Beazley Furlonge Limited | Syndicate 623 at Lloyd's
Annual report 2013

The Cuthbert Heath Award
2013 Winner
For excellence in claims service

Premier Partner of BRITISH FENCING

Contents

Highlights

	2013	2012
Syndicate capacity (£m)	224.7	214.2
Gross premiums written ($m)	373.7	367.6
Net premiums written ($m)	314.5	301.0
Earned premiums, net of reinsurance ($m)	299.3	296.4
Profit for the financial year ($m)	**61.2**	**41.0**
Claims ratio	42%	50%
Expense ratio	38%	36%
Combined ratio	80%	86%
Renewal rate increase	1%	3%
Cash and investments ($m)	664.4	626.1
Annualised investment return	0.9%	1.7%

Strategic report of the managing agent

Overview

The syndicate has achieved a profit for the year of $61.2m (2012: $41.0m). Gross premiums written of $373.7m have increased by 2% on 2012 ($367.6m).

For 2013 total managed premium capacity for Beazley Furlonge Limited was £1,408.1m (2012: £1,318.1m), which includes £15.0m, £125.0m and £18.4m for 3622, 3623 and 6107 respectively. Syndicate 623 contributed £224.7m and Beazley plc, through syndicate 2623, the remaining £1,025.0m.

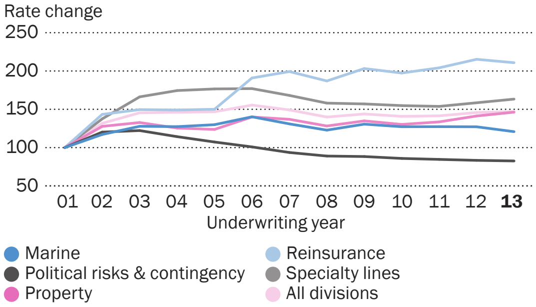
Year of account results

We are pleased to declare a return on capacity of 10.3% for the 2011 year of account. The 2012 year of account is currently forecasting a return on capacity of 6.0%. The 2013 year of account is developing in line with expectations and currently forecasts a return on capacity of 4.0%.

Rating environment

The syndicate achieved overall rate increases of 1% on renewal business in 2013 (2012: increase of 3%). This overall rate improvement was driven by our two largest divisions, specialty lines and property, which both achieved rate increases of 3%. The most significant increases in specialty lines were seen in professional indemnity for architects and engineers (6%) and management liability (6%). In property, rate increases on our US commercial property business (6%) and our homeowners business (6%) were the main drivers of the overall improvement. Rate change on renewals on all other divisions were down; 1% in political risks and contingency, 3% in reinsurance and 5% in marine.

Cumulative renewal rate changes since 2001 (%)



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% indicating an underwriting profit. Consistent delivery of operating performance across the market cycle is clearly a key objective for an insurer. The calculation of the combined ratio for the syndicate includes all claims and other costs but excludes foreign exchange effects. We believe this represents the most transparent and useful measure of operating performance as it ensures that all of the costs of being in business are captured, whether directly linked to underwriting activity or not. The syndicate's combined ratio has decreased in 2013 to 80% (2012: 86%). Within the combined ratio, the claims ratio improved to 42%, while the expense ratio increased to 38%.

Claims

Overall, claims have developed favourably during 2013 with notifications at normalised levels. We have only moderate exposure to the floods in Europe during May and the hailstorms in Germany, as well as the floods in Calgary in July.

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 estimate. We continue to maintain a surplus in our reserves and for our managed syndicates, on average, this was 8.2% at the end of 2013 (2012: 6.9%).

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 2013 we were able to make the following prior year reserve adjustments across our five underwriting divisions. Whilst our approach to reserving remains consistent, we have been able to release a higher amount of prior year claims reserve in 2013 ($49.7m) when compared to 2012 ($29.3m). This increased level of reserve releases was driven by our short tail, catastrophe exposed lines of business.

	2013 $m	2012 $m
Marine	10.9	6.5
Political risks and contingency	9.1	7.8
Property	7.8	2.4
Reinsurance	12.6	1.6
Specialty lines	9.3	11.0
Total	**49.7**	**29.3**
Releases as a percentage of net earned premium	16.6%	9.9%

Net operating expenses

Net operating expenses, including business acquisition costs and administrative expenses decreased from $112.1m to $108.6m in 2013. The breakdown of these costs is shown below:

	2013 $m	2012 $m
Brokerage costs	73.1	73.3
Other acquisition costs	10.5	12.6
Total acquisition costs	**83.6**	**85.9**
Administrative expenses	25.0	26.2
Net operating expenses	**108.6**	**112.1**

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 2013, administrative expenses include foreign exchange gains of $4.6m (2012: foreign exchange losses of $4.2m).

Investment performance

Investment return for the year ended 31 December 2013 was $5.7m, or an annualised return of 0.9%, compared with $10.4m and an annualised return of 1.7% over the same period in 2012. Lower returns, compared with the previous year, were driven by a rise in bond yields in the US, as the federal reserve indicated early in the year that it would taper its quantitative easing programme finally confirming in December that the tapering would start in 2014. These rising bond yields contributed to the syndicate suffering unrealised losses on investments of $0.3m in 2013 (2012: unrealised gains of $3.7m). In the UK, yields rose as the economy recovered, and in Europe yields followed the lead set by the US.

The main challenge to our investment performance in 2013 was the US federal reserve policy, and we expect that, if the US economy maintains its upward trend, federal policy and a rising yield environment will continue to make investment conditions challenging for managers of fixed income portfolios in 2014. In the medium term, rising interest rates are likely to be positive for our investment return.

Our core portfolio amounted to 88% of total investments and we reduced our allocation to core sovereign, supranational and agency debt whilst retaining elevated levels of cash and other short-term investments. We have continued to increase our allocations to US non-financial corporate and asset-backed credit in order to take advantage of the more attractive risk adjusted yield these assets offer, and maintain the balance of our investments in a diversified portfolio of capital growth assets. At 31 December 2013 the weighted average duration of our core portfolio was 23 months (31 December 2012: 23 months). The weighted average yield to maturity of our overall portfolio was 1.1% (31 December 2012: 1.0%).

We are changing our relationship with Falcon Money Management. In 2014, they will cease managing our core portfolio but will be actively involved in the management of our capital growth assets. This should enable us to lower investment management fees in future periods.

Strategic report of the managing agent *continued*

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

	31 Dec 2013 $m	31 Dec 2013 %	31 Dec 2012 $m	31 Dec 2012 %
Cash at bank and in hand	44.4	7	30.3	5
Government, Agency and Supranational	262.6	39	295.1	47
AAA	139.0	21	128.8	21
AA+ to AA-	34.5	5	27.1	4
A+ to A-	68.5	10	44.2	7
BBB+ to BBB-	23.3	4	25.1	4
BB+ to BB-	10.0	2	10.6	2
B+ to B-	2.3	–	–	–
Derivative financial assets	1.9	–	–	–
Core portfolio	586.5	88	561.2	90
Capital growth assets	77.9	12	64.9	10
Total	**664.4**	**100**	**626.1**	**100**

Comparison of return by major asset class:

	31 Dec 2013 $m	31 Dec 2013 %	31 Dec 2012 $m	31 Dec 2012 %
Core portfolio	2.1	0.4	8.3	1.5
Capital growth assets	3.6	4.6	2.1	3.2
Overall return	**5.7**	**0.9**	**10.4**	**1.7**

Reinsurance

In 2013, the amount spent on reinsurance was $59.2m (2012: $66.6m). In our property division, we were able to achieve more efficiency in our reinsurance buying through the consolidation of parts of our catastrophe programme.

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

We have continued to purchase a level of reinsurance which reduces our net exposures, particularly where commercially beneficial terms are available.

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 assessment, 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 ICA process is embedded so that the 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

Beazley has set two guiding principles for Solvency II, namely:

- to develop a framework that can be used to inform management and assist with business decision making; and
- to hold an appropriate and efficient level of capital for the agreed risk appetite through risk identification and mitigation.

During 2013, Beazley has continued to embed the principles of Solvency II and the use of our internal model in our business. As well as providing the basis for Lloyd's capital setting, our internal model is used extensively to inform risk management, capital allocation and decision making both on a routine and an ad hoc basis. In December, Lloyd's confirmed that it assesses us as continuing to meet the principles of Solvency II as currently drafted.

Following the provisional agreement that has been reached between the European Parliament, the European Commission and the European Council on the Omnibus II Directive, we now look forward with a greater degree on certainty to the recently revised implementation date for Solvency II of 1 January 2016. The European Insurance and Occupational Pensions Authority's guidelines for the preparation of Solvency II provide for a lead in to implementation over the next two years. The work which we have already done in our programme to date leaves us well placed to respond to this final phase of Solvency II preparation.

Outlook

The 2012 and 2013 underwriting years are developing well and in line with expectations. The market is becoming more competitive with pressure on rates likely to continue in 2014, particularly in relation to short tail, catastrophe exposed, classes of business. Syndicate 623's balanced portfolio, diverse geographic spread of business and the recent positive rating experience in our two largest divisions, positions the syndicate to achieve continued moderate growth in 2014.

N P Maidment
Active Underwriter

12 March 2014

Strategic report of the managing agent *continued*

Marine

	2013 $m	2012 $m
Gross premiums written	68.8	69.3
Net premiums written	61.4	63.2
Earned premiums, net of reinsurance	57.8	63.8
Claims incurred, net of reinsurance	(18.7)	(25.9)
Net operating expenses	(22.5)	(20.8)
Technical result	**16.6**	**17.1**
Claims ratio	32%	40%
Expense ratio	39%	33%
Combined ratio	71%	73%
Renewal rate change	(5%)	0%

The marine division, led by Clive Washbourn, delivered another strong performance in 2013, achieving a combined ratio of 71% (2012: 73%) on gross written premiums of $68.8m (2012: $69.3m).

The division underwrites a broad book of marine hull, cargo, liability and war risks, as well as a large and growing energy account. Aviation was added to the mix in 2012, with the arrival of a seasoned team headed by David Oates. We will also begin underwriting satellite business later this year, when Denis Bensoussan joins the team.

Premium rates for hull insurance were weak in 2013, in a shipping market dogged by overcapacity and a poor freight market. On a global basis maritime trade remained subdued, with many ships in lay-up. Large swathes of the cargo market suffered the same problem, with container traffic being particularly affected.

Our success is based on our underwriters' ability to identify good risks in niches that other insurers find unattractive. These opportunities can occur anywhere in the world: London's dominance of the marine insurance market and Beazley's strong broker relationships ensure that we see them. Tuna fishing vessels off the west coast of South America, Canadian ferry boats and Namibian research vessels are examples of attractive risks written last year.

In 2013, our offshore energy portfolio accounted for 37% of the marine division's premiums. At $25.2m, energy premiums were 9% down from the previous year due to competitive market conditions. Policy count, however, continues to increase and the team has been rebalancing the portfolio, growing the international portion to offset catastrophe-related business in the Gulf of Mexico. The latter now accounts for around 18% of the portfolio. As a whole, the offshore energy account now has a broader geographic and risk spread than in prior years.

We saw strong growth in our marine liability business, headed by Phil Sandle, who joined us in April. This business nearly doubled in size from $3.3m to $5.7m. Rates have risen since the Costa Concordia disaster and, for the first time since 2004, we participated in the International Group's main reinsurance program, the largest risk to be placed annually in the marine market.

Our aviation team enjoyed a good first year, with strong support from Lloyd's brokers enabling them to achieve an income of $6.3m. At a time of intense competition for the business of the largest airlines, Beazley's aviation team has sought to build a diverse portfolio including tier 2 and tier 3 airlines, private jets and general aviation risks. The strong focus on individual risk selection that has characterised our marine business applies equally to aviation.

Another speciality focus of the division is marine construction business, where we are a market leader, insuring most of the world's major shipyards. This business continued to be profitable in 2013 and, despite a depressed freight market, all the yards we insure continued to have full order books.

The war risks market, which in recent years has largely focused on covering shipping against pirate attacks off the Horn of Africa, continued to be very competitive. Security has been tightened significantly on most vessels, deterring attacks and contributing to a sharp fall in premium rates. Attacks have meanwhile intensified in the Gulf of Guinea off West Africa, but shipping volumes are far lower there than off the east coast. Nevertheless the war risks account remains very profitable.

Not all the business we transact comes to us through Lloyd's brokers. Over several years, Steve Smyth has built excellent relationships with regional brokers in the UK to generate UK cargo business underwritten from offices in Birmingham, Manchester, Ipswich and Leeds. In May Beazley's UK marine cargo products were added to the Acturis online broker trading platform, increasing still further the ease of doing business with Beazley.

Political risks and contingency

	2013 $m	2012 $m
Gross premiums written	28.5	25.9
Net premiums written	24.0	22.9
Earned premiums, net of reinsurance	21.6	22.4
Claims incurred, net of reinsurance	(0.5)	(2.1)
Net operating expenses	(9.6)	(8.9)
Technical result	**11.5**	**11.4**
Claims ratio	2%	9%
Expense ratio	45%	40%
Combined ratio	47%	49%
Renewal rate decrease	(1%)	(1%)

The political risks & contingency division (PCG) performed well in 2013, delivering a combined ratio of 47% (2012: 49%) on gross premiums of $28.5m (2012: $25.9m).

The division, led by Adrian Lewers, focuses on three main lines of business, all of which have deep roots at Lloyd's: political risks and trade credit; terrorism (which includes a wide array of political violence risks); and event cancellation, the mainstay of the Lloyd's contingency market. The majority of the division's business is underwritten in London, but PCG has been active in building a local presence in other markets around the world where attractive business opportunities are to be found, a process that continued in 2013.

Political risks and trade credit business grew strongly in the course of the year, accounting for 38% of the division's premiums, or $10.8m (2012: $8.2m). In the trade credit arena, our underwriters focus on non-traditional single buyer transactions. We protect exporters, investors and the banks that finance them against force majeure acts of government such as confiscation, expropriation and nationalisation, as well as embargo and non-payment risks.

The largest global brokers handle many of these major accounts, but in addition there is an active group of smaller, specialist brokers with whom we also have close relationships. High quality service is essential to all brokers in these business lines: claims are infrequent but, when they occur, they tend to be large and complex.

Claims also commonly take some time – up to three years – to materialise after the business is underwritten. In 2013, we were able to release $9.1m from prior year reserves set aside to cover political risks and terrorism claims from Syria, Libya and Nigeria, as well as credit claims from the 2008 financial crisis, that have developed more favourably than our original reserving approach had assumed.

Our terrorism team experienced increased competition in 2013 and premiums remained broadly flat when compared to 2012, despite evidence that terrorism and political violence remain very real threats to business in many parts of the world.

Broadening our product range to help businesses protect their people in the face of these risks, we launched Beazley Flight, which we believe to be the broadest emergency evacuation insurance cover available in the market today. The policy provides expert advisory and evacuation services in three scenarios: a deteriorating political environment that puts a client's employees at serious risk; a natural catastrophe that presents a severe threat; and a medical emergency. Cover can also be included for kidnap and personal accident risks.

The third major segment of PCG's business, contingency insurance, enjoyed a successful year, with weather-related claims – the principal cause of event cancellations – lower than the previous year. Contingency premiums rose 5% to $8.1m, and we were delighted to receive two major insurance industry awards for our handling of the event cancellation claim for the 2012 New York marathon, following superstorm Sandy.

We continued to build our access to business which doesn't come to the London market in 2013. Crispin Hodges moved to Paris from Singapore in April 2012 and swiftly built strong relationships with French brokers based on the quality and speed of underwriting service that Beazley can provide. In 2013, we wrote $1.3m of business in France, little or none of which would have been seen by our London-based underwriters. Mathilde Lecontre, a highly experienced political risks underwriter, joined the team in December.

Growth affords us continuing opportunities to invest in people and we have been able to broaden opportunities for many of our team members in 2013. As is common practice at Beazley, our underwriters and claims professionals work very closely together and individuals sometimes move from one discipline to another. This was the case for Michael Lum, who moved from our claims team in London to join our political risks underwriting team in Singapore.

Strategic report of the managing agent *continued*

Property

	2013 $m	2012 $m
Gross premiums written	80.5	82.9
Net premiums written	67.3	60.9
Earned premiums, net of reinsurance	65.9	60.2
Claims incurred, net of reinsurance	(26.4)	(30.2)
Net operating expenses	(27.3)	(26.7)
Technical result	**12.2**	**3.3**
Claims ratio	40%	50%
Expense ratio	41%	45%
Combined ratio	81%	95%
Renewal rate increase	3%	6%

The property division, led by Mark Bernacki, played a significant role in Beazley's strong performance in 2013, achieving a combined ratio of 81% (2012: 95%) and contributing $12.2m to the syndicate profit. As a result of achieving more efficiency in our reinsurance buying, net premiums written grew 10% to $67.3m (2012: $60.9m).

The Lloyd's market has access to a wide range of property business from around the world and over the years Beazley has built a diversified portfolio, including large scale risks underwritten individually on a subscription basis. Beazley was the lead underwriter on 61% of this 'open market' business in 2013, supported by our wordings and claims expertise as well as by our underwriting talent. This leadership position enables us to set terms and conditions for the majority of business we underwrite.

Lloyd's is also an important market for small scale property business placed through delegated binding authorities granted to approved Lloyd's coverholders around the world. For Beazley, most of this 'covers' book derives from the US and UK and includes our UK jewellers block account – a sector in which we are a market leader. It also includes $1.3m of business from the small business consortium (SBC), a Lloyd's facility we acquired in 2011. Overall, our covers book grew 24% in 2013 to $13m, supported by rate rises of 5%.

Mid sized property business is less frequently seen by underwriters in London. In the US we underwrite this business on a surplus lines basis. We re-engineered the excess and surplus (E&S) business significantly in 2013, to improve profitability. Premiums fell 12% to $16.8m as a result of more selective underwriting; however we do see growth opportunities in this area in the year ahead. In addition, we write a small volume of high value homeowners business in the US, which continued to perform well in 2013.

The final component of the property division's portfolio is construction and engineering business. The large risks – which include some of the world's largest and most complex projects – are underwritten in London. In 2013, we were delighted to join forces with three other Lloyd's market specialists in construction and engineering insurance to form the Construction Consortium at Lloyd's, a facility that enables Lloyd's to compete head to head with the largest non-Lloyd's insurers. Through the consortium, we can offer capacity of up to $166m per project on a probable maximum loss basis.

We also underwrite construction business – commonly known in the US as builders' risk business – through teams located in Atlanta and Singapore. As the US economy continues to gain pace, we expect to see increasing demand for this cover, while in Singapore the main driver of demand is continuing infrastructure investment across South East Asia.

Claims experience across the division was generally benign in 2013, but not universally so, with storm losses in Mexico impacting our Lloyd's open market book. We reserve prudently for catastrophe losses and were able to realise $7.8m in prior year reserve releases in 2013.

Our vision for the property division dovetails with Beazley's corporate vision: we aspire to become, and be recognised as, the highest performing specialist property insurer. This entails strong relationships with the brokers upon whom we rely for business. The expertise and global reach of Lloyd's brokers in particular is critical to our success and we will continue to work hard to foster these relationships, offering decisive underwriting and high quality service to meet their clients' needs.

Reinsurance

	2013 $m	2012 $m
Gross premiums written	48.6	40.9
Net premiums written	37.7	31.7
Earned premiums, net of reinsurance	36.4	30.6
Claims incurred, net of reinsurance	(6.1)	(18.6)
Net operating expenses	(11.7)	(9.1)
Technical result	**18.6**	**2.9**
Claims ratio	17%	61%
Expense ratio	32%	30%
Combined ratio	49%	91%
Renewal rate (decrease)/increase	(3%)	5%

The reinsurance division, led by Patrick Hartigan, performed very strongly in 2013, achieving a contribution to syndicate profit of $18.6m on gross premiums that grew 19% to $48.6m. Taking advantage of still attractive premium rates, the team delivered a combined ratio of 49% (2012: 91%).

Premium rates increased modestly at the 1 January, 2013 renewals, confirming our expectation that the heavy losses from 2010, 2011 and from superstorm Sandy in October 2012 would prevent rate declines in what was otherwise a well capitalised reinsurance market. Later in the year, we began to see rates fall, particularly for US business, as new capital from pension funds, among other sources, continued to impact the market. Overall, rate on renewals fell by 3%.

Overall, claims have developed favourably during 2013 and we have only moderate exposure to the floods in Europe during May, the hailstorms in Germany and the floods in Calgary during July. We were also able to release $12.6m from prior year reserves set aside to cover superstorm Sandy, and the 2011 Tohoku Japanese earthquake and Thai floods.

Our focus remains with our core clients in the larger insurance economies of the US, Europe and Japan but we have also expanded our underwriting platform geographically by establishing offices in key reinsurance hubs such as Singapore and Miami. This enables us to get closer to regional clients in Asia and Latin America respectively and provide greater service to the brokers in these areas.

In Singapore, where we began writing treaty business in January, we were able to access good opportunities in Asia, especially in Thailand where rates had been affected by the impact of the catastrophic floods in 2011: the office underwrote $1.0m on behalf of the syndicate in 2013, its first year. In Munich the syndicate underwrote $4.8m in business from European insurers that we would not normally have seen at Lloyd’s.

We continued our geographical diversification in 2013 with the opening of our Miami office, headed by Paul Felfle, in July. Miami has been growing as a hub for Latin American reinsurance business, on which the office will focus.

The investment of new capital into the reinsurance market from non traditional sources bears witness to the market’s continuing vitality and attractiveness. We continue to focus on gaining better access to our clients through our broader geographical platform and on enhancing the value of our product to our long term clients.

Strategic report of the managing agent *continued*

Specialty lines

	2013 $m	2012 $m
Gross premiums written	147.3	148.6
Net premiums written	124.1	122.3
Earned premiums, net of reinsurance	117.7	117.4
Claims incurred, net of reinsurance	(74.2)	(71.2)
Net operating expenses	(42.0)	(41.7)
Technical result	**1.5**	**4.5**
Claims ratio	63%	61%
Expense ratio	36%	35%
Combined ratio	99%	96%
Renewal rate increase	3%	3%

Beazley's largest division contributed $1.5m to the syndicate's profit in 2013. Rates on renewal business rose for the second year in a row by an average of 3% across our portfolio.

The division provides management liability, professional liability and medical malpractice insurance to professionals and companies around the world, but with a strong focus on the US – by far the world's largest market for these specialist lines of business.

A recovering US economy in 2013 benefited our business. Demand for the products and services we provide grew steadily, particularly in high growth sectors such as healthcare and technology, towards which Beazley's business is increasingly oriented.

Looking forward, moderate economic growth should also benefit our claims experience. The incentive to sue service providers is higher when companies are under severe economic pressures and tends to abate when conditions improve. That said, our markets remain competitive with an abundance of capacity.

Prior year reserve releases contributed $9.3m (2012: $11.0m) to the division's profits in 2013, continuing the moderate decline we have seen since 2011. This is in line with our expectations. We continue to maintain a consistently conservative approach to reserving across the cycle.

Highlights of the past year included continuing growth into the US healthcare industry, measured both in premiums and in the reputation among brokers and clients enjoyed by our team. The most recent addition to the team occurred in October when Laura Sunderlin joined us to grow our life sciences business.

Beazley is now a well respected and well established specialist insurer of healthcare-related liability exposures in the US, with a broad product range. Our focus is clear: we work with healthcare providers that seek to make constant and measurable improvements to patient safety and quality of care and incentivise them to do so. We support them by not only offering tailored insurance cover for professional liability risks, but for management and regulatory liability as well, all underwritten from the same team.

An additional and growing demand is for the prompt and effective handling of data breaches, as well as for third party liability cover. US healthcare providers suffer data breaches very frequently, requiring them to mail breach notifications to more than 120,000 affected individuals every week.

We see continuing growth opportunities in the healthcare industry in the years ahead, not just in the US, where we have developed and honed the service offerings that are now in high demand, but in the UK and elsewhere as well.

Demand is strong for our data breach products, not only from healthcare clients but from organisations of all types that hold large volumes of personally identifiable customer information. Beazley is unique among insurers in having a business unit – BBR Services – dedicated exclusively to helping clients handle data breaches successfully. We expect our leadership position in this fast growing market will stand us in good stead as demand continues to grow both inside and outside the US.

Although we expect the US to remain by far our largest market for the foreseeable future, we see continuing growth opportunities elsewhere as well. Many professional services firms – particularly in the sectors we focus on such as law firms and architects and engineers – have been relatively slow to globalise. But the move is now happening in earnest and, as a Lloyd's-based insurer with offices around the world, we are well placed to provide the global cover and service our clients need.

Management liability risks also affect companies on a global basis, but the crucible for these risks remains the US, where the plaintiffs' bar can be relied on to develop new theories of liability to test in court. As the leading insurer of directors' and officers' risks in the London insurance market, we aim to keep pace with the risks our clients face. In particular directors and officers are increasingly becoming involved in investigations and inquiries by regulatory authorities, which can prove extremely costly.

Managing agent's report

The managing agent presents its report for the year ended 31 December 2013.

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 periodically 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.

2013 in review

We have now been using the revised risk management framework for four years and, supported by a comprehensive training programme, the framework has become part of usual business activity. The risk management function has also remained stable and at full capacity during 2013 and has supported the operation of the framework through facilitation, challenge and the provision of timely risk information. It is by embedding an effective risk management culture throughout the managing agency, underpinned by a robust risk management framework that we can anticipate and plan for our future challenges.

A robust risk assessment is an important cornerstone of the framework. The risks and opportunities in the insurance environment have not changed significantly in 2013, and for this reason neither has our risk management strategy of maintaining a diversified portfolio of insurance risks, executing on our cycle management expertise, employing a conservative investment strategy and operating a robust underwriting and claims control environment. The top three risks to the syndicate have remained relatively static, and are common to many of our peers. These are underwriting and reserving risks (specifically, systematically mispricing across a number of years), catastrophe risk and market risk.

Members of the Beazley Furlonge Limited board met in May 2013 and, amongst other topics, discussed emerging and strategic risks. These were summarised into five categories, namely; socio-political risks, market conditions, distribution, talent and regulation. Developments in these areas, along with activity undertaken by Beazley, have been reported in the quarterly Own Risk and Solvency Assessment (ORSA) report throughout the year.

The quarterly ORSA has been a feature at Beazley boards since 2010 and has become a valuable tool for the directors to understand current and prospective risks and capital requirements, and has helped the board steer the strategic direction of the syndicate.

Another report that has developed into a valuable risk management tool is the risk management report to the group remuneration committee. In this report, the design of the remuneration structure is reviewed from a risk perspective to test that it does not inadvertently reward inappropriate behaviour. The remuneration related calculations are also reviewed to confirm they are in line with the remuneration policy in light of the risk taken and results produced.

During 2013, the board performed a review of Beazley's product led operational structure from a risk perspective and has confirmed that it remains appropriate. The board also reviewed the oversight of Beazley's global offices in the context of a product led, rather than a geographical, operational structure. Although some enhancements were introduced subsequent to the review, the board has confirmed that this governance framework is operating in line with expectations.

Whilst the risk and capital teams were brought together in 2010 to better align risk assessment and risk quantification to drive improvements in decision making, Beazley's internal model has been used extensively by the business since it was introduced in 2004. In 2013, the internal model has been used to optimise further the reinsurance structure and to assess the appropriateness of natural catastrophe model changes and how the risk budget should be adjusted. Beazley's internal model continues to be tested by an independent and external validator and the results of that work have been reported to the relevant boards within the validation report.

Risk training continues to be provided to the business with a tiered educational programme. In 2013, the second e-learning module, which is a scenario based approach to considering risk issues, was completed by all employees.

As in previous years, members of the risk management department have visited most Beazley offices to meet with members of staff. A theme from these office visits is that there is a consistent Beazley culture across the organisation within which the careful consideration of risk and reward is an important part. These risk behaviours have been a substantial ingredient in the syndicate's performance in 2013.

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 continually reassessed and changes are made when necessary. On an annual basis, the board agrees the risk appetite and this is documented in the risk framework document. The value of 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, we have adopted the following risk management principles:
- risk management is a part of the wider governance environment;
- techniques employed are fit for purpose and proportionate to the business;
- risk management is a core capability for all employees;
- risk management is embedded in day to day activities;
- 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.

Asset risk

Asset 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.

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 £	2012 year of account underwriting capacity £	2013 year of account underwriting capacity £	2014 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
D A Horton	199,000	400,000	400,000	400,000
J G Gray	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 45 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

Our auditor, KPMG Audit Plc has instigated an orderly wind down of business. The managing agent's board has decided to put KPMG LLP forward to be appointed as auditors and the resolution concerning their appointment will be put forward for approval at the forthcoming board meeting of the managing agent.

By order of the board

M L Bride
Finance Director

12 March 2014

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

12 March 2014

Independent auditor's report to the members of syndicate 623

We have audited the syndicate 623 annual accounts for the year ended 31 December 2013, as set out on pages 17 to 46. 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 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 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 623 annual accounts

In our opinion the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2013 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 syndicate annual accounts are prepared is consistent with the syndicate 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 Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

12 March 2014

Profit and loss account

year ended 31 December 2013

	Notes	2013 $m	2012 $m
Gross premiums written	3	373.7	367.6
Outward reinsurance premiums		(59.2)	(66.6)
Net premiums written	3	**314.5**	**301.0**
Change in the gross provision for unearned premiums	15	(12.1)	(4.2)
Change in the provision for unearned premiums, reinsurers' share	15	(3.1)	(0.4)
Change in the net provision for unearned premiums		(15.2)	(4.6)
Earned premiums, net of reinsurance	3	**299.3**	**296.4**
Allocated investment return transferred from the non-technical account	8	5.7	10.4
Gross claims paid		(179.0)	(179.9)
Reinsurers' share of claims paid		32.3	33.4
Claims paid net of reinsurance		(146.7)	(146.5)
Change in the gross provision for claims	15	24.1	6.8
Change in the provision for claims, reinsurers' share	15	(3.3)	(8.3)
Change in the net provision for claims		20.8	(1.5)
Claims incurred, net of reinsurance		**(125.9)**	**(148.0)**
Net operating expenses	4	**(108.6)**	**(112.1)**
Balance on the technical account		**70.5**	**46.7**
Investment income	8	9.7	9.7
Investment expenses and charges	8	(1.5)	(1.9)
Realised losses on investments	8	(2.2)	(1.1)
Unrealised (losses)/gains on investments	8	(0.3)	3.7
		5.7	10.4
Allocated investment return transferred to general business technical account		(5.7)	(10.4)
Other charges	9	(9.3)	(5.7)
Profit for the financial year		**61.2**	**41.0**

All of the above operations are continuing.

Statement of total recognised gains and losses

year ended 31 December 2013

	2013 $m	2012 $m
Profit for the financial year	61.2	41.0
Foreign exchange profit on brought forward reserves	0.2	1.8
Total recognised gains since last annual report	**61.4**	**42.8**

Balance sheet
31 December 2013

	Notes	2013 $m	2012 $m
Assets			
Financial assets at fair value*	10	**620.0**	**595.8**
Reinsurers' share of technical provisions			
Provision for unearned premiums, reinsurers' share	15	27.1	30.1
Claims outstanding, reinsurers' share	15	197.2	200.0
		224.3	**230.1**
Debtors			
Debtors arising out of direct insurance operations		104.4	91.3
Debtors arising out of reinsurance operations		16.4	47.2
Other debtors	12	17.0	59.6
		137.8	**198.1**
Cash at bank and in hand*	13	**44.4**	**30.3**
Deferred acquisition costs		**40.3**	**36.1**
Total assets		**1,066.8**	**1,090.4**
Liabilities, capital and reserves			
Capital and reserves			
Members' balances attributable to underwriting participations	14	52.5	11.8
Technical provisions			
Provision for unearned premiums	15	170.0	157.9
Claims outstanding	15	741.5	761.6
		911.5	**919.5**
Creditors			
Creditors arising out of direct insurance operations		26.8	59.3
Creditors arising out of reinsurance operations		5.2	8.1
Other creditors	16	63.2	85.5
		95.2	**152.9**
Financial liabilities	10	**0.2**	**–**
Accruals and deferred income		**7.4**	**6.2**
Total liabilities, capital and reserves		**1,066.8**	**1,090.4**

* Deposits to the value of $55.2m (2012: $63.5m) managed centrally by Lloyd's are now included in financial assets and no longer classified as cash and cash equivalents. This classification also applies to comparative information provided.

The syndicate annual accounts on pages 17 to 46 were approved by the board of Beazley Furlonge Limited on 12 March 2014 and were signed on its behalf by:

N P Maidment
Active Underwriter

M L Bride
Finance Director

Cash flow statement

year ended 31 December 2013

	Notes	2013 $m	2012 $m
Reconciliation of profit for the financial year to net cash inflow from operating activities			
Profit for the financial year		61.2	41.0
Change to market value and currencies on investments		5.3	(40.0)
(Decrease)/increase in net technical provisions		(2.2)	12.1
Decrease/(increase) in debtors		56.1	(28.0)
(Decrease)/increase in creditors		(56.5)	52.0
Net cash inflow from operating activities		**63.9**	**37.1**
Transfer to members in respect of underwriting participations		(20.7)	(47.9)
Translation differences		0.2	1.8
	18	**43.4**	**(9.0)**
Cash flows were invested as follows:			
Increase in cash holdings and overseas deposits		13.3	8.8
Increase/(decrease) in debt securities and other fixed income securities		30.1	(17.8)
Net investment of cash flows*	18	**43.4**	**(9.0)**

* Deposits to the value of $55.2m (2012: $63.5m) managed centrally by Lloyd's are now included in financial assets and no longer classified as cash and cash equivalents. This classification also applies to comparative information provided.

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 2013 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.

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 consist 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.

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 2013, the normal maximum line that any one underwriter could commit the managed syndicates to was $100m. 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 2013, the syndicate's business consisted of five operating divisions. The following table provides a breakdown of gross written premiums written by division.

	2013	2012
Marine	18%	19%
Political risks and contingency	8%	7%
Property	22%	23%
Reinsurance	13%	11%
Specialty lines	39%	40%
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 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.

2 Risk management *continued*

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

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

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

The syndicate has developed processes to formally examine all reinsurers before entering into new business arrangements. New reinsurers are approved by the 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 2013	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– financial investments	510.1	30.1	–	–	77.9	618.1
– 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**

31 December 2012	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– financial investments	495.2	35.7	–	–	64.9	595.8
– derivative financial investments	–	–	–	–	–	–
Reinsurers' share of technical provisions	228.8	–	–	–	1.3	230.1
Debtors	59.6	–	–	–	138.5	198.1
Cash at bank and in hand	30.3	–	–	–	–	30.3
Total	**813.9**	**35.7**	**–**	**–**	**204.7**	**1,054.3**

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 2013 is $3.2m (2012: $4.1m). No other financial assets held at year end were impaired.

2 Risk management *continued*

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 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

31 December 2012	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	2.3	0.5	0.3	1.1	4.2
Reinsurance assets	1.3	0.4	0.3	1.6	3.6

2.3 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 2013	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Marine	24.9	20.0	6.7	3.8	55.4	1.8
PCG	10.9	8.3	2.0	0.8	22.0	1.5
Property	31.0	20.1	4.1	2.3	57.5	1.5
Reinsurance	23.5	17.1	3.8	2.2	46.6	1.6
Specialty lines	90.6	129.6	75.2	67.4	362.8	3.0
Net insurance liabilities	**180.9**	**195.1**	**91.8**	**76.5**	**544.3**	

31 December 2012	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Marine	25.9	20.7	7.0	4.0	57.6	1.8
PCG	12.6	9.9	2.4	1.0	25.9	1.5
Property	32.9	21.3	4.4	2.5	61.1	1.5
Reinsurance	31.2	21.2	4.7	2.5	59.6	1.5
Specialty lines	88.8	128.1	74.1	66.4	357.4	3.0
Net insurance liabilities	**191.4**	**201.2**	**92.6**	**76.4**	**561.6**	

Notes to the syndicate annual accounts *continued*

2 Risk management *continued*

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

Maturity 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	(63.2)	–	–	–	–	–	–	(63.2)
Total	**146.1**	**97.1**	**104.8**	**85.8**	**38.1**	**68.2**	**–**	**540.1**

31 December 2012	<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	206.9	68.9	102.3	44.7	60.1	47.9	–	530.8
Derivative financial instruments	–	–	–	–	–	–	–	–
Cash at bank and in hand	30.3	–	–	–	–	–	–	30.3
Other debtors	59.6	–	–	–	–	–	–	59.6
Other creditors	(85.5)	–	–	–	–	–	–	(85.5)
Total	**211.3**	**68.9**	**102.3**	**44.7**	**60.1**	**47.9**	**–**	**535.2**

2.4 Asset risk

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

Foreign exchange risk

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

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

In 2013, 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 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**

31 December 2012	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	69.0	49.9	97.0	215.9	874.5	1,090.4
Total liabilities	(148.3)	(30.1)	(81.2)	(259.6)	(819.0)	(1,078.6)
Net assets	**(79.3)**	**19.8**	**15.8**	**(43.7)**	**55.5**	**11.8**

2 Risk management *continued*

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.

	Impact on profit for the year ended		Impact on net assets	
Change in exchange rate of UK sterling, Canadian dollar and euro relative to US dollar	2013 $m	2012 $m	2013 $m	2012 $m
Dollar weakens 30% against other currencies	(5.1)	(13.1)	(5.1)	(13.1)
Dollar weakens 20% against other currencies	(3.4)	(8.7)	(3.4)	(8.7)
Dollar weakens 10% against other currencies	(1.7)	(4.4)	(1.7)	(4.4)
Dollar strengthens 10% against other currencies	1.7	4.4	1.7	4.4
Dollar strengthens 20% against other currencies	3.4	8.7	3.4	8.7
Dollar strengthens 30% against other currencies	5.1	13.1	5.1	13.1

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.

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 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**

Duration 31 December 2012	<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	294.9	58.9	84.4	36.7	48.6	7.3	–	530.8
Cash at bank and in hand	30.3	–	–	–	–	–	–	30.3
Derivative financial instruments	–	–	–	–	–	–	–	–
Total	**325.2**	**58.9**	**84.4**	**36.7**	**48.6**	**7.3**	**–**	**561.1**

Sensitivity analysis

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

	Impact on profit for the year ended		Impact on net assets	
Shift in yield (basis points)	2013 $m	2012 $m	2013 $m	2012 $m
150 basis point increase	(12.4)	(13.9)	(12.4)	(13.9)
100 basis point increase	(8.3)	(9.2)	(8.3)	(9.2)
50 basis point increase	(4.2)	(4.6)	(4.2)	(4.6)
50 basis point decrease	4.2	4.6	4.2	4.6
100 basis point decrease	8.3	9.2	8.3	9.2

Notes to the syndicate annual accounts *continued*

2 Risk management *continued*

Price risk

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

Financial assets include fixed and floating rate debt securities and hedge funds 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 is presented below. The investment committee has established comprehensive guidelines with investment managers setting out maximum investment limits, diversification across industries and concentrations in any one industry or company.

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

	Impact on profit for the year ended		Impact on net assets	
Change in fair value of hedge fund and regulated equity linked fund portfolios	2013 $m	2012 $m	2013 $m	2012 $m
30% increase in fair value	23.4	19.5	23.4	19.5
20% increase in fair value	15.6	13.0	15.6	13.0
10% increase in fair value	7.8	6.5	7.8	6.5
10% decrease in fair value	(7.8)	(6.5)	(7.8)	(6.5)
20% decrease in fair value	(15.6)	(13.0)	(15.6)	(13.0)
30% decrease in fair value	(23.4)	(19.5)	(23.4)	(19.5)

2.5 Operational risk

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

There are a number of business activities for which the syndicate uses the services of a third-party company, such as 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.

2 Risk management *continued*

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.

2.6 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.

2.7 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.

2.8 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.

3 Segmental analysis

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
Profit 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%

2012	Marine $m	Political risks and contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Unallocated $m	Total $m
Gross premiums written	69.3	25.9	82.9	40.9	148.6	–	367.6
Net premiums written	63.2	22.9	60.9	31.7	122.3	–	301.0
Gross earned premiums	70.0	25.0	81.1	39.6	145.6	2.1	363.4
Outward reinsurance premiums earned	(6.2)	(2.6)	(20.9)	(9.0)	(28.2)	(0.1)	(67.0)
Earned premiums, net of reinsurance	63.8	22.4	60.2	30.6	117.4	2.0	296.4
Gross claims	(28.1)	3.3	(39.5)	(21.1)	(87.7)	–	(173.1)
Reinsurers share	2.2	(5.4)	9.3	2.5	16.5	–	25.1
Claims incurred, net of reinsurance	(25.9)	(2.1)	(30.2)	(18.6)	(71.2)	–	(148.0)
Operating expenses before foreign exchange	(20.8)	(8.9)	(26.7)	(9.1)	(41.7)	(0.7)	(107.9)
Technical result before items below	17.1	11.4	3.3	2.9	4.5	1.3	40.5
Loss on foreign exchange	–	–	–	–	–	(4.2)	(4.2)
Investment income	–	–	–	–	–	10.4	10.4
Other charges	–	–	–	–	–	(5.7)	(5.7)
Profit for the financial year	**17.1**	**11.4**	**3.3**	**2.9**	**4.5**	**1.8**	**41.0**
Claims ratio	40%	9%	50%	61%	61%	–	50%
Expense ratio	33%	40%	45%	30%	35%	–	36%
Combined ratio	73%	49%	95%	91%	96%	–	86%

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

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.

4 Net operating expenses

	2013 $m	2012 $m
Acquisition costs	87.5	88.4
Change in deferred acquisition costs	(3.9)	(2.5)
Members' standard personal expenses	3.3	3.2
Administrative expenses	26.3	18.8
(Gain)/loss on foreign exchange	(4.6)	4.2
	108.6	**112.1**

Administrative expenses include:

	2013 $'000	2012 $'000
Fees payable to the syndicate's auditor for the audit of these syndicate annual accounts	106.0	100.8
Fees payable to the syndicate's auditor and its associates in respect of:		
Other services pursuant to legislation	204.3	178.3
	310.3	**279.1**

Managing agent fees paid to Beazley Furlonge Limited in respect of services provided to the syndicate amounted to $1.8m (2012: $1.9m).

5 Staff costs

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

	2013 $m	2012 $m
Wages and salaries	10.3	9.5
Short-term incentive payments	9.0	7.1
Social security costs	1.4	1.2
Pension costs	1.8	1.4
	22.5	**19.2**

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:

	2013 $m	2012 $m
Emoluments and fees	2.8	2.3
Contributions to defined contribution pension schemes	0.1	0.1
	2.9	**2.4**

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 $0.6m (2012: $0.4m).

Notes to the syndicate annual accounts *continued*

8 Net investment income

	2013 $m	2012 $m
Interest and dividends on financial investments at fair value through profit or loss	9.6	9.5
Interest on cash and cash equivalents	0.1	0.2
Realised losses on financial instruments at fair value though profit or loss	(2.2)	(1.1)
Net unrealised fair value (losses)/gains on financial investments at fair value through profit or loss	(0.3)	3.7
Investment income from financial investments	**7.2**	**12.3**
Investment management expenses	(1.5)	(1.9)
Total net investment income	**5.7**	**10.4**

9 Other charges

	2013 $m	2012 $m
Profit commissions paid to Beazley Furlonge Limited	9.4	5.7
Profit commissions due from syndicate 6107	(0.1)	–
	9.3	**5.7**

10 Financial assets and liabilities

	Market value		Cost	
	2013 $m	2012 $m	2013 $m	2012 $m
Financial assets at fair value				
Fixed rate debt securities	431.3	478.4	429.7	472.5
Floating rate debt securities	108.9	52.5	108.5	51.8
Hedge funds	66.2	64.9	62.6	62.8
Regulated equity linked funds	11.7	–	11.6	–
Total financial investments at fair value through income statement	**618.1**	**595.8**	**612.4**	**587.1**
Derivative financial instruments	1.9	–	1.9	–
Total financial assets at fair value	**620.0**	**595.8**	**614.3**	**587.1**
Financial liabilities				
Derivative financial instruments	**0.2**	**–**	**0.2**	**–**

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

Financial assets now include deposits managed centrally by Lloyd’s, which were previously classified as cash and cash equivalents. This classification also applies to comparative information provided.

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

Fair value measurement

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

Level 1 – valuations based on quoted prices in active markets for identical instruments. An active market is a market in which transactions for the instrument occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Included within level 1 are bonds and treasury bills of major G-8 government and government agencies.

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 non-G8 government bonds and treasury bills which are not actively traded, corporate bonds, asset-backed securities and mortgage-backed securities.

10 Financial assets and liabilities *continued*

Level 3 – valuations based on inputs that are unobservable or for which there is limited market activity on which to measure current 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 market place, 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 current value requires more judgment. Accordingly, the degree of judgment exercised by management in determining current 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 2013 and 31 December 2012, based on the level in the fair value hierarchy into which the financial instrument is categorised:

2013	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value				
Fixed rate debt securities	254.3	177.0	–	431.3
Floating rate debt securities	33.4	75.5	–	108.9
Hedge funds	–	66.2	–	66.2
Regulated equity linked funds	–	11.7	–	11.7
Derivative financial instruments	1.9	–	–	1.9
Total financial assets at fair value	**289.6**	**330.4**	**–**	**620.0**
Financial liabilities				
Derivative financial instruments	**0.2**	**–**	**–**	**0.2**

2012	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value				
Fixed rate debt securities	438.1	40.3	–	478.4
Floating rate debt securities	32.7	19.8	–	52.5
Hedge funds	–	64.9	–	64.9
Derivative financial instruments	–	–	–	–
Total financial assets at fair value	**470.8**	**125.0**	**–**	**595.8**
Financial liabilities				
Derivative financial instruments	–	–	–	–

There were no transfer in either direction between level 1 and level 2 in 2013 and 2012.

Additional information is obtained from fund managers relating to the underlying assets within individual hedge funds. We identified that 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 2013 and 2012, 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.

	2013		2012	
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	56.3	1.2	6.8	–
Bond future contracts	9.9	0.7	–	–
	66.2	**1.9**	**6.8**	**–**

	2013		2012	
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	0.5	–
Bond future contracts	–	–	–	–
	19.0	**0.2**	**0.5**	**–**

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

	2013 $m	2012 $m
Amount due from syndicate 2623	–	42.6
Amounts due from members	13.3	13.0
Sundry debtors including taxation	3.7	4.0
	17.0	**59.6**

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

	2013 $m	2012 $m
Cash at bank and in hand	44.4	30.3
	44.4	**30.3**

Deposits to the value of $55.2m (2012: $63.5m) managed centrally by Lloyd’s are now included in financial assets and no longer classified as cash and cash equivalents. This classification also applies to comparative information provided.

14 Reconciliation of members' balances

	2013 $m	2012 $m
Members' balances brought forward at 1 January	11.8	16.9
Profit for the financial year	61.2	41.0
Foreign exchange on brought forward reserves	0.2	1.8
Profit distribution before members agent's fees – 2009 Year of account	–	(47.9)
Profit distribution before members agent's fees – 2010 Year of account	(20.7)	–
Members' balances carried forward at 31 December	**52.5**	**11.8**

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.

15 Technical provisions

	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**

	Provision for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January 2012	152.5	762.5
Movement in the provision	4.2	(6.8)
Exchange adjustments	1.2	5.9
As at 31 December 2012	**157.9**	**761.6**
Reinsurers' share of technical provisions		
As at 1 January 2012	30.4	207.3
Movement in the provision	(0.4)	(8.3)
Exchange adjustments	0.1	1.0
As at 31 December 2012	**30.1**	**200.0**
Net technical provisions		
As at 1 January 2012	122.1	555.2
As at 31 December 2012	**127.8**	**561.6**

15 Technical provisions *continued*

Gross ultimate claims	2003 ae %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %
Marine											
12 months		62.3	82.5	57.1	57.8	69.0	55.8	50.6	55.1	55.9	57.1
24 months		65.2	80.1	42.9	60.1	65.1	52.0	49.6	47.9	46.0	
36 months		62.3	70.6	33.0	50.6	59.1	45.3	43.8	40.0		
48 months		61.8	68.6	29.2	48.1	62.7	41.7	42.3			
60 months		60.7	66.4	29.0	49.6	62.5	41.4				
72 months		56.2	64.5	26.6	50.3	58.9					
84 months		55.9	63.7	26.5	46.9						
96 months		55.7	63.3	25.9							
108 months		55.6	63.3								
120 months		54.8									
Political risks and contingency											
12 months		67.7	61.0	57.7	57.2	57.5	61.1	61.4	58.8	62.5	57.3
24 months		55.6	38.1	36.2	39.0	67.1	38.7	40.3	38.4	42.5	
36 months		52.3	28.6	33.0	56.4	72.6	35.8	32.9	33.7		
48 months		37.9	25.1	43.1	52.8	86.5	31.1	23.8			
60 months		37.0	18.2	39.1	53.7	71.6	25.2				
72 months		35.1	17.8	38.8	49.9	60.8					
84 months		26.5	17.7	36.0	47.4						
96 months		26.3	12.2	30.5							
108 months		26.1	12.2								
120 months		26.1									
Property											
12 months		65.4	87.0	58.7	60.4	64.6	54.6	54.7	54.7	55.8	55.7
24 months		65.2	83.9	44.8	58.6	62.4	43.1	57.7	47.0	48.1	
36 months		65.8	82.4	43.9	56.3	61.3	37.9	54.7	45.0		
48 months		63.9	87.4	51.4	57.0	59.2	36.7	51.8			
60 months		64.4	86.8	51.5	60.5	57.7	35.6				
72 months		63.1	85.1	51.2	69.3	56.5					
84 months		62.9	84.4	50.5	69.5						
96 months		63.5	83.6	48.3							
108 months		63.5	84.4								
120 months		63.3									

15 Technical provisions *continued*

Gross ultimate claims	2003 ae %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	
Reinsurance												
12 months		87.5	196.0	52.4	59.6	60.1	60.8	68.2	76.6	62.9	61.5	
24 months		81.6	187.5	25.1	26.5	51.1	48.7	152.6	77.5	36.0		
36 months		76.5	185.8	24.9	22.0	42.5	40.7	141.0	72.0			
48 months		74.0	179.0	23.3	20.0	39.3	40.2	135.3				
60 months		72.1	175.2	21.4	19.2	38.9	36.0					
72 months		71.1	172.7	21.1	19.0	39.0						
84 months		70.0	171.6	21.3	17.5							
96 months		69.0	171.2	20.8								
108 months		68.6	167.7									
120 months		68.1										
Specialty lines												
12 months		72.8	72.1	72.5	72.9	72.7	72.6	74.4	76.1	74.9	74.7	
24 months		71.4	72.1	72.6	72.5	72.7	72.6	73.9	76.1	75.0		
36 months		67.7	69.9	72.5	72.6	72.5	71.7	73.1	77.8			
48 months		64.6	66.5	72.5	72.4	72.5	71.6	74.6				
60 months		59.5	62.9	70.7	72.5	72.6	72.1					
72 months		58.4	56.2	65.5	72.5	72.8						
84 months		56.5	52.5	61.4	72.6							
96 months		54.6	49.3	57.6								
108 months		52.7	47.6									
120 months		49.7										
Total												
12 months		69.5	90.5	62.8	64.0	67.6	62.4	63.6	66.0	64.3	64.1	
24 months		69.1	87.7	52.9	59.6	67.0	57.1	72.3	61.4	57.3		
36 months		66.5	84.1	50.4	58.4	65.5	53.2	68.0	59.7			
48 months		63.5	82.5	52.2	58.7	66.8	51.8	66.4				
60 months		61.0	79.6	51.7	59.8	65.1	50.9					
72 months		59.3	75.9	49.0	61.7	63.4						
84 months		57.9	74.0	46.9	60.8							
96 months		57.0	72.0	44.3								
108 months		56.2	70.7									
120 months		54.6										
Total ultimate losses ($m)	2,250.8	742.2	1,081.9	751.3	1,099.9	1,194.8	1,014.9	1,298.8	1,141.3	1,226.0	1,318.5	13,120.4
Less paid claims ($m)	(2,162.7)	(673.2)	(999.0)	(593.9)	(859.2)	(870.1)	(582.9)	(805.0)	(522.3)	(220.6)	(46.2)	(8,335.1)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(153.2)	(651.9)	(805.1)
Gross claims liabilities (100% level) ($m)	**88.1**	**69.0**	**82.9**	**157.4**	**240.7**	**324.7**	**432.0**	**493.8**	**619.0**	**852.2**	**620.4**	**3,980.2**
Less Unaligned share ($m)	(71.4)	(55.9)	(67.1)	(127.5)	(195.0)	(263.0)	(349.9)	(400.0)	(501.4)	(698.8)	(508.7)	(3,238.7)
Gross claims liabilities, 623 share	**16.7**	**13.1**	**15.8**	**29.9**	**45.7**	**61.7**	**82.1**	**93.8**	**117.6**	**153.4**	**111.7**	**741.5**

Notes to the syndicate annual accounts *continued*

15 Technical provisions *continued*

Net ultimate claims	2003 ae %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %
Marine											
12 months		58.0	55.5	54.1	55.0	61.3	54.5	52.3	56.1	55.4	56.8
24 months		53.0	49.0	42.3	56.5	57.1	48.5	49.3	48.1	45.9	
36 months		48.7	42.8	33.0	49.5	50.9	39.8	44.6	39.6		
48 months		47.9	39.6	31.6	46.7	47.8	36.1	42.8			
60 months		46.7	39.1	31.1	47.6	47.4	35.9				
72 months		44.3	38.0	29.3	47.8	46.9					
84 months		44.0	36.6	29.1	45.2						
96 months		43.3	36.2	28.6							
108 months		43.2	36.2								
120 months		43.0									
Political risks and contingency											
12 months		64.3	63.6	56.2	55.4	55.9	58.8	57.3	55.0	59.4	54.8
24 months		58.1	46.6	40.4	39.4	74.8	35.1	37.7	37.2	40.8	
36 months		54.1	36.0	37.4	55.1	74.8	33.0	30.4	31.9		
48 months		40.9	30.3	46.9	53.6	79.4	28.4	21.5			
60 months		40.6	24.2	41.2	52.0	68.2	22.8				
72 months		36.1	23.1	39.6	48.8	57.9					
84 months		26.1	23.1	39.7	46.7						
96 months		25.3	15.2	36.8							
108 months		24.3	15.2								
120 months		24.2									
Property											
12 months		59.7	65.0	61.5	62.9	63.7	53.7	58.5	59.5	58.7	57.1
24 months		61.0	62.2	49.6	61.5	67.1	48.7	64.7	56.9	53.3	
36 months		60.4	58.6	48.1	60.7	64.8	45.4	63.9	53.5		
48 months		58.7	61.3	52.0	61.2	63.8	43.1	58.1			
60 months		58.5	61.9	51.1	64.4	62.7	42.4				
72 months		57.7	60.2	51.1	64.5	61.3					
84 months		57.5	59.3	50.7	64.5						
96 months		57.5	59.2	49.1							
108 months		57.8	57.8								
120 months		57.3									
Reinsurance											
12 months		88.4	152.9	54.3	55.3	67.1	55.6	77.0	85.8	67.1	59.2
24 months		85.5	131.6	36.6	30.5	56.6	52.6	137.9	87.7	43.0	
36 months		82.4	127.1	34.7	25.3	47.6	46.7	132.3	82.0		
48 months		76.3	117.5	32.5	22.9	45.6	46.2	127.4			
60 months		73.0	111.3	31.0	22.3	45.0	41.3				
72 months		71.5	110.1	31.0	22.1	45.1					
84 months		70.8	104.9	31.3	20.4						
96 months		69.5	104.4	30.7							
108 months		69.7	99.5								
120 months		68.2									

15 Technical provisions *continued*

Net ultimate claims	2003 ae %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	
Specialty lines												
12 months		69.7	69.3	69.3	71.7	70.5	69.5	71.2	72.8	72.2	71.5	
24 months		68.6	69.3	69.3	70.6	70.5	69.4	70.7	72.7	71.6		
36 months		65.8	67.6	69.3	70.7	70.5	68.7	70.2	72.5			
48 months		62.3	64.0	69.3	69.3	69.0	66.1	70.4				
60 months		57.0	59.0	64.5	69.2	69.0	66.2					
72 months		53.7	53.9	58.3	69.2	68.9						
84 months		51.2	50.4	54.8	69.2							
96 months		48.9	48.0	51.3								
108 months		47.6	46.1									
120 months		45.3										
Total												
12 months		65.8	73.1	62.4	64.2	65.6	60.0	63.9	66.3	64.0	62.8	
24 months		65.3	68.8	54.7	60.3	66.8	56.5	69.6	63.0	57.4		
36 months		62.7	65.1	52.0	59.7	64.2	52.9	67.0	60.1			
48 months		59.4	62.3	52.7	58.6	63.1	50.5	64.5				
60 months		56.5	59.2	50.5	59.2	61.9	49.5					
72 months		54.0	56.4	47.4	59.0	60.5						
84 months		52.2	53.9	45.9	58.2							
96 months		50.9	52.2	43.7								
108 months		50.3	50.5									
120 months		49.0										
Total ultimate losses ($m)	1,348.7	557.1	602.5	595.5	897.9	937.6	804.4	1,106.1	957.7	996.9	1,119.5	9,923.9
Less paid claims ($m)	(1,287.4)	(496.4)	(542.7)	(485.0)	(728.5)	(732.0)	(538.1)	(737.2)	(484.5)	(207.6)	(44.4)	(6,283.8)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(114.9)	(600.8)	(715.7)
Net claims liabilities (100% level) ($m)	**61.3**	**60.7**	**59.8**	**110.5**	**169.4**	**205.6**	**266.3**	**368.9**	**473.2**	**674.4**	**474.3**	**2,924.4**
Less unaligned share ($m)	(49.7)	(49.2)	(48.4)	(89.5)	(137.2)	(166.5)	(215.7)	(298.8)	(383.3)	(553.0)	(388.8)	(2,380.1)
Net claims liabilities, 623 share ($m)	**11.6**	**11.5**	**11.4**	**21.0**	**32.2**	**39.1**	**50.6**	**70.1**	**89.9**	**121.4**	**85.5**	**544.3**

Notes to the syndicate annual accounts *continued*

16 Other creditors

	2013 $m	2012 $m
Amount due to syndicate 2623	2.5	–
Amount due to syndicate 3623	0.5	5.6
Amount due to syndicate 6107	13.4	13.1
Profit commissions	10.7	5.7
Net amount due to other related entities	36.1	61.1
	63.2	**85.5**

The above balances are payable within one year.

17 Movement in opening and closing investments net of financing

	2013 $m	2012 $m
Net cash inflow from the year	13.3	8.8
Cash flow – investments	30.1	(17.8)
Movement arising from cash flows	43.4	(9.0)
Foreign exchange on brought forward investments	(6.1)	35.3
Total movement in investments net of financing	37.3	26.3
Cash and investments as at 1 January	626.1	595.1
Effect of exchange rate changes on cash balances	0.8	4.7
Cash and investments as at 31 December*	**664.2**	**626.1**

* Derivatives within cash and investment above is net of $0.2m liability (2012: $nil) as disclosed in note 11.

18 Movement in cash and investments

	At 1 January 2013 $m	Cash flow $m	Changes to market value and currencies $m	At 31 December 2013 $m
Cash at bank and in hand	30.3	13.3	0.8	44.4
Investments:				
Debt securities and other fixed income securities	530.9	19.1	(9.8)	540.2
Hedge funds	64.9	–	1.3	66.2
Regulated equity linked funds	–	11.0	0.7	11.7
Derivative financial instruments*	–	–	1.7	1.7
Total investments	**595.8**	**30.1**	**(6.1)**	**619.8**
Total cash and investments	**626.1**	**43.4**	**(5.3)**	**664.2**

* Derivatives within cash and investment above is net of $0.2m liability (2012: $nil) as disclosed in note 11.

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 2623 has capacity in 2013 of £1,025.0m, as previously disclosed, and writes in parallel with syndicate 623. Beneficial shareholdings are shown below.

	Shareholding of Beazley plc as at 31 December 2013	Shareholding of Beazley plc as at 31 December 2012
D Holt	50,000	50,000
G P Blunden	50,000	107,156
M L Bride	350,000	340,875
A P Cox	581,985	422,618
A Crawford-Ingle	13,500	–
R V Deutsch	–	–
N H Furlonge	756,375	1,006,375
J G Gray	759,549	1,009,549
A G K Hamilton*	37,991	37,991
D A Horton	1,630,087	1,281,610
N P Maidment	3,817,523	3,624,001
R A W Tolle	60,000	60,000
C A Washbourn	610,331	516,737

* Represents shareholding as at date of cessation as a director.

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, which manages the investment assets of syndicate 623. Falcon charges fees at a market rate for the types of assets managed.

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 $4.8m (2012: $30.1m). In addition to this amount, the syndicate is also carrying a profit commission payable to the managing agent of $10.7m (2012: $5.7m).

The managing agent recharged expenses and fees of $44.6m (2012: $36.7m) 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.

	2013 $m	2012 $m
2011 Year of account	36.6	–
2010 Year of account	–	21.3
	36.6	**21.3**

2011 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 2011 year of account which has been closed by reinsurance to close at 31 December 2013; consequently the balance sheet represents the assets and liabilities of the 2011 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 57 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
Our auditor, KPMG Audit Plc has instigated an orderly wind down of business. The managing agent's board has decided to put KPMG LLP forward to be appointed as auditors and the resolution concerning their appointment will be put forward for approval at the forthcoming board meeting of the managing agent.

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

12 March 2014

Independent auditor's report to the members of syndicate 623 2011 closed year of account

We have audited the underwriting year accounts for the 2011 year of account of syndicate 623 for the three years ended 31 December 2013, as set out on pages 50 to 55. 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 48, 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 Ethical Standards for Auditors.

Scope of the audit of the syndicate underwriting year 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 623 underwriting year accounts

In our opinion the syndicate underwriting year accounts:
- give a true and fair view of the profit for the 2011 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 Insurance Accounts Directive (Lloyds'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 underwriting year 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 Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
E14 5GL
London

12 March 2014

Profit and loss account

for the 36 months ended 31 December 2013

	Notes	2011 year of account $m
Gross premiums written	2	360.4
Outward reinsurance premiums		(67.2)
Earned premiums, net of reinsurance	2	**293.2**
Allocated investment return transferred from the non-technical account		6.6
Reinsurance to close premiums received, net of reinsurance	3	352.8
		359.4
Gross claims paid		(193.5)
Reinsurers' share		34.7
Claims incurred, net of reinsurance		**(158.8)**
Reinsurance to close premiums payable, net of reinsurance	4	(344.2)
		(503.0)
Net operating expenses	6	(105.4)
Balance on the technical account	2	**44.2**
Investment income		11.6
Investment expenses and charges	7	(5.0)
		6.6
Allocated investment return transferred to the technical account		(6.6)
Other charges		(7.6)
Profit for the 2011 closed year of account	5	**36.6**
Syndicate allocated capacity (£m)		214.9
Profit for the 2011 closed year of account (£m)		22.1
Return on capacity		10.3%

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 2013

	Notes	2011 year of account $m
Assets		
Financial assets at fair value	8	162.3
Debtors	9	217.7
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	4	130.9
Cash at bank and in hand		9.5
Total assets		**520.4**
Liabilities		
Amounts due to members	10	36.6
Reinsurance to close premium payable to close the account – gross amount	4	460.1
Creditors	11	19.4
Accruals and deferred income		4.3
Total liabilities		**520.4**

The underwriting year accounts on pages 50 to 55 were approved by the board of directors on 12 March 2014 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 2013

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.

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.

1 Accounting policies *continued*

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 2013 are euro 0.75, sterling 0.63 and Canadian dollar 1.0.

2 Segmental analysis

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

2011 year of account	Marine $m	Political risks and contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Unallocated $m	Total $m
Gross premiums written	65.9	24.6	81.2	42.9	145.8	–	360.4
Outward reinsurance premiums	(6.4)	(3.9)	(17.7)	(8.8)	(30.4)	–	(67.2)
Net earned premiums	59.5	20.7	63.5	34.1	115.4	–	293.2
Net claims	(20.2)	(3.9)	(28.7)	(26.7)	(70.7)	–	(150.2)
Operating expenses	(20.5)	(8.4)	(24.5)	(8.0)	(34.8)	(9.2)	(105.4)
Technical result before investment income	18.8	8.4	10.3	(0.6)	9.9	(9.2)	37.6
Investment income	–	–	–	–	–	6.6	6.6
Balance on technical account	**18.8**	**8.4**	**10.3**	**(0.6)**	**9.9**	**(2.6)**	**44.2**
Claims ratio	34%	19%	45%	78%	61%	–	51%
Expense ratio	34%	40%	39%	33%	30%	–	36%
Combined ratio	68%	59%	84%	111%	91%	–	87%

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.

Notes to the syndicate underwriting year accounts *continued*

closed at 31 December 2013

3 Reinsurance to close premiums received

	2011 year of account $m
Gross reinsurance to close premiums received	494.0
Reinsurance recoveries anticipated	(141.2)
Reinsurance to close premiums received, from 2010 and earlier, net of reinsurance	**352.8**

4 Reinsurance to close premiums payable

	2011 year of account $m
Gross reinsurance to close premiums payable	478.0
Reinsurance recoveries anticipated	(133.8)
Foreign exchange	(15.0)
Reinsurance to close premiums payable to 2012, net of reinsurance	**329.2**

	Reported $m	IBNR $m	Total $m
Reinsurance to close premium payable	159.0	301.1	460.1
Reinsurance recoveries anticipated	(44.7)	(86.2)	(130.9)
Reinsurance to close premiums payable, net of reinsurance	**114.3**	**214.9**	**329.2**

5 Analysis of the 2011 year of account result

	2011 year of account $m
Amount attributable to business allocated to the 2011 year of account	8.9
Surplus on the reinsurance to close for the 2010 year of account	27.7
	36.6

6 Net operating expenses

	2011 year of account $m
Acquisition costs	80.2
Members' standard personal expenses	9.1
Administrative expenses	17.1
Profit on foreign exchange	(1.0)
	105.4
Administrative expenses include:	
Audit services	0.2

7 Investment expenses and charges

	2011 year of account $m
Investment management expenses	1.8
Loss on the realisation of investments	3.2
	5.0

8 Financial assets

Financial assets at fair value	2011 year of account $m
Fixed rate securities	83.1
Floating rate securities	23.3
Hedge funds	14.2
Overseas deposits	41.3
Rights under derivative contracts	0.4
	162.3

9 Debtors

	2011 year of account $m
Net amounts due from other related entities	13.3
Other debtors, including taxation	204.4
	217.7

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

10 Amounts due to members

	2011 year of account $m
Profit for the 2011 closed year of account	36.6
Transfers to members' personal reserve funds in 2012 and 2013	–
Amounts due to members at 31 December 2013	**36.6**

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

11 Creditors

	2011 year of account $m
Profit commission payable	7.6
Amount due to other syndicates	11.8
	19.4

The above balances are payable within one year.

12 Related party transactions

Please refer to page 45 for further details of related party transactions for the 2011 year of account.

Seven-year summary of closed year results

at 31 December 2013

	2011	2010	2009	2008	2007	2006	2005
Syndicate allocated capacity – £'000	214,841	215,724	147,831	158,230	163,100	183,100	222,300
Syndicate allocated capacity – $'000	337,300	323,587	294,184	261,715	308,259	335,073	391,248
Capacity utilised	86%	88%	92%	87%	97%	89%	94%
Aggregate net premiums – $'000	223,392	216,294	194,730	224,784	243,005	224,554	259,301
Underwriting profit as a percentage of gross premiums	20.3%	14.2%	26.4%	21.3%	25.1%	29.8%	18.1%
Return on capacity	10.3%	6.1%	21.0%	13.4%	14.5%	18.5%	9.6%
Results for an illustrative £10,000 share	$	$	$	$	$	$	$
Gross premiums	12,805	13,021	21,326	17,631	18,324	16,272	15,213
	$	$	$	$	$	$	$
Net premiums	9,584	10,109	13,614	14,206	14,899	12,265	11,665
Reinsurance to close from an earlier account	16,422	15,920	22,059	18,377	15,256	12,784	10,486
Net claims	(7,215)	(7,093)	(7,510)	(7,613)	(6,630)	(4,784)	(5,848)
Reinsurance to close the year of account	(16,021)	(16,339)	(22,526)	(20,958)	(18,930)	(15,415)	(13,811)
Underwriting profit	2,770	2,597	5,637	4,012	4,595	4,850	2,492
(Loss)/profit on foreign exchange	(49)	(5)	128	95	246	565	(58)
Syndicate operating expenses	(756)	(1,485)	(2,167)	(1,745)	(1,713)	(1,376)	(1,102)
Balance on technical account	1,965	1,107	3,598	2,362	3,128	4,039	1,332
Gross investment return	310	311	546	398	597	455	993
Profit before personal expenses	2,275	1,418	4,144	2,760	3,725	4,494	2,325
Illustrative personal expenses							
Illustrative personal expenses	(220)	(222)	(187)	(264)	(395)	(382)	(276)
Managing agent's profit commission	(352)	(208)	(660)	(437)	(582)	(719)	(361)
Profit after illustrative profit commission and personal expenses ($)	1,703	988	3,297	2,059	2,748	3,393	1,688
Profit after illustrative profit commission and personal expenses (£)	1,026	606	2,100	1,338	1,454	1,854	959

Note:

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* (appointed 27/03/2013)
R V Deutsch*
N H Furlonge*
J G Gray
A G K Hamilton* (resigned 27/03/2013)
D A Horton – chief executive officer
N P Maidment – active underwriter
R A W Tolle*
C A Washbourn

* Non-executive director.

Company secretary

Sian A Coope

Auditor

KPMG Audit Plc
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

Beazley online annual report and accounts 2013
www.reports.beazley.com/2013

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Beazley Furlonge Limited
Syndicate 623 at Lloyd's

Plantation Place South
60 Great Tower Street
London EC3R 5AD

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

www.beazley.com

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