

# Risky Business



# Welcome to our Annual report 2023

**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 2023, the syndicate embodied this passion while delivering a strong financial performance for its members.**

## Contents

1	Highlights
2	Strategic report of the managing agent
4	Managing agent's report
9	Statement of managing agent's responsibilities
10	Independent auditor's report to the members of Syndicate 5623
13	Statement of comprehensive income
14	Statement of changes in members' balances
15	Balance sheet
16	Cash flow statement
17	Notes to the syndicate annual accounts
35	Syndicate 5623 2021 underwriting year accounts
36	Managing agent's report
37	Statement of managing agent's responsibilities
	Independent auditor's report to the members of Syndicate 5623 – 2021 closed year of account
38	
41	Profit or loss account
41	Statement of changes in members' balances
42	Balance sheet
43	Cash flow statement
44	Notes to the syndicate 2021 underwriting year of account
48	Four-year summary of closed year results at 31 December 2023
49	Managing agent's corporate information

# Highlights

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Syndicate capacity

**£339.8m**

(2022: £204.4m)

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Claims ratio

**57%**

(2022: 58%)<sup>1</sup>

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Gross premiums written

**\$390.1m**

(2022: \$249.3m)<sup>1</sup>

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Expense ratio

**33%**

(2022: 27%)<sup>1</sup>

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Earned premiums, net of reinsurance

**\$294.2m**

(2022: \$195.0m)<sup>1</sup>

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Combined ratio

**90%**

(2022: 85%)<sup>1</sup>

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Profit for the financial year

**\$40.6m**

(2022: \$24.5m)<sup>1</sup>

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Rate increase on renewals

**7.8%**

(2022: 5.5%)<sup>1</sup>

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Cash and investments

**\$184.5m**

(2022: \$23.4m)

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Net premiums written

**\$363.1m**

(2022: \$249.3m)<sup>1</sup>

<sup>1</sup>Certain balances have been restated due to a prior period error. Refer to note 3

# Strategic report of the managing agent

## Overview

Syndicate 5623 (the 'syndicate') writes portfolio underwriting business at Lloyd's and operates a follow-only portfolio. The syndicate began writing business directly at Lloyd's from the start of 2023, having previously been a special purpose reinsurance vehicle for syndicate 3623.

The capacities of the syndicates managed by Beazley Furlonge Limited ('BFL') are as follows:

	2023	2022
	£m	£m
2623	3,794.5	2,679.0
623	818.6	587.2
<b>5623</b>	<b>339.8</b>	<b>204.4</b>
6107	43.3	67.4
3623	—	41.2
3622	33.8	29.7
4321	33.1	29.0
<b>Total</b>	<b>5,063.1</b>	<b>3,637.9</b>

The result for the syndicate for the year ended 31 December 2023 is a profit of \$40.6m (2022: \$24.5m<sup>1</sup>). Gross premiums written increased to \$390.1m (2022: \$249.3m<sup>1</sup>).

## Year of account results

The 2021 year of account ('YOA') has closed with a return on capacity of 13.7%. The 2022 YOA is currently forecasting a return on capacity of 7.0%. The 2023 YOA is also forecasting a positive return on capacity but it is still in the early stages of development.

## Rating environment

The syndicate started writing business in 2023, however, it inherited some lines of business from Syndicate 3623. The premium rates charged for renewal business of these lines of business increased by 7.8% during 2023 (2022: 5.5%).

## Combined ratio

The combined ratio is a measure of operating performance and represents the ratio of the syndicate's total costs (excluding foreign exchange movements) to total net earned premium. The syndicate's combined ratio for 2023 was 90% (2022: 85%<sup>1</sup>). The increasing expense ratio explains the majority of the combined ratio movement year on year.

## Claims

The claims ratio is a measure of the syndicate's claims experience and represents the ratio of its net insurance claims to net earned premium. The 2023 claims ratio for Syndicate 5623 decreased slightly to 57% (2022: 58%<sup>1</sup>).

## Net operating expenses

Net operating expenses, including business acquisition costs and administrative expenses were \$98.3m (2022: \$52.7m). The breakdown of these costs is shown below:

	2023	2022
	\$m	\$m
Brokerage costs	66.7	42.5
Other acquisition costs	3.1	0.1
<b>Total acquisition costs</b>	<b>69.8</b>	<b>42.6</b>
Administrative and other expenses	28.5	10.1
<b>Net operating expenses*</b>	<b>98.3</b>	<b>52.7</b>

\* A further breakdown of net operating expenses can be seen in note 5.

Brokerage costs as a percentage of net earned premium are approximately 23% (2022: 22%<sup>1</sup>). Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with accounting guidelines. Other acquisition costs comprise of costs that have been identified as being directly related to underwriting activity (e.g. underwriters' salaries and Lloyd's box rental). These costs are also deferred in line with premium earning patterns. Administrative expenses comprise primarily IT costs, facilities costs, Lloyd's central costs and other support costs.

1. Certain balances have been restated due to a prior period error. Refer to note 3.

The expense ratio is a measure of net operating expenses to net earned premium. The expense ratio for 2023 is 33% (2022: 27%). Administrative and other expenses increased over the year due to increased operational expenses associated with the growth of the syndicate and enhancement of the underlying business model. Incentive payments also increased during the year due to improved profitability of the syndicate.

### **Reinsurance**

In 2023, the amount spent on outward reinsurance was \$27.0m (2022: nil). As a percentage of gross premiums written this was 7%. This was the first year that the syndicate purchased reinsurance cover.

### **Outlook**

The 2022 underwriting year has been impacted by a number of climate related natural catastrophes such as Hurricane Ian and Storm Elliot but is still expected to produce a positive return on capacity. The syndicate is also expected to produce a positive return on capacity for the 2023 underwriting year, the syndicate's first year operating as a standalone syndicate at Lloyd's. Looking ahead to 2024, the syndicate will continue to build on previous successes.

From 1 January 2024, the syndicate will also begin writing lines of business which will provide a choice of additional capacity for large corporate clients who meet the eligibility standards of the environmental, social and governance ('ESG') scoring criteria that have been developed with support from specialist, independent rating agencies. The syndicate will follow the lead underwriting of syndicates 2623 and 623, also managed by BFL to write business on a multi-line basis. These new ESG lines were previously written through syndicate 4321.

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**A P Cox**

**Chief Executive Officer**

27 February 2024

# Managing agent's report

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The managing agent presents its report for the year ended 31 December 2023.

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 and Financial Reporting Standard 103: Insurance Contracts.

## Principal activity

The principal activity of Syndicate 5623 is the underwriting of market facilities follow-only business at Lloyd's. The syndicate was granted full syndicate status by Lloyd's from 1 January 2023 and began writing business directly from that date.

## Business review

A review of the syndicate's activities and future outlook is included in the strategic report.

## Risk governance and reporting

BFL's Board of Directors has the responsibility for defining and monitoring the risk appetite within which 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 BFL, Beazley Insurance dac, and Beazley Insurance Company Inc, Environmental, Social and Governance ('ESG') issues and climate related risks have become regular agenda items throughout 2023. 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 ('ARA'), sets out the goals and targets across a wider range of ESG issues, including climate change.

In addition to the summary Responsible Business report, Beazley plc discloses its compliance with the Task Force on Climate-Related Disclosures' Recommendations and Recommended Disclosures at the consolidated group level in the Beazley plc annual report and accounts produced annually. The 2023 Beazley plc ARA has not been published as at the date of this report but is expected to be available on the Group's website in March 2024.

Although not specifically listed in the risk categories detailed further in this report, the Board of BFL deems climate risk to be inherently embedded within all risks managed across the syndicate.

## Risk management

Beazley prides itself on understanding the drivers of risk in the syndicate. The risk management function supports and challenges management in managing those risks. During the year, Beazley continued to enhance and roll out elements of the risk management framework. Beazley has continued working with colleagues across the first and second lines of defence to support the syndicate strategy, challenging the oversight of climate-related risks (covering physical, transition and litigation) and journey in digitisation. The details of the performance of the risk management framework are further in this report.

## Control statement

The Chief Risk Officer's latest report to the Board confirmed that the control environment identified no significant failings or weaknesses in key processes. The report confirmed that the syndicate was operating within risk appetite as at 31 December 2023 and the systems have been in place for the entirety of 2023.

## Risk management oversight and framework

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

Beazley takes an enterprise-wide approach to managing risk. The risk management framework establishes the approach to identifying, measuring, mitigating, monitoring, and reporting on principal risks. The risk management framework supports the strategy and objectives.

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

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

The Board approves the risk appetite statements at least annually and receives updates on monitoring against risk appetite throughout the year. This includes an assessment of principal risks.

The business operates a control environment which supports mitigating risks to stay within risk appetite. The risk management function reviews and challenges the control environment through various risk management activities throughout the year. In addition, the risk management function works with the capital model and exposure management teams, particularly in relation to validation of the internal model, preparing the ORSA, monitoring risk appetite and the business planning process.

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

The approach to identifying, managing and mitigating emerging risks includes inputs from the business, analysis of lessons learned post risk incidents and industry thought leadership. The approach considers the potential materiality and likelihood of impacts, which helps prioritise emerging risks which the syndicate monitors or undertakes focused work on. Key emerging risks in 2023 included geopolitical, artificial intelligence, large cyber attack, legal and regulatory risk, human capital, and climate change. The Board carries out a robust assessment of emerging risks at least annually.

## Principal risks the syndicate faces

Beazley assess carefully the principal risks facing the syndicate. The syndicate's principal risks are under continuous review with ongoing risk assessments. Consideration is given to new regulations including Consumer Duty, and the Digital Operational Resilience Act. Insurance, Strategic and Operational risks outlook increases from macroeconomic changes, enhancements in technology, people and processes which deliver great benefit, but also introduce risk during and post implementation. The table below summarises the principal risks the syndicate faces, the control environment, governance and oversight that mitigate these risks.

### Legend for the principal risks table on the following page

Risk appetite

 Within       Trending outside       Outside

Risk outlook

 Increasing       Stable       Decreasing


# Managing agent's report continued

Principal risks and summary descriptions	Mitigation and monitoring
<p> <b>Insurance</b></p> <p>The risk arising from the inherent uncertainties about the occurrence, amount and timing of insurance premium, and claims liabilities. This includes risk from underwriting such as market cycle, catastrophe, reinsurance and reserves.</p> <ul style="list-style-type: none"> <li>• Market cycle: potential systematic mispricing of medium or long-tailed business that does not support revenue to invest and cover future claims;</li> <li>• Catastrophe: one or more large events caused by nature (e.g., hurricane, windstorm, earthquake and / or wildfire) or mankind (e.g., coordinated cyber-attack, global pandemic, losses linked to an economic crisis, an act of terrorism or an act of war and / or a political event) impacting a number of policies, and therefore giving rise to multiple losses;</li> <li>• Reinsurance arrangements: reinsurance may not be available or purchases not made to support the business (i.e., mismatch); and</li> <li>• Reserving: reserves may not be sufficiently established to reflect the ultimate paid losses.</li> </ul>	<p>Beazley uses a range of techniques to mitigate insurance risks such as pricing tools, analysis of macro trends and claim frequency, including alignment with pricing and ensured exposure was not overly concentrated in any one area, especially lines of business with higher risk.</p> <p>The strategic approach to exposure management and a comprehensive internal and external reinsurance programme helped to reduce volatility of profits in addition to managing net exposure with the transfer of risk.</p> <p>The prudent and comprehensive approach to reserving helped ensure that claims covered by the policy wording were paid, delivering good customer outcomes. High calibre claims and underwriting professionals deliver expert service and claims handling to insureds. The underwriting committee oversees these risks.</p> <p>Beazley carries out periodic analysis to identify significant areas of concentration risk across the syndicates business and monitors solvency regularly to ensure it is adequately capitalised.</p> <p>Insurance risk outlook continues to be stable as Beazley manages the market cycle across all the lines of business.</p>
<p> <b>Market</b></p> <p>The value of investments may be adversely impacted by financial market movements of values of investments, interest rates, exchange rates, or external market forces. Expected asset returns may not align to risk and capital requirements.</p>	<p>Beazley operates a conservative investment strategy with a view to limiting investment losses that would impact the the syndicate's financial results. Beazley mitigates this risk by carrying out asset liability matching as per the investment constraints specified in the investment strategy. The investment committee oversees the investment strategy and its implementation.</p> <p>Market risk outlook continues to face headwinds across investment yields and foreign currency due to the global and political economic environment.</p>
<p> <b>Credit</b></p> <p>This risk of failure of another party to perform its financial or contractual obligations in a timely manner. Exposure to credit risk from its reinsurers, brokers, and coverholders, of which the reinsurance asset was the largest exposure for the syndicate.</p>	<p>Beazley trades with strategic reinsurance partners over the long term to support the syndicate through the insurance cycles despite potentially catastrophic claim events. The managing agent ensures reinsurers meet internal approval criteria overseen by the reinsurance security committee. Credit risk arising from brokers and coverholders continues to be low as the syndicate relies on robust due diligence processes, credit monitoring and ongoing monitoring of aged debts.</p> <p>Credit risk outlook continues to be stable as Beazley manages ceded reinsurance, broker and coverholder credit risks with low levels of aged and bad debt.</p>
<p> <b>Group</b></p> <p>The risk of an occurrence in one area of Beazley, which adversely affects another area in the syndicate resulting in financial loss and / or reputational damage. This also includes a deterioration in culture which leads to inappropriate behaviour, actions and / or decisions including dilution of culture or negative impact on the brand.</p>	<p>Risk culture centres on principles of transparency, accountability, and awareness. This helps maintain a strong risk culture that supports an embedded risk management framework. An effective risk culture reflects a maturing risk management framework, encourages sound risk taking, creates an awareness of risks and emerging risks. The executive committee and the Board oversee this risk.</p> <p>Group risk outlook continues to be stable as the executive committee manages culture through continuous improvement and monitoring.</p>



Principal risks and summary descriptions	Mitigation and monitoring
<p>  <b>Liquidity</b></p> <p>Investments and / or other assets are not available or adequate in order to settle financial obligations when they fall due.</p>	<p>By managing liquidity Beazley maximises flexibility in the management of financial assets, including investment strategy, without incurring unacceptable liquidity risks over any time horizon. In doing so, this helps to ensure that clients and creditors were financially protected. Beazley periodically assesses the liquidity position of the syndicate which is overseen by the risk committee. This includes a benchmarking view from a third-party assessment.</p> <p>Liquidity risk outlook continues to be stable as Beazley manages above sufficient levels of liquidity and capital.</p>
<p>  <b>Regulatory and legal</b></p> <p>Non-compliance with regulatory and legal requirements, failing to operate in line with the relevant regulatory framework in the territories where the syndicate operates. This may lead to financial loss (fines, penalties), sanctions, reputational damage, loss of confidence from regulators, regulatory intervention, inability to underwrite or pay claims.</p>	<p>The control environment supports the nature, exposure, scale and complexity of the business overseen by the risk and regulatory committee. Beazley maintains a trusting and transparent relationship with regulators, ensuring coordinated communication and robust process, policies and procedures being followed in the business. In addition, key staff, particularly those who held defined roles with regulatory requirements, are experienced and maintained regular dialogue with regulators. BFL horizon scans for regulatory and legal matters and considers their potential impacts on the syndicate.</p> <p>Beazley consider the needs of the syndicate's clients in everything the syndicate does. Beazley delivers good customer outcomes to the syndicate's clients throughout the product lifecycle. The Conduct Review Group oversees this risk. Beazley aims to do the right thing to minimise reputational risk via stakeholder management and oversight through governance.</p> <p>Regulatory and legal risk outlook continues to increase as Beazley manages evolving regulatory requirements and legislative changes globally.</p>
<p>  <b>Operational</b></p> <p>Failures of people, processes and systems or the impact of an external event on operations (e.g., a cyber-attack having a detrimental impact on operations) including transformation and change related risks.</p>	<p>Beazley attracts and nurtures talented colleagues who champion diversity of thought, creating a culture of empowerment, collaboration and innovation to build an environment of employee wellbeing. The managing agent employs high calibre, motivated, loyal, and productive people with sufficient competence to perform their duties.</p> <p>Beazley invests in technology and re-engineering processes to support the operation of activities which are overseen by the operations committee. Beazley has policies and procedures across the organisation which ensure effective and efficient operations. This drives productivity and quality across our people, processes and systems to continue to enable scalable growth.</p> <p>The business continuity, disaster recovery and incident response plans, help ensure that processes and systems enable our people to deliver the right outcomes for clients and overall productivity. During 2023, there were effective controls in the day-to-day operations around information security, data management, operational resilience including cyber resilience, etc. to mitigate the damage that loss of access to data or the amendment of data can have on the ability to operate.</p> <p>Operational risk outlook continues to be stable as Beazley manages evolving manual processes and controls into digitised processes along with technological and cyber resilience which are continuously evolving risks.</p>

# Managing agent's report continued

Principal risks and summary descriptions	Mitigation and monitoring
 <b>Strategic</b> Events or decisions that potentially stop the syndicate from achieving its goals or danger of strategic choices being incorrect, or not responding effectively to changing environments in a timely manner leading to inadequate profitability, insufficient capital, financial loss or reputational damage. Pervasive risks impacting multiple areas (e.g., reputation, and ESG) occurring through real or perceived action, or lack of action taken by a regulatory body, market and/or third-party used by the business. A negative change to Beazley's reputation would have a detrimental impact to syndicate profitability and public perception.	<p>Beazley continuously addresses key strategic opportunities and challenges itself to be the highest performing sustainable specialist insurer. BFL ensures it recognises, understands, discusses, and develops a plan of action to address any significant strategic priorities in a timely fashion whilst ensuring continuity of operational effectiveness and brand reputation.</p> <p>Beazley creates an environment that attracts, retains and develops high performing talent with diversity of thought to explore, create and build, through investing in understanding the complexity of the risks clients face and deploying expertise to create value. The executive committee and the Board oversee these risks.</p> <p>Beazley aims to strategically create a sustainable business for its people, partners and planet through its responsible business goals. Beazley embeds ESG principles and ambitions and it focuses on reducing its carbon footprint, contributing appropriately to its social environment, and enhancements to governance. Note that while Beazley considers market practice, it does not necessarily move with every prevailing market trend, considering these for potential opportunities and risks.</p> <p>Strategic risk outlook continues to be stable as Beazley embeds its achievements from 2023.</p>

## Directors

A list of directors of the managing agent who held office during the year can be found on page 49 of this syndicate annual report.

## Syndicate annual general meeting

In accordance with the Syndicate Meetings (Amendment No. 1) Byelaw (No. 18 of 2000) the managing agent does not propose to hold a syndicate annual meeting this year. Members may object to this proposal within 21 days of this notice. Any objections must be made in writing to the managing agent.

## Disclosure of information to the auditor

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

## Auditor

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

On behalf of the Board

**S M Lake**

**Finance Director**

27 February 2024

# Statement of managing agent's responsibilities

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

Under Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent must not approve the annual accounts unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the statement of comprehensive income 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

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**S M Lake**

**Finance Director**

27 February 2024

# Independent auditor's report to the members of Syndicate 5623

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## Opinion

We have audited the syndicate annual accounts of syndicate 5623 ('the syndicate') for the year ended 31 December 2023 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 17, 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:

- 1 give a true and fair view of the syndicate's affairs as at 31 December 2023 and of its profit for the year then ended;
- 2 have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 3 have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

## Basis for opinion

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

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

## Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue as a going concern for a period of 12 months from when the syndicate annual accounts are authorised for issue.

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

## Other information

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

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

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

We have nothing to report in this regard.

## 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 9 the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the managing agent is responsible for assessing the syndicate's ability to continue in operation, disclosing, as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the managing agent either intends to cease to operate the syndicate, or has no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the syndicate annual accounts

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the syndicate and determined that the most significant are direct laws and regulations related to elements of Lloyd's Byelaws and Regulations, and the financial reporting framework (UK GAAP). 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, complex transactions, performance targets, economic or external pressures and the impact these have on the control environment.

# Independent auditor's report to the members of Syndicate 5623 continued

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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 syndicate annual accounts were free from fraud or error.

A further description of our responsibilities for the audit of the 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.

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

28 February 2024

# Statement of comprehensive income

for the year ended 31 December 2023

	Notes	2023 \$m	2022 *restated \$m
Gross premiums written	4	390.1	249.3
Outward reinsurance premiums		(27.0)	—
<b>Net premiums written</b>		<b>363.1</b>	<b>249.3</b>
Change in the gross provision for unearned premiums	14	(75.4)	(54.3)
Change in the provision for unearned premiums, reinsurers' share	14	6.5	—
<b>Change in the net provision for unearned premiums</b>		<b>(68.9)</b>	<b>(54.3)</b>
<b>Earned premiums, net of reinsurance</b>		<b>294.2</b>	<b>195.0</b>
<b>Allocated investment return transferred from the non-technical account</b>	<b>9</b>	<b>12.5</b>	<b>(4.0)</b>
Gross claims paid		(56.4)	(24.9)
Change in the gross provision for claims	14	(122.8)	(88.8)
Change in the provision for claims, reinsurers' share	14	12.0	—
<b>Change in the net provision for claims</b>		<b>(110.8)</b>	<b>(88.8)</b>
<b>Claims incurred, net of reinsurance</b>		<b>(167.2)</b>	<b>(113.7)</b>
<b>Net operating expenses</b>	<b>5</b>	<b>(98.3)</b>	<b>(52.7)</b>
<b>Balance on the technical account</b>		<b>41.2</b>	<b>24.6</b>
Net investment income / (expense)	9	11.6	(4.0)
Realised losses on investments	9	(0.6)	—
Unrealised gain on investments	9	1.5	—
<b>Net investment return</b>		<b>12.5</b>	<b>(4.0)</b>
Allocated investment return transferred to general business technical account		(12.5)	4.0
Loss on foreign exchange		(0.6)	(0.1)
<b>Total comprehensive income for the financial year</b>		<b>40.6</b>	<b>24.5</b>

\* Certain balances have been restated due to a prior period error. Refer to note 3.

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

The notes on pages 17 to 34 form part of these financial statements.

# Statement of changes in members' balances

for the year ended 31 December 2023

	2023	2022
	\$m	*restated \$m
Members' balances brought forward at 1 January	20.2	(2.2)
Total comprehensive income for the financial year	40.6	24.5
Profit distribution before members agent's fees – 2020 YOA	(10.5)	–
Profit distribution before members agent's fees – 2019 YOA	–	(2.1)
<b>Members' balances carried forward at 31 December</b>	<b>50.3</b>	<b>20.2</b>

\*Certain balances have been restated due to a prior period error. Refer to note 3.

The notes on pages 17 to 34 form part of these financial statements.

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



# Balance sheet

as at 31 December 2023

	Notes	2023 \$m	2022 *restated \$m
<b>Assets</b>			
<b>Financial assets at fair value</b>	<b>11</b>	<b>153.7</b>	–
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums, reinsurers share	14	6.5	–
Claims outstanding, reinsurers' share	14	12.0	–
		<b>18.5</b>	–
<b>Debtors</b>			
Debtors arising out of direct insurance operations		107.8	–
Debtors arising out of reinsurance operations		39.0	114.2
Other debtors	12	221.5	210.3
		<b>368.3</b>	<b>324.5</b>
<b>Cash at bank and in hand</b>	<b>13</b>	<b>30.8</b>	<b>23.4</b>
<b>Prepayments and accrued income</b>			
Deferred acquisition costs	10	46.9	34.7
Prepayments and accrued income		1.3	–
<b>Total assets</b>		<b>619.5</b>	<b>382.6</b>
<b>Liabilities, capital and reserves</b>			
<b>Capital and reserves</b>			
Members' balances attributable to underwriting participations		50.3	20.2
<b>Technical provisions</b>			
Provision for unearned premiums	14	210.8	135.2
Claims outstanding	14	349.9	225.9
		<b>560.7</b>	<b>361.1</b>
<b>Creditors</b>			
Creditors arising out of direct insurance operations	15	0.1	–
Creditors arising out of reinsurance operations	15	1.7	1.0
Amounts due from other related entities	15	1.2	0.2
		<b>3.0</b>	<b>1.2</b>
<b>Accruals and deferred income</b>		<b>5.5</b>	<b>0.1</b>
<b>Total liabilities, capital and reserves</b>		<b>619.5</b>	<b>382.6</b>

\*Certain balances have been restated due to a prior period error. Refer to note 3.

The notes on pages 17 to 34 form part of these financial statements.

The syndicate annual accounts on pages 13 to 34 were approved by the Board of Beazley Furlong Limited on 27 February 2024 and were signed on its behalf by:

**A P Cox**  
Chief Executive Officer

**S M Lake**  
Finance Director

# Cash flow statement

for the year ended 31 December 2023

	Notes	2023 \$m	2022 *restated \$m
Total comprehensive income for the financial year		40.6	24.5
Adjustments for:			
Increase in deferred acquisition costs		(12.2)	(13.3)
Increase in debtors, prepayments and accrued income		(45.1)	(131.0)
Increase in creditors, accruals and deferred income		7.2	1.1
Increase in net technical provisions		181.1	140.4
Investment return		(12.5)	4.0
<b>Net cash inflows from operating activities</b>		<b>159.1</b>	<b>25.7</b>
Net purchase of investments		(138.9)	—
Cash received/(paid) from investment return		11.0	(4.0)
<b>Net cash outflows from investing activities</b>		<b>(127.9)</b>	<b>(4.0)</b>
Transfers to members in respect of underwriting participations		(10.5)	(2.1)
<b>Net cash outflows from financing activities</b>		<b>(10.5)</b>	<b>(2.1)</b>
<b>Net increase in cash and cash equivalents</b>		<b>20.7</b>	<b>19.6</b>
Cash and cash equivalents at the beginning of the year		23.4	3.8
Effect of exchange rate changes on cash and cash equivalents		(0.6)	—
<b>Cash and cash equivalents at the end of the year</b>	13	<b>43.5</b>	<b>23.4</b>

\*Certain balances have been restated due to a prior period error. Refer to note 3.

# Notes to the syndicate annual accounts

## 1 Accounting policies

### Basis of preparation

Syndicate 5623 (the 'syndicate') comprises a group of members of the Society of Lloyd's that underwrites insurance business in the London Market. The address of the syndicate's managing agent is given on page 49. These syndicate annual accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (the 'Regulations'), the applicable Accounting Standards in the United Kingdom and the Republic of Ireland, Financial Reporting Standard 102 ('FRS 102') and the applicable Accounting Standard on insurance contracts Financial Reporting Standard 103 ('FRS 103').

The financial statements have been prepared on the historic cost basis except for financial assets at fair value through profit or loss ('FVTPL') 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.

### Going concern

The financial statements of the syndicate have been prepared on a going concern basis. In adopting the going concern basis, the Board has reviewed the syndicate's current and forecast solvency and liquidity positions for the next 12 months from the date that the financial statements are authorised for issue. 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 of the managing agent 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 2023 the managing agent has considered a number of factors, including the current statement of financial position and the syndicate's strategic and financial plan. The assessment concluded that, for the foreseeable future, the syndicate has sufficient capital and liquidity for the 12 months from the date the financial statements are authorised for issue.

### Use of estimates and judgements

The preparation of financial statements requires the use of 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. For example, estimates which are sensitive to economic, regulatory and geopolitical conditions could be impacted by significant changes in the external environment such as the volatile macroeconomic environment, climate change, international conflicts, and significant changes in legislation. Any revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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.

#### *(a) Valuation of insurance contract liabilities*

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

The best estimate of the most likely ultimate outcome is used when calculating notified claims. This estimate is based upon the facts available at the time, in conjunction with the claims manager's view of likely future developments. The total estimate of IBNR as at 31 December 2023 included within claims outstanding is \$281.6m (2022: \$180.1m).

### Change of estimate

During the period, the managing agent refined its methodology for estimating claims reserves, including revising the actuarial methodology behind determining the risk margin to determine the appropriate level of margin in reserves. These changes have been accounted for prospectively as a change in estimate. As a result of these changes, \$7.4m of reserves were released in the period (on a net of reinsurance basis).

# Notes to the syndicate annual accounts continued

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## 1 Accounting policies continued

### *(b) Premium estimates*

Premium written is initially based on the estimated premium income ('EPI') of each contract. Judgement is involved in determining the ultimate estimates in order to establish the appropriate premium value and, ultimately, the cash to be received. EPI estimates are updated to reflect changes in an underwriters expectation through consultation with brokers, coverholders and internal counterparty views, changes in market conditions, historic experience and to reflect actual cash received for a contract.

Due to the nature of Lloyd's business and the settlement patterns of the underlying business it is also not uncommon for some contracts to take a number of years to finalise and settle, and a receivable on the balance sheet remains.

### Significant accounting policies

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

### *(a) Premiums*

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

### *(b) Unearned premiums*

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

### *(c) Claims*

Claims represent the cost of claims and claims handling expenses paid during the financial year, together with the movement in provisions for outstanding claims, claims IBNR and future claims handling provisions. The provision for claims outstanding comprises amounts set aside for claims advised and IBNR.

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

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

### *(d) Liability adequacy testing*

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

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

## 1 Accounting policies continued

### *(e) Acquisition costs*

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

### *(f) Foreign currencies*

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

### *(g) 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.

### *(h) Ceded reinsurance*

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

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

Reinsurance assets are assessed for impairment at each reporting date. If there is objective evidence of impairment, then the carrying amount is reduced to its recoverable amount and the impairment loss is recognised in the statement of comprehensive income.

### *(i) Financial instruments*

#### Recognition and derecognition

Financial instruments are recognised on the balance sheet at such time that the syndicate becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognised when:

- the contractual rights to receive cash flows from the financial assets expire;
- the financial assets have been transferred, together with substantially all the risks and rewards of ownership; or
- despite having retained some, but not substantially all, risks and rewards of ownership, control of the asset is transferred to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party.

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

#### Financial assets and liabilities measurement

On acquisition of a financial asset or liability, the Company will measure the asset or liability at transaction price, except for those financial assets and liabilities at fair value through profit or loss ('FVTPL'), which are initially measured at fair value. The exception to this is when the arrangement constitutes a financing transaction however, the Company does not make use of any such arrangements.

# Notes to the syndicate annual accounts continued

## 1 Accounting policies continued

Except for derivative financial investments, all financial investments are designated as FVTPL upon initial recognition because they are managed and their performance is evaluated on a fair value basis. Information about these financial instruments is provided internally on a fair value basis to key management. The investment strategy is to invest and evaluate their performance with reference to their fair values.

### Fair value measurement

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

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 the statement of comprehensive income 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 FVTPL are recognised in the statement of comprehensive income when incurred. Financial assets at FVTPL are continuously measured at fair value, and changes therein are recognised in the statement of comprehensive income. Net changes in the fair value of financial assets at FVTPL exclude interest and dividend income, as these items are accounted for separately.

### (j) Insurance debtors and creditors

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

### (k) Other debtors

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

### (l) Other creditors

Other creditors principally consist of amounts due to related entities and are stated at amortised cost determined using the effective interest rate method

### (m) 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 (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.

### (n) Profit commission

For the 2021 and 2022 YOA a profit commission is charged by the ceding syndicate 3623 as a percentage of profit after an expense allowance on a YOA basis subject to the operating of a two-year deficit clause. This is charged to the syndicate as incurred but does not become payable until after the appropriate YOA closes at 36 months. For the 2023 YOA the syndicate incurs a profit commission which is payable to the managing agent. It is based on a percentage of profit on the YOA, subject to a two-year deficit clause. It does not become payable until the YOA closes at 36 months of development.

## 1 Accounting policies continued

### *(o) Cash and cash equivalents*

Cash at bank and in hand as presented on the face of the balance sheet consists of loans and receivables carried at amortised cost less impairment losses. Cash and cash equivalents as shown on the cash flow statement and at Note 13 is comprised of cash at bank and in hand, in addition to deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less from the acquisition date. These are included within 'financial assets at fair value' on the balance sheet.

### *(p) Impairment of financial assets*

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

If there is objective evidence that impairment exists, the amount of the loss is measured as the difference between the assets carrying amount and the value of the estimated future cash flows discounted at the financial asset's original effective interest rate. Where a loss is incurred this is recognised in the statement of comprehensive income.

### *(q) 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.

### *(r) Pension costs*

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

## 2 Risk management

The managing agent 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 the managing agent defines and manages each category of risk.

### 2.1 Insurance risk

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

#### *(a) Underwriting risk*

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

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

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

# Notes to the syndicate annual accounts continued

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## 2 Risk management continued

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

The managing agent 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 managing agent 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 Realistic Disaster Scenarios. The aggregate position is monitored at the time of underwriting a risk, and reports are regularly produced to highlight the key aggregations to which the syndicate is exposed.

The managing agent uses a number of modelling tools to monitor its exposures against the agreed risk appetite set and to simulate catastrophe losses. Stress and scenario tests are also run using these models. The range of scenarios considered includes natural catastrophe, cyber, marine, liability, political, terrorism and war events.

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

To manage underwriting exposures, the the managing agent 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 2023, the absolute maximum line that any one underwriter could commit the syndicate to was \$25.0m (2022: \$22.5m). 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.

### *(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.

### *Binding authority contracts*

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

### *(c) Claims management risk*

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

The managing agent's claims teams are focused on delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business's broader interests. Case reserves are set for all known claims liabilities, including provisions for expenses, as soon as a reliable estimate can be made of the claims liability.



## 2 Risk management continued

### (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, the managing agent's 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.

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

	2023	2022
	%	%
US	2	12
Europe <sup>1</sup>	12	13
Other	86	75
	<b>100</b>	<b>100</b>

<sup>1</sup> Includes UK

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

Sensitivity to insurance risk (claims reserves)	Impact on profit and net assets	
	2023	2022
	\$m	\$m
5% increase in net claims reserves	(16.9)	(11.3)
5% decrease in net claims reserves	16.9	11.3

### 2.2 Market risk

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

#### Foreign exchange risk

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

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

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

# Notes to the syndicate annual accounts continued

## 2 Risk management continued

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

	UK £ \$m	CAD \$ \$m	EUR € \$m	Subtotal \$m	US \$ \$m	Total \$m
31 December 2023						
Total assets	36.0	15.1	21.0	72.1	547.4	619.5
Total liabilities	(53.1)	(13.7)	(24.5)	(91.3)	(477.9)	(569.2)
<b>Net assets</b>	<b>(17.1)</b>	<b>1.4</b>	<b>(3.5)</b>	<b>(19.2)</b>	<b>69.5</b>	<b>50.3</b>
31 December 2022*						
Total assets	28.8	7.5	16.0	52.3	330.3	382.6
Total liabilities	(32.3)	(3.6)	(16.0)	(51.9)	(310.5)	(362.4)
<b>Net assets</b>	<b>(3.5)</b>	<b>3.9</b>	<b>—</b>	<b>0.4</b>	<b>19.8</b>	<b>20.2</b>

\*As restated, See note 3 for details

### Sensitivity analysis

In 2023, the managing agent managed the syndicate's 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 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	
	2023 \$m	2022 \$m	2023 \$m	2022 \$m
<i>Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar</i>				
Dollar weakens 30% against other currencies	(5.7)	0.1	(5.7)	0.1
Dollar weakens 20% against other currencies	(3.8)	0.1	(3.8)	0.1
Dollar weakens 10% against other currencies	(1.9)	—	(1.9)	—
Dollar strengthens 10% against other currencies	1.9	—	1.9	—
Dollar strengthens 20% against other currencies	3.8	(0.1)	3.8	(0.1)
Dollar strengthens 30% against other currencies	5.7	(0.1)	5.7	(0.1)

### Interest rate risk

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

The managing agent 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 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 gives a better indication than maturity of the likely sensitivity of the portfolio to changes in interest rates.

## 2 Risk management continued

Duration	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-10 yrs	>10 yrs	Total
31 December 2023	\$m	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$m
Fixed and floating rate debt securities	52.3	78.0	13.6	4.2	–	5.5	–	153.6
Derivative financial instruments	0.1	–	–	–	–	–	–	0.1
Cash at bank and in hand	30.8	–	–	–	–	–	–	30.8
<b>Total</b>	<b>83.2</b>	<b>78.0</b>	<b>13.6</b>	<b>4.2</b>	<b>–</b>	<b>5.5</b>	<b>–</b>	<b>184.5</b>

As at 31 December 2022, the only financial instrument sensitive to interest rates was cash at bank and in hand. This has a duration of less than one year.

### 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.

Shift in yield (basis points)	Impact on profit for the year ended		Impact on net assets	
	2023		2023	
	\$m		\$m	
150 basis point increase	(3.3)		(3.3)	
100 basis point increase	(2.2)		(2.2)	
50 basis point increase	(1.1)		(1.1)	
50 basis point decrease	1.1		1.1	
100 basis point decrease	2.2		2.2	
150 basis point decrease	3.3		3.3	

### 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 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.

### 2.3 Credit risk

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

- 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 host syndicate;
- investments – whereby issuer default results in the host 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 managing agent limits exposure to a single counterparty or a group of counterparties and analyses the geographical locations of exposures when assessing credit risk.

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

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

# Notes to the syndicate annual accounts continued

## 2 Risk management continued

### 2.3 Credit risk

The managing agent has developed processes to formally examine all reinsurers before entering into new business arrangements. New reinsurers are approved by the Reinsurance Security Committee, 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

	Tier 1	Tier 2	Tier 3	Tier 4	Unrated	Total
31 December 2023	\$m	\$m	\$m	\$m	\$m	\$m
Financial assets at fair value						
– fixed and floating rate debt securities	139.2	14.5	–	–	–	153.7
Reinsurers' share of outstanding claims	7.8	–	–	–	4.2	12.0
Cash at bank and in hand	30.8	–	–	–	–	30.8
<b>Total</b>	<b>177.8</b>	<b>14.5</b>	<b>–</b>	<b>–</b>	<b>4.2</b>	<b>196.5</b>

	Tier 1	Tier 2	Tier 3	Tier 4	Unrated	Total
31 December 2022	\$m	\$m	\$m	\$m	\$m	\$m
Reinsurance debtors <sup>*Restated</sup>	114.2	–	–	–	–	114.2
Cash at bank and in hand	23.4	–	–	–	–	23.4
<b>Total</b>	<b>137.6</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>137.6</b>

Based on all evidence available, debtors arising out of insurance operations and other debtors have not been impaired and no impairment provision has been recognised in respect of these assets.

The syndicate has no insurance debtors and reinsurance assets that are past due nor impaired at the reporting date.

### 2.4 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. As syndicate 5623 was a special purpose arrangement up to 31 December 2022, it operated on a cash withheld basis for its reinsurance, while liquidity risk was managed by the host syndicate 3623.

However, in 2023, Syndicate 5623 changed to a standalone syndicate and as a result so too did its exposure to liquidity risk. The syndicate is now 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 premiums received.

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

The following is an analysis that shows the estimated timing of the net cash flows based on the net claim liabilities balance held at 31 December 2023. Net claim insurance liabilities are not tiered for the year ended 31 December 2022 as liquidity risk was managed by the host syndicate.

Net insurance liabilities	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
31 December 2023	105.6	134.6	61.3	36.4	337.9

## 2 Risk management continued

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

Maturity	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-10 yrs	Total
31 December 2023	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Fixed and floating rate debt securities	44.3	84.1	15.5	1.3	2.9	5.5	153.6
Derivative financial instruments	0.1	–	–	–	–	–	0.1
Cash at bank and in hand	30.8	–	–	–	–	–	30.8
Other debtors	221.5	–	–	–	–	–	221.5
Other creditors	(1.2)	–	–	–	–	–	(1.2)
<b>Total</b>	<b>295.5</b>	<b>84.1</b>	<b>15.5</b>	<b>1.3</b>	<b>2.9</b>	<b>5.5</b>	<b>404.8</b>

Maturity	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-10 yrs	Total
31 December 2022	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cash at bank and in hand	23.4	–	–	–	–	–	23.4
Other debtors	210.3	–	–	–	–	–	210.3
Other creditors	(1.2)	–	–	–	–	–	(1.2)
<b>Total</b>	<b>232.5</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>232.5</b>

### 2.5 Capital management

#### *Capital framework at Lloyd's*

The Society of Lloyd's is a regulated undertaking and subject to the supervision of the Prudential Regulation Authority under the Financial Services and Markets Act 2000.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, license and ratings objectives. Although, as described below, the Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at an overall and member level respectively, not at a syndicate level. Accordingly the capital requirement in respect of Syndicate 5623 is not disclosed in these financial statements.

#### *Lloyd's capital setting process*

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

A syndicate comprises one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR to ultimate. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss to ultimate for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, license and ratings objectives. The capital uplift applied for 2023 was 35% (2022: 35%) of the member's SCR to ultimate.

#### *Provision of capital by members*

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

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the balance sheet on page 15, represent resources available to meet members' and Lloyd's capital requirements.

## Notes to the syndicate annual accounts continued

### 3 Prior period error

In 2023 a prior year error was identified in relation to the reinsurance to close premium in 2022 due to incorrect data being used in its calculation. As a result, gross premiums written were overstated by \$3.5m and debtors arising out of reinsurance operations were also overstated. The comparative figures in the primary statements and notes have been restated to reflect the prior period error.

The correction of the affected financial statement line items as a result of this error for the prior period are shown below:

#### Statement of comprehensive income

	2022 *restated \$m
Gross premiums written	3.5
<b>Decrease in total comprehensive income for the financial year</b>	<b>(3.5)</b>

#### Balance sheet

	2022 *restated \$m
Debtors arising out of reinsurance operations	(3.5)
<b>Decrease in net assets</b>	<b>3.5</b>

#### Statement of cash flows

	2022 *restated \$m
Total comprehensive income for the financial year	(3.5)
Increase in debtors, prepayments and accrued income	3.5
<b>Total impact on net cash inflow from operating activities</b>	<b>—</b>

### 4 Analysis of underwriting result

2023	Gross premiums written	Gross premiums earned	Gross claims incurred	Net operating expenses	Reinsurance balance	Underwriting result
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Direct insurance</b>						
Third party liability	102.9	46.1	(29.1)	(17.7)	(2.0)	(2.7)
Fire and other damage to property	165.9	81.8	(53.0)	(19.2)	(4.4)	5.2
Marine aviation and transport	38.1	17.0	(10.9)	(7.3)	(0.8)	(2.0)
Miscellaneous	18.7	8.5	(4.0)	(3.1)	(0.3)	1.1
<b>Total direct insurance</b>	<b>325.6</b>	<b>153.4</b>	<b>(97.0)</b>	<b>(47.3)</b>	<b>(7.5)</b>	<b>1.6</b>
<b>Reinsurance accepted</b>						
Third party liability	32.6	79.2	(44.3)	(25.2)	(0.5)	9.2
Fire and other damage to property	19.2	60.7	(36.5)	(16.5)	(0.4)	7.3
Marine aviation and transport	12.7	21.4	(1.4)	(9.3)	(0.1)	10.6
<b>Total reinsurance accepted</b>	<b>64.5</b>	<b>161.3</b>	<b>(82.2)</b>	<b>(51.0)</b>	<b>(1.0)</b>	<b>27.1</b>
<b>Total direct and reinsurance accepted</b>	<b>390.1</b>	<b>314.7</b>	<b>(179.2)</b>	<b>(98.3)</b>	<b>(8.5)</b>	<b>28.7</b>

2022 *restated	Gross premiums written	Gross premiums earned	Gross claims incurred	Net operating expenses	Reinsurance balance	Underwriting result
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Reinsurance accepted</b>						
Third party liability	123.6	101.2	(66.2)	(28.5)	—	6.5
Fire and other damage to property	98.8	71.8	(35.8)	(17.9)	—	18.1
Marine aviation and transport	26.9	22.0	(11.7)	(6.3)	—	4.0
<b>Total reinsurance accepted</b>	<b>249.3</b>	<b>195.0</b>	<b>(113.7)</b>	<b>(52.7)</b>	<b>—</b>	<b>28.6</b>

## 5 Net operating expenses

	2023	2022
	\$m	\$m
Acquisition costs <sup>1</sup>	87.1	54.2
Change in deferred acquisition costs	(17.2)	(11.7)
Administrative expenses	14.8	(0.4)
Reinsurance commissions	5.4	8.3
Profit commissions payable	8.2	2.3
	<b>98.3</b>	<b>52.7</b>

<sup>1</sup> Brokerage and commissions on direct business written was \$64.0m (2022: \$nil)

Administrative expenses include:

	2023	2022
	\$m	\$m
Fees payable to the syndicate's auditor for the audit of these syndicate annual accounts	0.1	0.1
Fees payable to the syndicate's auditor and its associates in respect of:		
Other services pursuant to legislation	0.2	0.1
	<b>0.3</b>	<b>0.2</b>

Fees payable to the syndicate's auditor in relation to other services pursuant to legislation primarily relate to the review and audit of syndicate regulatory returns along with the statement of actuarial opinion.

## 6 Staff costs

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

	2023	2022
	\$m	\$m
Wages and salaries	2.1	—
Short-term incentive payments	1.4	—
Social security costs	0.7	—
Pension costs	0.5	—
	<b>4.7</b>	<b>—</b>

\* The syndicate changed from a special purpose arrangement syndicate to a full syndicate for 2023, prior to this it had no staff costs.

## 7 Emoluments of the Directors of Beazley Furlonge Limited

The Directors of BFL received the following aggregate remuneration charged to Syndicate 5623 and included within net operating expenses was \$0.4m (2022: nil).

## 8 Active underwriter's emoluments

The aggregate amount of remuneration paid to and for the benefit of the active underwriter, which was recharged to Syndicate 5623 was \$0.8m (2022: nil).

# Notes to the syndicate annual accounts continued

## 9 Net investment return

	2023 \$m	2022 \$m
Investment income	11.1	(4.0)
Interest on cash and cash equivalents	0.5	—
Unrealised gains on financial investments at FVTPL	1.5	—
Realised losses on financial investments at FVTPL	(0.6)	—
<b>Net investment return</b>	<b>12.5</b>	<b>(4.0)</b>

## 10 Deferred acquisition costs

	2023 \$m	2022 \$m
Balance at 1 January	34.7	21.4
Change in deferred acquisition costs	17.3	11.6
Change in deferral of overriding commission	(5.2)	1.7
Exchange adjustments	0.1	—
<b>Balance at 31 December</b>	<b>46.9</b>	<b>34.7</b>

## 11 Financial assets and liabilities

	Market Value		Cost	
	2023 \$m	2022 \$m	2023 \$m	2022 \$m
<b>Financial assets at fair value</b>				
Fixed and floating rate debt securities:				
- Government issued	91.0	—	90.5	—
- Corporate bonds:				
- Investment grade	62.6	—	62.1	—
<b>Total financial investments at fair value through profit or loss</b>	<b>153.6</b>	<b>—</b>	<b>152.6</b>	<b>—</b>
Derivative financial instruments	0.1	—	—	—
<b>Total financial assets at fair value</b>	<b>153.7</b>	<b>—</b>	<b>152.6</b>	<b>—</b>

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

Derivative financial instruments relate to foreign exchange forward contracts. In 2023 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.

	2023		2022	
	Notional contract amount \$m	Fair value \$m	Notional contract amount \$m	Fair value \$m
<b>Derivative financial instrument assets</b>				
Foreign exchange forward contract	7.6	0.1	—	—
<b>Derivative financial instrument liabilities</b>				
Foreign exchange forward contract	7.6	—	—	—

### 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.



## 11 Financial assets and liabilities continued

### Valuation hierarchy

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

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

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

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

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

### Valuation approach

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

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

The table below shows the fair values of financial instruments at 31 December 2023, including their levels in the fair value hierarchy. There were no such financial instruments held at 31 December 2022.

	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
<b>2023</b>				
<b>Financial assets at fair value</b>				
Fixed and floating rate debt securities:				
- Government issued	91.0	-	-	91.0
- Quasi-government issued	-	-	-	-
- Corporate bonds:				
- Investment grade	35.7	26.9	-	62.6
Derivative financial instruments	0.1	-	-	0.1
<b>Total financial assets at fair value</b>	<b>126.8</b>	<b>26.9</b>	<b>-</b>	<b>153.7</b>

# Notes to the syndicate annual accounts continued

## 12 Other debtors

	2023 \$m	2022 \$m
Amounts due from Syndicate 3623	211.4	208.7
Other debtors	0.6	—
Amounts due from group entities	7.4	—
Amounts due from members	2.1	1.6
	<b>221.5</b>	<b>210.3</b>

These balances are due within one year.

## 13 Cash and cash equivalents

	2023 \$m	2022 \$m
Cash at bank and in hand	30.8	23.4
Short term deposits <sup>1</sup>	12.7	—
	<b>43.5</b>	<b>23.4</b>

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

## 14 Technical Provisions

	Provision for unearned premium \$m	Claims outstanding \$m
<b>Gross technical provisions</b>		
As at 1 January 2023	135.2	225.9
Change in the provision	75.4	122.8
Exchange adjustments	0.2	1.2
<b>As at 31 December 2023</b>	<b>210.8</b>	<b>349.9</b>
<b>Reinsurers' share of technical provisions</b>		
As at 1 January 2023	—	—
Change in the technical provision	6.5	12.0
<b>As at 31 December 2023</b>	<b>6.5</b>	<b>12.0</b>
<b>Net technical provisions</b>		
As at 1 January 2023	210.8	349.9
<b>As at 31 December 2023</b>	<b>204.3</b>	<b>337.9</b>

	Provision for unearned premium \$m	Claims outstanding \$m
<b>Gross technical provisions</b>		
As at 1 January 2022	81.3	139.4
Change in the technical provision	54.3	88.8
Exchange adjustments	(0.4)	(2.3)
<b>As at 31 December 2022</b>	<b>135.2</b>	<b>225.9</b>

## 14 Technical Provisions (continued)

	2018	2019	2020	2021	2022	2023	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Gross amounts</b>							
<b>Total</b>							
12 months	10.2	26.8	64.0	123.6	207.0	264.3	
24 months	8.0	31.5	64.5	108.5	175.2		
36 months	7.5	32.2	55.6	89.6			
48 months	7.2	31.0	49.6				
60 months	7.8	27.1					
72 months	7.5						
Total ultimate losses	7.5	27.1	49.6	89.6	175.2	264.3	613.3
Less paid claims	(5.9)	(13.9)	(18.4)	(26.8)	(27.2)	(7.2)	(99.4)
Less unearned portion of ultimate losses	—	—	—	—	(4.5)	(159.5)	(164.0)
<b>Gross claims liabilities</b>	<b>1.6</b>	<b>13.2</b>	<b>31.2</b>	<b>62.8</b>	<b>143.5</b>	<b>97.6</b>	<b>349.9</b>

	2018	2019	2020	2021	2022	2023	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Net amounts</b>							
<b>Total</b>							
12 months	10.2	26.8	64.0	123.6	207.0	246.7	
24 months	8.0	31.5	64.5	108.5	175.2		
36 months	7.5	32.2	55.6	89.6			
48 months	7.2	31.0	49.6				
60 months	7.8	27.1					
72 months	7.5						
Total ultimate losses	7.5	27.1	49.6	89.6	175.2	246.7	595.7
Less paid claims	(5.9)	(13.9)	(18.4)	(26.8)	(27.2)	(7.2)	(99.4)
Less unearned portion of ultimate losses	—	—	—	—	(4.5)	(153.9)	(158.4)
<b>Net claims liabilities</b>	<b>1.6</b>	<b>13.2</b>	<b>31.2</b>	<b>62.8</b>	<b>143.5</b>	<b>85.6</b>	<b>337.9</b>

## 15 Creditors

	2023	2022
	\$m	\$m
Creditors arising out of direct insurance operations	0.1	—
Creditors arising out of reinsurance operations	1.7	1.0
Amounts due to other related entities	1.2	0.2
	<b>3.0</b>	<b>1.2</b>

The above creditor balances are payable within one year. The amounts of \$0.2m are due to Syndicate 623 and \$1.0m due to Syndicate 2623.

## 16 Related parties transactions

For the 2021 and 2022 YOAs the business written by syndicate 5623 is ceded from syndicate 3623, for which syndicate 5623 pays a profit commission. This profit commission payable is disclosed in note 5 and the override commission is included within operating expenses. The proportion of override commission in respect of unearned premium is deferred at the balance sheet date and recognised in later periods when the related premiums are earned.

Beazley Underwriting Limited provides 18.0% of the underwriting capacity to the syndicate for the 2023 YOA. Profit related remuneration for Beazley Group is charged to the syndicate for the 2023 YOA. At the balance sheet date, the syndicate has profit commissions accrued which are due to the managing agent of \$0.9m (2022: nil) in respect of 2023 YOA.

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

## Notes to the syndicate annual accounts continued

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### 16 Related parties transactions (continued)

The intercompany positions with other syndicates managed by BFL at 31 December 2023 are disclosed above in note 12 (Other debtors) and note 15 (Creditors).

The Directors of BFL have shareholdings in Beazley plc which provides capacity for syndicates 2623, 3622, 3623, 4321 and 5623.

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

### 17 Subsequent events

There have been no balance sheet events which have occurred between the reporting date and the date which the financial statements have been signed, for which an adjustment and/or disclosure is required. The 2021 YOA has closed with a profit of \$24.9m. It is the intention that these funds will be distributed to the members reserve funds in May 2024.

# 2021 underwriting year of account for Syndicate 5623

36	Managing agent's report
37	Statement of managing agent's responsibilities
38	Independent auditor's report to the members of Syndicate 5623 – 2021 closed year of account
41	Profit or loss account
41	Statement of changes in members' balances
42	Balance sheet
43	Cash flow statement
44	Notes to the 2021 underwriting year of account
48	Four year summary of closed year results at 31 December 2023
49	Managing agent's corporate information

# Managing agent's report

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

Members participate on a syndicate by reference to a year of account ('YOA') and each syndicate YOA is a separate annual venture. These accounts relate to the 2021 YOA which has been closed by reinsurance to close at 31 December 2023; consequently the balance sheet represents the assets and liabilities of the 2021 YOA and the profit or loss account reflects the transactions for that YOA during the 36 months period until closure. The 2021 closed YOA profit of \$24.9m includes a reinsurance to close profit from the 2020 YOA of \$4.5m (note 6). This profit on the 2021 YOA represents a return on capacity of 13.7% and includes the impact of personal members expenses of \$0.5m. Return on capacity excluding these expenses would be 14.0%.

## Principal activity

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

## Directors

A list of directors of the managing agent who held office during the current year can be found on page 49 of this document.

## Disclosure of information to the auditor

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

## Auditor

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

On behalf of the Board

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**S M Lake**

**Finance Director**

27 February 2024

# Statement of managing agent's responsibilities

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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 YOA, 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

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**S M Lake**  
**Finance Director**

27 February 2024

# Independent auditor's report to the members of Syndicate 5623

2021 closed year of account

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## Opinion

We have audited the syndicate underwriting year accounts for the 2021 year of account of Syndicate 5623 ('the syndicate') for the three years ended 31 December 2023 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 12, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate underwriting year accounts:

- give a true and fair view of the profit for the 2021 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 2021 year of account

We draw attention to Note 1 which explains that the 2021 year of account of Syndicate 5623 has closed and all assets and liabilities transferred to the 2022 year of account by reinsurance to close at 31 December 2023.

As a result, the syndicate underwriting year accounts for the 2021 year of account of Syndicate 5623 have been prepared under basis other than going concern.

Our opinion is not modified in respect of this matter.

## Other information

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

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

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

We have nothing to report in this regard.

## 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 37, the managing agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and The Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate underwriting year accounts that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the syndicate underwriting year accounts

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the syndicate and determined that the most significant are direct laws and regulations related to elements of Lloyd's Byelaws and Regulations, and the financial reporting framework (UKGAAP) and requirements referred to by Lloyd's in the Instructions. Our considerations of other laws and regulations that may have a material effect on the syndicate underwriting year accounts included permissions and supervisory requirements of Lloyd's of London, the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We obtained a general understanding of how the syndicate is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters of the syndicate. In assessing the effectiveness of the control environment, we also reviewed significant correspondence between the syndicate, Lloyd's of London and other UK regulatory bodies; reviewed minutes of the Board and Risk Committee of the managing agent; and gained an understanding of the managing agent's approach to governance.
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related syndicate underwriting year accounts' items.
- For both direct and other laws and regulations, our procedures involved: making enquiries of the directors of the managing agent and senior management for their awareness of any non-compliance of laws or regulations, enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, enquiring about the managing agent's methods of enforcing and monitoring compliance with such policies, and inspecting significant correspondence with Lloyd's, the FCA and the PRA.
- The syndicate operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

# Independent auditor's report to the members of Syndicate 5623 2021 closed year of account continued

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- 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, 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

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

28 February 2024

# Profit or loss account

2021 year of account for the 36 months ended 31 December 2023

	Notes	2021 year of account \$m
Gross premiums written		143.4
<b>Earned premiums, net of reinsurance</b>		<b>143.4</b>
Allocated investment return transferred from the non-technical account		1.9
Reinsurance to close premiums received, net of reinsurance	4	59.5
		<b>61.4</b>
Gross claims paid		(36.4)
Reinsurance to close premiums payable	5	(101.1)
<b>Claims incurred, net of reinsurance</b>		<b>(137.5)</b>
Net operating expenses	7	(44.4)
<b>Balance on the technical account</b>		<b>22.9</b>
Profit on foreign exchange		2.0
Investment income		1.9
Allocated investment return transferred to the technical account		(1.9)
<b>Profit for the 2021 closed YOA</b>	6	<b>24.9</b>
Syndicate allocated capacity (£m)		144.2
<b>Profit for the 2021 closed YOA (£m)</b>		<b>19.8</b>
Return on capacity		13.7%

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

# Statement of changes in members' balances

for the 36 months ended 31 December 2023

	2021 year of account \$m
Profit for the 2021 closed YOA	24.9
<b>Amounts due to members' at 31 December 2023</b>	<b>24.9</b>

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

# Balance sheet

closed at 31 December 2023

	Notes	2021 year of account \$m
<b>Assets</b>		
Financial assets at fair value	8	46.1
Debtors	9	74.6
Cash at bank and in hand		9.5
Prepayments and accrued income		0.5
<b>Total assets</b>		<b>130.7</b>
<b>Members' balances and liabilities</b>		
<b>Members' balances</b>		
Amounts due to members	10	24.9
<b>Liabilities</b>		
Reinsurance to close premium payable to close the account – gross amount	5	100.8
Creditors	11	5.0
<b>Total liabilities</b>		<b>130.7</b>

The syndicate underwriting year accounts on pages 41 to 47 were approved by the Board of Directors of Beazley Furlonge Limited on 27 February 2024 and were signed on its behalf by:

A P Cox

Chief Executive Officer

S M Lake

Finance Director

# Cash flow statement

2021 year of account for the 36 months ended 31 December 2023

	2021 year of account \$m
<b>Reconciliation of loss for the financial year to net cash inflow from operating activities</b>	
Profit for the 2021 closed YOA	24.9
Increase in gross reinsurance to close premium payable	100.8
Increase in debtors	(74.6)
Increase in creditors	5.0
Increase in prepayments	(0.5)
Investment income received	(1.9)
<b>Net cash inflows from operating activities</b>	<b>53.7</b>
Net purchases of financial instruments	(46.1)
Investment income received	1.9
<b>Net cash outflows from investing activities</b>	<b>(44.2)</b>
Transfer to members in respect of underwriting participations	–
<b>Net cash flows from financing activities</b>	<b>–</b>
<b>Net movement in cash and cash equivalents</b>	<b>9.5</b>
Cash and cash equivalents at 1 January 2021	–
<b>Cash and cash equivalents at 31 December 2023</b>	<b>9.5</b>

# Notes to the syndicate underwriting year accounts

closed at 31 December 2023

## 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 (NO.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 2021 YOA which closed on 31 December 2023. The accumulated profits of the 2021 YOA will be distributed shortly after publication of these accounts. Therefore the 2021 YOA 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 2021 YOA 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 the managing agent has 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 YOA 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 YOA to be closed by payment of a reinsurance to close premium to the successor YOA.
- (b) Gross premiums are allocated to YOA on the basis of the inception date of the policy. Commission and brokerage are charged to the YOA to which the relevant policy is allocated. Policies written under binding authorities, lineslips or consortium arrangements are allocated to the YOA into which the arrangement incepts. Additional and return premiums follow the YOA 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 YOA as that to which the corresponding premiums are allocated and include internal and external claims settlement expenses. Reinsurance recoveries are allocated to the YOA to which the claim was charged.
- (d) The reinsurance to close premium is determined by reference to outstanding liabilities, including claims incurred but not yet reported, relating to the closed year and to all previous closed years reinsured therein. Although the estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined. The reinsurance to close premium includes a provision for unearned premiums and unexpired risks at the balance sheet date, net of deferred acquisition costs.
- (e) Please refer to note 1 Accounting policies in Syndicate 5623 annual accounts for details around measurement of insurance contracts.

### Comparatives

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

### Investment return

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

## 1 Accounting policies continued

### Syndicate operating expenses

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

### Taxation

- (i) Under Schedule 19 of the Finance Act 1993, managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax. It is the responsibility of members to agree and settle their individual tax liabilities with the Inland Revenue.
- (j) No provision has been made for any US federal income tax payable on the underwriting results or investment earnings. Any payments on account made by the syndicate during the year have been included in the balance sheet under the heading 'other debtors'.
- (k) No provision has been made for any other overseas tax payable by members on underwriting results. Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

### Basis of currency translation

- (l) The functional and presentational currency of the syndicate is US dollars. Non-USD denominated items going through the profit or loss account 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 at that date.

## 2 Risk management

The 2021 YOA has closed and all assets and liabilities have been transferred to a reinsuring YOA. The result for the YOA 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 YOA's 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.

## 3 Analysis of underwriting result

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

## 4 Reinsurance to close premiums received

	2021 year of account \$m
Gross reinsurance to close premiums received	59.5
<b>Reinsurance to close premiums received, from 2020 and earlier, net of reinsurance</b>	<b>59.5</b>

# Notes to the syndicate underwriting year accounts

closed at 31 December 2023 continued

## 5 Reinsurance to close premiums payable

	2021 year of account \$m
Gross reinsurance to close premiums through profit and loss	101.1
Foreign exchange	(0.3)
<b>Reinsurance to close premiums payable to 2022 net of reinsurance</b>	<b>100.8</b>

	Reported \$m	IBNR \$m	Total \$m
Reinsurance to close premium payable	11.9	88.9	100.8
<b>Reinsurance to close premiums payable</b>	<b>11.9</b>	<b>88.9</b>	<b>100.8</b>

## 6 Analysis of the 2021 YOA result

	2021 year of account \$m
Amount attributable to business allocated to the 2021 YOA	20.4
Surplus on the reinsurance to close for the 2020 YOA	4.5
	<b>24.9</b>

## 7 Net operating expenses

	2021 year of account \$m
Acquisition costs	33.9
Reinsurance commissions and profit participation	10.5
Administrative expenses	—
	<b>44.4</b>

Administrative expenses include:	\$m
Audit services	0.1

## 8 Financial Assets

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	27.1	–	–	27.1
Corporate bonds				–
– Investment grade credit	10.7	8.3	–	19.0
<b>Total financial assets at fair value</b>	<b>37.8</b>	<b>8.3</b>	<b>–</b>	<b>46.1</b>



## 9 Debtors

	2021 year of account \$m
Debtors arising out of direct insurance operations	1.8
Amounts due from other syndicates	64.2
Other debtors	8.6
	<b>74.6</b>

These balances are due within one year.

## 10 Amounts due to members

	2021 year of account \$m
Profit for the 2021 closed YOA before standard personal expenses	25.4
Members standard personal expenses	(0.5)
<b>Amounts due to members at 31 December 2023</b>	<b>24.9</b>

## 11 Creditors

	2021 year of account \$m
Other creditors	5.0
	<b>5.0</b>

## 12 Related parties transactions

Please refer to page 33 of the syndicate annual accounts for further details of related party transactions for the 2021 YOA.

For the 2021 YOA, the business written by syndicate 5623 is ceded from syndicate 3623, for which syndicate 5623 pays a profit commission. This profit commission payable and the override commission is included within operating expenses. Amounts due from other syndicates is disclosed within note 9.

As at the balance sheet date, the 2021 YOA has a receivable from Beazley Management Limited ('BML') of \$3.7m, and this is included in other debtors, disclosed within note 9. BML provides services to the managing agent, and by extension, to the syndicate.

BFL, the managing agent of Syndicate 5623, is a wholly-owned subsidiary of Beazley plc.

BFL 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.

# Four-year summary of closed year results (unaudited)

at 31 December 2023

	2021	2020	2019	2018
Syndicate allocated capacity – £'m	144.2	83.5	63.1	22.5
Syndicate allocated capacity – \$'m	178.8	106.1	83.3	29.3
Capacity utilised	62.7%	78.3%	42.8%	28.3%
Aggregate net premiums – \$'m	112.0	83.1	35.7	8.3
Underwriting profit as a percentage of gross premiums	28.1%	27.3%	8.6%	29.7%
Return on capacity	13.7%	9.8%	2.1%	3.2%
Results for an illustrative £10,000 share	\$	\$	\$	\$
Gross premiums – \$'000	7.8	8.0	5.7	3.7
Net premiums	7.8	8.0	5.7	3.7
Reinsurance to close from an earlier account	4.1	2.4	0.5	–
Net claims	(2.5)	(2.1)	(1.5)	(1.2)
Reinsurance to close the year of account	(7.0)	(6.8)	(4.2)	(1.5)
Underwriting profit	2.4	1.5	0.5	1.1
Profit on foreign exchange	0.2	0.1	–	–
Syndicate operating expenses	(0.2)	(0.2)	(0.4)	(0.7)
Balance on technical account	2.4	1.4	0.1	0.4
Gross investment return	0.1	(0.1)	0.2	0.1
Profit before personal expenses	2.5	1.3	0.3	0.5
Illustrative personal expenses	(0.5)	–	–	–
Managing agent's profit commission	(0.3)	(0.2)	–	(0.1)
Profit after illustrative profit commission and personal expenses (\$)	1.7	1.1	0.3	0.4
Profit after illustrative profit commission and personal expenses (£)	1.4	1.0	0.2	0.3

#### Notes:

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

# Managing agent's corporate information

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Beazley Furlonge Limited has been the managing agent of Syndicate 5623 throughout the period covered by this report and the registered office is 22 Bishopsgate, London, EC2N 4BQ, United Kingdom.

## Directors

R A Stuchbery\* - Chair  
A P Cox - Chief Executive Officer  
G P Blunden\*\*  
C C R Bannister\* (appointed 08/02/2023)  
C LaSala\* - (resigned 18/12/2023)  
N H Furlonge\* - (resigned 31/12/2023)  
A J Reizenstein\*  
I Fantozzi\*  
N Wall\*  
R S Anarfi  
I Fantozzi - (resigned 01/03/2023)  
S M Lake  
R E Quane

\*Non-Executive Director.

\*\* George Blunden resigned from his role as interim chair on 18/12/2023.

## Active underwriter

W J Roscoe

## Company secretary

C P Oldridge (resigned 29/06/2023)  
R Yeoman (appointed 29/06/2023)

## Managing agent's registered office

22 Bishopsgate  
London  
EC2N 4BQ  
United Kingdom

## Registered number

01893407

## Auditor

Ernst & Young LLP  
25 Churchill Place  
London  
E14 5EY

## Banker

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



Syndicate 5623  
annual report 2023

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**beazley**