Beazley Furlonge Limited | Syndicate 623 at Lloyd's

Annual report 2012

beazley

Contents

Highlights

	2012	2011
Syndicate capacity (£m)	214.2	214.9
Gross premiums written ($m)	367.6	349.6
Net premiums written ($m)	301.0	276.2
Earned premiums, net of reinsurance ($m)	296.4	274.7
Profit for the financial year ($m)	**41.0**	**2.1**
Claims ratio	50%	64%
Expense ratio	36%	36%
Combined ratio	86%	100%
Renewal rate increase	3%	1%
Cash and investments ($m)	626.1	595.4
Annualised investment return	1.7%	1.1%

Underwriter's report

Overview

The syndicate has achieved a profit for the year of $41.0m (2011: $2.1m). Gross premiums written of $367.6m have increased by 5% on 2011 ($349.6m).

For 2012 total managed premium capacity for Beazley Furlonge Limited was £1,318.1m (2011: £1,319.2m), which includes £12.5m, £135.0m and £10.2m for 3622, 3623 and 6107 respectively. Syndicate 623 contributed £214.2m and Beazley plc through syndicate 2623, the remaining £946.2m.

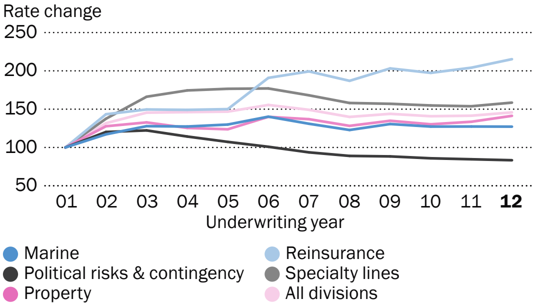
Year of account results

We are pleased to declare a return on capacity of 6.1% for the 2010 year of account. The 2011 year of account is currently forecasting a 2.5% return on capacity. The 2012 year of account, despite superstorm Sandy appears to be developing in line with expectations and currently forecasts a return on capacity of 3%.

Rating environment

Premium rates charged for renewal business increased by 3% during 2012 across the portfolio (2011: increase of 1%). The most notable rate increases in 2012 were seen in our specialty lines division (3% increase) where rate increases have not been seen for the past 6 years. Increases were the most significant in professional indemnity for architects and engineers (10%), lawyers (3%) and treaty (4%). Other significant rate increases were seen within our catastrophe-exposed classes; reinsurance (5%) and property (6%). Rate change on renewals in marine were unchanged when compared to 2011 whilst political risks and contingency saw a 1% decrease. Market conditions remain competitive across the portfolio.

Cumulative renewal rate changes since 2001 (%)



Combined ratio

The combined ratio of an insurance company is a measure of its operating performance and represents the ratio of its total costs (including claims and expenses) to total net earned premium, a combined ratio under 100% indicating an underwriting profit. Consistent delivery of operating performance across the market cycle is clearly a key objective for an insurer. The syndicate's combined ratio has decreased in 2012 to 86% (2011: 100%). The calculation of the combined ratio for the syndicate includes all claims and other costs but excludes foreign exchange effects. We believe this represents the most transparent and useful measure of operating performance as it ensures that all of the costs of being in business are captured, whether directly linked to underwriting activity or not. Within the combined ratio, the claims ratio improved to 50%, while the expense ratio remained at 36%.

Claims

Claims notifications (with the exception of superstorm Sandy) were at normalised levels during 2012, with loss developments in line with our expectations. Despite an active storm season in the North Atlantic, we did not incur a significant loss until Sandy made landfall in October. We estimate the cost of Sandy to be $20m to the syndicate based on market losses of $20bn-$25bn.

Prior year reserve releases

Beazley has a consistent reserving philosophy with initial reserves being set to include risk margins that may be released over time as and when any uncertainty reduces. Historically these margins have given rise to held reserves within the range 5-10% above the actuarial estimate. We continue to maintain a surplus in our reserves, this was 6.9% at the end of 2012 (2011: 7.4%).

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 2012 we were able to make the following prior year reserve adjustments across divisions, with the overall net impact being a decreased release to the syndicate following very high releases in 2011, particularly in classes affected by the string of natural catastrophe events.

	2012 $m	2011 $m
Marine	6.5	9.2
Political risks and contingency	7.8	5.2
Property	2.4	4.8
Reinsurance	1.6	8.9
Specialty lines	11.0	14.5
Total	**29.3**	**42.6**
Releases as a percentage of net earned premium	9.9%	15.5%

Operating expenses

Total operating expenses, including business acquisition costs and administrative expenses increased from $97.9m to $112.1m in 2012. The breakdown of these costs is shown below:

	2012 $m	2011 $m
Brokerage costs	73.3	69.0
Other acquisition costs	12.6	11.6
Total acquisition costs	**85.9**	**80.6**
Administrative expenses	26.2	17.3
Total operating expenses	**112.1**	**97.9**

Brokerage costs are the premium commissions paid to insurance intermediaries for providing business. Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with accounting guidelines.

Other acquisition costs comprise costs that have been identified as being directly related to underwriting activity (eg 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.

Investment performance

Investment income for the period ended 31 December 2012 was $10.4m, or an annualised return of 1.7%, compared with $6.6m and an annualised return of 1.1% over the same period in 2011. Our decision to increase the allocation to investment-grade credit improved the overall investment return for the year as yields continued to come down, spreads tightened and the interest rate curve flattened further.

Although markets were generally positive in 2012, investment conditions have remained challenging due to continued political risk in Europe and the US. Initially the European sovereign debt crisis dominated market sentiment, before the focus eventually turned towards the fiscal cliff negotiations in the US that followed the re-election of the Obama administration in November. It is unlikely that either of these issues will be fully resolved in the short-term, and consequently further volatility in financial markets can be expected in future.

We actively seek to avoid direct exposure to sovereign debt issued by distressed European countries as well as from the overall banking sector, and consequently our eurozone sovereign bond exposures are restricted to Germany, France, Austria, Belgium, Finland, Luxembourg and the Netherlands.

Underwriter's report *continued*

The strategy continues to be implemented together with Falcon Money Management Limited, our associated company. Our core portfolio amounted to 90% of total investments and we reduced our allocation to core sovereign, supranational and agency debt whilst retaining elevated levels of cash and other short-term investments. We have increased our allocations to US non-financial corporate and asset-backed credit in order to take advantage of the more attractive risk adjusted yield these assets offer, and maintain the balance of our investments in a diversified portfolio of capital growth assets. At 31 December 2012 the weighted average duration of our core portfolio was 23 months (31 December 2011: 16 months). The weighted average yield to maturity of our overall portfolio was 1.0% (31 December 2011: 0.7%).

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

	31 Dec 2012		31 Dec 2011	
	$m	%	$m	%
Cash at bank and in hand	93.8	15	80.3	14
Government, Agency and Supranational	295.1	47	328.6	55
AAA	65.3	11	51.2	9
AA+ to AA-	27.1	4	15.9	3
A+ to A-	44.2	7	37.5	6
BBB+ to BBB-	25.1	4	13.2	2
BB+ to BB-	10.6	2	–	–
Derivative financial assets	–	–	0.6	–
Core portfolio	561.2	90	527.3	89
Capital growth assets	64.9	10	68.1	11
Total	**626.1**	**100**	**595.4**	**100**

Comparison of return by major asset class:

	31 Dec 2012		31 Dec 2011	
	$m	%	$m	%
Core portfolio	8.3	1.5	7.5	1.4
Capital growth assets	2.1	3.2	(0.9)	(1.3)
Overall return	**10.4**	**1.7**	**6.6**	**1.1**

Employee numbers

In 2012, our permanent UK employee numbers grew from 409 to 439 as we continue to grow our business organically and through acquisition of other business portfolios. Talent management remains one of our core principles.

The number of employees employed by Beazley Management Limited but working for the combined syndicates as at the year-end was as follows:

Employee numbers	2012	2011
Marine	40	33
Political risks and contingency	22	21
Property	41	37
Reinsurance	8	8
Specialty lines	86	85
Finance (including actuarial, compliance and internal audit)	51	44
IT	61	64
Ceded reinsurance	14	13
Talent management	14	13
General management and other support	102	91
Total	439	409

Please note that the analysis above excludes employees working for Beazley's overseas managing general agencies.

Reinsurance

In 2012, the amount spent on reinsurance was $66.6m (2011: $73.4m). The largest element of this movement was a reduction in the reinstatement premiums paid. Reinsurance is purchased for a number of reasons:

- to mitigate the impact of catastrophes such as hurricanes;
- to enable the syndicate to write large or lead lines on risks we underwrite; and
- to manage capital to lower levels.

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

Individual capital assessment

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

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

- we use sophisticated mathematical models that reflect the key risks in the business allowing for probability of occurrence, impact 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 ICA process is embedded so that the teams can see the direct and objective link between underwriting decisions and the capital allocated to that team. This gives a consistent and comprehensive picture of the risk reward profile of the business and allows teams to focus on strategies that improve return on capital.

Based on the increase in business planned and the changes in economic conditions, the syndicate has increased its funds at Lloyd's for 2013.

Solvency II

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

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

During 2012 the dedicated project management team and subject matter experts completed all outstanding activities for Lloyd's. We confirmed our Final Application Status to Lloyd's, including a confirmation that we were expecting to be fully compliant by the end of 2012 and a detailed Target Operating Model, describing the business as usual processes for maintaining ongoing compliance with the tests and standards. We embedded the SII internal model and all the new processes into the business, taking further advantage of our improved management information and decision making processes, and had our capital approved for 2013 using the new model. All Pillar I and Pillar II aspects of SII have now been fully transferred into business as usual. The remaining work on Pillar III (reporting and disclosure) will be completed in line with the Lloyd's plan over the next few years.

We also went through an extensive review process with the FSA, with a number of aspects of the SII internal model already having been reviewed in depth. During 2013, the syndicate will continue to work with Lloyd's and the FSA to facilitate any further reviews, to further embed the model and the procedures, and to prepare ourselves for the regime coming into force – which is now assumed to be in 2016 at the earliest.

Outlook

Syndicate 623 has produced a positive result on the closed 2010 underwriting year. On 2010 and 2011 underwriting years, the balance of the portfolio has proved its strength in the face of market testing catastrophe losses, while 2012 is developing in line with expectations and currently forecasts a return on capacity of 3%.

N P Maidment
Active Underwriter

6 March 2013

Marine

	2012 $m	2011 $m
Gross premiums written	69.3	64.2
Net premiums written	63.2	57.2
Earned premiums, net of reinsurance	63.8	54.1
Claims incurred, net of reinsurance	(25.9)	(20.9)
Net operating expenses	(20.8)	(19.5)
Technical result	**17.1**	**13.7**
Claims ratio	40%	39%
Expense ratio	33%	36%
Combined ratio	73%	75%
Renewal rate change	–	–

For Beazley's marine division, led by Clive Washbourn, 2012 was a year of continued strong profitability – with a combined ratio of 73% (2011: 75%) on premiums of $69.3m (2011: $64.2m). It was also the year in which we announced plans to target profitable niches in two new markets: aviation insurance and kidnap and ransom insurance.

Since 1999, Beazley has built a broad-based marine and energy book in often competitive markets. Our approach is characterised by careful risk selection and swift and supportive claims service – we believe strongly that rapid claims resolution benefits both insured and insurer. We are a major insurer of hull and cargo risks; a growing force in marine liability insurance; and a London market leader in war and piracy risks. Since 2007 we have been growing our energy account, which last year accounted for 40% of the division's total premiums.

Energy business made a substantial contribution to our profitable growth in 2012, with premiums rising to $27.7m (2011: $23.2m). Matt Holmes, who took over the leadership of our energy team in October 2011, has been successful in developing new broker relationships and business opportunities to drive this account forward. Renewal rates on our energy business rose by 7% at the beginning of the year, but showed signs of softening on later renewals.

During 2012 we avoided losses from the grounding of the Costa Concordia cruise ship in January – a $1.3bn insured loss that affected most of the marine market. We also incurred minimal losses from superstorm Sandy in October, which is currently estimated to have generated between $2bn and $3bn in marine market losses. There can be no guarantee that we will always avoid the largest claims, but we will continue to reject business that we see as underpriced and will focus on maintaining a well diversified portfolio.

We have seen steady demand for our combined war risk and piracy policy, launched in July even though vessel captures have significantly declined as a result of tighter security measures. In December, we also launched a specialist piracy policy for shipowners with vessels operating in the Gulf of Guinea.

An important dimension of all of these forms of cover is the availability of expert consultants and negotiators to help our insureds reduce the risk of successful attacks and – in the event that a hijack does take place – secure the safe release of captured crew and recovery of the vessel.

In this respect, piracy insurance is similar to terrestrial kidnap and ransom (K&R) insurance. In June, we welcomed specialist K&R underwriter Michael Sharp to Beazley and charged him with the further development of our marine piracy business and the creation of a profitable non marine K&R book. We will be developing our K&R business in partnership with specialist consultants Hazelwood Street, who have a strong track record of successfully handling kidnap negotiations.

Another new venture for us, also announced in June, was the expansion of our aviation business well beyond the small aviation war risks book which we have underwritten for several years. Later this year, David Oates, a leading aviation underwriter in the London market, will be joining us to lead an aviation team that is already established at Beazley and underwriting business. Our business model for the new aviation book will be aligned to that of the wider marine division. We will target specialist niches where higher margins are achievable as we have done consistently and successfully in the marine market to date rather than focussing on areas where competition is currently intense.

Political risks and contingency

	2012 $m	2011 $m
Gross premiums written	25.9	23.9
Net premiums written	22.9	19.8
Earned premiums, net of reinsurance	22.4	19.2
Claims incurred, net of reinsurance	(2.1)	(8.4)
Net operating expenses	(8.9)	(7.1)
Technical result	**11.4**	**3.7**
Claims ratio	9%	44%
Expense ratio	40%	37%
Combined ratio	49%	81%
Renewal rate decrease	(1%)	(1%)

The political risks and contingency (PCG) division of Beazley recorded a successful year, with a combined ratio of 49% (2011: 81%) on gross premiums of $25.9m (2011: $23.9m). Under the leadership of Adrian Lewers, PCG continued to expand its geographic footprint in Europe and the US.

The division focuses on three main lines of business: political risks and trade credit insurance, a longstanding specialism of the Lloyd's market; terrorism insurance; and event cancellation insurance, which forms the core of our contingency book. Rates on renewal business decreased by 1% in 2012 across PCG as a whole relative to 2011.

Premium growth remained challenging to achieve in an environment characterised by subdued economic activity – most of our insureds are located in Europe or the United States – and tight credit, factors that have had an impact on both our political risks and contingency businesses. On the plus side, the banks that finance exports and international investments are more inclined to encourage borrowers to purchase political risks cover as well as to purchase credit insurance for their own interests.

Against this background, claims experience has been generally benign with the exception of protracted wet weather in the UK and, latterly, superstorm Sandy which both affected our contingency account. Our political account, which experienced increased trade credit claims in the aftermath of the global financial crisis and was conservatively reserved at the time, continued to see significant recoveries against these claims in line with our expectations. In 2012, this contributed to releases across PCG of $7.8m from prior year reserves.

In November we welcomed Yera Patel from specialty lines as head of PCG claims. Yera's extensive experience in specialty lines and the US in particular, adds depth to the PCG claims service as we seek to expand our political risks, trade credit and contingency underwriting locally in the US.

London is the world's leading centre for risks of this kind and we have continued to invest in our London based underwriting and claims teams. We also took steps in 2012 to broaden our access to business that we do not normally see at Lloyd's.

In May, we recruited a senior figure, Ann Russell-Cook, in the Asian political risk and structured trade credit market in our Singapore office to assume underwriting responsibility for our political risk and trade credit business in Asia. She is supported by the team, who continue to underwrite standalone terrorism and contingency business for the region. In Australia, our Brisbane office continues to develop our local contingency business.

In April, we relocated one of our underwriters, who had successfully established our political risks underwriting presence in Singapore, to Paris. France has long had its own specialist political risks market, supported by a number of brokers who do relatively little business with London. We believed there was room for a new insurer in the French market, offering a robust product and rapid turnaround on broker submissions. The initial response to our service offering has been very positive.

In the US, we are moving forward on two fronts. We expanded our US political risks presence in 2012 with the hiring of a new underwriter, Matthew Dunne. And in January of this year, a senior member of our contingency team, Christian Phillips, relocated from our London office to Philadelphia. Christian will initially be underwriting event cancellation, non appearance, prize indemnity and weather business locally in the US on a non admitted basis, with the aim of adding more admitted capabilities during 2013.

Looking forward, we do not expect profitable growth will be easy to come by. But with our expanded geographic footprint, and with continued enhancements to our products and service standards, we believe it is achievable.

Property

	2012 $m	2011 $m
Gross premiums written	82.9	81.4
Net premiums written	60.9	62.2
Earned premiums, net of reinsurance	60.2	62.9
Claims incurred, net of reinsurance	(30.2)	(39.6)
Net operating expenses	(26.7)	(26.1)
Technical result	**3.3**	**(2.8)**
Claims ratio	50%	63%
Expense ratio	45%	41%
Combined ratio	95%	104%
Renewal rate increase	6%	3%

Beazley's second largest division increased its premiums in 2012 to $82.9m (2011: $81.4m). After the exceptional worldwide catastrophe losses of 2011, rates rose by an average of 6% across our portfolio.

Our property business covers a wide spectrum of risk sizes and geographies, ranging from large scale mining risks (a sector in which we are a market leader) written by our underwriters at Lloyd's, to homeowners' risks in the US and UK written through wholesale brokers and Lloyd's coverholders. In between, we insure a wide range of mid sized and small businesses, including more than half the jewellers in the UK.

In 2012, rate rises were strongest in the market for large and complex property risks written on a syndicated basis at Lloyd's. Beazley is a major underwriter of this 'open market' Lloyd's business, sourced from around the world through longstanding broker relationships. In 2012 we achieved a rate rise of 8% on this book.

Until late October it looked likely that the rate rises would weaken by the end of the year, as a relatively benign US hurricane season drew to a close. However, superstorm Sandy, which hit New York and neighbouring states on October 29, changed the picture and we have since seen rates increase for windstorm risks in the north eastern United States.

In addition to our London-based business, we write a growing volume of midsized risks locally, principally in the United States but also in Singapore for construction and engineering risks as well as commercial property. Our locally underwritten US business comprises mainly commercial lines business written on an excess and surplus lines (E&S) basis by underwriters located in 6 offices around the country. While the market for this business remained relatively competitive we still achieved a rate increase of 5%. Looking ahead, we will continue to seek opportunities arising in the north eastern part of the country in the wake of Sandy.

The other, smaller components of our locally underwritten US book comprise high value homeowners risks, mainly located along the eastern seaboard, and construction risks (known in the US as builders risk business) that would not normally be seen by Lloyd's underwriters in London.

The market for large scale construction and engineering risks underwritten in London has proved challenging in recent years, particularly for long term erectional all risks (EAR) policies. In the course of 2012, we refocused our account towards smaller, less volatile, and shorter term construction risks. The overall book now benefits from business sourced through our 3 platforms in London, Atlanta and Singapore and from the transition of leadership to Colin Rose.

Strong broker relationships have been critical to our success in building a profitable property account at Beazley over two decades. These relationships continued to prove their worth in 2012, testifying in particular to the global reach of our Lloyd's broker partners.

Beazley's property division enters 2013 under new leadership. Jonathan Gray joined Beazley in 1992 and has won widespread respect as one of the London market's most astute underwriters and business leaders. In January, he handed leadership of the division to Mark Bernacki, who joined Beazley in 2005 and has had day to day oversight of all of the division's underwriting operations since 2010. Jonathan will continue to bring his unparalleled experience to the profitable growth of Beazley as our lead underwriter on our open market property book at Lloyd's.

Reinsurance

	2012 $m	2011 $m
Gross premiums written	40.9	42.4
Net premiums written	31.7	31.2
Earned premiums, net of reinsurance	30.6	31.2
Claims incurred, net of reinsurance	(18.6)	(41.1)
Net operating expenses	(9.1)	(8.5)
Technical result	**2.9**	**(18.4)**
Claims ratio	61%	132%
Expense ratio	30%	27%
Combined ratio	91%	159%
Renewal rate increase	5%	3%

After the exceptional catastrophe losses of 2011, our reinsurance division, led by Patrick Hartigan, returned to profitability in 2012, delivering a combined ratio of 91% (2011: 159%) on premiums of $40.9m (2011: $42.4m).

The division focuses on property reinsurance, more than three quarters of which is catastrophe protection. We seek out clients that value long term relationships with their reinsurers. Many of our clients have placed business with Beazley for much of the company's 27 year history.

Spurred by the worldwide catastrophe experience of 2011 – a year that vied with 2005 as the worst year ever for insured natural catastrophe losses - premium rates on renewal business rose by 5%. We assumed lower exposures overall in 2012 for roughly the same level of premium as the previous year.

Until late October, when superstorm Sandy hit New York and adjoining regions, our claims experience was very benign. In December, the syndicate estimated its net losses arising from Sandy to be $20m – approximately half of which will impact the reinsurance division – based on market losses of approximately US$20 - $25 billion. This estimate remains unchanged.

Although Sandy has only affected the half of our reinsurance business that relates to US cedants, its overall impact has been to arrest the rate declines we had expected to see in aggregate across the portfolio. Rates for business exposed to US windstorm risk rose 5% at the beginning of 2013.

A large majority of our business continues to be underwritten in London, but we have also invested in local underwriting expertise in Europe and in Asia to obtain access to business that does not normally come to London. Our Munich office, opened in 2008, has proved very successful, writing business from a wide and growing range of European countries. In September, we expanded our team in Singapore with the recruitment of Ben Liang, who will focus on developing regional business from South East Asia, China and South Korea.

Underwriter's report *continued*

Specialty lines

	2012 $m	2011 $m
Gross premiums written	148.6	137.7
Net premiums written	122.3	105.8
Earned premiums, net of reinsurance	117.4	108.5
Claims incurred, net of reinsurance	(71.2)	(65.3)
Net operating expenses	(41.7)	(36.6)
Technical result	**4.5**	**6.6**
Claims ratio	61%	60%
Expense ratio	35%	34%
Combined ratio	96%	94%
Renewal rate increase/(decrease)	3%	(1%)

The specialty lines division enjoyed a successful year, with rates rising across our portfolio by 3% (2011: a decline of 1%), the first such positive movement since 2006. Fuelled in part by rate rises and in part by growing demand for our products, premiums increased by 8% to $148.6m in 2012 (2011: $137.7m).

Prior year releases made a smaller contribution to our profitability in 2012 than in recent years, falling to $11.0m (2011:$14.5m). With our long experience of claims and underwriting cycles and strong focus on cycle management, we have continued to reserve conservatively through the downturn.

Markets for many of our lines of business began to show signs of stress in 2012, as continued low investment returns and rising claims trends put pressure on insurers' margins. A number of insurers pulled out of lines of business or re-underwrote their books. Although competition remains intense in some lines – notably North American medical malpractice liability – and demand has been constrained in the eurozone, we see further growth opportunities in the year ahead.

Beazley's specialty lines division has long had a strong focus on US business, whether underwritten at the Beazley box at Lloyd's or, since 2005, locally by our underwriters in the United States. This focus continued in 2012, when we also made steady progress in internationalising our business, leveraging the Lloyd's market's licences and authorisations to trade in more than 75 countries around the world.

In 2012, we launched a new international data breach product, building on the success of our flagship US product, Beazley Breach Response. Demand for this expertise and our product grew significantly outside the US during 2012. We have added new clients across the EU, South America and Asia and are planning for strong growth in 2013. Another line of business that has proved very successful in the US and offers growth potential outside the US is medical malpractice for hospitals. We insure many of the best run hospitals in the US, partnering closely with the hospitals' management to raise quality and patient safety standards in ways that also tend to reduce claims costs over time.

Our markets are constantly changing and product innovation is critical to our ability to meet our clients' needs and to partner successfully with brokers. We launched a variety of new products in 2012, including, in February, Beazley Bridge – an innovative solution enabling US multinational corporate clients to secure robust D&O cover, through a single insurance contract, for executives outside the United States. The product simplifies the task for brokers, who would otherwise normally coordinate the issuance of separate policies for each covered territory and ensure that premiums are assessed and paid for each policy.

Beazley remains the largest insurer of D&O business in the London market and we continued to invest in our global underwriting team, both in London and the US in 2012. We have been reducing for some years our exposure to the lower layers of cover for small and midcap companies, as we have been concerned over their exposure to the recession and to merger and acquisitions claims (claims alleging that an acquisition was unfair to the target group's shareholders), which have proliferated. These trends manifested themselves strongly in 2012, and this has been the single most important factor behind the rate rises on this book after a long period of intense competition.

Caution also characterises our approach to two of our oldest and most important professional liability lines: cover for lawyers and for architects and engineers (A&E). We saw premium rates increase slightly in 2012 for both large law firms and large A&E design firms, both of which we insure in London. We currently insure more than half of the top 50 A&E design firms as ranked by Engineering News-Record. Locally in the US we also insure many smaller design firms on an admitted basis: we expect this portfolio to grow in 2013.

Strong broker relationships remain essential to the success of our business. We were delighted to provide, once again, strong support to the Andrew Beazley Broker Academy at Lloyd's in 2012 – an important Lloyd's market initiative to offer high potential young US brokers insights into the expertise and capabilities that London offers. Eight specialty lines underwriters addressed the Academy during the brokers' week in London.

Managing agent's report

The managing agent presents its report for the year ended 31 December 2012.

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 syndciate underwriting year accounts for the closed year of account are also made available to the syndicate members.

Principal activity

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

Risk management philosophy

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

Risk governance and reporting

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

2012 in review

We have now been using the revised risk management framework for three years and, supported by a comprehensive training programme, the framework has become part of usual business activity. The risk management function has also remained stable and at full capacity during 2012 and has supported the operation of the framework through facilitation, challenge and the provision of timely risk information. It is by embedding an effective risk management culture throughout the managing agency, underpinned by a robust risk management framework that we can anticipate and plan for our future challenges.

A robust risk assessment is an important cornerstone of the framework. The risks and opportunities in the insurance environment have not changed significantly in 2012, and for this reason neither has our risk management strategy of maintaining a diversified portfolio of insurance risks, executing on our cycle management expertise, employing a conservative investment strategy and operating a robust underwriting and claims control environment. Even though the number and financial impact of catastrophe losses in the year has not reached the level experienced in 2011, the top three risks to the syndicate have remained relatively static, and are common to many of our peers. These are underwriting and reserving risks (specifically, systematically mispricing across a number of years), catastrophe risk and market risk.

Whilst the near term risks have not changed, potential emerging risks have been considered and the response to these risks have been monitored within the quarterly Own Risk and Solvency Assessment ('ORSA') report. This work was supported by two formal risk assessment exercises led by risk owners in 2012 to ensure that the risk management framework and control environment keeps pace with the changing environment within which the syndicate operates. Risk profiles have been a welcome addition at committees and these risk reports have included topics such as how the business manages certain perils and the risks inherent in specific products. Throughout 2012, a eurozone dashboard has been a standing agenda item to help the business navigate the risks associated with the ongoing developments in Europe.

The ORSA has also emerged as a valuable addition to the risk reports of Beazley Furlonge Limited. In summary, the ORSA combines risk assessment information with risk quantification to inform decisions over a one year and five year timeframe.

Finally, the governance of the risk management framework has continued to evolve in 2012 with the introduction of a board risk committee for Beazley Furlonge Limited. The membership of this committee is restricted to non-executive directors who provide independent oversight and challenge how Beazley Furlonge Limited is managing and optimising risk.

Risk management strategy

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

Clear roles, responsibilities and accountabilities are in place for the management of risks and controls, and all employees are aware of the role they play in all aspects of the risk management process, from identifying sources of risk to their part in the control environment. The impact of each risk is recorded in the risk register on a 1:10 likelihood of that risk manifesting in the next 12 months.

A risk owner has been assigned responsibility for each risk, and it is the responsibility of that individual to periodically assess the impact of the risk and to ensure appropriate risk mitigation procedures are in place. External factors facing the business and the internal controls in place are continually reassessed and changes are made when necessary. On an annual basis, the board agrees the risk appetite and this is documented in the risk framework document. The value of the residual financial impact is managed in a number of ways, including:
- mitigating the impact of the risk through the application of controls;
- transferring or sharing risk through outsourcing and purchasing insurance and reinsurance; and
- tolerating risk in line with the risk appetite.

In addition, we have adopted the following risk management principles:
- risk management is a part of the wider governance environment;
- techniques employed are fit for purpose and proportionate to the business;
- 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.

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

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

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

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

Asset risk
Asset risk is viewed as the risk arising from adverse changes in the value of our income from assets and changes in exchange rates 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's are stress tested on a regular basis.

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

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

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

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

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

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

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

	Total bonuses deferred and at risk £	2011 year of account underwriting capacity £	2012 year of account underwriting capacity £	2013 year of account underwriting capacity £
M L Bride	216,000	350,000	400,000	400,000
A P Cox	216,000	350,000	400,000	400,000
J G Gray	216,000	350,000	400,000	400,000
D A Horton	216,000	350,000	400,000	400,000
N P Maidment	216,000	350,000	400,000	400,000
C A Washbourn	216,000	350,000	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 58 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 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 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

By order of the board

M L Bride
Finance Director

6 March 2013

Statement of managing agent's responsibilities

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

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

In preparing the syndicate annual accounts, the directors of the managing agent are required to:

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

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

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

By order of the board

M L Bride
Finance Director

6 March 2013

Independent auditor's report to the members of syndicate 623

We have audited the syndicate 623 annual accounts for the year ended 31 December 2012, as set out on pages 17 to 46. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 15, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (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 APB'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 syndicate's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

In our opinion the information given in the Managing Agent's Report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Matters on which we are required to report by exception

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

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

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

7 March 2013

Profit and loss account

year ended 31 December 2012

	Notes	2012 $m	2011 $m
Gross premiums written	5	367.6	349.6
Outward reinsurance premiums		(66.6)	(73.4)
Net premiums written	5	**301.0**	**276.2**
Change in the gross provision for unearned premiums	16	(4.2)	0.6
Change in the provision for unearned premiums, reinsurers' share	16	(0.4)	(2.1)
Change in the net provision for unearned premiums		(4.6)	(1.5)
Earned premiums, net of reinsurance	5	**296.4**	**274.7**
Allocated investment return transferred from the non-technical account		10.4	6.6
Claims paid – gross amount		(179.9)	(182.2)
– reinsurers' share		33.4	34.1
Net claims paid		(146.5)	(148.1)
Change in the gross provision for claims	16	6.8	(57.8)
Change in the provision for claims, reinsurers' share	16	(8.3)	30.6
Change in the net provision for claims		(1.5)	(27.2)
Claims incurred, net of reinsurance		**(148.0)**	**(175.3)**
Net operating expenses	6	**(112.1)**	**(97.9)**
Balance on the technical account		**46.7**	**8.1**
Investment income		9.7	11.0
Investment expenses and charges, including value adjustments	10	(3.0)	(5.2)
Unrealised gains on investments		3.7	0.8
		10.4	6.6
Allocated investment return transferred to general business technical account		(10.4)	(6.6)
Other charges	11	(5.7)	(6.0)
Profit for the financial year		**41.0**	**2.1**

All of the above operations are continuing.

Statement of total recognised gains and losses

year ended 31 December 2012

	2012 $m	2011 $m
Profit for the financial year	41.0	2.1
Foreign exchange profit/(loss) on brought forward reserves	1.8	(0.3)
Total recognised gains since last annual report	**42.8**	**1.8**

Balance sheet

31 December 2012

	Notes	2012 $m	2011 $m
Assets			
Financial assets at fair value	12	**532.3**	**515.1**
Reinsurers' share of technical provisions			
Provision for unearned premiums, reinsurers' share	16	30.1	30.4
Claims outstanding, reinsurers' share	16	200.0	207.3
		230.1	**237.7**
Debtors			
Debtors arising out of direct insurance operations		91.3	101.3
Debtors arising out of reinsurance operations		47.2	13.0
Other debtors	14	59.6	57.0
		198.1	**171.3**
Cash at bank and in hand	15	**93.8**	**80.3**
Prepayments and accrued income			
Deferred acquisition costs		36.1	33.2
Other prepayments and accrued income		–	1.7
		36.1	**34.9**
Total assets		**1,090.4**	**1,039.3**
Liabilities, capital and reserves			
Capital and reserves			
Members' balances attributable to underwriting participations	17	11.8	16.9
Technical provisions			
Provision for unearned premiums	16	157.9	152.5
Claims outstanding	16	761.6	762.5
		919.5	**915.0**
Creditors			
Creditors arising out of direct insurance operations		59.3	49.3
Creditors arising out of reinsurance operations		8.1	6.6
Other creditors	18	85.5	48.9
		152.9	**104.8**
Financial liabilities	12	–	**0.3**
Accruals and deferred income		**6.2**	**2.3**
Total liabilities, capital and reserves		**1,090.4**	**1,039.3**

The syndicate annual accounts on pages 17 to 46 were approved by the board of Beazley Furlonge Limited on 6 March 2013 and were signed on its behalf by:

N P Maidment
Active Underwriter

M L Bride
Finance Director

Cash flow statement

year ended 31 December 2012

	Notes	2012 $m	2011 $m
Reconciliation of profit for the financial year to net cash inflow from operating activities			
Profit for the financial year		41.0	2.1
Change to market value and currencies on investments		(40.0)	29.8
Increase in net technical provisions		12.1	37.5
Increase in debtors		(28.0)	(36.5)
Increase in creditors		52.0	28.2
Net cash inflow from operating activities		**37.1**	**61.1**
Transfer to members in respect of underwriting participations		(47.9)	(32.4)
Translation differences		1.8	(0.3)
	20	**(9.0)**	**28.4**
Cash flows were invested as follows:			
Increase in cash holdings and overseas deposits		8.8	19.5
(Decrease)/Increase in debt securities and other fixed income securities		(17.8)	8.9
Net investment of cash flows	20	**(9.0)**	**28.4**

Notes to the syndicate annual accounts

1 Basis of preparation

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

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

2 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 2012 is included within claims outstanding in the balance sheet.

3 Accounting policies

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.

3 Accounting policies *continued*

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

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

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 the syndicate are included in the profit and loss account.

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

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

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

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

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

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

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

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

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

3 Accounting policies *continued*

Financial assets

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

Financial assets at fair value through income statement

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

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction on 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 arm’s length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the syndicate, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The syndicate calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

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

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

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

Notes to the syndicate annual accounts *continued*

3 Accounting policies *continued*

Hedge funds

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

Insurance debtors and creditors

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

Other debtors

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

Other creditors

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

Investment income

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

j) Hedge accounting and derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The syndicate does not apply hedge accounting. Fair values are obtained from quoted market prices in active markets, recent market transactions, and valuation techniques which include discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of fair value of a derivative at initial recognition is the transaction price.

k) Impairment of financial assets

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

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

l) Cash at bank and in hand

This consists of cash at bank and in hand and deposits held at call with banks.

3 Accounting policies *continued*

m) Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently at 20%) deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States federal income tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year have been included in the balance sheet under the heading 'other debtors'.

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

n) Pension costs

Beazley Furlonge Limited operates both a defined benefit and a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

o) Profit commission

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

4 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.

4.1 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.

4 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 2012, the normal maximum gross probable maximum loss (PML) line that any one underwriter could commit the Beazley managed syndicates to was $100m. In most cases, maximum lines for classes of business were much lower than this.

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

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

Binding authority contracts

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

Operating Divisions

In 2012, the syndicate's business consisted of five operating divisions. The following table provides a breakdown of gross written premiums written by division.

	2012	2011
Marine	19%	19%
Political risks and contingency	7%	7%
Property	23%	23%
Reinsurance	11%	12%
Specialty lines	40%	39%
Total	**100%**	**100%**

4 Risk management *continued*

b) Reinsurance risk

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

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

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

c) Claims management risk

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

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

d) Reserving and ultimate reserves risk

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

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

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

4.2 Credit risk

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

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

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

4 Risk management *continued*

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

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

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

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

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

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

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

31 December 2012	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– financial investments	431.7	35.7	–	–	64.9	532.3
– derivative financial instruments	–	–	–	–	–	–
Reinsurers' share of technical provisions	228.8	–	–	–	1.3	230.1
Debtors	59.6	–	–	–	138.5	198.1
Cash at bank and in hand	93.8	–	–	–	–	93.8
Total	**813.9**	**35.7**	**–**	**–**	**204.7**	**1,054.3**

31 December 2011	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– financial investments	433.2	13.2	–	–	68.1	514.5
– derivative financial investments	–	–	–	–	0.6	0.6
Reinsurers' share of technical provisions	237.7	–	–	–	–	237.7
Debtors	57.0	–	–	–	114.3	171.3
Cash at bank and in hand	80.3	–	–	–	–	80.3
Total	**808.2**	**13.2**	**–**	**–**	**183.0**	**1,004.4**

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 2012 is $4.1m (2011: $3.7m). No other financial assets held at year end were impaired.

4 Risk management *continued*

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

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

31 December 2012	Up to 30 days past due $m	30–60 days past due $m	60–90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance debtors	2.6	0.5	0.2	0.7	4.0
Reinsurance assets	1.3	0.4	0.3	1.6	3.6

31 December 2011	Up to 30 days past due $m	30–60 days past due $m	60–90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance debtors	2.7	0.7	0.3	0.8	4.5
Reinsurance assets	0.7	0.3	0.1	2.3	3.4

4.3 Liquidity risk

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

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

The following is an analysis by business segment of the estimated timing of the net cash flows based on the net claims liabilities balance held at 31 December 2012:

31 December 2012	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Marine	25.9	23.8	7.4	0.6	57.7	1.5
PCG	10.3	10.7	4.3	0.6	25.9	1.7
Property	32.3	22.5	4.5	1.8	61.1	1.4
Reinsurance	27.6	24.7	6.6	0.7	59.6	1.5
Specialty lines	87.8	147.1	86.8	35.6	357.3	2.5
Net insurance liabilities	**183.9**	**228.8**	**109.6**	**39.3**	**561.6**	

31 December 2011	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Marine	22.3	21.0	6.3	0.5	50.1	1.5
PCG	10.4	12.6	4.5	0.6	28.1	1.8
Property	34.4	23.9	4.7	1.9	64.9	1.4
Reinsurance	28.5	24.8	7.0	0.8	61.1	1.5
Specialty lines	84.0	145.1	86.0	35.9	351.0	2.5
Net insurance liabilities	**179.6**	**227.4**	**108.5**	**39.7**	**555.2**	

4 Risk management *continued*

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

Maturity 31 December 2012	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate securities	143.4	68.9	102.3	44.7	60.1	47.9	–	467.3
Derivative financial instruments	–	–	–	–	–	–	–	–
Cash at bank and in hand	93.8	–	–	–	–	–	–	93.8
Other debtors	59.6	–	–	–	–	–	–	59.6
Other creditors	(85.5)	–	–	–	–	–	–	(85.5)
Total	**211.3**	**68.9**	**102.3**	**44.7**	**60.1**	**47.9**	**–**	**535.2**

31 December 2011	<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 securities	238.1	71.4	51.3	40.8	18.0	26.9	–	446.5
Derivative financial instruments	0.3	–	–	–	–	–	–	0.3
Cash at bank and in hand	80.3	–	–	–	–	–	–	80.3
Other debtors	57.0	–	–	–	–	–	–	57.0
Other creditors	(48.9)	–	–	–	–	–	–	(48.9)
Total	**326.8**	**71.4**	**51.3**	**40.8**	**18.0**	**26.9**	**–**	**535.2**

4.4 Asset risk

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

Foreign exchange risk

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

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

In 2012, 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 13. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk.

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

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

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

31 December 2011	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	43.3	78.6	69.5	191.4	847.9	1,039.3
Total liabilities	(23.5)	(64.5)	(125.8)	(213.8)	(808.6)	(1,022.4)
Net assets	**19.8**	**14.1**	**(56.3)**	**(22.4)**	**39.3**	**16.9**

4 Risk management *continued*

Sensitivity analysis

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

	Impact on profit for the year ended		Impact on net assets	
Change in exchange rate of UK Sterling, Canadian dollar and Euro relative to US dollar	2012 $m	2011 $m	2012 $m	2011 $m
Dollar weakens 30% against other currencies	(13.1)	(6.7)	(13.1)	(6.7)
Dollar weakens 20% against other currencies	(8.7)	(4.5)	(8.7)	(4.5)
Dollar weakens 10% against other currencies	(4.4)	(2.2)	(4.4)	(2.2)
Dollar strengthens 10% against other currencies	4.4	2.2	4.4	2.2
Dollar strengthens 20% against other currencies	8.7	4.5	8.7	4.5
Dollar strengthens 30% against other currencies	13.1	6.7	13.1	6.7

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. 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 2012	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate securities	231.4	58.9	84.4	36.7	48.6	7.3	–	467.3
Cash at bank and in hand	93.8	–	–	–	–	–	–	93.8
Derivative financial instruments	–	–	–	–	–	–	–	–
Total	**325.2**	**58.9**	**84.4**	**36.7**	**48.6**	**7.3**	**–**	**561.1**

Duration 31 December 2011	<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 securities	273.1	73.0	41.8	35.2	17.4	6.0	–	446.5
Cash at bank and in hand	80.3	–	–	–	–	–	–	80.3
Derivative Financial Instruments	0.3	–	–	–	–	–	–	0.3
Total	**353.7**	**73.0**	**41.8**	**35.2**	**17.4**	**6.0**	**–**	**527.1**

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)	2012 $m	2011 $m	2012 $m	2011 $m
150 basis point increase	(12.2)	(8.3)	(12.2)	(8.3)
100 basis point increase	(8.1)	(5.5)	(8.1)	(5.5)
50 basis point increase	(4.1)	(2.8)	(4.1)	(2.8)
50 basis point decrease	4.1	2.8	4.1	2.8
100 basis point decrease	8.1	5.0	8.1	5.0

4 Risk management *continued*

Price risk

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

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

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

	Impact on profit for the year ended		Impact on net assets	
Change in fair value of hedge fund portfolios	2012 $m	2011 $m	2012 $m	2011 $m
30% increase in fair value	19.5	20.4	19.5	20.4
20% increase in fair value	13.0	13.6	13.0	13.6
10% increase in fair value	6.5	6.8	6.5	6.8
10% decrease in fair value	(6.5)	(6.8)	(6.5)	(6.8)
20% decrease in fair value	(13.0)	(13.6)	(13.0)	(13.6)
30% decrease in fair value	(19.5)	(20.4)	(19.5)	(20.4)

4.5 Operational risk

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

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

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

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

4 Risk management *continued*

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

- ICA modeling of operational risk exposure and scenario testing;
- management review of activities;
- documentation of policies and procedures;
- preventative and detective controls within key processes;
- contingency planning; and
- other systems controls.

4.6 Strategic risk

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

4.7 Senior management responsibilities

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

4.8 Regulatory and legal risk

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

Notes to the syndicate annual accounts *continued*

5 Segmental analysis

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

2011	Marine $m	Political risks and contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Unallocated $m	Total $m
Gross premiums written	64.2	23.9	81.4	42.4	137.7	–	349.6
Net premiums written	57.2	19.8	62.2	31.2	105.8	–	276.2
Gross earned premiums	61.5	24.4	83.2	42.4	140.0	(1.3)	350.2
Outward reinsurance premiums earned	(7.4)	(5.2)	(20.3)	(11.2)	(31.5)	0.1	(75.5)
Earned premiums, net of reinsurance	54.1	19.2	62.9	31.2	108.5	(1.2)	274.7
Gross claims	(29.2)	(19.5)	(46.6)	(59.1)	(85.6)	–	(240.0)
Reinsurers share	8.3	11.1	7.0	18.0	20.3	–	64.7
Claims incurred, net of reinsurance	(20.9)	(8.4)	(39.6)	(41.1)	(65.3)	–	(175.3)
Operating expenses before foreign exchange	(19.5)	(7.1)	(26.1)	(8.5)	(36.6)	(0.1)	(97.9)
Technical result before investment income	13.7	3.7	(2.8)	(18.4)	6.6	(1.3)	1.5
Profit on foreign exchange	0.1	(0.1)	0.1	(0.8)	0.5	0.2	–
Investment income	–	–	–	–	–	6.6	6.6
Other charges	–	–	–	–	–	(6.0)	(6.0)
Profit for the financial year	**13.8**	**3.6**	**(2.7)**	**(19.2)**	**7.1**	**(0.5)**	**2.1**
Claims ratio	39%	44%	63%	132%	60%	–	64%
Expense ratio	36%	37%	41%	27%	34%	–	36%
Combined ratio	75%	81%	104%	159%	94%	–	100%

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

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

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

All business was underwritten in the UK.

6 Net operating expenses

	2012 $m	2011 $m
Acquisition costs	88.4	81.6
Change in deferred acquisition costs	(2.5)	(1.0)
Members' standard personal expenses	3.2	3.6
Administrative expenses	18.8	13.7
Loss on foreign exchange	4.2	–
	112.1	**97.9**

Administrative expenses include:

	2012 $'000	2011 $'000
Fees payable to the syndicate's auditor for the audit of these syndicate annual accounts	100.8	111.0
Fees payable to the syndicate's auditor and its associates in respect of:		
Other services pursuant to legislation	178.3	149.7
	279.1	**260.7**

Total fees paid to Beazley Furlonge Limited in respect of services provided to the syndicate amounted to $1.9m (2011: $2.1m).

7 Staff costs

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

	2012 $m	2011 $m
Wages and salaries	9.5	9.1
Short-term incentive payments	4.7	2.1
Social security costs	1.2	1.1
Pension costs	1.1	1.1
	16.5	**13.4**

8 Emoluments of the directors of Beazley Furlonge Limited

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

	2012 $m	2011 $m
Emoluments and fees	1.3	0.5
Contributions to defined contribution pension schemes	0.1	0.1
	1.4	**0.6**

9 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 $0.3m (2011: $0.1m).

10 Investment expenses and charges including value adjustments

	2012 $m	2011 $m
Investment management expenses	1.9	1.8
Losses on the realisation of investments	1.1	3.4
	3.0	**5.2**

11 Other charges

	2012 $m	2011 $m
Profit commissions paid to Beazley Furlonge Limited	**5.7**	**6.0**

12 Financial assets and liabilities

	Market value		Cost	
	2012 $m	2011 $m	2012 $m	2011 $m
Financial assets at fair value				
Hedge funds	64.9	68.1	62.8	67.3
Fixed rate securities	414.9	405.0	409.0	396.6
Floating rate securities	52.5	41.4	51.8	41.0
Total financial investments at fair value through income statement	**532.3**	**514.5**	**523.6**	**504.9**
Derivative financial instruments	–	0.6	–	0.6
Total financial assets at fair value	**532.3**	**515.1**	**523.6**	**505.5**
Financial liabilities				
Derivative financial instruments	–	**0.3**	–	**0.3**

A breakdown of derivative financial instruments is disclosed in note 13.

Fair value measurement

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

Level 1 – valuations based on quoted prices in active markets for identical instruments. An active market is a market in which transactions for the instrument occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date.

Included within Level 1 are bonds and treasury bills of major G-8 government and government agencies.

Level 2 – valuations based on quoted prices in markets that are not active, or based on pricing models for which significant inputs can be corroborated by observable market data (e.g. interest rates, exchange rates).

Included within Level 2 are non-G8 government bonds and treasury bills, 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 on which to measure current value.

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

The majority of the syndicate's investments are valued based on quoted market information or other observable market data. Hedge funds that comprise 12.2% (2011: 13.2%) of financial assets and are recorded at fair value are based on estimates and recorded as Level 2 investments. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, 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.

12 Financial assets and liabilities *continued*

The table below analyses financial instruments measured at fair value at 31 December 2012 and 31 December 2011, based on the level in the fair value hierarchy into which the financial instrument is categorised:

2012	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value				
Fixed rate securities	374.6	40.3	–	414.9
Floating rate securities	32.7	19.8	–	52.5
Hedge funds	–	64.9	–	64.9
Derivative financial instruments	–	–	–	–
Total financial assets at fair value	407.3	125.0	–	532.3
Financial liabilities				
Derivative financial instruments	–	–	–	–

2011	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at fair value				
Fixed rate securities	313.7	91.3	–	405.0
Floating rate securities	15.3	26.1	–	41.4
Hedge funds	–	–	68.1	68.1
Derivative financial instruments	0.1	0.5	–	0.6
Total financial assets at fair value	**329.1**	**117.9**	**68.1**	**515.1**
Financial liabilities				
Derivative financial instruments	**0.2**	**0.1**	**–**	**0.3**

The table below shows the movement in level 3 assets during the year:

	2012 $m	2011 $m
Level 3 balance at 1 January	68.1	73.9
Purchases	14.5	61.5
Settlements	(19.8)	(66.4)
Income	2.1	(0.9)
Transfer to Level 2	(64.9)	–
Level 3 balance at 31 December	–	**68.1**

In 2012 additional information was obtained from fund managers relating to the underlying assets within individual hedge funds. We identified that 64% of these underlying assets were level 1 and the remainder level 2. This enabled us to categorise hedge funds, that were previously grouped as level 3, as level 2. Refer to price sensitivity note 4 for the impact of changes in value of these assets on reported profits and net assets.

13 Derivative financial instruments

In 2012, the syndicate entered into over-the counter derivative contracts. The syndicate had the right and intention to settle each contract on a net basis.

	2012		2011	
Derivative financial instrument assets	Gross contract amount $m	Fair value of assets $m	Gross contract amount $m	Fair value of assets $m
Short-term interest rate future contracts	–	–	4.3	0.1
Foreign exchange swaps	–	–	7.7	0.4
Foreign exchange forward contract	6.8	–	16.0	0.1
	6.8	**–**	**28.0**	**0.6**

Notes to the syndicate annual accounts *continued*

13 Derivative financial instruments *continued*

Derivative financial instrument liabilities	2012 Gross contract amount $m	2012 Fair value of liabilities $m	2011 Gross contract amount $m	2011 Fair value of liabilities $m
Short-term interest rate future contracts	–	–	0.5	0.1
Foreign exchange forward contract	0.5	–	3.1	0.1
Bond future contracts	–	–	3.4	0.1
	0.5	**–**	**7.0**	**0.3**

Short-term interest rate future contracts
During 2011 the syndicate entered into short-term interest rate futures trades to manage the investment portfolio duration. The trades were executed in order to economically hedge the interest rate duration exposure of certain fixed income securities or resulted from cashflows expected to be paid or received in the near future.

Foreign exchange swaps
During 2011 the syndicate entered into over-the-counter FX swaps agreements in order to hedge the foreign currency exposure resulting from investment portfolio holdings denominated in non-base currency.

Foreign exchange forward contracts
During 2012 and 2011 the syndicate entered into over-the-counter FX forward agreements in order to hedge the foreign currency exposure resulting from investment portfolio holdings denominated in non-base currency.

Bond future contracts
In 2011 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.

14 Other debtors

	2012 $m	2011 $m
Amount due from syndicate 2623	42.6	41.9
Amounts due from members	13.0	11.2
Sundry debtors including taxation	4.0	3.9
	59.6	**57.0**

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

15 Cash at bank and in hand

	2012 $m	2011 $m
Cash at bank and in hand	30.3	28.4
Overseas deposits	63.5	51.9
	93.8	**80.3**

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

16 Technical provisions

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

	Provision for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January 2011	152.9	705.8
Exchange adjustments	0.2	(1.1)
Movement in the provision	(0.6)	57.8
As at 31 December 2011	**152.5**	**762.5**
Reinsurers' share of technical provisions		
As at 1 January 2011	32.5	186.4
Exchange adjustments	–	1.0
Commutation of quota share balances*	–	(10.7)
Movement in the provision	(2.1)	30.6
As at 31 December 2011	**30.4**	**207.3**
Net technical provisions		
As at 1 January 2011	120.4	519.4
As at 31 December 2011	**122.1**	**555.2**

* Syndicates 2623 and 623 entered into a whole account quota share agreement to cede 12.25% of their 2009 year of account net result to syndicate 3623. Prior to the 2011 balance sheet date, an agreement was made to commute the whole account quota share contract thereby returning the liabilities to the original insuring syndicates 2623/623. The commutation was accounted for as a settlement of USD$10.7m of the syndicate's reinsurance recoverables in the 2011 syndicate annual accounts.

16 Technical provisions *continued*

Gross ultimate claims	2002 ae %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %
Marine											
12 months		59.3	62.2	82.6	57.1	57.9	69.1	56.2	50.6	55.1	55.9
24 months		45.0	65.3	80.4	42.6	60.2	65.1	52.3	49.7	47.9	
36 months		39.0	62.3	70.8	33.0	50.6	59.0	45.6	43.9		
48 months		36.2	61.8	68.8	29.2	48.2	62.8	42.0			
60 months		35.8	60.7	66.6	28.9	49.6	62.5				
72 months		35.7	56.2	64.7	26.6	50.2					
84 months		34.9	55.9	63.9	26.5						
96 months		35.5	55.7	63.6							
108 months		34.9	55.6								
120 months		35.3									
Political risks and contingency											
12 months		59.1	67.6	61.0	57.5	57.2	57.5	61.1	61.4	58.8	62.5
24 months		36.3	55.7	38.2	36.2	39.1	67.3	38.6	40.3	38.5	
36 months		31.6	52.4	28.6	32.8	56.4	73.0	35.6	32.9		
48 months		28.6	38.2	24.9	43.2	52.9	86.7	30.9			
60 months		30.9	37.2	18.3	39.2	53.6	71.7				
72 months		25.0	35.3	17.9	38.9	49.9					
84 months		24.1	26.7	17.8	36.1						
96 months		21.2	26.5	12.3							
108 months		21.2	26.3								
120 months		21.2									
Property											
12 months		51.0	65.4	87.3	58.6	60.3	67.4	54.5	54.7	54.7	55.8
24 months		37.7	65.2	84.1	44.6	58.5	62.4	43.1	57.6	46.9	
36 months		34.9	65.8	82.6	43.7	56.1	61.3	37.8	54.6		
48 months		34.3	63.9	87.5	51.1	57.1	59.2	36.7			
60 months		33.9	64.4	86.9	51.2	60.8	57.6				
72 months		34.0	63.1	85.3	51.0	69.6					
84 months		35.1	62.9	84.5	50.3						
96 months		34.9	63.5	83.7							
108 months		34.6	63.5								
120 months		34.6									

16 Technical provisions *continued*

Gross ultimate claims	2002 ae %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	
Reinsurance												
12 months		58.7	87.9	196.9	52.4	59.6	60.1	60.8	68.2	76.9	62.9	
24 months		34.1	82.0	188.4	25.2	26.3	51.2	48.5	151.9	77.5		
36 months		28.4	76.8	186.7	24.9	21.8	41.5	40.5	140.3			
48 months		28.6	74.3	179.8	23.3	20.0	38.0	40.0				
60 months		25.5	72.4	176.1	21.4	19.1	37.8					
72 months		25.5	71.4	173.5	21.1	19.0						
84 months		24.4	70.3	172.3	21.3							
96 months		23.6	69.3	172.0								
108 months		23.7	68.9									
120 months		23.2										
Specialty lines												
12 months		72.9	72.3	72.1	72.5	72.9	72.6	72.6	74.4	76.0	74.9	
24 months		70.2	71.4	72.1	72.6	72.5	72.6	72.6	73.8	76.1		
36 months		68.8	67.7	69.9	72.5	72.6	72.4	71.6	73.0			
48 months		60.1	64.5	66.3	72.4	72.3	72.4	71.6				
60 months		53.2	59.4	62.8	70.6	72.4	72.5					
72 months		52.4	58.3	56.1	65.4	72.4						
84 months		50.5	56.5	52.4	61.3							
96 months		47.2	54.6	49.1								
108 months		46.2	52.7									
120 months		44.6										
Total												
12 months		63.0	69.3	90.6	62.7	64.0	67.6	62.9	64.1	66.5	64.8	
24 months		52.6	69.2	87.9	52.8	59.6	67.0	57.3	73.1	61.9		
36 months		49.4	66.6	84.3	50.4	58.4	65.5	53.6	68.7			
48 months		44.9	63.5	82.6	52.1	58.7	66.7	52.1				
60 months		41.5	61.0	79.7	51.6	59.8	65.1					
72 months		40.9	59.3	76.0	48.9	61.7						
84 months		40.1	57.9	74.1	46.8							
96 months		38.4	57.1	72.1								
108 months		37.8	56.2									
120 months		37.1										
Total ultimate losses($m)	1,818.7	445.4	761.5	1,099.6	792.8	1,101.5	1,236.8	1,030.9	1,314.3	1,219.7	1,322.8	12,144.0
Less paid claims ($m)	(1,731.6)	(390.7)	(656.9)	(979.5)	(569.9)	(751.8)	(784.9)	(493.5)	(622.3)	(249.5)	(37.3)	(7,267.9)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(149.0)	(688.2)	(837.2)
Gross claims liabilities (100% level) ($m)	87.1	**54.7**	**104.6**	**120.1**	**222.9**	**349.7**	**451.9**	**537.4**	**692.0**	**821.2**	**597.3**	**4,038.9**
Less Unaligned share ($m)	(70.5)	(44.3)	(84.7)	(97.3)	(180.6)	(283.3)	(366.0)	(435.3)	(560.5)	(665.2)	(489.6)	(3,277.3)
Gross claims liabilities, 623 share	**16.6**	**10.4**	**19.9**	**22.8**	**42.3**	**66.4**	**85.9**	**102.1**	**131.5**	**156.0**	**107.7**	**761.6**

16 Technical provisions *continued*

Net ultimate claims	2002 ae %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %
Marine											
12 months		55.4	57.9	55.5	54.0	55.1	61.3	54.7	52.3	56.0	55.4
24 months		44.7	53.0	49.1	42.1	56.5	57.0	48.5	49.4	48.1	
36 months		40.1	48.6	42.9	33.0	49.5	50.8	39.8	44.7		
48 months		39.1	47.8	39.7	31.5	46.7	47.7	36.2			
60 months		39.0	46.6	39.2	31.1	47.5	47.3				
72 months		39.2	44.3	38.2	29.3	47.7					
84 months		38.0	43.9	36.7	29.1						
96 months		37.6	43.2	36.3							
108 months		37.4	43.2								
120 months		37.2									
Political risks and contingency											
12 months		56.7	64.2	63.6	56.2	55.4	55.9	58.8	57.3	55.0	59.4
24 months		37.4	58.2	46.7	40.4	39.6	75.1	35.1	37.8	37.4	
36 months		34.8	54.2	36.1	37.2	55.1	75.3	32.8	30.4		
48 months		32.9	41.1	30.2	47.0	53.8	79.5	28.2			
60 months		34.9	40.8	24.4	41.2	52.1	68.4				
72 months		27.2	36.3	23.3	39.7	48.9					
84 months		25.5	26.2	23.2	39.7						
96 months		22.5	25.4	15.3							
108 months		22.4	24.4								
120 months		22.0									
Property											
12 months		48.8	59.7	65.0	61.4	62.8	67.0	53.7	58.5	59.4	58.7
24 months		41.7	61.0	62.1	49.4	61.4	67.1	48.7	64.6	56.9	
36 months		39.3	60.4	58.5	47.9	60.5	64.8	45.3	63.8		
48 months		38.7	58.7	61.2	51.6	61.2	63.7	43.0			
60 months		38.3	58.4	61.8	50.8	64.1	62.6				
72 months		38.3	57.6	60.0	50.8	64.5					
84 months		39.8	57.5	59.1	50.4						
96 months		39.7	57.5	59.1							
108 months		39.4	57.8								
120 months		39.3									
Reinsurance											
12 months		60.2	88.6	152.8	54.3	55.3	67.3	55.6	76.9	86.3	67.1
24 months		39.3	85.8	132.5	36.7	30.3	57.1	52.5	137.3	87.7	
36 months		33.8	82.7	127.8	34.7	25.2	46.7	46.6	131.4		
48 months		34.5	76.5	118.2	32.5	22.8	44.4	46.0			
60 months		31.6	73.3	111.9	31.0	22.2	44.1				
72 months		31.6	71.7	110.7	31.0	22.1					
84 months		30.2	71.0	105.4	31.4						
96 months		29.3	69.7	104.9							
108 months		29.3	69.9								
120 months		29.3									

16 Technical provisions *continued*

Net ultimate claims	2002 ae %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	
Specialty lines												
12 months		68.8	69.2	69.3	69.3	71.6	70.4	69.5	71.1	72.7	72.1	
24 months		67.3	68.6	69.3	69.2	70.6	70.4	69.4	70.7	72.7		
36 months		66.0	65.8	67.5	69.2	70.7	70.4	68.7	70.1			
48 months		57.8	62.2	63.8	69.2	69.2	68.9	66.0				
60 months		52.8	57.0	58.8	64.4	69.1	68.9					
72 months		50.8	53.6	53.8	58.1	69.1						
84 months		49.0	51.1	50.3	54.6							
96 months		45.2	48.8	47.9								
108 months		45.0	47.5									
120 months		43.3										
Total												
12 months		60.2	65.6	73.1	62.4	64.2	65.6	60.5	64.6	67.0	64.3	
24 months		53.0	65.4	68.9	54.6	60.3	66.8	56.7	70.5	63.5		
36 months		50.6	62.8	65.1	52.0	59.7	64.2	53.3	67.7			
48 months		46.5	59.4	62.3	52.6	58.5	63.1	50.7				
60 months		43.8	56.4	59.2	50.4	59.1	61.8					
72 months		42.7	54.0	56.4	47.3	59.0						
84 months		41.9	52.2	53.9	45.8							
96 months		39.9	50.9	52.2								
108 months		39.7	50.3									
120 months		38.9										
Total ultimate losses($m)	990.3	374.4	569.8	618.3	622.1	903.6	964.5	830.5	1,118.3	1,008.6	1,027.7	9,028.1
Less paid claims ($m)	(936.9)	(339.6)	(485.0)	(526.8)	(466.1)	(637.3)	(667.8)	(473.5)	(602.0)	(238.9)	(34.8)	(5,408.7)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(103.3)	(536.8)	(640.1)
Net claims liabilities (100% level) ($m)	**53.4**	**34.8**	**84.8**	**91.5**	**156.0**	**266.3**	**296.7**	**357.0**	**516.3**	**666.4**	**456.1**	**2,979.3**
Less unaligned share ($m)	(43.2)	(28.2)	(68.7)	(74.1)	(126.5)	(215.7)	(240.3)	(289.2)	(418.2)	(539.8)	(373.8)	(2,417.7)
Net claims liabilities, 623 share ($m)	**10.2**	**6.6**	**16.1**	**17.4**	**29.5**	**50.6**	**56.4**	**67.8**	**98.1**	**126.6**	**82.3**	**561.6**

Notes to the syndicate annual accounts *continued*

17 Reconciliation of members' balances

	2012 $m	2011 $m
Members' balances brought forward at 1 January	16.9	47.5
Profit for the financial year	41.0	2.1
Foreign exchange on brought forward reserves	1.8	(0.3)
Profit distribution before members agent's fees – 2008 Year of account	–	(32.4)
Profit distribution before members agent's fees – 2009 Year of account	(47.9)	–
Members' balances carried forward at 31 December	**11.8**	**16.9**

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.

18 Other creditors

	2012 $m	2011 $m
Amount due to syndicate 3622	–	0.5
Amount due to syndicate 3623	5.6	3.3
Amount due to syndicate 6107	13.1	2.6
Profit commissions	5.7	10.1
Net amount due to other related entities	61.1	32.4
	85.5	**48.9**

The above balances are payable within one year.

19 Movement in opening and closing investments net of financing

	2012 $m	2011 $m
Net cash inflow from the year	8.8	19.5
Cash flow – investments	(17.8)	8.9
Movement arising from cash flows	(9.0)	28.4
Foreign exchange on brought forward investments	35.3	(29.3)
Total movement in investments net of financing	26.3	(0.9)
Investments as at 1 January	595.1	596.5
Effect of exchange rate changes on cash balances	4.7	(0.5)
Investments as at 31 December	**626.1**	**595.1**

20 Movement in cash and investments

	At 1 January 2012 $m	Cash flow $m	Changes to market value and currencies $m	At 31 December 2012 $m
Cash at bank and in hand	28.4	0.3	1.6	30.3
Overseas deposits	51.9	8.5	3.1	63.5
Total cash	**80.3**	**8.8**	**4.7**	**93.8**
Investments:				
Debt securities and other fixed income securities	446.4	(5.7)	26.7	467.4
Hedge funds	68.1	(9.3)	6.1	64.9
Derivative financial instruments*	0.3	(2.8)	2.5	–
Total investments	**514.8**	**(17.8)**	**35.3**	**532.3**
Total cash and investments	**595.1**	**(9.0)**	**40.0**	**626.1**

* Derivative position as at 1 January 2012 above is net of the derivative liability of $0.3m as disclosed in note 13.

21 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 13.

The directors of Beazley Furlonge Limited have shareholdings in Beazley plc which provides the capacity for syndicates 2623, 3622 and 3623. Syndicate 2623 has capacity in 2012 of £946.2m, as previously disclosed, and writes in parallel with syndicate 623. Beneficial shareholdings are shown below.

	Shareholding of Beazley plc as at 31 December 2012	Shareholding of Beazley plc as at 31 December 2011
D Holt	50,000	–
G P Blunden	107,156	107,156
M L Bride	340,875	227,310
A P Cox	422,618	320,748
R V Deutsch	–	–
N H Furlonge	1,006,375	1,256,375
J G Gray	1,009,549	1,259,549
A G K Hamilton	37,991	37,991
D A Horton	1,281,610	1,185,883
N P Maidment	3,624,001	3,543,257
R A W Tolle	60,000	60,000
C A Washbourn	516,737	378,852

21 Related parties transactions *continued*

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

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

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

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

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

Since 2010, the syndicates ceded part of the international reinsurance account to a special purpose syndicate 6107. Profit commission is received by the syndicates and Beazley could benefit from this transaction.

Beazley has a 25% equity interest in Falcon Money Management Holdings Limited (Falcon), an asset management company, which will manage the investment assets of syndicate 623. Falcon charges fees at an appropriate and competitive market rate for the types of assets managed. As Beazley has an equity interest in Falcon, it could benefit from profits generated by Falcon in the future.

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 $30.1m (2011: $25.2m). In addition to this amount, the syndicate is also carrying a profit commission payable to the managing agent of $5.7m (2011: $6.0m), which represents the profit commission charged in respect of the current financial year.

The managing agent recharged expenses and fees of $36.7m (2011: $34.4m) to the syndicate in the current year.

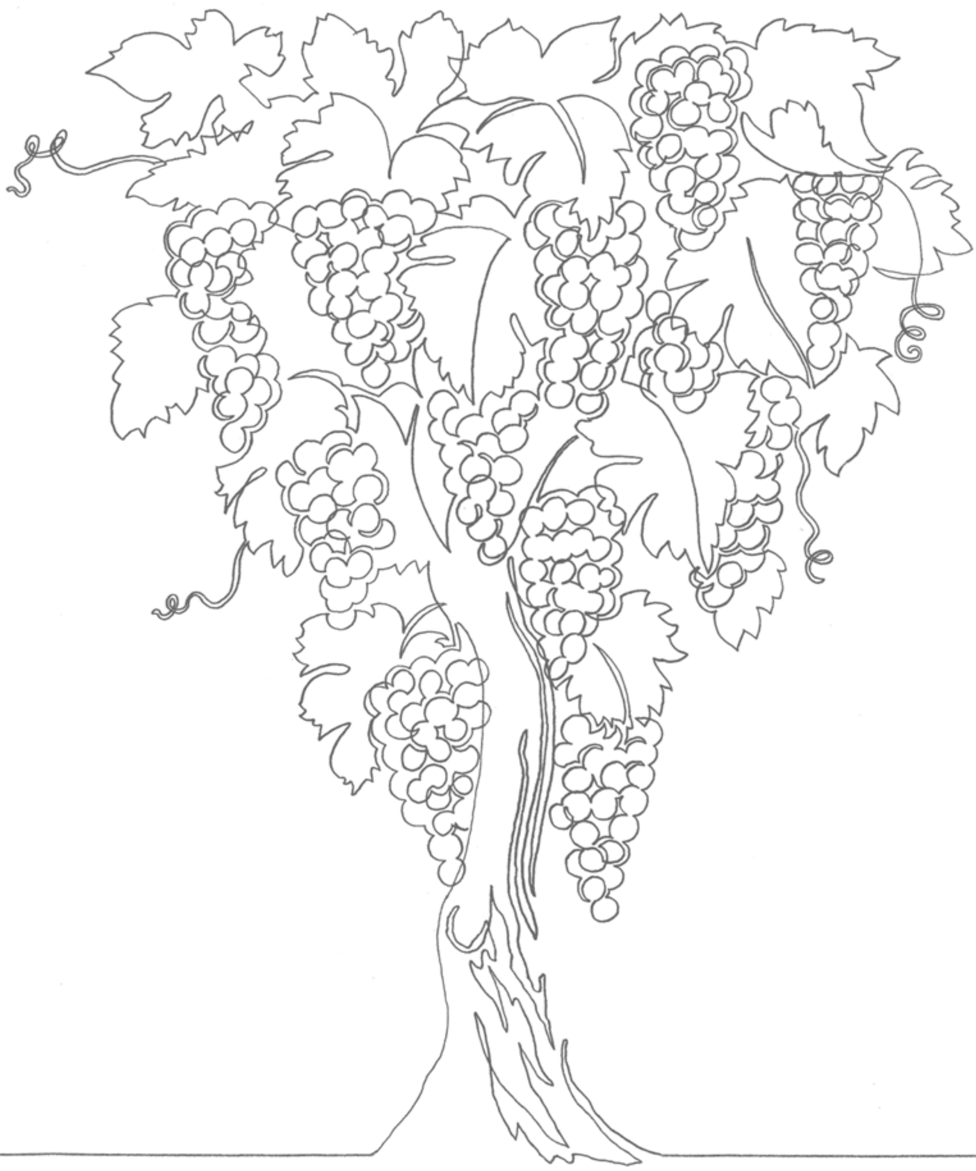
22 Post balance sheet events

Members' funds

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

	2012 $m	2011 $m
2010 Year of account	21.3	–
2009 Year of account	–	47.7
	21.3	**47.7**

2010 year of account for syndicate 623



Managing agent's report

The syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (the 'Lloyd's Regulations') and in accordance with the Syndicate Accounting Byelaw (No.9 of 2005), applicable accounting standards in the United Kingdom and comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2006 ('the ABI SORP').

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2010 year of account which has been closed by reinsurance to close at 31 December 2012; consequently the balance sheet represents the assets and liabilities of the 2010 year of account and the profit and loss account reflect the transactions for that year of account during the 36 months period until closure.

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 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008, the auditor will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

Directors

A list of directors of the managing agent who held office during the current year can be found on page 58 of the syndicate annual accounts.

Statement of Managing Agent's Responsibilities

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

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

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

- select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these accounts.

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

Legislation in the UK governing the preparation and dissemination of the financial statement may differ from legislation in other jurisdictions.

By order of the board

M L Bride
Finance Director
6 March 2013

Independent auditor's report to the members of syndicate 623 2010 closed year of account

We have audited the underwriting year accounts for the 2010 year of account of syndicate 623 for the three years ended 31 December 2012, as set out on pages 50 to 58. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 48, the managing agent is responsible for the preparation of syndicate underwriting year accounts under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005), which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the syndicate underwriting year accounts

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

Opinion on syndicate underwriting year accounts

In our opinion the syndicate underwriting year accounts:

- give a true and fair view of the profit for the 2010 closed year of account;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005).

Matters on which we are required to report by exception

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

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

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

7 March 2013

Profit and loss account

for the 36 months ended 31 December 2012

	Notes	2010 year of account $m
Gross premiums written	9	350.5
Outward reinsurance premiums		(68.0)
Earned premiums, net of reinsurance	9	**282.5**
Allocated investment return transferred from the non-technical account		6.7
Reinsurance to close premiums received, net of reinsurance	2	343.4
		350.1
Gross claims paid		(194.3)
Reinsurers' share		37.0
Claims incurred, net of reinsurance		**(157.3)**
Reinsurance to close premiums payable, net of reinsurance	3	(352.5)
		(509.8)
Net operating expenses	5	(97.0)
Balance on the technical account	9	**25.8**
Investment income		11.6
Investment expenses and charges	6	(4.9)
		6.7
Allocated investment return transferred to the technical account		(6.7)
Other charges		(4.5)
Profit for the 2010 closed year of account	4	**21.3**
Syndicate allocated capacity (£m)		215.7
Profit for the 2010 closed year of account (£m)		13.1
Return on capacity		6.1%

There are no recognised gains or losses in the accounting period other than those dealt with within the technical and non-technical accounts.

Balance sheet

closed at 31 December 2012

	Notes	2010 year of account $m
Assets		
Financial Assets at fair value	7	286.7
Debtors	8	107.7
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	3	141.3
Cash at bank and in hand	12	51.4
Total assets		**587.1**
Liabilities		
Amounts due to members	10	21.3
Reinsurance to close premium payable to close the account – gross amount	3	492.2
Creditors	11	70.1
Accruals and deferred income		3.5
Total liabilities		**587.1**

The underwriting year accounts on pages 50 to 58 were approved by the board of directors on 6 March 2013 and were signed on its behalf by:

N P Maidment
Active Underwriter

M L Bride
Finance Director

Notes to the syndicate underwriting year accounts
closed at 31 December 2012

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

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

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

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

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

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

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

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

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

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

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

1 Accounting policies *continued*

Syndicate operating expenses

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

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

Taxation

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

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

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

Basis of currency translation

n) The syndicate operates in four separate currency funds of Sterling, Euro, United States ('US') dollars and Canadian dollars. Items expressed in sterling, Euros and Canadian dollars are translated to US dollars at the three years' average rates of exchange ruling at the balance sheet date. The Euro, US dollar and Canadian dollar three years' average exchange rates ruling at 31 December 2012 are Euro 0.75, Stg 0.63 and C$ 1.00.

2 Reinsurance to close premiums received

	2010 year of account $m
Gross reinsurance to close premiums received	474.8
Reinsurance recoveries anticipated	(131.4)
Reinsurance to close premiums received, from 2009 and earlier, net of reinsurance	**343.4**

3 Reinsurance to close premiums payable

	2010 year of account $m
Gross reinsurance to close premiums payable	493.4
Reinsurance recoveries anticipated	(140.9)
Foreign exchange	(1.6)
Reinsurance to close premiums payable to 2011, net of reinsurance	**350.9**

	Reported $m	IBNR $m	Total $m
Reinsurance to close premium payable	176.2	316.0	492.2
Reinsurance recoveries anticipated	(52.7)	(88.6)	(141.3)
Reinsurance to close premiums payable, net of reinsurance	**123.5**	**227.4**	**350.9**

4 Analysis of the 2010 year of account result

	2010 year of account $m
Amount attributable to business allocated to the 2010 year of account	4.6
Surplus on the reinsurance to close for the 2009 year of account	16.7
	21.3

5 Net operating expenses

	2010 year of account $m
Acquisition costs	78.1
Members' standard personal expenses	4.8
Administrative expenses	14.0
Profit on foreign exchange	0.1
	97.0
Administrative expenses include:	
Audit services	0.2

6 Investment expenses and charges

	2010 year of account $m
Investment management expenses	2.2
Loss on the realisation of investments	2.7
	4.9

7 Financial assets at fair value

At fair value	2010 year of account $m
Fixed rate securities	223.4
Floating rate securities	28.3
Hedge funds	35.0
	286.7

8 Debtors

	2010 year of account $m
Arising out of reinsurance operations	45.8
Members' agents' fees	4.3
Amount due from syndicate 2623	39.1
Amount due from managing agent	3.6
Other debtors, including taxation	14.9
	107.7

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

9 Segmental analysis

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

2010 year of account	Marine $m	Political risks and contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Unallocated $m	Total $m
Gross premiums written	63.8	23.3	83.0	40.3	140.1	–	350.5
Outward reinsurance premiums	(6.2)	(3.7)	(20.9)	(10.1)	(27.1)	–	(68.0)
Net earned premiums	57.6	19.6	62.1	30.2	113.0	–	282.5
Net claims	(22.9)	(0.2)	(35.0)	(38.3)	(70.0)	–	(166.4)
Operating expenses	(19.6)	(7.3)	(26.0)	(10.1)	(35.5)	1.5	(97.0)
Technical account result before Investment Income	15.1	12.1	1.1	(18.2)	7.5	1.5	19.1
Investment Income	–	–	–	–	–	6.7	6.7
Balance on technical account	**15.1**	**12.1**	**1.1**	**(18.2)**	**7.5**	**8.2**	**25.8**
Claims ratio	40%	1%	56%	127%	62%		59%
Expense ratio	34%	37%	42%	33%	31%		34%
Combined ratio	74%	38%	98%	160%	93%		93%

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.

10 Amounts due to members

	2010 year of account $m
Profit for the 2010 closed year of account	21.3
Transfers to members' personal reserve funds in 2011 and 2012	–
Amounts due to members at 31 December 2012	**21.3**

Amounts are stated prior to deduction of member agent fees.

11 Creditors

	2010 year of account $m
Arising out of direct insurance operations	2.4
Arising out of reinsurance operations	35.3
Profit commission payable	4.5
Amount due to other syndicates	18.7
Other creditors	9.2
	70.1

The above balances are payable within one year.

12 Cash at bank and in hand

	2010 year of account $m
Cash at bank and in hand	16.4
Overseas deposits	35.0
	51.4

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

13 Related party transactions
Please refer to page 45 for further details of related party transactions for the 2010 year of account.

Seven-year summary of closed year results

at 31 December 2012

	2010	2009	2008	2007	2006	2005	2004
Syndicate allocated capacity – £'000	215,724	147,831	158,230	163,100	183,100	222,300	344,600
Syndicate allocated capacity – $'000	323,587	294,184	261,715	308,259	335,073	391,248	572,036
Capacity utilised	88%	92%	87%	97%	89%	94%	94%
Aggregate net premiums – $'000	216,294	194,730	224,784	243,005	224,554	259,301	344,518
Underwriting profit as a percentage of gross premiums	14.2%	26.4%	21.3%	25.1%	29.8%	18.1%	18.5%
Return on capacity	6.1%	21.0%	13.4%	14.5%	18.5%	9.6%	8.4%
Results for an illustrative £10,000 share	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Gross premiums	13,021	21,326	17,631	18,324	16,272	15,213	13,147
	$	$	$	$	$	$	$
Net premiums	10,109	13,614	14,206	14,899	12,265	11,665	9,998
Reinsurance to close from an earlier account	15,920	22,059	18,377	15,256	12,784	10,486	7,483
Net claims	(7,093)	(7,510)	(7,613)	(6,630)	(4,784)	(5,848)	(5,500)
Reinsurance to close the year of account	(16,339)	(22,526)	(20,958)	(18,930)	(15,415)	(13,811)	(9,781)
Underwriting profit	2,597	5,637	4,012	4,595	4,850	2,492	2,200
Profit/(loss) on foreign exchange	(5)	128	95	246	565	(58)	(48)
Syndicate operating expenses	(1,485)	(2,167)	(1,745)	(1,713)	(1,376)	(1,102)	(779)
Balance on technical account	1,107	3,598	2,362	3,128	4,039	1,332	1,373
Gross investment return	311	546	398	597	455	993	715
Profit before personal expenses	1,418	4,144	2,760	3,725	4,494	2,325	2,088
Illustrative personal expenses							
Illustrative personal expenses	(222)	(187)	(264)	(395)	(382)	(276)	(388)
Managing agent's profit commission	(208)	(660)	(437)	(582)	(719)	(361)	(302)
Profit after illustrative profit commission and personal expenses ($)	988	3,297	2,059	2,748	3,393	1,688	1,398
Profit after illustrative profit commission and personal expenses (£)	606	2,100	1,338	1,454	1,854	959	842

Note:

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

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 **
J G W Agnew*– (resigned 27/03/2012) **
G P Blunden*
M L Bride – Finance director
A P Cox
R V Deutsch*
N H Furlonge*
J G Gray
A G K Hamilton*
D A Horton – Chief executive officer
N P Maidment – Active underwriter
R A W Tolle*
C A Washbourn

* Non-executive director
** J G W Agnew resigned from the Board on 27 March 2012. Dennis Holt was appointed as chairman of the board on 27 March 2012.

Company secretary

Sian A Coope

Auditors

KPMG Audit Plc
15 Canada Square
London
E14 5GL

Managing agent's registered office

Plantation Place South
60 Great Tower Street
London
EC3R 5AD
United Kingdom

Registered number

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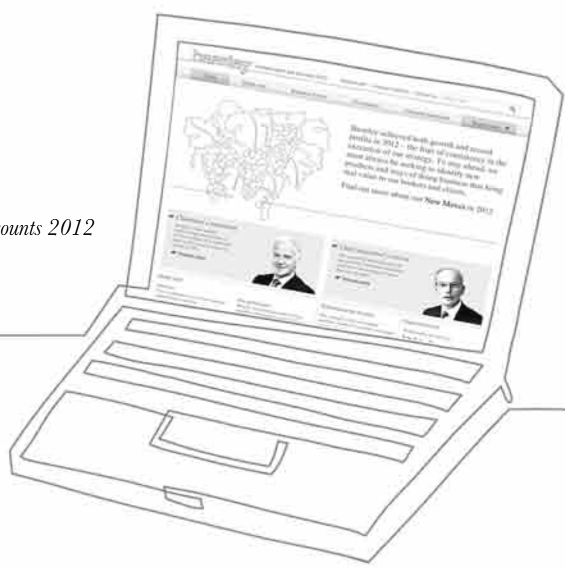

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