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Beautifully designed insurance

Welcome to our Annual report 2016

At Beazley our emphasis on disciplined underwriting across a wide range of products and locations will remain the cornerstone of our underwriting strategy throughout the next 12 months and beyond.

Contents

Highlights

Syndicate capacity
£257.3m
(2015: £230.3m)

Gross premiums written
$400.9m
(2015: $379.8m)

Net premiums written
$332.7m
(2015: $307.5m)

Earned premiums, net of reinsurance
$315.8m
(2015: $308.1m)

Profit for the financial year
$52.0m
(2015: $46.5m)

Renewal rate decrease
2%
(2015: 3%)

Claims ratio
46%
(2015: 45%)

Expense ratio
40%
(2015: 39%)

Combined ratio
86%
(2015: 84%)

Cash and investments
$670.7m
(2015: $645.1m)

Annualised investment return
2%
(2015: 0.9%)

Strategic report of the managing agent

Overview

The syndicate has achieved a profit for the year of $52.0m (2015: $46.5m). Gross premiums written increased to $400.9m compared to prior year (2015: $379.8m).

The capacities of the managed syndicates are as follows:

	2016 £m	2015 £m
2623	1,141.9	1,019.5
623	**257.3**	**230.3**
3623	185.0	150.0
6107	28.6	28.6
3622	19.0	17.0
6050	12.9	12.0
Total	**1,644.7**	1,457.4

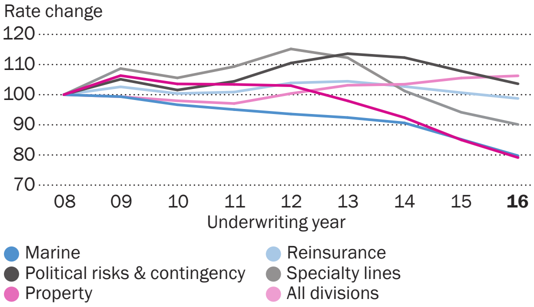
Year of account results

We are pleased to declare a return on capacity of 18.6% for the 2014 year of account. The 2015 year of account is developing in line with expectations and currently forecasts a return on capacity of 5%, while the 2016 underwriting year is developing well at this early stage.

Rating environment

Rates charged for renewal business reduced by 2% in 2016 across the portfolio (2015: decrease of 3%). Rates on renewals in our largest division, specialty lines, increased by 1% on average in 2016. All other divisions experienced falling rates on renewal business in 2016, with rates reducing by 4% in property, 6% in political risk & contingency, 7% in marine and 4% in reinsurance. An overview of the syndicate's performance by division is presented between pages 6 and 10.

Cumulative renewal rate changes since 2008 (%)



Combined ratio

The combined ratio of an insurance provider is a measure of its operating performance and represents the ratio of its total costs (including claims and expenses) to total net earned premium. A combined ratio under 100% indicates an underwriting profit. The syndicate's combined ratio has increased in 2016 to 86% (2015: 84%). The calculation of the combined ratio for the syndicate includes all claims and other costs of the syndicate but excludes foreign exchange gains or losses. We believe this represents the most transparent and useful measure of operating performance as it ensures that all of the costs of being in business are captured, whether directly linked to underwriting activity or not.

Claims

Overall, the claims environment has been favourable during 2016, with a relatively modest incidence of natural catastrophe claims notifications. The syndicate achieved a claims ratio consistent with 2015 at 46% (2015: 45%).

Prior year reserve releases

Beazley has a consistent reserving philosophy, with initial reserves being set to include risk margins that may be released over time as and when any uncertainty reduces. Historically these margins have given rise to held reserves within the range 5-10% above the actuarial estimates, which themselves include some margin for uncertainty. The margin held above the actuarial estimate was 6.6% at the end of 2016 (2015: 8.2%). This margin has remained stable over time and is a lead indicator for the sustainability of reserve releases. It is, however, important to recognise that claims reserve uncertainty is significant within Beazley and a positive lead indicator will not always equate to future releases.

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

During 2016, we have been able to release prior year reserves of $40.8m (2015: $40.3m). These reserve releases are shown by division in the table below:

	2016 $m	2015 $m
Marine	3.6	6.9
Political risks and contingency	4.4	4.0
Property	8.1	8.9
Reinsurance	7.1	10.0
Specialty lines	17.6	10.5
Total	**40.8**	**40.3**
Releases as a percentage of net earned premium	12.9%	13.1%

Net operating expenses

Net operating expenses, including business acquisition costs and administrative expenses increased from $119.9m to $126.8m in 2016. The breakdown of these costs is shown below:

	2016 $m	2015 $m
Brokerage costs	87.0	81.0
Other acquisition costs	9.5	10.2
Total acquisition costs	**96.5**	**91.2**
Administrative and other expenses	30.3	28.7
Net operating expenses[1]	**126.8**	**119.9**

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

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

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

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

The expense ratio for 2016 is 40% (2015: 39%).

Investment performance

Investment income for the year ended 31 December 2016 was $13.3m, an annualised return of 2.0%, compared with $6.0m and 0.9% over the same period in 2015.

Financial markets experienced another volatile year in 2016. Weak energy prices and concerns about fragile global growth led to significant declines in equity markets and wider credit spreads, particularly for high yield issuers, in January and February. Subsequently, these asset classes recovered their earlier losses and continued to improve throughout the year as easy global monetary policy, recovering energy prices and, latterly, hopes of a 'Trumpian' boost to economic growth, all helped investors regain confidence. Global equities returned 9.0%, in local currency terms, in 2016. High yield bonds also performed strongly as average credit spreads declined by more than 250 basis points over the year.

Returns on sovereign debt exposures have traced a very different path, with significant declines in yields in the first half amid pessimism about global growth, assisted by the result of the UK's EU referendum in June, leading to strong returns in the first part of the year. Subsequently, yields began to rise as the US approached full employment and US interest rates were expected to increase. This trend was quickly extended following the US election, as investors discounted higher growth and inflation in anticipation of President Trump's policies, causing the five-year US Treasury note yield to rise by more than 50 basis points in one week. As a result, US sovereign yields ended the year higher than they began, generating low, but positive, returns at most maturities.

Our fixed income portfolios, which constitute the majority of our investments, returned 1.6% overall in 2016, with returns on sovereign debt exposures augmented by the higher yields from our corporate credit investments and, in particular, strong returns from our high yield fixed income exposures. Our decision to reduce the duration of our fixed income investments immediately following the US election result has also helped performance. Our capital growth portfolios incorporate around 11% of our investments and utilise more volatile asset classes, aiming to generate additional returns in the longer term. In 2016 the capital growth portfolio returned 4.9%. Our overall investment return for the year ended 31 December 2016 was 2.0%, or $13.3m. We believe this to be a good outcome in a volatile period for investments.

At 31 December 2016, the weighted average duration of our fixed income investments was unusually low, at 1.2 years (2015: 1.8 years). Looking ahead to 2017, the investment outlook is once again uncertain. Recent increases in bond yields provide some hope that available returns may improve, but further market volatility is likely and we are prepared to take action to reduce the volatility of our investment returns, if appropriate.

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

	31 Dec 2016		31 Dec 2015	
	$m	%	$m	%
Cash at bank and in hand	41.2	6.2	50.9	7.9
Fixed and floating rate debt securities				
– Government, quasi-government and supranational	220.3	32.8	323.1	50.1
– Corporate bonds				
– Investment grade credit	311.8	46.5	174.2	27.0
– High yield	19.9	3.0	10.3	1.6
– Senior secured loans	–	–	4.5	0.7
– Asset backed securities	–	–	1.3	0.2
Derivative financial assets	3.3	0.5	0.1	–
Core portfolio	596.5	89.0	564.4	87.5
Equity linked funds	15.3	2.3	21.0	3.2
Hedge funds	58.9	8.7	59.7	9.3
Total capital growth assets	74.2	11.0	80.7	12.5
Total	**670.7**	**100.0**	**645.1**	**100.0**

Comparison of return by major asset class:

	31 Dec 2016		31 Dec 2015	
	$m	%	$m	%
Core portfolio	9.7	1.6	1.7	0.3
Capital growth assets	3.6	4.9	4.3	5.3
Overall return	**13.3**	**2.0**	**6.0**	**0.9**

Reinsurance

In 2016, the amount spent on outward reinsurance was $68.2m (2015: $72.3m).

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

Solvency II

The solvency II regime came into force on 1 January 2016. From Q1 2016 Beazley has provided quarterly solvency II pillar 3 reporting to Lloyd's for the syndicate. Our project to prepare for the pillar 3 reporting requirements is nearing completion and will remain in place until annual reporting for 31 December 2016 is complete. We believe we are well positioned to meet all the reporting requirements.

Solvency capital requirement

The syndicate is required to produce a Solvency Capital Requirement on an ultimate basis (SCRu) 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 consistency across the market.

On 10 December 2015 Beazley received internal model approval from the Central Bank of Ireland (the supervisor for Beazley plc 'the group' under Solvency II). The current SCRu has been established using our Solvency II approved internal model which has been run within the regime as prescribed by Lloyd's. In order to determine the capital assessment, we have made significant investment in both models and process:
- we use sophisticated mathematical models that reflect the key risks in the business allowing for probability of occurrence, impact if they do occur, and interaction between risk types. A key focus of these models is to understand the risk posed to individual teams, and to the business as a whole, of a possible deterioration in the underwriting cycle; and
- the internal model process is embedded so that teams can see the direct and objective link between underwriting decisions and the capital allocated to that team. This gives a consistent and comprehensive picture of the risk reward profile of the business and allows teams to focus on strategies that improve return on capital.

Outlook

Having benefitted from lower than expected claims notifications thus far, the 2015 underwriting year is developing well and is currently forecast to close with a return on capacity of 5.0%. The 2016 underwriting year is also developing favourably at this early stage.

The insurance market continues to be impacted by an oversupply of capital. This oversupply, particularly in short tail lines of business, has meant that 2016 has been another year where most trading divisions have found competitive pressures to be strong. We anticipate that the trading environment currently encountered will remain broadly unchanged throughout 2017.

As we move through 2017, we will continue to focus on maintaining a balanced underwriting approach. Our diverse portfolio gives us the ability to exercise discipline in areas where margins are under the most pressure, while simultaneously pushing forward in areas such as specialty lines where we see the best opportunities for profitable growth. This emphasis on disciplined underwriting across a wide range of products and locations will remain the cornerstone of our underwriting strategy throughout the next 12 months and beyond.

N P Maidment
Active underwriter

13 March 2017

Marine

	2016 $m	2015 $m
Gross premiums written	54.1	59.1
Net premiums written	48.3	52.5
Earned premiums, net of reinsurance	48.8	56.6
Claims incurred, net of reinsurance	(21.6)	(21.4)
Net operating expenses	(21.9)	(22.3)
Technical result	**5.3**	**12.9**
Claims ratio	44%	38%
Expense ratio	45%	39%
Combined ratio	89%	77%
Renewal rate change	(7%)	(8%)

Further steep declines in rates, particularly for marine and energy business, took a toll on the marine division's results in 2016, with reserve releases from previous years also down. We were nevertheless pleased to achieve a combined ratio of 89% (2015: 77%) on premiums of $54.1m (2015: $59.1m).

The division underwrites a mix of marine, energy, aviation and satellite business, benefiting from Lloyd's position as the leading global market for all these classes of business. We also underwrite a war risks account, which in recent years has primarily focused on piracy risks off the Horn of Africa. In recent years, we have significantly outperformed the average results for the marine market at Lloyd's.

Underwriting conditions in 2016 continued to be exceptionally challenging, with rates falling by 7% for the marine division and notably 13% for energy and 9% for aviation business.

Our focus in this environment is on underwriting discipline, as is well illustrated by the 53% reduction in our energy premiums since 2014, a market in which competitive pressures have been particularly strong. Brokers are well aware that we will walk away from risks that do not meet our profitability requirements: they also know that Beazley is an adaptable insurer that can commit swiftly to new and unusual risks that fall within our appetite. Speed is also of the essence in claims service and we strive to deliver the most responsive service in the market.

One specialist field in which we have played a role in recent years has been the insurance of subsea equipment such as remotely operated vehicles and seismic streamers for surveying the sea-bed. We have for many years supported Leviathan, a managing general agency that has specialised in these risks for more than two decades. In May we were delighted to announce the acquisition of Leviathan by Beazley plc and to welcome its seasoned underwriting team, led by Simon Edwards and Keith Broughton.

Our profile in the marine liability market has grown significantly since Phil Sandle joined us in 2013. The team, which provides a wide range of covers for shipowners, port authorities, freight forwarders, maritime industry financiers and others, had a banner year, growing premiums by 48% to $10.9m.

Our UK marine team, led by Steve Smyth, continued its strong performance in 2016. This business was a slow burn in its early years, as Steve and his team built strong broker relationships through four regional offices around the UK. In a competitive market environment, the team has been buoyed by both new business and high retention rate for existing accounts and has seen its share of total division premium rise from 3% in 2013 to 6% in 2016 with premium income increasing by 61% to $3.1m in that period.

Our investments in talent do not march in lockstep with market conditions – we hire capable underwriters and claims staff as the opportunity arises. In addition to the Leviathan team we were delighted to welcome Christophe Paulin to our aviation team in 2016.

Political risks and contingency

	2016 $m	2015 $m
Gross premiums written	25.4	26.2
Net premiums written	20.8	22.3
Earned premiums, net of reinsurance	21.9	22.6
Claims incurred, net of reinsurance	(6.2)	(6.2)
Net operating expenses	(10.1)	(10.6)
Technical result	**5.6**	**5.8**
Claims ratio	28%	27%
Expense ratio	46%	47%
Combined ratio	74%	74%
Renewal rate change	(6%)	(6%)

The political risks and contingency division performed well in 2016 in markets that continued to be quite competitive for both political and terrorism risks. At 74%, the division's combined ratio remained consistent compared to 2015's 74%, despite declining rates in both these business lines.

Our differentiators in markets that are awash with capacity are high service standards, strong broker relationships forged over a long period, and a willingness to innovate to offer new solutions to our clients and, thereby, incremental revenue streams to our brokers. All three of these differentiators stood us in good stead in 2016.

In addition to political risks and terrorism cover, the division includes one of the largest and most experienced contingency teams in the world, with a strong track record in insuring many of the largest international sports and entertainment events. We have leveraged this experience in recent years to write a steadily increasing volume of smaller event cancellation risks for trade shows and conference organisers among others.

Our contingency team, led by Chris Rackliffe, saw premium decrease in 2016 to $7.6m (2015: $8.2m). The team write mainly large risks out of London, and smaller business in the UK through our myBeazley e-trading platform. In July, the team expanded event cancellation insurance for the sports, entertainment and leisure industries to include riots, civil commotion, strikes, the threat of a terrorist act and other potential disruptions to live events.

Rates for terrorism insurance, the second of our major lines of business, continued their downward trajectory in 2016, despite ample evidence that the world is not becoming any safer. We have seen strong demand for cover in France, where we lead risks on behalf of a consortium of Lloyd's underwriters, but overall our terrorism book shrank during the course of the year as rates fell by 13%.

Competition for terrorism business was particularly strong in London during the course of 2016, while the market environment was slightly less competitive in other locations, such as Singapore and Dubai, where we have begun locating underwriters in recent years. We relocated one terrorism underwriter, Andrew Page, to Singapore in 2016 to access business we would not normally see in London and continue the growth of our terrorism business there.

At 39% of our portfolio, political risks insurance for perils such as confiscation, nationalisation and expropriation, and trade-related credit insurance continues to be our largest line of business. This team, under the leadership of Roddy Barnett, performed well during 2016, despite rates that fell by 4% on average.

Property

	2016 $m	2015 $m
Gross premiums written	71.8	77.5
Net premiums written	60.4	66.9
Earned premiums, net of reinsurance	62.1	65.5
Claims incurred, net of reinsurance	(25.4)	(25.2)
Net operating expenses	(28.1)	(28.9)
Technical result	**8.6**	**11.4**
Claims ratio	41%	39%
Expense ratio	45%	44%
Combined ratio	86%	83%
Renewal rate change	(4%)	(4%)

The property division delivered a strong result in 2016 given market conditions that were increasingly challenging for many lines of business, notably for large scale catastrophe exposed risks.

In addition to large scale commercial property business, the property division underwrites small and mid sized commercial property risks; construction and engineering risks; and homeowners risks. Our underwriters also specialise in jewellers' block, fine art and specie business. The property account as a whole has become steadily more diversified in recent years, enhancing the consistency of our underwriting returns.

Hurricane Matthew, which grazed the eastern seaboard of the US in October, did not rank as a market changing event in terms of the rating environment for any of our teams. It did however affect a number of our clients, both businesses and homeowners, in the south eastern US and we were pleased to be able to support them through the storm's aftermath.

A key single segment of our portfolio continues to be our small business unit, led by Paul Bromley, which underwrote $21.8m in 2016 (2015: $27.1m). We see greater residual profitability in this business – much of it sourced from Lloyd's coverholders with whom we have strong long term relationships – than in our large risk business. We have an ambition to enhance our attractiveness to small commercial clients and their brokers and we expect the small business unit to be a major beneficiary of this.

Our large risk construction business, which we underwrite through the Construction Consortium at Lloyd's in London and Singapore, performed well. The team expanded its product range in September, launching five new products that should enhance our ability to offer one-stop solutions for our broker partners and their construction clients across multiple industries.

We continued to take steps in 2016 to tap new geographic sources of business, including Latin America and the Asia Pacific region. In October we hired Santiago Jaramillo as construction and engineering focus group leader for Latin America, working out of our Miami office. We also made good progress during the course of the year in developing jewellers' block and other business in Brazil – as the insurer of around half of the jewellers in the UK, we have deep experience and very strong credentials in this line.

At the end of the year in London we welcomed two highly experienced Lloyd's underwriters, Mark Bosshard and Scott Sellick, to expand our fine art and specie underwriting capabilities. These lines of business are complementary to our jewellers' block business. Specie risks such as bank vault contents, private art collections and art dealers' inventory also require significant capacity and we will be offering a maximum line size of $18.0m in support of this business.

Looking ahead we see overcapacity continuing to depress rates for large scale property business. However with a portfolio that is increasingly diversified by geography, client size and type of risk, we have greater room for manoeuvre in protecting underwriting margins.

Reinsurance

	2016 $m	2015 $m
Gross premiums written	46.7	43.9
Net premiums written	30.9	29.0
Earned premiums, net of reinsurance	30.3	29.3
Claims incurred, net of reinsurance	(8.8)	(6.3)
Net operating expenses	(10.9)	(10.4)
Technical result	**10.6**	**12.6**
Claims ratio	29%	22%
Expense ratio	36%	35%
Combined ratio	65%	57%
Renewal rate change	(4%)	(7%)

The reinsurance division delivered another strong underwriting performance in 2016, achieving a combined ratio of 65% (2015: 57%) on premiums marginally higher than the previous year's at $46.7m (2015: $43.9m).

There is little doubt that reinsurance remains a buyer's market but it would appear that the sharp rate declines we have seen in recent years are now flattening out. Renewal rates fell 4% in 2016, but this compared with a rate decline of 7% in 2015 and 10% in 2014. We have seen demand for reinsurance edging up in a number of markets, including the US, which is the source of about half the division's premiums.

Our approach for several years now has been to continue to support our US cedents with reliable, flexible cover while steadily improving access to other markets around the world through local underwriters. We now underwrite European business out of Beazley offices in Munich and Paris (as well as in London); Asian business out of Singapore and through Lloyd's China in Shanghai; and Latin American business out of Miami.

Claims continued to be broadly subdued in 2016, despite the most active US hurricane season that we have seen since 2012. Hurricane Matthew, the largest of these storms, is now expected to cost the insurance industry between $2.5bn and $8.0bn, but that will not in itself have a material impact on premium rates. The impact of Hurricane Matthew on syndicate 623 was modest.

In terms of the supply of risk bearing capital, we have recently seen traditional reinsurers competing very effectively with the insurance linked securities (ILS) alternatives that, a few years ago, were widely expected to encroach far more deeply into our markets. Part of the reason for this is that the set-up costs for many of these vehicles have remained stubbornly high, exceeding the transaction costs of reinsurance. At Beazley we have continued to look for ways to improve the design of our products, including reinstatement terms, to address the challenge posed by both traditional and non traditional competitors.

We have, however, continued to see hedge funds, pension funds and other investors gain access to major reinsurance programmes through the provision of collateralised reinsurance – a market that we have ourselves tapped to help meet our needs for retrocession cover.

Looking ahead, we see the potential for a significant increase in demand for reinsurance cover in developed and less developed markets around the world if the administrators of state-backed insurance programmes seek to transfer some of their exposures to the private sector, as some have been considering doing. If this occurs, the new demand could go a long way towards absorbing the overcapacity that now impacts our market.

Specialty lines

	2016 $m	2015 $m
Gross premiums written	202.9	173.1
Net premiums written	172.3	136.8
Earned premiums, net of reinsurance	152.7	134.1
Claims incurred, net of reinsurance	(81.7)	(79.6)
Net operating expenses	(55.8)	(47.7)
Technical result	**15.2**	**6.8**
Claims ratio	53%	59%
Expense ratio	37%	36%
Combined ratio	90%	95%
Renewal rate change	1%	2%

Specialty lines continued to grow strongly in 2016, writing gross premiums of $202.9m (2015: $173.1m). The division is involved with the main professional and management liability business, underwritten for large, mid sized and small companies and professional services firms around the world. For the most part our underwriters focus on the larger and more complex risks, such as large hospitals, law firms and engineering firms.

We saw less competition for small and mid sized business in 2016 than for large risk business. Overall, we saw premium rates rise 1% for the division as a whole during the year.

In much of the business we underwrite in specialty lines, claims take some time to crystallise – in many professional lines, for example, this can occur six years or more after the policies were underwritten. We reserve prudently in the meantime and, after claims are paid, are frequently able to make reserve releases. In 2016, these prior year reserve releases made an increased contribution to the division's profits of $17.6m (2015: $10.5m).

The fastest growing cyber insurance market in the world has hitherto been the US, driven largely by complex state and federal regulations governing how data breaches must be reported to the affected individuals. In coming years, we expect other developed economies to begin to catch up as regulations in those regions also tighten. In Europe, the EU General Data Protection Regulation, due to come into force in 2018, will make the challenge of managing data breaches more complex and more costly. We also launched BBR in Canada during 2016 to tap growing demand in that country.

One growth market for us in 2016 was environmental liability. We have taken full advantage of dislocations in this market to hire experienced underwriters and develop our book, Our team underwrote premiums of $13.0m in 2016, more than double the level of premium income generated in 2015.

An important element of our long term strategy in specialty lines is to promote our products and expertise strongly in fast growing industries. Technology is one such industry: our technology, media and business service team that developed BBR also underwrites technology errors & omissions business for many of the world's largest software and software services companies. Healthcare is another: in 2016, we saw our healthcare liability business grow by 22% to $24.9m. We also broadened our architects & engineers professional liability practice to include contractors who are taking in-house an ever growing proportion of design work that we seek to insure.

In all of the industries we serve, clients look to Beazley for well designed products that address their most pressing risks and perform as required in the event of a claim. Many of these products are highly innovative – for example the regulatory liability cover we offer to US hospitals to protect them from billing errors, a major concern in the highly complex and regulated US healthcare market. Other products afford specialist services in the event of a claim – services that can be far more valuable than monetary compensation.

The London insurance market remains a crucible for innovation in our industry and many of our most innovative products and services originate with our underwriters, working closely with specialist brokers. For example, our healthcare team, led by Nat Cross, has developed over the years a unique way of working with major hospitals to incentivise them to invest in patient safety and quality measures that should also, over time, reduce claims. We believe that our approach, pioneered with some of the most respected hospitals in the US, should also prove valuable to hospitals in other countries.

In 2016, we have invested in technology designed to make our brokers' work easier, mindful of the modest commissions brokers receive on a per client basis for small business risks. We continue to explore ways in which we can offer our products through our brokers' own proprietary channels as well as through our e-trading platform, myBeazley.

Managing agent's report

The managing agent presents its report for the year ended 31 December 2016.

These syndicate annual accounts have been prepared using the annual basis of accounting as required by Statutory Instrument No.1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Separate syndicate underwriting year accounts for the closed year of account are also made available to the syndicate members.

Principal activity

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

Business review

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

Risk management philosophy

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

Risk governance and reporting

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

2016 in review

A key change to the risk environment in 2016 was the outcome of the UK referendum in June to leave the European Union. A risk review had been performed prior to the vote in order to assess the potential impact of either outcome. Given the syndicate's insurance risk profile, the premium at risk if Lloyd's licences were no longer to be applicable in Europe is relatively low at less than 5%. Therefore, the main short term risks identified for the syndicate were asset volatility and exchange rate fluctuations and steps were undertaken prior to the vote to mitigate these risks. Our experience in the period since the referendum has shown that this assessment turned out to be correct and in particular, a weaker sterling has provided a tailwind for us as a dollar denominated syndicate with sterling expenses and dollar profit. Nevertheless, Beazley plc have established a project team to oversee developments and support Lloyd's activity to ensure that market participants can continue to trade in Europe in an efficient way.

More recently in November, another key change was the outcome of the US election which delivered a Republican Presidency, Senate and House of Representatives. Given the importance of the US to the business of the syndicate, we are actively monitoring the risk environment and any emerging opportunities and risks as policies are implemented by the newly elected government.

The challenging market conditions have remained a key risk for the syndicate in 2016 and careful cycle management was required to navigate the classes of business experiencing the most rating pressure and to optimise the areas of opportunity. The ability of the syndicate's underwriters to segment their classes and understand the relative risk and reward dynamics is a key way this risk is mitigated and members of the risk and capital teams have supported underwriting teams in this activity during 2016.

Premium from the syndicate's market leading cyber product, Beazley Breach Response, continues to grow as new clients purchase this valuable and innovative product. As planned, we have added to our suite of realistic disaster scenarios and have updated the assumptions of existing scenarios to reflect our current understanding of how an aggregated claims event might occur. Given that we have yet to actually observe an aggregated claims event, there is little data available to assist with this modelling. As such, we continue to use external technical expertise to supplement our own views of how such an event could unfold. The scenarios are compared against the Beazley's risk appetite to ensure that growth in this area remains appropriate within the syndicates diversified portfolio of other risk types underwritten by the syndicate. It is clear that this area continues to evolve at a relatively fast pace which warrants such regular review and oversight.

The risk management report to the Beazley remunerations committee is now in its sixth year. The analysis reported confirmed that the design of remuneration at Beazley is driving appropriate behaviour. The main enhancement made this year has been to review a suite of risk metrics in order to provide assurance that senior members of staff were managing risk in an appropriate manner.

This year represents the first year of operating within the new solvency II regime with our internal model approved by the Central Bank of Ireland. The extensive work undertaken by the capital modelling team in the pre-application stages to design how processes should operate has resulted in a robust yet efficient framework that delivers a valued capital model which is parametrised to reflect the reality of the business, is updated to reflect the evolution of the business, is validated to provide assurance that its design and parametrisation is appropriate and so is used across the group to support business processes and inform the board on how risk is changing. We have continued to use an external consultancy to provide independent challenge which has supported the production of a detailed validation report to the board. This report, coupled with a programme of regular and tailored director briefings ensure that the internal model is understood.

Although risk appetite is established with reference to earnings volatility, there are a number of risks that do not necessarily have a direct financial consequence. Instead, for example, there may be a reputational impact. We have experienced this year that the qualitative risk appetite statements introduced in 2015 have helped business functions prioritise activity within their teams to ensure that necessary activity is undertaken in a timely manner in order to operate as the board expects.

The latest chief risk officer report to the board confirmed that the control environment has not identified any significant failings or weaknesses in key processes and that the syndicate is operating within risk appetite as at 31 December 2016.

Preparing for the future
Beazley's current risk management framework has been successfully operating over the last five years. Although we have continued to enhance the framework during that period, we have undertaken a detailed review in the second half of 2016 of the operation of the risk register and associated reporting. This review has made use of our experiences of operating the framework during that period and has considered how market best practice has developed. We will be implementing changes in the first half of 2017 with the aim of ensuring that the next evolution of the risk management framework is up to the challenge of helping Beazley navigate the next five years.

Risk management 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. In addition, our risk management processes are designed to continuously monitor our risk profile against risk appetite and to exploit opportunities as they arise.

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

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

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

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

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

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

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

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

The risks to financial performance

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

Insurance risk

Given the nature of Beazley's business, the key risks that impact financial performance arise from insurance activities. The main insurance risks can be summarised in the following categories:

- Market cycle risk: The risk of systematic mispricing of the medium tailed specialty lines business which could arise due to a change in the US tort environment, changes to the supply and demand of capital, and companies' using incomplete data to make decisions. This risk would affect multiple classes within the specialty lines division across a number of underwriting years. The syndicate uses a range of techniques to mitigate this risk including sophisticated pricing tools, analysis of macro trends, analysis of claim frequency and the expertise of our experienced underwriters and claims managers;
- Natural catastrophe risk: The risk of one large event caused by nature affecting a number of policies and therefore giving rise to multiple losses. Given Beazley's risk profile, this could be a hurricane, major windstorm or earthquake. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area;
- Non natural catastrophe risk: This risk is similar to natural catastrophe risk except that multiple losses arise from one event caused by mankind. Given Beazley's risk profile, examples include a coordinated cyber attack, an act of terrorism, an act of war or a political event. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area;
- Reserve risk: Beazley has a consistent and conservative reserving philosophy. However, there is a risk that the reserves put aside for expected losses turn out to be insufficient. This could be due to any of the three drivers of risk described above. The syndicate uses a range of techniques to mitigate this risk including a detailed reserving process which compares, claim by claim, estimates established by the claims team with a top down statistical view developed by the actuarial team. A suite of metrics is also used to ensure consistency each year; and
- Single risk losses: Given the size of policy limits offered on each risk, it is unlikely that the poor performance of one policy will have a material impact on the syndicate's financial performance.

Strategic risk

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

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

Other risks

The remaining six risk categories monitored by the board are:

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

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

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

	Total bonuses deferred and at risk £	2015 year of account underwriting capacity £	2016 year of account underwriting capacity £	2017 year of account underwriting capacity £
M R Bernacki	219,571	300,000	400,000	400,000
M L Bride	191,600	400,000	400,000	400,000
A P Cox	191,600	400,000	400,000	400,000
D A Horton	191,600	400,000	400,000	400,000
N P Maidment	191,600	400,000	400,000	400,000
C A Washbourn	191,600	400,000	400,000	400,000

A full list of the directors of the managing agent who held office during the year can be found on page 47 of these syndicate annual accounts.

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

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

By order of the board

M L Bride
Finance director

13 March 2017

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the syndicate financial statements in accordance with applicable law and regulations.

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

Under Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 the managing agent must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period.

In preparing these financial statements, the managing agent is required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements assuming there are no uncertainties surrounding the syndicate's ability to continue to write business in the future as required to provide a true and fair view.

The managing agent is responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable them to ensure that the financial statements comply with the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The managing agents is responsible for the maintenance and integrity of the syndicate and financial information included on the syndicate's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board

M L Bride
Finance director

13 March 2017

Independent auditor's report to the members of syndicate 623

We have audited the annual accounts of syndicate 623 for the year ended 31 December 2016, as set out on pages 18 to 48. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

Respective responsibilities of the managing agent and auditor

As explained more fully in the statement of managing agent's responsibilities set out on page 16, the managing agent is responsible for the preparation of the syndicate's annual accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the syndicate's annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

A description of the scope of an audit of the 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 syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

In our opinion the information given in the Report of the Directors of the managing agent is consistent with the syndicate annual accounts.

Matters on which we are required to report by exception

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

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

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

13 March 2017

Profit or loss account

for the year ended 31 December 2016

	Notes	2016 $m	2015 $m
Gross premiums written	3	400.9	379.8
Outward reinsurance premiums		(68.2)	(72.3)
Net premiums written	3	**332.7**	**307.5**
Change in the gross provision for unearned premiums	14	(17.3)	(8.2)
Change in the provision for unearned premiums, reinsurers' share	14	0.4	8.8
Change in the net provision for unearned premiums		(16.9)	0.6
Earned premiums, net of reinsurance	3	**315.8**	**308.1**
Allocated investment return transferred from the non-technical account	8	13.3	6.0
Gross claims paid		(175.0)	(167.9)
Reinsurers' share of claims paid		31.7	27.0
Claims paid net of reinsurance		(143.3)	(140.9)
Change in the gross provision for claims	14	(1.1)	3.0
Change in the provision for claims, reinsurers' share	14	0.7	(0.8)
Change in the net provision for claims		(0.4)	2.2
Claims incurred, net of reinsurance		**(143.7)**	**(138.7)**
Net operating expenses	4	**(126.8)**	**(119.9)**
Balance on the technical account		**58.6**	**55.5**
Investment income	8	9.7	10.2
Investment expenses and charges	8	(1.5)	(1.5)
Realised losses on investments	8	(1.4)	(3.6)
Unrealised gains on investments	8	6.5	0.9
		13.3	6.0
Allocated investment return transferred to general business technical account		(13.3)	(6.0)
Gain on foreign exchange		2.8	0.2
Other charges	9	(9.4)	(9.2)
Profit for the financial year		**52.0**	**46.5**

All of the above operations are continuing.

Statement of other comprehensive income

year ended 31 December 2016

	2016 $m	2015 $m
Profit for the financial year	52.0	46.5
Foreign exchange profit on brought forward reserves	1.6	0.1
Total recognised income since last annual report	**53.6**	**46.6**

Statement of changes in members' balances

year ended 31 December 2016

	2016 $m	2015 $m
Members' balances brought forward at 1 January	51.3	54.4
Profit for the financial year	52.0	46.5
Foreign exchange profit on brought forward reserves	1.6	0.1
Profit distribution before members agent's fees – 2012 Year of account	–	(49.7)
Profit distribution before members agent's fees – 2013 Year of account	(41.0)	–
Members' balances carried forward at 31 December	**63.9**	**51.3**

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.

Balance sheet

at 31 December 2016

	Notes	2016 $m	2015 $m
Assets			
Financial assets at fair value	10	**629.5**	**594.2**
Reinsurers' share of technical provisions			
Provision for unearned premiums, reinsurers' share	14	34.1	34.0
Claims outstanding, reinsurers' share	14	165.8	166.2
		199.9	**200.2**
Debtors			
Debtors arising out of direct insurance operations		126.0	111.6
Debtors arising out of reinsurance operations		26.9	26.9
Other debtors	12	12.8	51.8
		165.7	**190.3**
Cash at bank and in hand	13	**41.2**	**50.9**
Deferred acquisition costs		**49.5**	**44.9**
Other prepayments and accrued income		**1.1**	**–**
Total assets		**1,086.9**	**1,080.5**
Liabilities, capital and reserves			
Capital and reserves			
Members' balances attributable to underwriting participations		63.9	51.3
Technical provisions			
Provision for unearned premiums	14	198.2	183.8
Claims outstanding	14	682.0	691.6
		880.2	**875.4**
Creditors			
Creditors arising out of direct insurance operations		37.6	42.1
Creditors arising out of reinsurance operations		9.8	9.9
Other creditors	15	94.1	101.3
		141.5	**153.3**
Financial liabilities	10	**0.7**	**0.3**
Accruals and deferred income		**0.6**	**0.2**
Total liabilities, capital and reserves		**1,086.9**	**1,080.5**

The syndicate annual accounts on pages 18 to 48 were approved by the board of Beazley Furlonge Limited on 13 March 2017 and were signed on its behalf by:

N P Maidment
Active underwriter

M L Bride
Finance director

Cash flow statement

year ended 31 December 2016

	2016 $m	2015 $m
Reconciliation of profit for the financial year to net cash inflow from operating activities		
Profit for the financial year	52.0	46.5
Increase in net technical provisions	5.1	13.6
Decrease/(increase) in debtors	23.5	(51.1)
(Decrease)/increase in creditors	(11.0)	59.8
Investment return	(13.3)	(6.0)
Increase in deferred acquisition cost	(4.6)	(0.9)
Net cash flows from operating activities	**51.7**	**61.9**
Net purchases/sales of investments	(16.6)	(18.9)
Investment return	6.8	6.0
Net cash from investing activities	(9.8)	(12.9)
Transfer to members in respect of underwriting participations	(41.0)	(49.7)
Net cash from financing activities	**(41.0)**	**(49.7)**
Net (decrease)/increase in cash and cash equivalents	**0.9**	**(0.7)**
Cash and cash equivalents at the beginning of the year	64.2	67.7
Effect of exchange rate changes on cash and cash equivalents	1.7	(2.8)
Cash and cash equivalents at the end of the year	**66.8**	**64.2**

Notes to the syndicate annual accounts

1 Accounting policies

Basis of preparation

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

These syndicate annual accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the Regulations') and applicable Accounting Standards in the United Kingdom and the Republic of Ireland, Financial Reporting Standard 102 'FRS 102' and the applicable Accounting Standard on insurance contracts Financial Reporting Standard 103 'FRS 103'.

The financial statements have been prepared on the historic cost basis, except for financial assets at fair value through profit or loss that are measured at fair value. The principal accounting policies applied in the preparation of these syndicate annual accounts are set out below. The policies have been consistently applied to all periods presented, unless otherwise stated. All amounts presented are stated in US dollars, being the syndicate's functional currency, and in millions, unless noted otherwise.

Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the syndicate annual accounts are described in this statement of accounting policies.

The most critical estimate included within the syndicate's financial position is the estimate for losses incurred but not reported. The total estimate as at December 2016 is included within claims outstanding in the balance sheet.

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

a) Premiums

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

b) Unearned premiums

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

c) Claims

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

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

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

1 Accounting policies *continued*

d) Acquisition costs

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

e) Liability adequacy testing

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

f) Foreign currencies

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

g) Investments

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

h) Investment return

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

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

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

i) Ceded reinsurance

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

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

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

1 Accounting policies *continued*

j) Financial instruments

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

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

Financial assets

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

Financial assets at fair value through income statement

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

Fair value measurement

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

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

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

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

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

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

1 Accounting policies *continued*

Hedge funds

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

k) 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.

l) Other debtors

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

m) Other creditors

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

n) Investment income

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

o) 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.

p) Impairment of financial assets

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

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

q) Cash at bank and in hand

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

1 Accounting policies *continued*

r) 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.

s) 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.

t) Profit commission

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

2 Risk management

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

2.1 Insurance risk

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

a) Underwriting risk

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

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

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

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

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

2 Risk management *continued*

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

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

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

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

To manage underwriting exposures, the syndicate has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry. In 2016, the normal maximum line that any one underwriter could commit the managed syndicate to was $18.0m. In most cases, maximum lines for classes of business were much lower than this.

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

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

Binding authority contracts

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

Operating divisions

In 2016, the syndicate's business consisted of five operating divisions. The following table provides a breakdown of gross premiums written by division:

	2016	2015
Marine	13%	16%
Political risks and contingency	6%	7%
Property	18%	20%
Reinsurance	12%	11%
Specialty lines	51%	46%
Total	**100%**	**100%**

2 Risk management *continued*

b) Reinsurance risk

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

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

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

c) Claims management risk

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

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

d) Reserving and ultimate reserves risk

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

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

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

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

	5% increase in claims reserves		5% decreases in claims reserves	
Sensitivity to insurance risk (claims reserves)	2016 $m	2015 $m	2016 $m	2015 $m
Impact on profit	(25.8)	(26.3)	25.8	26.3

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

	2016 %	2015 %
US	62	57
Europe	15	15
Other	23	28
	100	100

2 Risk management *continued*

2.2 Strategic risk

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

2.3 Market risk

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

Foreign exchange risk

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

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

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

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

31 December 2016	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	(8.7)	63.9	20.7	75.9	1,011.0	1,086.9
Total liabilities	(77.5)	(40.2)	(60.3)	(178.0)	(845.0)	(1,023.0)
Net assets	**(86.2)**	**23.7**	**(39.6)**	**(102.1)**	**166.0**	**63.9**

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

Sensitivity analysis

In 2016, the syndicate managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting net assets to be entirely US dollar denominated. As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure. Details of all foreign currency derivative contracts entered into with external parties are disclosed in note 11. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk.

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

	Impact on profit for the year ended		Impact on net assets	
Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar	2016 $m	2015 $m	2016 $m	2015 $m
Dollar weakens 30% against other currencies	(0.4)	(0.5)	(0.4)	(0.5)
Dollar weakens 20% against other currencies	(0.3)	(0.3)	(0.3)	(0.3)
Dollar weakens 10% against other currencies	(0.1)	(0.2)	(0.1)	(0.2)
Dollar strengthens 10% against other currencies	0.1	0.2	0.1	0.2
Dollar strengthens 20% against other currencies	0.3	0.3	0.3	0.3
Dollar strengthens 30% against other currencies	0.4	0.5	0.4	0.5

2 Risk management *continued*

Interest rate risk

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

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

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

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

Duration 31 December 2016	<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	262.1	61.0	111.8	71.5	33.0	12.6	–	552.0
Cash at bank and in hand	41.2	–	–	–	–	–	–	41.2
Derivative financial instruments	3.3	–	–	–	–	–	–	3.3
Total	**306.6**	**61.0**	**111.8**	**71.5**	**33.0**	**12.6**	**–**	**596.5**

Duration 31 December 2015	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	206.9	91.6	52.5	77.6	49.4	35.4	–	513.4
Cash at bank and in hand	50.9	–	–	–	–	–	–	50.9
Derivative financial instruments	(0.2)	–	–	–	–	–	–	(0.2)
Total	**257.6**	**91.6**	**52.5**	**77.6**	**49.4**	**35.4**	**–**	**564.1**

Sensitivity analysis

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

	Impact on profit for the year ended		Impact on net assets	
Shift in yield (basis points)	2016 $m	2015 $m	2016 $m	2015 $m
150 basis point increase	(8.9)	(20.4)	(8.9)	(20.4)
100 basis point increase	(6.0)	(13.6)	(6.0)	(13.6)
50 basis point increase	(3.0)	(6.8)	(3.0)	(6.8)
50 basis point decrease	3.0	6.8	3.0	6.8
100 basis point decrease	6.0	13.6	6.0	13.6

Price risk

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

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

2 Risk management *continued*

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

	Impact on profit for the year ended		Impact on net assets	
Change in fair value of hedge funds and equity linked funds	2016 $m	2015 $m	2016 $m	2015 $m
30% increase in fair value	28.7	24.2	28.7	24.2
20% increase in fair value	19.1	16.1	19.1	16.1
10% increase in fair value	9.6	8.1	9.6	8.1
10% decrease in fair value	(9.6)	(8.1)	(9.6)	(8.1)
20% decrease in fair value	(19.1)	(16.1)	(19.1)	(16.1)
30% decrease in fair value	(28.7)	(24.2)	(28.7)	(24.2)

2.4 Operational risk

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

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

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

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

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

2.5 Credit risk

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

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

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

2 Risk management *continued*

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

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

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

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

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

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

31 December 2016	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	425.7	126.3	–	–	–	552.0
– equity linked funds	–	–	–	–	15.3	15.3
– hedge funds	–	–	–	–	58.9	58.9
– derivative financial assets	–	–	–	–	3.3	3.3
Reinsurers' share of outstanding claims	165.8	–	–	–	–	165.8
Insurance debtors	–	–	–	–	152.9	152.9
Cash at bank and in hand	41.2	–	–	–	–	41.2
Total	**632.7**	**126.3**	**–**	**–**	**230.4**	**989.4**

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

2 Risk management *continued*

Based on all evidence available, debtors arising out of insurance operations and other debtors have not been impaired and no impairment provision has been recognised in respect of these assets. An analysis of the overall credit risk exposure indicates that the syndicate has reinsurance assets that are impaired at the reporting date. The total impairment provision made in respect of these assets at 31 December 2016 is $ 0.7 m (2015: $2.9m). 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 2016	0-3 months past due $m	3-6 months past due $m	6-12 months past due $m	Greater than 1 year past due $m	Total $m
Insurance debtors	7.8	1.2	0.8	–	9.8
Reinsurance assets	0.1	–	0.5	–	0.6

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

2.6 Regulatory and legal risk

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

2.7 Liquidity risk

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

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

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

31 December 2016	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Marine	21.8	17.8	5.1	3.7	48.4	1.9
Political risks and contingency	5.5	5.4	1.7	1.3	13.9	2.2
Property	21.8	16.7	4.2	3.0	45.7	1.8
Reinsurance	13.7	12.0	3.8	3.5	33.0	2.2
Specialty lines	78.5	128.5	76.8	91.5	375.3	3.5
Net insurance liabilities	**141.3**	**180.4**	**91.6**	**103.0**	**516.3**	

2 Risk management *continued*

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

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

Maturity 31 December 2016	<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	177.3	79.8	140.8	75.8	64.6	13.7	–	552.0
Derivative financial instruments	2.6	–	–	–	–	–	–	2.6
Cash at bank and in hand	41.2	–	–	–	–	–	–	41.2
Other debtors	12.8	–	–	–	–	–	–	12.8
Other creditors	(94.1)	–	–	–	–	–	–	(94.1)
Total	**139.8**	**79.8**	**140.8**	**75.8**	**64.6**	**13.7**	**–**	**514.5**

31 December 2015	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	144.1	104.9	69.1	93.3	54.9	47.1	–	513.4
Derivative financial instruments	(0.2)	–	–	–	–	–	–	(0.2)
Cash at bank and in hand	50.9	–	–	–	–	–	–	50.9
Other debtors	51.8	–	–	–	–	–	–	51.8
Other creditors	(101.3)	–	–	–	–	–	–	(101.3)
Total	**145.3**	**104.9**	**69.1**	**93.3**	**54.9**	**47.1**	**–**	**514.6**

2.8 Senior management responsibilities

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

2 Risk management *continued*

2.9 Capital management

Capital framework at Lloyd's

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

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

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

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2017 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

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

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

3 Segmental analysis

2016	Marine $m	PCG $m	Property $m	Reinsurance $m	Specialty lines $m	Unallocated $m	Total $m
Gross premiums written	54.1	25.4	71.8	46.7	202.9	–	400.9
Net premiums written	48.3	20.8	60.4	30.9	172.3	–	332.7
Gross earned premiums	54.9	26.3	73.7	45.6	183.1	–	383.6
Outward reinsurance premiums earned	(6.1)	(4.4)	(11.6)	(15.3)	(30.4)	–	(67.8)
Earned premiums, net of reinsurance	**48.8**	**21.9**	**62.1**	**30.3**	**152.7**	**–**	**315.8**
Gross claims	(26.3)	(8.5)	(30.5)	(14.0)	(96.8)	–	(176.1)
Reinsurers share	4.7	2.3	5.1	5.2	15.1	–	32.4
Claims incurred, net of reinsurance	**(21.6)**	**(6.2)**	**(25.4)**	**(8.8)**	**(81.7)**	**–**	**(143.7)**
Operating expenses before foreign exchange	(21.9)	(10.1)	(28.1)	(10.9)	(55.8)	–	(126.8)
Technical result before items below	**5.3**	**5.6**	**8.6**	**10.6**	**15.2**	**–**	**45.3**
Gain on foreign exchange	–	–	–	–	–	2.8	2.8
Investment income	–	–	–	–	–	13.3	13.3
Other charges	–	–	–	–	–	(9.4)	(9.4)
Profit for the financial year	**5.3**	**5.6**	**8.6**	**10.6**	**15.2**	**6.7**	**52.0**
Claims ratio	44%	28%	41%	29%	53%	–	46%
Expense ratio	45%	46%	45%	36%	37%	–	40%
Combined ratio	89%	74%	86%	65%	90%	–	86%

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

3 Segmental analysis *continued*

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

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

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

All business was underwritten in the UK.

4 Net operating expenses

	2016 $m	2015 $m
Acquisition costs	102.5	92.5
Change in deferred acquisition costs	(6.0)	(1.3)
Members' standard personal expenses	7.4	3.3
Administrative expenses	29.4	31.3
Overriding commission	(6.5)	(5.9)
	126.8	119.9

Administrative expenses include:

	2016 $'000	2015 $'000
Fees payable to the syndicate's auditor for the audit of these syndicate annual accounts	90.1	100.6
Fees payable to the syndicate's auditor and its associates in respect of:		
Other services pursuant to legislation	214.2	197.9
	304.3	**298.5**

Managing agent fees paid to Beazley Furlonge Limited in respect of services provided to the syndicate amounted to $2.0m (2015: $1.9m).

5 Staff costs

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

	2016 $m	2015 $m
Wages and salaries	11.9	11.7
Short-term incentive payments	8.4	9.2
Social security costs	2.1	2.4
Pension costs	2.6	1.2
	25.0	**24.5**

6 Emoluments of the directors of Beazley Furlonge Limited

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

	2016 $m	2015 $m
Emoluments and fees	3.0	3.9
Contributions to defined contribution pension schemes	–	0.1
	3.0	**4.0**

7 Active underwriter's emoluments

The aggregate amount of remuneration paid to and for the benefit of the active underwriter, which was recharged to syndicate 623, was $0.6m (2015: $0.7m).

8 Net investment income

	2016 $m	2015 $m
Interest and dividends on financial investments at fair value through profit or loss	9.6	10.2
Interest on cash and cash equivalents	0.1	–
Realised losses on financial instruments at fair value though profit or loss	(1.4)	(3.6)
Net unrealised fair value gains on financial investments at fair value through profit or loss	6.5	0.9
Investment income from financial investments	**14.8**	**7.5**
Investment management expenses	(1.5)	(1.5)
Total net investment income	**13.3**	**6.0**

9 Other charges

	2016 $m	2015 $m
Profit commissions paid to Beazley Furlonge Limited	10.3	9.8
Profit commissions due from syndicate 6107	(0.9)	(0.6)
	9.4	**9.2**

10 Financial assets and liabilities

	Market value		Cost	
	2016 $m	2015 $m	2016 $m	2015 $m
Financial assets at fair value				
Fixed and floating rate debt securities:				
– Government issued	204.4	187.3	203.2	186.7
– Quasi-government	9.5	62.4	9.5	62.2
– Supranational	6.4	73.4	6.4	73.1
– Corporate bonds				
– Investment grade credit	311.8	174.2	315.2	173.6
– High yield	19.9	10.3	19.0	10.2
– Senior secured loans	–	4.5	–	4.5
– Asset backed securities	–	1.3	–	1.3
Total fixed and floating rate debt securities	552.0	513.4	553.3	511.6
Equity linked funds	15.3	21.0	14.9	19.9
Hedge funds	58.9	59.7	55.3	56.6
Total capital growth	74.2	80.7	70.2	76.5
Total financial investments at fair value through statement of profit or loss	**626.2**	**594.1**	**623.5**	**588.1**
Derivative financial instruments	3.3	0.1	3.3	0.1
Total financial assets at fair value	**629.5**	**594.2**	**626.8**	**588.2**
Financial liabilities				
Derivative financial instruments	**0.7**	**0.3**	**0.7**	**0.3**

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

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

10 Financial assets and liabilities *continued*

Fair value measurement

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

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

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

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

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

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

The table below analyses financial instruments measured at fair value at 31 December 2016 and 31 December 2015, based on the level in the fair value hierarchy into which the financial instrument is categorised:

2016	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value				
Fixed and floating rate debt securities:				
– Government issued	204.4	–	–	204.4
– Quasi-government	9.5	–	–	9.5
– Supranational	–	6.4	–	6.4
– Corporate bonds				
– Investment grade credit	10.4	301.4	–	311.8
– High yield	–	19.9	–	19.9
Equity linked funds	–	15.3	–	15.3
Hedge funds	–	58.9	–	58.9
Derivative financial assets	3.3	–	–	3.3
Total financial assets at fair value	**227.6**	**401.9**	**–**	**629.5**
Financial liabilities				
Derivative financial instruments	**0.7**	–	–	**0.7**

10 Financial assets and liabilities *continued*

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

There were no transfer in either direction between level 1 and level 2 in 2016 and 2015.

Additional information is obtained from fund managers relating to the underlying assets within individual hedge funds. We identified that 79% (2015: 68%) 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 2016 and 2015, the syndicate entered into over-the-counter and exchange traded derivative contracts. The syndicate had the right and intention to settle each contract on a net basis.

	2016		2015	
Derivative financial instrument assets	Gross contract amount $m	Fair value of assets $m	Gross contract amount $m	Fair value of assets $m
Foreign exchange forward contract	107.8	2.6	–	–
Bond future contracts	(119.4)	0.7	(112.5)	0.1
	(11.6)	**3.3**	**(112.5)**	**0.1**

	2016		2015	
Derivative financial instrument liabilities	Gross contract amount $m	Fair value of liabilities $m	Gross contract amount $m	Fair value of liabilities $m
Foreign exchange forward contract	71.0	0.7	97.6	0.3
Bond future contracts	–	–	–	–
	71.0	**0.7**	**97.6**	**0.3**

Foreign exchange forward contracts

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

Bond future contracts

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

12 Other debtors

	2016 $m	2015 $m
Amounts due from members	9.6	9.9
Amount due from syndicate 2623	–	35.9
Sundry debtors including taxation	3.2	6.0
	12.8	**51.8**

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

13 Cash and cash equivalents

	2016 $m	2015 $m
Cash at bank and in hand	41.2	50.9
Short term deposits	25.6	13.3
	66.8	**64.2**

14 Technical provisions

	Provision for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January 2016	183.8	691.6
Movement in the provision	17.3	1.1
Exchange adjustments	(2.9)	(10.7)
As at 31 December 2016	**198.2**	**682.0**
Reinsurers' share of technical provisions		
As at 1 January 2016	34.0	166.2
Movement in the provision	0.4	0.7
Exchange adjustments	(0.3)	(1.1)
As at 31 December 2016	**34.1**	**165.8**
Net technical provisions		
As at 1 January 2016	149.8	525.4
As at 31 December 2016	**164.1**	**516.2**

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

14 Technical provisions *continued*

Gross ultimate claims	2006 ae %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %
Marine											
12 months		58.9%	69.4%	54.4%	50.5%	54.6%	55.9%	56.3%	57.5%	56.6%	59.5%
24 months		60.0%	65.5%	50.9%	49.8%	47.4%	46.4%	52.0%	46.7%	54.0%	
36 months		50.6%	59.4%	44.2%	44.1%	38.9%	34.8%	44.2%	47.1%		
48 months		48.2%	63.3%	40.7%	42.4%	33.6%	32.3%	42.5%			
60 months		49.5%	62.9%	40.4%	40.4%	35.3%	31.5%				
72 months		49.8%	59.2%	48.7%	40.2%	31.5%					
84 months		46.8%	55.4%	47.8%	42.2%						
96 months		44.0%	54.8%	49.2%							
108 months		43.4%	51.7%								
120 months		43.4%									
Political risks and contingency											
12 months		57.2%	57.4%	61.1%	61.2%	58.4%	62.2%	57.1%	56.5%	55.1%	55.7%
24 months		39.1%	71.7%	38.5%	40.2%	39.3%	43.8%	41.1%	41.2%	52.0%	
36 months		56.4%	76.3%	33.8%	33.1%	33.8%	39.8%	34.8%	36.2%		
48 months		53.3%	89.6%	29.1%	23.5%	27.6%	38.1%	33.9%			
60 months		53.4%	74.0%	23.0%	22.2%	25.9%	35.5%				
72 months		49.5%	62.7%	17.4%	20.9%	23.2%					
84 months		46.9%	59.5%	17.6%	19.5%						
96 months		49.0%	60.0%	17.6%							
108 months		44.9%	59.1%								
120 months		39.7%									
Property											
12 months		59.3%	66.8%	54.0%	54.3%	54.1%	55.4%	55.3%	53.6%	55.3%	59.1%
24 months		57.1%	62.0%	41.4%	56.3%	46.2%	47.2%	49.3%	48.1%	49.4%	
36 months		54.3%	61.0%	36.1%	53.3%	43.7%	39.4%	45.5%	41.7%		
48 months		54.9%	58.8%	34.9%	50.4%	42.0%	36.2%	45.3%			
60 months		58.3%	57.1%	33.8%	47.4%	41.0%	35.9%				
72 months		68.3%	56.0%	32.8%	46.7%	39.9%					
84 months		68.4%	54.9%	32.2%	45.8%						
96 months		67.7%	54.2%	31.8%							
108 months		66.8%	53.9%								
120 months		66.5%									
Reinsurance											
12 months		59.5%	59.8%	60.7%	68.0%	79.6%	62.9%	57.9%	61.4%	65.7%	68.0%
24 months		24.5%	54.5%	47.8%	141.0%	77.7%	37.6%	44.3%	33.5%	33.8%	
36 months		20.3%	43.8%	39.7%	127.8%	69.8%	32.2%	41.7%	30.9%		
48 months		19.0%	40.0%	39.1%	120.2%	66.1%	31.4%	40.4%			
60 months		18.1%	40.0%	35.0%	123.6%	63.3%	31.4%				
72 months		18.0%	40.2%	32.1%	122.3%	63.1%					
84 months		16.3%	39.4%	31.5%	122.3%						
96 months		15.5%	39.1%	31.5%							
108 months		15.2%	39.0%								
120 months		15.2%									

14 Technical provisions *continued*

Gross ultimate claims	2006 ae %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	
Specialty lines												
12 months		72.8%	72.4%	72.3%	74.0%	75.7%	74.5%	74.3%	69.9%	69.2%	67.0%	
24 months		72.3%	72.2%	72.2%	73.6%	75.8%	74.6%	73.9%	70.0%	69.1%		
36 months		72.0%	72.1%	71.3%	72.9%	77.5%	72.4%	73.5%	64.8%			
48 months		72.0%	72.3%	71.4%	74.7%	78.1%	66.7%	68.6%				
60 months		72.2%	72.1%	72.0%	73.1%	77.1%	64.3%					
72 months		71.9%	72.4%	71.4%	74.1%	72.5%						
84 months		71.9%	71.5%	72.8%	74.0%							
96 months		72.5%	75.2%	73.2%								
108 months		71.9%	74.5%									
120 months		72.7%										
Total												
12 months		64.8%	68.5%	63.0%	63.8%	66.5%	64.6%	63.4%	62.3%	63.0%	63.8%	
24 months		60.1%	67.6%	56.7%	71.1%	61.7%	56.9%	58.4%	55.1%	57.8%		
36 months		58.8%	65.9%	52.8%	66.8%	59.0%	51.4%	55.1%	51.0%			
48 months		58.2%	67.2%	51.5%	65.1%	57.1%	47.7%	52.6%				
60 months		59.2%	65.3%	50.6%	63.6%	56.3%	46.2%					
72 months		61.1%	63.7%	50.9%	63.6%	53.2%						
84 months		60.2%	62.0%	51.1%	63.6%							
96 months		59.9%	63.5%	51.4%								
108 months		58.9%	62.5%									
120 months		58.7%										
Gross claims liabilities (Beazley managed level) ($m)	172.5	99.9	161.7	224.0	183.0	217.0	221.5	485.7	665.5	1,055.5	712.6	4,198.9
Less non 623 share ($m)	(140.5)	(80.2)	(140.8)	(187.5)	(148.0)	(177.2)	(172.6)	(406.7)	(562.0)	(895.6)	(605.8)	(3,516.9)
Gross claims liabilities, 623 share	32.0	19.7	20.9	36.5	35.0	39.8	48.9	79.0	103.5	159.9	106.8	682.0

14 Technical provisions *continued*

Net ultimate claims	2006 ae %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %
Marine											
12 months		56.1%	61.4%	53.3%	52.1%	55.6%	55.4%	55.8%	56.3%	56.7%	56.7%
24 months		56.5%	56.8%	47.5%	49.3%	47.6%	46.1%	53.1%	48.3%	52.4%	
36 months		49.4%	50.4%	38.8%	44.8%	38.5%	37.5%	47.2%	46.5%		
48 months		46.5%	47.2%	35.1%	42.7%	34.3%	35.1%	45.6%			
60 months		47.2%	46.7%	34.8%	41.1%	35.4%	34.0%				
72 months		47.2%	46.1%	38.4%	40.1%	32.0%					
84 months		44.8%	44.9%	37.7%	42.3%						
96 months		42.8%	44.4%	37.0%							
108 months		42.4%	44.8%								
120 months		42.4%									
Political risks and contingency											
12 months		55.3%	55.8%	59.6%	57.2%	54.6%	59.0%	54.6%	53.3%	52.0%	52.6%
24 months		40.5%	79.6%	35.2%	37.8%	38.0%	42.4%	40.3%	39.4%	48.9%	
36 months		55.1%	79.2%	31.5%	30.6%	32.0%	38.7%	35.7%	33.7%		
48 months		54.9%	81.7%	26.9%	21.3%	29.0%	38.5%	33.2%			
60 months		52.6%	71.3%	21.1%	20.2%	27.1%	34.8%				
72 months		49.2%	60.4%	16.5%	18.9%	24.4%					
84 months		46.9%	57.0%	16.7%	16.8%						
96 months		48.7%	57.1%	16.6%							
108 months		45.1%	56.8%								
120 months		40.4%									
Property											
12 months		62.1%	63.8%	53.2%	58.3%	59.2%	58.5%	56.8%	54.4%	54.9%	57.6%
24 months		60.0%	66.5%	47.1%	63.3%	56.6%	52.8%	56.4%	50.9%	50.1%	
36 months		58.9%	64.4%	43.5%	62.7%	52.5%	45.7%	52.0%	44.1%		
48 months		59.2%	63.2%	41.3%	56.8%	49.1%	41.0%	49.8%			
60 months		62.4%	62.1%	40.7%	54.3%	47.6%	40.5%				
72 months		63.1%	60.7%	39.4%	53.6%	46.6%					
84 months		63.2%	60.0%	38.9%	53.0%						
96 months		62.8%	58.9%	38.7%							
108 months		62.7%	58.6%								
120 months		62.4%									
Reinsurance											
12 months		55.2%	68.8%	55.5%	76.7%	90.6%	67.0%	55.8%	58.8%	61.3%	61.5%
24 months		28.8%	62.1%	52.4%	125.3%	88.0%	45.7%	50.9%	37.4%	34.3%	
36 months		23.9%	50.4%	46.7%	115.2%	80.7%	39.3%	47.5%	33.5%		
48 months		22.2%	47.7%	45.9%	109.2%	75.2%	38.0%	46.1%			
60 months		21.5%	47.5%	41.1%	119.3%	72.9%	38.0%				
72 months		21.3%	48.0%	37.8%	113.2%	72.9%					
84 months		19.4%	46.7%	37.0%	113.2%						
96 months		18.4%	46.4%	37.0%							
108 months		18.0%	46.4%								
120 months		18.0%									

14 Technical provisions *continued*

Net ultimate claims	2006 ae %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	
Specialty lines												
12 months		71.6%	70.2%	69.1%	70.7%	72.3%	71.6%	71.0%	67.4%	65.3%	64.5%	
24 months		70.3%	70.1%	68.9%	70.4%	72.3%	71.1%	70.2%	67.5%	65.1%		
36 months		70.1%	69.9%	68.3%	70.0%	72.1%	68.9%	69.4%	63.5%			
48 months		68.8%	68.6%	65.7%	70.2%	70.5%	63.3%	63.0%				
60 months		68.8%	68.3%	66.0%	69.2%	71.1%	61.8%					
72 months		68.8%	68.2%	65.4%	70.7%	70.1%						
84 months		68.6%	68.2%	66.2%	70.5%							
96 months		68.7%	70.6%	66.0%								
108 months		68.0%	70.3%									
120 months		66.9%										
Total												
12 months		64.2%	66.2%	60.6%	64.3%	67.1%	64.1%	62.0%	60.7%	60.3%	60.9%	
24 months		60.0%	67.1%	56.2%	68.4%	63.3%	57.4%	59.6%	55.4%	55.9%		
36 months		59.1%	64.5%	52.7%	65.5%	59.3%	52.3%	56.4%	51.1%			
48 months		58.1%	63.2%	50.1%	62.7%	56.3%	48.4%	52.8%				
60 months		58.7%	61.9%	49.2%	62.5%	56.0%	47.3%					
72 months		58.5%	60.6%	48.7%	62.0%	54.5%						
84 months		57.6%	59.9%	48.7%	62.0%							
96 months		57.3%	60.7%	48.4%								
108 months		56.5%	60.6%									
120 months		55.6%										
Net claims liabilities (Beazley managed level) ($m)	123.1	76.6	105.9	115.2	146.5	157.8	209.5	386.0	549.6	793.3	515.8	3,179.3
Less non 623 share ($m)	(100.0)	(64.0)	(89.6)	(93.5)	(119.6)	(126.0)	(172.6)	(323.1)	(466.4)	(670.6)	(437.7)	(2,663.1)
Net claims liabilities, 623 share ($m)	23.1	12.6	16.3	21.7	26.9	31.8	36.9	62.9	83.2	122.7	78.1	516.2

15 Other creditors

	2016 $m	2015 $m
Amount due to syndicate 2623	48.7	–
Amount due to syndicate 3623	–	0.1
Amount due to syndicate 6107	8.2	9.6
Amount due to syndicate 6050	2.1	0.9
Profit commissions	14.3	12.6
Net amount due to other related entities	20.8	78.1
	94.1	**101.3**

Profit commissions payable include $14.3 m (2015: $12.6m) which are due to be paid after more than one year. The remainder of the creditor balances shown are payable within one year.

16 Related parties transactions

Beazley Furlonge Limited, the managing agency of syndicate 623, is a wholly-owned subsidiary of Beazley plc. The directors of Beazley plc have participated in syndicate 623 indirectly through Beazley Staff Underwriting Limited. Details of the participations are disclosed in the managing agent's report on page 15.

The directors of Beazley Furlonge Limited have shareholdings in Beazley plc which provides the capacity for syndicates 2623, 3622 and 3623. Syndicate 623 has capacity in 2016 of £257.3m, as previously disclosed, and writes in parallel with syndicate 2623. Beneficial shareholdings are shown below.

	Shareholding of Beazley plc as at 31 December 2016	Shareholding of Beazley plc as at 31 December 2015
D Holt	50,000	50,000
M R Bernacki	173,983	263,983
G P Blunden	50,000	50,000
M L Bride	316,711	321,400
A P Cox	752,705	758,047
A Crawford-Ingle	34,207	20,850
N H Furlonge	655,584	656,375
D A Horton	1,708,612	1,597,125
N P Maidment	2,912,834	2,907,523
R Stuchbery (appointed 09/08/2016)	53,000	–
R A W Tolle (resigned 11/03/2016)	60,000	60,000
C A Washbourn	461,346	461,346
K W Wilkins	14,000	14,000

Beazley plc has the following service companies (managing general agents) underwriting on behalf of the syndicate:

- Beazley Solutions Limited – (UK & Europe);
- Beazley Leviathan Limited – (UK & Europe);
- Beazley USA Services, Inc. – (USA);
- Beazley Middle East Limited – (UAE);
- Beazley Limited – (Hong Kong); and
- Beazley Pte Limited – (Singapore).

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

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

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

16 Related parties transactions *continued*

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

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

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

At the balance sheet date, the syndicate has amounts due to managing agent of $8.8m (2015: $6.8m). In addition to this amount, the syndicate is also carrying a profit commission payable to the managing agent of $14.3m (2015: $12.6m).

The managing agent recharged expenses and fees of $52.7m (2015: $50.7m) to the syndicate in the current year.

17 Post balance sheet events

Members' funds

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

	2016 $m	2015 $m
2013 Year of account	–	36.8
2014 Year of account	57.4	–
	57.4	**36.8**

2014 year of account for syndicate 623

Managing agent's report

The syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (the 'Lloyd's Regulations') and in accordance with the Syndicate Accounting Byelaw (No.9 of 2005) and Financial Reporting Standard 102 (FRS 102).

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2014 year of account which has been closed by reinsurance to close at 31 December 2016; consequently the balance sheet represents the assets and liabilities of the 2014 year of account and the profit and loss account reflect the transactions for that year of account during the 36 months period until closure.

Directors

A list of directors of the managing agent who held office during the current year can be found on page 47 of the syndicate annual accounts.

Disclosure of information to the auditor

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

Auditor

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

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the syndicate underwriting year financial statements in accordance with applicable law and regulations.

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

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

- select suitable accounting policies and apply them consistently;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements assuming there are no uncertainties surrounding the syndicate's ability to continue to write business in the future as required to provide a true and fair view.

The managing agent is responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The managing agents is responsible for the maintenance and integrity of the syndicate and financial information included on the syndicate's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board

M L Bride
Finance director

13 March 2017

Independent auditor's report to the members of syndicate 623

2014 closed year of account

We have audited the syndicate underwriting year accounts for the 2014 year of account of syndicate 623 for the three years ended 31 December 2016, as set out on pages 53 to 60. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, as modified by the Insurance Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008) and the Lloyd's Syndicate Accounting Byelaw.

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

Respective responsibilities of the managing agent and the auditor

As explained more fully in the statement of managing agent's responsibilities set out on page 50, the managing agent is responsible for the preparation of the syndicate's underwriting year accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the syndicate underwriting year accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate underwriting year accounts sufficient to give reasonable assurance that the syndicate underwriting year accounts are free from material misstatements, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the syndicate underwriting year accounts. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or consistencies we consider the implications for our report.

We have audited the syndicate underwriting accounts, which comprise of the statement of comprehensive income and the balance sheet as at 31 December 2016, the cash flow statement, the statement of changes in members' balances, and the related notes.

The underwriting year accounts relate to the 2014 year of account which has been closed by reinsurance to close at 31 December 2016. As a consequence of this, the residual risks to the members on the closed year have been minimised. Management have deemed the following risk disclosure requirements of FRS 102 to be not applicable to these underwriting accounts:

- Insurance risk
- Financial risk
- Credit risk
- Liquidity risk
- Market risk
- Capital management
- Fair value hierarchy disclosure on investments

Opinion on syndicate underwriting year accounts

In our opinion the syndicate underwriting year accounts:

- give a true and fair view of the profit for the 2014 closed year of account; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept; or
- the syndicate underwriting year accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

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

13 March 2017

Profit or loss account

2014 year of account for the 36 months ended 31 December 2016

	Notes	2014 year of account $m
Gross premiums written	2	362.8
Outward reinsurance premiums		(54.9)
Earned premiums, net of reinsurance	2	**307.9**
Allocated investment return transferred from the non-technical account		12.0
Reinsurance to close premiums received, net of reinsurance	3	320.8
		332.8
Gross claims paid		(168.7)
Reinsurers' share		29.0
Claims incurred, net of reinsurance		**(139.7)**
Reinsurance to close premiums payable, net of reinsurance	4	(318.2)
		(457.9)
Net operating expenses	6	(123.0)
Balance on the technical account	2	**59.8**
Investment income		13.6
Investment expenses and charges	7	(1.6)
		12.0
Allocated investment return transferred to the technical account		(12.0)
Other charges		(9.8)
Gain on foreign exchange		7.4
Profit for the 2014 closed year of account	5	**57.4**
Syndicate allocated capacity (£m)		242.8
Profit for the 2014 closed year of account (£m)		45.2
Return on capacity		18.6%

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

Balance sheet

closed at 31 December 2016

	Notes	2014 year of account $m
Assets		
Financial assets at fair value	8	321.2
Debtors	9	110.8
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	4	98.4
Prepayments and accrued income		1.7
Cash at bank and in hand		20.7
Total assets		**552.8**
Liabilities		
Amounts due to members	10	57.4
Reinsurance to close premium payable to close the account – gross amount	4	409.8
Creditors	11	85.5
Accruals and deferred income		0.1
Total liabilities		**552.8**

The underwriting year accounts on pages 53 to 60 were approved by the board of directors on 13 March 2017 and were signed on its behalf by:

N P Maidment
Active underwriter

M L Bride
Finance director

Cash flow statement

2014 year of account for the 36 months ended 31 December 2016

	2014 year of account $m
Reconciliation of profit for the financial year to net cash inflow from operating activities	
Profit for the financial year	57.4
Increase in gross reinsurance to close payable	409.8
Increase in reinsurers' share of reinsurance to close	(98.4)
Increase in debtors	(110.8)
Increase in creditors	85.5
Increase in prepayments	(1.7)
Increase in accruals	0.1
Investment income received	(12.0)
Net cash flows from operating activities	**329.9**
Net purchase of financial instruments	(315.3)
Investment income received	6.1
Net cash from investing activities	**(309.2)**
Transfer to members in respect of underwriting participations	–
Net cash from financing activities	**0.0**
Net increase in cash and cash equivalents	**20.7**
Cash and cash equivalents at 1 January 2014	–
Cash and cash equivalents at 31 December 2016	**20.7**

Statement of changes in members' balances
for the 36 months ended 31 December 2016

	2014 year of account $m
Profit for the 2014 closed year of account	57.4
Amounts due to members at 31 December 2016	57.4

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

Notes to the syndicate underwriting year accounts
closed at 31 December 2016

1 Accounting policies
Basis of preparation
These syndicate underwriting year accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the Regulations') and applicable Accounting Standards in the United Kingdom including Financial Reporting Standard 102 (FRS 102).

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

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

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

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

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

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

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

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

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

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

1 Accounting policies *continued*

Syndicate operating expenses

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

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

Taxation

l) Under Schedule 19 of the Finance Act 1993, managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax. It is the responsibility of members to agree and settle their individual tax liabilities with the Inland Revenue.

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

Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

Basis of currency translation

n) The syndicate operates in four separate currency funds of sterling, euro, US dollars and Canadian dollars. Items expressed in sterling, euro and Canadian dollars are translated to US dollars at the three years' average rates of exchange ruling at the balance sheet date. The euro, US dollar and Canadian dollar three years' average exchange rates ruling at 31 December 2016 are euro 0.85, sterling 0.66 and Canadian dollar 1.23.

2 Segmental analysis

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

2014 year of account	Marine $m	Political risks and contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Unallocated $m	Total $m
Gross premiums written	65.3	27.3	73.2	43.0	154.0	–	362.8
Outward reinsurance premiums	(7.2)	(4.7)	(10.4)	(10.2)	(22.4)	–	(54.9)
Net earned premiums	58.1	22.6	62.8	32.8	131.6	–	307.9
Net claims	(23.5)	(6.5)	(24.5)	(9.6)	(72.9)	–	(137.0)
Operating expenses	(24.7)	(10.6)	(28.1)	(11.1)	(48.6)	–	(123.1)
Technical result before investment income	9.9	5.5	10.2	12.1	10.1	–	47.8
Investment income	–	–	–	–	–	12.0	12.0
Balance on technical account	**9.9**	**5.5**	**10.2**	**12.1**	**10.1**	**12.0**	**59.8**
Claims ratio	40%	29%	39%	30%	55%	–	44%
Expense ratio	43%	47%	45%	33%	37%	–	40%
Combined ratio	83%	76%	84%	63%	92%	–	84%

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

All business was underwritten in the UK.

3 Reinsurance to close premiums received

	2014 year of account $m
Gross reinsurance to close premiums received	431.9
Reinsurance recoveries anticipated	(111.1)
Reinsurance to close premiums received, from 2013 and earlier, net of reinsurance	**320.8**

4 Reinsurance to close premiums payable

	2014 year of account $m
Gross reinsurance to close premiums payable	416.4
Reinsurance recoveries anticipated	(98.2)
Foreign exchange	(6.8)
Reinsurance to close premiums payable to 2015, net of reinsurance	**311.4**

	Reported $m	IBNR $m	Total $m
Reinsurance to close premium payable	144.9	264.9	409.8
Reinsurance recoveries anticipated	(32.1)	(66.3)	(98.4)
Reinsurance to close premiums payable, net of reinsurance	**112.8**	**198.6**	**311.4**

5 Analysis of the 2014 year of account result

	2014 year of account $m
Amount attributable to business allocated to the 2014 year of account	22.7
Surplus on the reinsurance to close for the 2013 year of account	34.7
	57.4

6 Net operating expenses

	2014 year of account $m
Acquisition costs	89.8
Members' standard personal expenses	17.7
Administrative expenses	15.5
	123.0

Administrative expenses include:

Audit services	0.1

7 Investment expenses and charges

	2014 year of account $m
Investment management expenses	1.6

8 Financial assets

Financial assets at fair value	2014 year of account $m
Fixed and floating debt securities	282.2
Equity linked funds	7.7
Hedge funds	29.6
Rights under derivative contracts	1.7
	321.2

9 Debtors

	2014 year of account $m
Net amounts due from other related entities	45.1
Other debtors, including taxation	65.7
	110.8

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

10 Amounts due to members

	2014 year of account $m
Profit for the 2014 closed year of account	57.4
Amounts due to members at 31 December 2016	**57.4**

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

11 Creditors

	2014 year of account $m
Profit commission payable	10.4
Net amounts due to other related entities	67.4
Other creditors	7.7
	85.5

The above balances are payable within one year.

12 Related party transactions

Please refer to page 47 for further details of related party transactions for the 2014 year of account.

Seven-year summary of closed year results

at 31 December 2016

	2014	2013	2012	2011	2010	2009	2008
Syndicate allocated capacity – £'000	242,760	224,698	214,167	214,841	215,724	147,831	158,230
Syndicate allocated capacity – $'000	368,995	352,775	325,533	337,300	323,587	294,184	261,715
Capacity utilised	79%	84%	84%	86%	88%	92%	87%
Aggregate net premiums – $'000	290,272	234,093	204,582	223,392	216,294	194,730	224,784
Underwriting profit as a percentage of gross premiums	27.9%	23.5%	31.3%	20.3%	14.2%	26.4%	21.3%
Return on capacity	18.6%	10.8%	13.6%	10.3%	6.1%	21.0%	13.4%
Results for an illustrative £10,000 share							
Gross premiums	11,957	13,189	13,092	12,805	13,021	21,326	17,631
Net premiums	9,696	10,418	9,909	9,584	10,109	13,614	14,206
Reinsurance to close from an earlier account	13,216	14,561	16,181	16,422	15,920	22,059	18,377
Net claims	(5,755)	(6,545)	(6,199)	(7,215)	(7,093)	(7,510)	(7,613)
Reinsurance to close the year of account	(13,106)	(14,576)	(15,698)	(16,021)	(16,339)	(22,526)	(20,958)
Underwriting profit	4,051	3,858	4,193	2,770	2,597	5,637	4,012
Profit/(loss) on foreign exchange	326	22	(38)	(49)	(5)	128	95
Syndicate operating expenses	(1,890)	(1,984)	(1,923)	(756)	(1,485)	(2,167)	(1,745)
Balance on technical account	2,487	1,896	2,232	1,965	1,107	3,598	2,362
Gross investment return	494	337	528	310	311	546	398
Profit before personal expenses	2,981	2,233	2,760	2,275	1,418	4,144	2,760
Illustrative personal expenses							
Illustrative personal expenses	(190)	(214)	(188)	(220)	(222)	(187)	(264)
Managing agent's profit commission	(427)	(383)	(449)	(352)	(208)	(660)	(437)
Profit after illustrative profit commission and personal expenses ($)	2,364	1,636	2,123	1,703	988	3,297	2,059
Profit after illustrative profit commission and personal expenses (£)	1,862	1,083	1,360	1,026	606	2,100	1,338

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

Managing agent corporate information

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

Directors

D Holt* – chairman
M R Bernacki
G P Blunden*
M L Bride – finance director
A P Cox
A Crawford-Ingle*
N H Furlonge*
D A Horton – chief executive officer
N P Maidment – active underwriter
R Stuchbery* (appointed 09/08/2016)
R A W Tolle* (resigned 11/03/2016)
C A Washbourn
K W Wilkins*

* Non-executive director.

Company secretary

S A Coope (resigned – 01/07/2016)
C P Oldridge (appointed – 01/07/2016)

Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Managing agent's registered office

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United Kingdom

Registered number

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