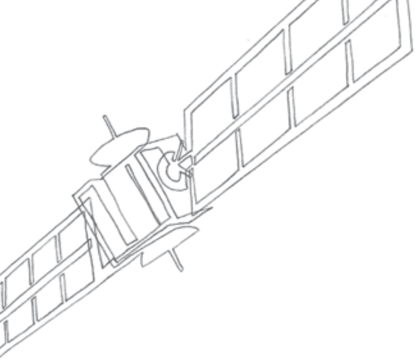
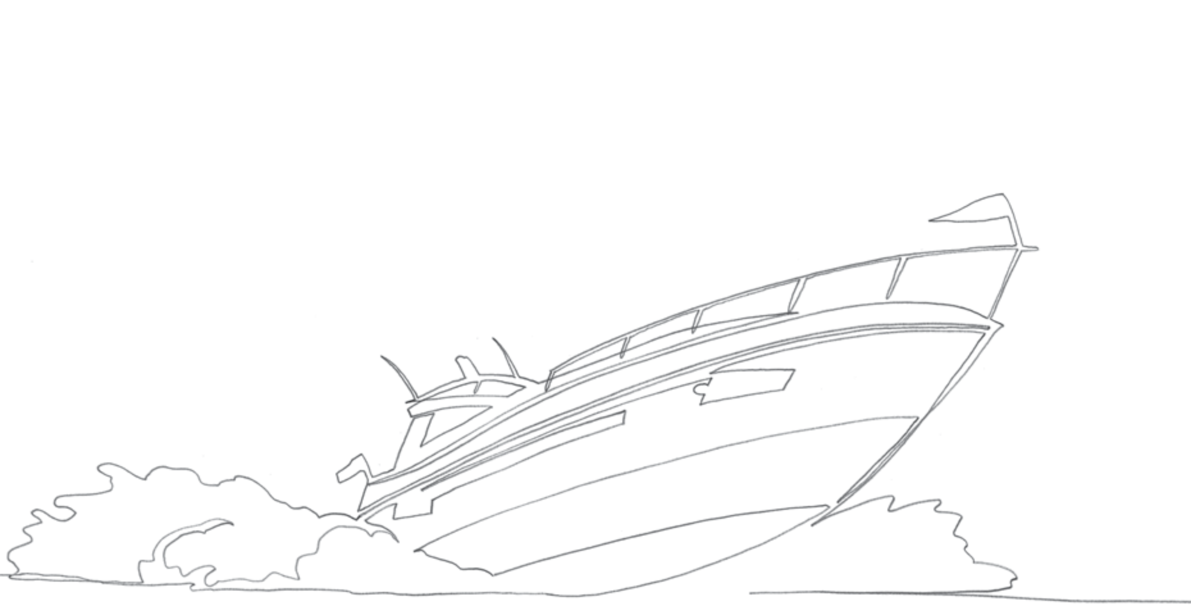


Beazley Furlonge Limited | Syndicate 623 at Lloyd's

Annual report 2015



Welcome to our Annual report 2015

Beazley has developed a successful balance between strong expertise in traditional insurance and its ability to develop specialist products which address today's risks.

Contents

Highlights

Syndicate capacity
£230.3m
(2014: £242.8m)

Claims ratio
45%
(2014: 48%)

Gross premiums written
$379.8m
(2014: $373.9m)

Expense ratio
39%
(2014: 39%)

Net premiums written
$307.5m
(2014: $319.2m)

Combined ratio
84%
(2014: 87%)

Earned premiums, net of reinsurance
$308.1m
(2014: $308.7m)

Cash and investments
$645.1m
(2014: $654.0m)

Profit for the financial year
$46.5m
(2014: $44.5m)

Annualised investment return
0.9%
(2014: 2.2%)

Renewal rate decrease
3%
(2014: 2%)

Strategic report of the managing agent

Overview
The syndicate has achieved a profit for the year of $46.5m (2014: $44.5m). Gross premiums written of $379.8m remained stable compared to the prior year (2014: $373.9m).

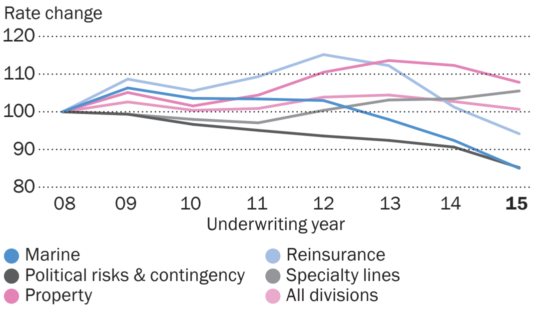
The capacities of the managed syndicates are as follows:

	2015 £m	2014 £m
2623	1,019.5	1,093.9
623	**230.3**	**242.8**
3623	150.0	140.0
6107	28.6	21.0
3622	17.0	16.0
6050	12.0	–
Total	**1,457.4**	**1,513.7**

Year of account results
We are pleased to declare a return on capacity of 10.8% for the 2013 year of account. The 2014 year of account is developing in line with expectations and currently forecasts a return on capacity of 5.0%, while 2015 underwriting is also forecasting a return on capacity of 5.0% at this early stage.

Rating environment
Rates charged for renewal business reduced by 3% in 2015 across the portfolio (2014: decrease of 2%). Rates on renewals in our largest division, specialty lines, increased by 2% on average in 2015. All other divisions experienced falling rates on renewal business in 2015, with rates reducing by 4 % in property, 6% in political risk & contingency, 8% in marine and 7% in reinsurance. An overview of the syndicate's performance by division is presented between pages 6 and 10.

Cumulative renewal rate changes since 2008 (%)



Combined ratio
The combined ratio of an insurance entity is a measure of its operating performance and represents the ratio of its total costs (including claims and expenses) to total net earned premium. A combined ratio under 100% indicates an underwriting profit. Consistent delivery of a sub 100% combined ratio across the market cycle is clearly a key objective for an insurer. The syndicate's combined ratio has decreased in 2015 to 84% (2014: 87%), driven largely by an increase in the amount released from prior year reserves. The calculation of the combined ratio for the syndicate includes all claims and other costs of the syndicate but excludes foreign exchange gains or losses. We believe this represents the most transparent and useful measure of operating performance as it ensures that all of the costs of being in business are captured, whether directly linked to underwriting activity or not.

Claims
Overall, the claims environment has been favourable during 2015, when we have again experienced lower than expected natural catastrophe activity. The economy in our principal market, the US, continues to rebound from the economic downturn, easing claims activity on the professional liability and management liability books. These positive trends in the US, and the relatively benign natural catastrophe claims environment, have contributed to strong reserve releases and an improved claims ratio of 45% (2014: 48%).

Prior year reserve releases

Beazley has a consistent reserving philosophy, with initial reserves being set to include risk margins that may be released over time as and when any uncertainty reduces. Historically these margins have given rise to held reserves within the range 5-10% above the actuarial estimates, which themselves include some margin for uncertainty. The margin held above the actuarial estimate was 8.2% at the end of 2015 (2014: 7.1%). This margin has remained stable over time and is a lead indicator for the sustainability of reserve releases. It is, however, important to recognise that claims reserve uncertainty is significant within Beazley and a positive lead indicator will not always equate to future releases.

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

During 2015, we have been able to release prior year reserves of $40.3m (2014: $33.9m). These reserve releases are shown by division in the table below:

	2015 $m	2014 $m
Marine	6.9	9.0
Political risks and contingency	4.0	4.5
Property	8.9	8.4
Reinsurance	10.0	6.3
Specialty lines	10.5	5.7
Total	**40.3**	**33.9**
Releases as a percentage of net earned premium	13.1%	11.0%

Net operating expenses

Net operating expenses, including business acquisition costs and administrative expenses decreased from $121.2m to $119.9m in 2015. The breakdown of these costs is shown below:

	2015 $m	2014 $m
Brokerage costs	81.0	78.9
Other acquisition costs	10.2	10.1
Total acquisition costs	**91.2**	**89.0**
Administrative and other expenses	28.7	32.2
Net operating expenses*	**119.9**	**121.2**

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

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

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

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

The expense ratio for 2015 is 39% (2014: 39%).

Investment performance

Investment income for the year ended 31 December 2015 was $6.0m, an annualised return of 0.9%, compared with $14.3m and 2.2% over the same period in 2014.

Financial markets saw significant volatility in 2015, influenced by slowing economic growth in China, and emerging markets more generally, as well as the associated fall in commodity, and particularly energy, prices. The prospects for an increase in US interest rates, which eventually happened in December, also affected markets throughout the year. Against this background global equities, in local currency terms, ended 2015 just 1.3% higher, having been down more than 6% earlier in the year. Credit spreads on corporate debt widened significantly, particularly at lower credit ratings, where deteriorating conditions for energy related issuers had a significant effect. Risk free yields in the US also moved higher, with shorter maturities most impacted as the yield curve flattened in anticipation of higher interest rates.

Rising yields and higher credit spreads resulted in modest, but still positive, returns on the fixed income investments which form the largest part of our investment portfolio. These assets returned 0.7% in 2015, helped by having no material exposure to the worst affected high yield debt issuers. As well as returns on fixed interest assets, the reported return for our core portfolio includes losses arising from foreign exchange hedging activity reducing the total core portfolio return to 0.3%. An element of our assets is invested in more volatile asset classes, seeking to generate additional return in the medium term. This part of our portfolio performed well in 2015 as equity linked investments returned 4.3% and significantly outperformed the global equity market, while our hedge fund portfolio produced a strong 7.1% return.

At 31 December 2015, the weighted average duration of our fixed income investments was 1.8 years (2014: 1.8 years).

Looking ahead to 2016, available yields on high quality debt investments remain low, but are generally expected to rise, whilst ongoing concerns about the prospects for global economic growth will create continuing headwinds for equity and corporate debt investments. In this environment it will remain very difficult to generate significant investment returns.

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

	31 Dec 2015		31 Dec 2014	
	$m	%	$m	%
Cash at bank and in hand	50.9	7.9	46.4	7.1
Fixed and floating rate debt securities				
– Government, quasi-government and supranational	323.1	50.1	293.7	44.9
– Corporate bonds				
– Investment grade credit	174.2	27.0	165.9	25.4
– High yield	10.3	1.6	12.2	1.9
– Senior secured loans	4.5	0.7	2.4	0.3
– Asset backed securities	1.3	0.2	51.0	7.8
Derivative financial assets	0.1	–	0.2	–
Core portfolio	564.4	87.5	571.8	87.4
Equity linked funds	21.0	3.2	22.0	3.4
Hedge funds	59.7	9.3	60.2	9.2
Total capital growth assets	80.7	12.5	82.2	12.6
Total	**645.1**	**100.0**	**654.0**	**100.0**

Comparison of return by major asset class:

	31 Dec 2015		31 Dec 2014	
	$m	%	$m	%
Core portfolio	1.7	0.3	8.7	1.3
Capital growth assets	4.3	5.3	5.6	7.0
Overall return	**6.0**	**0.9**	**14.3**	**2.2**

Reinsurance

In 2015, the amount spent on reinsurance was $72.3m (2014: $54.7m).

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

Individual capital assessment

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

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

Solvency II

Solvency II went live on 1 January 2016. In December 2015, we were delighted to receive confirmation that our Solvency II internal model application was approved by the Central Bank of Ireland. The model is used to calculate the Solvency Capital Requirement on an ultimate basis, as required for Lloyd's capital setting.

Beazley's programme to prepare for Solvency II began in 2008 and is now substantially complete. Our project to prepare for the pillar 3 reporting requirements is on going and will continue until the annual reporting for 31 December 2016 is complete. We believe we are strongly positioned to meet all the reporting requirements.

Outlook

Having benefitted from lower than expected claims notifications thus far, both the 2014 and 2015 underwriting years are developing well, and are both currently forecast to close with returns on capacity of 5.0%.

The increasingly competitive market conditions which were apparent in 2015 are expected to continue in 2016, particularly in relation to the large risk business written by our underwriters based in London. In the current environment, segmenting our portfolio will become increasingly important in delivering another strong underwriting result. While continuing to identify areas of the portfolio where we see the best opportunities for profitable growth, the emphasis on disciplined underwriting in areas where competition is greatest will remain a key part of our underwriting strategy.

N P Maidment
Active underwriter

10 March 2016

Marine

	2015 $m	2014 $m
Gross premiums written	59.1	71.3
Net premiums written	52.5	63.5
Earned premiums, net of reinsurance	56.6	62.0
Claims incurred, net of reinsurance	(21.4)	(23.1)
Net operating expenses	(22.3)	(25.7)
Technical result	**12.9**	**13.2**
Claims ratio	38%	37%
Expense ratio	39%	42%
Combined ratio	77%	79%
Renewal rate change	(8%)	(6%)

The marine division made a further significant contribution to the syndicate's profits in 2015, achieving a combined ratio of 77% (2014: 79%) on premiums of $59.1m (2014: $71.3m). However, reserve releases from prior years played a role in this result and we adopted a cautious approach to new business in the light of steep rate declines across many classes.

Beazley underwrites a broad mix of marine, energy, aviation and satellite business within the marine division. Our underwriters have an unparalleled track record within the Lloyd's market for identifying profitable business in these classes. The experience of our underwriters is matched by our claims team, who deliver a swift and supportive claims service to clients whose cash flow can often be seriously affected by a major loss.

The steepest rate declines we saw in 2015 related to our energy account, where rates fell by 17%. This was the division's largest single book in 2014, but last year it contracted by 28% to $15.0m. However, we have had a long run of highly profitable years for energy business and it was inevitable that in the absence of major catastrophe losses competition would grow.

Marine war risks is another line that has been subject to strong competition. Here claims have fallen very rapidly in recent years, due primarily to improved security on vessels plying the waters off the Horn of Africa, and our book has accordingly contracted.

We also underwrite a modest aviation war risks account, where rates are slightly firmer, due to recent losses This has unfortunately had negligible knock-on effect on the broader aviation market, where rates remain extremely depressed.

The explosions in the Chinese port of Tianjin in August are expected to generate some of the largest cargo losses on record, variously estimated at between $1.5bn and $3.3bn. Beazley currently have no notified claims in relation to this event.

The London market remains the leader in providing flexible cover with large limits for marine, aviation, energy and satellite risks. Nevertheless, as is the case for other divisions of Beazley, we have found that there are often growing pockets of profitable business – generally for smaller scale risks – that are only accessible to local underwriters. In our case that is true of UK regional marine business, which we access through a network of offices around the UK; Scandinavian energy business, which we access through our Oslo office; and a growing volume of hull and cargo business in Asia, which we access from Singapore.

Building a strong presence in these local markets takes time. In recent years, the strength of our Lloyd's business has bought us this time, enabling us to take a long term view of our regional and international investments. Our UK regional marine business, led by Steve Smyth, is now performing strongly, generating premium of $3.4m in 2015 (2014: $2.5m). We expanded our appetite for UK regional business in the course of the year, starting a yacht and pleasure craft account for vessels of up to $8.5m in value.

Political risks and contingency

	2015 $m	2014 $m
Gross premiums written	26.2	26.3
Net premiums written	22.3	21.7
Earned premiums, net of reinsurance	22.6	20.9
Claims incurred, net of reinsurance	(6.2)	(5.2)
Net operating expenses	(10.6)	(10.9)
Technical result	**5.8**	**4.8**
Claims ratio	27%	25%
Expense ratio	47%	52%
Combined ratio	74%	77%
Renewal rate change	(6%)	(2%)

In a rating environment that was challenging for both our political risks and terrorism teams, our contingency team – focusing largely on event cancellation cover – saw strong growth. The division as a whole achieved a healthy combined ratio of 74% (2014: 77%) on premiums that were, overall, flat in relation to 2014.

We underwrite three main categories of business: political risks and trade credit; terrorism and political violence; and contingency – predominantly event cancellation cover for trade fairs and conferences and major sporting events. In terms of our geographic footprint, the division is one of the most diversified for the syndicate, with underwriters in six countries: the UK, US, France, Australia, Singapore and the United Arab Emirates (UAE).

Clearly the world did not become a safer place in 2015, either for businesses or their employees, although claims remained subdued for both our political risks and terrorism accounts. In the trade credit segment of our political risks business, we saw an increase in claims notifications – principally relating to mining businesses pressured by falling commodity prices – but claims severity remained well below the level we saw in 2009. Reserve releases from prior years were slightly down at $4.0m (2014: $4.5m).

With a sharp decline in the level of investment in, and trade with, Russia we saw a significant decline in demand for political risks cover for a market that has historically been significant for Lloyd's underwriters. Competition for the business that remained was challenging, particularly at Lloyd's. Our operations in Singapore, Paris and, most recently, in the UAE performed well, validating our expectation that there was attractive local business to be underwritten outside London.

Our terrorism account continued the long slide in rates that we have seen since 2001, with rates last year falling by 9%. Awareness of the terrorism threat unquestionably grew in 2015, but the main targets of the attacks we have seen have – tragically – been people rather than property.

There is still business to be underwritten at reasonable rates in the terrorism market, and early in the year we joined a Lloyd's terrorism consortium focused on providing substantial capacity for terrorism risks to businesses in Europe. Despite this attractive business has been shrinking and we are determined not to chase the market down. We accordingly undershot our budget for terrorism business by almost 30% in 2015.

By contrast, our contingency business grew by 64% to $8.2m. Rates in this market held more firmly than we had anticipated and our team, led by Chris Rackliffe, was also successful in winning a number of major accounts.

We have seen strong demand in the US and UK for Beazley Weather Guard, our product to protect businesses such as hotels and golf courses from revenue losses due to poor weather. We launched this product in Australia towards the end of the year.

Strong broker relationships are key to our success, as they are to other teams within Beazley. We worked hard to foster these relationships, across our global offices, in 2015. In some cases these relationships will only generate a significant return when market conditions improve.

Strategic report of the managing agent continued

Property

	2015 $m	2014 $m
Gross premiums written	77.5	74.6
Net premiums written	66.9	64.9
Earned premiums, net of reinsurance	65.5	63.0
Claims incurred, net of reinsurance	(25.2)	(25.9)
Net operating expenses	(28.9)	(27.4)
Technical result	**11.4**	**9.7**
Claims ratio	39%	41%
Expense ratio	44%	44%
Combined ratio	83%	85%
Renewal rate change	(4%)	(1%)

The property division delivered another strong performance in 2015, despite continuing rating pressure affecting the large risks business we underwrite at Lloyd's.

All of our teams performed well in 2015 and, should market conditions change, we are well positioned to adjust our underwriting appetite accordingly. Such changes can happen swiftly, as we saw in 2012 when rates were strongest for large risks, rising 8%.

In recent years, the balance of our book has evolved as we have expanded in market segments that afford profitable growth opportunities and exercised discipline in segments exposed to intense competition. This has resulted in our small business unit, becoming the largest single segment of our portfolio, growing to $27.2m (2014: $26.4m). The unit comprises various books of business, the largest of which derives from Lloyd's coverholders, mostly located in the US, who underwrite risks for us under delegated authorities. The key to success in this market segment is to work collaboratively with coverholders and Lloyd's brokers and monitor their performance closely, which Paul Bromley and his colleagues do particularly well.

A fast growing segment of our small business book is homeowners' insurance for properties located both in the UK and the US: this book grew 25% to $3.3m last year.

Also within the small business unit is our jewellers' block business, one of the lines of business Beazley is best known for at Lloyd's. We were able to show the value of our service in April when, following an audacious heist in Hatton Garden, the centre of London's jewellery trade, we settled our policyholders' claims within a month. Our jewellers' block business grew moderately in 2015, boosted by us winning a number of international accounts.

While the rating environment for all these lines of business was favourable for modest growth, with rates broadly stable, the same cannot be said of the large risk open market property risks we saw at the Beazley box at Lloyd's. Renewal rates on this business were on average down by 8%. We were still able to grow the book slightly however, to $21.5m (2014: $21.3m), due to new relationships that Simon Jackson and John Brown, two senior underwriters who joined us in January, brought to the syndicate. Simon succeeded Jonathan Gray as head of the open market property team during the year. Having established our property division in 1992, Jonathan retired in June 2015. Jonathan made an immeasurable impact at Beazley and we are immensely grateful to him for his contribution to the company over the past 23 years.

In the US we also welcomed a senior new hire last year: Ron Beauregard, a highly experienced executive with a strong track in building profitable surplus lines property businesses, joined us in April to head our excess and surplus lines (E&S) property team. We see potential growth opportunities in this area of our business, which focuses on mid sized commercial lines business with some catastrophe exposures.

Our construction and engineering insurance business had a good year. We focus on all types of construction risks, written out of London, Singapore and the US. (The US business is commonly known as builders' risk). The growth of the US economy spurred demand for our products and our Singapore business continued to benefit from the growing strength of Lloyd's franchise in the region and is one of the few places in the world, outside London, where Lloyd's underwriters are located under one roof.

Looking ahead, we will continue to seek out growth opportunities in the face of market conditions that we expect to remain challenging. We were also gratified to be recognised as 'insurance team of the year' by Reactions magazine in June.

Reinsurance

	2015 $m	2014 $m
Gross premiums written	43.9	44.1
Net premiums written	29.0	33.8
Earned premiums, net of reinsurance	29.3	35.3
Claims incurred, net of reinsurance	(6.3)	(13.0)
Net operating expenses	(10.4)	(11.2)
Technical result	**12.6**	**11.1**
Claims ratio	22%	37%
Expense ratio	35%	32%
Combined ratio	57%	69%
Renewal rate change	(7%)	(10%)

Our reinsurance underwriters exercised restraint in 2015 in a market that continued to be oversupplied with capacity. Claims were subdued and we achieved a combined ratio of 57% (2014: 69%) on premiums of $43.9m (2014: $44.1m).

However, our premiums were boosted by a $3.2m quota share from Korean Re under a partnership we entered into with the company last March. Since this was part of a reinsurance swap, it should not be considered net new premium to syndicate 623.

Many reinsurance executives have talked about the need to maintain underwriting discipline in the current market, characterised by a large influx of pension fund money seeking returns uncorrelated with other asset classes. We have reduced the size of our book by 9% in 2014 and a further 8% in 2015 (excluding the Korean Re transaction).

At the same time, we have continued to adjust the geographic balance of our book to take advantage of untapped opportunities in Europe and elsewhere. To achieve this, we have been locating underwriters in reinsurance hubs around the world, where they can access business that would not normally be seen by our underwriters in London. We now underwrite around 20% of our total book outside London. In September we appointed Benoit Goureau to lead the development of our business in France and Belgium, following on from the success of our Munich office established in 2008. Benoit's strategy will be similar to the one we have pursued in Munich, focusing on building long term relationships with local cedents – many of them small mutual insurers – and brokers.

On the other side of the world, we nominated Tom Yang as an underwriter for the Beazley Underwriting Division of Lloyd's China to facilitate the placement of business through the Lloyd's China platform. He knows the local market well and will help us ascertain the scale of local opportunities for Beazley. Latin America is another market that presents growth opportunities. We see much of this business at the syndicate's box at Lloyd's, but we also have a presence in Miami, which continues to grow as a hub for Latin American reinsurance business. We underwrote $1.5m in premium last year in Miami, up from $1m the year before.

In the US, still by far our largest market, accounting for 52% of the division's premiums, we saw rates decline overall a littleless rapidly than originally anticipated. This was largely because a number of major cedents in Florida increased their reinsurance purchases.

In the absence of a major natural or man-made catastrophe, we do not expect to see material changes in the market rating environment in 2016.

Specialty lines

	2015 $m	2014 $m
Gross premiums written	173.1	157.6
Net premiums written	136.8	135.3
Earned premiums, net of reinsurance	134.1	127.5
Claims incurred, net of reinsurance	(79.6)	(79.3)
Net operating expenses	(47.7)	(46.3)
Technical result	**6.8**	**1.9**
Claims ratio	59%	62%
Expense ratio	36%	36%
Combined ratio	95%	98%
Renewal rate change	2%	–

Specialty lines, the syndicate's largest division, grew for the second consecutive year in 2015, writing gross premiums of $173.1m (2014: $157.6m). Most of this growth derived from the US, where we have been building momentum since the end of the recession.

Our focus in specialty lines is on professional and management liability business that demands strong underwriting skills and high standards of claims service. Our clients want to know that they have a seasoned and knowledgeable insurer in their corner in the event of being sued. We deliver on this requirement, having specialised in this business since the company was founded in 1986.

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. We therefore frequently have an opportunity to release prior year reserves into our earnings as claims crystallise. These reserve releases contributed $10.5m to our result in 2015 (2014: $5.7m).

Our management liability team confronted a more challenging rating environment in 2015, with competition for large public company directors' and officers' (D&O) risks being particularly fierce. However, in this area we have a number of strings to our bow, and demand for employment practices liability (EPL) and private company D&O insurance was strong. EPL claims are very sensitive to the broader economic environment and we have seen claims levels decline steadily since the recession.

One business line that we bracket within our professions team enjoyed robust growth in 2015. This was our environmental practice which grew by 30% to $5.2m. The team provides fixed site pollution liability cover to property owners and developers as well as professional liability cover and other forms of protection for environmental services firms. This line of business has been another beneficiary of the recovering US economy, which we underwrite through our Lloyd's platforms.

Our largest single business line, data breach insurance, continued to grow strongly in 2015. Across all our teams, we increased the amount of data breach and cyber liability business we underwrote in 2015 by 51% compared to 2014. 2015 was notable for two developments: a continued increase in the number of data breaches attributable to hacking or malware, and signs of increased demand for cover outside the US.

Hacking and malware accounted for 32% of the breach notifications we received in 2015, up from 18% in 2014 and 10% in 2013. We have been able to address this with premium rate rises where appropriate and have not found our client retention levels appreciably affected. This is in part because the market as a whole has been raising rates but also, we believe, because our comprehensive service proposition continues to be highly valued by clients and brokers.

Our Beazley Breach Response (BBR) Services team, the dedicated business unit that helps our clients manage data breaches effectively, has now helped clients handle more than 3,000 data breaches.

In all of these areas we rely heavily on strong broker and client relationships to help us identify the pain points that demand effective solutions. We then put considerable effort into designing cover that effectively addresses the risk, frequently partnering with specialist external service providers to provide risk management or event response services.

We were particularly pleased to win in November an innovation award from Lloyd's for myBeazley, our etrading platform for brokers to access our broadening range of specialist products tailored to the needs of small businesses.

Managing agent's report

The managing agent presents its report for the year ended 31 December 2015.

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.

Business review
A review of the syndicate's activities is included in the strategic report.

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

Risk governance and reporting
Beazley Furlonge Limited's board of directors has the responsibility for defining and monitoring the risk appetite within which Beazley Furlonge Limited and the syndicates operate, with key individuals and committees accountable for day-to-day management of risks and controls. Regular reporting by the risk management team in board meetings and senior management committees ensures that risks are monitored and managed as they arise.

2015 in review
As at 31 December 2015, the syndicate is operating within risk appetite as set by the board. There have been no new risk areas identified and no major shifts in existing risks. In addition, the control environment has not identified any significant failings or weaknesses in key processes.

Risk management has undertaken two key risk profile reviews. The first was to review the design and operation of the underwriting standards, particularly in soft market conditions. Whilst the conclusion was that the underwriting standards remain appropriately designed, we have increased the focus on oversight of policy wordings (which can become a target in a soft market) and monitoring more closely the new underwriters who have joined Beazley in 2015. The second risk profile review was an annual review of Beazley's cyber exposure with the aim of improving our understanding of how an aggregation of claims across a number of policies could be triggered by a single cause or event. We used external technical expertise to benefit from the latest thinking on what is possible, which has led to the development of five new realistic disaster scenarios that will be monitored. We have also developed a cyber risk budget which the new scenarios will be compared against to assist the board in overseeing the growth of our cyber premium.

Risk appetite sets the navigational parameters and so supports board discussion. For example, because asset risk appetite is based on how much earnings volatility the board is prepared to tolerate, it is set with consideration of the insurance conditions in mind rather than the asset environment alone. This tempers the amount of asset risk taken in soft insurance market conditions when the initial reaction may be to take on more asset risk to make up for an expectation of reduced insurance profits.

We have also complemented our quantitative risk appetite measures by developing qualitative statements which guide on what type of activity would be outside risk appetite using relevant language for that part of the business. This has helped to improve the understanding across the business of how the board expects the company to operate.

In 2015, we reviewed the way we manage conduct risk. Conduct risk describes Beazley's behaviour that aims to provide appropriate products to the right group of consumers that achieve fair outcomes. Beazley's approach starts with culture. The Professional and Integrity elements of our PIED values and the Honourable and Deliver elements of Being Beazley mean we consider and understand the needs of our customers and form an important cultural base to getting this right. This is supported by product specific activity dependent on the type of customer. From a risk management perspective, we facilitated the development of the conduct objective, the conduct risk appetite and the standards required to remain within this risk appetite.

We are able to extract conduct related controls from the risk register to provide the board with assurance that the expected behaviours towards customers are being demonstrated.

Risk management facilitated the discussion of emerging and strategic risks at the group's strategy day in May 2015. The discussion focused on four strategic risks; a deterioration of relationships between some of the G20 countries, failure to harness the benefit of technological advances, the commoditisation of specialist insurance products and the operational consequences if premium income were to reduce materially.

The quarterly Own Risk and Solvency Assessment (ORSA) report captures and explains the current and prospective risks and associated capital requirements. Since 2010, the board has received 20 regular quarterly ORSAs and three ad hoc transactional ORSAs and these reports have proved to be one of the key benefits arising from the introduction of the Solvency II regime.

There is widespread belief that the approach to remuneration is a key determinant of a business's success or failure. As such, this is now the fifth year that the chief risk officer has provided a detailed report to the remuneration committee to provide assurance that the design of the remuneration structure drives the intended behaviours not only over the next year but also over the next three to five years. Members of the risk management team have visited Beazley offices in the US, Europe, Asia and Australia to identify how we can improve what we do and to observe how consistently the Beazley culture ensures our staff do the right thing.

Turning to capital, we have continued to make minor changes to the internal model during 2015, the last year before the Solvency II regime goes live. Some changes have been in response to regulatory review to ensure that the internal model completely meets all the requirements. Other changes have been made to ensure that the internal model remains aligned to Beazley's risk profile. We have observed that there is increasing interest across the market in utilising a 'drivers of risk' approach, which is used by Beazley to describe how risks interact rather than using a statistical correlation matrices approach. Since we implemented such an approach in 2004, we have found that a 'drivers of risk' approach leads to a more informed discussion given the more intuitive approach to aggregating risk. Our focus in 2015 has been on reviewing the universe of risk drivers to ensure that all appropriate drivers have been included in the model and that the emergence of future drivers will be incorporated as necessary.

The board has received a detailed validation report to provide assurance that the model design and its output are appropriate. This report, coupled with a programme of regular and tailored director briefings called "KRAM", ensure that the internal model is widely understood and actively used.

Beazley received approval for its Solvency II internal model from the Central Bank of Ireland in December 2015. This ensures that Beazley's capital efficiency is maintained as the company will continue to use a model that more accurately reflects its risk profile to set capital requirements, rather than having to use the standard formula which typically generates higher capital requirements.

Beazley's current risk management framework has been successfully operating over the last five years. Although we have continued to enhance the framework during that period, we have undertaken a detailed review in the second half of 2015 of the operation of the risk register and associated reporting. This review has made use of our experiences of operating the framework during that period and has considered how market best practice has developed. We will be implementing changes in the first half of 2016 with the aim of ensuring that the next evolution of the risk management framework is up to the challenge of helping Beazley navigate the next five years.

Risk management strategy

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

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

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

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

Beazley has adopted the 'three lines of defence' framework: namely business risk management, the risk management function and the internal audit function. Within business risk management, there are two defined risk and control roles: risk owner and control reporter. Each risk event is owned by the risk owner who is a senior member of staff. Risk owners, supported by the risk management team, formally perform a risk assessment twice a year, including an assessment of heightened and emerging risks.

The risk management framework comprises a number of risk management components, which when added together describe how risk is managed on a day to day basis. The framework includes a risk register that captures the risk universe (55 risk events grouped into eight risk categories: insurance, market, credit, liquidity, operational, regulatory and legal, group and strategic), the risk appetite set by the Beazley Furlonge Limited board, and the control environment that is operated by the business to remain within the risk appetite.

In summary, the board identifies risk, assesses risk and sets risk appetite. The business then implements a control environment which describes how the business should operate to stay within risk appetite. Risk management then reports to the board on how well the business is operating using a consolidated assurance report. For each risk, the consolidated assurance report brings together a view of how successfully the business is managing risk, qualitative commentary from the assurance function and whether there have been any events that we can learn from (risk incidents). Finally, the framework is continually improved, through the consideration of stress and scenario testing, themed reviews using risk profiles and an assessment of strategic and emerging risks.

A suite of risk management reports are provided to the boards and committees to assist senior management and board members to discharge their oversight and decision making responsibilities. The risk reports include the risk appetite statement, the consolidated assurance report, risk profiles, stress and scenario testing, reverse stress testing, an emerging and strategic report, a report to the remuneration committee and the ORSA report.

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

The risks to financial performance

The board monitors and manages risks grouped into eight categories, which cover the universe of risk that could affect Beazley. There have been no new risk areas identified and no major shifts in existing risks. The board considers the following two risk categories to be the most significant.

Insurance risk

Given the nature of Beazley's business, the key risks that impact financial performance arise from insurance activities. The main insurance risks can be summarised in the following categories:
- Market cycle risk: The risk of systematic mispricing of the medium tailed specialty lines business which could arise due to a change in the US tort environment, changes to the supply and demand of capital, and companies' using incomplete data to make decisions. This risk would affect multiple classes within the specialty lines division across a number of underwriting years. The syndicate uses a range of techniques to mitigate this risk including sophisticated pricing tools, analysis of macro trends, analysis of claim frequency and the expertise of our experienced underwriters and claims managers;
- Natural catastrophe risk: The risk of one large event caused by nature affecting a number of policies and therefore giving rise to multiple losses. Given Beazley's risk profile, this could be a hurricane, major windstorm or earthquake. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area;
- Non natural catastrophe risk: This risk is similar to natural catastrophe risk except that multiple losses arise from one event caused by mankind. Given Beazley's risk profile, examples include a coordinated cyber attack, an act of terrorism, an act of war or a political event. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area;

Managing agent's report continued

- Reserve risk: Beazley has a consistent and conservative reserving philosophy. However, there is a risk that the reserves put aside for expected losses turn out to be insufficient. This could be due to any of the three drivers of risk described above. The syndicate uses a range of techniques to mitigate this risk including a detailed reserving process which compares, claim by claim, estimates established by the claims team with a top down statistical view developed by the actuarial team. A suite of metrics is also used to ensure consistency each year; and
- Single risk losses: Given the size of policy limits offered on each risk, it is unlikely that the poor performance of one policy will have a material impact on the syndicate's financial performance.

Strategic risk

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

- Strategic decisions: The syndicate's performance would be affected in the event of making strategic decisions that do not add value. The syndicate mitigates this risk through the combination of recommendations and challenge from non-executive directors, debate at the executive committee and input from the strategy and performance group (a group of approximately 35 senior individuals from across different disciplines at Beazley);
- Environment: There is a risk that the chosen strategy cannot be executed because of the current environmental conditions within which Beazley operates, thereby delaying the timing of the strategy;
- Communication: Having the right strategy and environment is of little value if it is not communicated internally so that the whole group is heading in the same direction, or if key external stakeholders are not aware of Beazley's progress against its strategy;
- Senior management performance: There is a risk that senior management is overstretched or does not perform, which would have a detrimental impact on the syndicate's performance. The performance of the senior management team is monitored by the CEO and talent management team and overseen by the nomination committee;
- Reputation: Although reputational risk is a consequential risk, i.e. it emerges upon the occurrence of another risk manifesting, it has the potential to have a significant impact on an organisation. Beazley expects its staff to act honourably (one of seven ingredients of Being Beazley) by doing the right thing;
- Flight risk: There is a risk that Beazley is unable to deliver its strategy due to the loss of key personnel. Beazley has controls in place to identify and monitor this risk, for example, through succession planning;
- Crisis management: This is the risk caused by the destabilising effect of the syndicate having to deal with a crisis and is mitigated by having a detailed crisis management plan; and
- Corporate transaction: There is a risk that Beazley undertakes a corporate transaction which does not return the expected value to shareholders. This risk is mitigated through the due diligence performed, the financial structure of transactions and the implementation activity. Under the environmental risk heading, the board monitors five categories of emerging and strategic risk on a quarterly basis, namely; socio-political risk, distribution, market conditions, talent and regulation.

Other risks

The remaining six risk categories monitored by the board are:

- Market (asset) risk: This is the risk that the value of investments is adversely impacted by movements in interest rates, exchange rates, default rates or external market forces. This risk is monitored by the investment committee;
- Operational risk: This risk is the failure of people, processes and systems or the impact of an external event on Beazley's operations, and is monitored by the operations committee;
- Credit risk: Beazley has credit risk to its reinsurers, brokers and coverholders of which the reinsurance asset is the largest. The underwriting committee monitors this risk;
- Regulatory and legal risk: This is the risk that Beazley does not operate in line with the relevant regulatory framework in the territories where it operates. Of the eight risk categories, the board has the lowest tolerance for this risk;
- Liquidity risk: This is the risk that the syndicate does not have sufficient liquid funds following a catastrophic event. The investment committee monitors this risk which, given the nature of the asset portfolio, is currently small; and
- Group risk: The structure of the Beazley group is not complex and so the main group risk is that one group entity operates to the detriment of another group entity or entities. Although this risk is currently small, the Beazley plc board monitors this risk through the reports it receives from each entity.

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 £	2014 year of account underwriting capacity £	2015 year of account underwriting capacity £	2016 year of account underwriting capacity £
M R Bernacki	163,000	250,000	300,000	400,000
M L Bride	199,000	400,000	400,000	400,000
A P Cox	199,000	400,000	400,000	400,000
J G Gray	199,000	400,000	–	–
D A Horton	199,000	400,000	400,000	400,000
N P Maidment	199,000	400,000	400,000	400,000
C A Washbourn	199,000	400,000	400,000	400,000

A full list of the directors of the managing agent who held office during the year can be found on page 47 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

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

M L Bride
Finance director

10 March 2016

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. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. 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 managing agent is 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

10 March 2016

Independent auditor's report to the members of syndicate 623

We have audited the syndicate 623 annual accounts for the year ended 31 December 2015, as set out on pages 18 to 49. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate and the syndicate's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and auditor

As explained more fully in the statement of managing agent's responsibilities set out on page 16 the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view. 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 financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on syndicate annual accounts

In our opinion the annual accounts:
- give a true and fair view of the state of the syndicate's affairs as at 31 December 2015 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 Report of the Directors of the managing agent for the financial year for which the annual accounts are prepared is consistent with the annual accounts.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 require us to report to you if, in our opinion:
- adequate accounting records have not been kept; 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.

Elizabeth Cox (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

10 March 2016

Profit or loss account

for the year ended 31 December 2015

	Notes	2015 $m	2014 $m
Gross premiums written	3	379.8	373.9
Outward reinsurance premiums		(72.3)	(54.7)
Net premiums written	3	**307.5**	**319.2**
Change in the gross provision for unearned premiums	14	(8.2)	(8.8)
Change in the provision for unearned premiums, reinsurers' share	14	8.8	(1.7)
Change in the net provision for unearned premiums		0.6	(10.5)
Earned premiums, net of reinsurance	3	**308.1**	**308.7**
Allocated investment return transferred from the non-technical account	8	6.0	14.3
Gross claims paid		(167.9)	(180.1)
Reinsurers' share of claims paid		27.0	38.9
Claims paid net of reinsurance		(140.9)	(141.2)
Change in the gross provision for claims	14	3.0	20.4
Change in the provision for claims, reinsurers' share	14	(0.8)	(25.7)
Change in the net provision for claims		2.2	(5.3)
Claims incurred, net of reinsurance		**(138.7)**	**(146.5)**
Net operating expenses	4	**(119.9)**	**(121.2)**
Balance on the technical account		**55.5**	**55.3**
Investment income	8	10.2	9.7
Investment expenses and charges	8	(1.5)	(1.5)
Realised losses on investments	8	(3.6)	(2.4)
Unrealised gains on investments	8	0.9	8.5
		6.0	14.3
Allocated investment return transferred to general business technical account		(6.0)	(14.3)
Gain/(loss) on foreign exchange		0.2	(1.8)
Other charges	9	(9.2)	(9.0)
Profit for the financial year		**46.5**	**44.5**

All of the above operations are continuing.

Statement of other comprehensive income

year ended 31 December 2015

	2015 $m	2014 $m
Profit for the financial year	46.5	44.5
Foreign exchange profit/(loss) on brought forward reserves	0.1	(0.7)
Total recognised income since last annual report	**46.6**	**43.8**

Statement of changes in members' balances

year ended 31 December 2015

	2015 $m	2014 $m
Members' balances brought forward at 1 January	54.4	52.5
Impact of change in accounting policy on adoption of FRS 102	–	(0.9)
Restated balance as at 1 January	54.4	51.6
Profit for the financial year	46.5	44.5
Foreign exchange profit/(loss) on brought forward reserves	0.1	(0.7)
Profit distribution before members agent's fees – 2011 Year of account	–	(41.0)
Profit distribution before members agent's fees – 2012 Year of account	(49.7)	–
Members' balances carried forward at 31 December	**51.3**	**54.4**

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.

Balance sheet

at 31 December 2015

	Notes	2015 $m	2014 $m
Assets			
Financial assets at fair value	10	**594.2**	**607.6**
Reinsurers' share of technical provisions			
Provision for unearned premiums, reinsurers' share	14	34.0	25.4
Claims outstanding, reinsurers' share	14	166.2	168.9
		200.2	**194.3**
Debtors			
Debtors arising out of direct insurance operations		111.6	104.7
Debtors arising out of reinsurance operations		26.9	17.7
Other debtors	12	51.8	15.4
		190.3	**137.8**
Cash at bank and in hand	13	**50.9**	**46.4**
Deferred acquisition costs		**44.9**	**44.0**
Other prepayments and accrued income		**–**	**1.4**
Total assets		**1,080.5**	**1,031.5**
Liabilities, capital and reserves			
Capital and reserves			
Members' balances attributable to underwriting participations		51.3	54.4
Technical provisions			
Provision for unearned premiums	14	183.8	177.4
Claims outstanding	14	691.6	705.7
		875.4	**883.1**
Creditors			
Creditors arising out of direct insurance operations		42.1	27.0
Creditors arising out of reinsurance operations		9.9	5.7
Other creditors	15	101.3	61.3
		153.3	**94.0**
Financial liabilities	10	**0.3**	**–**
Accruals and deferred income		**0.2**	**–**
Total liabilities, capital and reserves		**1,080.5**	**1,031.5**

The syndicate annual accounts on pages 18 to 49 were approved by the board of Beazley Furlonge Limited on 10 March 2016 and were signed on its behalf by:

N P Maidment
Active underwriter

M L Bride
Finance director

Cash flow statement

year ended 31 December 2015

	2015 $m	2014 $m
Reconciliation of profit for the financial year to net cash inflow from operating activities		
Profit for the financial year	46.5	44.5
Increase in net technical provisions	13.6	3.4
Increase in debtors	(52.0)	(5.6)
Increase/(decrease) in creditors	59.8	(8.6)
Investment return	(6.0)	(14.3)
Net cash flows from operating activities	**61.9**	**19.4**
Net purchase/sale of debt/equity instruments	(18.9)	31.3
Investment return	6.0	14.3
Net cash from investing activities	(12.9)	45.6
Transfer to members in respect of underwriting participations	(49.7)	(41.0)
Net cash from financing activities	**(49.7)**	**(41.0)**
Net (decrease)/increase in cash and cash equivalents	**(0.7)**	**24.0**
Cash and cash equivalents at the beginning of the year	67.7	44.4
Effect of exchange rate changes on cash and cash equivalents	(2.8)	(0.7)
Cash and cash equivalents at the end of the year	**64.2**	**67.7**

Notes to the syndicate annual accounts

1 Accounting policies

Basis of preparation

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

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 and the Republic of Ireland, Financial Reporting Standard 102 (FRS 102) and the applicable Accounting Standard on insurance contracts Financial Reporting Standard 103 (FRS 103). This is the first year that both FRS 102 and FRS 103 have been applicable. Further explanation of the adoption of these standards can be found in note 20.

The financial statements have been prepared on the historic cost basis, except for financial assets at fair value through profit or loss that are measured at fair value. 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 2015 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.

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) Liability adequacy testing
At each reporting date, liability adequacy tests are performed to ensure the adequacy of the claims liabilities net of DAC and unearned premium reserves. In performing these tests, current best estimates of future contractual cash flows, claims handling and administration expenses as well as investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to the income statement initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests ('unexpired risk provision').

f) Foreign currencies
Transactions in foreign currencies are translated to the syndicate's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account. For the purpose of foreign currency translation, unearned premiums and deferred acquisition costs are treated as monetary items.

g) 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.

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

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and 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.

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

Any benefits to which the syndicate is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers and include reinsurers' share of provisions for claims. These balances are based on calculated amounts of outstanding claims and projections for IBNR, 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 profit or loss account.

1 Accounting policies *continued*

j) Financial instruments

Financial instruments are recognised in the balance sheet at such time that the syndicate becomes a party to the contractual provisions of the financial instrument. 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.

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 profit or loss account, 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 profit or loss account 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 profit or loss account are recognised in the profit or loss account when incurred. Financial assets at fair value through the profit or loss account are measured at fair value, and changes therein are recognised in the profit or loss account 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) 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 profit or loss account. 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 profit or loss account. 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.

k) 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.

l) 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 or loss account.

m) Cash at bank and in hand

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

Notes to the syndicate annual accounts continued

1 Accounting policies *continued*

n) 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.

o) 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.

p) 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 2015, the normal maximum line that any one underwriter could commit the managed syndicate to was $18.0m. In most cases, maximum lines for classes of business were much lower than this.

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

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

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 2015, the syndicate's business consisted of five operating divisions. The following table provides a breakdown of gross written premiums written by division:

	2015	2014
Marine	16%	19%
Political risks and contingency	7%	7%
Property	20%	20%
Reinsurance	11%	12%
Specialty lines	46%	42%
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.

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

	5% increase in claims reserves		5% decreases in claims reserves	
Sensitivity to insurance risk (claims reserves)	2015 $m	2014 $m	2015 $m	2014 $m
Impact on profit	(26.3)	(26.8)	26.3	26.8

The syndicate also monitors its exposure to insurance risk by location. The below table provides an analysis of the geographical breakdown of its written premiums by class of business.

	2015 %	2014 %
US	57	53
Europe	15	15
Other	28	32
	100	**100**

2 Risk management *continued*

2.2 Strategic risk

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

2.3 Market risk

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

Foreign exchange risk

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

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

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 2015	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	138.4	47.0	64.4	249.8	830.7	1,080.5
Total liabilities	(206.8)	(22.4)	(60.4)	(289.6)	(739.6)	(1,029.2)
Net assets	**(68.4)**	**24.6**	**4.0**	**(39.8)**	**91.1**	**51.3**

31 December 2014	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	69.2	93.5	72.3	235.0	796.5	1,031.5
Total liabilities	(99.0)	(25.4)	(71.3)	(195.7)	(781.4)	(977.1)
Net assets	**(29.8)**	**68.1**	**1.0**	**39.3**	**15.1**	**54.4**

Sensitivity analysis

In 2015, 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.

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	2015 $m	2014 $m	2015 $m	2014 $m
Dollar weakens 30% against other currencies	(0.5)	1.3	(0.5)	1.3
Dollar weakens 20% against other currencies	(0.3)	0.8	(0.3)	0.8
Dollar weakens 10% against other currencies	(0.2)	0.4	(0.2)	0.4
Dollar strengthens 10% against other currencies	0.2	(0.4)	0.2	(0.4)
Dollar strengthens 20% against other currencies	0.3	(0.8)	0.3	(0.8)
Dollar strengthens 30% against other currencies	0.5	(1.3)	0.5	(1.3)

Notes to the syndicate annual accounts *continued*

2 Risk management *continued*

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 2015	<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	91.6	52.5	77.6	49.4	35.4	–	513.4
Cash at bank and in hand	50.9	–	–	–	–	–	–	50.9
Derivative financial instruments	(0.2)	–	–	–	–	–	–	(0.2)
Total	**257.6**	**91.6**	**52.5**	**77.6**	**49.4**	**35.4**	**–**	**564.1**

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

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)	2015 $m	2014 $m	2015 $m	2014 $m
150 basis point increase	(20.4)	(14.4)	(20.4)	(14.4)
100 basis point increase	(13.6)	(9.6)	(13.6)	(9.6)
50 basis point increase	(6.8)	(4.8)	(6.8)	(4.8)
50 basis point decrease	6.8	4.8	6.8	4.8
100 basis point decrease	13.6	9.6	13.6	9.6

Price risk

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

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

2 Risk management *continued*

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

	Impact on profit for the year ended		Impact on net assets	
Change in fair value of hedge funds and equity linked funds	2015 $m	2014 $m	2015 $m	2014 $m
30% increase in fair value	24.2	24.7	24.2	24.7
20% increase in fair value	16.1	16.4	16.1	16.4
10% increase in fair value	8.1	8.2	8.1	8.2
10% decrease in fair value	(8.1)	(8.2)	(8.1)	(8.2)
20% decrease in fair value	(16.1)	(16.4)	(16.1)	(16.4)
30% decrease in fair value	(24.2)	(24.7)	(24.2)	(24.7)

2.4 Operational risk

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

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

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

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

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

2.5 Credit risk

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

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

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

2 Risk management *continued*

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

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

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

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

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

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

31 December 2015	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	464.6	47.2	1.6	–	–	513.4
– equity linked funds	–	–	–	–	21.0	21.0
– hedge funds	–	–	–	–	59.7	59.7
– derivative financial assets	0.1	–	–	–	–	0.1
Reinsurers' share of outstanding claims	166.2	–	–	–	–	166.2
Insurance debtors	6.4	–	0.4	–	131.7	138.5
Cash at bank and in hand	42.6	8.3	–	–	–	50.9
Total	**679.9**	**55.5**	**2.0**	**–**	**212.4**	**949.8**

31 December 2014	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	494.1	30.0	1.1	–	–	525.2
– equity linked funds	–	–	–	–	22.0	22.0
– hedge funds (uncorrelated strategies)	–	–	–	–	60.2	60.2
– derivative financial instruments	0.2	–	–	–	–	0.2
Reinsurers' share of outstanding claims	168.8	–	–	–	0.1	168.9
Insurance debtors	9.6	–	0.6	–	112.2	122.4
Cash at bank and in hand	39.0	7.4	–	–	–	46.4
Total	**711.7**	**37.4**	**1.7**	**–**	**194.5**	**945.3**

2 Risk management *continued*

Based on all evidence available, debtors arising out of insurance operations and other debtors have not been impaired and no impairment provision has been recognised in respect of these assets. An analysis of the overall credit risk exposure indicates that the syndicate has reinsurance assets that are impaired at the reporting date. The total impairment provision made in respect of these assets at 31 December 2015 is $2.9m (2014: $3.1m). No other financial assets held at year end were impaired.

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

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

31 December 2015	0-3 months past due $m	3-6 months past due $m	6-12 months past due $m	Greater than 1 year past due $m	Total $m
Insurance debtors	5.1	0.6	0.6	–	6.3
Reinsurance assets	–	0.5	3.6	0.1	4.2

31 December 2014	0-3 months past due $m	3-6 months past due $m	6-12 months past due $m	Greater than 1 year past due $m	Total $m
Insurance debtors	4.4	0.7	0.6	–	5.7
Reinsurance assets	–	–	–	1.1	1.1

2.6 Regulatory and legal risk

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

2.7 Liquidity risk

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

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

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

31 December 2015	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Marine	23.4	18.9	5.2	3.8	51.3	1.9
Political risks and contingency	7.7	7.6	2.2	1.7	19.2	2.0
Property	21.9	16.9	4.3	3.0	46.1	1.8
Reinsurance	15.1	12.9	4.2	3.7	35.9	2.2
Specialty lines	79.0	127.6	75.9	90.4	372.9	3.5
Net insurance liabilities	**147.1**	**183.9**	**91.8**	**102.6**	**525.4**	

2 Risk management *continued*

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

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

Maturity 31 December 2015	<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	144.1	104.9	69.1	93.3	54.9	47.1	–	513.4
Derivative financial instruments	(0.2)	–	–	–	–	–	–	(0.2)
Cash at bank and in hand	50.9	–	–	–	–	–	–	50.9
Other debtors	51.8	–	–	–	–	–	–	51.8
Other creditors	(101.3)	–	–	–	–	–	–	(101.3)
Total	**145.3**	**104.9**	**69.1**	**93.3**	**54.9**	**47.1**	**–**	**514.6**

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

2.8 Senior management responsibilities

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

2 Risk management *continued*

2.9 Capital management

Capital framework at Lloyd's

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

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

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

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

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

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the balance sheet on page 20, represent resources available to meet members' and Lloyd's capital requirements.

Notes to the syndicate annual accounts continued

3 Segmental analysis

2015	Marine $m	PCG $m	Property $m	Reinsurance $m	Specialty lines $m	Unallocated $m	Total $m
Gross premiums written	59.1	26.2	77.5	43.9	173.1	–	379.8
Net premiums written	52.5	22.3	66.9	29.0	136.8	–	307.5
Gross earned premiums	63.3	26.4	76.1	43.3	162.5	–	371.6
Outward reinsurance premiums earned	(6.7)	(3.8)	(10.6)	(14.0)	(28.4)	–	(63.5)
Earned premiums, net of reinsurance	**56.6**	**22.6**	**65.5**	**29.3**	**134.1**	–	**308.1**
Gross claims	(21.5)	(6.6)	(26.9)	(12.2)	(97.7)	–	(164.9)
Reinsurers share	0.1	0.4	1.7	5.9	18.1	–	26.2
Claims incurred, net of reinsurance	**(21.4)**	**(6.2)**	**(25.2)**	**(6.3)**	**(79.6)**	–	**(138.7)**
Operating expenses before foreign exchange	(22.3)	(10.6)	(28.9)	(10.4)	(47.7)	–	(119.9)
Technical result before items below	**12.9**	**5.8**	**11.4**	**12.6**	**6.8**	–	**49.5**
Gain on foreign exchange	–	–	–	–	–	0.2	0.2
Investment income	–	–	–	–	–	6.0	6.0
Other charges	–	–	–	–	–	(9.2)	(9.2)
Profit for the financial year	**12.9**	**5.8**	**11.4**	**12.6**	**6.8**	**(3.0)**	**46.5**
Claims ratio	38%	27%	39%	22%	59%	–	45%
Expense ratio	39%	47%	44%	35%	36%	–	39%
Combined ratio	77%	74%	83%	57%	95%	–	84%

2014	Marine $m	PCG $m	Property $m	Reinsurance $m	Specialty lines $m	Unallocated $m	Total $m
Gross premiums written	71.3	26.3	74.6	44.1	157.6	–	373.9
Net premiums written	63.5	21.7	64.9	33.8	135.3	–	319.2
Gross earned premiums	69.5	25.8	74.3	45.4	150.1	–	365.1
Outward reinsurance premiums earned	(7.5)	(4.9)	(11.3)	(10.1)	(22.6)	–	(56.4)
Earned premiums, net of reinsurance	**62.0**	**20.9**	**63.0**	**35.3**	**127.5**	–	**308.7**
Gross claims	(24.0)	(5.2)	(23.4)	(14.6)	(92.5)	–	(159.7)
Reinsurers share	0.9	–	(2.5)	1.6	13.2	–	13.2
Claims incurred, net of reinsurance	**(23.1)**	**(5.2)**	**(25.9)**	**(13.0)**	**(79.3)**	–	**(146.5)**
Operating expenses before foreign exchange	(25.7)	(10.9)	(27.4)	(11.2)	(46.3)	0.3	(121.2)
Technical result before items below	**13.2**	**4.8**	**9.7**	**11.1**	**1.9**	**0.3**	**41.0**
Gain on foreign exchange	–	–	–	–	–	(1.8)	(1.8)
Investment income	–	–	–	–	–	14.3	14.3
Other charges	–	–	–	–	–	(9.0)	(9.0)
Profit for the financial year	**13.2**	**4.8**	**9.7**	**11.1**	**1.9**	**3.8**	**44.5**
Claims ratio	37%	25%	41%	37%	62%	–	48%
Expense ratio	42%	52%	44%	32%	36%	–	39%
Combined ratio	79%	77%	85%	69%	98%	–	87%

3 Segmental analysis *continued*

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

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

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

All business was underwritten in the UK.

4 Net operating expenses

	2015 $m	2014 $m
Acquisition costs	92.5	92.7
Change in deferred acquisition costs	(1.3)	(3.7)
Members' standard personal expenses	3.3	3.9
Administrative expenses	31.3	32.8
Overriding commission	(5.9)	(4.5)
	119.9	121.2

Administrative expenses include:

	2015 $'000	2014 $'000
Fees payable to the syndicate's auditor for the audit of these syndicate annual accounts	100.6	108.5
Fees payable to the syndicate's auditor and its associates in respect of:		
Other services pursuant to legislation	197.9	209.2
	298.5	**317.7**

Managing agent fees paid to Beazley Furlonge Limited in respect of services provided to the syndicate amounted to $1.9m (2014: $2.2m).

5 Staff costs

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

	2015 $m	2014 $m
Wages and salaries	11.7	11.8
Short-term incentive payments	9.2	8.1
Social security costs	2.4	2.6
Pension costs	1.2	1.7
	24.5	**24.2**

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:

	2015 $m	2014 $m
Emoluments and fees	3.9	3.8
Contributions to defined contribution pension schemes	0.1	0.1
	4.0	**3.9**

Notes to the syndicate annual accounts continued

7 Active underwriter's emoluments

The aggregate amount of remuneration paid to and for the benefit of the active underwriter, which was recharged to syndicate 623, was $0.7m (2014: $0.7m).

8 Net investment income

	2015 $m	2014 $m
Interest and dividends on financial investments at fair value through profit or loss	10.2	9.6
Interest on cash and cash equivalents	–	0.1
Realised losses on financial instruments at fair value though profit or loss	(3.6)	(2.4)
Net unrealised fair value gains on financial investments at fair value through profit or loss	0.9	8.5
Investment income from financial investments	**7.5**	**15.8**
Investment management expenses	(1.5)	(1.5)
Total net investment income	**6.0**	**14.3**

9 Other charges

	2015 $m	2014 $m
Profit commissions paid to Beazley Furlonge Limited	9.8	9.2
Profit commissions due from syndicate 6107	(0.6)	(0.2)
	9.2	**9.0**

10 Financial assets and liabilities

	Market value		Cost	
	2015 $m	2014 $m	2015 $m	2014 $m
Financial assets at fair value				
Fixed and floating rate debt securities:				
– Government issued	187.3	131.8	186.7	129.6
– Quasi-government	62.4	99.9	62.2	98.2
– Supranational	73.4	62.0	73.1	61.0
– Corporate bonds				
– Investment grade credit	174.2	165.9	173.6	163.2
– High yield	10.3	12.2	10.2	12.0
– Senior secured loans	4.5	2.4	4.5	2.3
– Asset backed securities	1.3	51.0	1.3	50.2
Total fixed and floating rate debt securities	513.4	525.2	511.6	516.5
Equity linked funds	21.0	22.0	19.9	22.0
Hedge funds	59.7	60.2	56.6	54.6
Total capital growth	80.7	82.2	76.5	76.6
Total financial investments at fair value through statement of profit or loss	**594.1**	**607.4**	**588.1**	**593.1**
Derivative financial instruments	0.1	0.2	0.1	0.2
Total financial assets at fair value	**594.2**	**607.6**	**588.2**	**593.3**
Financial liabilities				
Derivative financial instruments	**0.3**	–	**0.3**	–

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

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

10 Financial assets and liabilities *continued*

Fair value measurement

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

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

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

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

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

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

The table below analyses financial instruments measured at fair value at 31 December 2015 and 31 December 2014, based on the level in the fair value hierarchy into which the financial instrument is categorised:

2015	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value				
Fixed and floating rate debt securities:				
– Government issued	187.3	–	–	187.3
– Quasi-government	40.3	22.1	–	62.4
– Supranational	73.4	–	–	73.4
– Corporate bonds				
– Investment grade credit	–	174.2	–	174.2
– High yield	–	10.3	–	10.3
– Senior secured loans	–	4.5	–	4.5
– Asset backed securities	–	1.3	–	1.3
Equity linked funds	–	21.0	–	21.0
Hedge funds	–	59.7	–	59.7
Derivative financial assets	0.1	–	–	0.1
Total financial assets at fair value	**301.1**	**293.1**	**–**	**594.2**
Financial liabilities				
Derivative financial instruments	**0.3**	**–**	**–**	**0.3**

10 Financial assets and liabilities *continued*

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

There were no transfer in either direction between level 1 and level 2 in 2015 and 2014.

Additional information is obtained from fund managers relating to the underlying assets within individual hedge funds. We identified that 68% (2014: 59%) 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 2015 and 2014, 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.

	2015		2014	
Derivative financial instrument assets	Gross contract amount $m	Fair value of assets $m	Gross contract amount $m	Fair value of assets $m
Foreign exchange forward contract	–	–	6.1	–
Bond future contracts	(112.5)	0.1	19.5	0.2
	(112.5)	**0.1**	**25.6**	**0.2**

	2015		2014	
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	97.6	0.3	–	–
Bond future contracts	–	–	–	–
	97.6	**0.3**	**–**	**–**

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

	2015 $m	2014 $m
Amounts due from members	9.9	11.7
Amount due from syndicate 2623	35.9	–
Sundry debtors including taxation	6.0	3.7
	51.8	**15.4**

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

13 Cash and cash equivalents

	2015 $m	2014 $m
Cash at bank and in hand	50.9	46.4
Short term deposits	13.3	21.3
	64.2	**67.7**

Notes to the syndicate annual accounts *continued*

14 Technical provisions

	Provision for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January 2015	177.4	705.7
Movement in the provision	8.2	(3.0)
Exchange adjustments	(1.8)	(11.1)
As at 31 December 2015	**183.8**	**691.6**
Reinsurers' share of technical provisions		
As at 1 January 2015	25.4	168.9
Movement in the provision	8.8	(0.8)
Exchange adjustments	(0.2)	(1.9)
As at 31 December 2015	**34.0**	**166.2**
Net technical provisions		
As at 1 January 2015	152.0	536.8
As at 31 December 2015	**149.8**	**525.4**

	Provision for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January 2014	171.2	741.5
Movement in the provision	8.8	(20.4)
Exchange adjustments	(2.6)	(15.4)
As at 31 December 2014	**177.4**	**705.7**
Reinsurers' share of technical provisions		
As at 1 January 2014	27.2	197.2
Movement in the provision	(1.7)	(25.7)
Exchange adjustments	(0.1)	(2.6)
As at 31 December 2014	**25.4**	**168.9**
Net technical provisions		
As at 1 January 2014	142.9	544.3
As at 31 December 2014	**152.0**	**536.8**

14 Technical provisions *continued*

Gross ultimate claims	2005 ae %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %
Marine											
12 months		57.3%	58.6%	69.3%	54.5%	50.6%	55.0%	56.0%	56.5%	57.5%	56.8%
24 months		42.2%	60.3%	65.2%	50.9%	49.8%	47.7%	46.2%	51.9%	47.1%	
36 months		32.7%	50.8%	59.2%	44.3%	44.1%	39.5%	34.7%	44.2%		
48 months		28.9%	48.3%	63.1%	40.7%	42.4%	34.2%	32.2%			
60 months		28.6%	49.6%	62.8%	40.4%	40.8%	35.8%				
72 months		26.3%	50.1%	59.1%	48.7%	40.7%					
84 months		26.2%	46.9%	55.3%	47.8%						
96 months		25.6%	44.1%	54.7%							
108 months		25.3%	43.6%								
120 months		24.7%									
Political risks and contingency											
12 months		57.1%	57.2%	57.5%	61.1%	61.4%	58.7%	62.4%	57.2%	56.5%	55.2%
24 months		36.4%	39.8%	68.3%	38.6%	40.4%	39.4%	43.2%	42.0%	41.0%	
36 months		32.3%	56.5%	75.0%	34.7%	33.1%	34.3%	39.6%	35.5%		
48 months		43.8%	53.5%	88.1%	30.1%	23.9%	28.6%	38.0%			
60 months		39.8%	53.8%	72.9%	24.2%	22.6%	27.1%				
72 months		39.6%	50.0%	61.8%	18.5%	21.2%					
84 months		36.6%	47.4%	58.7%	18.8%						
96 months		31.1%	49.5%	59.2%							
108 months		28.4%	45.4%								
120 months		28.8%									
Property											
12 months		58.4%	60.0%	64.8%	54.3%	54.5%	54.4%	55.6%	55.6%	53.7%	55.4%
24 months		43.8%	58.0%	62.2%	42.2%	57.2%	46.6%	47.5%	49.4%	48.3%	
36 months		42.8%	55.4%	61.1%	36.9%	54.2%	44.4%	39.9%	45.6%		
48 months		50.1%	55.6%	59.1%	35.8%	51.3%	42.6%	36.6%			
60 months		50.3%	58.7%	57.5%	34.7%	48.3%	41.5%				
72 months		50.1%	68.1%	56.4%	33.7%	47.5%					
84 months		49.4%	68.2%	55.2%	33.1%						
96 months		47.3%	67.4%	54.5%							
108 months		46.3%	66.6%								
120 months		44.8%									
Reinsurance											
12 months		52.4%	59.6%	60.1%	60.8%	68.0%	78.6%	62.9%	57.3%	60.9%	65.5%
24 months		25.5%	25.2%	53.1%	47.6%	150.0%	77.7%	36.5%	43.5%	32.8%	
36 months		25.0%	21.0%	44.0%	39.6%	138.4%	71.8%	31.3%	41.1%		
48 months		23.5%	19.5%	40.7%	39.2%	132.4%	68.0%	30.3%			
60 months		21.5%	18.6%	40.4%	35.0%	136.3%	65.3%				
72 months		21.3%	18.5%	40.5%	32.2%	134.8%					
84 months		21.5%	16.9%	39.8%	31.4%						
96 months		21.0%	16.1%	39.5%							
108 months		20.4%	15.7%								
120 months		20.2%									

Notes to the syndicate annual accounts continued

14 Technical provisions *continued*

Gross ultimate claims	2005 ae %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	
Specialty lines												
12 months		72.4%	73.0%	72.5%	72.5%	74.3%	76.0%	74.7%	74.5%	70.1%	69.5%	
24 months		72.5%	72.4%	72.4%	72.5%	73.8%	76.1%	74.8%	74.1%	70.2%		
36 months		72.4%	72.3%	72.4%	71.6%	73.1%	77.7%	72.6%	73.7%			
48 months		72.9%	72.4%	72.6%	71.6%	74.9%	78.3%	66.9%				
60 months		70.7%	72.6%	72.6%	72.2%	73.3%	77.6%					
72 months		65.4%	72.3%	73.0%	71.7%	74.3%						
84 months		61.2%	72.3%	72.1%	73.1%							
96 months		57.3%	72.9%	75.7%								
108 months		56.0%	72.2%									
120 months		53.5%										
Total												
12 months		63.5%	65.0%	68.2%	63.2%	63.9%	66.6%	64.7%	63.4%	62.3%	63.1%	
24 months		53.4%	60.4%	67.3%	56.8%	72.6%	61.9%	56.8%	58.3%	55.0%		
36 months		51.0%	59.1%	65.9%	53.1%	68.3%	59.5%	51.3%	55.0%			
48 months		53.0%	58.5%	67.2%	51.7%	66.8%	57.6%	47.5%				
60 months		51.5%	59.5%	65.4%	50.9%	65.5%	56.9%					
72 months		48.8%	61.3%	63.8%	51.1%	65.4%						
84 months		46.7%	60.4%	62.2%	51.3%							
96 months		44.0%	60.1%	63.7%								
108 months		42.9%	59.1%									
120 months		41.4%										
Total ultimate losses ($m)	3,898.5	692.7	1,046.4	1,222.4	1,057.4	1,305.2	1,108.0	1,024.1	1,262.5	1,283.6	1,501.1	15,401.9
Less paid claims ($m)	(3,754.5)	(616.1)	(911.3)	(1,030.0)	(784.4)	(1,042.1)	(765.7)	(616.1)	(560.3)	(310.3)	(49.9)	(10,440.7)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(12.9)	(730.8)	(743.7)
Gross claims liabilities (100% level) ($m)	144.0	76.6	135.1	192.4	273.0	263.1	342.3	408.0	702.2	960.4	720.4	4,217.5
Less Unaligned share ($m)	(116.6)	(62.9)	(108.7)	(162.0)	(230.0)	(218.1)	(278.4)	(332.6)	(592.0)	(813.9)	(610.7)	(3,525.9)
Gross claims liabilities, 623 share	27.4	13.7	26.4	30.4	43.0	45.0	63.9	75.4	110.2	146.5	109.7	691.6

14 Technical provisions *continued*

Net ultimate claims	2005 ae %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %
Marine											
12 months		54.3%	55.8%	61.5%	53.6%	52.2%	56.0%	55.5%	56.0%	56.4%	56.9%
24 months		42.1%	56.8%	56.8%	47.7%	49.3%	48.0%	46.0%	53.0%	48.8%	
36 months		32.8%	49.7%	50.6%	39.2%	44.8%	39.1%	37.5%	47.2%		
48 months		31.2%	46.8%	47.5%	35.5%	42.9%	34.9%	35.0%			
60 months		30.8%	47.5%	46.9%	35.2%	41.6%	36.0%				
72 months		29.0%	47.5%	46.4%	38.8%	40.7%					
84 months		28.9%	45.1%	45.1%	38.1%						
96 months		28.3%	43.1%	44.7%							
108 months		28.0%	42.6%								
120 months		27.4%									
Political risks and contingency											
12 months		55.9%	55.4%	55.9%	59.2%	57.3%	54.9%	59.3%	54.7%	53.4%	52.1%
24 months		40.6%	40.7%	76.2%	35.2%	38.0%	38.2%	41.7%	41.2%	39.2%	
36 months		36.6%	55.2%	77.7%	32.2%	30.7%	32.6%	38.3%	36.5%		
48 months		47.6%	54.9%	80.4%	27.7%	21.7%	30.1%	38.2%			
60 months		41.8%	52.7%	70.1%	22.1%	20.5%	28.3%				
72 months		40.2%	49.4%	59.5%	17.4%	19.3%					
84 months		40.1%	47.2%	56.1%	17.7%						
96 months		37.5%	48.9%	56.3%							
108 months		34.0%	45.4%								
120 months		34.0%									
Property											
12 months		61.1%	62.6%	63.8%	53.5%	58.5%	59.4%	58.7%	57.0%	54.5%	55.0%
24 months		48.5%	60.9%	67.0%	47.9%	64.4%	56.7%	53.0%	56.4%	51.1%	
36 months		46.8%	59.9%	64.8%	44.4%	63.6%	53.1%	46.1%	52.0%		
48 months		50.5%	60.0%	63.7%	42.2%	57.8%	49.7%	41.2%			
60 months		49.7%	63.5%	62.6%	41.6%	55.3%	48.1%				
72 months		49.8%	63.6%	61.2%	40.3%	54.5%					
84 months		49.3%	63.6%	60.5%	39.8%						
96 months		47.7%	63.2%	59.4%							
108 months		47.1%	63.1%								
120 months		45.7%									
Reinsurance											
12 months		54.3%	55.3%	68.2%	55.6%	76.7%	89.0%	67.1%	55.0%	58.2%	61.1%
24 months		37.2%	29.3%	59.6%	51.9%	136.2%	88.0%	44.1%	49.8%	36.2%	
36 months		35.1%	24.5%	50.0%	46.2%	128.7%	82.6%	37.9%	46.4%		
48 months		32.9%	22.5%	48.0%	45.6%	124.1%	77.0%	36.5%			
60 months		31.4%	21.9%	47.4%	40.9%	131.1%	74.5%				
72 months		31.5%	21.8%	47.6%	37.5%	127.8%					
84 months		31.8%	19.9%	46.5%	36.6%						
96 months		31.1%	18.9%	46.2%							
108 months		30.2%	18.4%								
120 months		30.0%									

Notes to the syndicate annual accounts continued

14 Technical provisions *continued*

Net ultimate claims	2005 ae %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	
Specialty lines												
12 months		69.2%	71.8%	70.4%	69.4%	71.0%	72.6%	72.0%	71.3%	67.7%	65.7%	
24 months		69.1%	70.5%	70.4%	69.3%	70.7%	72.7%	71.4%	70.5%	67.7%		
36 months		69.3%	70.4%	70.4%	68.7%	70.3%	72.4%	69.3%	69.7%			
48 months		68.6%	69.3%	69.0%	66.1%	70.5%	70.8%	63.6%				
60 months		64.5%	69.3%	68.9%	66.3%	69.6%	71.5%					
72 months		58.1%	69.2%	68.9%	65.7%	71.0%						
84 months		54.5%	69.0%	68.9%	66.6%							
96 months		51.0%	69.2%	71.3%								
108 months		49.7%	68.4%									
120 months		48.9%										
Total												
12 months		62.4%	64.3%	66.2%	60.8%	64.5%	67.2%	64.3%	62.0%	60.7%	60.4%	
24 months		54.5%	60.3%	66.8%	56.4%	70.1%	63.5%	57.2%	59.5%	55.3%		
36 months		51.8%	59.5%	64.6%	53.0%	67.3%	59.8%	52.2%	56.3%			
48 months		52.6%	58.5%	63.4%	50.4%	64.7%	56.9%	48.3%				
60 months		50.2%	59.2%	62.2%	49.6%	64.3%	56.6%					
72 months		47.1%	58.9%	60.9%	49.0%	64.0%						
84 months		45.6%	58.0%	60.2%	49.0%							
96 months		43.3%	57.6%	61.0%								
108 months		42.3%	56.9%									
120 months		41.5%										
Total ultimate losses ($m)	2,349.2	559.8	864.4	950.0	799.0	1,061.1	917.2	866.5	1,062.4	1,082.9	1,191.0	11,703.5
Less paid claims ($m)	(2,244.5)	(503.9)	(763.2)	(820.0)	(648.6)	(871.5)	(670.7)	(523.4)	(484.2)	(300.3)	(44.0)	(7,874.3)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(18.3)	(628.0)	(646.3)
Net claims liabilities (100% level) ($m)	104.7	55.9	101.2	130.0	150.4	189.6	246.5	343.1	578.2	764.3	519.0	3,182.9
Less unaligned share ($m)	(84.9)	(45.2)	(83.9)	(109.2)	(121.9)	(155.6)	(199.6)	(286.6)	(489.4)	(643.3)	(437.9)	(2,657.5)
Net claims liabilities, 623 share ($m)	19.8	10.7	17.3	20.8	28.5	34.0	46.9	56.5	88.8	121.0	81.1	525.4

15 Other creditors

	2015 $m	2014 $m
Amount due to syndicate 2623	–	5.3
Amount due to syndicate 3623	0.1	0.3
Amount due to syndicate 6107	9.6	11.8
Profit commissions	12.6	12.3
Net amount due to other related entities	79.0	31.6
	101.3	**61.3**

Profit commissions payable include $3.9m (2014: $2.7m) which are due to be paid after more than one year. The remainder of the creditor balances shown are payable within one year.

16 Related parties transactions

Beazley Furlonge Limited, the managing agency of syndicate 623, is a wholly-owned subsidiary of Beazley plc. The directors of Beazley 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 15.

The directors of Beazley Furlonge Limited have shareholdings in Beazley plc which provides the capacity for syndicates 2623, 3622 and 3623. Syndicate 623 has capacity in 2015 of £230.3m, as previously disclosed, and writes in parallel with syndicate 2623. Beneficial shareholdings are shown below.

	Shareholding of Beazley plc as at 31 December 2015	Shareholding of Beazley plc as at 31 December 2014
D Holt	50,000	50,000
M R Bernacki (appointed – 24/04/2015)	263,983	259,983
G P Blunden	50,000	50,000
M L Bride	321,400	350,000
A P Cox	758,047	658,232
A Crawford-Ingle	20,850	20,850
N H Furlonge	656,375	756,375
J G Gray (resigned – 11/03/2015)*	766,699	759,549
D A Horton	1,597,125	1,580,087
N P Maidment	2,907,523	3,907,523
R A W Tolle	60,000	60,000
C A Washbourn	461,346	446,096
K W Wilkins (appointed – 02/03/2015)	14,000	–

* Represents shareholding as at date of cessation as a director on 11/03/2015.

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 Middle East Limited – (UAE);
- 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.

Notes to the syndicate annual accounts continued

16 Related parties transactions *continued*

Since 2010, the syndicates ceded part of the international reinsurance account to a special purpose syndicate 6107. Starting in 2015, the syndicates entered into a quota shares reinsurance agreement with another special purpose syndicate 6050. Both syndicates 6050 and 6107 are managed by Beazley Furlonge Limited and commissions are received by the syndicates in respect of these transactions.

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

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

At the balance sheet date, the syndicate has amounts due to managing agent of $6.8m (2014: $8.5m). In addition to this amount, the syndicate is also carrying a profit commission payable to the managing agent of $12.6m (2014: $12.3m).

The managing agent recharged expenses and fees of $50.7m (2014: $52.4m) to the syndicate in the current year.

17 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.

	2015 $m	2014 $m
2012 Year of account	–	45.5
2013 Year of account	36.8	–
	36.8	**45.5**

18 Adoption of new accounting standard

The syndicate has prepared its financial statement in accordance with Financial Reporting Standard 102 (FRS 102) for the first time in the financial year ended 31 December 2015. Changes on the company's financial position and financial performance include a net movement in retained earnings of $0.9m and a net movement in 2014 profit and loss of $2.2m.

The last financial statements under the UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2015. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 December 2014 and the members balance as at 1 January 2014 and 31 December 2014 between UK GAAP as previously reported and FRS 102.

Profit for the financial year	2014 $m
UK GAAP as previously reported	42.3
Monetising UPR & DAC (Note A)	2.2
Total adjustments to profit before tax for the financial year	2.2
Restated profit before tax	**44.5**

Members' balance	Jan 2014 $m	Dec 2014 $m
UK GAAP – as previously reported	52.5	53.1
Monetising UPR & DAC (Note A)	(0.9)	1.3
Restated members' balances	**51.6**	**54.4**

18 Adoption of new accounting standard *continued*

A. Monetary items

During the year, the syndicate has made an amendment to its foreign exchange accounting policy to ensure compliance with FRS 102 Section 30 'Foreign Currency Translation' and amendment to the treatment of insurance assets and liabilities included in FRS 103, section 2.26 with respect to treating all insurance assets and liabilities (including DAC and UPR) as monetary items. In accordance with FRS 102 section 3.12, the applicable comparative figures in the primary statements and notes have been restated to reflect the uniform application of the new policy outlined above. These foreign exchange movements are expected to go through the profit or loss account.

FRS 102 also impacted the disclosure requirements for the financial statements and the main impact of these new disclosure requirements include expanded risk management disclosures, loss development tables and a change in the basis of preparation of the cash flow.

2013 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) and Financial Reporting Standard 102 (FRS 102).

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 2013 year of account which has been closed by reinsurance to close at 31 December 2015; consequently the balance sheet represents the assets and liabilities of the 2013 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 47 of the syndicate annual accounts.

Disclosure of information to the auditor

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

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

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

10 March 2016

Independent auditor's report to the members of syndicate 623

2013 closed year of account

We have audited the syndicate underwriting year accounts for the 2013 year of account of syndicate 623 for the three years ended 31 December 2015, as set out on pages 53 to 58. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 and 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 51, the managing agent is responsible for the preparation of the syndicate's underwriting year accounts and for being satisfied that they 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 law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

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

Opinion on syndicate underwriting year accounts

In our opinion the syndicate underwriting year accounts:
- give a true and fair view of the profit for the 2013 closed year of account;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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:
- adequate accounting records have not been kept; 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.

Elizabeth Cox (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
E14 5GL
London

10 March 2016

Profit or loss account

for the 36 months ended 31 December 2015

	Notes	2013 year of account $m
Gross premiums written	2	366.5
Outward reinsurance premiums		(62.3)
Earned premiums, net of reinsurance	2	**304.2**
Allocated investment return transferred from the non-technical account		7.6
Reinsurance to close premiums received, net of reinsurance	3	327.2
		334.8
Gross claims paid		(174.9)
Reinsurers' share		27.8
Claims incurred, net of reinsurance		**(147.1)**
Reinsurance to close premiums payable, net of reinsurance	4	(327.5)
		(474.6)
Net operating expenses	6	(119.5)
Balance on the technical account	2	**44.9**
Investment income		9.0
Investment expenses and charges	7	(1.4)
		7.6
Allocated investment return transferred to the technical account		(7.6)
Gain on foreign exchange		**0.5**
Other charges		(8.6)
Profit for the 2013 closed year of account	5	**36.8**
Syndicate allocated capacity (£m)		224.7
Profit for the 2013 closed year of account (£m)		24.4
Return on capacity		10.8%

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 2015

	Notes	2013 year of account $m
Assets		
Financial assets at fair value	8	346.5
Debtors	9	44.2
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	4	114.1
Prepayments and accrued income		**1.1**
Cash at bank and in hand		29.2
Total assets		**535.1**
Liabilities		
Amounts due to members	10	36.8
Reinsurance to close premium payable to close the account – gross amount	4	431.9
Creditors	11	66.4
Total liabilities		**535.1**

The underwriting year accounts on pages 53 to 58 were approved by the board of directors on 10 March 2016 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 2015

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 including Financial Reporting Standard 102 (FRS 102).

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.

Notes to the syndicate underwriting year accounts continued
closed at 31 December 2015

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 2015 are euro 0.80, sterling 0.63 and Canadian dollar 1.13.

2 Segmental analysis

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

2013 year of account	Marine $m	Political risks and contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Unallocated $m	Total $m
Gross premiums written	70.5	27.2	76.2	47.9	144.7	–	366.5
Outward reinsurance premiums	(7.1)	(4.5)	(14.6)	(11.9)	(24.2)	–	(62.3)
Net earned premiums	63.4	22.7	61.6	36.0	120.5	–	304.2
Net claims	(27.3)	(6.8)	(25.9)	(14.2)	(73.2)	–	(147.4)
Operating expenses	(24.2)	(11.2)	(27.7)	(12.3)	(44.1)	–	(119.5)
Technical result before investment income	11.9	4.7	8.0	9.5	3.2	–	37.3
Investment income	–	–	–	–	–	7.6	7.6
Balance on technical account	**11.9**	**4.7**	**8.0**	**9.5**	**3.2**	**7.6**	**44.9**
Claims ratio	43%	30%	42%	40%	61%		49%
Expense ratio	38%	49%	45%	34%	36%		39%
Combined ratio	81%	79%	87%	74%	97%		88%

The above teams are classified in Schedule 3 of the Companies Act 2006 as:
- Marine – marine, aviation and transport
- Political risks and contingency – pecuniary loss
- Property – fire and other damage to property
- Reinsurance – reinsurance
- Specialty lines – third party liability

All business was underwritten in the UK.

3 Reinsurance to close premiums received

	2013 year of account $m
Gross reinsurance to close premiums received	445.9
Reinsurance recoveries anticipated	(118.7)
Reinsurance to close premiums received, from 2012 and earlier, net of reinsurance	**327.2**

4 Reinsurance to close premiums payable

	2013 year of account $m
Gross reinsurance to close premiums payable	440.0
Reinsurance recoveries anticipated	(112.5)
Foreign exchange	(9.7)
Reinsurance to close premiums payable to 2014, net of reinsurance	**317.8**

	Reported $m	IBNR $m	Total $m
Reinsurance to close premium payable	149.4	282.5	431.9
Reinsurance recoveries anticipated	(37.9)	(76.2)	(114.1)
Reinsurance to close premiums payable, net of reinsurance	**111.5**	**206.3**	**317.8**

5 Analysis of the 2013 year of account result

	2013 year of account $m
Amount attributable to business allocated to the 2013 year of account	16.2
Surplus on the reinsurance to close for the 2012 year of account	20.6
	36.8

6 Net operating expenses

	2013 year of account $m
Acquisition costs	87.1
Members' standard personal expenses	17.2
Administrative expenses	15.2
	119.5

Administrative expenses include:

Audit services	0.1

7 Investment expenses and charges

	2013 year of account $m
Investment management expenses	1.4
	1.4

Notes to the syndicate underwriting year accounts continued
closed at 31 December 2015

8 Financial assets

Financial assets at fair value	2013 year of account $m
Fixed and floating debt securities	300.2
Equity linked funds	12.0
Hedge funds	34.2
Rights under derivative contracts	0.1
	346.5

9 Debtors

	2013 year of account $m
Net amounts due from other related entities	23.5
Other debtors, including taxation	20.7
	44.2

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

10 Amounts due to members

	2013 year of account $m
Profit for the 2013 closed year of account	36.8
Transfers to members' personal reserve funds in 2014 and 2015	–
Amounts due to members at 31 December 2015	**36.8**

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

11 Creditors

	2013 year of account $m
Profit commission payable	8.6
Net amounts due to other related entities	45.1
Other creditors	12.7
	66.4

The above balances are payable within one year.

12 Related party transactions

Please refer to page 47 for further details of related party transactions for the 2013 year of account.

Seven-year summary of closed year results

at 31 December 2015

	2013	2012	2011	2010	2009	2008	2007
Syndicate allocated capacity – £'000	224,698	214,167	214,841	215,724	147,831	158,230	163,100
Syndicate allocated capacity – $'000	352,775	325,533	337,300	323,587	294,184	261,715	308,259
Capacity utilised	84%	84%	86%	88%	92%	87%	97%
Aggregate net premiums – $'000	234,093	204,582	223,392	216,294	194,730	224,784	243,005
Underwriting profit as a percentage of gross premiums	23.5%	31.3%	20.3%	14.2%	26.4%	21.3%	25.1%
Return on capacity	10.8%	13.6%	10.3%	6.1%	21.0%	13.4%	14.5%
Results for an illustrative £10,000 share	$	$	$	$	$	$	$
Gross premiums	13,189	13,092	12,805	13,021	21,326	17,631	18,324
	$	$	$	$	$	$	$
Net premiums	10,418	9,909	9,584	10,109	13,614	14,206	14,899
Reinsurance to close from an earlier account	14,561	16,181	16,422	15,920	22,059	18,377	15,256
Net claims	(6,545)	(6,199)	(7,215)	(7,093)	(7,510)	(7,613)	(6,630)
Reinsurance to close the year of account	(14,576)	(15,698)	(16,021)	(16,339)	(22,526)	(20,958)	(18,930)
Underwriting profit	3,858	4,193	2,770	2,597	5,637	4,012	4,595
Profit/(loss) on foreign exchange	22	(38)	(49)	(5)	128	95	246
Syndicate operating expenses	(1,984)	(1,923)	(756)	(1,485)	(2,167)	(1,745)	(1,713)
Balance on technical account	1,896	2,232	1,965	1,107	3,598	2,362	3,128
Gross investment return	337	528	310	311	546	398	597
Profit before personal expenses	2,233	2,760	2,275	1,418	4,144	2,760	3,725
Illustrative personal expenses							
Illustrative personal expenses	(214)	(188)	(220)	(222)	(187)	(264)	(395)
Managing agent's profit commission	(383)	(449)	(352)	(208)	(660)	(437)	(582)
Profit after illustrative profit commission and personal expenses ($)	1,636	2,123	1,703	988	3,297	2,059	2,748
Profit after illustrative profit commission and personal expenses (£)	1,083	1,360	1,026	606	2,100	1,338	1,454

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

Managing agent corporate information

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

Directors

D Holt* – Chairman
M R Bernacki (appointed – 24/04/2015)
G P Blunden*
M L Bride – Finance director
A P Cox
A Crawford-Ingle*
N H Furlonge*
J G Gray (resigned – 11/03/2015)
D A Horton – Chief executive officer
N P Maidment – Active underwriter
R A W Tolle*
C A Washbourn
K W Wilkins* (appointed – 02/03/2015)

* Non-executive director.

Company secretary

S A Coope

Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Managing agent's registered office

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60 Great Tower Street
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United Kingdom

Registered number

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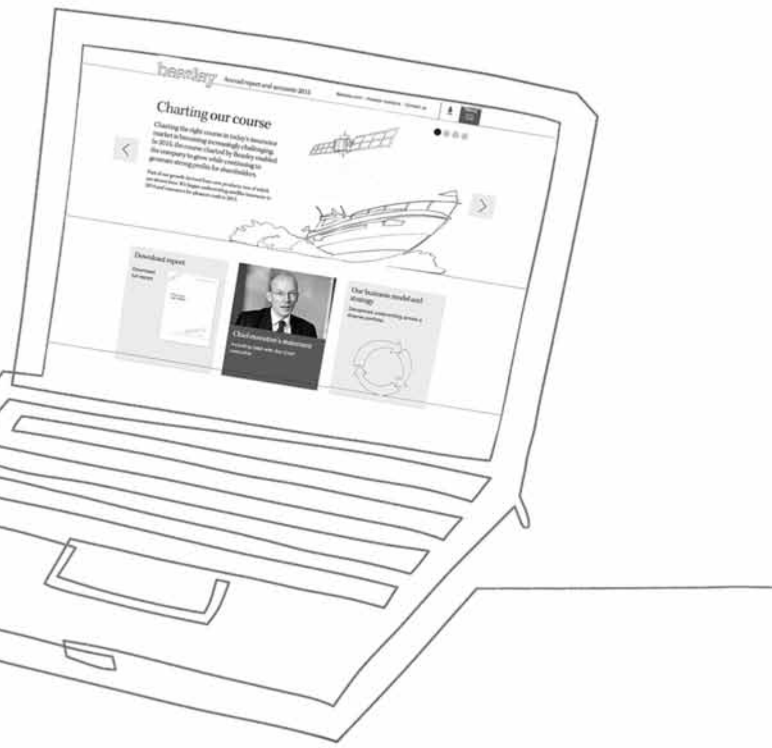

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