Beazley Furlonge Limited | Syndicate 623 at Lloyd's Annual report 2014

Versatile specialists

Premier Partner of BRITISH FENCING

Contents

Highlights

	2014	2013
Syndicate capacity (£m)	242.8	224.7
Gross premiums written ($m)	373.9	373.7
Net premiums written ($m)	319.2	314.5
Earned premiums, net of reinsurance ($m)	308.2	299.3
Profit for the financial year ($m)	**42.3**	**61.2**
Claims ratio	48%	42%
Expense ratio	39%	38%
Combined ratio	87%	80%
Renewal rate (decrease)/increase	(2%)	1%
Cash and investments ($m)	654.0	664.4
Annualised investment return	2.2%	0.9%

Strategic report of the managing agent

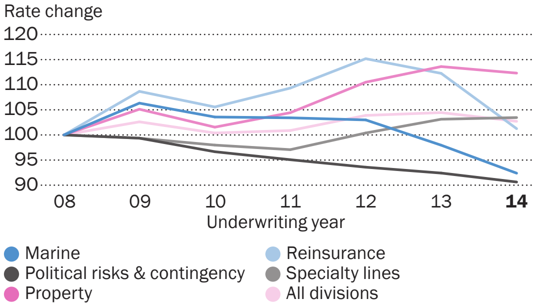
Overview
The syndicate has achieved a profit for the year of $42.3m (2013: $61.2m). Gross premiums written of $373.9m remained stable compared to the prior year (2013: $373.7m).

For 2014 total managed premium capacity for Beazley Furlonge Limited was £1,513.7m (2013: £1,408.1m), which includes £16.0m, £140.0m and £21.0m for 3622, 3623 and 6107 respectively. Syndicate 623 contributed £242.8m and syndicate 2623 contributed the remaining £1,093.9m.

Year of account results
We are pleased to declare a return on capacity of 13.6% for the 2012 year of account. The 2013 year of account is currently forecasting a return on capacity of 4.0%. The 2014 year of account is developing in line with expectations and currently forecasts a return on capacity of 5.0%.

Rating environment
Rates charged for renewal business decreased by 2% in 2014 across the portfolio (2013: increase of 1%). Rates on renewals in our largest division, specialty lines, were flat on average in 2014 and moderate rate increases were achieved in five of its seven sub-divisions. All other divisions experienced falling rates on renewal business in 2014, with rates decreasing by 1% in property, 2% in political risk & contingency, 6% in marine and 10% in reinsurance.

Cumulative renewal rate changes since 2008 (%)



Combined ratio
The combined ratio of an insurance entity is a measure of its operating performance and represents the ratio of its total costs (including claims and expenses) to total net earned premium. A combined ratio under 100% indicates an underwriting profit. Consistent delivery of a sub 100% combined ratio across the market cycle is clearly a key objective for an insurer. The syndicate's combined ratio has increased in 2014 to 87% (2013: 80%), driven largely by a decrease in the amount released from prior year reserves. The calculation of the combined ratio for the syndicate includes all claims and other costs of the syndicate but excludes foreign exchange gains or losses. We believe this represents the most transparent and useful measure of operating performance as it ensures that all of the costs of being in business are captured, whether directly linked to underwriting activity or not.

Claims
Overall, the claims environment has been favourable during 2014. There has been little natural catastrophe activity during the year, with a small exposure to Hurricane Odile seen on the property book.

Prior year reserve releases

Beazley has a consistent reserving philosophy, with initial reserves being set to include risk margins that may be released over time as and when any uncertainty reduces. Historically these margins have given rise to held reserves within the range 5-10% above the actuarial estimates, which themselves include some margin for uncertainty. The margin held above the actuarial estimate was 7.1% at the end of 2014 (2013: 8.2%). This margin has remained stable over time and is a lead indicator for the sustainability of reserve releases. It is, however, important to recognise that claims reserve uncertainty is the most significant risk within Beazley and a positive lead indicator will not always equate to future releases.

Reserve monitoring is performed at a quarterly 'peer review', which involves a challenge process contrasting the claims reserves of underwriters and claim managers, who make detailed claim-by-claim assessments, and the actuarial team, who provide statistical analysis. This process allows early identification of areas where claims reserves may need adjustment.

During 2014, we have been able to release prior year reserves of $33.9m (2013: $49.7m). While 2013 benefited from exceptional releases in the political risks and contingency and reinsurance divisions, the level of releases seen in 2014 are more in line with the five year average. These reserve releases are shown by division in the table below:

	2014 $m	2013 $m
Marine	9.0	10.9
Political risks and contingency	4.5	9.1
Property	8.4	7.8
Reinsurance	6.3	12.6
Specialty lines	5.7	9.3
Total	**33.9**	**49.7**
Releases as a percentage of net earned premium	11.0%	16.6%

Net operating expenses

Net operating expenses, including business acquisition costs and administrative expenses increased from $108.6m to $124.7m in 2014. The breakdown of these costs is shown below:

	2014 $m	2013 $m
Brokerage costs	78.9	73.1
Other acquisition costs	10.1	10.5
Total acquisition costs	**89.0**	**83.6**
Administrative and other expenses	35.7	25.0
Net operating expenses*	**124.7**	**108.6**

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

Brokerage costs are the premium commissions paid to insurance intermediaries for providing business. Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with accounting guidelines.

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

Administrative expenses comprise primarily IT costs, staff costs, facilities costs, Lloyd's central costs and other support costs (including foreign exchange gains and losses). Foreign exchange gains and losses arise on our non-US dollar assets and liabilities which include our overseas deposits and elements of our technical provisions. In 2014, administrative expenses include a foreign exchange loss of $3.5m (2013: a foreign exchange gain of $4.6m).

Strategic report of the managing agent *continued*

Investment performance

Investment income for the year ended 31 December 2014 was $14.3m, or an annualised return of 2.2%, compared with $5.7m or 0.9% over the same period in 2013. In 2014 the portfolio benefited from falling yields in all regions where we have significant fixed rate exposure, i.e. the US, UK and especially in Europe – where yields fell to record low levels across the curve. Our credit investments also contributed positive performance, benefiting from the fall in yields, even though investment grade credit spreads widened during the course of the year. Our hedge funds with uncorrelated strategies were also a significant contributor to returns.

During the year our management of core fixed income assets transferred from Falcon Money Management to an in house team. This portfolio, comprising AAA/AA Government and Agency bonds, returned 1.5% in 2014, generating strong returns in Europe and positive results in the US and the UK as yields fell and curves flattened. The other element of the core portfolio, credit, is outsourced to four managers and generated a 1.5% return. The credit assets are predominantly investment grade, including a small allocation to investment grade emerging market corporates, but also include small exposures to senior secured loans. Cash assets, totalling 7.1% of the portfolio, generated a 0.1% return.

The remaining elements of the portfolio – equal to approximately 12.6% of the total – consist of funds with an equity component (3.4%) and hedge funds with uncorrelated strategies (9.2%). We continue to work with Falcon Money Management on this section of the portfolio where we have set a target allocation of being equally distributed between the two sub-strategies. The weighted average duration of our fixed income portfolio (including cash, government bonds and credit investments) at the end of 2014 was 1.8 years (2013: 1.9 years).

We are cautious about the outlook for investment returns in 2015 which will be limited by extremely low yields across the curve, and, in some cases even negative yields at shorter durations.

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

	31 Dec 2014		31 Dec 2013	
	$m	%	$m	%
Cash at bank and in hand	46.4	7.1	44.4	6.7
Fixed and floating rate debt securities				
– Government, quasi-government and supranational	293.7	44.9	313.7	47.2
– Corporate bonds				
– investment grade credit	165.9	25.4	178.7	26.9
– high yield	12.2	1.9	–	–
– Syndicated bank loans	2.4	0.3	0.7	0.1
– Asset backed securities	51.0	7.8	47.1	7.1
Derivative financial assets	0.2	–	1.9	0.3
Core portfolio	571.8	87.4	586.5	88.3
Equity linked funds	22.0	3.4	17.1	2.6
Hedge funds (uncorrelated strategies)	60.2	9.2	60.8	9.1
Total capital growth assets	82.2	12.6	77.9	11.7
Total	**654.0**	**100.0**	**664.4**	**100.0**

Comparison of return by major asset class:

	31 Dec 2014		31 Dec 2013	
	$m	%	$m	%
Core portfolio	8.7	1.3	2.1	0.4
Capital growth assets	5.6	7.0	3.6	5.0
Overall return	**14.3**	**2.2**	**5.7**	**0.9**

Reinsurance

In 2014, the amount spent on reinsurance was $54.7m (2013: $59.2m).

Reinsurance is purchased for a number of reasons:
- to mitigate the impact of catastrophes such as hurricanes;
- to enable the syndicate to put down large, lead lines on risks we underwrite; and
- to manage capital to lower levels.

Individual capital assessment

The syndicate is required to produce an individual capital assessment (ICA) which sets out the amount of capital that is required to reflect the risks contained within the business. Lloyd's reviews this assessment to ensure that ICAs are consistent across the market.

The current capital assessment has been established using our Solvency II internal model which has been run within the ICA regime as prescribed by Lloyd's. In order to determine the capital assessment, we have made significant investments in both models and process:
- we use sophisticated mathematical models that reflect the key risks in the business allowing for probability of occurrence, impact if they do occur, and interaction between risk types. A key focus of these models is to understand the risk posed to individual teams, and to the business as a whole, of a possible deterioration in the underwriting cycle; and
- the internal model process is embedded so that teams can see the direct and objective link between underwriting decisions and the capital allocated to that team. This gives a consistent and comprehensive picture of the risk reward profile of the business and allows teams to focus on strategies that improve return on capital.

Solvency II

It is now confirmed that the Solvency II regime will be implemented from 1 January 2016, with the passing of the Omnibus II Directive by the European Parliament in 2014. We welcome this definitive start date and, while some final detail of requirements remains to be confirmed, we believe that we are strongly positioned for full compliance. Beazley's programme to prepare for Solvency II began in 2008 and will remain in place through to completion.

During 2014, Beazley has continued to benefit from participation in the Lloyd's Solvency II programme and the use of the internal model for Lloyd's capital setting has been a strong driver for the embedding of the model into business as usual.

Outlook

The 2013 and 2014 underwriting years are developing well and are in line with expectations. The increasingly competitive market conditions which emerged in 2014 are expected to continue in 2015, particularly in relation to the large risk business typically written by our underwriters based in London.

Our focus remains on segmenting our portfolio and optimising our underwriting returns. Our diverse portfolio, both in terms of products and geography, gives us an opportunity to prioritise the areas of our business which we believe offer the greatest potential for profitable growth.

N P Maidment
Active Underwriter

11 March 2015

Strategic report of the managing agent *continued*

Marine

	2014 $m	2013 $m
Gross premiums written	71.3	68.8
Net premiums written	63.5	61.4
Earned premiums, net of reinsurance	62.0	57.8
Claims incurred, net of reinsurance	(23.1)	(18.7)
Net operating expenses	(25.7)	(22.5)
Technical result	**13.2**	**16.6**
Claims ratio	37%	32%
Expense ratio	42%	39%
Combined ratio	79%	71%
Renewal rate change	(6%)	(5%)

Competition across most of the lines underwritten by the marine division intensified in 2014, in some cases significantly. Against this background, the division delivered another strong underwriting performance, achieving a combined ratio of 79% (2013: 71%) on premiums of $71.3m (2013: $68.8m).

We saw the strongest competition for hull, cargo and energy business. Low claims in all three sectors have meant that the market has continued to soften into 2015 with premium rates for hull business at the beginning of this year continuing to fall, following rate declines of 4% in 2014. In the cargo market, the declines were aggravated by falling commodity prices, particularly for oil.

Maritime trade was not particularly buoyant in 2014, but it has nevertheless risen steadily in recent years with only one dip in 2009. Beazley insures most of the world's major shipyards that build the ships to cater to this demand, and this marine construction insurance business performed well for us in 2014.

In recent years, the syndicate's offshore energy business has been a growing component of our diversified portfolio, accounting for 29% of the division's premiums in 2013. Last year competition for this business was particularly intense with rates at renewal falling by an average of 10%. Our energy team led by Matt Holmes continued to find attractive risks in this very difficult market, but the book contracted by 18% to $20.8m.

Marine war risks business continued to be impacted by the low level of claims from ships frequenting what were formerly the very dangerous waters off the Horn of Africa. Tight security measures are now routinely adopted by vessels in this area and these have proved an effective deterrent to any pirates.

The story in the aviation war risks market is very different, with losses in 2014 equivalent to almost ten years' premium for this entire market. Rates initially rose steeply but the rate rises soon abated, and the knock-on effect on the broader aviation market has been negligible. In this highly competitive market, with rates at historically low levels, we adopted a cautious approach, writing $5.6m in the syndicate's aviation business (both all risks and war risks), down from $6.3m in 2013.

In 2014 we began underwriting satellite business, hiring Denis Bensoussan to develop our presence in this market. Denis joined Beazley in March and wrote $1.9m in the remainder of the year: we plan to increase this modestly in 2015. Launch failures including the Proton M/AM4R satellite in May and the Antares cargo module being sent to the International Space Station in October, meant that the market is barely breaking even but this is a line of business that, over time, repays shrewd underwriting, and Denis is a shrewd and knowledgeable underwriter.

Our underwriters maintain a healthy focus on short term profitability but we also know that in some areas long term investments are required. For some years now Steve Smyth has been building a profitable business for us in the UK, insuring cargo risks sourced by brokers around the country. Steve will be making good use of his excellent broker relationships in the months ahead to broaden our UK portfolio to include pleasure crafts and yachts.

Political risks and contingency

	2014 $m	2013 $m
Gross premiums written	26.3	28.5
Net premiums written	21.7	24.0
Earned premiums, net of reinsurance	20.9	21.6
Claims incurred, net of reinsurance	(5.2)	(0.5)
Net operating expenses	(10.9)	(9.6)
Technical result	**4.8**	**11.5**
Claims ratio	25%	2%
Expense ratio	52%	45%
Combined ratio	77%	47%
Renewal rate change	(2%)	(1%)

The syndicate's political risks & contingency division delivered a combined ratio of 77% (2013: 47%) on gross premiums of $26.3m (2013: $28.5m).

The division focuses on three areas of business: political risks and trade credit; terrorism and political violence; and contingency. More than two thirds of our contingency business is event cancellation: Beazley insures some of the world's largest sports and entertainment events as well as a wide range of smaller events and trade shows. In common with other Beazley teams, we tend to write the largest risks in our various specialist fields at Lloyd's, but we have a growing international presence to develop business that we would not normally see in London.

In recent years, we have seen a significant influx of new capacity into the political risks market, both at Lloyd's syndicates and at insurance companies. The year was relatively uneventful from a claims perspective and, although this doubtlessly played a role in attracting new capacity to the market, combined with favourable developments on prior years, it also enabled us to make reserve releases in the syndicate of $4.5m in 2014.

One line of business that has shown steady softening over many years is terrorism. We still see profitable underwriting opportunities in this market but there is intense competition to participate on the broker panels that many brokers are assembling to cover this risk.

As well as insuring terrorism risks for property owners, our team also underwrites political violence risk to protect businesses active in volatile parts of the world. Events in Ukraine, Russia and the Middle East continued to spur demand for this cover in 2014. We also expanded our terrorism team in New York, hiring two underwriters in April to help cater to the needs of US clients who wish to buy cover locally.

Our third team, contingency, maintained their leading position in the London market whilst growing the overseas offices. Lloyd's contingency underwriters have long enjoyed a reputation for innovation and the Beazley team is no exception. In addition to insuring events, large and small, against cancellation the team also insures businesses against the impact of poor weather on their revenues. Beazley Weather Guard, the product through which we provide this cover, has also proved popular in the US, where the contingency team established a local underwriting presence in 2012: we expanded this team, based in Philadelphia, last year.

The syndicate's political risks & contingency division now has underwriters in six countries: the UK, the US, France, Australia, Singapore and, most recently, the United Arab Emirates, where we opened a Dubai office in November to focus initially on providing local underwriting skills in our products. We will continue to develop our global network carefully to take advantage of attractive growth opportunities that cannot be captured by our underwriters at Lloyd's.

Strategic report of the managing agent *continued*

Property

	2014 $m	2013 $m
Gross premiums written	74.6	80.5
Net premiums written	64.9	67.3
Earned premiums, net of reinsurance	63.0	65.9
Claims incurred, net of reinsurance	(25.9)	(26.4)
Net operating expenses	(27.4)	(27.3)
Technical result	**9.7**	**12.2**
Claims ratio	41%	40%
Expense ratio	44%	41%
Combined ratio	85%	81%
Renewal rate change	(1%)	3%

The syndicate's property division, performed strongly in 2014, delivering a combined ratio of 85% (2013: 81%) on gross premiums written of $74.6m (2013: $80.5m), despite strong competitive pressures in our large risks business.

Our claims experience in 2014 was relatively quiet, with a lower than normal incidence of catastrophe claims. An exception was Hurricane Odile, which hit the peninsula of Baja California in Mexico in September as a category 3 storm, causing significant damage.

The past five years have seen a significant diversification in the syndicate's property business. In 2009, large risks business underwritten by our open market commercial property team in London accounted for 38% of our total portfolio; this year its share was 28%. This diversification proved its worth in 2014 as rate pressures intensified for large commercial property risks. We accordingly reduced this book by 4% in 2014 to $21.3m while growing in other areas.

Today, our well diversified commercial property portfolio comprises books of large, mid sized and small scale risks. Alongside this, we insure large scale construction and engineering risks in London and Singapore, and small scale construction risks in the US (a line of business known locally as builders' risk). Finally, we have two relatively modest books of homeowners' insurance business in the UK and US.

Although our large risks underwriters at Lloyd's were circumspect about the business they underwrote in 2014, our long term commitment to this business remains very strong. In July we announced that Simon Jackson and John Brown, two of the Lloyd's market's most respected property underwriters, would be joining us in 2015, and that Simon would be succeeding Jonathan Gray as head of the open market property team when Jonathan leaves Beazley in June this year. Jonathan's contribution to the property division, which he founded in 1992, and to Beazley is inestimable, but we are pleased that he leaves the company's open market property business in very good hands.

We saw strongest growth in 2014 in the small scale business that we access predominantly from Lloyd's coverholders around the world. Our small business unit saw gross premiums rise by 3% to $26.4m, fuelled by larger line sizes offered to our coverholders.

Binding authorities granted to trusted US coverholders are an important means by which Lloyd's underwriters have been able to access small scale property business from around the world. The team have built up strong coverholder relationships over many years: they are not confined to the US and we also saw our Swiss coverholders book expand materially in 2014. In addition, we continue to be the leading market for UK jewellers' block insurance. We expect continued growth in the small business segment as a whole as rate levels are holding firmer than for other lines and we continue to invest in underwriting skills.

Business underwritten by our construction & engineering team continued to grow steadily in 2014, with our builders' risk business in the US boosted by the continuing recovery of the local economy. To help capture this growing demand, we have recently launched two new products catering for the needs of building contractors. For major international construction and engineering risks, we have continued to see benefits from the establishment of the Construction Consortium at Lloyd's, which we co-founded with three other Lloyd's insurers in 2013. The consortium enables us to compete with the world's largest insurers of construction risks: in September we extended the consortium to operate from the Lloyd's Asia platform in Singapore.

Looking forward, we expect market conditions to become more challenging, but our underwriters' skills in risk selection combined with the flexibility permitted by our diverse portfolio should enable us to continue to provide a strong contribution to the company's performance.

Reinsurance

	2014 $m	2013 $m
Gross premiums written	44.1	48.6
Net premiums written	33.8	37.7
Earned premiums, net of reinsurance	35.3	36.4
Claims incurred, net of reinsurance	(13.0)	(6.1)
Net operating expenses	(11.2)	(11.7)
Technical result	**11.1**	**18.6**
Claims ratio	37%	17%
Expense ratio	32%	32%
Combined ratio	69%	49%
Renewal rate change	(10%)	(3%)

Strong long term relationships with cedents sustained the syndicate's reinsurance division in 2014 but an increasingly competitive market nevertheless took its toll with premium rates falling 10%. Against this background the division performed well, achieving a combined ratio of 69% (2013: 49%) on premiums of $44.1m (2013: $48.6m).

Over the past two years we have scaled down our exposure to the US market, relative to other territories. US business, which has been most affected by the influx of investment from pension funds and other non traditional capital providers, now accounts for 50% of the division's premiums, down from 53% two years ago. Helping to redress the balance, we have seen business grow in a variety of markets, including South Korea, Colombia and Chile.

Overall, claims developed favourably in 2014, except for some deterioration in the New Zealand earthquake loss, and we were able to release $6.3m in reserves previously set aside to cover prior year claims.

London remains the world's biggest reinsurance market, accounting for an estimated 13% of global reinsurance business in 2013, according to research published by the London Market Group in November last year.

Wherever we operate, Beazley's strategy has been to focus on long term client relationships, providing tailored protection to our cedents whenever possible, including cover in risk areas that cannot easily be modelled such as flood and hail. This differentiates us from the more commoditised peril-specific capacity available to cedents through insurance linked securities. We have also been developing our presence in reinsurance hubs in both mature markets, such as Munich, and developing markets, such as Singapore and Latin America. In aggregate, the reinsurance business we underwrote outside London in 2014 rose 5% and now accounts for 17% of the division's total premiums.

The year also marked the first full year in business of our Miami office, opened in July 2013. Miami continues to develop as a regional reinsurance hub for business from across Latin America and Paul Felfle, our local underwriter, wrote $1.0m of business in 2014.

In Singapore, we welcomed Chris Kwon who joined us in March. Chris has been particularly successful in developing South Korean business for Beazley. We underwrote $2.4m of premium in Singapore in 2014, more than double that of 2013.

Strategic report of the managing agent *continued*

Specialty lines

	2014 $m	2013 $m
Gross premiums written	157.6	147.3
Net premiums written	135.3	124.1
Earned premiums, net of reinsurance	127.5	117.7
Claims incurred, net of reinsurance	(79.3)	(74.2)
Net operating expenses	(46.3)	(42.0)
Technical result	**1.9**	**1.5**
Claims ratio	62%	63%
Expense ratio	36%	36%
Combined ratio	98%	99%
Renewal rate change	–	3%

For the second year running, specialty lines, the syndicate's largest division, saw strong growth, writing gross premiums of $157.6m (2013: $147.3m). Stable premium rates on renewal business helped this growth but the strongest impetus derived from the attractiveness of our specialist products to clients in the United States, our biggest market, which accounted for more than 80% of the division's business.

We underwrite US business in two ways: locally through our network of ten US offices, and at the Beazley box at Lloyd's. Lloyd's is well known for the insurance of large and complex risks but our private enterprise team also transacts some small US business at Lloyd's. Large or small, our business comprises management liability and professional liability insurance for a wide range of organisations and professions, as well as medical malpractice insurance and related forms of insurance for hospitals and other healthcare providers.

In 2014, competition was keenest for the large scale business we underwrite in London. We saw rating pressure for large lawyers, large architectural and engineering design firms, and large hospitals.

By contrast, margins were significantly more attractive for the smaller scale business that we underwrite predominantly in the US. We celebrated the tenth anniversary of our US operations in the summer and it is clear from our interactions with US retail and wholesale brokers that our contribution to the local market is now both well understood and highly valued.

We saw particularly strong growth in 2014 in our miscellaneous medical business. This covers a wide array of healthcare-related risks, including contract research organisations for clinical trials, blood and tissue banks, home health providers, medi-spas, dialysis clinics, and ground and air ambulances. This business is attractive to us as it requires considerable expertise to underwrite.

Healthcare services account for almost 18% of US gross domestic product, more than in any other developed economy but as populations age and medical science advances, the healthcare sector is growing elsewhere too. Beazley is well positioned to take the knowledge and skills we have acquired in the US and apply them to underwrite healthcare risks elsewhere.

Beazley Breach Response (BBR), our solution to a risk that has recently provoked increasing concern following a series of high profile hacking attacks on large retailers, continues to be one of our fastest growing products. BBR is designed to meet the needs of small and mid sized businesses and we were not directly exposed to most of the large scale breaches that occurred last year, although it is likely that the publicity surrounding them boosted demand for our product.

Another important area of focus for us in 2014 was reducing the frictional costs of transacting small business to make Beazley a more attractive partner for brokers that serve these clients. In France and the UK, our private enterprise team launched MyBeazley.com, an online trading platform for brokers that gives them instant access to a range of innovative Beazley products tailored for the needs of small businesses. The system also enables brokers to invite clients to name their price for insurance, calculating in real time the cover available for the price selected.

Management liability, comprising directors and officers (D&O) insurance, employment practices liability (EPL) and transaction liability cover (sometimes known as reps and warranties insurance), accounted for over 20% of our total portfolio in 2014. After the financial crisis, we reduced our EPL underwriting significantly in expectation of an uptick in claims associated with the recession. Claims experience has now normalised and, as a result, we are growing this book again.

Looking ahead, our strategy is to consolidate our expanded footprint in the US; to further develop our current approach to distribution, by working in a more coordinated way with a smaller number of brokers; and to continue to invest in products where our specialisation and expertise have value and where we are serving growing markets.

Managing agent's report

The managing agent presents its report for the year ended 31 December 2014.

These syndicate annual accounts have been 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. Separate syndicate underwriting year accounts for the closed year of account are also made available to the syndicate members.

Principal activity

The principal activity of syndicate 623 is the transaction of a range of specialised insurance business at Lloyd's.

Risk management philosophy

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

Risk governance and reporting

Beazley Furlonge Limited's board of directors has the responsibility for defining and monitoring the risk appetite within which Beazley Furlonge Limited and the syndicates operate, 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.

2014 in review

Risk management frameworks continue to evolve across the insurance industry. Although implementation varies according to level of sophistication and complexity, the fundamental purpose is identical; to ensure that a business is well run.

Beazley's risk management framework, which has been in operation in its current design since 2010, continues to operate effectively providing clear, timely and trusted risk information to the boards. Whilst it has continued to evolve, there have been no major changes to the framework in 2014. When we have explored adding complexity to the design, we have found that the clarity of reporting deteriorates, which would reduce the main benefit to the board.

As at 31 December 2014, the syndicate is operating within risk appetite and there are sufficient financial resources and personnel to deliver the syndicate's business plan.

The enterprise-wide implementation of the framework helps the board maintain oversight of the risks and opportunities from continued investment across the group, such as growth in our US operations. To support this we have two experienced risk managers located in the US, who travel regularly to our US offices to help the business identify and manage their risks and ensure that our culture of risk awareness is cascaded and maintained. In 2014, we reviewed the potential risks associated with our infrastructure to ensure that, although they do not currently present a problem, they do not become an emerging risk over time as the business continues to grow.

The risk team have produced a number of risk profiles, which are focused risk assessments of specific topics. In 2014, we investigated the risks associated with travelling staff and the risks associated with cloud computing. We also reviewed our reserving process to confirm that it continues to produce an appropriate and consistent claims reserve for the financial statements. Finally, we updated the risk profile on our Beazley Breach Response product which dated back to 2012. This review will now be performed on an annual basis to provide the board with assurance that the underwriting approach remains appropriate against the backdrop of the relatively fast pace of developments in the cyber environment.

The quarterly Own Risk and Solvency Assessment (ORSA) report has been a feature at Beazley boards since 2010 and remains a valuable tool for the directors to understand current and prospective risks and the associated capital requirements.

For the last three years, the capital required to support the business has been determined using the Solvency II capital model. This internal model has been designed around Beazley's risk profile, with particular focus on the two key risks of managing the market pricing cycle related to our medium tailed specialty lines business and the natural catastrophe exposure from our short tailed classes.

The design principle has remained unchanged since it was first introduced in 2004. As such, most board members and senior management have been part of its design, implementation and operation which means that it is understood and used with confidence as part of managing the business. The total number of times the model was used in 2014 was 81, examples of its use include business planning, reinsurance purchasing, and monitoring risk appetite.

Managing agent's report *continued*

The capital model's longevity also means that we now have over ten years of Beazley specific data so we can compare actual experience against expected model output to supplement the 50 years of market data we use in its parameterisation.

In 2014, we have focused our review on ensuring the dependencies (how the different risks within the model interact) are understood and appropriately reflect what might happen in reality. Dependencies in a capital model are a key area of judgement because of the lack of actual data available. As a result they have to be extrapolated. Beazley uses a 'driver of risk' approach (where interactions are modelled explicitly) rather than applying statistical assumptions between all assumptions. This focuses board discussions on the interactions which are most likely to have a detrimental impact on the business model.

With so much risk and capital information available to boards and senior management today it is essential they receive the right level of information, analysis and interpretation to help them manage risk. Clarity is in the delivery of this information is critical.

Risk management strategy

The board of Beazley Furlonge has delegated the oversight of the risk management department to the executive committee, which in turn has delegated immediate oversight to the risk and regulatory committee.

Clear roles, responsibilities and accountabilities are in place for the management of risks and controls, and all employees are aware of the role they play in all aspects of the risk management process, from identifying sources of risk to their part in the control environment. The impact of each risk is recorded in the risk register on a 1:10 likelihood of that risk manifesting in the next 12 months. A risk owner has been assigned responsibility for each risk, and it is the responsibility of that individual to periodically assess the impact of the risk and to ensure appropriate risk mitigation procedures are in place. External factors facing the business and the internal controls in place are routinely reassessed and changes are made when necessary. On an annual basis, the board agrees the risk appetite for each risk event and this is documented in the risk framework document. The residual financial impact is managed in a number of ways, including:

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

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

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

Managing the cycle

Market cycle risk is characterised by the periodic rise and fall in insurance prices and is driven largely by changes in supply and demand rather than the actual cost of cover. The cycle varies between a soft market where insurance is readily available and premium rates fall as a result of increased competition and a hard market, where clients find insurance coverage more difficult to obtain and rates rise and terms and conditions become more restrictive. Our focus on managing market cycle risk lies at the heart of our underwriting philosophy and this is demonstrated by our strong and consistent trading record.

On a day to day basis, market cycle risk is managed in the following ways:

- business planning – transitioning the portfolio of business to ensure a sufficiently diverse range of good quality products, whose profitability is aligned to the correct position in the cycle. During a hard market we maximise profits by targeting growth on the best opportunities available and in a soft market we focus our portfolio on less volatile areas;
- cascaded peer review and underwriter challenge – monitoring of individual risks against limits allocated to each underwriter and performing a 'second pair of eyes' check to ensure that there is sufficient oversight of the whole portfolio and that it remains in line with the business plan;
- rate adequacy and benchmark pricing – quantitative monitoring of risks to ensure that we are charging appropriate premiums for the risks we are taking; and
- reserving – having a clear view of the underlying profitability of individual products with transparent links to capital allocation.

Catastrophe risk
Catastrophe risk is assessed both in terms of modelled losses and the risk of losing more than expected through poor exposure management. Our portfolio is analysed for classes of business where accumulations of losses can result from a single or a series of large catastrophic events.

Catastrophe risk is managed through:
- risk appetite setting and monitoring of exposures – risk appetite limits are defined in the business planning process and set by the board and calculated on a probabilistic basis using catastrophe models. We acknowledge the uncertainty present within these models and therefore also monitor deterministic output using Lloyd's realistic disaster scenarios (RDS') and our aggregate position to stress test our book. Risk appetite is set based upon the impact on earnings and capital, whilst being mindful of potential opportunities that exist following the event; and
- individual risk monitoring – in certain classes of business we model the impact of individual property locations to our overall exposure prior to quoting to ensure we are not creating accumulations of risk and to ensure we are receiving an appropriate minimum premium on catastrophe exposed business.

Market risk
Market risk is viewed as the risk arising from adverse changes in the value of our income from assets and changes in exchange and interest rates. Through setting comprehensive investment guidelines via the investment committee and monitoring against these, reviewing the performance of our investment managers and stress testing our investment portfolio, we can assess if our overall risk and return targets are being met.

To minimise the risk of an event impacting both our claims liabilities and our investment portfolios, we endeavour to limit investments in areas which correlate with our insurance portfolios.

Liquidity risk
Liquidity risk is the risk that we do not have sufficient financial resources to meet our obligations as they fall due. Strategically, we seek to maintain sufficient liquid assets or assets that can be liquidated at short notice and without capital loss to meet our expected cash flow requirements. Our RDS' are stress tested on a regular basis.

Credit risk
Credit risk arises from the failure of another party to perform its financial or contractual obligations to the group in a timely manner. The primary sources of credit risk for the syndicate are:
- reinsurers – whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the syndicate;
- brokers and coverholders – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the syndicate;
- Investments – whereby issuer default results in the group losing all or part of the value of a financial instrument and derivative financial instrument; and
- cash and cash equivalents.

Our exposure to credit risk is mitigated by vetting of all of our key counterparties before trading with them. Performance is closely monitored and managed through our committee structure.

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

We actively manage operational risks and minimise them where appropriate by implementing and communicating guidelines to staff and other third parties. The impact of control failure is quantified and compared to the effectiveness of these controls to allow us to see where our attention should be focussed. The quantitative impact of operational risk, and those controls designed to mitigate those risks, are captured in the capital modelling process so that there is a clear link between operational risk and its financial impact on the business.

Emerging risk identification
We employ specialist teams to support our underwriters to help identify external trends and issues. Using this research improves our underwriting risk selection, allows us to avoid markets in decline and improves our claims management capabilities.

Managing agent's report *continued*

Directors

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

	Total bonuses deferred and at risk £	2013 year of account underwriting capacity £	2014 year of account underwriting capacity £	2015 year of account underwriting capacity £
M L Bride	199,000	400,000	400,000	400,000
A P Cox	199,000	400,000	400,000	400,000
J G Gray	199,000	400,000	400,000	–
D A Horton	199,000	400,000	400,000	400,000
N P Maidment	199,000	400,000	400,000	400,000
C A Washbourn	199,000	400,000	400,000	400,000

A full list of the directors of the managing agent who held office during the year can be found on page 60 of these syndicate annual accounts.

Disclosure of information to the auditor

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

Auditor

The managing agent intends to re-appoint KPMG LLP as the syndicate's registered auditor.

By order of the board

M L Bride
Finance Director

11 March 2015

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the syndicate annual report and accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate annual accounts at 31 December each year in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice). The syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the syndicate as at that date and of its profit or loss for that year.

In preparing the syndicate annual accounts, the directors of the managing agent are required to:

- select suitable accounting policies and then apply them consistently, subject to the changes arising on the adoption of new accounting standards in the year;
- 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 syndicate annual accounts; and
- prepare the syndicate annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The managing agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the business website. Legislation in the UK governing the preparation and dissemination of the syndicate annual accounts may differ from legislation in other jurisdictions.

By order of the board

M L Bride
Finance Director

11 March 2015

Independent auditor's report to the members of syndicate 623

We have audited the syndicate 623 annual accounts for the year ended 31 December 2014, as set out on pages 17 to 47. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the member of the syndicate, 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 member 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's member as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the statement of managing agent's responsibilities set out on page 15, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on syndicate annual accounts

In our opinion the annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with UK 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.

Opinion on other matter prescribed by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the managing agent's report for the financial year in which the annual accounts are prepared is consistent with the annual accounts.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require 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
- we have not received all the information and explanations we require for our audit.

Stuart Crisp
Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

11 March 2015

Profit and loss account

for the year ended 31 December 2014

	Notes	2014 $m	2013 $m
Gross premiums written	3	373.9	373.7
Outward reinsurance premiums		(54.7)	(59.2)
Net premiums written	3	**319.2**	**314.5**
Change in the gross provision for unearned premiums	15	(9.4)	(12.1)
Change in the provision for unearned premiums, reinsurers' share	15	(1.6)	(3.1)
Change in the net provision for unearned premiums		(11.0)	(15.2)
Earned premiums, net of reinsurance	3	**308.2**	**299.3**
Allocated investment return transferred from the non-technical account	8	14.3	5.7
Gross claims paid		(180.1)	(179.0)
Reinsurers' share of claims paid		38.9	32.3
Claims paid net of reinsurance		(141.2)	(146.7)
Change in the gross provision for claims	15	20.4	24.1
Change in the provision for claims, reinsurers' share	15	(25.7)	(3.3)
Change in the net provision for claims		(5.3)	20.8
Claims incurred, net of reinsurance		**(146.5)**	**(125.9)**
Net operating expenses	4	**(124.7)**	**(108.6)**
Balance on the technical account		**51.3**	**70.5**
Investment income	8	9.7	9.7
Investment expenses and charges	8	(1.5)	(1.5)
Realised losses on investments	8	(2.4)	(2.2)
Unrealised gains/(losses) on investments	8	8.5	(0.3)
		14.3	5.7
Allocated investment return transferred to general business technical account		(14.3)	(5.7)
Other charges	9	(9.0)	(9.3)
Profit for the financial year		**42.3**	**61.2**

All of the above operations are continuing.

Statement of total recognised gains and losses

year ended 31 December 2014

	2014 $m	2013 $m
Profit for the financial year	42.3	61.2
Foreign exchange (loss)/profit on brought forward reserves	(0.7)	0.2
Total recognised gains since last annual report	**41.6**	**61.4**

Balance sheet

at 31 December 2014

	Notes	2014 $m	2013 $m
Assets			
Financial assets at fair value	10	**607.6**	**620.0**
Reinsurers' share of technical provisions			
Provision for unearned premiums, reinsurers' share	15	25.5	27.1
Claims outstanding, reinsurers' share	15	168.9	197.2
		194.4	**224.3**
Debtors			
Debtors arising out of direct insurance operations		104.7	104.4
Debtors arising out of reinsurance operations		17.7	16.4
Other debtors	12	15.4	17.0
		137.8	**137.8**
Cash at bank and in hand	13	**46.4**	**44.4**
Deferred acquisition costs		**44.5**	**40.3**
Other prepayments and accrued income		**1.4**	**–**
Total assets		**1,032.1**	**1,066.8**
Liabilities, capital and reserves			
Capital and reserves			
Members' balances attributable to underwriting participations	14	53.1	52.5
Technical provisions			
Provision for unearned premiums	15	179.3	170.0
Claims outstanding	15	705.7	741.5
		885.0	**911.5**
Creditors			
Creditors arising out of direct insurance operations		27.0	26.8
Creditors arising out of reinsurance operations		5.7	5.2
Other creditors	16	61.3	63.2
		94.0	**95.2**
Financial liabilities	10	**–**	**0.2**
Accruals and deferred income		**–**	**7.4**
Total liabilities, capital and reserves		**1,032.1**	**1,066.8**

The syndicate annual accounts on pages 17 to 47 were approved by the board of Beazley Furlonge Limited on 11 March 2015 and were signed on its behalf by:

N P Maidment
Active Underwriter

M L Bride
Finance Director

Cash flow statement

year ended 31 December 2014

	Notes	2014 $m	2013 $m
Reconciliation of profit for the financial year to net cash inflow from operating activities			
Profit for the financial year		42.3	61.2
Change to market value and currencies on investments		26.5	5.3
Increase/(decrease) in net technical provisions		3.4	(2.2)
(Increase)/decrease in debtors		(5.6)	56.1
Decrease in creditors		(8.6)	(56.5)
Net cash inflow from operating activities		**58.0**	**63.9**
Transfer to members in respect of underwriting participations		(41.0)	(20.7)
Translation differences		(0.7)	0.2
	18	**16.3**	**43.4**
Cash flows were invested as follows:			
Increase in cash holdings		4.6	13.3
Increase in financial assets		11.7	30.1
Net investment of cash flows	18	**16.3**	**43.4**

Notes to the syndicate annual accounts

1 Accounting policies

Basis of preparation

These syndicate annual 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. They comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2006 ('the ABI SORP').

The principal accounting policies applied in the preparation of these syndicate annual 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.

Use of estimates and judgements

The preparation of the syndicate annual accounts requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the syndicate annual accounts are described in this statement of accounting policies.

The most critical estimate included within the syndicate's financial position is the estimate for losses incurred but not reported. The total estimate as at December 2014 is included within claims outstanding in the balance sheet.

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

a) Premiums

Gross premiums written comprise premiums on contracts incepted during the financial year. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the syndicate not yet notified, as well as adjustments made in the year to premiums written in prior accounting periods.

b) Unearned premiums

The provision for unearned premiums comprises the proportion of premiums written which is estimated to be earned in the following or subsequent financial periods, computed separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

c) Claims

Claims incurred represent the cost of claims and claims handling expenses paid during the financial year, together with the movement in provisions for outstanding claims, claims incurred but not reported (IBNR) and future claims handling provisions. Reinsurance recoveries are accounted for in the same period as the incurred claims for the related business.

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

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

Notes to the syndicate annual accounts *continued*

1 Accounting policies *continued*

d) Acquisition costs

Acquisition costs comprise brokerage, staff 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.

e) Foreign currencies

Income and expenditure in sterling, Canadian dollars and euro are translated at the average rates of exchange for the period.

Assets and liabilities are translated into US dollars at the rates of exchange at the balance sheet dates unless contracts to sell currency for US dollars have been entered into prior to the year end, in which case the contracted rates have been used. Foreign exchange differences on opening reserves are taken through the statement of recognised gains and losses. All other differences arising on translation of foreign currency amounts are included in the profit and loss account.

f) Investments

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at bid-market value and deposits with credit institutions and overseas deposits are stated at cost.

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 purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account 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 consist of balances due from reinsurers and include reinsurers' share of provisions for claims. These balances are based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts having regard to the reinsurance programme in place for the class of business, the claims experience for the period and the current security rating of the reinsurer involved. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

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

i) Financial instruments

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

Purchases and sales of financial assets are recognised on the trade date, which is the date the syndicate commits to purchase or sell the asset.

1 Accounting policies *continued*

Financial assets

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

Financial assets at fair value through income statement

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

Fair value measurement

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

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

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

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

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

Upon initial recognition, attributable transaction costs relating to financial instruments at fair value through the income statement are recognised in the income statement when incurred. Financial assets at fair value through the income statement are measured at fair value, and changes therein are recognised in the income statement within investment income.

Notes to the syndicate annual accounts *continued*

1 Accounting policies *continued*

Hedge funds
The syndicate participates in a number of hedge funds and related financial instruments for which there are no available quoted market prices. The valuation of these hedge funds is based on fair value techniques (as described above). The fair value of our hedge fund portfolio is calculated by reference to the underlying net asset values (NAV's) of each of the individual funds. Consideration is also given in valuing these funds to any restriction applied to distributions, the existence of side pocket provisions, and the timing of the latest available valuations.

Insurance debtors and creditors
Insurance debtors and creditors are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. These are classified as insurance debtors and creditors as they are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Insurance debtors are measured at amortised cost less any provision for impairments. Insurance creditors are stated at amortised cost.

Other debtors
Other debtors principally consist of prepayments, accrued income and sundry debtors and are carried at amortised cost less any impairment losses.

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

Investment income
Investment income consists of dividends, interest, realised and unrealised gains and losses and foreign exchange gains and losses on financial assets at fair value through the income statement. Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest is recognised on an accruals basis for financial assets at fair value through the income statement. The realised gains or losses on disposal of an investment are the difference between the proceeds and the original cost of the investment. Unrealised investment gains and losses represent the difference between the carrying value at the balance sheet date, and the carrying value at the previous period end or purchase value during the period.

j) Hedge accounting and derivative financial instruments
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The syndicate does not apply hedge accounting. 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.

The best evidence of fair value of a derivative at initial recognition is the transaction price.

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

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

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

1 Accounting policies *continued*

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 (currently at 20%) deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

No provision has been made for any other overseas tax payable by members on underwriting results.

n) Pension costs

Beazley Furlonge Limited operates both a defined benefit and a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

o) Profit commission

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

2 Risk management

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

2.1 Insurance risk

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

a) Underwriting risk

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

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

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

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

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

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

Notes to the syndicate annual accounts *continued*

2 Risk management *continued*

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

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

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

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

To manage underwriting exposures, the syndicate has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry. In 2014, the normal maximum line that any one underwriter could commit the managed syndicate to was $18m. In most cases, maximum lines for classes of business were much lower than this.

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

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

Binding authority contracts

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

Operating divisions

In 2014, the syndicate's business consisted of five operating divisions. The following table provides a breakdown of gross written premiums written by division:

	2014	2013
Marine	19%	18%
Political risks and contingency	7%	8%
Property	20%	22%
Reinsurance	12%	13%
Specialty lines	42%	39%
Total	**100%**	**100%**

2 Risk management *continued*

b) Reinsurance risk

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

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

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

c) Claims management risk

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

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

d) Reserving and ultimate reserves risk

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

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

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

2.2 Strategic risk

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

2.3 Market risk

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

Foreign exchange risk

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

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

Notes to the syndicate annual accounts *continued*

2 Risk management *continued*

In 2014, the syndicate managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting net assets to be entirely US dollar denominated. As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure. Details of all foreign currency derivative contracts entered into with external parties are disclosed in note 11. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk.

The syndicate's assets are matched by currency to the principal underlying currencies of its insurance liabilities. This helps mitigate the risk that the syndicate's assets required to cover its insurance liabilities are not materially affected by any future movements in exchange rates.

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

31 December 2014	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	190.7	26.8	65.0	282.5	749.6	1,032.1
Total liabilities	(185.1)	(25.0)	(67.5)	(277.6)	(701.4)	(979.0)
Net assets	**5.6**	**1.8**	**(2.5)**	**4.9**	**48.2**	**53.1**

31 December 2013	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	201.1	31.7	75.3	308.1	758.7	1,066.8
Total liabilities	(195.5)	(26.6)	(65.7)	(287.8)	(726.5)	(1,014.3)
Net assets	**5.6**	**5.1**	**9.6**	**20.3**	**32.2**	**52.5**

Sensitivity analysis

Fluctuations in the syndicate's trading currencies against the US dollar would result in a change to net asset value. The table below gives an indication of the impact on net assets of a % 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.

Change in exchange rate of UK sterling, Canadian dollar and euro relative to US dollar	Impact on profit for the year ended 2014 $m	 2013 $m	Impact on net assets 2014 $m	 2013 $m
Dollar weakens 30% against other currencies	1.3	5.1	1.3	5.1
Dollar weakens 20% against other currencies	0.8	3.4	0.8	3.4
Dollar weakens 10% against other currencies	0.4	1.7	0.4	1.7
Dollar strengthens 10% against other currencies	(0.4)	(1.7)	(0.4)	(1.7)
Dollar strengthens 20% against other currencies	(0.8)	(3.4)	(0.8)	(3.4)
Dollar strengthens 30% against other currencies	(1.3)	(5.1)	(1.3)	(5.1)

Interest rate risk

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

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

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

2 Risk management *continued*

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

Duration 31 December 2014	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	222.4	128.9	77.3	28.5	49.5	18.6	–	525.2
Cash at bank and in hand	46.4	–	–	–	–	–	–	46.4
Derivative financial instruments	0.2	–	–	–	–	–	–	0.2
Total	**269.0**	**128.9**	**77.3**	**28.5**	**49.5**	**18.6**	**–**	**571.8**

Duration 31 December 2013	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	242.4	93.4	88.5	70.1	27.9	17.9	–	540.2
Cash at bank and in hand	44.4	–	–	–	–	–	–	44.4
Derivative financial instruments	1.7	–	–	–	–	–	–	1.7
Total	**288.5**	**93.4**	**88.5**	**70.1**	**27.9**	**17.9**	**–**	**586.3**

Sensitivity analysis

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

	Impact on profit for the year ended		Impact on net assets	
Shift in yield (basis points)	2014 $m	2013 $m	2014 $m	2013 $m
150 basis point increase	(14.4)	(15.4)	(14.4)	(15.4)
100 basis point increase	(9.6)	(10.3)	(9.6)	(10.3)
50 basis point increase	(4.8)	(5.1)	(4.8)	(5.1)
50 basis point decrease	4.8	5.1	4.8	5.1
100 basis point decrease	9.6	10.3	9.6	10.3

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

Notes to the syndicate annual accounts *continued*

2 Risk management *continued*

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

	Impact on profit for the year ended		Impact on net assets	
Change in fair value of hedge funds and equity linked funds	2014 $m	2013 $m	2014 $m	2013 $m
30% increase in fair value	24.7	23.4	24.7	23.4
20% increase in fair value	16.4	15.6	16.4	15.6
10% increase in fair value	8.2	7.8	8.2	7.8
10% decrease in fair value	(8.2)	(7.8)	(8.2)	(7.8)
20% decrease in fair value	(16.4)	(15.6)	(16.4)	(15.6)
30% decrease in fair value	(24.7)	(23.4)	(24.7)	(23.4)

2.4 Operational risk

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

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

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

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

Key components of Beazley Furlonge Limited's operational control environment include:
- ICA modeling of operational risk exposure and scenario testing;
- management review of activities;
- documentation of policies and procedures;
- preventative and detective controls within key processes;
- contingency planning; and
- other systems controls.

2.5 Credit risk

Credit risk arises from the failure of another party to perform its financial or contractual obligations to the syndicate in a timely manner. The primary sources of credit risk for the syndicate are:
- reinsurers – whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the syndicate;
- brokers and coverholders – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the syndicate;
- investments – whereby issuer default results in the syndicate losing all or part of the value of a financial instrument and derivative financial instrument; and
- cash at bank and in hand.

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

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

2 Risk management *continued*

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

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

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

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

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

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

31 December 2014	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	489.2	34.9	1.1	–	–	525.2
– equity linked funds	–	–	–	–	22.0	22.0
– hedge funds (uncorrelated strategies)	–	–	–	–	60.2	60.2
– derivative financial instruments	–	–	–	–	0.2	0.2
Reinsurers' share of technical provisions	193.5	–	–	–	0.9	194.4
Debtors	15.4	–	–	–	122.4	137.8
Cash at bank and in hand	46.4	–	–	–	–	46.4
Total	**744.5**	**34.9**	**1.1**	**–**	**205.7**	**986.2**

31 December 2013	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	510.1	30.1	–	–	–	540.2
– equity linked funds	–	–	–	–	17.1	17.1
– hedge funds (uncorrelated strategies)	–	–	–	–	60.8	60.8
– derivative financial instruments	–	–	–	–	1.9	1.9
Reinsurers' share of technical provisions	223.2	–	–	–	1.1	224.3
Debtors	17.0	–	–	–	120.8	137.8
Cash at bank and in hand	44.4	–	–	–	–	44.4
Total	**794.7**	**30.1**	**–**	**–**	**201.7**	**1,026.5**

Notes to the syndicate annual accounts *continued*

2 Risk management *continued*

Based on all evidence available, debtors arising out of insurance operations and other debtors have not been impaired and no impairment provision has been recognised in respect of these assets. An analysis of the overall credit risk exposure indicates that the syndicate has reinsurance assets that are impaired at the reporting date. The total impairment provision made in respect of these assets at 31 December 2014 is $3.1m (2013: $3.2m). No other financial assets held at year end were impaired.

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

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

31 December 2014	Up to 30 days past due $m	30-60 days past due $m	60-90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance debtors	5.9	1.8	1.1	2.8	11.6
Reinsurance assets	0.4	1.8	0.1	0.9	3.2

31 December 2013	Up to 30 days past due $m	30-60 days past due $m	60-90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance debtors	4.8	1.5	1.0	2.0	9.3
Reinsurance assets	1.0	0.5	0.4	0.9	2.8

2.6 Regulatory and legal risk

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

2.7 Liquidity risk

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

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

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

31 December 2014	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Marine	22.6	18.9	7.3	3.9	52.7	1.9
Political risks and contingency	10.9	6.2	2.3	0.8	20.2	1.5
Property	27.7	16.0	4.4	2.7	50.8	1.6
Reinsurance	20.9	13.6	3.7	2.4	40.6	1.7
Specialty lines	98.7	139.5	72.5	61.8	372.5	2.9
Net insurance liabilities	**180.8**	**194.2**	**90.2**	**71.6**	**536.8**	

2 Risk management *continued*

31 December 2013	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Marine	23.9	19.1	6.4	3.6	53.0	1.8
Political risks and contingency	10.0	7.6	1.9	0.8	20.3	1.5
Property	29.7	19.2	3.9	2.2	55.0	1.5
Reinsurance	22.5	16.5	3.7	2.1	44.8	1.6
Specialty lines	94.8	132.7	75.9	67.8	371.2	3.0
Net insurance liabilities	**180.9**	**195.1**	**91.8**	**76.5**	**544.3**	

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

Maturity 31 December 2014	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	106.5	138.9	99.6	45.8	70.1	64.3	–	525.2
Derivative financial instruments	0.2	–	–	–	–	–	–	0.2
Cash at bank and in hand	46.4	–	–	–	–	–	–	46.4
Other debtors	15.4	–	–	–	–	–	–	15.4
Other creditors	(58.6)	(2.7)	–	–	–	–	–	(61.3)
Total	**109.9**	**136.2**	**99.6**	**45.8**	**70.1**	**64.3**	**–**	**525.9**

31 December 2013	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	146.2	97.1	104.8	85.8	38.1	68.2	–	540.2
Derivative financial instruments	1.7	–	–	–	–	–	–	1.7
Cash at bank and in hand	44.4	–	–	–	–	–	–	44.4
Other debtors	17.0	–	–	–	–	–	–	17.0
Other creditors	(60.1)	(3.1)	–	–	–	–	–	(63.2)
Total	**149.2**	**94.0**	**104.8**	**85.8**	**38.1**	**68.2**	**–**	**540.1**

2.8 Senior management responsibilities

Management stretch is the risk that business growth might result in an insufficient or overly complicated management team structure, thereby undermining accountability and control within the syndicate. As the syndicate expands its worldwide business in the UK, US, Europe and Asia, management stretch may make the identification, analysis and control of risks more complex. On a day-to-day basis, Beazley Furlonge Limited’s management structure encourages organisational flexibility and adaptability, while ensuring that activities are appropriately co-ordinated and controlled. By focusing on the needs of their customers and demonstrating both progressive and responsive abilities, staff, management and outsourced service providers are expected to excel in service and quality. Individuals and teams are also expected to transact their activities in an open and transparent way. These behavioural expectations reaffirm low risk tolerance by aligning interests to ensure that routine activities, projects and other initiatives are implemented to benefit and protect resources of both local business segments and the syndicate as a whole.

Notes to the syndicate annual accounts *continued*

3 Segmental analysis

2014	Marine $m	Political risks and contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Unallocated $m	Total $m
Gross premiums written	71.3	26.3	74.6	44.1	157.6	–	373.9
Net premiums written	63.5	21.7	64.9	33.8	135.3	–	319.2
Gross earned premiums	69.5	25.8	74.3	45.4	150.1	(0.6)	364.5
Outward reinsurance premiums earned	(7.5)	(4.9)	(11.3)	(10.1)	(22.6)	0.1	(56.3)
Earned premiums, net of reinsurance	**62.0**	**20.9**	**63.0**	**35.3**	**127.5**	**(0.5)**	**308.2**
Gross claims	(24.0)	(5.2)	(23.4)	(14.6)	(92.5)	–	(159.7)
Reinsurers share	0.9	–	(2.5)	1.6	13.2	–	13.2
Claims incurred, net of reinsurance	**(23.1)**	**(5.2)**	**(25.9)**	**(13.0)**	**(79.3)**	**–**	**(146.5)**
Operating expenses before foreign exchange	(25.7)	(10.9)	(27.4)	(11.2)	(46.3)	0.3	(121.2)
Technical result before items below	**13.2**	**4.8**	**9.7**	**11.1**	**1.9**	**(0.2)**	**40.5**
Loss on foreign exchange	–	–	–	–	–	(3.5)	(3.5)
Investment income	–	–	–	–	–	14.3	14.3
Other charges	–	–	–	–	–	(9.0)	(9.0)
Profit for the financial year	**13.2**	**4.8**	**9.7**	**11.1**	**1.9**	**1.6**	**42.3**
Claims ratio	37%	25%	41%	37%	62%	–	48%
Expense ratio	42%	52%	44%	32%	36%	–	39%
Combined ratio	79%	77%	85%	69%	98%	–	87%

2013	Marine $m	Political risks and contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Unallocated $m	Total $m
Gross premiums written	68.8	28.5	80.5	48.6	147.3	–	373.7
Net premiums written	61.4	24.0	67.3	37.7	124.1	–	314.5
Gross earned premiums	64.7	25.8	80.3	46.9	144.1	(0.2)	361.6
Outward reinsurance premiums earned	(6.9)	(4.2)	(14.4)	(10.5)	(26.4)	0.1	(62.3)
Earned premiums, net of reinsurance	**57.8**	**21.6**	**65.9**	**36.4**	**117.7**	**(0.1)**	**299.3**
Gross claims	(18.6)	0.5	(29.0)	(8.5)	(99.3)	–	(154.9)
Reinsurers share	(0.1)	(1.0)	2.6	2.4	25.1	–	29.0
Claims incurred, net of reinsurance	**(18.7)**	**(0.5)**	**(26.4)**	**(6.1)**	**(74.2)**	**–**	**(125.9)**
Operating expenses before foreign exchange	(22.5)	(9.6)	(27.3)	(11.7)	(42.0)	(0.1)	(113.2)
Technical result before items below	**16.6**	**11.5**	**12.2**	**18.6**	**1.5**	**(0.2)**	**60.2**
Gain on foreign exchange	–	–	–	–	–	4.6	4.6
Investment income	–	–	–	–	–	5.7	5.7
Other charges	–	–	–	–	–	(9.3)	(9.3)
Profit for the financial year	**16.6**	**11.5**	**12.2**	**18.6**	**1.5**	**0.8**	**61.2**
Claims ratio	32%	2%	40%	17%	63%	–	42%
Expense ratio	39%	45%	41%	32%	36%	–	38%
Combined ratio	71%	47%	81%	49%	99%	–	80%

3 Segmental analysis *continued*

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

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

- Marine – marine, aviation and transport
- Political risks and contingency – pecuniary loss
- Property – fire and other damage to property
- Reinsurance – reinsurance
- Specialty lines – third party liability

All business was underwritten in the UK.

4 Net operating expenses

	2014 $m	2013 $m
Acquisition costs	92.7	87.5
Change in deferred acquisition costs	(3.7)	(3.9)
Members' standard personal expenses	3.9	3.3
Administrative expenses	32.8	30.9
Overriding commission	(4.5)	(4.6)
Loss/(gain) on foreign exchange	3.5	(4.6)
	124.7	108.6

Administrative expenses include:

	2014 $'000	2013 $'000
Fees payable to the syndicate's auditor for the audit of these syndicate annual accounts	108.5	99.6
Fees payable to the syndicate's auditor and its associates in respect of:		
Other services pursuant to legislation	209.2	192.0
	317.7	**291.6**

Managing agent fees paid to Beazley Furlonge Limited in respect of services provided to the syndicate amounted to $2.2m (2013: $1.8m).

5 Staff costs

All staff are employed by Beazley Management Limited. The following amounts were recharged to the syndicate in respect of staff costs:

	2014 $m	2013 $m
Wages and salaries	11.8	10.3
Short-term incentive payments	8.1	7.9
Social security costs	2.6	1.4
Pension costs	1.7	1.8
	24.2	**21.4**

6 Emoluments of the directors of Beazley Furlonge Limited

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

	2014 $m	2013 $m
Emoluments and fees	3.8	2.7
Contributions to defined contribution pension schemes	0.1	0.1
	3.9	**2.8**

Notes to the syndicate annual accounts *continued*

7 Active underwriter's emoluments

The aggregate amount of remuneration paid to and for the benefit of the active underwriter, which was recharged to syndicate 623, was $0.7m (2013: $0.6m).

8 Net investment income

	2014 $m	2013 $m
Interest and dividends on financial investments at fair value through profit or loss	9.6	9.6
Interest on cash and cash equivalents	0.1	0.1
Realised losses on financial instruments at fair value though profit or loss	(2.4)	(2.2)
Net unrealised fair value gains/(losses) on financial investments at fair value through profit or loss	8.5	(0.3)
Investment income from financial investments	**15.8**	**7.2**
Investment management expenses	(1.5)	(1.5)
Total net investment income	**14.3**	**5.7**

9 Other charges

	2014 $m	2013 $m
Profit commissions paid to Beazley Furlonge Limited	9.2	9.4
Profit commissions due from syndicate 6107	(0.2)	(0.1)
	9.0	**9.3**

10 Financial assets and liabilities

	Market value		Cost	
	2014 $m	2013 $m	2014 $m	2013 $m
Financial assets at fair value				
Fixed and floating rate debt securities:				
– Government issued	131.8	160.1	129.6	159.6
– Quasi-government	99.9	100.9	98.2	100.5
– Supranational	62.0	52.7	61.0	52.4
– Corporate bonds				
– investment grade credit	165.9	178.7	163.2	178.0
– high yield	12.2	–	12.0	–
– Syndicated bank loans	2.4	0.7	2.3	0.7
– Asset backed securities	51.0	47.1	50.2	46.9
Total fixed and floating rate debt securities	525.2	540.2	516.5	538.1
Equity linked funds	22.0	17.1	22.0	17.1
Hedge funds (uncorrelated strategies)	60.2	60.8	54.6	57.2
Total capital growth	82.2	77.9	76.6	74.3
Total financial investments at fair value through statement of profit or loss	**607.4**	**618.1**	**593.1**	**612.4**
Derivative financial instruments	0.2	1.9	0.2	1.9
Total financial assets at fair value	**607.6**	**620.0**	**593.3**	**614.3**
Financial liabilities				
Derivative financial instruments	–	0.2	–	0.2

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

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

10 Financial assets and liabilities *continued*

Fair value measurement

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

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

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

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

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

The majority of the syndicate's investments are valued based on quoted market information or other observable market data. The rest of the investments are recorded at fair value which is based on the prices obtained by our administrator who source it from independent pricing sources as set out in our valuation policy. The syndicate records the unadjusted price provided and validates the price through a number of methods including a comparison of the prices provided by the administrator with the investment custodians and the investment managers. Where estimates are used, these are calibrated to market observable data where possible. While such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.

The table below analyses financial instruments measured at fair value at 31 December 2014 and 31 December 2013, based on the level in the fair value hierarchy into which the financial instrument is categorised:

2014	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value				
Fixed and floating rate debt securities:				
– Government issued	123.2	8.6	–	131.8
– Quasi-government	67.2	32.7	–	99.9
– Supranational	49.0	13.0	–	62.0
– Corporate bonds				
– investment grade credit	–	165.9	–	165.9
– high yield	–	12.2	–	12.2
– Syndicated bank loans	–	2.4	–	2.4
– Asset backed securities	–	51.0	–	51.0
Equity linked funds	–	22.0	–	22.0
Hedge funds (uncorrelated strategies)	–	60.2	–	60.2
Derivative financial instruments	–	0.2	–	0.2
Total financial assets at fair value	**239.4**	**368.2**	**–**	**607.6**
Financial liabilities				
Derivative financial instruments	–	–	–	–

Notes to the syndicate annual accounts *continued*

10 Financial assets and liabilities *continued*

2013	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value				
Fixed and floating rate debt securities:				
– Government issued	135.2	24.9	–	160.1
– Quasi-government	70.0	30.9	–	100.9
– Supranational	52.4	0.3	–	52.7
– Corporate bonds – investment grade credit	–	178.7	–	178.7
– Syndicated bank loans	–	0.7	–	0.7
– Asset backed securities	–	47.1	–	47.1
Equity linked funds	–	17.1	–	17.1
Hedge funds (uncorrelated strategies)	–	60.8	–	60.8
Derivative financial instruments	1.9	–	–	1.9
Total financial assets at fair value	**259.5**	**360.5**	**–**	**620.0**
Financial liabilities				
Derivative financial instruments	**0.2**	**–**	**–**	**0.2**

There were no transfer in either direction between level 1 and level 2 in 2014 and 2013.

Additional information is obtained from fund managers relating to the underlying assets within individual hedge funds. We identified that 59% (2013: 70%) of these underlying assets were level 1 and the remainder level 2. This enabled us to categorise hedge funds as level 2.

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

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

11 Derivative financial instruments

In 2014 and 2013, 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.

	2014		2013	
Derivative financial instrument assets	Gross contract amount $m	Fair value of assets $m	Gross contract amount $m	Fair value of assets $m
Foreign exchange forward contract	6.1	–	56.3	1.2
Bond future contracts	19.5	0.2	9.9	0.7
	25.6	**0.2**	**66.2**	**1.9**

	2014		2013	
Derivative financial instrument liabilities	Gross contract amount $m	Fair value of liabilities $m	Gross contract amount $m	Fair value of liabilities $m
Foreign exchange forward contract	–	–	19.0	0.2
Bond future contracts	–	–	–	–
	–	**–**	**19.0**	**0.2**

11 Derivative financial instruments *continued*

Foreign exchange forward contracts

The syndicate entered into over-the-counter foreign exchange forward agreements in order to hedge the foreign currency exposure resulting from investment portfolio holdings denominated in non-base currency.

Bond future contracts

The syndicate entered in bond futures trades to manage the investment portfolio duration. The vast majority of the trades were executed in order to partially hedge the duration of fixed income securities held at the same time. Occasionally, bond futures contracts were traded in order to gain interest rate duration exposure to certain areas of the yield curve.

12 Other debtors

	2014 $m	2013 $m
Amounts due from members	11.7	13.3
Sundry debtors including taxation	3.7	3.7
	15.4	**17.0**

These balances are due within one year. All insurance debtors relate to business transacted with brokers and intermediaries.

13 Cash at bank and in hand

	2014 $m	2013 $m
Cash at bank and in hand	46.4	44.4
	46.4	**44.4**

14 Reconciliation of members' balances

	2014 $m	2013 $m
Members' balances brought forward at 1 January	52.5	11.8
Profit for the financial year	42.3	61.2
Foreign exchange on brought forward reserves	(0.7)	0.2
Profit distribution before members agent's fees – 2010 Year of account	–	(20.7)
Profit distribution before members agent's fees – 2011 Year of account	(41.0)	–
Members' balances carried forward at 31 December	**53.1**	**52.5**

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

Notes to the syndicate annual accounts *continued*

15 Technical provisions

	Provision for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January 2014	170.0	741.5
Movement in the provision	9.4	(20.4)
Exchange adjustments	(0.1)	(15.4)
As at 31 December 2014	**179.3**	**705.7**
Reinsurers' share of technical provisions		
As at 1 January 2014	27.1	197.2
Movement in the provision	(1.6)	(25.7)
Exchange adjustments	–	(2.6)
As at 31 December 2014	**25.5**	**168.9**
Net technical provisions		
As at 1 January 2014	142.9	544.3
As at 31 December 2014	**153.8**	**536.8**

	Provision for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January 2013	157.9	761.6
Movement in the provision	12.1	(24.1)
Exchange adjustments	–	4.0
As at 31 December 2013	**170.0**	**741.5**
Reinsurers' share of technical provisions		
As at 1 January 2013	30.1	200.0
Movement in the provision	(3.1)	(3.3)
Exchange adjustments	0.1	0.5
As at 31 December 2013	**27.1**	**197.2**
Net technical provisions		
As at 1 January 2013	127.8	561.6
As at 31 December 2013	**142.9**	**544.3**

15 Technical provisions *continued*

Gross ultimate claims	2004 ae %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %
Marine											
12 months		82.9	57.2	58.3	69.2	55.3	50.6	55.1	56.0	56.7	57.7
24 months		81.4	42.4	60.3	65.2	51.6	49.7	47.8	46.2	51.9	
36 months		71.6	32.8	50.7	59.1	44.9	44.0	39.7	34.7		
48 months		69.7	29.0	48.2	63.0	41.3	42.4	34.3			
60 months		67.4	28.8	49.6	62.6	41.0	40.8				
72 months		65.5	26.4	50.2	59.0	49.3					
84 months		64.7	26.3	46.9	55.3						
96 months		64.3	25.7	44.2							
108 months		64.4	25.4								
120 months		64.0									
Political risks and contingency											
12 months		61.0	57.3	57.2	57.5	61.1	61.4	58.7	62.5	57.3	56.5
24 months		38.3	36.3	39.4	67.9	38.6	40.3	39.0	42.9	42.4	
36 months		28.7	32.5	56.5	74.0	35.1	33.0	34.1	39.6		
48 months		24.7	43.5	53.2	87.5	30.4	23.8	28.5			
60 months		18.5	39.5	53.7	72.3	24.6	22.5				
72 months		18.1	39.3	49.9	61.4	18.7					
84 months		18.1	36.4	47.4	58.1						
96 months		12.4	30.8	49.3							
108 months		12.4	28.2								
120 months		12.2									
Property											
12 months		88.2	58.5	60.1	64.7	54.4	54.6	54.5	55.7	55.6	53.8
24 months		84.9	44.2	58.2	62.3	42.6	57.4	46.7	47.8	49.7	
36 months		83.5	43.2	55.7	61.2	37.4	54.3	44.6	40.1		
48 months		88.5	50.5	56.3	59.1	36.2	51.5	42.8			
60 months		87.9	50.7	59.7	57.5	35.1	48.5				
72 months		86.3	50.5	68.8	56.4	34.1					
84 months		85.5	49.8	69.0	55.3						
96 months		84.7	47.6	68.3							
108 months		83.5	46.6								
120 months		83.3									
Reinsurance											
12 months		199.2	52.4	59.6	60.1	60.8	68.1	77.8	62.9	59.1	60.9
24 months		191.8	25.4	25.7	52.3	48.0	150.7	77.6	36.4	45.2	
36 months		188.4	25.0	21.4	43.4	40.1	139.0	71.8	31.1		
48 months		182.8	23.4	19.7	40.1	39.6	133.0	68.0			
60 months		178.9	21.5	18.8	39.7	35.4	137.0				
72 months		176.1	21.2	18.7	39.9	32.6					
84 months		175.1	21.4	17.2	39.1						
96 months		174.8	20.9	16.3							
108 months		171.2	20.3								
120 months		170.1									

Notes to the syndicate annual accounts *continued*

15 Technical provisions *continued*

Gross ultimate claims	2004 ae %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	
Specialty lines												
12 months		72.1	72.4	72.9	72.6	72.5	74.3	76.0	74.8	74.6	70.2	
24 months		72.1	72.5	72.4	72.4	72.5	73.8	76.1	74.9	74.2		
36 months		69.9	72.4	72.3	72.4	71.6	73.0	77.7	72.6			
48 months		66.5	72.7	72.3	72.5	71.6	74.8	78.2				
60 months		63.0	70.6	72.5	72.5	72.1	73.2					
72 months		56.2	65.4	72.3	72.8	71.7						
84 months		52.5	61.2	72.3	72.0							
96 months		49.2	57.4	72.9								
108 months		47.5	56.0									
120 months		46.4										
Total												
12 months		91.1	62.7	64.0	67.6	62.7	64.0	66.5	64.8	63.7	62.4	
24 months		88.7	52.7	59.5	67.1	57.1	72.8	61.9	56.7	58.6		
36 months		84.8	50.3	58.3	65.7	53.3	68.5	59.6	51.2			
48 months		83.4	52.1	58.6	67.0	51.9	66.9	57.6				
60 months		80.6	51.6	59.7	65.3	51.0	65.7					
72 months		76.8	48.8	61.5	63.6	51.3						
84 months		74.8	46.7	60.6	62.0							
96 months		72.8	44.1	60.3								
108 months		71.5	43.0									
120 months		70.7										
Total ultimate losses ($m)	2,966.8	1,055.2	730.1	1,086.8	1,204.9	1,054.3	1,334.1	1,113.0	1,151.7	1,314.7	1,448.5	14,460.1
Less paid claims ($m)	(2,791.6)	(995.6)	(612.1)	(885.8)	(1,013.1)	(749.0)	(966.4)	(691.9)	(420.9)	(322.0)	(48.3)	(9,496.7)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(12.2)	(720.6)	(732.8)
Gross claims liabilities (100% level) ($m)	175.2	59.6	118.0	201.0	191.8	305.3	367.7	421.1	730.8	980.5	679.6	4,230.6
Less Unaligned share ($m)	(141.7)	(48.3)	(96.4)	(162.1)	(156.8)	(253.2)	(305.4)	(339.9)	(619.4)	(826.0)	(575.7)	(3,524.9)
Gross claims liabilities, 623 share	33.5	11.3	21.6	38.9	35.0	52.1	62.3	81.2	111.4	154.5	103.9	705.7

15 Technical provisions *continued*

Net ultimate claims	2004 ae %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %
Marine											
12 months		55.4	54.1	55.5	61.4	54.1	52.3	56.0	55.4	56.3	56.6
24 months		49.5	42.1	56.6	56.9	48.1	49.4	48.0	46.0	53.1	
36 months		43.1	32.9	49.6	50.7	39.5	44.7	39.3	37.4		
48 months		39.9	31.4	46.7	47.6	35.8	42.9	35.1			
60 months		39.3	30.9	47.5	47.1	35.5	41.6				
72 months		38.3	29.1	47.6	46.6	39.1					
84 months		36.8	29.0	45.1	45.3						
96 months		36.4	28.5	43.2							
108 months		36.6	28.1								
120 months		36.1									
Political risks and contingency											
12 months		63.6	56.0	55.4	55.9	59.0	57.3	54.9	59.3	54.7	53.5
24 months		46.9	40.5	40.1	75.8	35.1	37.9	37.8	41.3	41.5	
36 months		36.3	36.9	55.2	76.5	32.5	30.6	32.3	38.2		
48 months		29.9	47.3	54.3	80.0	27.9	21.6	29.8			
60 months		24.6	41.5	52.4	69.3	22.4	20.4				
72 months		23.6	40.0	49.1	58.8	17.5					
84 months		23.6	39.9	47.0	55.3						
96 months		15.5	37.2	48.6							
108 months		15.5	33.7								
120 months		15.3									
Property											
12 months		65.1	61.2	62.7	63.7	53.6	58.5	59.4	58.7	57.0	54.6
24 months		62.3	48.9	61.1	67.0	48.2	64.5	56.8	53.1	56.6	
36 months		58.7	47.3	60.2	64.7	44.8	63.7	53.2	46.2		
48 months		61.3	51.0	60.6	63.7	42.6	57.9	49.7			
60 months		61.9	50.1	63.8	62.6	41.9	55.4				
72 months		60.2	50.2	64.0	61.2	40.7					
84 months		59.3	49.8	64.1	60.5						
96 months		59.4	48.2	63.7							
108 months		57.8	47.5								
120 months		57.2									
Reinsurance											
12 months		152.3	54.3	55.3	67.8	55.6	76.8	87.7	67.1	56.8	58.1
24 months		135.2	37.0	29.8	58.4	52.2	136.4	87.9	43.7	51.5	
36 months		127.9	34.9	24.9	49.0	46.4	129.6	82.3	37.5		
48 months		120.2	32.7	22.7	47.0	45.8	124.8	76.5			
60 months		113.8	31.2	22.1	46.4	41.0	131.0				
72 months		112.4	31.3	21.9	46.6	37.7					
84 months		107.0	31.6	20.1	45.5						
96 months		106.6	30.9	19.1							
108 months		101.7	29.9								
120 months		100.7									

Notes to the syndicate annual accounts *continued*

15 Technical provisions *continued*

Net ultimate claims	2004 ae %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	
Specialty lines												
12 months		69.3	69.2	71.7	70.5	69.4	71.1	72.7	72.0	71.4	67.7	
24 months		69.3	69.2	70.5	70.4	69.3	70.7	72.6	71.5	70.6		
36 months		67.6	69.3	70.4	70.4	68.7	70.2	72.4	69.3			
48 months		64.0	68.4	69.2	68.9	66.0	70.4	70.7				
60 months		59.0	64.4	69.2	68.9	66.2	69.5					
72 months		53.9	58.1	69.1	68.8	65.7						
84 months		50.4	54.5	69.0	68.8							
96 months		47.9	51.0	69.2								
108 months		45.9	49.8									
120 months		44.7										
Total												
12 months		73.2	62.4	64.2	66.2	60.9	64.5	67.1	64.3	62.3	60.8	
24 months		69.4	54.5	60.3	66.7	56.6	70.2	63.5	57.1	59.8		
36 months		65.4	51.9	59.5	64.4	53.1	67.4	59.8	52.1			
48 months		62.9	52.7	58.5	63.3	50.6	64.8	56.8				
60 months		59.8	50.3	59.1	62.0	49.6	64.4					
72 months		56.7	47.2	58.9	60.7	49.1						
84 months		54.1	45.6	58.0	60.0							
96 months		52.4	43.4	57.7								
108 months		50.7	42.4									
120 months		49.9										
Total ultimate losses ($m)	1,849.5	588.8	586.5	894.9	941.9	812.2	1,094.4	941.3	938.2	1,116.9	1,192.9	10,957.5
Less paid claims ($m)	(1,736.0)	(540.2)	(502.5)	(749.5)	(795.4)	(619.4)	(825.8)	(609.4)	(387.1)	(294.5)	(45.3)	(7,105.1)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(21.0)	(630.4)	(651.4)
Net claims liabilities (100% level) ($m)	113.5	48.6	84.0	145.4	146.5	192.8	268.6	331.9	551.1	801.4	517.2	3,201.0
Less unaligned share ($m)	(91.9)	(39.4)	(68.0)	(119.7)	(120.7)	(156.1)	(222.4)	(271.2)	(465.1)	(673.3)	(436.4)	(2,664.2)
Net claims liabilities, 623 share ($m)	21.6	9.2	16.0	25.7	25.8	36.7	46.2	60.7	86.0	128.1	80.8	536.8

16 Other creditors

	2014 $m	2013 $m
Amount due to syndicate 2623	5.3	2.5
Amount due to syndicate 3623	0.3	0.5
Amount due to syndicate 6107	11.8	13.4
Profit commissions	12.3	10.7
Net amount due to other related entities	31.6	36.1
	61.3	**63.2**

Profit commissions payable include $2.7m (2013: $3.1m) which are due to be paid after more than one year. The remainder of the creditor balances shown are payable within one year.

17 Movement in opening and closing investments net of financing

	2014 $m	2013 $m
Net cash inflow from the year	4.6	13.3
Cash flow – investments	11.7	30.1
Movement arising from cash flows	16.3	43.4
Changes to market value and currencies on investments	(23.9)	(6.1)
Total movement in investments net of financing	(7.6)	37.3
Cash and investments as at 1 January	664.2	626.1
Effect of exchange rate changes on cash balances	(2.6)	0.8
Cash and investments as at 31 December*	**654.0**	**664.2**

* Derivatives within cash and investment above is net of $nil liability (2013: $0.2) as disclosed in note 11.

18 Movement in cash and investments

	At 1 January 2014 $m	Cash flow $m	Changes to market value and currencies $m	At 31 December 2014 $m
Cash at bank and in hand	**44.4**	**4.6**	**(2.6)**	**46.4**
Investments:				
Fixed and floating rate debt securities	540.2	9.7	(24.7)	525.2
Capital growth assets	77.9	3.4	0.9	82.2
Derivative financial instruments*	1.7	(1.4)	(0.1)	0.2
Total investments	**619.8**	**11.7**	**(23.9)**	**607.6**
Total cash and investments	**664.2**	**16.3**	**(26.5)**	**654.0**

* Derivatives within cash and investment above is net of $nil liability (2013: $0.2) as disclosed in note 11.

Notes to the syndicate annual accounts *continued*

19 Related parties transactions

Beazley Furlonge Limited, the managing agency of syndicate 623, is a wholly-owned subsidiary of Beazley plc. The directors of Beazley plc have participated in syndicate 623 indirectly through Beazley Staff Underwriting Limited. Details of the participations are disclosed in the managing agent's report on page 14.

The directors of Beazley Furlonge Limited have shareholdings in Beazley plc which provides the capacity for syndicates 2623, 3622 and 3623. Syndicate 623 has capacity in 2014 of £242.8m, as previously disclosed, and writes in parallel with syndicate 2623. Beneficial shareholdings are shown below.

	Shareholding of Beazley plc as at 31 December 2014	Shareholding of Beazley plc as at 31 December 2013
D Holt	50,000	50,000
G P Blunden	50,000	50,000
M L Bride	350,000	350,000
A P Cox	658,232	581,985
A Crawford-Ingle	20,850	13,500
R V Deutsch*	–	–
N H Furlonge	756,375	756,375
J G Gray	759,549	759,549
A G K Hamilton**	–	37,991
D A Horton	1,580,087	1,630,087
N P Maidment	3,907,523	3,817,523
R A W Tolle	60,000	60,000
C A Washbourn	446,096	610,331

* Represents shareholding as at date of cessation as a director on 07/07/2014.
** Represents shareholding as at date of cessation as a director on 23/03/2013.

Beazley plc has the following service companies (managing general agents) underwriting on behalf of the syndicate:
- Beazley Solutions Limited – (UK & Europe);
- Beazley USA Services, Inc. – (USA);
- Beazley Limited – (Hong Kong); and
- Beazley Pte Limited – (Singapore).

All of the above companies are coverholders for syndicates 623 and 2623 (the syndicates).

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

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

Since 2010, the syndicates ceded part of the international reinsurance account to a special purpose syndicate 6107. Profit commission is received by the syndicates and Beazley could benefit from this transaction.

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

Profit related remuneration for syndicate 623's underwriting staff is charged to the syndicate.

At the balance sheet date, the syndicate has amounts due to managing agent of $8.5m (2013: $4.8m). In addition to this amount, the syndicate is also carrying a profit commission payable to the managing agent of $12.3m (2013: $10.7m).

The managing agent recharged expenses and fees of $52.4m (2013: $44.6m) to the syndicate in the current year.

20 Post balance sheet events

Members' funds

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

	2014 $m	2013 $m
2012 Year of account	45.5	–
2011 Year of account	–	36.6
	45.5	**36.6**

2012 year of account for syndicate 623

Managing agent's report

The syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (the 'Lloyd's Regulations') and in accordance with the Syndicate Accounting Byelaw (No.9 of 2005), applicable accounting standards in the United Kingdom and comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2006 ('the ABI SORP').

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2012 year of account which has been closed by reinsurance to close at 31 December 2014; consequently the balance sheet represents the assets and liabilities of the 2012 year of account and the profit and loss account reflect the transactions for that year of account during the 36 months period until closure.

Directors

A list of directors of the managing agent who held office during the current year can be found on page 59 of the syndicate annual accounts.

Disclosure of information to the auditor

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

Auditor

The managing agent intends to re-appoint KPMG LLP as the syndicate's registered auditor.

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the syndicate annual report and accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate underwriting year accounts for the year which is being closed by reinsurance to close which give a true and fair view of the underwriting result at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005).

In preparing the syndicate underwriting year accounts, the managing agent is required to:

- select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these accounts.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year accounts comply with the Lloyd's Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the UK governing the preparation and dissemination of the financial statement may differ from legislation in other jurisdictions.

By order of the board

M L Bride
Finance Director

11 March 2015

Independent auditor's report to the members of syndicate 623

2012 closed year of account

We have audited the syndicate underwriting year accounts for the 2012 year of account of syndicate 623 for the three years ended 31 December 2014, as set out on pages 51 to 58. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the members of the syndicate, 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's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the statement of managing agent's responsibilities set out on page 49, the managing agent is responsible for the preparation of syndicate underwriting year accounts under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005), which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on syndicate annual accounts

In our opinion the annual accounts:

- give a true and fair view of the profit for the 2012 closed year of account;
- have been properly prepared in accordance with UK 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).

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 annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Stuart Crisp
Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
E14 5GL
London

11 March 2015

Profit and loss account

for the 36 months ended 31 December 2014

	Notes	2012 year of account $m
Gross premiums written	2	346.2
Outward reinsurance premiums		(68.2)
Earned premiums, net of reinsurance	2	**278.0**
Allocated investment return transferred from the non-technical account		11.3
Reinsurance to close premiums received, net of reinsurance	3	346.6
		357.9
Gross claims paid		(166.1)
Reinsurers' share		36.5
Claims incurred, net of reinsurance		**(129.6)**
Reinsurance to close premiums payable, net of reinsurance	4	(336.2)
		(465.8)
Net operating expenses	6	(115.0)
Balance on the technical account	2	**55.1**
Investment income		12.1
Investment expenses and charges	7	(0.8)
		11.3
Allocated investment return transferred to the technical account		(11.3)
Other charges		(9.6)
Profit for the 2012 closed year of account	5	**45.5**
Syndicate allocated capacity (£m)		214.2
Profit for the 2012 closed year of account (£m)		29.1
Return on capacity		13.6%

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

Balance sheet
closed at 31 December 2014

	Notes	2012 year of account $m
Assets		
Financial assets at fair value	8	342.8
Debtors	9	31.7
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	4	115.4
Cash at bank and in hand		25.7
Total assets		**515.6**
Liabilities		
Amounts due to members	10	45.5
Reinsurance to close premium payable to close the account – gross amount	4	447.3
Creditors	11	22.8
Total liabilities		**515.6**

The underwriting year accounts on pages 51 to 59 were approved by the board of directors on 11 March 2015 and were signed on its behalf by:

N P Maidment
Active Underwriter

M L Bride
Finance Director

Notes to the syndicate underwriting year accounts

closed at 31 December 2014

1 Accounting policies

Basis of preparation

These syndicate underwriting year 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. They comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2006 ('the ABI SORP').

The principal accounting policies applied in the preparation of these syndicate underwriting year 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 syndicates functional currency, and in millions, unless noted otherwise.

Underwriting transactions

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

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

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

d) A provision for unexpired risks is made where claims, related expenses and deferred acquisition costs, likely to arise after the balance sheet date in respect of contracts relating to the closing year of account, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

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

Comparatives

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

Notes to the syndicate underwriting year accounts *continued*

closed at 31 December 2014

1 Accounting policies *continued*

Investment return

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

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

i) Investments are valued at market value at the balance sheet date. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date.

Syndicate operating expenses

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

k) Where expenses are incurred jointly by the managing agent and the syndicate, they are apportioned as follows:
- Salaries and related costs – according to the staff time spent on dealing with syndicate matters;
- Accommodation costs – proportioned based on the overall staff costs allocation above; and
- Other costs – as appropriate in each case.

Taxation

l) 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.

m) No provision has been made for any United States Federal Income Tax or any overseas tax payable on the underwriting results or investment earnings.

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

n) The syndicate operates in four separate currency funds of sterling, euro, US dollars and Canadian dollars. Items expressed in sterling, euros and Canadian dollars are translated to US dollars at the three years' average rates of exchange ruling at the balance sheet date. The euro, US dollar and Canadian dollar three years' average exchange rates ruling at 31 December 2014 are euro 0.76, sterling 0.63 and Canadian dollar 1.04.

2 Segmental analysis

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

2012 year of account	Marine $m	Political risks and contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Unallocated $m	Total $m
Gross premiums written	62.3	23.1	76.8	40.2	143.8	–	346.2
Outward reinsurance premiums	(6.9)	(4.2)	(17.9)	(9.4)	(29.8)	–	(68.2)
Net earned premiums	55.4	18.9	58.9	30.8	114.0	–	278.0
Net claims	(16.1)	(4.2)	(21.4)	(8.5)	(69.0)	–	(119.2)
Operating expenses	(21.6)	(9.8)	(28.0)	(9.4)	(44.9)	(1.3)	(115.0)
Technical result before investment income	17.7	4.9	9.5	12.9	0.1	(1.3)	43.8
Investment income	–	–	–	–	–	11.3	11.3
Balance on technical account	**17.7**	**4.9**	**9.5**	**12.9**	**0.1**	**10.0**	**55.1**
Claims ratio	29%	22%	36%	28%	61%	–	43%
Expense ratio	39%	52%	48%	31%	39%	–	41%
Combined ratio	68%	74%	84%	59%	100%	–	84%

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

- Marine – marine, aviation and transport
- Political risks and contingency – pecuniary loss
- Property – fire and other damage to property
- Reinsurance – reinsurance
- Specialty lines – third party liability

All business was underwritten in the UK.

3 Reinsurance to close premiums received

	2012 year of account $m
Gross reinsurance to close premiums received	480.8
Reinsurance recoveries anticipated	(134.2)
Reinsurance to close premiums received, from 2011 and earlier, net of reinsurance	**346.6**

Notes to the syndicate underwriting year accounts *continued*

closed at 31 December 2014

4 Reinsurance to close premiums payable

	2012 year of account $m
Gross reinsurance to close premiums payable	456.7
Reinsurance recoveries anticipated	(120.5)
Foreign exchange	(4.3)
Reinsurance to close premiums payable to 2013, net of reinsurance	**331.9**

	Reported $m	IBNR $m	Total $m
Reinsurance to close premium payable	155.7	291.6	447.3
Reinsurance recoveries anticipated	(33.8)	(81.6)	(115.4)
Reinsurance to close premiums payable, net of reinsurance	**121.9**	**210.0**	**331.9**

5 Analysis of the 2012 year of account result

	2012 year of account $m
Amount attributable to business allocated to the 2012 year of account	24.8
Surplus on the reinsurance to close for the 2011 year of account	20.7
	45.5

6 Net operating expenses

	2012 year of account $m
Acquisition costs	82.8
Members' standard personal expenses	18.4
Administrative expenses	13.0
Profit on foreign exchange	0.8
	115.0

Administrative expenses include:

Audit services	0.1

7 Investment expenses and charges

	2012 year of account $m
Investment management expenses	0.8
	0.8

8 Financial assets

Financial assets at fair value	2012 year of account $m
Fixed and floating debt securities	296.3
Equity linked funds	13.1
Hedge funds (uncorrelated strategies)	33.3
Rights under derivative contracts	0.1
	342.8

9 Debtors

	2012 year of account $m
Net amounts due from other related entities	–
Other debtors, including taxation	31.7
	31.7

These balances are due within one year. All insurance debtors relate to business transacted with brokers and intermediaries.

10 Amounts due to members

	2012 year of account $m
Profit for the 2012 closed year of account	45.5
Transfers to members' personal reserve funds in 2013 and 2014	–
Amounts due to members at 31 December 2014	**45.5**

Amounts are stated after the deduction of members' agents' fees.

Notes to the syndicate underwriting year accounts *continued*

closed at 31 December 2014

11 Creditors

	2012 year of account $m
Profit commission payable	6.2
Net amounts due to other related entities	1.2
Other creditors	3.7
Amount due to other syndicates	11.7
	22.8

The above balances are payable within one year.

12 Related party transactions

Please refer to page 46 for further details of related party transactions for the 2012 year of account.

Seven-year summary of closed year results

at 31 December 2014

	2012	2011	2010	2009	2008	2007	2006
Syndicate allocated capacity – £'000	214,167	214,841	215,724	147,831	158,230	163,100	183,100
Syndicate allocated capacity – $'000	325,533	337,300	323,587	294,184	261,715	308,259	335,073
Capacity utilised	84%	86%	88%	92%	87%	97%	89%
Aggregate net premiums – $'000	204,582	223,392	216,294	194,730	224,784	243,005	224,554
Underwriting profit as a percentage of gross premiums	31.3%	20.3%	14.2%	26.4%	21.3%	25.1%	29.8%
Return on capacity	13.6%	10.3%	6.1%	21.0%	13.4%	14.5%	18.5%
Results for an illustrative £10,000 share	$	$	$	$	$	$	$
Gross premiums	13,092	12,805	13,021	21,326	17,631	18,324	16,272
	$	$	$	$	$	$	$
Net premiums	9,909	9,584	10,109	13,614	14,206	14,899	12,265
Reinsurance to close from an earlier account	16,181	16,422	15,920	22,059	18,377	15,256	12,784
Net claims	(6,199)	(7,215)	(7,093)	(7,510)	(7,613)	(6,630)	(4,784)
Reinsurance to close the year of account	(15,698)	(16,021)	(16,339)	(22,526)	(20,958)	(18,930)	(15,415)
Underwriting profit	4,193	2,770	2,597	5,637	4,012	4,595	4,850
(Loss)/profit on foreign exchange	(38)	(49)	(5)	128	95	246	565
Syndicate operating expenses	(1,923)	(756)	(1,485)	(2,167)	(1,745)	(1,713)	(1,376)
Balance on technical account	2,232	1,965	1,107	3,598	2,362	3,128	4,039
Gross investment return	528	310	311	546	398	597	455
Profit before personal expenses	2,760	2,275	1,418	4,144	2,760	3,725	4,494
Illustrative personal expenses							
Illustrative personal expenses	(188)	(220)	(222)	(187)	(264)	(395)	(382)
Managing agent's profit commission	(449)	(352)	(208)	(660)	(437)	(582)	(719)
Profit after illustrative profit commission and personal expenses ($)	2,123	1,703	988	3,297	2,059	2,748	3,393
Profit after illustrative profit commission and personal expenses (£)	1,360	1,026	606	2,100	1,338	1,454	1,854

Notes:

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

Managing agent corporate information

Beazley Furlonge Limited has been the managing agent of syndicate 623 throughout the period covered by this report and the registered office is Plantation Place South, 60 Great Tower Street, London EC3R 5AD.

Directors

D Holt* – chairman
G P Blunden*
M L Bride – finance director
A P Cox
A Crawford-Ingle*
R V Deutsch* (resigned 07/07/2014)
N H Furlonge*
J G Gray
D A Horton – chief executive officer
N P Maidment – active underwriter
R A W Tolle*
C A Washbourn
K W Wilkins* (appointed 02/03/2015)

* Non-executive director.

Company secretary

S A Coope

Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Managing agent's registered office

Plantation Place South
60 Great Tower Street
London
EC3R 5AD
United Kingdom

Registered number

01893407

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Beazley Furlonge Limited
Syndicate 623 at Lloyd's

Plantation Place South
60 Great Tower Street
London EC3R 5AD
United Kingdom

Phone: +44 (0)20 7667 0623
Fax: +44 (0)20 7674 7100

www.beazley.com