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SYNDICATE 3623

ANNUAL REPORT AND ACCOUNTS

YEAR ENDED
31 DECEMBER 2014

SYNDICATE 3623
31 DECEMBER 2014

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SYNDICATE 3623
31 DECEMBER 2014

STRATEGIC REPORT OF THE MANAGING AGENT

Overview

Syndicate 3623 underwrites personal accident and sports insurance at Lloyd's and reinsurance business ceded from our US admitted insurance company, Beazley Insurance Company, Inc. ('BICI').

For 2014 total managed premium capacity for Beazley Furlonge Limited was £1,513.7m (2013: £1,408.1m), which includes £16.0m, £140.0m and £21.0m for 3622, 3623 and 6107 respectively. Syndicate 623 contributed £242.8m and syndicate 2623 contributed the remaining £1,093.9m. The result for syndicate 3623 for the year ended 31 December 2014 is a profit of $9.5m (2013: loss of $9.5m).

Year of account results

The 2012 year of account declares a loss on capacity of 2.1%. The 2013 year of account currently forecasts closing at a break even position.

Rating environment

Overall, rates on renewal business increased by 5% in 2014 (2013: flat).

Combined Ratio

The combined ratio of an insurance entity is a common measure of its operating performance and represents the ratio of its total costs (excluding foreign exchange movements) to total premium income. The syndicate's combined ratio for 2014 was 97% (2013: 101%). Within the combined ratio, the claims ratio was 56% (2013: 61%) and the expense ratio was 41% (2013: 40%).

Claims

Following the significant loss activity experienced in our life, accident and health division in 2013, the syndicate's overall claims ratio decreased from 61% in the prior year to 56% in 2014.

The syndicate released prior year reserves of $4.6m during 2014 (2013: strengthening of $3.6m).

Net operating expenses

Net operating expenses, including business acquisition costs and administrative expenses were $77.5m (2013: $79.5m). The breakdown of these costs is shown below:

	2014 **$m**	**2013** **$m**
Brokerage costs	75.8	64.0
Other acquisition costs	3.7	3.9
Total acquisition costs	**79.5**	**67.9**
Administrative and other expenses	(2.0)	11.6
Net operating expenses*	**77.5**	**79.5**

* A break down of net operating expenses can be seen in note 3.

Brokerage costs are the premium commissions paid to insurance intermediaries for providing business. Brokerage costs as a percentage of net earned premiums are approximately 39% (2013: 36%). Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with accounting guidelines. Administrative expenses comprise primarily IT costs, facilities costs, Lloyd's central costs and other support costs (including foreign exchange gains and losses). In 2014, administrative expenses include foreign exchange gain of $1.9m (2013: loss of $8.0m).

Reinsurance

In 2014, the amount spent on reinsurance was $37.0m (2013: $23.3m). Reinsurance is purchased for a number of reasons, including:

- to enable the syndicate to put down large, lead lines on risks we underwrite; and
- to manage capital levels.

STRATEGIC REPORT OF THE MANAGING AGENT (CONTINUED)

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

The current capital assessment has been established using our Solvency II internal model which has been run within the ICA regime as prescribed by Lloyd's. In order to determine the capital assessment, we have made significant investments in both models and process:

- we use sophisticated mathematical models that reflect the key risks in the business allowing for probability of occurrence, impact if they do occur, and interaction between risk types. A key focus of these models is to understand the risk posed to individual teams, and to the business as a whole, of a possible deterioration in the underwriting cycle; and
- the internal model process is embedded so that teams can see the direct and objective link between underwriting decisions and the capital allocated to that team. This gives a consistent and comprehensive picture of the risk reward profile of the business and allows teams to focus on strategies that improve return on capital.

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

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

Outlook
The syndicate returned to profitability in 2014. We expect the 2013 YOA to close at a breakeven position, while the 2014 YOA is developing well at this early stage.

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N P Maidment
Active underwriter

11 March 2015

SYNDICATE 3623
31 DECEMBER 2014

MANAGING AGENT'S REPORT

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

These syndicate annual accounts have been prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Principal activities

The principal activities of syndicate 3623 are the transaction of personal accident and sports insurance at Lloyd's and the transaction of reinsurance business with our admitted insurance company, Beazley Insurance Company, Inc. ('BICI').

Risk management philosophy

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

Risk governance and reporting

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

2014 in review

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

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

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

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

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

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

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

MANAGING AGENT'S REPORT (CONTINUED)

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

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

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

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

Risk management strategy

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

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

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

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

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

Managing the cycle

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

MANAGING AGENT'S REPORT (CONTINUED)

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

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

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

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

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

Credit risk
Credit risk arises from the failure of another party to perform its financial or contractual obligations for the syndicate in a timely manner. The primary sources of credit risk for the syndicate are:

- reinsurers – whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the syndicate;
- brokers and coverholders – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the syndicate;
- investments – whereby issuer default results in the syndicate losing all or part of the value of a financial instrument and derivative financial instrument; and
- cash and cash equivalents.

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

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

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

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

Directors
A list of directors of the managing agent who held office during the year and to the date of this report can be found on page 25.

MANAGING AGENT'S REPORT (CONTINUED)

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

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

By order of the board

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M L Bride
Finance director

11 March 2015

SYNDICATE 3623
31 DECEMBER 2014

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

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

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

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

- select suitable accounting policies and then apply them consistently, subject to the changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the syndicate annual accounts; and
- prepare the syndicate annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

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

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

By order of the board

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M L Bride
Finance director

11 March 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 3623

We have audited the syndicate 3623 annual accounts for the year ended 31 December 2014, as set out on pages 11 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of the managing agent and the auditor

As explained more fully in the statement of managing agent's responsibilities set out on page 9, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

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

Opinion on syndicate annual accounts

In our opinion the annual accounts:

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

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

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

Matters on which we are required to report by exception

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

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

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

11 March 2015

SYNDICATE 3623
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 DECEMBER 2014

	Notes	2014 $m	2013 $m
Gross premiums written	2	250.1	209.6
Outward reinsurance premiums		(37.0)	(23.3)
Net premiums written		213.1	186.3
Change in the gross provision for unearned premiums	12	(19.7)	(2.8)
Change in the provision for unearned premiums, reinsurers' share	12	0.3	(5.5)
Change in the net provision for unearned premiums		(19.4)	(8.3)
Earned premiums, net of reinsurance		193.7	178.0
Allocated investment return transferred from the non-technical account	7	1.9	(0.2)
Gross claims paid		(94.5)	(55.1)
Reinsurers' share of claims paid		13.9	2.3
Claims paid net of reinsurance		(80.6)	(52.8)
Change in the gross provision for claims	12	(35.8)	(75.6)
Change in the provision for claims, reinsurers' share	12	7.8	20.6
Change in the net provision for claims		(28.0)	(55.0)
Claims incurred, net of reinsurance		(108.6)	(107.8)
Net operating expenses	3	(77.5)	(79.5)
Balance on the technical account		9.5	(9.5)
Investment income	7	4.6	3.0
Investment expenses and charges	7	-	(0.2)
Realised losses on investments	7	(0.9)	(0.5)
Unrealised losses on investments	7	(1.8)	(2.5)
		1.9	(0.2)
Allocated investment return transferred to general business technical account		(1.9)	0.2
Profit/(loss) for the financial year		9.5	(9.5)

All of the above operations are continuing.

SYNDICATE 3623
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
YEAR ENDED 31 DECEMBER 2014

	2014 $m	2013 $m
Profit/(loss) for the financial year	9.5	(9.5)
Foreign exchange (loss)/gain on brought forward reserves	(1.4)	0.3
Total recognised gains/(losses) since last annual report	8.1	(9.2)

SYNDICATE 3623
BALANCE SHEET
AS AT 31 DECEMBER 2014

ASSETS	Notes	2014 $m	2013 $m
Financial assets at fair value	8	261.5	218.1
Reinsurers' share of technical provisions			
Provision for unearned premiums, reinsurers' share	12	14.1	14.1
Claims outstanding, reinsurers' share	12	64.2	57.3
		78.3	71.4
Debtors			
Debtors arising out of direct insurance operations		57.4	39.2
Debtors arising out of reinsurance operations		41.0	55.2
Other debtors	9	2.1	3.2
		100.5	97.6
Cash at bank and in hand	10	20.8	14.0
Deferred acquisition costs		34.1	27.7
Other prepayments and accrued income		0.4	-
TOTAL ASSETS		495.6	428.8
LIABILITIES, CAPITAL AND RESERVES			
Capital and reserves			
Member's balances attributable to underwriting participations	11	(13.7)	(25.0)
Technical provisions			
Provision for unearned premiums	12	108.7	90.9
Claims outstanding	12	296.5	265.0
		405.2	355.9
Creditors			
Creditors arising out of direct insurance operations		13.2	13.2
Creditors arising out of reinsurance operations		19.9	27.9
Other creditors	13	71.0	55.5
		104.1	96.6
Accruals and deferred income		-	1.3
TOTAL LIABILITIES, CAPITAL AND RESERVES		495.6	428.8

The syndicate annual accounts on pages 11 to 24 were approved by the board of Beazley Furlonge Limited on 11 March 2015 and were signed on its behalf by

....
N P Maidment (Active underwriter)

....
M L Bride (Finance director)

SYNDICATE 3623
CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2014

	Notes	2014 $m	2013 $m
RECONCILIATION OF LOSS FOR THE YEAR TO NET CASH INFLOW FROM OPERATING ACTIVITIES			
Profit/(loss) for the financial year		9.5	(9.5)
Change to market value and currencies on investments		13.0	(1.3)
Increase in net technical provisions		42.4	65.8
Increase in debtors		(9.7)	(0.2)
Decrease/(increase) in creditors		6.2	(20.0)
Net cash inflow from operating activities		61.4	34.8
Translation differences		(1.4)	0.3
Transfer from member in respect of underwriting participations		3.2	7.5
	14	63.2	42.6

Cash flows were invested as follows:

	Notes	2014 $m	2013 $m
Increase/(decrease) in cash holdings		7.6	(8.2)
Increase in financial assets		55.6	50.8
Net investment of cash flows	14	63.2	42.6

SYNDICATE 3623
NOTES TO THE SYNDICATE ANNUAL ACCOUNTS
YEAR ENDED 31 DECEMBER 2014

1. Accounting policies

Basis of preparation

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

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

Use of estimates and judgements

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

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

(a) Premiums

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

(b) Unearned premiums

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

(c) Claims

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

The provision for claims comprises amounts set aside for claims advised and IBNR. The IBNR amount is based on estimates calculated using widely accepted statistical techniques (e.g. "chain ladder") which are reviewed annually by external consulting actuaries. The techniques generally use projections, based on past experience of the development of claims over time, to form a view on the likely ultimate claims to be experienced. For more recent underwriting, regard is given to the variations in the business portfolio accepted and the underlying terms and conditions.

Thus, the critical assumptions used when estimating claims provisions are that the past experience is a reasonable predictor of likely future claims development and that the rating and other models used to analyse current business are a fair reflection of the likely level of ultimate claims to be incurred.

1. Accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

1. Accounting policies (continued)

(i) 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.

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

(j) 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.

(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 less any impairment losses.

(l) Other debtors
Other debtors 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) 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.

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

SYNDICATE 3623
NOTES TO THE SYNDICATE ANNUAL ACCOUNTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2014

2. Segmental analysis

2014	Life, accident & health $m	Reinsurance $m	Unallocated $m	Total $m
Gross premiums written	107.5	142.6	-	250.1
Net premiums written	90.5	122.6	-	213.1
Gross earned premiums	96.5	133.9	-	230.4
Outward reinsurance premiums earned	(16.0)	(20.7)	-	(36.7)
Earned premiums, net of reinsurance	80.5	113.2	-	193.7
Gross claims	(58.4)	(71.9)	-	(130.3)
Reinsurers share	12.0	9.7	-	21.7
Claims incurred, net of reinsurance	(46.4)	(62.2)	-	(108.6)
Operating expenses before foreign exchange	(33.3)	(46.1)	-	(79.4)
Technical result before net investment income and foreign exchange	0.8	4.9	-	5.7
Gain on foreign exchange	-	-	1.9	1.9
Net investment income	-	-	1.9	1.9
Profit for financial year	**0.8**	**4.9**	**3.8**	**9.5**
Claims ratio	58%	55%	-	56%
Expense ratio	41%	41%	-	41%
Combined ratio	99%	96%	-	97%

The expense ratios shown above are calculated excluding any profit or loss on foreign exchange. The reinsurance segment above includes reinsurance business with our US admitted insurance company, BICI. BICI writes predominantly specialty lines business.

All business was underwritten in the UK.

2. Segmental analysis (continued)

2013	Life, Accident and Health $m	Reinsurance $m	Unallocated $m	Total $m
Gross premiums written	80.3	129.3	-	209.6
Net premiums written	77.2	109.1	-	186.3
Gross earned premiums	88.3	118.5	-	206.8
Outward reinsurance premiums	(10.4)	(18.4)	-	(28.8)
Earned premiums, net of reinsurance	77.9	100.1	-	178.0
Gross claims	(67.5)	(63.2)	-	(130.7)
Reinsurers share	8.9	14.0	-	22.9
Claims incurred, net of reinsurance	(58.6)	(49.2)	-	(107.8)
Operating expenses before foreign exchange	(31.8)	(39.7)	-	(71.5)
Technical result before net investment income and foreign exchange	(12.5)	11.2	-	(1.3)
Loss on foreign exchange	-	-	(8.0)	(8.0)
Net investment income	-	-	(0.2)	(0.2)
Loss for financial year	**(12.5)**	**11.2**	**(8.2)**	**(9.5)**
Claims ratio	75%	49%	-	61%
Expense ratio	41%	40%	-	40%
Combined ratio	116%	89%	-	101%

The expense ratios shown above are calculated excluding any profit or loss on foreign exchange. The reinsurance segment above includes reinsurance business with our US admitted insurance company, BICI. BICI writes predominantly specialty lines business.

All business was underwritten in the UK.

3. Net operating expenses

	2014 $m	2013 $m
Acquisition costs	86.5	71.3
Change in deferred acquisition costs	(7.0)	(3.4)
Member's standard personal expenses	2.8	2.3
Administrative expenses	3.5	5.7
Overriding commission	(6.4)	(4.4)
(Gain)/loss on foreign exchange	(1.9)	8.0
	77.5	79.5

Administrative expenses include:

	2014 $'000	2013 $'000
Auditor's remuneration:		
Fees payable to the syndicate's auditor for the audit of these annual accounts	21.6	19.9
Fees payable to the syndicate's auditor and its associates in respect of:		
Other services pursuant to legislation	40.4	37.1

Managing agent fees paid to Beazley Furlonge Limited in respect of services provided to the syndicate amounted to $1.4m (2013: $1.2m).

4. Staff costs

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

	2014 $m	2013 $m
Wages and salaries	2.3	2.0
Short-term incentive payments	1.9	1.5
Social security costs	0.3	0.3
Pension costs	0.3	0.2
	4.8	4.0

5. 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 3623 and included within net operating expenses:

	2014 $m	2013 $m
Emoluments and fees	0.7	0.6
Contributions to defined contribution pension schemes	-	-
	0.7	0.6

6. Active underwriter's emoluments

The aggregate amount of remuneration paid to and for the benefit of the active underwriter, which was recharged to syndicate 3623 was $124,681 (2013: $131,136).

7. Net investment income

	2014 $m	2013 $m
Interest and dividends on financial investments at fair value through profit or loss	4.6	3.0
Interest on cash and cash equivalents	-	-
Realised losses on financial investments at fair value through profit or loss	(0.9)	(0.5)
Net unrealised fair value losses on financial investments at fair value through profit or loss	(1.8)	(2.5)
Investment income from financial investments	1.9	-
Investment management expenses	-	(0.2)
Total net investment income	1.9	(0.2)

8. Financial assets

	Market value		Cost	
Financial assets at fair value	**2014 $m**	**2013 $m**	**2014 $m**	**2013 $m**
Fixed and floating debt securities	261.5	218.1	259.6	217.9
	261.5	218.1	259.6	217.9

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

9. Other debtors

	2014 $m	2013 $m
Amount due from 623	0.3	0.5
Amount due from 2623	-	1.8
Sundry debtors	1.8	0.9
Total debtors	2.1	3.2

The above amounts are due within one year.

10. Cash at bank and in hand

	2014 $m	2013 $m
Cash at bank and in hand	20.8	14.0

11. Reconciliation of member's balances

	2014 $m	2013 $m
Member's balances brought forward at 1 January	(25.0)	(23.3)
Profit/(loss) for the financial year	9.5	(9.5)
Foreign exchange on brought forward reserves	(1.4)	0.3
Transfer from member in respect of underwriting participations	3.2	7.5
Member's balances carried forward at 31 December	(13.7)	(25.0)

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.

Member's balances attributable to Beazley Underwriting Limited, the sole corporate member, across both of its non-life syndicates (i.e. syndicate 2623 and syndicate 3623) are positive and thus it is not necessary for the syndicate to make a cash call.

12. Technical provisions

	Provision for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January 2014	90.9	265.0
Movement in the provision	19.7	35.8
Exchange adjustments	(1.9)	(4.3)
As at 31 December 2014	108.7	296.5
Reinsurers' share of technical provisions		
As at 1 January 2014	14.1	57.3
Movement in the provision	0.3	7.8
Exchange adjustments	(0.3)	(0.9)
As at 31 December 2014	14.1	64.2
Net technical provisions		
As at 1 January 2014	76.8	207.7
As at 31 December 2014	94.6	232.3

SYNDICATE 3623
NOTES TO THE SYNDICATE ANNUAL ACCOUNTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2014

12. Technical provisions (continued)

	Provision for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January 2013	88.1	186.6
Movement in the provision	2.8	75.6
Exchange adjustments	-	2.8
As at 31 December 2013	90.9	265.0
Reinsurers' share of technical provisions		
As at 1 January 2013	19.8	36.2
Movement in the provision	(5.5)	20.6
Exchange adjustments	(0.2)	0.5
As at 31 December 2013	14.1	57.3
Net technical provisions		
As at 1 January 2013	68.3	150.4
As at 31 December 2013	76.8	207.7

13. Other creditors

	2014 $m	2013 $m
Amount due to syndicate 2623	48.0	-
Net amount due to other group undertakings	23.0	55.5
Total creditors	71.0	55.5

The above balances are payable within one year.

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

	2014 $m	2013 $m
Net cash outflow for the year	7.6	(8.2)
Cash flow - investments	55.6	50.8
Movement arising from cash flows	63.2	42.6
Changes in market value	(13.0)	1.3
Total movement in investments net of financing	50.2	43.9
Cash and investments as at 1 January	232.1	188.2
Cash and investments as at 31 December	282.3	232.1

15. Movement in cash and financial assets at fair value

	At 1 January 2014 $m	Cash flow $m	Changes to market value and currencies $m	At 31 December 2014 $m
Cash at bank and in hand	14.0	7.6	(0.8)	20.8
Financial assets	218.1	55.6	(12.2)	261.5
Total cash and financial assets at fair value	232.1	63.2	(13.0)	282.3

16. Post balance sheet events

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

	2014 $m	2013 $m
2011 Year of account	-	(3.2)
2012 Year of account	(4.5)	-
	(4.5)	(3.2)

No cash call is required as syndicate 3623's sole member is Beazley Underwriting Limited. The overall member's balance attributable to 2012YOA for this corporate member is positive.

SYNDICATE 3623
MANAGING AGENT CORPORATE INFORMATION

Beazley Furlonge Limited has been the managing agent of syndicate 3623 throughout the period covered by this report and the registered office is Plantation Place South, 60 Great Tower Street, London EC3R 5AD.

Directors
D Holt * - chairman
G P Blunden *
M L Bride – finance director
A P Cox
A Crawford-Ingle*
R V Deutsch * (resigned 07.07.2014)
N H Furlonge *
J G Gray
D A Horton – chief executive officer
N P Maidment – active underwriter
R A W Tolle *
C A Washbourn
K W Wilkins * (appointed 02/03/2015)

* Non-executive director.

Company secretary
S A Coope

Auditor
KPMG LLP
15 Canada Square
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E14 5GL

Managing agent's registered office
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Registered number
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