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SYNDICATE 2623

ANNUAL REPORT AND ACCOUNTS

YEAR ENDED
31 DECEMBER 2014

CONTENTS

SYNDICATE 2623
31 DECEMBER 2014

STRATEGIC REPORT OF THE MANAGING AGENT

Overview
Syndicate 2623 continued to write a range of specialised insurance at Lloyd's.

For 2014 total managed premium capacity for Beazley Furlonge Limited was £1,513.7m (2013: £1,408.1m), which includes £16.0m, £140.0m and £21.0m for 3622, 3623 and 6107 respectively. Syndicate 623 contributed £242.8m and syndicate 2623 contributed the remaining £1,093.9m. The result for syndicate 2623 for the year ended 31 December 2014 is a profit of $209.1m (2013: $338.4m).

Year of account results
The 2012 year of account declares a return on capacity of 17%. The 2013 year of account currently forecasts a return on capacity of 6%.

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

Combined Ratio
The combined ratio of an insurance entity is a common measure of its operating performance and represents the ratio of its total costs (excluding foreign exchange movements) to total premium income. The syndicate's combined ratio for 2014 was 87% (2013: 80%), driven largely by a decrease in the amount released from prior year reserves. Within the combined ratio, the claims ratio was 48% (2013: 43%) and the expense ratio was 39% (2013: 37%).

Claims
Overall, claims have developed favourably during 2014, with claims notifications at normalised levels. There has been minimal exposure to natural catastrophes throughout the year, with a small exposure to Hurricane Odile seen on the property and reinsurance books.

During 2014 we were able to release prior year reserves of $149.6m (2013: $215.7m). The reduction in reserve releases in 2014 compared to 2013 was driven by the exceptional releases seen in 2013 in the reinsurance and political risks and contingency divisions. These reserve releases are shown by division in the table below:

	2014 $m	**2013 $m**
Marine	40.2	47.3
Political risks and contingency	19.7	39.4
Property	36.8	33.7
Reinsurance	27.8	55.7
Specialty lines	25.1	39.6
Total	**149.6**	**215.7**
Releases as a percentage of net earned premium	10.7%	15.9%

Net operating expenses
Net operating expenses, including business acquisition costs and administrative expenses were $587.6m (2013: $478.0m). The breakdown of these costs is shown below:

	2014 $m	**2013 $m**
Brokerage costs	359.6	332.4
Other acquisition costs	46.5	46.0
Total acquisition costs	**406.1**	**378.4**
Administrative and other expenses	181.5	99.6
Net operating expenses*	**587.6**	**478.0**

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

STRATEGIC REPORT OF THE MANAGING AGENT (CONTINUED)

Brokerage costs are the premium commissions paid to insurance intermediaries for providing business. Brokerage costs as a percentage of net earned premium, are approximately 26% (2013: 24%). Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with accounting guidelines. Administrative expenses comprise primarily IT costs, facilities costs, Lloyd's central costs and other support costs (including foreign exchange gains and losses). In 2014, administrative expenses include foreign exchange losses of $44.1m (2013: gains of $27.9m).

Investment performance

Investment income for the year ended 31 December 2014 was $65.5m, or an annualised return of 2.4%, compared with $38.8m or 1.4% over the same period in 2013. In 2014 the portfolio benefited from falling yields in all regions where we have significant fixed rate exposure, i.e. the US, UK and especially in Europe – where yields fell to record low levels across the curve. Our credit investments also contributed positive performance, benefiting from the fall in yields, even though investment grade and high yield credit spreads widened during the course of the year. Our hedge funds with uncorrelated strategies were also a significant contributor to returns.

During the year our management of core fixed income assets transferred from Falcon Money Management to an in house team. This portfolio, comprising AAA/AA Government and Agency bonds, returned 1.6% in 2014, generating strong returns in Europe and positive results in the US and the UK as yields fell and curves flattened. The other element of the core portfolio, credit, is outsourced to four managers and generated a 1.4% return. The credit assets are predominantly investment grade, including a small allocation to investment grade emerging market corporates, but also include small exposures to high yield and senior secured loans. Cash assets, totalling 2.9% of the portfolio, generated a 0.1% return.

The remaining elements of the portfolio – equal to approximately 17.7% of the total – consist of funds with an equity component (2.5%); hedge funds with uncorrelated strategies (13.5%) and illiquid credit (1.7%). We continue to work with Falcon Money Management on this section of the portfolio where we have set a target allocation of being equally distributed between the three sub-strategies. The weighted average duration of our fixed income portfolio (including cash, government bonds and credit investments) at the end of 2014 was 1.9 years (2013: 1.9 years).

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

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

	31 Dec 2014		31 Dec 2013	
	$m	**%**	**$m**	**%**
Cash at bank and in hand	77.6	2.9	67.7	2.4
Fixed and floating rate debt securities				
– Government, quasi-government and supranational	839.8	31.0	978.8	35.1
– Corporate bonds				
– Investment grade credit	767.2	28.3	943.0	33.9
– High yield	80.1	3.0	-	-
– Syndicated bank loans	101.5	3.7	-	-
– Asset backed securities	361.8	13.4	354.5	12.7
Derivative financial assets	1.3	-	4.4	0.2
Core portfolio	**2,229.3**	**82.3**	**2,348.4**	**84.3**
Equity linked funds	67.5	2.5	38.5	1.4
Hedge funds (uncorrelated strategies)	367.0	13.5	390.5	14.0
Illiquid credit assets	45.9	1.7	6.8	0.3
Total capital growth assets	**480.4**	**17.7**	**435.8**	**15.7**
Total	**2,709.7**	**100.0**	**2,784.2**	**100.0**

Comparison of return by major asset class:

	31 Dec 2014		31 Dec 2013	
	$m	**%**	**$m**	**%**
Core portfolio	33.6	1.5	16.8	0.7
Capital growth assets	31.9	7.0	22.0	5.1
Overall return	**65.5**	**2.4**	**38.8**	**1.4**

STRATEGIC REPORT OF THE MANAGING AGENT (CONTINUED)

Reinsurance
In 2014, the amount spent on reinsurance was \$250.0m (2013: \$270.4m).

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

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

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

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

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

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

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

....
N P Maidment
Active underwriter

11 March 2015

SYNDICATE 2623
31 DECEMBER 2014

MANAGING AGENT'S REPORT

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

These 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.

Principal activities
The principal activities of syndicate 2623 are the transaction of a range of specialised insurance at Lloyd's.

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

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

2014 in review
Risk management frameworks continue to evolve across the insurance industry. Although implementation varies according to level of sophistication and complexity, the fundamental purpose is identical; to ensure that a business is well run.

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

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

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

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

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

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

MANAGING AGENT'S REPORT (CONTINUED)

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

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

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

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

Risk management strategy

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

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

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

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

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

Managing the cycle

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

MANAGING AGENT'S REPORT (CONTINUED)

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

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

Catastrophe risk

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

Catastrophe risk is managed through:

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

Market risk

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

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

Liquidity risk

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

Credit risk

Credit risk arises from the failure of another party to perform its financial or contractual obligations for 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 and cash equivalents.

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

MANAGING AGENT'S REPORT (CONTINUED)

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

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

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

Directors
A list of directors of the managing agent who held office during the year and to the date of this report can be found on page 42.

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

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

By order of the board

M L Bride
Finance director

11 March 2015

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

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

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

In preparing the syndicate annual accounts, the 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

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M L Bride
Finance director

11 March 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 2623

We have audited the syndicate 2623 annual accounts for the year ended 31 December 2014, as set out on pages 12 to 41. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the member of the syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's member as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the statement of managing agent's responsibilities set out on page 10, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

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

Opinion on syndicate annual accounts

In our opinion the annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 require us to report to you if, in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

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

11 March 2015

SYNDICATE 2623
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 DECEMBER 2014

	Notes	2014 $m	2013 $m
Gross premiums written	3	1,702.7	1,704.5
Outward reinsurance premiums		(250.0)	(270.4)
Net premiums written	3	1,452.7	1,434.1
Change in the gross provision for unearned premiums	15	(42.6)	(59.3)
Change in the provision for unearned premiums, reinsurers' share	15	(6.5)	(14.2)
Change in the net provision for unearned premiums		(49.1)	(73.5)
Earned premiums, net of reinsurance		1,403.6	1,360.6
Allocated investment return transferred from the non-technical account	9	65.5	38.8
Gross claims paid		(791.0)	(774.1)
Reinsurers' share of claims paid		168.0	138.5
Claims paid net of reinsurance		(623.0)	(635.6)
Change in the gross provision for claims	15	54.6	56.2
Change in the provision for claims, reinsurers' share	15	(105.2)	(3.9)
Change in the net provision for claims		(50.6)	52.3
Claims incurred, net of reinsurance		(673.6)	(583.3)
Net operating expenses	4	(587.6)	(478.0)
Balance on the technical account		207.9	338.1
Investment income	9	45.4	47.0
Investment expenses and charges	9	(6.2)	(7.8)
Realised losses on investments	9	(9.3)	(7.1)
Unrealised gains on investments	9	35.6	6.7
		65.5	38.8
Allocated investment return transferred to general business technical account		(65.5)	(38.8)
Other income	8	1.2	0.3
Profit for the financial year		209.1	338.4

All of the above operations are continuing.

SYNDICATE 2623
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
YEAR ENDED 31 DECEMBER 2014

	2014 $m	2013 $m
Profit for the financial year	209.1	338.4
Foreign exchange gain/(loss) on brought forward reserves	5.1	(1.2)
Total recognised gains and losses since last annual report	214.2	337.2

SYNDICATE 2623
BALANCE SHEET
31 DECEMBER 2014

ASSETS	Notes	2014 $m	2013 $m
Financial assets at fair value	10	2,632.1	2,716.5
Reinsurers' share of technical provisions			
Provision for unearned premiums, reinsurers' share	15	116.0	122.5
Claims outstanding, reinsurers' share	15	742.3	858.3
		858.3	980.8
Debtors			
Debtors arising out of direct insurance operations		481.8	491.8
Debtors arising out of reinsurance operations		78.9	74.3
Other debtors	12	66.9	117.7
		627.6	683.8
Cash at bank and in hand	13	77.6	67.7
Prepayments and accrued income			
Deferred acquisition costs		203.0	183.4
Other prepayments and accrued income		6.0	-
		209.0	183.4
TOTAL ASSETS		4,404.6	4,632.2
LIABILITIES, CAPITAL AND RESERVES			
Capital and reserves			
Member's balances attributable to underwriting participations	14	294.9	404.3
Technical provisions			
Provision for unearned premiums	15	816.8	774.2
Claims outstanding	15	3,116.7	3,238.5
		3,933.5	4,012.7
Creditors			
Creditors arising out of direct insurance operations		122.1	130.5
Creditors arising out of reinsurance operations		25.6	25.1
Other creditors	16	28.0	19.7
		175.7	175.3
Financial liabilities	10	0.5	1.8
Accruals and deferred income		-	38.1
TOTAL LIABILITIES, CAPITAL AND RESERVES		4,404.6	4,632.2

The syndicate annual accounts on pages 12 to 41 were approved by the board of Beazley Furlonge Limited on 11 March 2015 and were signed on its behalf by

....
N P Maidment (Active underwriter)

....
M L Bride (Finance director)

SYNDICATE 2623
CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2014

	Notes	2014 $m	2013 $m
RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH INFLOW FROM OPERATING ACTIVITIES			
Profit for the financial year		209.1	338.4
Change to market value and currencies on investments		101.8	(43.0)
Increase in net technical provisions		43.3	35.9
Decrease in debtors		30.6	3.1
(Decrease) in creditors		(37.7)	(160.3)
Net cash inflow from operating activities		347.1	174.1
Transfer to member in respect of underwriting participations		(323.6)	(152.2)
Translation differences		5.1	(1.2)
	17	28.6	20.7

Cash flows were invested as follows:

	Notes	2014 $m	2013 $m
Increase/(decrease) in cash holdings		13.8	(14.2)
Increase in financial assets		14.8	34.9
Net investment of cash flows	17	28.6	20.7

1. Accounting policies

Basis of preparation

These syndicate annual accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") and applicable Accounting Standards in the United Kingdom. They comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2006 ("the ABI SORP").

The principal accounting policies applied in the preparation of these financial statements are set out below. The policies have been consistently applied to all periods presented, unless otherwise stated. All amounts presented are stated in dollars, being the syndicate's functional currency and in millions, unless noted otherwise.

Use of estimates and judgements

The preparation of financial statements 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 financial statements are described in this statement of accounting policies and specifically in note 10 (financial assets and liabilities).

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 31 December 2014 is included within claims outstanding in the balance sheet.

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

(a) Premiums

Gross premiums written comprise premiums on contracts incepted during the financial year. 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.

1. Accounting policies (continued)

(c) Claims (continued)

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

(d) Acquisition costs

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

(e) Foreign currencies

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

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

(f) Investments

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

(g) Investment return

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

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

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

(h) Ceded reinsurance

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

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

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

1. Accounting policies (continued)

(i) Financial instruments

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

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

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

Financial assets

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

Financial assets at fair value through income statement

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

Fair value measurement

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in the profit and loss account 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.

1. Accounting policies (continued)

(i) Financial instruments (continued)

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

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

Hedge funds

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

Insurance debtors and creditors

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

Other debtors

Other debtors principally consist of intercompany debtor balances 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.

(j) Investment income

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

(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.

1. Accounting policies (continued)

(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 assets carrying amount and the value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in the profit and loss.

(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.

(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) Related party transactions

As the syndicate is wholly owned by Beazley plc ("the group"), the syndicate has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with other wholly owned entities forming part of the group.

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 syndicate's underwriting strategy, and set out the classes of business, the territories and the industry sectors in which business is to be written. These plans are approved by the board of Beazley Furlonge Limited and monitored by the 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.
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.

2. Risk management (continued)

To manage underwriting exposures, the syndicate has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry. In 2014, the normal maximum line that any one underwriter could commit the managed syndicate to was $82m. In most cases, maximum lines for classes of business were much lower than this.

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

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

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

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

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

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.

2. Risk management (continued)

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 debts in provisions.

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

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

2.2 Strategic risk

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

2.3 Market risk

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

Foreign exchange risk

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

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

In 2014, the syndicate managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting net assets to be predominately US dollar denominated. As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure across the syndicate. Details of all foreign currency derivative contracts entered into with external parties are disclosed in note 11. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk. The syndicate's assets are matched by currency to the principal underlying currencies of its insurance liabilities. This helps mitigate the risk that the syndicate's assets required to cover its insurance liabilities are not materially affected by any future movements in exchange rates.

2. Risk management (continued)

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

31 December 2014	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	421.7	117.2	280.3	819.2	3,585.4	4,404.6
Total liabilities	(58.7)	(114.2)	(240.6)	(413.5)	(3,696.2)	(4,109.7)
Net assets	**363.0**	**3.0**	**39.7**	**405.7**	**(110.8)**	**294.9**

31 December 2013	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	628.0	114.6	366.9	1,109.5	3,522.7	4,632.2
Total liabilities	(516.0)	(117.2)	(339.2)	(972.4)	(3,255.5)	(4,227.9)
Net assets	**112.0**	**(2.6)**	**27.7**	**137.1**	**267.2**	**404.3**

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

Change in exchange rate of UK sterling, Canadian dollar and euro relative to US dollar	**Impact on profit for the year ended**		**Impact on net assets**	
	2014 $m	**2013 $m**	**2014 $m**	**2013 $m**
Dollar weakens 30% against other currencies	104.1	34.7	104.1	34.7
Dollar weakens 20% against other currencies	69.4	23.1	69.4	23.1
Dollar weakens 10% against other currencies	34.7	11.6	34.7	11.6
Dollar strengthens 10% against other currencies	(34.7)	(11.6)	(34.7)	(11.6)
Dollar strengthens 20% against other currencies	(69.4)	(23.1)	(69.4)	(23.1)
Dollar strengthens 30% against other currencies	(104.1)	(34.7)	(104.1)	(34.7)

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

The syndicate manages interest rate risk by primarily investing in short duration financial investments and cash and cash equivalents. 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 fixed income portfolios.

2. Risk management (continued)

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

Duration

31 December 2014

	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	999.8	443.2	305.9	134.0	159.8	107.7	-	2,150.4
Derivative financial instruments	0.8	-	-	-	-	-	-	0.8
Cash at bank and in hand	77.6	-	-	-	-	-	-	77.6
Total	**1,078.2**	**443.2**	**305.9**	**134.0**	**159.8**	**107.7**	**-**	**2,228.8**

31 December 2013

	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	894.0	546.3	372.9	304.3	122.7	34.7	1.4	2,276.3
Derivative financial instruments	2.6	-	-	-	-	-	-	2.6
Cash at bank and in hand	67.7	-	-	-	-	-	-	67.7
Total	**964.3**	**546.3**	**372.9**	**304.3**	**122.7**	**34.7**	**1.4**	**2,346.6**

Sensitivity analysis

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

Shift in yield (basis points)	**Impact on profit for the year** 2014 $m	2013 $m	**Impact on net assets** 2014 $m	2013 $m
150 basis point increase	(63.6)	(61.0)	(63.6)	(61.0)
100 basis point increase	(42.4)	(40.7)	(42.4)	(40.7)
50 basis point increase	(21.2)	(20.3)	(21.2)	(20.3)
50 basis point decrease	21.2	20.3	21.2	20.3
100 basis point decrease	42.4	40.7	42.4	40.7

2. Risk management (continued)

Price risk

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

Financial assets include fixed and floating debt securities, hedge funds, illiquid credit assets, 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 syndicate's hedge fund investments, illiquid credit assets and equity linked funds is presented below. The investment committee has established comprehensive guidelines with investment managers setting out maximum investment limits, diversification across industries and concentrations in any one industry or company.

Listed investments are recognised on the balance sheet at quoted bid price. If the market for the investment is not considered to be active, then the syndicate establishes fair value using valuation techniques. 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		**Impact on net assets**	
Change in fair value of hedge funds, equity linked funds and illiquid credit asset	**2014 $m**	**2013 $m**	**2014 $m**	**2013 $m**
30% increase in fair value	144.1	130.7	144.1	130.7
20% increase in fair value	96.1	87.2	96.1	87.2
10% increase in fair value	48.0	43.6	48.0	43.6
10% decrease in fair value	(48.0)	(43.6)	(48.0)	(43.6)
20% decrease in fair value	(96.1)	(87.2)	(96.1)	(87.2)
30% decrease in fair value	(144.1)	(130.7)	(144.1)	(130.7)

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 investment management, data entry and credit control. These service providers are selected against rigorous criteria and formal service level agreements are in place, and regularly monitored and reviewed.

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

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

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

- 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. Risk management (continued)

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.

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

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

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

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

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

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

31 December 2014	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
- fixed and floating rate debt securities	1,906.4	235.5	8.5	-	-	2,150.4
- equity linked funds	-	-	-	-	67.5	67.5
- hedge funds (uncorrelated strategies)	-	-	-	-	367.0	367.0
- illiquid credit assets	-	-	-	-	45.9	45.9
- derivative financial instruments	-	-	-	-	1.3	1.3
Insurance debtors	-	-	-	-	560.7	560.7
Reinsurers' share of technical provisions	854.3	-	-	-	4.0	858.3
Other debtors	66.9	-	-	-	-	66.9
Cash at bank and in hand	77.6	-	-	-	-	77.6
Total	**2,905.2**	**235.5**	**8.5**	**-**	**1,046.4**	**4,195.6**

2. Risk management (continued)

31 December 2013	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
- fixed and floating rate debt securities	2,066.6	209.7	-	-	-	2,276.3
- equity linked funds	-	-	-	-	38.5	38.5
- hedge funds (uncorrelated strategies)	-	-	-	-	390.5	390.5
- illiquid credit assets	-	-	-	-	6.8	6.8
- derivative financial instruments	-	-	-	-	4.4	4.4
Insurance debtors	-	-	-	-	566.1	566.1
Reinsurers' share of technical provisions	976.0	-	-	-	4.8	980.8
Other debtors	117.7	-	-	-	-	117.7
Cash at bank and in hand	67.7	-	-	-	-	67.7
Total	**3,228.0**	**209.7**	**-**	**-**	**1,011.1**	**4,448.8**

Based on all evidence available, debtors arising out of insurance operations and other debtors have not been impaired and no impairment provision has been recognised in respect of these assets. An analysis of the overall credit risk exposure indicates that the syndicate has reinsurance assets that are impaired at the reporting date. The total impairment provision made in respect of these assets at 31 December 2014 totals $13.3m (2013:$13.9m). No other financial assets held at year end were impaired.

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

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

31 December 2014	Up to 30 days past due $m	30 – 60 Days past due $m	60 – 90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance debtors	27.0	8.1	5.2	12.6	52.9
Reinsurance assets	1.8	8.2	0.3	4.1	14.4

31 December 2013	Up to 30 days past due $m	30 – 60 Days past due $m	60 – 90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance debtors	21.8	6.8	4.3	9.3	42.2
Reinsurance assets	4.4	2.1	1.9	4.2	12.6

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. Risk management (continued)

2.7 Liquidity risk

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

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

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

31 December 2014	***Within 1 year***	**2-3 years**	**4-5 years**	**Greater than 5 years**	**Total**	**Weighted average term to settlement (years)**
Marine	103.0	86.1	33.1	17.6	239.8	1.9
Political risks & contingency	49.8	28.2	10.5	3.5	92.0	1.5
Property	126.1	72.7	20.0	12.5	231.3	1.6
Reinsurance	95.3	62.0	16.8	11.2	185.3	1.7
Specialty lines	427.2	609.7	317.8	271.3	1,626.0	2.9
Net insurance liabilities	**801.4**	**858.7**	**398.2**	**316.1**	**2,374.4**	

31 December 2013	***Within 1 year***	**2-3 years**	**4-5 years**	**Greater than 5 years**	**Total**	**Weighted average term to settlement (years)**
Marine	108.8	87.2	29.2	16.6	241.8	1.8
Political risks & contingency	45.4	34.5	8.5	3.5	91.9	1.5
Property	135.2	87.5	18.0	10.0	250.7	1.5
Reinsurance	102.7	75.1	16.8	9.4	204.0	1.6
Specialty lines	400.8	568.7	328.2	294.1	1,591.8	3.0
Net insurance liabilities	**792.9**	**853.0**	**400.7**	**333.6**	**2,380.2**	

2. Risk management (continued)

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

Maturity

31 December 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	488.6	480.3	376.9	224.6	158.3	421.7	-	2,150.4
Derivative financial instruments	0.8	-	-	-	-	-	-	0.8
Cash at bank and in hand	77.6	-	-	-	-	-	-	77.6
Other debtors	66.9	-	-	-	-	-	-	66.9
Other creditors	(28.0)	-	-	-	-	-	-	(28.0)
Total	**605.9**	**480.3**	**376.9**	**224.6**	**158.3**	**421.7**	**-**	**2,267.7**

31 December 2013

	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	530.5	399.5	450.3	345.8	244.8	304.0	1.4	2,276.3
Derivative financial instruments	2.6	-	-	-	-	-	-	2.6
Cash at bank and in hand	67.7	-	-	-	-	-	-	67.7
Other debtors	117.7	-	-	-	-	-	-	117.7
Other creditors	(19.7)	-	-	-	-	-	-	(19.7)
Total	**698.8**	**399.5**	**450.3**	**345.8**	**244.8**	**304.0**	**1.4**	**2,444.6**

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.

SYNDICATE 2623
NOTES TO THE SYNDICATE ANNUAL ACCOUNTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2014

3. Segmental analysis

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

2014	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Un-allocated $m	Total $m
Gross premiums written	324.7	120.1	339.9	200.8	717.2	-	1,702.7
Net premiums written	289.5	98.8	295.1	153.8	615.5	-	1,452.7
Gross earned premiums	316.6	117.5	338.7	206.8	683.0	(2.5)	1,660.1
Outward reinsurance premiums earned	(34.2)	(22.1)	(52.1)	(46.3)	(102.0)	0.2	(256.5)
Earned premiums, net of reinsurance	282.4	95.4	286.6	160.5	581.0	(2.3)	1,403.6
Gross claims	(110.5)	(25.0)	(108.6)	(67.6)	(424.6)	(0.1)	(736.4)
Reinsurers share	3.9	0.5	(10.8)	7.6	61.4	0.2	62.8
Claims incurred, net of reinsurance	(106.6)	(24.5)	(119.4)	(60.0)	(363.2)	0.1	(673.6)
Operating expenses before foreign exchange	(114.8)	(47.7)	(122.5)	(51.1)	(207.4)	-	(543.5)
Technical result before items below	61.0	23.2	44.7	49.4	10.4	(2.2)	186.5
Loss on foreign exchange	-	-	-	-	-	(44.1)	(44.1)
Other income	-	-	-	-	-	1.2	1.2
Net Investment income	-	-	-	-	-	65.5	65.5
Profit for the financial year	61.0	23.2	44.7	49.4	10.4	20.4	209.1
Claims ratio	38%	26%	41%	37%	62%	-	48%
Expense ratio	40%	50%	43%	32%	36%	-	39%
Combined ratio	78%	76%	84%	69%	98%	-	87%

3. Segmental analysis (continued)

2013	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Un-allocated $m	Total $m
Gross premiums written	314.6	130.2	366.5	221.6	671.6	-	1,704.5
Net premiums written	281.0	109.5	306.1	171.5	566.0	-	1,434.1
Gross earned premiums	295.0	116.8	364.5	213.8	656.0	(0.9)	1,645.2
Outward reinsurance premiums earned	(31.5)	(18.9)	(65.8)	(48.4)	(120.2)	0.2	(284.6)
Earned premiums, net of reinsurance	263.5	97.9	298.7	165.4	535.8	(0.7)	1,360.6
Gross claims	(88.6)	(0.7)	(133.6)	(41.2)	(453.8)	-	(717.9)
Reinsurers share	0.6	(3.6)	12.1	11.8	113.7	-	134.6
Claims incurred, net of reinsurance	(88.0)	(4.3)	(121.5)	(29.4)	(340.1)	-	(583.3)
Operating expenses before foreign exchange	(100.5)	(42.8)	(122.3)	(52.0)	(187.7)	(0.6)	(505.9)
Technical result before items below	75.0	50.8	54.9	84.0	8.0	(1.3)	271.4
Profit on foreign exchange	-	-	-	-	-	27.9	27.9
Other income	-	-	-	-	-	0.3	0.3
Net Investment income	-	-	-	-	-	38.8	38.8
Profit for the financial year	75.0	50.8	54.9	84.0	8.0	65.7	338.4
Claims ratio	33%	4%	41%	18%	63%	-	43%
Expense ratio	38%	44%	41%	31%	35%	-	37%
Combined ratio	71%	48%	82%	49%	98%	-	80%

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

3. Segmental analysis (continued)

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

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

All business was underwritten in the UK.

4. Net operating expenses

	2014 $m	2013 $m
Acquisition costs	422.8	398.8
Change in deferred acquisition costs	(16.7)	(20.4)
Member's standard personal expenses	23.4	23.0
Administrative expenses	134.0	125.5
Overriding commission	(20.0)	(21.0)
Loss/(profit) on foreign exchange	44.1	(27.9)
	587.6	478.0

Administrative expenses include:

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

Managing agent fees paid to Beazley Furlonge Limited in respect of services provided to the syndicate amounted to $10.6m (2013:$9.6m).

5. Staff costs

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

	2014 $m	2013 $m
Wages and salaries	53.7	47.1
Short-term incentive payments	37.0	37.4
Social security costs	11.7	6.6
Pension costs	7.6	8.1
	110.0	99.2

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 2623 and included within net operating expenses:

	2014 $m	2013 $m
Emoluments and fees	16.4	11.8
Contributions to defined contribution schemes	0.3	0.3
	16.7	12.1

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 2623 was $3.1m (2013: $2.4m).

8. Other income

	2014 $m	2013 $m
Profit commissions from syndicate 6107	1.2	0.3

9. Net investment income

	2014 $m	2013 $m
Interest and dividends on financial investments at fair value through profit or loss	45.2	46.8
Interest on cash and cash equivalents	0.2	0.2
Realised losses on financial investments at fair value through profit or loss	(9.3)	(7.1)
Net unrealised fair value gains on financial investments at fair value through profit or loss	35.6	6.7
Investment income from financial investments	71.7	46.6
Investment management expenses	(6.2)	(7.8)
Total net investment income	65.5	38.8

10. Financial assets and liabilities

	Market value		Cost	
Financial assets at fair value	**2014 $m**	**2013 $m**	**2014 $m**	**2013 $m**
Fixed and floating rate debt securities:				
- Government issued	380.1	442.0	373.6	438.9
- Quasi-government	253.6	348.4	249.2	346.4
- Supranational	206.1	188.4	202.4	186.8
- Corporate bonds				
- Investment grade credit	767.2	943.0	754.0	935.6
- High yield	80.1	-	78.7	-
- Syndicated bank loans	101.5	-	99.8	-
- Asset backed securities	361.8	354.5	355.5	351.7
Total fixed and floating debt securities	2,150.4	2,276.3	2,113.2	2,259.4
Equity linked funds	67.5	38.5	67.5	38.5
Hedge funds (uncorrelated strategies)	367.0	390.5	338.6	368.8
Illiquid credit assets	45.9	6.8	45.9	6.8
Total capital growth	480.4	435.8	452.0	413.9
Total financial investments at fair value through profit or loss	2,630.8	2,712.1	2,565.2	2,673.3
Derivative financial instruments	1.3	4.4	1.3	4.4
Total financial asset at fair value	**2,632.1**	**2,716.5**	**2,566.5**	**2,677.7**
Financial liabilities				
Derivative financial instruments	0.5	1.8	0.5	1.8

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

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

Fair value measurement

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

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

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

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

10. Financial assets and liabilities (continued)

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 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, based on the level in the fair value hierarchy into which the financial instrument is categorised:

2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value	**$m**	**$m**	**$m**	**$m**
Fixed and floating rate debt securities:				
- Government issued	361.6	18.5	-	380.1
- Quasi-government	182.2	71.4	-	253.6
- Supranational	163.0	43.1	-	206.1
- Corporate bonds				
- Investment grade credit	8.8	758.4	-	767.2
- High yield	-	80.1	-	80.1
- Syndicated bank loans	-	101.5	-	101.5
- Asset backed securities	-	361.8	-	361.8
Equity linked funds	-	67.5	-	67.5
Hedge funds (uncorrelated strategies)	-	367.0	-	367.0
Illiquid credit assets	-	7.9	38.0	45.9
Derivative financial instruments	1.3	-	-	1.3
Total financial assets at fair value	**716.9**	**1,877.2**	**38.0**	**2,632.1**
Financial liabilities				
Derivative financial instruments	**0.5**	-	-	**0.5**

10. Financial assets and liabilities (continued)

2013 **Financial assets at fair value**	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Fixed and floating rate debt securities:				
- Government issued	414.5	27.5	-	442.0
- Quasi-government	214.5	133.9	-	348.4
- Supranational	188.4	-	-	188.4
- Corporate bonds				
- Investment grade credit	-	943.0	-	943.0
- High yield	-	-	-	-
- Syndicated bank loans	-	-	-	-
- Asset backed securities	-	354.5	-	354.5
Equity linked funds	-	38.5	-	38.5
Hedge funds (uncorrelated strategies)	-	390.5	-	390.5
Illiquid credit assets	-	6.8	-	6.8
Derivative financial instruments	4.4	-	-	4.4
Total financial assets at fair value	**821.8**	**1,894.7**	**-**	**2,716.5**
Financial liabilities				
Derivative financial instruments	**1.8**	**-**	**-**	**1.8**

The table below shows the movement in level 3 assets:

	2014 $m	2013 $m
As at 1 January	-	-
Purchases	38.0	-
Total net gains/(losses) recognised in profit or loss	-	-
As at 31 December	**38.0**	**-**

There were no transfers in either direction between level 1, level 2 and level 3 in either 2013 or 2014.

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

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

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

11. Derivative financial instruments

In 2014 and 2013, the syndicate entered into over-the-counter and exchange traded derivative contracts. The syndicate had the right and the intention to settle each contract on a net basis.

Derivative financial instrument assets	Gross contract amount 2014 $m	Fair value of assets 2014 $m	Gross contract amount 2013 $m	Fair value of assets 2013 $m
Foreign exchange forward contracts	3.5	0.2	2.6	-
Bond future contracts	128.0	1.1	64.1	4.4
	131.5	**1.3**	**66.7**	**4.4**

Derivative financial instrument liabilities	Gross contract amount 2014 $m	Fair value of liabilities 2014 $m	Gross contract amount 2013 $m	Fair value of liabilities 2013 $m
Foreign exchange forward contracts	44.6	0.4	170.0	1.8
Bond future contracts	-	0.1	-	-
	44.6	**0.5**	**170.0**	**1.8**

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

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

12. Other debtors

	2014 $m	2013 $m
Net amount due from group undertakings	-	105.9
Amount due from syndicate 623	5.3	2.5
Amount due from syndicate 3623	48.0	-
Amount due from syndicate 3622	3.2	-
Sundry debtors including taxation	10.4	9.3
	66.9	117.7

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

13. Cash at bank and in hand

	2014 $m	2013 $m
Cash at bank and in hand	77.6	67.7

14. Reconciliation of member's balances

	2014 $m	2013 $m
Member's balances brought forward at 1 January	404.3	219.3
Profit for the financial year	209.1	338.4
Foreign exchange on brought forward reserves	5.1	(1.2)
Transfer to member in respect of underwriting participations	(323.6)	(152.2)
Member's balances carried forward at 31 December	**294.9**	**404.3**

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

15. Technical provisions

	Provision for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January 2014	774.2	3,238.5
Movement in the provision	42.6	(54.6)
Exchange adjustments	-	(67.2)
As at 31 December 2014	816.8	3,116.7
Reinsurers' share of technical provisions		
As at 1 January 2014	122.5	858.3
Movement in the provision	(6.5)	(105.2)
Exchange adjustments	-	(10.8)
As at 31 December 2014	116.0	742.3
Net technical provisions		
As at 1 January 2014	651.7	2,380.2
As at 31 December 2014	700.8	2,374.4

	Provision for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January 2013	715.0	3,277.3
Movement in the provision	59.3	(56.2)
Exchange adjustments	(0.1)	17.4
As at 31 December 2013	774.2	3,238.5
Reinsurers' share of technical provisions		
As at 1 January 2013	136.7	859.6
Movement in the provision	(14.2)	(3.9)
Exchange adjustments	-	2.6
As at 31 December 2013	122.5	858.3
Net technical provisions		
As at 1 January 2013	578.3	2,417.7
As at 31 December 2013	651.7	2,380.2

16. Other creditors

	2014 $m	2013 $m
Amount owing to group undertakings	6.9	-
Amount owing to syndicate 3623	-	1.8
Amount owing to syndicate 6107	21.1	15.5
Amount owing to syndicate 3622	-	2.4
Total creditors	28.0	19.7

The above balances are payable within one year.

17. Movement in opening and closing cash and investments net of financing

	2014 $m	2013 $m
Net cash (outflow)/inflow from the year	13.8	(14.2)
Cash flow – investments	14.8	34.9
Movement arising from cash flows	28.6	20.7
Changes in market value	(101.8)	43.0
Total movement in investments net of financing	(73.2)	63.7
Cash and investments as at 1 January	2,782.4	2,718.7
Cash and investments as at 31 December*	2,709.2	2,782.4

* Derivatives within cash and investment above is net of $0.5m liability (2013: $1.8m) as disclosed in note 11.

18. Movement in cash and financial assets at fair value

	At 1 January 2014 $m	Cash flow $m	Changes to market value and currencies $m	At 31 December 2014 $m
Cash at bank and in hand	67.7	13.8	(3.9)	77.6
Financial assets at fair value				
Fixed and floating debt securities	2,276.3	(22.4)	(103.5)	2,150.4
Capital growth assets	435.8	38.9	5.7	480.4
Derivative financial instruments*	2.6	(1.7)	(0.1)	0.8
Total cash and financial assets at fair value	2,782.4	28.6	(101.8)	2,709.2

* Derivatives within cash and investment above is net of $0.5m liability (2013: $1.8m) as disclosed in note 11.

19. Post balance sheet events

The following amounts are proposed to be transferred to member's personal reserve funds. The amounts proposed exclude member agent's fees.

	2014 $m	2013 $m
2011 Year of account	-	323.6
2012 Year of account	257.8	-
	257.8	**323.6**

SYNDICATE 2623
MANAGING AGENT CORPORATE INFORMATION
YEAR ENDED 31 DECEMBER 2014

Beazley Furlonge Limited has been the managing agent of syndicate 2623 throughout the period covered by this report and the registered office is Plantation Place South, 60 Great Tower Street, London EC3R 5AD.

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

* Non-executive director.

Company secretary
S A Coope

Auditor
KPMG LLP
15 Canada Square
London
E14 5GL

Managing agent's registered office
Plantation Place South
60 Great Tower Street
London
EC3R 5AD
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Registered number
01893407