
Realised losses on financial investments at fair value through profit or loss	(2.4)	(7.5)
Unrealised losses on financial investments at fair value through profit or loss	(18.7)	(10.5)
Investment income from financial investments	**11.6**	**19.0**
Investment management expenses	(0.7)	(0.7)
Total net investment income	**10.9**	**18.3**

9 Other income

	2021 $m	2020 $m
Other income	0.2	0.2
	0.2	**0.2**

10 Financial assets and liabilities

	Market value		Cost	
	2021 $m	2020 $m	2021 $m	2020 $m
Financial assets at fair value				
Fixed and floating rate debt securities:				
– Government issued	479.8	327.6	482.4	325.6
– Corporate bonds				
– Investment grade credit	211.1	249.0	214.1	245.0
– High yield	43.1	25.7	40.7	24.2
Syndicate loan to Lloyd's central fund	7.6	8.1	7.7	8.0
Total fixed and floating rate debt securities and syndicate loans to Lloyd's central fund	741.6	610.4	744.9	602.8
Equity funds	23.1	21.1	21.1	20.0
Hedge funds	64.9	59.0	51.6	46.1
Illiquid funds	6.8	4.9	6.5	4.6
Total capital growth	94.8	85.0	79.2	70.7
Total financial investments at fair value through profit or loss	**836.4**	**695.4**	**824.1**	**673.5**
Derivative financial instruments	1.2	4.0	–	–
Total financial assets at fair value	**837.6**	**699.4**	**824.1**	**673.5**
Financial liabilities				
Derivative financial instruments	1.4	1.7	–	–

Notes to the syndicate annual accounts *continued*

10 Financial assets and liabilities *continued*

The investment portfolio above contains $3.6m of short term deposits separately disclosed in the cash and cash equivalents note 13.

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

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

Fair value measurement

The table below summarises financial assets carried at fair value using a valuation hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

Level 2 – Valuations based on quoted prices in markets that are not active, or based on pricing models for which significant inputs can be corroborated by observable market data (e.g. interest rates, exchange rates). Included within level 2 are government bonds and treasury bills which are not actively traded, corporate bonds, asset backed securities and mortgage-backed securities.

Level 3 – Valuations based on inputs that are unobservable or for which there is limited market activity against which to measure fair value.

The availability of financial data can vary for different financial assets and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on models or inputs that are unobservable in the market, the determination of fair value requires more judgement. Accordingly the degree of judgement exercised by management in determining fair value is greatest for instruments classified in level 3. The syndicate uses prices and inputs that are current as of the measurement date for valuation of these instruments. The syndicate has two level 3 assets, syndicate loans to Lloyd's central contributions (which is measured using a discounted cash flow model) and Illiquid credit assets (which are measured using the latest fund valuation statements adjusted for factors impacting the fair value as at the reporting date).

If the inputs used to measure the fair value of an asset or a liability could be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The table below analyses financial instruments measured at fair value at 31 December 2021 and 31 December 2020, based on the level in the fair value hierarchy into which the financial instrument is categorised:

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

10 Financial assets and liabilities *continued*

2020	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value				
Fixed and floating rate debt securities:				
– Government issued	309.5	18.1	–	327.6
– Corporate bonds				
– Investment grade credit	136.0	113.0	–	249.0
– High yield	8.9	16.8	–	25.7
Syndicate loan to Lloyd's central fund	–	–	8.1	8.1
Equity funds	21.1	–	–	21.1
Hedge funds	–	59.0	–	59.0
Illiquid credit assets	–	–	4.9	4.9
Derivative financial assets	4.0	–	–	4.0
Total financial assets at fair value	**479.5**	**206.9**	**13.0**	**699.4**
Financial liabilities				
Derivative financial instruments	1.7	–	–	1.7

The table below shows the movement in level 3 assets:

	2021 $m	2020 $m
As at 1 January	13.0	4.7
Purchases	3.0	9.5
Sales	(1.4)	(1.2)
Total net gains recognised in profit or loss	(0.2)	–
As at 31 December	**14.4**	**13.0**

The Group determines whether transfers have occurred between levels in the fair value hierarchy by assessing categorisation at the end of the reporting period. The following transfers between levels 1 & 2 for the period ended 31 December 2021 reflect the level of trading activities including frequency and volume derived from market data obtained from an independent external valuation tool.

31 December 2021 vs 31 December 2020 transfer from level 2 to level 1	**Level 1 $m**	**Level 2 $m**
– Corporate bonds – investment grade	14.8	(14.8)
– Government Issued	8.2	(8.2)

31 December 2021 vs 31 December 2020 transfer from level 1 to level 2	Level 1 $m	Level 2 $m
– Corporate bonds – investment grade	(47.2)	47.2

Additional information is obtained from fund managers relating to the underlying assets within individual hedge funds. We identified that 77% (2020: 82%) of these underlying assets were level 1 and the remainder level 2. This enabled us to categorise hedge funds as level 2. If the inputs used to measure the fair value of an asset or a liability could be categorised in different levels of fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The above qualitative and quantitative disclosure along with the risk management discussions in note 2 enables more accurate evaluation of syndicate's exposure to risk arising from financial instruments.

Notes to the syndicate annual accounts
continued

11 Derivative financial instruments

In 2021 and 2020, the syndicate entered into over-the-counter and exchange traded derivative contracts. The syndicate had the right and intention to settle each contract on a net basis.

Derivative financial instrument assets	2021 Gross contract amount $m	2021 Fair value of assets $m	2020 Gross contract amount $m	2020 Fair value of assets $m
Foreign exchange forward contract	47.0	1.2	92.0	4.0
Bond future contracts	76.4	0.1	–	–
	123.4	**1.3**	**92.0**	**4.0**

Derivative financial instrument liabilities	2021 Gross contract amount $m	2021 Fair value of liabilities $m	2020 Gross contract amount $m	2020 Fair value of liabilities $m
Foreign exchange forward contract	67.5	1.4	44.9	1.7
Bond future contracts	–	–	40.8	–
	67.5	**1.4**	**85.7**	**1.7**

Foreign exchange forward contracts

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

Bond future contracts

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

12 Other debtors

	2021 $m	2020 $m
Amounts due from members	14.0	15.1
Net amount due from other related entities	–	6.0
Sundry debtors including taxation	11.4	7.6
	25.4	**28.7**

These balances are due within one year.

13 Cash and cash equivalents

	2021 $m	2020 $m
Cash at bank and in hand	6.3	13.1
Short term deposits	3.6	1.0
	9.9	**14.1**

14 Technical provisions

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

	Provision for unearned premium $m	Claims outstanding $m	Unexpired risk provision $m
Gross technical provisions			
As at 1 January 2020	270.9	821.8	–
Movement in the technical provision	45.0	114.7	20.1
Exchange adjustments	2.9	13.0	–
As at 31 December 2020	**318.8**	**949.5**	**20.1**
Reinsurers' share of technical provisions			
As at 1 January 2020	37.2	207.6	–
Movement in the technical provision	12.0	17.1	2.0
Exchange adjustments	0.3	2.2	–
As at 31 December 2020	**49.5**	**226.9**	**2.0**
Net technical provisions			
As at 1 January 2020	233.7	614.2	–
As at 31 December 2020	**269.3**	**722.6**	**18.1**

Notes to the syndicate annual accounts *continued*

14 Technical provisions *continued*

Gross ultimate claims	2011ae %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %	2020 %	2021 %
Cyber & Executive Risk											
12 months		72.0	72.0	67.7	66.4	63.9	61.5	63.1	63.6	74.9	62.8
24 months		72.3	72.1	68.5	66.1	63.2	61.9	62.5	69.5	76.6	
36 months		68.9	71.5	61.2	61.7	59.4	57.0	63.5	69.5		
48 months		53.7	67.4	60.8	57.5	58.3	57.0	66.9			
60 months		51.3	66.7	65.0	58.9	56.5	60.2				
72 months		48.8	62.9	63.9	58.4	54.3					
84 months		47.2	63.3	63.2	57.4						
96 months		47.3	62.5	66.5							
108 months		47.1	62.5								
120 months		47.1									
Marine											
12 months		56.1	56.7	57.7	56.6	59.4	67.9	62.2	60.1	57.6	54.3
24 months		46.4	52.1	46.9	53.9	70.2	62.3	68.5	55.8	51.0	
36 months		34.7	44.5	47.3	47.1	65.5	61.6	66.5	46.4		
48 months		32.2	42.8	46.8	45.2	64.1	58.0	64.5			
60 months		31.4	42.1	55.8	43.1	62.6	55.1				
72 months		30.6	41.5	53.1	42.5	62.2					
84 months		29.9	40.3	52.0	42.0						
96 months		29.7	39.3	52.4							
108 months		29.8	39.2								
120 months		29.9									
Political, Accident & Contingency											
12 months		62.5	57.3	56.6	55.2	55.7	56.2	55.8	57.3	150.3	62.1
24 months		43.5	42.1	40.8	52.0	40.6	44.6	50.3	207.7	164.8	
36 months		39.7	35.2	35.9	47.0	35.1	40.5	119.3	211.2		
48 months		38.1	34.4	41.7	47.3	32.7	42.9	130.4			
60 months		35.5	39.1	44.6	40.8	31.0	39.7				
72 months		35.3	39.0	47.1	39.0	26.6					
84 months		33.9	38.9	48.9	39.6						
96 months		33.0	38.3	49.9							
108 months		32.7	37.5								
120 months		32.1									
Property											
12 months		56.0	55.1	53.7	55.4	59.2	72.4	63.4	53.2	68.0	57.9
24 months		47.1	49.1	48.2	49.5	68.8	88.6	63.5	63.4	73.0	
36 months		39.2	45.2	41.8	46.4	71.8	91.3	65.4	54.0		
48 months		36.0	45.1	41.3	45.3	72.3	91.4	64.2			
60 months		35.6	44.4	40.3	44.6	72.4	91.2				
72 months		35.1	46.3	40.8	46.9	71.9					
84 months		35.1	45.8	40.4	46.6						
96 months		36.5	46.3	40.6							
108 months		37.5	46.4								
120 months		37.5									

14 Technical provisions *continued*

Gross ultimate claims	2011ae %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %	2020 %	2021 %	
Reinsurance												
12 months		62.8	58.6	61.3	65.8	68.4	122.5	99.0	102.9	80.7	102.1	
24 months		37.1	44.8	33.3	33.7	41.8	117.6	125.0	70.3	80.9		
36 months		31.7	42.3	30.7	25.7	40.6	129.4	123.5	68.8			
48 months		30.6	41.1	27.6	25.5	41.4	132.1	118.4				
60 months		30.9	38.1	27.4	25.3	40.7	131.0					
72 months		30.6	37.9	26.9	25.1	40.3						
84 months		30.6	37.0	26.9	24.4							
96 months		30.3	36.9	27.0								
108 months		30.3	36.8									
120 months		28.6										
Specialty Lines												
12 months		75.5	75.4	71.1	70.9	69.2	67.7	69.7	67.3	67.6	64.7	
24 months		75.5	74.9	70.8	70.9	69.2	66.9	69.6	68.4	68.1		
36 months		74.0	74.4	66.9	71.7	62.8	67.9	67.2	60.4			
48 months		74.1	69.0	62.8	70.4	58.9	64.3	63.7				
60 months		71.8	63.1	59.2	71.7	57.6	66.3					
72 months		70.7	60.9	56.4	82.7	59.8						
84 months		69.2	59.6	55.2	88.3							
96 months		72.8	57.9	56.2								
108 months		74.7	57.0									
120 months		74.8										
Total												
12 months		64.6	63.4	62.2	62.8	63.8	72.5	68.1	65.8	73.3	64.2	
24 months		56.6	58.3	54.9	57.6	63.0	73.3	71.0	74.8	74.7		
36 months		51.1	55.1	50.8	54.1	59.9	73.9	74.1	69.5			
48 months		47.3	52.6	49.6	52.3	58.4	72.7	73.5				
60 months		45.9	50.8	51.1	52.0	57.3	73.2					
72 months		44.9	49.9	50.0	55.0	57.0						
84 months		44.0	49.2	49.4	56.1							
96 months		45.1	48.5	50.5								
108 months		45.8	48.3									
120 months		45.6										
Total ultimate losses ($m)	**1,768.8**	**153.3**	**171.0**	**182.1**	**211.6**	**223.0**	**327.9**	**357.4**	**370.2**	**449.1**	**465.5**	**4,679.9**
Less paid claims ($m)	(1,706.2)	(137.8)	(155.7)	(162.1)	(168.9)	(177.4)	(240.5)	(231.7)	(167.9)	(119.0)	(12.7)	(3,279.9)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	(1.8)	(28.4)	(273.3)	(303.5)
Gross claims liabilities ($m)	**62.6**	**15.5**	**15.3**	**20.0**	**42.7**	**45.6**	**87.4**	**125.7**	**200.5**	**301.7**	**179.5**	**1,096.5**

Notes to the syndicate annual accounts *continued*

14 Technical provisions *continued*

Net ultimate claims	2011ae %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %	2020 %	2021 %
Cyber & Executive Risk											
12 months		68.5	68.2	64.9	62.5	61.0	59.9	60.3	60.6	72.4	60.1
24 months		68.9	68.3	65.7	62.1	60.4	59.8	59.8	63.3	68.0	
36 months		65.3	66.3	60.2	59.1	57.1	55.2	64.6	62.0		
48 months		50.9	60.8	56.8	53.8	56.1	55.1	64.2			
60 months		50.0	59.8	60.4	54.3	52.4	56.3				
72 months		48.2	57.1	59.7	50.3	50.6					
84 months		46.8	56.7	58.7	49.5						
96 months		46.8	55.2	62.2							
108 months		46.7	55.0								
120 months		46.8									
Marine											
12 months		55.2	56.1	56.5	56.5	56.5	57.3	59.6	56.5	54.0	52.3
24 months		45.8	53.2	48.5	52.2	62.3	61.1	68.2	53.9	48.7	
36 months		37.1	47.4	46.7	46.6	61.7	61.6	69.2	44.8		
48 months		34.7	45.8	45.7	46.3	62.2	59.5	66.1			
60 months		33.6	45.2	46.9	45.0	60.9	57.0				
72 months		32.9	44.7	45.1	44.5	60.4					
84 months		32.5	42.6	44.4	43.7						
96 months		32.4	42.4	44.6							
108 months		32.5	42.3								
120 months		32.6									
Political, Accident & Contingency											
12 months		59.1	54.5	53.2	51.8	52.3	52.7	52.9	55.5	114.9	60.0
24 months		41.9	41.0	38.8	48.7	36.9	41.7	47.3	158.0	110.2	
36 months		38.6	36.0	33.3	45.9	34.4	36.9	102.6	162.6		
48 months		38.2	33.5	44.1	45.0	31.4	37.9	116.7			
60 months		34.6	35.9	45.4	39.9	30.1	35.4				
72 months		34.2	36.5	48.0	38.8	26.8					
84 months		33.7	36.9	49.1	37.6						
96 months		33.3	36.9	47.5							
108 months		32.9	36.3								
120 months		32.8									
Property											
12 months		59.7	56.4	54.4	54.9	57.5	76.1	64.4	56.4	67.9	58.4
24 months		52.8	56.3	51.2	50.5	69.5	93.6	66.8	66.2	76.7	
36 months		46.1	51.9	44.6	47.1	71.5	95.6	68.1	57.6		
48 months		41.2	50.0	43.3	44.9	70.9	93.5	66.0			
60 months		40.7	49.5	42.4	44.9	70.0	94.4				
72 months		40.3	51.3	43.5	46.7	70.1					
84 months		40.1	51.3	43.0	45.6						
96 months		41.7	51.8	42.6							
108 months		42.5	51.3								
120 months		41.6									

14 Technical provisions *continued*

Net ultimate claims	2011ae %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %	2020 %	2021 %	
Reinsurance												
12 months		66.6	56.3	58.7	61.7	61.8	105.1	87.3	88.7	76.2	79.0	
24 months		44.7	51.7	37.9	34.8	39.5	93.9	100.6	71.4	87.9		
36 months		38.3	47.9	34.1	25.0	39.0	104.8	98.5	71.8			
48 months		36.6	46.6	31.5	24.6	40.6	108.3	92.8				
60 months		36.9	43.0	31.2	24.8	41.6	108.1					
72 months		36.6	42.7	30.7	25.1	41.2						
84 months		36.6	41.9	30.7	24.4							
96 months		36.2	41.8	30.9								
108 months		36.2	41.7									
120 months		34.2										
Specialty Lines												
12 months		71.8	71.6	68.2	66.7	66.7	65.4	67.3	64.7	63.9	62.3	
24 months		71.9	71.1	67.9	66.8	66.7	64.6	67.1	64.1	63.3		
36 months		70.4	70.5	65.0	66.5	60.7	65.0	65.0	56.8			
48 months		68.3	63.8	60.0	60.5	53.9	59.0	59.4				
60 months		67.2	58.2	56.8	60.0	50.6	60.2					
72 months		67.6	57.1	55.3	65.7	51.9						
84 months		66.7	56.1	54.2	71.3							
96 months		68.8	54.7	55.5								
108 months		70.2	53.9									
120 months		70.6										
Total												
12 months		63.9	61.7	60.4	60.0	60.7	67.7	64.9	62.5	68.6	60.5	
24 months		57.0	59.6	55.3	55.9	60.8	69.7	66.9	68.6	68.5		
36 months		52.1	56.2	51.1	52.5	58.6	70.0	70.5	63.4			
48 months		47.9	52.7	49.3	49.3	56.4	67.6	68.4				
60 months		46.9	50.7	49.3	48.8	54.2	67.8					
72 months		46.4	50.3	48.8	49.7	53.7						
84 months		45.8	49.5	48.2	50.6							
96 months		46.6	48.9	49.0								
108 months		47.1	48.5									
120 months		46.9										
Total ultimate losses ($m)	**1,283.3**	**129.2**	**145.0**	**150.4**	**158.5**	**173.9**	**251.0**	**276.7**	**283.8**	**335.1**	**348.6**	**3,535.5**
Less Paid Claims ($m)	(1,230.2)	(117.7)	(132.6)	(134.5)	(136.1)	(145.9)	(189.2)	(182.3)	(126.2)	(84.6)	(10.8)	(2,490.1)
Less unearned portion of ultimate losses ($m)									(1.2)	(22.2)	(223.4)	(246.8)
Net claims liabilities ($m)	**53.1**	**11.5**	**12.4**	**15.9**	**22.4**	**28.0**	**61.8**	**94.4**	**156.4**	**228.3**	**114.4**	**798.6**

Notes to the syndicate annual accounts
continued

15 Creditors

	2021 $m	Restated 2020 $m
Creditors arising out of direct insurance operations	1.4	2.2
Creditors arising out of reinsurance operations	99.1	56.4
Other Creditors		
Amount due to syndicate 2623	51.5	48.1
Amount due to syndicate 6107	13.8	3.8
Other creditors	1.0	3.1
Profit commissions	3.6	–
Net amount due to other related entities	6.8	–
Total Creditors	**177.2**	**113.6**

The above other creditors balances are payable within one year.

In prior years premiums payable for reinsurance contracts in respect of cover for direct insurance had been classified as a creditor arising out of direct insurance operations. In order to present premiums payable for reinsurance contracts in line with the prevalent market practice, and in the absence of specific explicit guidance in the accounting standards, all premiums payable for reinsurance contracts are now classified in these financial statements as a creditor arising out of reinsurance operations. Prior year numbers have been restated to conform to current year presentation. As a result, creditors arising out of direct insurance operations has decreased from $55.3m to $2.2m and creditors arising out of reinsurance operations has increased from $3.3m to $56.4m.

16 Related parties transactions

Beazley Furlonge Limited, the managing agency of syndicate 623, is a wholly-owned subsidiary of Beazley plc. The Directors of Beazley Furlonge Limited who have participated in syndicate 623 indirectly through Beazley Staff Underwriting Limited are disclosed in the managing agent's report on page 19.

The Directors of Beazley Furlonge Limited have shareholdings in Beazley plc which provides the capacity for syndicates 2623, 3622, 3623. Syndicate 623 has capacity in 2021 of £514.8m, as previously disclosed, and writes in parallel with syndicate 2623.

Beazley plc has the following service companies (managing general agents) underwriting on behalf of the syndicate:

- Beazley Solutions Limited – (UK & Europe);
- Beazley Solutions International Limited – (Europe);
- Beazley Underwriting Pty Ltd – (Australia) (in liquidation);
- Beazley Leviathan Limited – (UK & Europe);
- Beazley USA Services, Inc. – (USA);
- Beazley Canada Limited – (Canada);
- Beazley Pte Limited – (Singapore);
- Beazley Labuan Limited – (Malaysia); and
- Beazley Underwriting Services Limited – (UK and Europe).

All of the above companies are coverholders for syndicates 623 and 2623 (the 'syndicates') and write business either directly for the syndicates or via Lloyd's Brussels. Beazley Underwriting Pty Ltd (in liquidation) is also a coverholder for syndicate 3623. The service companies in Australia and Leviathan are no longer generating new business.

16 Related parties transactions *continued*

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

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

Since 2017, syndicate 623 ceded part of the cyber business to a special purpose syndicate 6107. Syndicates 6107 is managed by Beazley Furlonge Limited and commissions are received by the syndicate in respect of these transactions. Since 2010, syndicate 623 ceded part of the international reinsurance account to syndicate 6107.

The intercompany positions with other syndicates managed by Beazley Furlonge Limited at 31 December 2021 are disclosed above in note 12 (other debtors) and note 15 (Creditors).

Beazley has a 25% equity interest in Falcon Money Management Holdings Limited (Falcon), an asset management company, who, up until 10 October 2014, was investment manager on behalf of syndicate 623. During this period, Falcon charged fees at a market rate for the type of assets managed. Subsequent to 10 October 2014, Beazley Furlonge Limited were the appointed investment manager.

Profit related remuneration for syndicate 623's underwriting staff is charged to the syndicate. At the balance sheet date, the syndicate has amounts due to the managing agent of $8.2m (2020: $2.8m). In addition to this amount, the syndicate is also carrying a profit commission payable to the managing agent of $3.6m (2020: nil).

The managing agent recharged expenses and fees of $64.5m (2020: $50.8m) to the syndicate in the current year.

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

17 Post balance sheet events

Post the balance sheet date, Ukraine has been invaded by Russia which has resulted in war in Eastern Europe. We continue to monitor the situation carefully.

Members' funds

The following amounts are proposed to be transferred to members' personal reserve funds. The figures stated are after the deduction of members agent's fees incurred.

	2021 $m	2020 $m
2019 Year of account	15.0	–
2018 Year of account	–	(12.9)
	15.0	**(12.9)**

Notes to the syndicate annual accounts
continued

18 Deferred acquisition costs

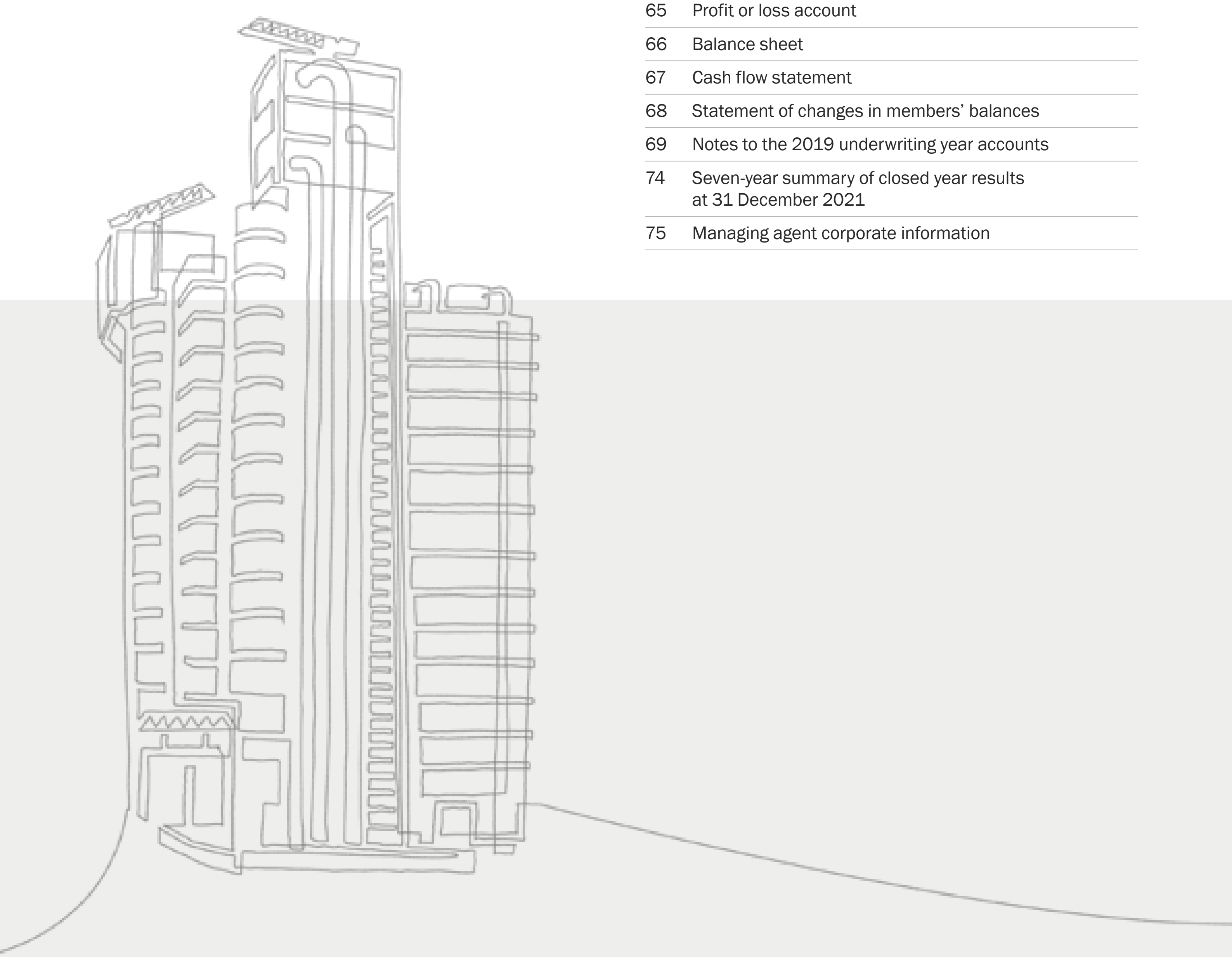
	2021 $m	2020 $m
At 1 January	71.4	65.5
Change in deferred commission	15.9	5.1
Change in other deferred costs	0.4	0.1
Exchange adjustments	(0.6)	0.8
Balance at 31 December	**87.1**	**71.4**

19 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:

	2021		2020	
	Average	Year end spot	Average	Year end spot
Sterling	0.73	0.76	0.78	0.73
Canadian dollars	1.25	1.27	1.34	1.27
Euro	0.84	0.88	0.88	0.81

2019 year of account for syndicate 623



Managing agent's report

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

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2019 year of account which has been closed by reinsurance to close at 31 December 2021; consequently the balance sheet represents the assets and liabilities of the 2019 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 2019 closed year of account profit $15.0m includes a reinsurance to close surplus from the 2018 year of account of $9.7m (note 6).

Principal activity

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

Directors

A list of Directors of the managing agent who held office during the current year can be found on page 76 of the syndicate annual accounts.

Disclosure of information to the auditor

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

Auditor

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

On behalf of the Board

S M Lake
Finance Director

2 March 2022

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

2 March 2022

Independent auditor's report to the members of Syndicate 623 2019 closed year of account

Opinion
We have audited the syndicate underwriting year accounts for the 2019 year of account of syndicate 623 ('the syndicate') for the three years ended 31 December 2021 which comprise the Profit or loss account, the Balance sheet, the Cash flow statement, the Statement of changes in members' balances and the related notes 1 to 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate underwriting year accounts:

- give a true and fair view of the profit for the 2019 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 2019 year of account
We draw attention to the Basis of Preparation which explains that the 2019 year of account of syndicate 623 has closed and all assets and liabilities transferred to the 2020 year of account by reinsurance to close at 31 December 2021

As a result, the syndicate underwriting year accounts for the 2019 year of account of syndicate 623 have been prepared under a 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.

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.

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 61, 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.

Independent auditor's report to the members of Syndicate 623 2019 closed year of account *continued*

- 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.

Stuart Wilson (Senior statutory auditor)

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

3 March 2022

Profit or loss account

2019 year of account for the 36 months ended 31 December 2021

	Notes	2019 year of account $m
Gross premiums written	3	529.7
Outward reinsurance premiums		(98.0)
Earned premiums, net of reinsurance	3	**431.7**
Allocated investment return transferred from the non-technical account		18.6
Reinsurance to close premiums received, net of reinsurance	4	374.2
		392.8
Reinsurance to close premiums payable, net of reinsurance	5	(424.3)
Gross claims paid		(290.0)
Reinsurers' share		72.0
Claims incurred, net of reinsurance		**(642.3)**
Net operating expenses	7	(166.7)
Balance on the technical account	3	**15.5**
Investment income		35.4
Investment expenses and charges	8	(0.7)
Realised loss on investments		(4.4)
Unrealised loss on investments		(11.7)
		18.6
Allocated investment return transferred to the technical account		(18.6)
Other income		0.4
Other charges		(3.6)
Gain on foreign exchange		2.7
Profit for the 2019 closed year of account	6	**15.0**
Syndicate allocated capacity (£m)		366.2
Profit for the 2019 closed year of account (£m)		11.3
Return on capacity		3.1%

There are no recognised gains or losses in the accounting period other than those dealt with within the profit or loss account above.

Balance sheet

closed at 31 December 2021

	Notes	2019 year of account $m
Assets		
Financial assets at fair value	9	389.9
Deposits due from ceding undertakings		6.5
Debtors	10	83.1
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	5	153.4
Cash at bank and in hand		3.0
Prepayments and accrued income		2.0
Total assets		**637.9**
Liabilities		
Amounts due from members	11	15.0
Reinsurance to close premium payable to close the account – gross amount	5	574.0
Creditors	12	46.2
Accruals and deferred income		2.7
Total liabilities		**637.9**

The underwriting year accounts on pages 65 to 74 were approved by the Board of Directors on 2 March 2022 and were signed on its behalf by:

A P Cox

Active Underwriter

S M Lake

Finance Director

Cash flow statement

2019 year of account for the 36 months ended 31 December 2021

	2019 year of account $m
Reconciliation of loss for the financial year to net cash inflow from operating activities	
Profit for the financial year	15.0
Increase in gross reinsurance to close payable	574.0
Increase in reinsurers' share of reinsurance to close	(153.4)
Increase in deposits due from ceding undertakings	(6.5)
Increase in debtors	(83.1)
Decrease in creditors	46.2
Increase in prepayments	(2.0)
Increase in accruals	2.7
Investment return	(18.6)
Net cash flows from operating activities	**374.3**
Net purchase of financial instruments	(380.9)
Cash received from investment income	9.6
Net cash from investing activities	**(371.3)**
Transfer to members in respect of underwriting participations	–
Net cash from financing activities	**–**
Net increase in cash and cash equivalents	**3.0**
Cash and cash equivalents at 1 January 2019	–
Cash and cash equivalents at 31 December 2021	**3.0**

Statement of changes in members' balances

for the 36 months ended 31 December 2021

	2019 year of account $m
Profit for the 2019 closed year of account	**15.0**
Amounts due to members at 31 December 2021	**15.0**

Members participate on 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 2021

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 2019 year of account which closed on 31 December 2021. The accumulated profits of the 2019 year of account will be distributed shortly after publication of these accounts. Therefore the 2019 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 2019 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) A provision for unexpired risks is made where claims, related expenses and deferred acquisition costs, likely to arise after the balance sheet date in respect of contracts relating to the closing year of account, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

e) 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.

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

Comparatives

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

Investment return

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

Notes to the syndicate underwriting year accounts

closed at 31 December 2021 *continued*

1 Accounting policies *continued*

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

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

Syndicate operating expenses

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

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

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

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

Taxation

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

n) No provision has been made for any US federal income tax payable on the underwriting results or investment earnings. Any payments on account made by the syndicate during the year have been included in the balance sheet under the heading 'other debtors'.

No provision has been made for any other overseas tax payable by members on underwriting results. Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

Basis of currency translation

o) The syndicate operates in four separate currency funds of sterling, euro, US dollars and Canadian dollars. Items going through the profit or loss account in sterling, euro and Canadian dollars are translated to US dollars at the three years' average rates of exchange. Assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. The euro, sterling and Canadian dollar three years' average exchange rates ruling at 31 December 2021 are euro 0.87, sterling 0.76 and Canadian dollar 1.31.

2 Risk management

The 2019 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 2.9 in syndicate 623 annual accounts.

3 Segmental analysis

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

2019 year of account	Cyber & Executive Risk $m	Marine $m	Political, Accident & Contingency $m	Property $m	Treaty Reinsurance $m	Specialty Lines $m	Unallocated $m	Total $m
Gross premiums written	126.2	68.8	31.8	86.1	45.8	171.0	–	529.7
Outward reinsurance premiums	(23.4)	(12.7)	(5.9)	(15.9)	(8.5)	(31.6)	–	(98.0)
Net earned premiums	102.8	56.1	25.9	70.2	37.3	139.4	–	431.7
Gross claims	(88.6)	(31.4)	(66.4)	(46.4)	(31.7)	(104.0)	–	(368.5)
Reinsurer's share of claims	25.8	5.8	32.3	5.6	11.4	19.5	–	100.4
Net claims	(62.8)	(25.6)	(34.1)	(40.8)	(20.3)	(84.5)	–	(268.1)
Operating expenses	(35.2)	(24.6)	(11.1)	(30.5)	(11.3)	(54.0)	–	(166.7)
Technical result before investment income	4.8	5.9	(19.3)	(1.1)	5.7	0.9	–	(3.1)
Investment income	–	–	–	–	–	–	18.6	18.6
Balance on technical account	**4.8**	**5.9**	**(19.3)**	**(1.1)**	**5.7**	**0.9**	**18.6**	**15.5**
Claims ratio	61%	46%	132%	58%	54%	60%	–	62%
Expense ratio	34%	44%	43%	43%	30%	39%	–	39%
Combined ratio	95%	90%	175%	101%	84%	99%	–	101%

The above teams are classified in Schedule 3 of the Companies Act 2006 as:

- Cyber & Executive Risk – miscellaneous;
- Marine – marine, aviation and transport;
- Political, Accident & Contingency – accident and health;
- Property – fire and other damage to property;
- Reinsurance – reinsurance; and
- Specialty Lines – third party liability.

All business was concluded in the UK.

4 Reinsurance to close premiums received

	2019 year of account $m
Gross reinsurance to close premiums received	499.1
Reinsurance recoveries anticipated	(124.9)
Reinsurance to close premiums received, from 2019 and earlier, net of reinsurance	**374.2**

Notes to the syndicate underwriting year accounts

closed at 31 December 2021 *continued*

5 Reinsurance to close premiums payable

	2019 year of account $m
Gross reinsurance to close premiums payable	577.6
Reinsurance recoveries anticipated	(153.3)
Foreign exchange	(3.7)
Reinsurance to close premiums payable to 2019 net of reinsurance	**420.6**

	Reported $m	URR $m	IBNR $m	Total $m
Reinsurance to close premium payable	211.0	–	363.0	574.0
Reinsurance recoveries anticipated	(53.5)	–	(99.9)	(153.4)
Reinsurance to close premiums payable, net of reinsurance	**157.5**	**–**	**263.1**	**420.6**

6 Analysis of the 2019 year of account result

	2019 year of account $m
Amount attributable to business allocated to the 2019 year of account	5.3
Surplus on the reinsurance to close for the 2018 year of account	9.7
	15.0

7 Net operating expenses

	2019 year of account $m
Acquisition costs	138.4
Reinsurance commissions and profit participation	(7.0)
Administrative expenses	35.3
	166.7

Administrative expenses include:

	$m
Audit services	0.3

8 Investment expenses and charges

	2019 year of account $m
Investment management expenses	0.7
	0.7

9 Financial assets

2019	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value				
Fixed and floating rate debt securities:				
– Government issued	192.8	31.8	–	224.6
– Corporate bonds	–	–	–	–
– Investment grade credit	46.4	52.3	–	98.7
– High yield	4.6	15.5	–	20.1
Syndicate loan to Lloyd's central fund	–	–	1.6	1.6
Equity funds	10.8	–	–	10.8
Hedge funds	–	30.4	–	30.4
Illiquid credit assets	–	–	3.1	3.1
Derivative financial assets	0.6	–	–	0.6
Total financial assets at fair value	**255.2**	**130.0**	**4.7**	**389.9**

10 Debtors

	2019 year of account $m
Debtors arising out of direct insurance operations – intermediaries	34.3
Debtors arising out of reinsurance operations	21.4
Other debtors	27.4
	83.1

These balances are due within one year.

11 Amounts due to members

	2019 year of account $m
Profit for the 2019 closed year of account before standard personal expenses	29.0
Members standard personal expenses	(14.0)
Amounts due to members at 31 December 2021	**15.0**

12 Creditors

	2019 year of account $m
Creditors arising out of direct insurance operations – intermediaries	–
Creditors arising out of reinsurance operations	10.0
Net amounts due to other related parties	35.4
Other creditors including taxation	0.8
	46.2

The above balances are payable within one year.

13 Related party transactions
Beazley Furlonge Limited, the managing agency of syndicate 623, is a wholly-owned subsidiary of Beazley plc. The Directors of Beazley Furlonge Limited who have participated in syndicate 623 indirectly through Beazley Staff Underwriting Limited are disclosed in the managing agent's report of the annual accounts on page 19.

The intercompany positions with other syndicates managed by Beazley Furlonge Limited at 31 December 2021 are included in note 12 (creditors).

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

14 Emoluments of the Directors of Beazley Furlonge Limited
An allocation of remuneration to the 2019 underwriting year of account for the Director of Beazley Furlonge Limited is based on the amounts paid between 2019 and 2021 as follows:

	2019 $m
Emoluments and fees	1.0
	1.0

15 Active underwriter's emoluments
An allocation of the active underwriter's remuneration to the 2019 underwriting year of account is based on the amounts paid between 2019 and 2021 as follows:

	2019 $m
Emoluments and fees	0.3
	0.3

16 Staff costs
All staff are employed by Beazley Management Limited, with the majority of these costs incurred in sterling. The following amounts were recharged to the 2019 underwriting year of account in respect of staff costs:

	2019 $m
Wages and salaries	11.4
Short-term incentive payments	4.7
Social security costs	2.9
Pension costs	2.6
	21.6

Seven-year summary of closed year results (unaudited)

at 31 December 2021

	2019	2018	2017	2016	2015	2014	2013
Syndicate allocated capacity – £'000	366,237	350,915	304,482	257,277	230,252	242,760	224,698
Syndicate allocated capacity – $'000	483,333	456,190	408,005	403,924	393,730	368,995	352,775
Capacity utilised	89%	86%	88%	79%	76%	79%	84%
Aggregate net premiums – $'000	330,367	312,072	278,651	251,561	230,828	235,380	234,093
Underwriting profit as a percentage of gross premiums	5.9%	0.9%	0.2%	19.3%	25.5%	27.9%	23.5%
Return on capacity	3.1%	(2.7%)	(2.4%)	8.7%	15.5%	18.6%	10.8%
Results for an illustrative £10,000 share							
Gross premiums – $'000	11,696	11,167	11,820	12,464	12,958	11,957	13,189
Net premiums	9,021	8,893	9,152	9,778	10,025	9,696	10,418
Reinsurance to close from an earlier account	10,218	9,251	9,766	12,034	13,560	13,216	14,561
Net claims	(5,954)	(6,533)	(7,108)	(6,692)	(6,335)	(5,755)	(6,545)
Reinsurance to close the year of account	(11,587)	(10,495)	(10,660)	(11,656)	(13,242)	(13,106)	(14,576)
Underwriting profit	1,698	1,116	1,150	3,464	4,008	4,051	3,858
Profit/(loss) on foreign exchange	54	(194)	(15)	(136)	(40)	326	22
Syndicate operating expenses	(1,506)	(1,542)	(1,866)	(2,102)	(1,843)	(1,890)	(1,984)
Balance on technical account	246	(620)	(731)	1,226	2,125	2,487	1,896
Gross investment return	508	464	609	356	582	494	337
Profit before personal expenses	754	(156)	(122)	1,582	2,707	2,981	2,233
Illustrative personal expenses							
Illustrative personal expenses	(246)	(211)	(189)	(246)	(233)	(190)	(214)
Managing agent's profit commission	(99)	–	–	(230)	(411)	(427)	(383)
Profit/(loss) after illustrative profit commission and personal expenses ($)	409	(367)	(311)	1,106	2,063	2,364	1,636
Profit/(loss) after illustrative profit commission and personal expenses (£)	309	(270)	(236)	866	1,548	1,862	1,083

Notes:

1 The illustrative profit commission and personal expenses are estimates of amounts which might be charged on an illustrative share of £10,000. The agency agreements for 1991 and subsequent years of account only provide for the deduction of fees and profit commission on behalf of the managing agent.

2 The effect of any minimum charges on personal expenses or deficit clauses on profit commission have been ignored.

3 Internal claims settlement expenses have been included in 'net claims'.

4 The above figures are stated before members' agents' fees.

5 Profit after illustrative profit commission and personal expenses is shown in dollars and converted to sterling at the closing rate.

6 Gross and net premium amounts shown above are net of brokerage expenses.

Managing agent corporate information

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

Directors

D L Roberts[1] – Chairman

A P Cox – Active Underwriter and Chief Executive Officer

R Anarfi

G P Blunden[1]

I Fantozzi

N H Furlonge[1]

D A Horton (resigned 31/03/2021)

C C W Jones (resigned 26/02/2021)

S M Lake

C LaSala[1]

A S Pryde (resigned 31/05/2021)

A J Reizenstein[1]

L Santori[1] (appointed 01/03/2021)

R Stuchbery[1]

K W Wilkins[1] (resigned 01/01/2022)

N Wall[1] (appointed 01/02/2021)

1 Non-Executive Director.

Company secretary

C P Oldridge

Managing agent's registered office

22 Bishopsgate
London
EC2N 4BQ
United Kingdom

Registered number

01893407

Auditor

Ernst & Young LLP
25 Churchill Place
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E14 5EY

Banker

Deutsche Bank AG
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Beazley Syndicate 623
online annual report 2021

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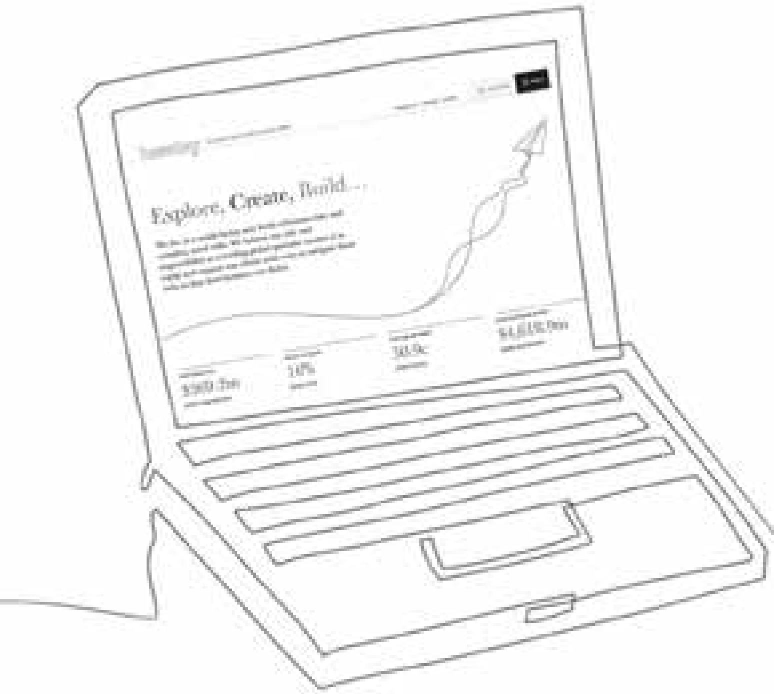

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