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Sustaining growth



Welcome to our Annual report 2018

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Syndicate 5623 which was launched in 2018 focuses on underwriting portfolios of business. Its aim is to be a low cost operation delivering reasonable returns with limited volatility.

Highlights

Syndicate capacity

£22.5m

Claims ratio

69%

Gross premiums written

\$8.4m

Expense ratio

37%

Earned premiums, net of reinsurance

\$2.6m

Combined ratio

106%

Loss for the financial year

\$0.1m

Strategic report of the managing agent

Overview

Syndicate 5623 ('the syndicate') was established in 2018 as a special purpose arrangement syndicate to write market facility business via a quota share from syndicate 3623.

The capacities of the managed syndicates are as follows:

	2018 £m	2017 £m
2623	1,554.0	1,349.7
623	351.0	304.5
3623	213.0	215.0
6107	55.1	46.6
3622	23.0	19.5
5623	22.5	-
6050	-	14.6
Total	2,218.6	1,949.9

The result for the year ended 31 December 2018 is a loss of \$143.3k.

Year of account results

The 2018 year of account is recognising a loss of \$143.3k at the end of the syndicate's first year.

Rating environment

2018 was the syndicate's first year of operation.

Combined ratio

The combined ratio of an insurance provider is a common measure of its operating performance and represents the ratio of its total costs (excluding foreign exchange movements) to net earned premium. The syndicate's combined ratio for 2018 was 106%.

Claims

The claims ratio of an insurance provider is a measure of the claims experience and represents the ratio of its net insurance claims to net earned premium. The 2018 claims ratio for syndicate 5623 was 69%.

Net operating expenses

Net operating expenses, including business acquisition costs and administrative expenses were \$942.0k.

The breakdown of these costs is shown below:

	2018 \$'000
Brokerage costs	590.5
Other acquisition costs	94.4
Administrative and other expenses	257.1
Net operating expenses¹	942.0

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

As a percentage of net earned premium brokerage costs are approximately 23%. Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with accounting guidelines. Administrative expenses comprise primarily IT costs, facilities costs, Lloyd's central costs and other support costs. The expense ratio of an insurance provider is a measure of the net operating expenses to net earned premium. The expense ratio for 2018 is 37%.

Reinsurance

Syndicate 5623 did not purchase any outwards reinsurance during 2018.

Solvency II

The Solvency II regime came into force on 1 January 2016. Beazley now provides Solvency II pillar 3 reporting to Lloyd's for the syndicate. Under Solvency II requirements, the syndicate is required to produce a Solvency Capital Requirement (SCR) which sets out the amount of capital that is required to reflect the risks contained within the business. Lloyd's reviews the syndicate's proposed SCR each year in conjunction with the syndicate's business plan.

Solvency capital requirement

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

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

Outlook

Syndicate 5623's performance is in line with expectations at this early stage of development. Access to business was also in line with expectations and we are well positioned to grow the syndicate in 2019.

A P Cox

Active underwriter

8 March 2019

Managing agent's report

The managing agent presents its report for the year ended 31 December 2018.

This annual report is 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 and applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS102') and Financial Reporting Standard 103: Insurance Contracts ('FRS103').

Principal activity

The principal activity of syndicate 5623 is the reinsurance of market facilities insured by syndicate 3623 at Lloyd's.

Risk governance and reporting

Beazley Furlong Limited's board of directors has the responsibility for defining and monitoring the risk appetite within which Beazley Furlong 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.

2018 in review

A key design principle of the risk management framework is that all members of staff are responsible for identifying, managing and communicating risk. Whilst this activity is supported by the risk management function, all staff understand that with the benefits of an empowered culture comes the responsibility for identifying and managing risk. This is particularly important when an organisation is navigating above average levels of change.

In 2018, the managing agent on behalf of the syndicate has successfully responded to both external and internal change.

External change

The main political change that the managing agent continued to navigate in 2018 was Brexit, although this is not a significant risk as only a minimal amount of the syndicate's premium originates from the EU. Despite the uncertainty throughout the year, a cross functional working group has prepared the syndicate for the worst case scenario of a hard Brexit, which is where the UK leaves the EU without agreements and a transitional period. From an underwriting perspective, the EU risks expiring from 1 January 2019 have been successfully renewed onto the newly established Lloyd's Brussels platform. From a staff perspective, we continue to work with the 40 EU nationals (3% of employees) who are working in our UK offices to minimise the impact of Brexit on them. As such, the managing agent has successfully navigated the key risks of a potential hard Brexit. Since such a hard Brexit is not certain, our preparations have also considered two other outcomes in order to ensure that the syndicate is able to operate in every eventuality; namely 1) some form of transitional arrangement or 2) the UK decides not to leave the EU prior to Brexit.

The approach taken to business planning at Lloyd's of London during the year attracted extensive press coverage and resulted in a number of changes to the marketplace. From a syndicate perspective, the approach taken was closely aligned to our own process of cycle management which has been followed for many years. As a result, we were able to present syndicate business plans and associated capital requirements that were approved by Lloyd's as being consistent with their objective of improved risk selection and market profitability.

We have included a section within this risk management report (see page 8) covering the impact of climate change on the syndicate. In addition, we explain how climate change could affect the syndicate's own risk profile, highlighting how we respond to these risks. These include the performance of our insurance contracts, the investments we make, the office spaces we occupy, the companies we partner with and our travel footprint.

Internal change

There has been a higher level of change at board and executive level during 2018 and this will continue into 2019. The risk management function has been working with the individuals in new roles to ensure that they understand their responsibilities within the risk management framework and to minimise the risk associated with such the transition periods. The risk management function is also providing assurance to the board that the syndicate continues to operate within risk appetite and is supported in this by internal audit who have completed an audit of risk culture.

Finally, we have introduced a number of new working practices across the group to provide our staff with the best environment and to continue to attract new talent to the group. This includes introducing Activity Based Working environments in our larger offices which provides staff with the space most conducive for the task in hand. We have also provided staff with technology to be able to work remotely and to work more flexibly around our core hours, so that our employees can better balance the demands of work and personal life. We now also provide staff with flexibility to dress for the day. These various changes help ensure that our staff can perform to the best of their ability which helps to lower the operational risk inherent in all companies.

Our approach of empowering all our employees, coupled with thoughtful management of risk means that we can nimbly respond to and manage change which creates the right environment for delivering sustainable growth.

The latest chief risk officer report to the board has confirmed that the control environment has not identified any significant failings or weaknesses in key processes and that the managing agent is operating within risk appetite as at 31 December 2018.

Risk management philosophy

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

Risk management strategy

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

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

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

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

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

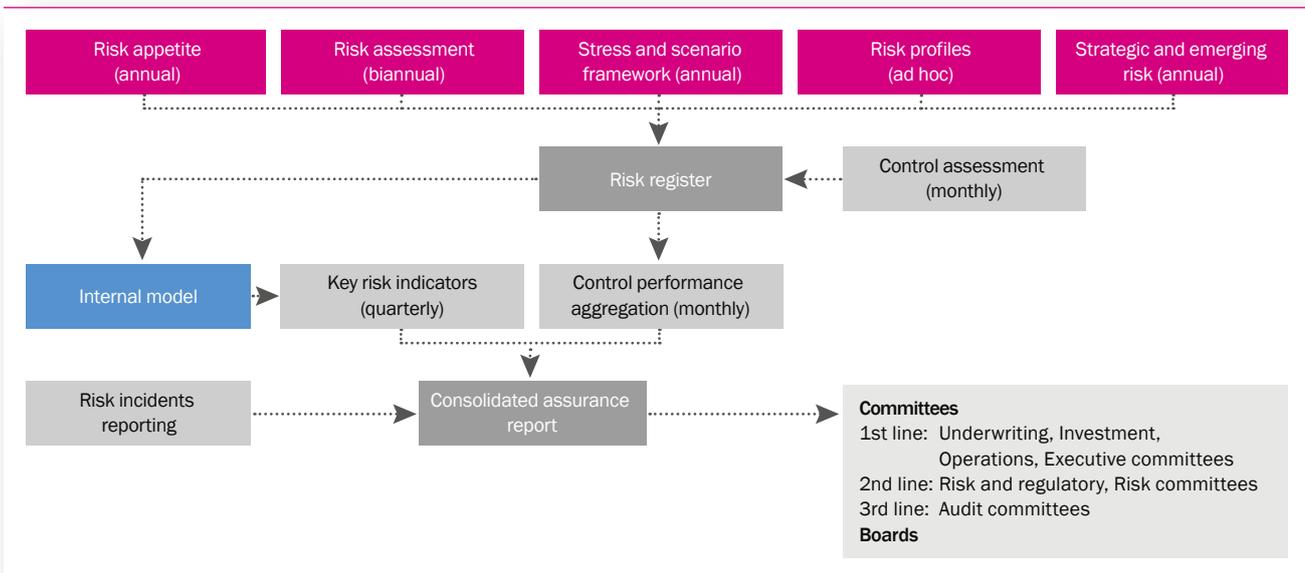
Risk management framework

The managing agent takes an enterprise-wide approach to managing risk following the host syndicate's risk management framework. The framework establishes our approach to identifying, measuring, mitigating and monitoring the syndicate's key risks. The managing agent has adopted the 'three lines of defence' framework: namely business risk management, the risk management function and the internal audit function. Within business risk management, there are two defined risk and control roles: risk owner and control reporter. Each risk event is owned by the risk owner who is a senior member of staff. Risk owners, supported by the risk management team, perform a risk assessment twice a year, including an assessment of heightened and emerging risks.

Managing agent's report *continued*

<i>Business risk management</i> <i>Risk ownership</i>	<i>Risk management</i> <i>Risk oversight</i>	<i>Internal audit</i> <i>Risk assurance</i>
<ul style="list-style-type: none"> – Identifies risk – Assesses risk – Mitigates risk – Monitors risk – Records status – Remediates when required 	<ul style="list-style-type: none"> – Are risks being identified? – Are controls operating effectively? – Are controls being signed off? – Reports to committees and board 	<ul style="list-style-type: none"> – Independently tests control design – Independently tests control operation – Reports to committees and board

The risk management framework comprises a number of risk management components, which when added together describe how risk is managed on a day to day basis. The framework includes a risk register that captures the risk universe (53 risk events grouped into eight risk categories: insurance, market, credit, liquidity, operational, regulatory and legal, group and strategic), the risk appetite set by the board, and the control environment that is operated by the business to remain within the risk appetite.



The diagram above illustrates the components of the risk management framework as operated by the Beazley Group.

In summary, the board identifies risk, assesses risk and sets risk appetite. The business then implements a control environment which describes how the business should operate to stay within risk appetite. Risk management then reports to the board on how well the business is operating using a risk management report. For each risk, the risk management report brings together a view of how successfully the business is managing risk, qualitative commentary from the assurance functions and whether there have been any events that we can learn from (risk incidents). Finally, the framework is continually evaluated and where appropriate improved, through the consideration of stress and scenario testing, themed reviews using risk profiles and an assessment of strategic and emerging risks. There were no material changes made during 2018.

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

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

The risks to financial performance

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

Insurance risk

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

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

Strategic risk

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

- **Strategic decisions:** The syndicate's performance would be affected in the event of making strategic decisions that do not add value. The managing agent on behalf of the syndicate mitigates this risk through the combination of recommendations and challenge from non-executive directors, debate at the Beazley plc executive committee and input from the strategy and performance group (a group of approximately 30+ senior individuals from across different disciplines at Beazley).
- **Environment:** There is a risk that the chosen strategy cannot be executed because of the current environmental conditions within which the syndicate operates, thereby delaying the timing of the strategy.
- **Communication:** Having the right strategy and environment is of little value if it is not communicated internally so that the whole group is heading in the same direction, or if key external stakeholders are not aware of the syndicate's progress against its strategy.
- **Senior management performance:** There is a risk that senior management could be overstretched or could fail to perform, which would have a detrimental impact on the syndicate's performance. The performance of the senior management team is monitored by the chief executive and talent management team and overseen by the Beazley plc nomination committee.
- **Reputation:** Although reputational risk is a consequential risk, i.e. it emerges upon the occurrence of another risk manifesting, it has the potential to have a significant impact on an organisation. The syndicate expects staff working on their behalf to act honourably by doing the right thing.
- **Flight:** There is a risk that the managing agent could be unable to deliver its strategy due to the loss of key personnel. The syndicate has controls in place to identify and monitor this risk, for example, through succession planning.
- **Crisis management:** This is the risk caused by the destabilising effect of the syndicate having to deal with a crisis and is mitigated by having a detailed crisis management plan.
- **Corporate transaction:** There is a risk that the syndicate could undertake a corporate transaction which did not return the expected value to shareholders. This risk is mitigated through the due diligence performed, the financial structure of transactions and the implementation activity.

Under the environmental risk heading, the board identifies and analyses emerging and strategic risk on an annual basis for discussion at the board strategy day in May.

Managing agent's report *continued*

Other risks

The remaining six risk categories monitored by the board are:

- **Market (asset) risk:** This is the risk that the value of investments could be adversely impacted by movements in interest rates, exchange rates, default rates or external market forces. This risk is monitored by the investment committee.
- **Operational risk:** This risk is the failure of people, processes and systems or the impact of an external event on the syndicate's operations, and is monitored by the operations committee. An example would be a cyber attack having a detrimental impact on our operations.
- **Credit risk:** The syndicate has credit risk to the reinsurers, brokers and coverholders of the host syndicate of which the reinsurance asset is the largest. The underwriting committee monitors this risk.
- **Regulatory and legal risk:** This is the risk that the syndicate might fail to operate in line with the relevant regulatory framework in the territories where it does business. Of the eight risk categories, the board has the lowest tolerance for this risk. This risk is monitored by the risk and regulatory committee.
- **Liquidity risk:** This is the risk that the host syndicate might not have sufficient liquid funds following a catastrophic event. The investment committee monitors this risk which, given the nature of the asset portfolio, is currently small.
- **Group risk:** The structure of the Beazley group is not complex and so the main group risk is that one group entity might operate to the detriment of another group entity or entities. This includes, for example, changes in tax legislation such as the US Tax Cuts and Jobs Act enacted in late 2017 which affects which types of intra-group reinsurance it is efficient for Beazley to use. The Beazley plc board monitors this risk through the reports it receives from each entity.

Anti-bribery and corruption risk

The syndicate also considered anti-bribery and corruption risk across all risk categories. We are committed to ensuring that all business is conducted in an ethical and honest manner, and that we are not involved in any illicit activity defined under the UK Bribery Act and US Foreign Corrupt Practices Act. This risk includes the risk of bribery and corruption we are exposed to and manifests itself in the susceptibility to unethical or dishonest influences whereby illicit payments and/or inducements are either made or received. Such activity has severe reputational, regulatory and legal consequences, including fines and penalties. Considerations relevant to this risk include the nature, size and type of transactions, the jurisdiction in which transactions occur, and the degree to which agents or third parties are used during such transactions.

Every employee and individual acting on the syndicate's behalf is responsible for maintaining our reputation. We have a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all aspects of our business. In doing so, we aim to recruit and retain high-calibre employees who carry out their responsibilities honestly, professionally and with integrity. We maintain a number of policies designed to prevent any risk of bribery and corruption, which are communicated to all employees and supplemented with appropriate training.

Climate change risk

The warming of the global climate is recognised as a significant emerging risk due to its widespread potential impact on the global population, environment and economy. A key aspect of the host syndicate's business model is to support our clients who have been affected by natural catastrophes, helping them return to pre-catastrophe conditions as soon as possible. As a speciality insurer, various classes of business we underwrite are subject to the affect climate change presents to the risk environment. As part of the underwriting process, we work with our insureds to understand the risks facing their organisation, including applicable climate related risks, to tailor insurance coverages to mitigate the associated financial risks.

We acknowledge and accept that over time climate change could impact the risks facing our insureds and we aim to manage the resulting risk to the syndicate as described below.

- **Pricing risk:** This is the risk that current pricing benchmarks do not adequately consider the prospective impact of climate change resulting in systemic under-pricing of climate exposed risks. The host syndicate's business planning process establishes how much exposure in certain classes of business or geographic area we wish to accept. We rely on a strong feedback loop between our claims and underwriting teams to ensure that emerging claims trends and themes can be contemplated in the business planning process, the rating tools and the underwriter's risk by risk transactional level considerations. Our underwriters are empowered to think about climate risk during their underwriting process in order to determine the implication on each risk.
- **Catastrophe risk:** This is the risk that current models do not adequately capture the impacts of climate change on the frequency, severity or nature of natural catastrophes or other extreme weather events. The syndicate utilises Risk Management Solutions (RMS) models to facilitate the estimation of aggregate exposures based on the syndicate's underwriting portfolio. There is an on-going feedback loop between (re)insurers and catastrophe model vendors which has contributed to model improvements. Catastrophe models are evolving to include new or secondary perils which may or may not be related to climate change. In addition, the syndicate runs a series of Natural Catastrophe Realistic Disaster Scenarios (RDS) on a regular basis which monitors the syndicate's exposure to these perils. These include hurricanes in the US, typhoons in Japan, European windstorms and floods in the UK.
- **Reserve risk:** This is the risk that established reserves are not sufficient, in particular for longer tail business, to reflect the ultimate impact climate change may have on paid losses. With support from our group actuarial team, claims teams and other members of management the syndicate establishes financial provisions for our ultimate claims liabilities.

- **Asset risk:** This is the risk that climate change has a significant impact across a number of industries which may negatively impact the value of investments in those companies. The syndicate considers the impact of climate change on its asset portfolio by seeking to incorporate an assessment of environmental risks in the investment process. We subscribe to the research services of a specialist company in the field of environmental, social and governance research and have integrated their proprietary ratings into the internal credit process applied to investments in corporate debt securities. A minimum standard for Environmental, Social and Governance (ESG) performance is defined and companies not meeting the required standard will be excluded from the approved list of issuers. The analysis also includes a consideration of the sustainability of each company with regard to the potential decline in demand in specific sectors.
- **External event risk:** This is the risk that the physical impact of climate related events has a material impact on our own people, processes and systems leading to increased operating costs or the inability to deliver uninterrupted client service. The syndicate has business continuity plans in place to facilitate the delivery of uninterrupted client service in the event of a disaster.
- **Commercial management risk:** The syndicate aims to minimise where possible the environmental impact of our business activities and those that arise from the occupation of our office spaces. As we operate in leased office spaces our ability to direct environmental impacts is relatively limited however we do engage with our employees, vendors and customers in an effort to reduce overall waste and environmental footprint.
- **Credit risk:** As a result of material natural catastrophe events there is a risk that the host syndicate's reinsurance counterparties are unable to pay reinsurance balances due to the syndicate. If the frequency or severity of these events is increased due to climate change this could have a corresponding increase on credit risk. An important consideration when placing our reinsurance programme is evaluation of our counterparty risk. Every potential reinsurer is evaluated through a detailed benchmarking which considers: financial strength ratings, capital metrics, performance metrics as well as other considerations.
- **Regulatory and legal risk:** Regulators, investors and other stakeholders (including political activists) are becoming increasingly interested in the private sectors' response to climate change. Failure to appropriately engage with these stakeholders and provide transparent information may result in the risk of reputational damage or increased scrutiny. The syndicate regularly monitors the regulatory landscape to ensure that we can adhere to any changes in relevant laws and regulations. This includes making any necessary regulatory or statutory filings with regard to climate risk.
- **Liquidity risk:** Linked to the underwriting and credit risks noted above, losses resulting from unprecedented natural disasters or extreme weather erode our ability to pay claims and remain solvent. The group establishes capital at a 1:250 level based on the prevailing business plan. Whilst over time we anticipate climate change to have an impact on the frequency, severity and nature of natural catastrophe events on a year to year basis this is captured in the internal capital modelling.
- **Strategic risk:** This is the risk that our strategy fails to effectively consider climate change resulting in our business planning not adapting fast enough to respond to changes in wider claims trends. In addition, market pressure or external factors result in a decision to stop underwriting certain classes of business which impacts our ability to deliver business plan results. This results in loss of value for investors which erode their confidence in management. This risk is considered through the annual and long term business planning process, we additionally look to the Lloyd's market to provide additional guidance.

Directors

A list of directors of the managing agent who held office during the year can be found on page 28 of this syndicate annual report.

Disclosure of information to the auditor

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

Auditor

KPMG LLP will be subject to mandatory rotation in the UK after the 2018 year end and therefore the Beazley group, in consultation with Beazley Furlonge Limited, decided to conduct a tender for the audit services for the whole group, including its managed syndicates. Following a rigorous process, the managing agent is pleased to announce that it has appointed EY as its auditor for financial periods incepting on or after January 2019. This is subject to Beazley plc receiving approval for EY's appointment from Beazley plc shareholders at its next AGM. KPMG LLP will resign as auditor following completion of the 31 December 2018 audit.

On behalf of the board

M L Bride

Finance director

8 March 2019

Statement of managing agent's responsibilities

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- assess the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

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

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

On behalf of the board

M L Bride

Finance director

8 March 2019

Independent auditor's report to the members of syndicate 5623

Opinion

We have audited the financial statements of Syndicate 5623 for the year ended 31 December 2018 which comprise the Statement of Profit or Loss: Technical account – General business, Statement of Profit or Loss: non-technical account, Balance Sheet – Assets, Balance Sheet – Liabilities, Statement of Changes in Members' Balances, Statement of Cash Flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the syndicate in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors of the Managing Agent have prepared the Annual Return on the going concern basis as they do not intend to liquidate the syndicate or to cease its operations, and as they have concluded that the syndicate's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the syndicate's business model, including the impact of Brexit, and analysed how those risks might affect the syndicate's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the syndicate will continue in operation.

Report of the directors of the Managing Agent

The directors are responsible for the Report of the directors of the Managing Agent. Our opinion on the financial statements does not cover that report and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Report of the directors of the Managing Agent and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in that report.

In our opinion the information given in the Report of the Directors of the Managing Agent is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Independent auditor's report to the members of syndicate 5623 *continued*

Responsibilities of the directors of the Managing Agent

As explained more fully in their statement set out on page 10, the directors of the Managing Agent are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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

Elizabeth Cox (Senior Statutory Auditor)

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

8 March 2019

Profit or loss account

year ended 31 December 2018

	Notes	2018 \$'000
Gross premiums written		8,374.7
Gross premiums written		8,374.7
Change in the gross provision for unearned premiums	9	(5,803.7)
Change in the gross provision for unearned premiums		(5,803.7)
Earned premiums		2,571.0
Allocated investment return transferred from the non-technical account		7.7
Gross claims paid		(24.2)
Gross claims paid		(24.2)
Change in the gross provision for claims	9	(1,757.2)
Change in the gross provision for claims		(1,757.2)
Claims incurred		(1,781.4)
Net operating expenses	4	(942.0)
Balance on the technical account		(144.7)
Investment income	5	7.7
Allocated investment return transferred to general business technical account		(7.7)
Gain on foreign exchange		1.3
Other charges	6	-
Loss for the financial year		(143.4)

All of the above operations are continuing.

Statement of other comprehensive income

year ended 31 December 2018

	2018 \$'000
Loss for the financial year	(143.4)
Foreign exchange on brought forward reserves	-
Total comprehensive loss in the year	(143.4)

The notes on pages 16 to 27 form part of these financial statements.

Balance sheet

as at 31 December 2018

	Notes	2018 \$'000
Assets		
Debtors		
Debtors arising out of reinsurance operations		4,058.0
Other debtors	7	1,587.1
		5,645.1
Deferred acquisition costs		1,763.0
Cash at bank and in hand	8	-
Other prepayments and accrued income		-
Total assets		7,408.1
Liabilities, capital and reserves		
Capital and reserves		
Members' balances attributable to underwriting participations		(143.4)
Technical provisions		
Provision for unearned premiums	9	5,794.3
Claims outstanding	9	1,757.2
		7,551.5
Total liabilities, capital and reserves		7,408.1

The notes on pages 16 to 27 form part of these financial statements.

The syndicate annual accounts on pages 13 to 27 were approved by the board of Beazley Furlonge Limited on 8 March 2019 and were signed on its behalf by:

A P Cox
Active underwriter

M L Bride
Finance director

Cash flow statement

year ended 31 December 2018

	2018 \$'000
Reconciliation of total comprehensive loss for the year to net cash flows from operating activities	
Total comprehensive loss in the year	(143.4)
Increase in gross technical provisions	7,551.5
Increase in deferred acquisition costs	(1,763.0)
Increase in debtors	(5,645.1)
Investment return	-
Net cash flow from operating activities	-
Cash received from investment return	-
Net cash from investing activities	-
Transfer to member in respect of underwriting participations	-
Net cash from financing activities	-
Net increase/(decrease) in cash and cash equivalents	-
Cash and cash equivalents at the beginning of the year	-
Effect of exchange rate changes on cash and cash equivalents	-
Cash and cash equivalents at the end of the year	-

Statement of changes in members' balances

31 December 2018

	2018 \$'000
Members' balances brought forward at 1 January	-
Total comprehensive loss for the financial year	(143.4)
Members' balances carried forward at 31 December	(143.4)

The notes on pages 16 to 27 form part of these financial statements.

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

Notes to the syndicate annual accounts

1 Accounting policies

Basis of preparation

Syndicate 5623 comprises a group of members of the Society of Lloyd's that underwrites reinsurance business in the London Market. The address of the syndicate's managing agent is given on page 28. These syndicate annual accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the Regulations') and applicable Accounting Standards in the United Kingdom and the Republic of Ireland, Financial Reporting Standard 102 'FRS 102' and the applicable Accounting Standard on insurance contracts, Financial Reporting Standard 103 'FRS 103'.

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

Use of estimates and judgements

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

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

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

The most critical estimate included within the syndicate's financial position is the estimate for losses incurred but not reported. The total estimate as at 31 December 2018 is included within claims outstanding on the balance sheet.

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

a) Premiums

Gross premiums written represent premiums on business commencing in the financial year together with adjustments to premiums written in previous accounting periods and estimates for premiums from contracts entered into during the course of the year. Gross premiums written are stated before deduction of brokerage, taxes, duties levied on premiums and other deductions.

b) Unearned premiums

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

c) Claims

Claims incurred represent the cost of claims paid during the financial year, together with the movement in provisions for outstanding claims, claims incurred but not reported (IBNR).

The provision for claims comprises amounts set aside for claims advised and IBNR. The IBNR amount is based on estimates of held reserves specific to this syndicate which include a margin above best estimate, consistent with the reserving approach of the Lloyd's market. The reserves are calculated using widely accepted statistical techniques (e.g. chain ladder) which are reviewed annually by external consulting actuaries. The reserving techniques generally use projections based on past experience of the development of claims over time, however as this is the first year of operation for this syndicate, loss ratio driven methods have been used to set a margin above the best estimate in line with UK GAAP requirements.

1 Accounting policies *continued*

d) Liability adequacy testing

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

e) Acquisition costs

Acquisition costs comprise brokerage, premium levy and staff-related costs of the underwriters acquiring new business and renewing existing contracts. 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

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

g) Taxation

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

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

h) Profit Commission

Profit commission is charged by the ceding syndicate 3623 at a rate of 20% of the profit after a 11% expense allowance on a year of account basis subject to the operating of a two-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.

i) Insurance debtors and creditors

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

j) Cash at bank and in hand

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

k) Other debtors

Other debtors are carried at amortised cost less any impairment losses.

l) Other creditors

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

Notes to the syndicate annual accounts *continued*

2 Risk management

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

2.1 Insurance risk

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

a) Underwriting risk

Underwriting risk comprises four elements that apply to all insurance products offered by the syndicate:

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

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

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

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

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

The syndicate uses a number of modelling tools to monitor its exposures against the agreed risk appetite set and to simulate catastrophe losses. Stress and scenario tests are also run using these models.

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

To manage underwriting exposures, the host 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 2018, the normal maximum line that any one underwriter could commit the host syndicate to was \$10.0m. In most cases, maximum lines for classes of business were much lower than this.

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

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

2 Risk management *continued*

Binding authority contracts

A proportion of the host 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.

b) Claims management risk

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

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

c) 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 bad debt in provisions.

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

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

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

	5% increase in claims reserves	5% decreases in claims reserves
	2018	2018
	\$'000	\$'000
Sensitivity to insurance risk (claims reserves)		
Impact on profit and equity	(87.9)	87.9

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

	2018 %
Europe ¹	6
Other	94
	100

1. Includes UK.

2.2 Financial risk

The focus of financial risk management for the syndicate is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance contracts. The goal of the investment management process is to optimise the risk-adjusted investment income and risk-adjusted total return by investing in a diversified portfolio of securities, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

2.3 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. Where events supersede the strategic plan this is escalated at the earliest opportunity through Beazley Furlonge Limited's monitoring tools and governance structure.

Notes to the syndicate annual accounts *continued*

2 Risk management *continued*

2.4 Market risk

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

Foreign exchange risk

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

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

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

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

31 December 2018	UK £ \$'000	CAD \$ \$'000	EUR € \$'000	Subtotal \$'000	US \$ \$'000	Total \$'000
Total assets	161.1	0.4	(0.4)	161.1	7,247.0	7,408.1
Total liabilities	(188.3)	-	0.7	(187.6)	(7,363.9)	(7,551.5)
Net assets	(27.2)	0.4	0.3	(26.5)	(116.9)	(143.4)

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

Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar	Impact on profit for the year ended	Impact on net assets
	2018 \$'000	2018 \$'000
Dollar weakens 30% against other currencies	(8.0)	(8.0)
Dollar weakens 20% against other currencies	(5.3)	(5.3)
Dollar weakens 10% against other currencies	(2.7)	(2.7)
Dollar strengthens 10% against other currencies	2.7	2.7
Dollar strengthens 20% against other currencies	5.3	5.3
Dollar strengthens 30% against other currencies	8.0	8.0

Interest rate risk

The syndicate has no material interest rate risk.

Price risk

This is not a material risk to the syndicate.

2 Risk management *continued*

2.5 Operational risk

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

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

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

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

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

- Solvency capital requirement 'SCR' modelling of operational risk exposure and scenario testing;
- management review of activities;
- documentation of policies and procedures;
- preventative and detective controls within key processes;
- contingency planning; and
- other systems controls.

2.6 Credit risk

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

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

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

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

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

Notes to the syndicate annual accounts *continued*

2 Risk management *continued*

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 2018	Tier 1 \$'000	Tier 2 \$'000	Tier 3 \$'000	Tier 4 \$'000	Unrated \$'000	Total \$'000
Reinsurers' share of outstanding claims	-	-	-	-	-	-
Reinsurance debtors	4,058.0	-	-	-	-	4,058.0
Cash at bank and in hand	-	-	-	-	-	-
Total	4,058.0	-	-	-	-	4,058.0

Based on all evidence available, debtors arising out of insurance operations and other debtors have not been impaired and no impairment provision has been recognised in respect of these assets.

The syndicate has no insurance debtors and reinsurance assets that are past due but not impaired at the reporting date.

2.7 Regulatory and legal risk

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

2.8 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. As syndicate 5623 is a special purpose syndicate, liquidity risk is not material to the syndicate.

2.9 Senior management responsibilities

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

2 Risk management *continued*

2.10 Capital management

Capital framework at Lloyd's

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

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives. Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level respectively, not at syndicate level. Accordingly the capital requirement in respect of syndicate 5623 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A syndicate comprises one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2018 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

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

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the balance sheet on page 14, represent resources available to meet members' and Lloyd's capital requirements.

3 Segmental analysis

All risks were underwritten in the UK and relate to reinsurance.

4 Net operating expenses

	2018 \$'000
Acquisition costs	2,451.4
Change in deferred acquisition costs	(1,766.5)
Administrative expenses	257.1
	<u>942.0</u>
Administrative expenses include:	
	2018 \$'000
Fees payable to the syndicate's auditor for the audit of these annual accounts	8.6
Fees payable to the syndicate's auditor and its associates in respect of:	
Other services pursuant to legislation	44.4
	<u>53.0</u>

Notes to the syndicate annual accounts *continued*

5 Net investment income

	2018 \$'000
Interest income	7.7

6 Other charges

	2018 \$'000
Profit commissions paid to syndicate 3623	-

7 Other debtors

	2018 \$'000
Amount due from syndicate 3623	1,587.1
	1,587.1

These balances are due within one year.

8 Cash and cash equivalents

	2018 \$'000
Cash at bank and in hand	-
Cash and cash equivalents	-

9 Technical provisions

	Provision for unearned premium outstanding \$'000	Claims \$'000
Gross technical provisions		
As at 1 January 2018	-	-
Movement in the provision	5,803.7	1,757.2
Exchange adjustments	(9.4)	-
As at 31 December 2018	5,794.3	1,757.2

Gross technical provisions		
As at 1 January 2018	-	-
As at 31 December 2018	5,794.3	1,757.2

	2018 %
Gross ultimate claims	
12 months	71.6%
Total ultimate losses (\$'000)	10,204.0
Less paid claims (\$'000)	24.2
Less unearned portion of ultimate losses (\$'000)	8,422.6
Gross claims liabilities (\$'000)	1,757.2

	2018 %
Net ultimate claims	
12 months	71.6%
Total ultimate losses (\$'000)	10,204.0
Less paid claims (\$'000)	24.2
Less unearned portion of ultimate losses (\$'000)	8,422.6
Net claims liabilities (\$'000)	1,757.2

Notes to the syndicate annual accounts *continued*

10 Related parties transactions

The business written by syndicate 5623 is ceded from syndicate 3623, for which syndicate 5623 pays a profit commission. This profit commission payable is disclosed in note 6 and the override commission is included within operating expenses.

As at the balance sheet date, the syndicate has no intercompany balances outstanding with the managing agent.

The intercompany position with syndicate 3623 at 31 December 2018 is disclosed above in note 7 (other debtors).

Beazley Furlonge Limited, the managing agent of syndicate 5623, is a wholly-owned subsidiary of Beazley plc. The directors of Beazley Furlonge Limited during the period covered by these syndicate annual accounts who participated on syndicate 623, managed by the managing agent, indirectly through Beazley Staff Underwriting Limited are as follows:

£	Total bonuses deferred and at risk	2017 year of account underwriting capacity	2018 year of account underwriting capacity	2019 year of account underwriting capacity
M R Bernacki ¹	191,600	400,000	400,000	N/A
M L Bride ¹	191,600	400,000	400,000	N/A
A P Cox	191,600	400,000	400,000	400,000
D A Horton	191,600	400,000	400,000	400,000
N P Maidment ²	191,600	400,000	400,000	N/A
C A Washbourn ²	191,600	400,000	400,000	N/A

1 M R Bernacki and M L Bride are expected to step down from the board in 2019.

2 C A Washbourn and N P Maidment stepped down from the board during the year.

The directors of Beazley Furlonge Limited who held office during the period covered by this report have shareholdings in Beazley plc which provides the capacity for syndicates 2623, 3622 and 3623.

	Shareholding of Beazley plc as at 31 December 2018
D L Roberts ¹ (appointed chairman 22/03/2018)	41,300
M R Bernacki	293,433
G P Blunden ¹	40,000
M L Bride – finance director	169,643
A P Cox (appointed active underwriter 31/12/2018)	785,756
A Crawford-Ingle ¹	34,207
N H Furlonge ¹	355,584
D A Horton – chief executive officer	1,716,766
N P Maidment (resigned 31/12/2018)	2,917,188
R Stuchbery ¹	62,500
D Holt ¹ (resigned 22/03/2018)	50,000
C A Washbourn (resigned 24/12/2018)	465,700
K W Wilkins ¹	14,000

1 Non-executive director.

10 Related parties transactions *continued*

Beazley plc has the following service companies (managing general agents):

- Beazley Solutions Limited – (UK & Europe);
- Beazley Solutions International Limited – (Europe);
- Beazley Underwriting Pty Ltd – (Australia);
- Beazley USA Services, Inc. – (USA);
- Beazley Canada Limited – (Canada);
- Beazley Limited – (Hong Kong);
- Beazley Pte Limited – (Singapore); and
- Beazley Leviathan Limited – (UK & Europe).

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.

Managing agent corporate information

Beazley Furlong Limited has been the managing agent of syndicate 5623 throughout the period covered by this report and the registered office is Plantation Place South, 60 Great Tower Street, London EC3R 5AD.

Directors

D L Roberts¹ (appointed chairman 22/03/2018)
M R Bernacki
G P Blunden¹
M L Bride – finance director
A P Cox (appointed active underwriter 31/12/2018)
A Crawford-Ingle¹
N H Furlong¹
D A Horton – chief executive officer
N P Maidment (resigned 31/12/2018)
R Stuchbery¹
D Holt¹ (resigned 22/03/2018)
C A Washbourn (resigned 24/12/2018)
K W Wilkins¹

1. Non-executive director.

Company secretary

C P Oldridge

Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Managing agent's registered office

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

Registered number

01893407



Beazley syndicate 5623 online annual report 2018

investor.relations.beazley.com

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Beazley Furlonge Limited

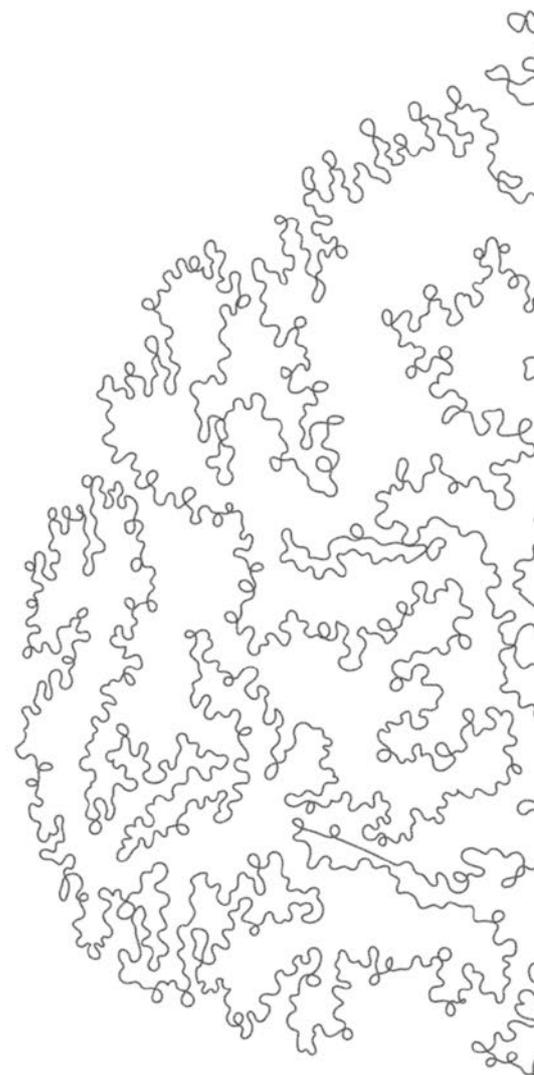
Syndicate 5623 at Lloyd's

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

Phone: +44 (0)20 7667 0623

Fax: +44 (0)20 7674 7100

www.beazley.com



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