Keeping balance

Premier Partner of BRITISH FENCING

Contents

Cover illustration: The dramatic fencing exchange shown on the front cover of this report is a drawing by artist Geoffrey Appleton based on an earlier drawing by Jenny Osbaldeston. That in turn was based on a photograph taken by Graham Morrison during the final of the 1991 Martini International épée tournament in London between Cuomo of Italy, making the flèche attack, and Sandegren of Sweden.

Highlights

	2011	2010 (restated)*
Syndicate capacity (£m)	214.9	215.8
Gross premiums written ($m)	349.6	350.5
Net premiums written ($m)	276.2	278.6
Earned premiums, net of reinsurance ($m)	274.7	275.6
Profit for the financial year ($m)	**2.1**	**39.4**
Claims ratio	64%	51%
Expense ratio	36%	34%
Combined ratio	100%	85%
Renewal rate increase/(decrease)	1%	(2%)
Cash and investments ($m)	595.4	596.5
Average investment return	1.1%	1.2%

* The syndicate has adopted Financial Reporting Standard 23 to 26 and 29 with effect from 1 January 2011. The comparative figures in these financial statements have been restated to reflect these new accounting policies. Details of the effect of restating the comparative amounts are shown in note 21.

Underwriter's report

Overview

The syndicate has achieved a profit for the year of $2.1m (2010: $39.4m). Gross premiums written of $349.6m were similar to 2010.

For 2011 total managed premium capacity for Beazley Furlonge Limited was £1,319.2m (2010: $1,307.4m), which includes £12.5m, £135m and £14.1m for 3622, 3623 and 6107 respectively. Syndicate 623 contributed £214.9m and Beazley plc through syndicate 2623, the remaining £942.7m.

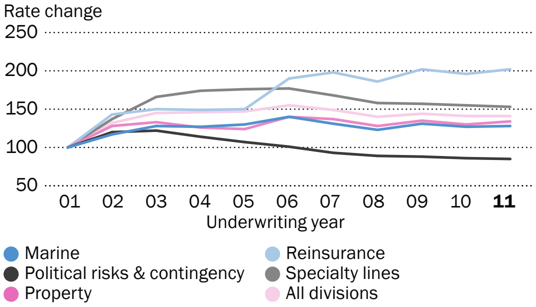
Year of account results

We are delighted to declare a return on capacity of 21.0% for the 2009 year of account. The 2010 year of account is currently forecasting a nil return on capacity. 2011, which is still in the early stages of development, is currently forecasting a return on capacity of 2.5%.

Rating environment

Premium rates charged for renewal business increased by 1% during 2011 across the portfolio (2010: a decrease of 2%). The largest rate changes were seen within our catastrophe-exposed classes; reinsurance (3% increase) and property (3% increase). Political risks and contingency and specialty lines had a 1% decrease and marine was unchanged. Market conditions remain competitive across the portfolio.

Cumulative renewal rate changes since 2001* (%)



*Unaudited

Combined ratio

The combined ratio of an insurance company is a common measure of its operating performance and represents the ratio of its total costs (including net insurance claims) to net earned premiums. Consistent delivery of operating performance across the market cycle is clearly an aim for an insurer and the syndicate's combined ratio has increased in 2011 to 100% (2010: 85%). It is worth pointing out that 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 deteriorated to 64%, while the expense ratio remained relatively stable at 36%.

Claims

2011 saw an unusually large incidence of natural catastrophes resulting in significant market losses. The syndicate was impacted by the catastrophe losses in the first half of 2011 in Japan, New Zealand and Australia, as well as US tornados in April and May. The second half of the year saw loss activity continue with hurricane Irene and flooding in Thailand. We incurred minor losses as a result of hurricane Irene and we estimate the cost of Thailand to be $10m. These losses have affected our reinsurance and property divisions and, to a lesser extent, the political risks and contingency division.

In addition, political unrest in Libya led to losses in the first half in political risks. Despite this, the political risks and contingency division recorded a combined ratio of 81%, which was achieved following the first recoveries on the 2008 political losses.

Losses from 2010, including the earthquakes in Chile and New Zealand have developed well and contributed positively to prior year reserve releases during 2011.

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 our reserve strength across the portfolio at 7.4% (2010: 7.9%).

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 2011 we were able to make the following prior year reserve adjustments across divisions, with the overall net impact being an increased release to the syndicate.

	2011 $m	2010 $m
Marine	9.2	7.1
Political risks and contingency	5.2	4.3
Property	4.8	4.1
Reinsurance	8.9	5.2
Specialty lines	14.5	13.3
Total	**42.6**	**34.0**
Releases as a percentage of net earned premium	15.5%	12.0%

Reserve releases increased slightly on specialty lines, reflecting the continuing satisfactory development of the significant volumes of business underwritten over the last ten years. The releases in 2011 came mainly from the 2003 through 2006 underwriting years, reinforcing that they are exceptionally profitable.

The political risks and contingency reserve releases continued, with the 2010 underwriting year in particular developing well. Marine reserve releases rose significantly, with the relatively benign 2009 underwriting year dominating.

The reinsurance and property releases increased with favourable development of past catastrophe events and the utilisation of earned catastrophe reserves offsetting the cost of the events of 2011.

Operating expenses

Total operating expenses, including business acquisition costs and administrative expenses increased from $92.6 to $97.9m in 2011. The breakdown of these costs is shown below:

	2011 $m	2010 $m (restated)
Brokerage costs	69.0	64.2
Other acquisition costs	11.6	12.4
Total acquisition costs	**80.6**	**76.6**
Administrative expenses	17.3	16.0
Total operating expenses	**97.9**	**92.6**

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, facilities costs, Lloyd's central costs and other support costs.

Investment performance

Investment income for the period ended 31 December 2011 was $6.6m, or an annualised return of 1.1%, compared with $6.9m (1.2%) over the same period in 2010.

Investment conditions continued to be difficult over the course of the year. Financial markets experienced elevated levels of volatility as the effects of global overleveraging continued to manifest themselves via the European sovereign debt crisis. This issue, coupled with the relatively lacklustre levels of global growth, contributed to interest rate levels falling further from already record low levels – providing some boost to short-term returns, but decreasing the outlook for future returns.

In this environment the investment strategy focused on containing potential downside, whilst working to target absolute returns above short-term treasury bills. We have paid particular attention to avoiding risks arising from the eurozone crisis, primarily those arising from peripheral sovereign debt as well as from the overall banking sector. Our eurozone sovereign bond exposures are restricted to Germany, France, Austria, Belgium, Finland, Luxembourg and the Netherlands and other than a small number of holdings in strategic banks in the aformentioned countries, we do not have bond exposure to eurozone banks.

The strategy continues to be implemented together with Falcon Money Management Limited, an associate firm of Beazley plc, and is unchanged from last year. We have marginally increased our allocations to US non-financial corporate and asset-backed credits to take advantage of wider spreads in the latter part of the year. At 31 December 2011 the weighted average duration of our core portfolio was 16 months (31 December 2010: 12 months). The weighted average yield to maturity of our overall portfolio was 0.7% (31 December 2010: 0.7%). Our decision late in 2010 to increase and maintain duration worked well as interest rates fell further during 2011. The balance of our investments remains invested in a diversified portfolio of capital growth assets with a focus on delivering absolute investment returns.

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

	31 Dec 2011		31 Dec 2010	
	$m	%	$m	%
Cash at bank and in hand	80.3	14	61.3	10
Government, Agency and Supranational	328.6	55	293.7	49
AAA	51.2	9	119.8	21
AA+ to AA-	15.9	3	20.9	4
A+ to A-	37.5	6	22.4	4
BBB+ to BB	13.2	2	4.5	–
Derivative financial assets	0.6	–	–	–
Core portfolio	527.3	89	522.6	88
Capital growth assets	68.1	11	73.9	12
Total	595.4	100	596.5	100

Comparison of return by major asset class:

	31 Dec 2011		31 Dec 2010	
	$m	%	$m	%
Core portfolio	7.5	1.4	3.9	0.7
Capital growth assets	(0.9)	(1.3)	3.0	5.3
Overall return	6.6	1.1	6.9	1.2

Employee numbers

In 2011, our permanent UK employee numbers grew from 361 to 409 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	2011	2010
Marine	33	31
Political risks and contingency	21	19
Property	37	35
Reinsurance	8	7
Specialty lines	85	77
Finance (including actuarial, compliance and internal audit)	44	43
IT	64	55
Ceded reinsurance	13	13
Talent management	13	11
General management and other support	91	70
Total	**409**	**361**

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

Reinsurance

In 2011, we increased the amount spent on reinsurance to $73.4m (2010: $71.9m). 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.

The only significant new reinsurance purchased was the professions' aggregate excess of loss cover which protects the group against an unexpected increase in the frequency of losses across most of the speciality lines business.

As disclosed in note 15 to the financial statements, syndicates 2623 and 623 entered into a whole account quota share reinsurance agreement to cede 12.25% of their 2009 year of account net result up to 31 December 2011 to syndicate 3623. Reinsurance premiums payable by syndicate 623 to syndicate 3623 under this quota share agreement have been included in the outward reinsurance spend of syndicate 623 since the year ended 31 December 2009. This quota share agreement has now expired and as a result, syndicate 623 no longer benefits from this particular reinsurance contract on the 2009 year of account.

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.

In order to determine the ICA, we made significant investment in both models and process:

- We use sophisticated mathematical models that reflect the key risks in the business allowing for probability of occurrence, impact if they do occur, and interaction between risk types. A key focus of these models is to understand the risk posed to individual teams, and to the business as a whole, of a possible deterioration in the underwriting cycle; and
- The 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.

Solvency II

Solvency II is a proposed EU-wide legislation on capital adequacy and risk management for all insurers. The central elements of Solvency II are:

- Pillar 1: Demonstrating adequate financial resources – quantification
- Pillar 2: Demonstrating an adequate system of governance – risk assessment
- Pillar 3: Public disclosure and regulatory reporting requirements

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.

Beazley's dedicated project management team and subject matter experts have continued throughout 2011 to build the framework required to make Beazley Solvency II compliant. The Solvency II internal model, which calculates our solvency capital requirements based on Beazley's risk profile in line with the new principles, was built and tested. The internal model has incorporated new design characteristics which increase the level of sophistication and granularity. The Solvency II Final Application Pack for the syndicates was submitted to Lloyd's on 16 December 2011, containing our estimated capital requirements under the new regime, as well as detailed information on the status of the programme and the activities remaining to be completed in order to reach the full Solvency II standard. The team also completed a comprehensive training programme tailored to educate all our staff on their specific knowledge requirements as well as what business as usual will look like under Solvency II.

Our objective for 2012 is to complete our outstanding activities in line with the Lloyd's plan and to embed the model and the changes into the business. This will include going through a review process with the FSA in relation to the Lloyd's application. We will also continue to take advantage of the benefits delivered by the programme, such as better management information and strengthened decision making.

Outlook

Syndicate 623 has produced a strong result on the closed 2009 underwriting year. In 2010 and 2011 the balance of the portfolio has proved its strength in the face of market testing catastrophe losses and the syndicate is now planning for moderately improving conditions in 2012.

N P Maidment
Active Underwriter

9 March 2012

Marine

	2011 $m	2010 $m
Gross premiums written	64.2	61.0
Net premiums written	57.2	54.3
Earned premiums, net of reinsurance	54.1	51.2
Claims incurred, net of reinsurance	(20.9)	(19.4)
Net operating expenses	(19.5)	(17.0)
Technical result	**13.7**	**14.8**
Claims ratio	39%	38%
Expense ratio	36%	33%
Combined ratio	75%	71%
Renewal rate decrease	–	(3%)

Our marine division, led by Clive Washbourn, has established over many years a reputation as one of the strongest performers at Lloyd's, and 2011 was no exception. The team achieved a combined ratio of 75% (2010: 71%) at a time of flat or declining premium rates for all main classes of cover except for energy risks. In addition to energy, the team insures a broad array of hull, cargo and marine liability risks, as well as war and terrorism risks for both ships and aircraft. In 2011, we led the cover for 52% of the business by volume that we underwrote.

The breadth of the team's expertise served us well in 2011. Demand for tanker and container shipments declined, while trade in bulk goods and liquefied petroleum gas – sectors in which Beazley specialised – remained relatively robust. Across our hull and cargo accounts, we saw renewal rates fall by an average of 1%. However, demand for war risks cover was high, particularly as a result of the civil war in Libya. Beazley insures around a fifth of all war risks business placed in the London market.

Piracy in the Gulf of Aden and around the Horn of Africa – a severe menace to shipping since 2008 – continued unabated, with an increasing number of attacks in 2011. However, owing to improved security on ships the incidence of vessel captures fell and we saw lower claims frequency than in 2010.

Energy risks accounted for 43% of the business underwritten by the division in 2011. In October, we welcomed Matthew Holmes to Beazley as the new head of our energy team. Energy risks have accounted for a growing proportion of the business underwritten by the division in recent years and we expect this share to continue to grow, market conditions permitting. Rates for energy business rose by 4% in 2011, driven by the tightening in capacity that followed the Deepwater Horizon explosion in the Gulf of Mexico in 2010.

We have historically taken a very cautious approach to energy liability business, seeing it as generally underpriced. Following the strong focus on this section of the market from the Lloyd's performance management directorate in 2011, this may change in 2012 and we will be alert to opportunities. Overall, we expect energy premium rates to remain flat in 2012 in the absence of further catastrophe losses.

An important initiative that we launched in 2009 – the creation of underwriting capacity and expertise for marine professional liability risks within the Lloyd's market – continued to develop well under the leadership of Zareena Hussain, who has headed our entire marine liability team since 2010. The team underwrites a broad range of professional liability risks for a wide array of maritime professionals, from average adjustors to yacht brokers. The Beazley name is of course extremely strong in the wider world of professional liability and we have found the strong broker relationships forged by our colleagues in Beazley's specialty lines division very valuable.

Our UK marine unit continues to grow under the leadership of Stephen Smyth. In addition to serving Lloyd's brokers, the team also partners with UK regional brokers, offering a wide range of products including cargo, freight liability, hull and machinery, and marine liability. Many segments of this market are highly competitive but by careful risk selection Steve and his team have succeeded in growing the account profitably.

Political risks and contingency

	2011 $m	2010 $m
Gross premiums written	23.9	23.6
Net premiums written	19.8	18.6
Earned premiums, net of reinsurance	19.2	19.5
Claims incurred, net of reinsurance	(8.4)	(6.0)
Net operating expenses	(7.1)	(6.9)
Technical result	**3.7**	**6.6**
Claims ratio	44%	31%
Expense ratio	37%	35%
Combined ratio	81%	66%
Renewal rate decrease	(1%)	(2%)

Beazley's political risks and contingency division, led by Adrian Lewers, insures a broad array of exposures, including conventional political risks (confiscation, nationalisation and expropriation); political violence and terrorism; and costs arising from the cancellation of events ranging in size from major sports tournaments to specialist trade shows and fairs. In 2011, despite significant political turbulence in many parts of the world and a series of natural catastrophes that had knock-on effects on our event cancellation business, the team achieved a combined ratio of 81% on gross premiums of $23.9m.

The political risks market remained highly competitive in 2011. We have, however, maintained our disciplined approach to risk assessment and pricing, and continued to make sizeable recoveries on claims paid out in earlier years. It is possible that this pattern of recoveries will be repeated in Libya, where in the course of 2011 we incurred a number of claims to European exporters for contract frustration in respect of their relationships with the previous government.

Our claims team under the leadership of Hannah Purves is one of the most experienced in the Lloyd's market and continued in 2011 to win praise from brokers and clients alike for our sensitive handling of complex claims. In the case of Libya, for example, many of our clients have a strong interest in establishing good relationships rapidly with the new regime and we are supporting their efforts to do this.

Political violence was also widespread last year, particularly in the Middle East and North Africa. In April, we strengthened our team with the arrival of Chris Parker, who joined us from Marsh to head the team, and Andrew Page. The largest single component of our political violence account is not in developing economies but in the US and Europe, where we underwrite specialist terrorism cover for property owners. Premium rates on this business have declined in recent years but it continues to be profitable. We have a well diversified book with prudently managed aggregate exposures.

Beazley's contingency team is one of the largest and most experienced in the Lloyd's market. Given the breadth of business insured by the team, it is not surprising that the exceptional sequence of natural catastrophes that occurred in 2011 should have had some impact, and we received contingency claims from both Japan and New Zealand following the earthquakes in those countries. In the main, the claims that we paid were not for outright event cancellation but for rescheduling and relocating events out of harm's way. Premium rates have generally held up better than we expected, with renewal rates for the contingency book as a whole declining by 1%.

The past year saw us continue to expand our global presence outside Lloyd's, although 95% of our premiums are still underwritten at the Beazley box, reflecting the strong reputation of the London market in the political risks and contingency lines. We now have political risks underwriters in New York and Singapore and plan to establish an underwriting presence in Paris in 2012. Our contingency team has an underwriter in Australia and we are expanding our business in the UK regional broker market through Beazley Access, an online platform for small and mid sized event cancellation risks.

Property

	2011 $m	2010 $m
Gross premiums written	81.4	82.0
Net premiums written	62.2	61.6
Earned premiums, net of reinsurance	62.9	59.9
Claims incurred, net of reinsurance	(39.6)	(28.7)
Net operating expenses	(26.1)	(25.5)
Technical result	**(2.8)**	**5.7**
Claims ratio	63%	48%
Expense ratio	41%	42%
Combined ratio	104%	90%
Renewal rate increase/(decrease)	3%	(4%)

Beazley's property division, led by Jonathan Gray, is a major underwriter of commercial property risks in the London market and, as such, was not immune to the catastrophe losses that pummelled the market in 2011. No one event was of major significance for us, but their cumulative effect weighed on our performance. The division's diversified premium base – comprising large, medium and small scale commercial property risks, homeowners business in the UK and US, and construction and engineering risks underwritten in London, Singapore and the US – maintained balance in our portfolio. The division recorded a 104% combined ratio for the year.

After such an eventful year, premium rates are rising, notwithstanding the substantial capacity still available in the market. Having budgeted for rate declines of 3% in 2011, we have in fact seen rates rise by approximately 3%. Premium rates for all of the teams within the property division, regardless of product or geography, were in positive territory by the end of the year. The sharpest upswing was in our open market property book, comprising large scale property risks underwritten at the Beazley box at Lloyd's, where rates have risen by 5% on average over the year.

The strength and variety of our Lloyd's broker relationships remain important assets for Beazley's property team. The global reach of our broker partners was once again demonstrated in 2011 as we opportunistically expanded our portfolio in a number of regions, notably Mexico, where premium rates on government owned properties have increased significantly. In September we further strengthened our open market team with the arrival of Will Roscoe, who joined us from Willis.

Our construction and engineering team enjoyed mixed fortunes in 2011. We continue to see growth opportunities for our locally based underwriters in London and in Asia. In Singapore we have a successful and growing team that has been able to access regional business that we would not normally see in London. However, market conditions for construction and engineering risks have been challenging, particularly in London. We experienced some claims deterioration on certain large and complex multi-year projects and have scaled down our underwriting of such business, focusing instead on shorter term projects.

Looking ahead, we see numerous areas of opportunity in 2012 in the context of a much more positive rate environment. Our premium retention rates testify to the service we provide. We continue to invest in claims expertise and in underwriters who, while being sensitive to market conditions, are also alive to the importance of strong broker and client relationships.

Underwriter's report *continued*

Reinsurance

	2011 $m	2010 $m
Gross premiums written	42.4	40.7
Net premiums written	31.2	31.4
Earned premiums, net of reinsurance	31.2	30.1
Claims incurred, net of reinsurance	(41.1)	(19.1)
Net operating expenses	(8.5)	(8.5)
Technical result	**(18.4)**	**2.5**
Claims ratio	132%	63%
Expense ratio	27%	28%
Combined ratio	159%	91%
Renewal rate increase/(decrease)	3%	(3%)

In the worst year ever for insured natural catastrophes, it was inevitable that our reinsurance division, led by Patrick Hartigan, would incur substantial losses. Beazley's reinsurance losses were in line with our market share, resulting in a combined ratio of 159% (2010: 91%) on gross premium income of $42.4m.

A succession of severe events impacted the reinsurance market in 2011, beginning with widespread flooding in Queensland, Australia during January costing approximately $2.3bn. In February, a shallow but deadly earthquake hit Christchurch, New Zealand causing in the region of $12bn in insured damage. Less than three weeks later, the Tohoku earthquake, with a magnitude of 9.0 – the strongest ever recorded in Japan – devastated the north east coast of Japan through the combination of shock and, more overwhelmingly, tsunami. Insured damage has been estimated at $35bn-$40bn with economic damage of some $200bn. While the US was spared a significant hurricane in 2011 (Hurricane Irene proved less costly than at first feared, at $7bn), the combination of winter storms in the first quarter followed by two of the most violent tornadoes on record in the second quarter caused insured losses of approximately $14bn, double the figure of the previous year. The last quarter of the year provided no respite as prolonged rainfall in Thailand led to flooding in the industrial parks north of Bangkok. While the event is still being assessed, insured losses are estimated at $10bn-$20bn.

Beazley's reinsurance team manages its exposures to strict territorial limits with a bias towards the world's more mature insurance economies. This enables us to manage our risk in areas where data quality is strong, counterparties are experienced and effective in their own risk management, and profit margins are generally more robust. This also mitigates the risk of a private catastrophe (from which our share of a loss would be disproportionate to our market share). Our strategy has mitigated the effect of the losses of 2011 to the reinsurance team, ensuring that they are both proportionate to our market share and within our risk appetite.

An additional consequence of these events has been to drive a significant improvement in terms for low frequency, high severity areas, typically exposed to earthquake or extreme flood. Beazley's reinsurance team has been at the forefront of driving changes to the catastrophe risk environment by limiting territorial coverage and more closely assigning a rate per peril, which has enabled us to calibrate the price of cover more accurately with the exposures we are running.

Estimating the scale of natural catastrophe losses, particularly in the early days after the event, is notoriously difficult. Our methodology in catastrophe loss assessment and reserving is primarily based on using a ground-up approach to our portfolio. By these means, we aim to provide our investors with robust loss estimates that do not require subsequent upward revision.

Beazley's reinsurance account benefits from two other important features. We have very strong, long term client relationships: 80% of our top 20 reinsureds have been buying cover from us for more than 15 years. We also have a very well diversified account by geography and peril.

Specialty lines

	2011 $m	2010 $m
Gross premiums written	137.7	143.3
Net premiums written	105.8	112.7
Earned premiums, net of reinsurance	108.5	114.5
Claims incurred, net of reinsurance	(65.3)	(67.3)
Net operating expenses	(36.6)	(36.5)
Technical result	**6.6**	**10.7**
Claims ratio	60%	59%
Expense ratio	34%	32%
Combined ratio	94%	91%
Renewal rate decrease	(1%)	(2%)

Specialty lines, led by Adrian Cox, is Beazley's largest division, accounting for 39% of gross written premiums in 2011. At a time of frequent and severe natural catastrophes, specialty lines – representing in the main professional liability, management liability, and medical malpractice business – has been a source of stable and consistent underwriting returns. The division recorded a combined ratio of 94% (2010: 91%).

The price of long term success in our markets is constant vigilance. We manage our portfolio actively to maximise our profitability over the cycle. For our clients we are not a fair weather friend – we aim to provide them with continuity of cover in a volatile market where capacity can become scarce very quickly. The corollary of this is that, when capacity is abundant, as has been the case in many lines of business recently, we will not be among the lowest priced markets. Ours is a well diversified portfolio across geographies, lines of business, and size of risks.

Underwriting conditions remain highly competitive for many of the lines of business in which the team specialises. Insurance capital is still plentiful – even excessive in some markets such as architects' and engineers' (A&E) professional liability and directors and officers (D&O) insurance. Simultaneously, demand for many of the services our clients provide remains depressed due to low rates of economic growth in our principal markets, notably the United States. Both of these forces put downward pressure on premium rates. Furthermore the low level of insurers' investment returns provides little cushion to absorb underwriting losses. Overall, we saw renewal rates across our specialty lines business decline by 1% in 2011.

Our claims experience has also to some extent reflected the broader economic malaise affecting our clients. In 2008 we introduced a new and very rigorous underwriting approach to recession planning which has paid off since. The first class of business affected was employment practices liability (EPL), where claims commonly increase at times of rising unemployment. However, we saw premium rates begin to rise for EPL risks at the end of 2011 and we expect to grow in this class next year.

In 2011, as we had foreseen, we saw recession related claims against lawyers and architects and engineers continue to increase. Lawyers who advised on corporate transactions initiated in the boom years have also found themselves targets of litigation when those deals subsequently soured. Our very experienced specialist claims staff have been working closely with our clients to support them during these challenging times. This focus, combined with our recession planning, has had a beneficial effect on our loss ratios.

We are also seeing a change in the types of claim brought against directors and officers, away from traditional SEC class actions and towards claims deriving from M&A activity and increased regulatory scrutiny. We have begun to see this trend contribute to a modest upturn in rates in the D&O market.

Claims experience in other lines of business in which Beazley has long specialised has proved more benign. We are a leading insurer of US hospitals and hospital systems, with a strong focus on the best managed institutions. Extensive claims data is a significant asset in pricing these risks accurately and our database is one of the most extensive in existence, covering more than 455,000 claims.

Healthcare providers are vulnerable to another risk that is a major specialist focus of Beazley – data breaches. In October we were selected by UHC, an alliance of America's leading non-profit academic medical centres, as the preferred cyber liability insurer for UHC's 114 academic medical centres and 255 affiliate hospitals. Beazley Breach Response, our flagship product, will be offered to all UHC members.

An important contribution to our performance in 2011 – $14.5m – derived from reserves released from prior years' underwriting after it became evident that they were no longer required to meet potential claims. Beazley has historically adopted a conservative reserving approach and our reserve release this year, which is slightly above our 2010 release, bears witness to this.

Managing agent's report

The managing agent presents its report for the year ended 31 December 2011.

Basis of preparation

These financial statements 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 underwriting year of accounts for the closed accounts 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

Risk management is an essential part of what we do at Beazley and our risk framework facilitates communication and dialogue across each of our business areas to help achieve the group's and within that, the syndicate's strategic objectives.

Our business is based on controlled and informed risk taking. Our risk appetite allocation methodology is clearly understood and articulated to ensure that where appropriate it is fully utilised to give maximum reward. Our framework is centred on the following principles:

- Transparency – to ensure all risks are clearly understood, measured and controlled by setting limits and monitoring against these;
- Accountability – the organisational structure ensures all risks are owned by appropriate individuals and everyone takes responsibility for managing their risks; and
- Culture – to promote a risk aware culture and to ensure that every decision we take is based upon an evaluation of risk versus reward.

This strong culture of risk management has resulted in us receiving a "Strong" Standard and Poor's rating for risk management, which ranks our practices in the top 15% of companies rated by them.

Risk governance and reporting

Beazley plc's board of directors has the responsibility for defining 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.

2011 year in review

The past year saw the continuing evolution of both the risk management framework and the risk management function. The risk management function was appropriately resourced throughout 2011 with additional personnel recruited to ensure there is the appropriate combination of skills and experience for Beazley Furlonge Limited ("BFL") to operate in a Solvency II environment.

A risk and regulatory committee was introduced at the beginning of 2011, meeting on a monthly basis throughout the year with immediate oversight of the risk management framework at Beazley. The members of this committee include the risk owners from across the business and are joined on a quarterly basis by three non-executive directors to provide independent challenge.

For much of 2011, the risk management team focussed on refining the risk management framework which we established in 2010. This included working closely with all risk owners and control owners and developing a partnership model with our colleagues in the various business departments. Risk management and Solvency II training has been provided to all staff by way of a bespoke e-learning module. This training has been supplemented for personnel with specific risk management responsibilities. Challenging years, such as 2011, demonstrate the importance of having embedded an effective risk management culture throughout the business. An important element for 2011 was the operation of a robust underwriting and claims control environment.

The risk management function has developed and implemented risk management software tailored specifically to meet our needs. This has accelerated and built resilience into the reporting timetable and has enabled the team to provide a consolidated assurance report to executive management on a monthly basis and the BFL board on a quarterly basis.

A key theme for the risk management function in 2011 was to implement timely and trusted risk management reports. In addition to the monthly consolidated assurance report, the risk management function provided an emerging and strategic risk report for the board strategy day in May, developed risk profiles throughout 2011 on emerging risk and presented a full year's cycle of quarterly Own Risk and Solvency Assessment (ORSA) reports, which have been used by the BFL board to assist with its oversight and decision making responsibilities. The ORSA is a key requirement of Solvency II and uses output from both the risk management framework, which provides the qualitative aspect, and the internal model, which provides the quantitative aspects. It demonstrates the link between these two elements, showing they are of consistent design, with feedback loops between the two processes.

An important feature of the internal model that is used to establish capital is the objective and transparent link between actions taken by underwriters and the capital estimated and allocated to the underwriting teams. This means that the business is more comfortable using the internal model as part of its decision making. In 2011, this concept has been extended to operational risk. Therefore, as the control environment strengthens there is an objective link to reduce the capital estimated. Similarly, if the control environment weakens, the capital estimated increases, which reinforces the strong risk management culture.

Looking forward

The top three risks to Beazley remain relatively static, and are in common with many of our peers. These are underwriting and reserving risks, catastrophe risk and asset risk. At a high level, the continued soft insurance market caused in part by the availability of capacity, the number of catastrophe losses reported in the year and the continued uncertainty surrounding the global economy and financial markets are the factors that underlie these risks.

We remain on track to meet the regulator's timetable for the implementation of Solvency II. Despite the postponement of the implementation of this regulation until at least January 2014, Lloyd's market participants have agreed to pursue the initial timetable. This will ensure that we comply with the regulation by January 2013, at the latest.

The resourcing of the risk management function will also remain under review in 2012, to ensure the right balance of skills and experience is in place to manage Beazley's risk environment as and when it changes.

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.

Managing agent's report *continued*

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 realistic disaster scenarios ("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 group are:
- Reinsurers – whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the group;
- Brokers and coverholders – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the group;
- 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 at bank and in hand.

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.

An example of the business's emerging risk process is the recession plan, which sets out the underwriting actions required in the light of the downturn in the economy in 2008. Specific risks were identified by class of business and the portfolio was adjusted and specific underwriting actions were taken to mitigate negative impacts.

Internal audit and compliance
Our internal audit and compliance functions work closely with the risk management team and the business to co-ordinate activity, avoid duplication and deliver a targeted risk-based approach. These functions create three lines of defence against risks facing Beazley.
- Business risk management – the majority of risk management is carried out within the business teams. The syndicate has delegated robust local governance to each team but required ongoing evidence that the mechanisms are in place;
- Risk management function – this is required to ensure that the risk management framework is operating effectively and is being consistently applied as required by the BFL board; and
- Internal audit – an independent check on the effectiveness of the internal controls.

To complement the above, compliance provides robust internal challenge from a regulatory and governance perspective and the actuarial function provides the business with a suite of management information that facilitates informed decision making.

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 £	2010 year of account underwriting capacity £	2011 year of account underwriting capacity £	2012 year of account underwriting capacity £
M L Bride	150,000	400,000	350,000	400,000
A P Cox	216,000	400,000	350,000	400,000
N H Furlonge*	216,000	400,000	350,000	–
J G Gray	216,000	400,000	350,000	400,000
D A Horton	216,000	400,000	350,000	400,000
N P Maidment	216,000	400,000	350,000	400,000
D G Marock**	216,000	400,000	350,000	–
C A Washbourn	216,000	400,000	350,000	400,000

* N H Furlonge ceased to participate on syndicate 623 when he retired as an executive director and was appointed as a non-executive director on 30/06/2011.
** D G Marock still participates on syndicate 623 even though he resigned as an executive director on 30/06/2011.

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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information.

Auditor

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

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 is required to:

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

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

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

By order of the board

M L Bride
Finance Director

9 March 2012

Independent auditor's report to the members of syndicate 623

We have audited the syndicate 623 annual accounts for the year ended 31 December 2011, as set out on pages 18 to 44. 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 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 16, 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/apb/scope/private.cfm.

Opinion on syndicate annual accounts

In our opinion the annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Insurance Accounts Directive (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

9 March 2012

Profit and loss account

year ended 31 December 2011

	Notes	2011 $m	2010 $m (restated)
Gross premiums written	5	349.6	350.5
Outward reinsurance premiums		(73.4)	(71.9)
Net premiums written	5	**276.2**	**278.6**
Change in the gross provision for unearned premiums	16	0.6	16.0
Change in the provision for unearned premiums, reinsurers' share	16	(2.1)	(19.0)
Change in the net provision for unearned premiums		(1.5)	(3.0)
Earned premiums, net of reinsurance	5	**274.7**	**275.6**
Allocated investment return transferred from the non-technical account		6.6	6.9
Claims paid – gross amount		(182.2)	(149.3)
– reinsurers' share		34.1	37.7
Net claims paid		(148.1)	(111.6)
Change in the gross provision for claims	16	(57.8)	(20.9)
Change in the provision for claims, reinsurers' share	16	30.6	(8.0)
Change in the net provision for claims		(27.2)	(28.9)
Claims incurred, net of reinsurance		**(175.3)**	**(140.5)**
Net operating expenses	6	**(97.9)**	**(92.6)**
Balance on the technical account		**8.1**	**49.4**
Investment income		11.0	11.6
Investment expenses and charges, including value adjustments	10	(5.2)	(4.0)
Unrealised gains/(losses) on investments		0.8	(0.7)
		6.6	6.9
Allocated investment return transferred to general business technical account		(6.6)	(6.9)
Other charges	11	(6.0)	(10.0)
Profit for the financial year		**2.1**	**39.4**

All of the above operations are continuing.

Statement of total recognised gains and losses
year ended 31 December 2011

	2011 $m	2010 $m (restated)
Profit for the financial year	2.1	39.4
Foreign exchange (loss)/profit on brought forward reserves	(0.3)	2.8
	1.8	**42.2**

Balance sheet

31 December 2011

	Notes	2011 $m	2010 $m (restated)
Assets			
Financial assets	12	**515.1**	**535.2**
Reinsurers' share of technical provisions			
Provision for unearned premiums, reinsurers' share	16	30.4	32.5
Claims outstanding, reinsurers' share	16	207.3	186.4
		237.7	**218.9**
Debtors			
Debtors arising out of direct insurance operations		101.3	98.8
Debtors arising out of reinsurance operations		13.0	24.3
Other debtors	14	57.0	13.3
		171.3	**136.4**
Cash at bank and in hand	15	**80.3**	**61.3**
Prepayments and accrued income			
Deferred acquisition costs		33.2	32.6
Other prepayments and accrued income		1.7	0.7
		34.9	**33.3**
Total assets		**1039.3**	**985.1**
Liabilities, capital and reserves			
Capital and reserves			
Members' balances attributable to underwriting participations	17	16.9	47.5
Technical provisions			
Provision for unearned premiums	16	152.5	152.9
Claims outstanding	16	762.5	705.8
		915.0	**858.7**
Creditors			
Creditors arising out of direct insurance operations		49.3	39.2
Creditors arising out of reinsurance operations		6.6	0.6
Other creditors	18	48.9	37.5
		104.8	**77.3**
Financial liabilities	12	**0.3**	**–**
Accruals and deferred income		**2.3**	**1.6**
Total liabilities, capital and reserves		**1039.3**	**985.1**

The financial statements on pages 18 to 44 were approved by the board of Beazley Furlonge Limited on 9 March 2012 and were signed on its behalf by:

N P Maidment
Active Underwriter

M L Bride
Finance Director

Cash flow statement

year ended 31 December 2011

	Notes	2011 $m	2010 $m (restated)
Reconciliation of profit for the financial year to net cash inflow from operating activities			
Profit for the financial year on ordinary activities		2.1	39.4
Change to market value and currencies on investments		29.8	10.8
Increase in net technical provisions		37.5	21.1
Increase in debtors		(36.5)	(5.5)
Increase in creditors		28.2	9.1
Net cash inflow from operating activities		**61.1**	**74.7**
Transfer to members in respect of underwriting participations		(32.4)	(37.4)
Translation differences		(0.3)	1.4
	20	**28.4**	**38.7**
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings and overseas deposits		19.5	(22.2)
Decrease in debt securities and other fixed income securities		8.9	60.9
Net investment of cash flows	20	**28.4**	**38.7**

Notes to the financial statements

1 Basis of preparation
These financial statements 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 issued by the Association of British Insurers in December 2006 ("the ABI SORP").

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in this statement of accounting policies.

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 2011 is included within the total insurance liabilities in the balance sheet.

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

a) Change in Accounting Policies
The syndicate has adopted Financial Reporting Standard 23 to 26 and 29 with effect from 1 January 2011. The comparative figures in these financial statements have been restated to reflect these new accounting policies. Additional details on the effect of restating the comparative amounts are shown at Note 22.

b) 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.

c) Unearned premiums
Written premium is earned using the daily pro-rata method where the premium is apportioned over the period of risk. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date.

d) 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*

e) 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.

f) Foreign currencies

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

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

g) Investments

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

h) Investment return

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

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

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

i) Ceded reinsurance

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

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

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

j) Financial instruments

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

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

Financial assets

On acquisition of a financial asset, the syndicate is required to classify the asset into the following categories: financial assets at fair value through the 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.

3 Accounting policies *continued*

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.

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 "loans and receivables" 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.

3 Accounting policies *continued*

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.

k) Hedge accounting and derivative financial instruments

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

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

l) Impairment of financial assets

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

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

m) Cash at bank and in hand

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

n) Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently at 26%) deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

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

o) Pension costs

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

p) Profit commission

Profit commission is charged by the managing agent at a rate of 17.5% of the profit on a year of account basis subject to the operating of a 3-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.

Notes to the financial statements *continued*

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.

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 2011, 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.

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 2011, the syndicate's business consisted of five operating divisions. The following table provides a breakdown of gross written premiums written by division.

	2011	2010
Marine	18.4%	17.4%
Political risks and contingency	6.8%	6.7%
Property	23.3%	23.4%
Reinsurance	12.1%	11.6%
Specialty lines	39.4%	40.9%
Total	**100%**	**100%**

b) Reinsurance risk

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

The 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.

4 Risk management *continued*

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.

4.2 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 group are:

- Reinsurers – whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the group;
- Brokers and coverholders – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the group;
- 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 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.

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 investments 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 2011	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets						
– financial investments	433.2	13.2	–	–	68.1	514.5
– derivative financial instruments	–	–	–	–	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**

4 Risk management *continued*

31 December 2010	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets						
– financial investments	456.8	4.5	–	–	73.9	535.2
– derivative financial investments	–	–	–	–	–	–
Reinsurers' share of technical provisions	218.9	–	–	–	–	218.9
Debtors	13.3	–	–	–	123.1	136.4
Cash at bank and in hand	61.3	–	–	–	–	61.3
Total	**750.3**	**4.5**	**–**	**–**	**197.0**	**951.8**

Based on all evidence available, 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 2011 is $3.7m (2010: $4.0m). No other financial assets held at year end were impaired.

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

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

31 December 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

31 December 2010	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	0.4	0.4	0.7	4.1
Reinsurance assets	0.5	0.9	0.7	2.6	4.7

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 2011:

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*

31 December 2010	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Marine	20.9	20.1	6.1	0.5	47.6	1.6
PCG	8.3	10.5	4.8	0.4	24.0	1.9
Property	28.3	19.6	3.8	1.5	53.2	1.4
Reinsurance	20.0	18.2	5.3	0.7	44.2	1.5
Specialty lines	81.0	145.5	87.3	36.6	350.4	2.5
Net insurance liabilities	**158.5**	**213.9**	**107.3**	**39.7**	**519.4**	

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

Maturity 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**

31 December 2010	<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	292.6	67.7	24.1	47.5	24.1	3.4	1.9	461.3
Cash at bank and in hand	61.3	–	–	–	–	–	–	61.3
Other debtors	13.3	–	–	–	–	–	–	13.3
Other creditors	(37.5)	–	–	–	–	–	–	(37.5)
Total	**329.7**	**67.7**	**24.1**	**47.5**	**24.1**	**3.4**	**1.9**	**498.4**

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.

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

In 2011, 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 following table summarises the carrying value of total assets and total liabilities categorised by currency:

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*

31 December 2010	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	67.5	37.3	73.6	178.4	806.6	985.0
Total liabilities	(125.2)	(25.4)	(61.1)	(211.7)	(725.8)	(937.5)
Net assets	**(57.7)**	**11.9**	**12.5**	**(33.3)**	**80.8**	**47.5**

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	2011 $m	2010 $m	2011 $m	2010 $m
Dollar weakens 30% against other currencies	(6.7)	(9.9)	(6.7)	(9.9)
Dollar weakens 20% against other currencies	(4.5)	(6.6)	(4.5)	(6.6)
Dollar weakens 10% against other currencies	(2.2)	(3.3)	(2.2)	(3.3)
Dollar strengthens 10% against other currencies	2.2	3.3	2.2	3.3
Dollar strengthens 20% against other currencies	4.5	6.6	4.5	6.6
Dollar strengthens 30% against other currencies	6.7	9.9	6.7	9.9

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 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**

Duration 31 December 2010	<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	336.4	28.7	28.7	49.0	15.1	3.4	–	461.3
Cash at bank and in hand	61.3	–	–	–	–	–	–	61.3
Total	**397.7**	**28.7**	**28.7**	**49.0**	**15.1**	**3.4**	**–**	**522.6**

Sensitivity analysis

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

	Impact on profit for the year ended		Impact on net assets	
Shift in yield (basis points)	2011 $m	2010 $m	2011 $m	2010 $m
150 basis point increase	(8.3)	(6.2)	(8.3)	(6.2)
100 basis point increase	(5.5)	(4.1)	(5.5)	(4.1)
50 basis point increase	(2.8)	(2.1)	(2.8)	(2.1)
50 basis point decrease	2.8	2.1	2.8	2.1
100 basis point decrease	5.0	4.1	5.0	4.1

4 Risk management *continued*

Price risk

Debt securities and hedge funds 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	2011 $m	2010 $m	2011 $m	2010 $m
30% increase in fair value	20.4	22.2	20.4	22.2
20% increase in fair value	13.6	14.8	13.6	14.8
10% increase in fair value	6.8	7.4	6.8	7.4
10% decrease in fair value	(6.8)	(7.4)	(6.8)	(7.4)
20% decrease in fair value	(13.6)	(14.8)	(13.6)	(14.8)
30% decrease in fair value	(20.4)	(22.2)	(20.4)	(22.2)

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.

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

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

- ICA modeling of operational risk exposure and scenario testing;
- Management review of activities;
- Documentation of policies and procedures;
- Preventative and detective controls within key processes;
- Contingency planning; and
- Other systems controls.

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.

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 – it operates and Beazley Furlonge Limited's compliance function is responsible for ensuring that these requirements are adhered to.

5 Segmental analysis

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%

2010 (restated)	Marine $m	Political risks and contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Unallocated $m	Total $m
Gross premiums written	61.0	23.6	82.0	40.7	143.2	–	350.5
Net premiums written	54.3	18.6	61.6	31.4	112.7	–	278.6
Gross earned premiums	60.3	26.8	84.3	39.5	155.1	0.5	366.5
Outward reinsurance premiums earned	(9.1)	(7.3)	(24.4)	(9.4)	(40.6)	(0.1)	(90.9)
Earned premiums, net of reinsurance	51.2	19.5	59.9	30.1	114.5	0.4	275.6
Gross claims	(24.5)	(4.6)	(34.1)	(19.0)	(88.0)	–	(170.2)
Reinsurers share	5.1	(1.4)	5.4	(0.1)	20.7	–	29.7
Claims incurred, net of reinsurance	(19.4)	(6.0)	(28.7)	(19.1)	(67.3)	–	(140.5)
Operating expenses before foreign exchange	(17.0)	(6.9)	(25.5)	(8.5)	(36.5)	(0.1)	(94.5)
Technical result before investment income	14.8	6.6	5.7	2.5	10.7	0.3	40.6
Profit on foreign exchange	–	–	–	–	–	1.9	1.9
Investment income	–	–	–	–	–	6.9	6.9
Other charges	–	–	–	–	–	(10.0)	(10.0)
Profit for the financial year	**14.8**	**6.6**	**5.7**	**2.5**	**10.7**	**(0.9)**	**39.4**
Claims ratio	38%	31%	48%	63%	59%	–	51%
Expense ratio	33%	35%	42%	28%	32%	–	34%
Combined ratio	71%	66%	90%	91%	91%	–	85%

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

	2011 $m	2010 $m (restated)
Acquisition costs	81.6	72.8
Change in deferred acquisition costs	(1.0)	3.8
Members' standard personal expenses	3.6	4.1
Administrative expenses	13.7	13.8
Profit on foreign exchange	–	(1.9)
	97.9	**92.6**
Administrative expenses include:		
– Audit services	0.2	0.2

Total fees paid to Beazley Furlonge Limited in respect of services provided to the syndicate amounted to $2.1m (2010: $2.5m).

7 Staff costs

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

	2011 $m	2010 $m
Wages and salaries	9.1	8.5
Short-term incentive payments	2.1	3.7
Social security costs	1.1	1.1
Pension costs	1.1	1.1
	13.4	**14.4**

8 Emoluments of the directors of Beazley Furlonge Limited

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

	2011 $m	2010 $m
Emoluments and fees	0.5	0.8
Contributions to defined contribution pension schemes	0.1	0.1
	0.6	**0.9**

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 $0.1m (2010: $0.2m).

10 Investment expenses and charges including value adjustments

	2011 $m	2010 $m
Investment management expenses	1.8	1.8
Losses on the realisation of investments	3.4	2.2
	5.2	**4.0**

11 Other charges

	2011 $m	2010 $m
Profit commissions paid to Beazley Furlonge Limited	**6.0**	**10.0**

12 Financial assets and liabilities

	Market value		Cost	
	2011 $m	2010 $m	2011 $m	2010 $m
Financial assets				
Hedge funds	68.1	73.9	67.3	72.0
Fixed rate securities	405.0	394.3	396.6	392.5
Floating rate securities	41.4	67.0	41.0	65.4
Total financial investments at fair value through income statement	**514.5**	**535.2**	**504.9**	**529.9**
Derivative financial instruments	0.6	–	0.6	–
Total financial assets at fair value	**515.1**	**535.2**	**505.5**	**529.9**
Financial liabilities at fair value				
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.

Included within Level 3 are investments in capital growth assets such as hedge funds.

12 Financial assets and liabilities *continued*

The table below analyses financial instruments measured at fair value at 31 December 2011 and 31 December 2010, based on the level in the fair value hierarchy into which the financial instrument is categorised:

2011	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets				
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**

2010	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets				
Fixed rate securities	232.9	161.4	–	394.3
Floating rate securities	1.5	65.5	–	67.0
Hedge funds	–	–	73.9	73.9
Derivative financial instruments	–	–	–	–
Total financial assets at fair value	**234.4**	**226.9**	**73.9**	**535.2**
Financial liabilities				
Derivative financial instruments	–	–	–	–

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

	2011 $m	2010 $m
Level 3 balance at 1 January	73.9	38.7
Purchases	61.5	33.1
Settlements	(66.4)	(1.4)
Income	(0.9)	3.5
Level 3 balance at 31 December	**68.1**	**73.9**

There were no transfers between current value hierarchies during the year.

13 Derivative financial instruments

In 2011, the syndicate entered into both exchange-traded and over-the counter derivative contracts. The syndicate had the right and intention to settle each contract on a net basis.

Derivative financial instrument assets	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 forward contract	16.0	0.1
	28.0	**0.6**

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

13 Derivative financial instruments *continued*

Short-term interest rate future contracts

During the year 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 the year 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 the year 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

During the year 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.

In 2010, the syndicate entered into a number of long and short exchange-traded interest rate futures contracts denominated in a range of currencies to manage the interest rate duration of the investment portfolio. The fair value was settled daily in cash by way of margin accounts.

14 Other debtors

	2011 $m	2010 $m
Amount due from syndicate 2623	41.9	0.2
Amounts due from members	11.2	8.8
Sundry debtors including taxation	3.9	4.3
	57.0	**13.3**

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

	2011 $m	2010 $m
Cash at bank and in hand	28.4	16.2
Overseas deposits	51.9	45.1
	80.3	**61.3**

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 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**

	Provision for unearned premium $m (restated)	Claims outstanding $m (restated)
Gross technical provisions		
As at 1 January 2010	171.0	691.3
Exchange adjustments	(2.1)	(6.4)
Movement in the provision	(16.0)	20.9
As at 31 December 2010	**152.9**	**705.8**
Reinsurers' share of technical provisions		
As at 1 January 2010	51.9	191.3
Exchange adjustments	(0.4)	3.1
Movement in the provision	(19.0)	(8.0)
As at 31 December 2010	**32.5**	**186.4**
Net technical provisions		
As at 1 January 2010	119.1	500.0
As at 31 December 2010	**120.4**	**519.4**

*Syndicates 2623 and 623 entered into a whole account quota share agreement to cede 12.25% of their 2009 year of account net result up to 31 December 2011 to syndicate 3623. Prior to the 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 has been accounted for as a settlement of USD$10.7m of the syndicate's reinsurance recoverables.

16 Technical provisions *continued*

Gross ultimate claims	2002 ae %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %
Marine										
12 months		59.2	62.1	82.7	57.1	58.0	69.1	55.9	50.6	55.0
24 months		45.1	65.6	80.7	42.3	60.1	65.2	52.1	49.7	
36 months		39.0	62.5	71.0	32.7	50.6	59.1	45.4		
48 months		36.2	61.9	69.1	29.0	48.1	62.9			
60 months		35.8	60.8	66.9	28.7	49.5				
72 months		35.7	56.3	65.0	26.4					
84 months		34.9	55.9	64.2						
96 months		35.4	55.7							
108 months		34.8								
Political risks and contingency										
12 months		59.1	67.3	61.0	57.5	57.2	57.5	61.1	61.4	58.7
24 months		36.3	55.7	38.2	36.2	38.9	68.5	38.6	40.2	
36 months		31.6	52.4	28.5	32.6	56.4	73.5	35.3		
48 months		28.7	38.3	24.9	43.3	52.8	87.3			
60 months		31.2	37.3	18.3	39.3	53.5				
72 months		25.2	35.2	17.9	39.0					
84 months		24.3	26.7	17.9						
96 months		21.4	26.5							
108 months		21.4								
Property										
12 months		50.9	65.6	87.9	58.4	60.1	67.5	54.4	54.6	54.6
24 months		37.4	65.3	84.6	44.1	58.2	62.3	42.7	57.2	
36 months		34.6	65.9	83.1	43.0	55.8	61.2	37.5		
48 months		34.0	64.1	88.2	50.3	56.7	59.1			
60 months		33.7	64.5	87.6	50.4	60.4				
72 months		33.7	63.2	85.9	50.2					
84 months		34.8	63.0	85.1						
96 months		34.6	63.6							
108 months		34.3								

16 Technical provisions *continued*

Gross ultimate claims	2002 ae %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	
Reinsurance											
12 months		58.7	88.2	198.4	52.4	59.6	60.0	60.8	68.1	77.3	
24 months		34.2	82.7	190.4	25.3	26.0	51.8	48.5	148.9		
36 months		28.4	77.3	188.0	24.9	21.5	41.9	40.4			
48 months		28.6	74.9	181.5	23.3	19.8	38.3				
60 months		25.6	72.9	177.6	21.4	18.9					
72 months		25.6	71.9	175.0	21.1						
84 months		24.5	70.8	173.8							
96 months		23.7	69.8								
108 months		23.7									
Specialty lines											
12 months		73.0	71.9	72.0	72.4	72.9	72.6	72.5	74.3	76.0	
24 months		70.1	71.3	72.0	72.5	72.5	72.6	72.5	74.3		
36 months		68.9	67.6	69.8	72.5	72.5	72.3	71.5			
48 months		60.0	64.4	66.3	72.4	72.2	72.3				
60 months		53.2	59.4	62.8	70.5	72.2					
72 months		52.3	58.3	56.1	65.2						
84 months		50.5	56.5	52.3							
96 months		47.2	54.5								
108 months		46.2									
Total											
12 months		63.0	69.1	90.9	62.7	63.9	68.1	62.8	64.0	66.5	
24 months		52.6	69.3	88.3	52.6	59.5	67.2	57.2	72.6		
36 months		49.4	66.6	84.5	50.2	58.3	65.5	53.4			
48 months		44.8	63.6	82.9	51.9	58.6	66.8				
60 months		41.5	61.1	80.1	51.4	59.7					
72 months		40.9	59.3	76.3	48.7						
84 months		40.0	58.0	74.4							
96 months		38.4	57.1								
108 months		37.8									
Total ultimate losses($m)	1,832.6	448.2	765.5	1,115.1	815.1	1,073.9	1,271.8	1,047.2	1,441.3	1,220.7	11,031.4
Less paid claims ($m)	(1,688.9)	(377.6)	(647.3)	(951.8)	(503.1)	(659.5)	(657.5)	(432.6)	(326.9)	(72.6)	(6,317.8)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	(131.9)	(586.9)	(718.8)
Gross claims liabilities (100% level) ($m)	**143.7**	**70.6**	**118.2**	**163.3**	**312.0**	**414.4**	**614.3**	**614.6**	**982.5**	**561.2**	**3,994.8**
Less Unaligned share ($m)	(115.4)	(57.2)	(95.8)	(132.3)	(252.7)	(335.7)	(497.5)	(497.1)	(794.9)	(453.7)	(3,232.3)
Gross claims liabilities, 623 share	**28.3**	**13.4**	**22.4**	**31.0**	**59.3**	**78.7**	**116.8**	**117.5**	**187.6**	**107.5**	**762.5**

Notes to the financial statements *continued*

16 Technical provisions *continued*

Net ultimate claims	2002 ae %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %
Marine										
12 months		55.4	57.8	55.5	54.0	55.2	61.3	54.4	52.3	55.9
24 months		44.8	53.2	49.1	41.9	56.4	57.0	48.4	49.4	
36 months		40.2	48.6	42.9	32.8	49.4	50.7	39.6		
48 months		39.1	47.8	39.7	31.3	46.6	47.7			
60 months		39.0	46.6	39.2	30.9	47.4				
72 months		39.1	44.2	38.1	29.1					
84 months		38.0	43.8	36.7						
96 months		37.5	43.1							
108 months		37.3								
Political risks and contingency										
12 months		56.7	63.9	63.4	56.1	55.4	55.9	59.0	57.3	54.9
24 months		37.4	58.4	46.7	40.4	39.6	76.3	35.1	37.7	
36 months		34.8	54.2	36.0	37.0	55.1	75.9	32.6		
48 months		33.0	41.3	30.1	47.1	53.8	80.0			
60 months		35.1	40.9	24.4	41.3	52.1				
72 months		27.4	36.2	23.3	39.8					
84 months		25.7	26.3	23.3						
96 months		22.6	25.5							
108 months		22.6								
Property										
12 months		48.6	59.7	65.0	61.1	62.7	67.0	53.6	58.4	59.4
24 months		41.4	60.8	62.0	48.7	61.1	66.9	48.4	64.2	
36 months		39.0	60.3	58.4	47.1	60.1	64.7	44.9		
48 months		38.4	58.5	61.1	50.8	60.8	63.6			
60 months		38.0	58.3	61.7	50.0	63.8				
72 months		38.0	57.4	59.9	50.0					
84 months		39.5	57.3	59.0						
96 months		39.3	57.2							
108 months		39.3								
Reinsurance										
12 months		60.1	88.7	152.6	54.3	55.2	67.5	55.6	76.9	86.9
24 months		39.5	86.4	134.1	37.0	30.1	58.0	52.6	133.8	
36 months		33.9	83.1	128.5	34.8	25.0	47.3	46.7		
48 months		34.6	76.9	119.2	32.5	22.7	44.9			
60 months		31.7	73.6	112.9	31.0	22.1				
72 months		31.7	72.0	111.6	31.0					
84 months		30.3	71.4	106.2						
96 months		29.4	70.0							
108 months		29.4								

16 Technical provisions *continued*

Net ultimate claims	2002 ae %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	
Specialty lines											
12 months		68.6	68.7	69.2	69.2	71.6	70.4	69.4	71.0	72.6	
24 months		67.2	68.5	69.2	69.1	70.5	70.4	69.3	71.0		
36 months		66.0	65.7	67.4	69.2	70.6	70.3	68.5			
48 months		57.7	62.1	63.8	69.1	69.0	70.3				
60 months		52.7	56.9	58.8	64.3	69.0					
72 months		50.8	53.5	53.7	57.1						
84 months		48.9	51.0	49.3							
96 months		45.2	48.7								
108 months		45.0									
Total											
12 months		60.1	65.3	73.1	62.3	64.2	66.2	60.4	64.5	67.0	
24 months		53.0	65.4	69.0	54.4	60.2	66.9	56.6	69.9		
36 months		50.5	62.7	65.1	51.8	59.6	64.2	53.1			
48 months		46.4	59.4	62.4	52.4	58.4	63.7				
60 months		43.7	56.4	59.3	50.1	59.0					
72 months		42.6	53.9	56.4	46.7						
84 months		41.8	52.1	53.4							
96 months		39.8	50.8								
108 months		39.6									
Total ultimate losses($m)	993.8	377.9	573.3	626.7	631.2	910.2	976.0	833.4	1,015.2	886.3	7824.0
Less paid claims ($m)	(922.0)	(329.2)	(476.0)	(502.3)	(423.1)	(574.4)	(571.2)	(369.3)	(263.4)	(58.0)	(4,488.9)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	(45.1)	(386.5)	(431.6)
Net claims liabilities (100% level) ($m)	**71.8**	**48.7**	**97.3**	**124.4**	**208.1**	**335.8**	**404.8**	**464.1**	**706.7**	**441.8**	**2,903.5**
Less unaligned share ($m)	(57.3)	(39.4)	(78.8)	(100.8)	(168.6)	(271.9)	(327.7)	(375.3)	(571.5)	(357.0)	(2,348.3)
Net claims liabilities, 623 share ($m)	**14.5**	**9.3**	**18.5**	**23.6**	**39.5**	**63.9**	**77.1**	**88.8**	**135.2**	**84.8**	**555.2**

17 Reconciliation of members' balances

	2011 $m	2010 $m (restated)
Members' balances brought forward at 1 January	47.5	44.1
Profit for the financial year	2.1	39.4
Foreign exchange on brought forward reserves	(0.3)	2.8
Profit distribution before members agent's fees – 2007 Year of account	–	(37.4)
Profit distribution before members agent's fees – 2008 Year of account	(32.4)	–
Foreign exchange gain arising on change in presentation currency	–	(1.4)
Members' balances carried forward at 31 December	**16.9**	**47.5**

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

	2011 $m	2010 $m
Amount due to syndicate 3622	0.5	0.1
Amount due to syndicate 3623	3.3	19.8
Amount due to syndicate 6107	2.6	1.8
Amount due to managing agent	32.4	4.7
Profit commissions	10.1	11.1
	48.9	**37.5**

The above balances are payable within one year.

19 Movement in opening and closing investments net of financing

	2011 $m	2010 $m
Net cash inflow from the year	19.5	(22.2)
Cash flow – investments	8.9	60.9
Movement arising from cash flows	28.4	38.7
Foreign exchange on brought forward investments	(29.3)	(3.8)
Total movement in investments net of financing	(0.9)	34.9
Investments as at 1 January	596.5	568.6
Effect of exchange rate changes on cash balances	(0.5)	(7.0)
Investments as at 31 December*	**595.1**	**596.5**

* The total above includes the derivative assets of $0.6m and the derivative liability of $0.3m as disclosed in note 13.

20 Movement in cash and investments

	At 1 January 2011 $m	Cash flow $m	Changes to market value and currencies $m	At 31 December 2011 $m
Cash at bank and in hand	16.2	12.6	(0.4)	28.4
Overseas deposits	45.1	6.9	(0.1)	51.9
Total cash	**61.3**	**19.5**	**(0.5)**	**80.3**
Investments:				
Debt securities and other fixed income securities	461.3	13.8	(28.7)	446.4
Hedge funds	73.9	(4.9)	(0.9)	68.1
Derivative financial instruments*	–	–	0.3	0.3
Total investments	**535.2**	**8.9**	**(29.3)**	**514.8**
Total cash and investments	**596.5**	**28.4**	**(29.8)**	**595.1**

* Derivative position 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 15.

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 2011 of £942.7m, as previously disclosed, and writes in parallel with syndicate 623. Beneficial shareholdings are shown below.

	Shareholding of Beazley plc as at 31 December 2011	Shareholding of Beazley plc as at 31 December 2010
J G W Agnew	226,147	226,147
G P Blunden	107,156	107,156
M L Bride	227,310	219,616
A P Cox	320,748	254,089
R V Deutsch**	–	–
N H Furlonge*	1,256,375	1,689,651
J G Gray	1,259,549	2,487,026
A G K Hamilton	37,991	37,991
D Holt**	–	–
D A Horton	1,185,883	973,491
C M London***	294,737	294,737
N P Maidment	3,543,257	3,462,526
D G Marock****	169,241	111,589
A D Pomfret*****	24,315	24,315
R A W Tolle	60,000	–
C A Washbourn	378,852	378,852

* Retired as an executive director and appointed as a non-executive director on 30 June 2011.
** Appointed 29 December 2011.
*** Resigned 31 December 2011.
**** Resigned 30 June 2011.
***** Resigned 21 July 2011.

Notes to the financial statements *continued*

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.

22 Restatement of comparatives

The syndicate has adopted Financial Reporting Standard 23 to 26 and 29 with effect from 1 January 2011. The comparative figures in the financial statements have been restated to reflect these new accounting policies.

The effect of restating the prior year accounting policies was:

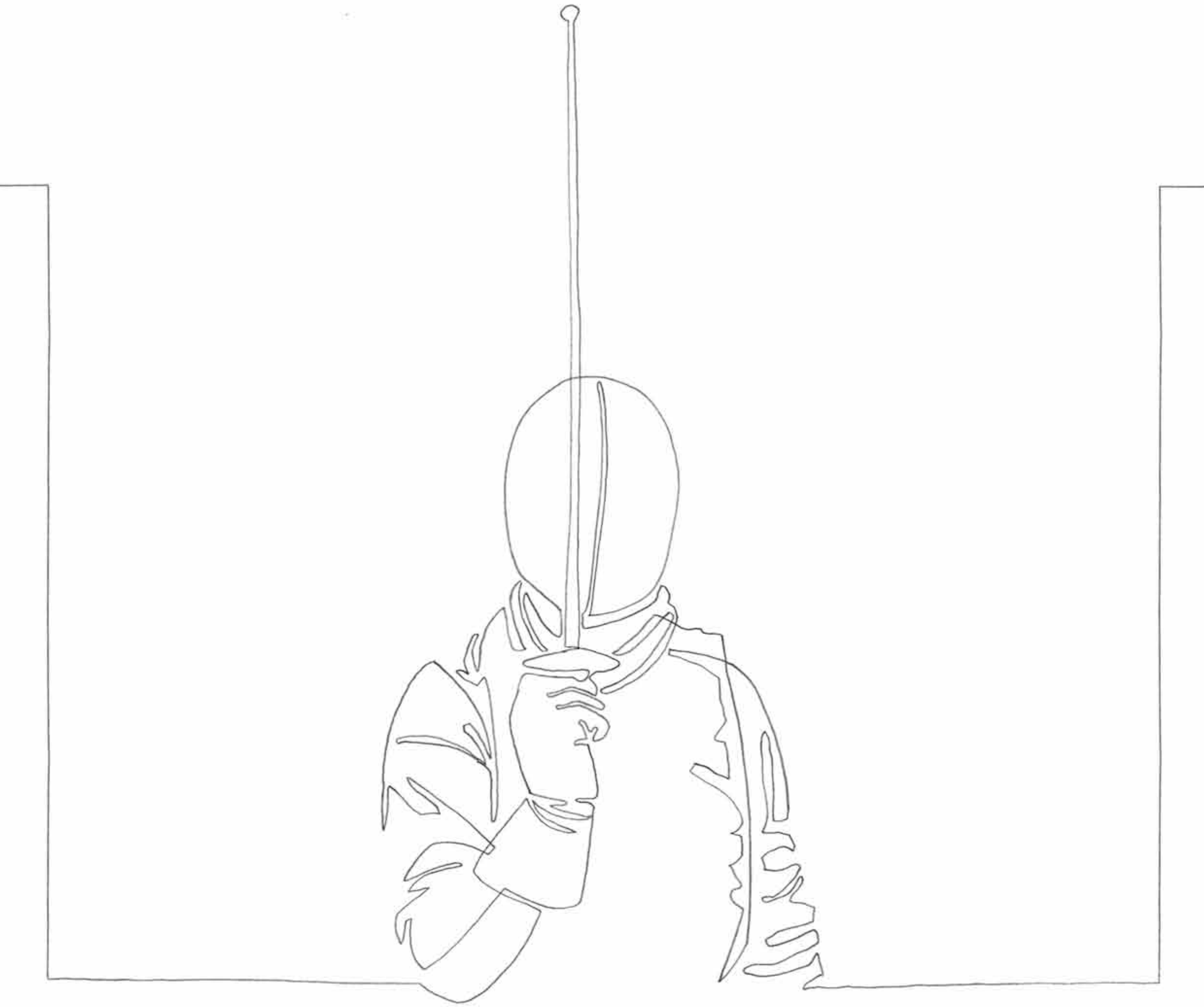
- Opening members' balances at 1 January 2010 increased by $0.1m to $44.1m;
- Profits for the financial year ended 31 December 2010 increased by $0.2m to $39.4m; and
- Closing members balances at 31 December 2010 increased by $0.3m to $47.5m.

23 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.

	2011 $m	2010 $m
2009 Year of account	47.7	–
2008 Year of account	–	32.6
	47.7	32.6



2009 year of account for syndicate 623

Managing agent's report

Basis of preparation
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 2009 year of account which has been closed by reinsurance to close at 31 December 2011; consequently the balance sheet represents the assets and liabilities of the 2009 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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information.

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

Statement of managing agent's responsibilities
The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate underwriting 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 annual 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

9 March 2012

Independent auditor's report to the members of syndicate 623 2009 closed year of account

We have audited the syndicate 623 underwriting year accounts for the three years ended 31 December 2011, as set out on pages 48 to 56. 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 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 46, the managing agent is responsible for the preparation of syndicate underwriting year accounts 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 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 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/apb/scope/private.cfm.

Opinion on syndicate underwriting year accounts

In our opinion the underwriting year accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2011 and of its profit for the three years 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 period in which the underwriting year accounts are prepared is consistent with the underwriting year accounts.

Matters on which we are required to report by exception

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

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate 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

9 March 2012

Profit and loss account

for the 36 months ended 31 December 2011

	Notes	2009 year of account $m
Gross premiums written	7	365.9
Outward reinsurance premiums		(112.0)
Earned premiums, net of reinsurance	7	**253.9**
Allocated investment return transferred from the non-technical account		8.1
Reinsurance to close premiums received, net of reinsurance	2	326.1
		334.2
Gross claims paid		(156.6)
Reinsurers' share		52.3
Claims incurred, net of reinsurance		**(104.3)**
Reinsurance to close premiums payable, net of reinsurance	3	(343.6)
		(447.9)
Net operating expenses	5	(82.7)
Balance on the technical account	7	**57.5**
Investment income		12.1
Investment expenses and charges	6	(4.0)
		8.1
Allocated investment return transferred to the technical account		(8.1)
Other charges		(9.8)
Profit for the 2009 closed year of account	4	**47.7**
Syndicate allocated capacity (£m)		147.8
Profit for the 2009 closed year of account (£m)		31.1
Return on capacity		21.0%

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 2011

	Notes	2009 year of account $m
Assets		
Investments	8	319.5
Debtors	9	92.5
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	3	130.9
Cash at bank and in hand	12	30.8
Prepayments and accrued income		0.1
Total assets		**573.8**
Liabilities		
Amounts due to members	10	47.7
Reinsurance to close premium payable to close the account – gross amount	3	472.0
Creditors	11	52.9
Accruals and deferred income		1.2
Total liabilities		**573.8**

The underwriting year accounts on pages 48 to 56 were approved by the board of directors on 9 March 2012 and were signed on its behalf by:

N P Maidment
Active Underwriter

M L Bride
Finance Director

Notes to the underwriting year accounts

closed at 31 December 2011

1 Accounting policies

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.

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.

1 Accounting policies *continued*

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 2011 are Euro 0.73, Stg 0.64 and C$ 1.05.

2 Reinsurance to close premiums received

	2009 year of account $m
Gross reinsurance to close premiums received	440.2
Reinsurance recoveries anticipated	(114.1)
Reinsurance to close premiums received, from 2008 and earlier, net of reinsurance	**326.1**

3 Reinsurance to close premiums payable

	2009 year of account $m
Gross reinsurance to close premiums payable	472.0
Reinsurance recoveries anticipated	(130.9)
Foreign exchange	2.5
Reinsurance to close premiums payable to 2010, net of reinsurance	**343.6**

	Reported $m	IBNR $m	Total $m
Reinsurance to close premium payable	167.0	305.0	472.0
Reinsurance recoveries anticipated	(48.1)	(82.8)	(130.9)
Reinsurance to close premiums payable, net of reinsurance	**118.9**	**222.2**	**341.1**

4 Analysis of the 2009 year of account result

	2009 year of account $m
Amount attributable to business allocated to the 2009 year of account	31.9
Surplus on the reinsurance to close for the 2008 year of account	15.8
	47.7

5 Net operating expenses

	2009 year of account $m
Acquisition costs	72.1
Members' standard personal expenses	1.3
Administrative expenses	10.2
Profit on foreign exchange	(0.9)
	82.7
Administrative expenses include:	
Audit services	0.2

6 Investment expenses and charges

	2009 year of account $m
Investment management expenses	1.7
Loss on the realisation of investments	2.3
	4.0

7 Segmental analysis

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

2009 year of account	Marine $m	Political risks and contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Unallocated $m	Total $m
Gross premiums written	59.7	27.7	87.9	33.8	156.8	–	365.9
Outward reinsurance premiums	(14.2)	(8.7)	(27.7)	(9.5)	(51.9)	–	(112.0)
Net earned premiums	45.5	19.0	60.2	24.3	104.9	–	253.9
Net claims	(15.4)	(7.3)	(28.7)	(10.0)	(60.4)	–	(121.8)
Operating expenses	(15.0)	(6.8)	(23.2)	(6.2)	(31.2)	(0.3)	(82.7)
Technical account result before Investment Income	15.1	4.9	8.3	8.1	13.3	(0.3)	49.4
Investment Income	0.9	0.5	1.0	0.5	5.2	–	8.1
Balance on technical account	**16.0**	**5.4**	**9.3**	**8.6**	**18.5**	**(0.3)**	**57.5**
Claims ratio	34%	38%	47%	41%	57%	–	48%
Expense ratio	33%	36%	39%	26%	30%	–	33%
Combined ratio	67%	74%	86%	67%	87%	–	81%

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.

8 Investments

At market value	2009 year of account $m
Fixed rate securities	233.1
Floating rate securities	23.6
Hedge funds	62.8
	319.5

9 Debtors

	2009 year of account $m
Arising out of direct insurance operations	36.9
Arising out of reinsurance operations	3.7
Members' agents' fees	1.7
Amount due from syndicate 2623	38.7
Amount due from managing agent	8.2
Other debtors, including taxation	3.3
	92.5

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

10 Amounts due to members

	2009 year of account $m
Profit for the 2009 closed year of account	47.7
Transfers to members' personal reserve funds in 2010 and 2011	–
Amounts due to members at 31 December 2011	**47.7**

Amounts are stated prior to deduction of member agent fees.

11 Creditors

	2009 year of account $m
Arising out of direct insurance operations	32.2
Arising out of reinsurance operations	3.0
Profit commission payable	10.1
Other creditors	7.6
	52.9

The above balances are payable within one year.

12 Cash at bank and in hand

	2009 year of account $m
Cash at bank and in hand	–
Overseas deposits	30.8
	30.8

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

13 Related party transactions

Please refer to page 43 for further details of related party transactions for the 2009 year of account.

Seven year summary of closed year results

at 31 December 2011

	2009	2008	2007	2006	2005	2004	2003
Syndicate allocated capacity – £'000	147,831	158,230	163,100	183,100	222,300	344,600	330,000
Syndicate allocated capacity – $'000	294,184	261,715	308,259	335,073	391,248	572,036	504,900
Capacity utilised	92%	87%	97%	89%	94%	94%	97%
Number of underwriting members	938	942	2,141	2,211	1,501	1,560	1,675
Aggregate net premiums – $'000	194,730	224,784	243,005	224,554	259,301	344,518	340,350
Underwriting profit as a percentage of gross premiums	26.4%	21.3%	25.1%	29.8%	18.1%	18.5%	27.8%
Return on capacity	21.0%	13.4%	14.5%	18.5%	9.6%	8.4%	16.3%
Results for an illustrative £10,000 share	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Gross premiums	21,326	17,631	18,324	16,272	15,213	13,147	13,464
	$	$	$	$	$	$	$
Net premiums	13,614	14,206	14,899	12,265	11,665	9,998	10,314
Reinsurance to close from an earlier account	22,059	18,377	15,256	12,784	10,486	7,483	4,391
Net claims	(7,510)	(7,613)	(6,630)	(4,784)	(5,848)	(5,500)	(3,329)
Reinsurance to close the year of account	(22,526)	(20,958)	(18,930)	(15,415)	(13,811)	(9,781)	(7,828)
Underwriting profit	5,637	4,012	4,595	4,850	2,492	2,200	3,548
Profit/(loss) on foreign exchange	128	95	246	565	(58)	(48)	45
Syndicate operating expenses	(2,167)	(1,745)	(1,713)	(1,376)	(1,102)	(779)	(805)
Balance on technical account	3,598	2,362	3,128	4,039	1,332	1,373	2,788
Gross investment return	546	398	597	455	993	715	515
Profit before personal expenses	4,144	2,760	3,725	4,494	2,325	2,088	3,303
Illustrative personal expenses							
Illustrative personal expenses	(187)	(264)	(395)	(382)	(276)	(388)	(281)
Managing agent's profit commission	(660)	(437)	(582)	(719)	(361)	(302)	(528)
Profit after illustrative profit commission and personal expenses ($'000)	3,297	2,059	2,748	3,393	1,688	1,398	2,494
Profit after illustrative profit commission and personal expenses (£'000)	2,100	1,338	1,454	1,854	959	842	1,630

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 three year average rate.

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
Jonathan G W Agnew* – chairman
George P Blunden*
Martin L Bride – finance director
Adrian P Cox
Robert V Deutsch (appointed 29 December 2011)
Nicholas H Furlonge (retired as an executive director and appointed as a non-executive director on 30 June 2011)
Jonathan G Gray
A Gordon K Hamilton*
Dennis Holt (appointed 29 December 2011)
D Andrew Horton – chief executive officer
Chris M London* (resigned 31 December 2011)
Neil P Maidment – active underwriter
David G Marock (resigned 30 June 2011)
Andy D Pomfret* (resigned 21 July 2011)
Rolf A W Tolle*
Clive A Washbourn

* Non-executive director

Company secretary
Sian A Coope

Auditors
KPMG Audit Plc
15 Canada Square
London
E14 5GL

Managing agent's registered office
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60 Great Tower Street
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EC3R 5AD
United Kingdom

Registered number
01893407

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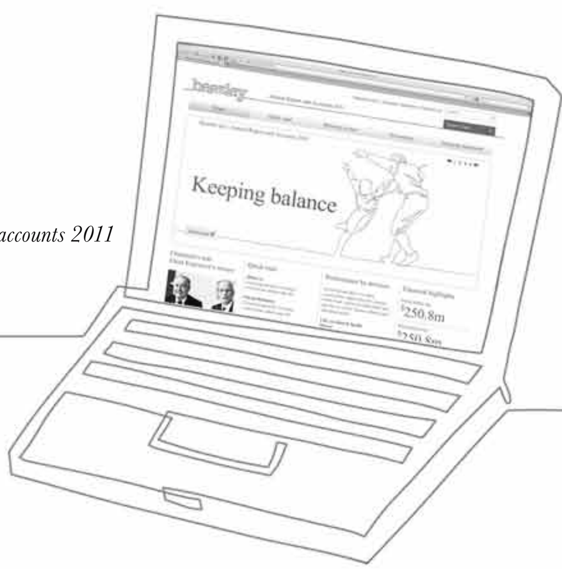

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