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**SYNDICATE 3623**  
**ANNUAL REPORT AND ACCOUNTS**  
**YEAR ENDED**  
**31 DECEMBER 2015**

**SYNDICATE 3623**  
**31 DECEMBER 2015**

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# SYNDICATE 3623

## 31 DECEMBER 2015

### STRATEGIC REPORT OF THE MANAGING AGENT

#### Overview

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

The capacities of the managed syndicates are as follows:

Syndicate Number	Capacity 2015	Capacity 2014
2623	£1,019.5m	£1,093.9m
623	£230.3m	£242.8m
<b>3623</b>	<b>£150.0m</b>	<b>£140.0m</b>
6107	£28.6m	£21.0m
3622	£17.0m	£16.0m
6050	£12.0m	n/a

The result for syndicate 3623 for the year ended 31 December 2015 is a profit of \$1.7m (2014: profit of \$9.5m).

#### Year of account results

The 2013 year of account declares a loss on capacity of 2.8%. The 2014 year of account currently forecasts closing with a return on capacity of 4%.

#### Rating environment

Overall, rates on renewal business were flat in 2015 (2014: increase of 5%).

#### Combined ratio

The combined ratio of an insurance entity is a common measure of its operating performance and represents the ratio of its total costs (excluding foreign exchange movements) to total premium income. The syndicate's combined ratio for 2015 was 100% (2014: 97%).

#### Claims

The syndicate's overall claims ratio increased from 56% in the prior year to 59% in 2015.

The syndicate released prior year reserves of \$2.9m during 2015 (2014: release of \$4.6m).

#### Net operating expenses

Net operating expenses, including business acquisition costs and administrative expenses were \$89.1m (2014: \$79.4m). The breakdown of these costs is shown below:

	<b>2015</b>	<b>2014</b>
	<b>\$m</b>	<b>\$m</b>
Brokerage costs	82.1	75.8
Other acquisition costs	3.5	3.7
<b>Total acquisition costs</b>	<b>85.6</b>	<b>79.5</b>
Administrative and other expenses	3.5	(0.1)
<b>Net operating expenses*</b>	<b>89.1</b>	<b>79.4</b>

\* A break-down of net operating expenses can be seen in note 4.

Brokerage costs as a percentage of net earned premiums are approximately 38% (2014: 39%). Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with accounting guidelines. Other acquisition costs comprise costs that have been identified as being directly related to underwriting activity (e.g. underwriters salaries and Lloyd's box rental). These costs are also deferred in line with premium earning patterns. Administrative expenses comprise primarily IT costs, facilities costs, Lloyd's central costs and other support costs. The expense ratio in 2015 is 41% (2014: 41%).

# **SYNDICATE 3623**

## **31 DECEMBER 2015**

### **STRATEGIC REPORT OF THE MANAGING AGENT (CONTINUED)**

#### **Reinsurance**

In 2015, the amount spent on reinsurance was \$34.0m (2014: \$37.0m). Reinsurance is purchased for a number of reasons, including:

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

#### **Individual capital assessment**

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

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

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

#### **Solvency II**

Solvency II went live on 1 January 2016. In December 2015, we were delighted to receive confirmation that our Solvency II internal model application was approved by the Central Bank of Ireland. This model is used to calculate the Solvency Capital Requirement on an ultimate basis, as required for Lloyd's capital setting.

Beazley's programme to prepare for Solvency II began in 2008 and is now substantially complete. Our project to prepare for the pillar 3 reporting requirements is ongoing and will continue until the annual reporting for 31 December 2016 is complete. We believe we are strongly positioned to meet all the reporting requirements.

#### **Outlook**

We expect the 2014YOA to close with a moderately positive return on capacity, while the 2015YOA is developing well at this early stage.

.....  
**N P Maidment**

Active underwriter

10 March 2016

# **SYNDICATE 3623**

## **31 DECEMBER 2015**

### **MANAGING AGENT'S REPORT**

The managing agent presents its report for the year ended 31 December 2015.

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

#### **Principal activities**

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

#### **Risk management philosophy**

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

#### **Risk governance and reporting**

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

#### **2015 in review**

As at 31 December 2015, the syndicate is operating within risk appetite as set by the Beazley Furlonge Limited board. There have been no new risk areas identified and no major shifts in existing risks. In addition, the control environment has not identified any significant failings or weaknesses in key processes.

Risk management has undertaken two key risk profile reviews. The first was to review the design and operation of the underwriting standards, particularly in soft market conditions. Whilst the conclusion was that the underwriting standards remain appropriately designed, we have increased the focus on oversight of policy wordings (which can become a target in a soft market) and monitoring more closely the new underwriters who have joined Beazley in 2015. The second risk profile review was an annual review of Beazley's cyber exposure with the aim of improving our understanding of how an aggregation of claims across a number of policies could be triggered by a single cause or event. We used external technical expertise to benefit from the latest thinking on what is possible, which has led to the development of five new realistic disaster scenarios that will be monitored. We have also developed a cyber risk budget which the new scenarios will be compared against to assist the board in overseeing the growth of our cyber premium.

Risk appetite sets the navigational parameters and so supports board discussion. For example, because asset risk appetite is based on how much earnings volatility the board is prepared to tolerate, it is set with consideration of the insurance conditions in mind rather than the asset environment alone. This tempers the amount of asset risk taken in soft insurance market conditions when the initial reaction may be to take on more asset risk to make up for an expectation of reduced insurance profits.

We have also complemented our quantitative risk appetite measures by developing qualitative statements which guide on what type of activity would be outside risk appetite using relevant language for that part of the business. This has helped to improve the understanding across the business of how the board expects the company to operate.

In 2015, we reviewed the way we manage conduct risk. Conduct risk describes Beazley's behaviour that aims to provide appropriate products to the right group of consumers that achieve fair outcomes. Beazley's approach starts with culture. The Professional and Integrity elements of our PIED values and the Honourable and Deliver elements of Being Beazley mean we consider and understand the needs of our customers and form an important cultural base to getting this right. This is supported by product specific activity dependent on the type of customer. From a risk management perspective, we facilitated the development of the conduct objective, the conduct risk appetite and the standards required to remain within this risk appetite.

We are able to extract conduct related controls from the risk register to provide the board with assurance that the expected behaviours towards customers are being demonstrated.

# **SYNDICATE 3623**

## **31 DECEMBER 2015**

### **MANAGING AGENT'S REPORT (CONTINUED)**

The quarterly Own Risk and Solvency Assessment (ORSA) report captures and explains the current and prospective risks and associated capital requirements. Since 2010, the board has received 20 regular quarterly ORSAs and three ad hoc transactional ORSAs and these reports have proved to be one of the key benefits arising from the introduction of the Solvency II regime.

There is widespread belief that the approach to remuneration is a key determinant of a business's success or failure. As such, this is now the fifth year that the chief risk officer has provided a detailed report to the remuneration committee to provide assurance that the design of the remuneration structure drives the intended behaviours not only over the next year but also over the next three to five years. Members of the risk management team have visited Beazley offices in the US, Europe, Asia and Australia to identify how we can improve what we do and to observe how consistently the Beazley culture ensures our staff do the right thing.

Turning to capital, we have continued to make minor changes to the internal model during 2015, the last year before the Solvency II regime goes live. Some changes have been in response to regulatory review to ensure that the internal model completely meets all the requirements. Other changes have been made to ensure that the internal model remains aligned to Beazley's risk profile. We have observed that there is increasing interest across the market in utilising a 'drivers of risk' approach, which is used by Beazley to describe how risks interact rather than using a statistical correlation matrices approach. Since we implemented such an approach in 2004, we have found that a 'drivers of risk' approach leads to a more informed discussion given the more intuitive approach to aggregating risk. Our focus in 2015 has been on reviewing the universe of risk drivers to ensure that all appropriate drivers have been included in the model and that the emergence of future drivers will be incorporated as necessary.

The board has received a detailed validation report to provide assurance that the model design and its output are appropriate. This report, coupled with a programme of regular and tailored director briefings called "KRAM", ensure that the internal model is widely understood and actively used.

Beazley received approval for its Solvency II internal model from the Central Bank of Ireland in December 2015. This ensures that Beazley's capital efficiency is maintained as the company will continue to use a model that more accurately reflects its risk profile to set capital requirements, rather than having to use the standard formula which typically generates higher capital requirements.

#### **Preparing for the future**

Beazley's current risk management framework has been successfully operating over the last five years. Although we have continued to enhance the framework during that period, we have undertaken a detailed review in the second half of 2015 of the operation of the risk register and associated reporting. This review has made use of our experiences of operating the framework during that period and has considered how market best practice has developed. We will be implementing changes in the first half of 2016 with the aim of ensuring that the next evolution of the risk management framework is up to the challenge of helping Beazley navigate the next five years.

#### **Risk management 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 Beazley Furlonge Limited board has also delegated oversight of the risk management framework to the audit and risk committees.

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

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

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## **31 DECEMBER 2015**

### **MANAGING AGENT'S REPORT (CONTINUED)**

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

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

#### **Risk management framework**

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

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

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

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

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

#### **The risks to financial performance**

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

##### **Insurance risk**

Given the nature of Beazley's business, the key risks that impact financial performance arise from insurance activities.

The main insurance risks can be summarised in the following categories:

- **Market cycle risk:** The risk of systematic mispricing of the medium tailed specialty lines business which could arise due to a change in the US tort environment, changes to the supply and demand of capital, and companies' using incomplete data to make decisions. This risk would affect multiple classes within the specialty lines division across a number of underwriting years. The syndicate uses a range of techniques to mitigate this risk including sophisticated pricing tools, analysis of macro trends, analysis of claim frequency and the expertise of our experienced underwriters and claims managers;
- **Natural catastrophe risk:** The risk of one large event caused by nature affecting a number of policies and therefore giving rise to multiple losses. Given Beazley's risk profile, this could be a hurricane, major windstorm or earthquake. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly



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## **31 DECEMBER 2015**

### **MANAGING AGENT'S REPORT (CONTINUED)**

concentrated in one area;

- Non natural catastrophe risk: This risk is similar to natural catastrophe risk except that multiple losses arise from one event caused by mankind. Given Beazley's risk profile, examples include a coordinated cyber attack, an act of terrorism, an act of war or a political event. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area;

- Reserve risk: Beazley has a consistent and conservative reserving philosophy. However, there is a risk that the reserves put aside for expected losses turn out to be insufficient. This could be due to any of the three drivers of risk described above. The syndicate uses a range of techniques to mitigate this risk including a detailed reserving process which compares, claim by claim, estimates established by the claims team with a top down statistical view developed by the actuarial team. A suite of metrics is also used to ensure consistency each year; and

- Single risk losses: Given the size of policy limits offered on each risk, it is unlikely that the poor performance of one policy will have a material impact on the syndicate's financial performance.

#### ***Strategic risk***

Alongside these insurance risks, the success of the syndicate depends on the execution of an appropriate strategy.

The main strategic risks can be summarised as follows:

- Strategic decisions: The syndicate's performance would be affected in the event of making strategic decisions that do not add value. The syndicate mitigates this risk through the combination of recommendations and challenge from non-executive directors, debate at the executive committee and input from the strategy and performance group (a group of approximately 35 senior individuals from across different disciplines at Beazley);

- Environment: There is a risk that the chosen strategy cannot be executed because of the current environmental conditions within which Beazley operates, thereby delaying the timing of the strategy.

- Communication: Having the right strategy and environment is of little value if it is not communicated internally so that the whole group is heading in the same direction, or if key external stakeholders are not aware of Beazley's progress against its strategy;

- Senior management performance: There is a risk that senior management is overstretched or does not perform, which would have a detrimental impact on the syndicate's performance. The performance of the senior management team is monitored by the CEO and talent management team and overseen by the nomination committee;

- Reputation: Although reputational risk is a consequential risk, i.e. it emerges upon the occurrence of another risk manifesting, it has the potential to have a significant impact on an organisation. Beazley expects its staff to act honourably (one of seven ingredients of Being Beazley) by doing the right thing;

- Flight risk: There is a risk that Beazley is unable to deliver its strategy due to the loss of key personnel. Beazley has controls in place to identify and monitor this risk, for example, through succession planning;

- Crisis management: This is the risk caused by the destabilising effect of the syndicate having to deal with a crisis and is mitigated by having a detailed crisis management plan; and

- Corporate transaction: There is a risk that Beazley undertakes a corporate transaction which does not return the expected value to shareholders. This risk is mitigated through the due diligence performed, the financial structure of transactions and the implementation activity. Under the environmental risk heading, the board monitors five categories of emerging and strategic risk on a quarterly basis, namely; socio-political risk, distribution, market conditions, talent and regulation.

#### ***Other risks***

The remaining six risk categories monitored by the board are:

- Market (asset) risk: This is the risk that the value of investments is adversely impacted by movements in interest rates, exchange rates, default rates or external market forces. This risk is monitored by the investment committee;

- Operational risk: This risk is the failure of people, processes and systems or the impact of an external event on Beazley's operations, and is monitored by the operations committee;

- Credit risk: Beazley has credit risk to its reinsurers, brokers and coverholders of which the reinsurance asset is the largest. The underwriting committee monitors this risk;

- Regulatory and legal risk: This is the risk that Beazley does not operate in line with the relevant regulatory framework in the territories where it operates. Of the eight risk categories, the board has the lowest tolerance for this risk;

- Liquidity risk: This is the risk that the syndicate does not have sufficient liquid funds following a

# **SYNDICATE 3623**

## **31 DECEMBER 2015**

### **MANAGING AGENT'S REPORT (CONTINUED)**

catastrophic event. The investment committee monitors this risk which, given the nature of the asset portfolio, is currently small; and

- Group risk: The structure of the Beazley group is not complex and so the main group risk is that one group entity operates to the detriment of another group entity or entities. Although this risk is currently small, the Beazley plc board monitors this risk through the reports it receives from each entity.

#### **Directors**

A list of directors of the managing agent who held office during the year and to the date of this report can be found on page 40.

#### **Disclosure of information to the auditor**

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

#### **Auditor**

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

By order of the board

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**M L Bride**

Finance director

10 March 2016

# **SYNDICATE 3623**

## **31 DECEMBER 2015**

### **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), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. The syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the syndicate as at that date and of its profit or loss for that year.

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

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

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

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

By order of the board

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**M L Bride**  
Finance director

10 March 2016

# **SYNDICATE 3623**

## **31 DECEMBER 2015**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SYNDICATE 3623**

We have audited the syndicate 3623 annual accounts for the year ended 31 December 2015, as set out on pages 12 to 39. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

#### **Respective responsibilities of the managing agent and auditors**

As explained more fully in the statement of managing agent's responsibilities set out on page 10 the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the syndicate annual accounts**

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

#### **Opinion on the syndicate annual accounts**

In our opinion the annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

In our opinion the information given in the Report of the Directors of the managing agent for the financial year for 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:

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

#### **Elizabeth Cox (Senior Statutory Auditor)**

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants  
15 Canada Square  
London, E14 5GL

10 March 2016

**SYNDICATE 3623  
PROFIT OR LOSS ACCOUNT  
YEAR ENDED 31 DECEMBER 2015**

	<b>Notes</b>	<b>2015 \$m</b>	<b>2014 \$m</b>
Gross premiums written	3	263.4	250.1
Outward reinsurance premiums		<u>(34.0)</u>	<u>(37.0)</u>
Net premiums written		229.4	213.1
Change in the gross provision for unearned premiums	12	(14.4)	(19.7)
Change in the provision for unearned premiums, reinsurers' share	12	1.1	0.3
Change in the net provision for unearned premiums		<u>(13.3)</u>	<u>(19.4)</u>
<b>Earned premiums, net of reinsurance</b>		<u>216.1</u>	<u>193.7</u>
Allocated investment return transferred from the non-technical account	8	2.1	1.9
Gross claims paid		(129.0)	(94.5)
Reinsurers' share of claims paid		<u>27.7</u>	<u>13.9</u>
Claims paid net of reinsurance		(101.3)	(80.6)
Change in the gross provision for claims	12	(33.3)	(35.8)
Change in the provision for claims, reinsurers' share	12	<u>6.9</u>	<u>7.8</u>
Change in the net provision for claims		<u>(26.4)</u>	<u>(28.0)</u>
<b>Claims incurred, net of reinsurance</b>		<u>(127.7)</u>	<u>(108.6)</u>
<b>Net operating expenses</b>	4	(89.1)	(79.4)
<b>Balance on the technical account</b>		<u>1.4</u>	<u>7.6</u>
Investment income	8	5.1	4.6
Investment expenses and charges	8	(0.2)	-
Realised losses on investments	8	(2.1)	(0.9)
Unrealised losses on investments	8	<u>(0.7)</u>	<u>(1.8)</u>
		2.1	1.9
Allocated investment return transferred to general business technical account		(2.1)	(1.9)
Gain on foreign exchange		0.3	1.9
<b>Profit for the financial year</b>		<u>1.7</u>	<u>9.5</u>

All of the above operations are continuing.

**SYNDICATE 3623**  
**STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**YEAR ENDED 31 DECEMBER 2015**

	<u>2015</u> \$m	<u>2014</u> \$m
Profit for the financial year	1.7	9.5
Foreign exchange loss on brought forward reserves	(0.3)	(1.4)
	<u>1.4</u>	<u>8.1</u>
Total comprehensive income since last annual report	<u>1.4</u>	<u>8.1</u>

**SYNDICATE 3623**  
**STATEMENT OF CHANGES IN MEMBERS' BALANCES**  
**31 DECEMBER 2015**

	<u>2015</u> \$m	<u>2014</u> \$m
<b>Members balance at the beginning of the year as previously stated</b>	(13.7)	(25.0)
Impact of change in accounting policy on adoption of FRS 102	-	-
Restated balance at the beginning of the year	(13.7)	(25.0)
Profit for the financial year	1.7	9.5
Foreign exchange loss on brought forward reserves	(0.3)	(1.4)
Profit distribution before members agent's fees – 2011 year of account	-	3.2
Profit distribution before members agent's fees – 2012 year of account	4.5	-
<b>Members balance at the end of the year</b>	<u>(7.8)</u>	<u>(13.7)</u>

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.

**SYNDICATE 3623  
BALANCE SHEET  
AS AT 31 DECEMBER 2015**

<b>ASSETS</b>	<b>Notes</b>	<b>2015 \$m</b>	<b>2014 \$m</b>
<b>Financial assets at fair value</b>	9	277.8	261.5
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums, reinsurers' share	12	15.1	14.1
Claims outstanding, reinsurers' share	12	70.8	64.2
		<u>85.9</u>	<u>78.3</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations		55.5	57.4
Debtors arising out of reinsurance operations		39.4	41.0
Other debtors	10	2.6	2.1
		<u>97.5</u>	<u>100.5</u>
<b>Cash at bank and in hand</b>	11	38.1	20.8
<b>Deferred acquisition costs</b>		38.1	34.1
<b>Other prepayments and accrued income</b>		0.8	0.4
<b>TOTAL ASSETS</b>		<u><u>538.2</u></u>	<u><u>495.6</u></u>
<b>LIABILITIES, CAPITAL AND RESERVES</b>			
<b>Capital and reserves</b>			
Member's balances attributable to underwriting participations		(7.8)	(13.7)
<b>Technical provisions</b>			
Provision for unearned premiums	12	122.2	108.7
Claims outstanding	12	327.6	296.5
		<u>449.8</u>	<u>405.2</u>
<b>Creditors</b>			
Creditors arising out of direct insurance operations		23.9	13.2
Creditors arising out of reinsurance operations		13.6	19.9
Other creditors	13	58.7	71.0
		<u>96.2</u>	<u>104.1</u>
<b>Accruals and deferred income</b>		-	-
<b>TOTAL LIABILITIES, CAPITAL AND RESERVES</b>		<u><u>538.2</u></u>	<u><u>495.6</u></u>

The syndicate annual accounts on pages 12 to 39 were approved by the board of Beazley Furlonge Limited on 10 March 2016 and were signed on its behalf by

.....  
**N P Maidment** (Active underwriter)

.....  
**M L Bride** (Finance director)

**SYNDICATE 3623  
CASH FLOW STATEMENT  
YEAR ENDED 31 DECEMBER 2015**

	<u>Notes</u>	<u>2015 \$m</u>	<u>2014 \$m</u>
<b>RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>			
Profit for the financial year		1.7	9.5
Investment return		(2.1)	(1.9)
Increase in net technical provisions		37.0	42.4
Increase in debtors		(1.4)	(9.7)
Increase in creditors		(7.9)	6.2
<b>Net cash inflow from operating activities</b>		<u>27.3</u>	<u>46.5</u>
Investment return		2.1	1.9
Net purchase/sale of equity/debt instruments		(15.1)	(42.6)
<b>Net cash from investing activities</b>		<u>(13.0)</u>	<u>(40.7)</u>
Transfer to member in respect of underwriting participations		4.5	3.2
<b>Net cash from financing activities</b>		<u>4.5</u>	<u>3.2</u>
<b>Net increase in cash and cash equivalents</b>		18.8	9.0
<b>Cash and cash equivalents at the beginning of the year</b>		21.9	14.0
Effect of exchange rate changes on cash and cash equivalents		(0.7)	(1.1)
<b>Cash and cash equivalents at the end of the year</b>	11	<u>40.0</u>	<u>21.9</u>



# **SYNDICATE 3623**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **YEAR ENDED 31 DECEMBER 2015**

#### **1. Accounting policies**

##### **Basis of preparation**

Syndicate 3623 ("the syndicate") comprises a group of members of the Society of Lloyd's that underwrite insurance business in the London Market. The address of the syndicate's managing agent is given on page 40.

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). This is the first year that both FRS 102 and FRS 103 have been applicable. Further explanation of the adoption of these standards can be found in note 15.

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 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 dollars, being the syndicate's functional currency and in millions, unless noted otherwise.

##### **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 31 December 2015 is included within claims outstanding in the balance sheet.

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) Premiums**

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

##### **(b) Unearned premiums**

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

##### **(c) Claims**

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

The provision for claims comprises amounts set aside for claims advised and IBNR. The IBNR amount is based on estimates calculated using widely accepted statistical techniques (e.g. chain ladder) which are reviewed annually by external consulting actuaries. The techniques generally use projections, based on past experience of the development of claims over time, to form a view on

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2015**

**1. Accounting policies (continued)**

- (c) Claims (continued)  
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.

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

- (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) 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.

# **SYNDICATE 3623**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **YEAR ENDED 31 DECEMBER 2015**

#### **1. Accounting policies (continued)**

(i) Ceded reinsurance

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

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

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

(j) Financial instruments

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

Financial liabilities are derecognised if the syndicate's obligations specified in the contract expire, are discharged or cancelled.

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

*Financial assets*

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

*Financial assets at fair value through income statement*

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

*Fair value measurement*

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

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

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

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2015**

**1. Accounting policies (continued)**

(k) Financial instruments (continued)

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 the profit or loss account 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 profit or loss account when incurred. Financial assets at fair value through the profit or loss account are measured at fair value, and changes therein are recognised in the profit or loss account within investment income.

*Hedge funds*

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

*Insurance debtors and creditors*

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

*Other debtors*

Other debtors principally consist of intercompany debtor balances 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.

(l) Investment income

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

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2015**

**1. Accounting policies (continued)**

(m) 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 to 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.

(n) 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 assets carrying amount and the value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in the profit or loss account.

(o) Cash at bank and in hand

This consists of cash at bank and in hand, deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less from the date of acquisition.

(p) 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.

(q) 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.

(r) Related party transactions

As the syndicate is wholly owned by Beazley plc ("the group"), the syndicate has taken advantage of the exemption contained in FRS 102.1 and has therefore not disclosed transactions or balances with other wholly owned entities forming part of the group.

# **SYNDICATE 3623**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **YEAR ENDED 31 DECEMBER 2015**

#### **2. Risk management**

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

##### **2.1 Insurance risk**

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

###### *a) Underwriting risk*

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

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

The syndicate's underwriting strategy is to seek a diverse and balanced portfolio of risks in order to limit the variability of outcomes. This is achieved by accepting a spread of business over time, segmented between different products, geography and size.

The annual business plans for each underwriting team reflect the 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.

The syndicate uses a number of modelling tools to monitor its exposures against the agreed risk appetite set and to simulate catastrophe losses in order to measure the effectiveness of its reinsurance programmes.

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2015**

**2. Risk management (continued)**

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 2015, the normal maximum line that any one underwriter could commit the syndicate to was \$61.7m. In most cases, maximum lines for classes of business were much lower than this.

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

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

**Binding Authority contracts**

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

**Operating divisions**

In 2015, the syndicate's business consisted of two operating divisions. The following table provides a breakdown of gross written premiums written by division.

	<b><u>2015</u></b>	<b><u>2014</u></b>
Life, accident & health	32%	43%
Reinsurance	68%	57%
<b>Total</b>	<b>100%</b>	<b>100%</b>

*b) Reinsurance risk*

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

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

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

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2015**

**2. Risk management (continued)**

*c) Claims management risk*

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

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

*d) Reserving and ultimate reserves risk*

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

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

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

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

<b>Sensitivity to insurance risk (claims reserves)</b>	<b>5% increase in claims reserves</b>		<b>5% decrease in claims reserves</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Impact on profit	(12.8)	(11.6)	12.8	11.6

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 by class of business.

**Concentration of insurance risk**

	<b>2015</b>	<b>2014</b>
	<b>%</b>	<b>%</b>
US	74%	57%
Europe	6%	30%
Other	20%	13%
Total	100%	100%



**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2015**

**2. Risk management (continued)**

**2.2 Strategic risk**

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

**2.3 Market risk**

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

***Foreign exchange risk***

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

The syndicate deals in four main currencies: US dollars, 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 still actively managed as described below.

In 2015, 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 predominately US dollar denominated. As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure across the syndicate. Details of all foreign currency derivative contracts entered into with external parties are disclosed in note 11. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk. 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:

<b>31 December 2015</b>	<b>UK £ \$m</b>	<b>CAD \$ \$m</b>	<b>EUR € \$m</b>	<b>Subtotal \$m</b>	<b>US \$ \$m</b>	<b>Total \$m</b>
Total assets	97.6	3.7	5.2	106.5	431.7	538.2
Total liabilities	(124.0)	(1.1)	(7.6)	(132.7)	(413.3)	(546.0)
<b>Net assets</b>	<b>(26.4)</b>	<b>2.6</b>	<b>(2.4)</b>	<b>(26.2)</b>	<b>18.4</b>	<b>(7.8)</b>
<b>31 December 2014</b>	<b>UK £ \$m</b>	<b>CAD \$ \$m</b>	<b>EUR € \$m</b>	<b>Subtotal \$m</b>	<b>US \$ \$m</b>	<b>Total \$m</b>
Total assets	98.2	4.5	3.9	106.6	389.0	495.6
Total liabilities	(143.5)	0.6	8.3	(134.6)	(374.7)	(509.3)
<b>Net assets</b>	<b>(45.3)</b>	<b>5.1</b>	<b>12.2</b>	<b>(28.0)</b>	<b>14.3</b>	<b>(13.7)</b>

***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.

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2015**

**2. Risk management (continued)**

**Change in exchange rate of UK sterling, Canadian dollar and euro relative to US dollar**

	Impact on profit for the year ended		Impact on net assets	
	2015	2014	2015	2014
	\$m	\$m	\$m	\$m
Dollar weakens 30% against other currencies	(7.9)	(8.4)	(7.9)	(8.4)
Dollar weakens 20% against other currencies	(5.3)	(5.6)	(5.3)	(5.6)
Dollar weakens 10% against other currencies	(2.6)	(2.8)	(2.6)	(2.8)
Dollar strengthens 10% against other currencies	2.6	2.8	2.6	2.8
Dollar strengthens 20% against other currencies	5.3	5.6	5.3	5.6
Dollar strengthens 30% against other currencies	7.9	8.4	7.9	8.4

**Interest rate risk**

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

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

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

**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 other financial instruments. This will affect reported profits and net assets as indicated in the below table:

Shift in yield (basis points)	Impact on profit for the year		Impact on net assets	
	2015	2014	2015	2014
	\$m	\$m	\$m	\$m
50 basis point increase	(2.5)	(2.3)	(2.5)	(2.3)
50 basis point decrease	2.5	2.3	2.5	2.3

**Price risk**

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

Financial assets include fixed and floating debt securities. 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 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

# **SYNDICATE 3623**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **YEAR ENDED 31 DECEMBER 2015**

#### **2. Risk management (continued)**

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.

#### **2.4 Operational risk**

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

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

Beazley Furlonge Limited also recognises that it is necessary for people, systems and infrastructure to be available to support the syndicate's operations. They have therefore taken significant steps to mitigate the impact of business interruption which could follow a variety of events, including the loss of key individuals and facilities. The syndicate 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:

- Individual capital assessment (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.

#### **2.5 Credit risk**

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

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

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

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

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

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

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2015**

**2. Risk management (continued)**

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:

	Tier 1 \$m	Tier 2 \$m	Tier 3 \$m	Tier 4 \$m	Unrated \$m	Total \$m
<b>31 December 2015</b>						
Financial assets at fair value	277.4	0.4	-	-	-	277.8
Reinsurance debtors	(7.8)	-	-	-	47.2	39.4
Reinsurers' share of technical provisions	70.8	-	-	-	-	70.8
Cash at bank and in hand	32.0	6.1	-	-	-	38.1
<b>Total</b>	<b>372.4</b>	<b>6.5</b>	<b>-</b>	<b>-</b>	<b>47.2</b>	<b>426.1</b>

	Tier 1 \$m	Tier 2 \$m	Tier 3 \$m	Tier 4 \$m	Unrated \$m	Total \$m
<b>31 December 2014</b>						
Financial assets at fair value	261.5	-	-	-	-	261.5
Reinsurance debtors	(3.1)	-	-	-	44.1	41.0
Reinsurers' share of technical provisions	64.2	-	-	-	-	64.2
Cash at bank and in hand	9.3	11.5	-	-	-	20.8
<b>Total</b>	<b>331.9</b>	<b>11.5</b>	<b>-</b>	<b>-</b>	<b>44.1</b>	<b>387.5</b>

Based on all evidence available, debtors arising out of insurance operations and other debtors have not been impaired and no impairment provision has been recognised in respect of these assets. An analysis of the overall credit risk exposure indicates that the syndicate has reinsurance assets that are impaired at the reporting date. The total impairment provision made in respect of these assets at 31 December 2015 totals \$0.9m (2014:\$0.8m). No other financial assets held at year end were impaired.

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:

	Up to 3 months past due \$m	3 – 6 months past due \$m	6 – 12 months past due \$m	Greater than 1 year past due \$m	Total \$m
<b>31 December 2015</b>					
Insurance debtors	1.5	1.1	0.5	-	3.1
Reinsurance assets	-	0.1	0.8	1.5	2.4

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2015**

**2. Risk management (continued)**

<b>31 December 2014</b>	<b>Up to 3 months past due \$m</b>	<b>3 – 6 months past due \$m</b>	<b>6 – 12 months past due \$m</b>	<b>Greater than 1 year past due \$m</b>	<b>Total \$m</b>
Insurance debtors	0.8	0.2	0.4	-	1.4
Reinsurance assets	-	1.5	-	-	1.5

**2.6 Regulatory and legal risk**

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

**2.7 Liquidity risk**

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

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

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

**Maturity**

**31 December 2015**

	<b>0-1 year \$m</b>	<b>1-3 years \$m</b>	<b>3-5 years \$m</b>	<b>&gt;5 yrs \$m</b>	<b>Total \$m</b>
Fixed and floating rate debt securities	113.1	97.1	45.8	21.8	277.8
Cash at bank and in hand	38.1	-	-	-	38.1
Debtors	97.5	-	-	-	97.5
Creditors	(96.2)	-	-	-	(96.2)
<b>Total</b>	<b>152.5</b>	<b>97.1</b>	<b>45.8</b>	<b>21.8</b>	<b>317.2</b>

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2015**

**2. Risk management (continued)**

**31 December 2014**

	<b>0-1 year \$m</b>	<b>1-3 years \$m</b>	<b>3-5 years \$m</b>	<b>&gt;5 yrs \$m</b>	<b>Total \$m</b>
Fixed and floating rate debt securities	74.1	136.2	47.1	4.1	261.5
Cash at bank and in hand	20.8	-	-	-	20.8
Debtors	100.5	-	-	-	100.5
Creditors	(104.1)	-	-	-	(104.1)
<b>Total</b>	<b>91.3</b>	<b>136.2</b>	<b>47.1</b>	<b>4.1</b>	<b>278.7</b>

**2.8 Senior management responsibilities**

Management stretch is the risk that business growth might result in an insufficient or overly complicated management team structure, thereby undermining accountability and control within the syndicate. As the syndicate expands its worldwide business in the UK, US, Europe and Asia, management stretch may make the identification, analysis and control of risks more complex.

On a day-to-day basis, Beazley Furlonge Limited's management structure encourages organisational flexibility and adaptability, while ensuring that activities are appropriately co-ordinated and controlled. By focusing on the needs of their customers and demonstrating both progressive and responsive abilities, staff, management and outsourced service providers are expected to excel in service and quality. Individuals and teams are also expected to transact their activities in an open and transparent way. These behavioural expectations reaffirm low risk tolerance by aligning interests to ensure that routine activities, projects and other initiatives are implemented to benefit and protect resources of both local business segments and the syndicate as a whole.

**2.9 Capital management**

*Capital framework at Lloyd's*

The Society of Lloyd's (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 3623 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 (SCR) 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.

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2015**

**2. Risk management (continued)**

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

*Provision of capital by members*

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

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

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2015**

**3. Segmental analysis**

<b>2015</b>	<b>Life, accident &amp; health \$m</b>	<b>Reinsurance \$m</b>	<b>Unallocated \$m</b>	<b>Total \$m</b>
Gross premiums written	84.2	179.2	-	263.4
Net premiums written	72.2	157.2	-	229.4
Gross earned premiums	89.2	159.8	-	249.0
Outward reinsurance premiums earned	(13.2)	(19.7)	-	(32.9)
Earned premiums, net of reinsurance	76.0	140.1	-	216.1
Gross claims	(55.4)	(106.9)	-	(162.3)
Reinsurers share	10.8	23.8	-	34.6
Claims incurred, net of reinsurance	(44.6)	(83.1)	-	(127.7)
Operating expenses before foreign exchange	(33.0)	(56.1)	-	(89.1)
Technical result before net investment income and foreign exchange	(1.6)	0.9	-	(0.7)
Gain on foreign exchange	-	-	0.3	0.3
Net investment income	-	-	2.1	2.1
Profit for financial year	<b>(1.6)</b>	<b>0.9</b>	<b>2.4</b>	<b>1.7</b>
Claims ratio	59%	59%	-	59%
Expense ratio	43%	40%	-	41%
Combined ratio	102%	99%	-	100%

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

All business was underwritten in the UK.



**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2015**

**3. Segmental analysis (continued)**

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

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

All business was underwritten in the UK.

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2015**

**4. Net operating expenses**

	<b>2015</b>	<b>2014</b>
	<b>\$m</b>	<b>\$m</b>
Acquisition costs	89.9	86.5
Change in deferred acquisition costs	(4.3)	(7.0)
Member's standard personal expenses	2.9	2.8
Administrative expenses	5.8	3.5
Overriding commission	(5.2)	(6.4)
	<u>89.1</u>	<u>79.4</u>

Administrative expenses include:

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Auditor's remuneration:		
Fees payable to the syndicate's auditor for the audit of these annual accounts	20.0	21.6
Fees payable to the syndicate's auditor and its associates in respect of:		
Other services pursuant to legislation	38.2	40.4

Managing agent fees paid to Beazley Furlonge Limited in respect of services provided to the syndicate amounted to \$1.4m (2014: \$1.4m).

**5. Staff costs**

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

	<b>2015</b>	<b>2014</b>
	<b>\$m</b>	<b>\$m</b>
Wages and salaries	1.8	2.3
Short-term incentive payments	2.1	1.9
Social security costs	0.2	0.3
Pension costs	0.2	0.3
	<u>4.3</u>	<u>4.8</u>

**6. Emoluments of the directors of Beazley Furlonge Limited**

The directors of Beazley Furlonge Limited, excluding the active underwriter, received the following aggregate remuneration charged to syndicate 3623 and included within net operating expenses:

	<b>2015</b>	<b>2014</b>
	<b>\$m</b>	<b>\$m</b>
Emoluments and fees	1.0	0.7
Contributions to defined contribution pension schemes	-	-
	<u>1.0</u>	<u>0.7</u>

**7. Active underwriter's emoluments**

The aggregate amount of remuneration paid to and for the benefit of the active underwriter, which was recharged to syndicate 3623 was \$174,979 (2014: \$124,681).

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2015**

**8. Net investment income**

	<b>2015</b>	<b>2014</b>
	<b>\$m</b>	<b>\$m</b>
Interest and dividends on financial investments at fair value through profit or loss	5.1	4.6
Interest on cash and cash equivalents	-	-
Realised losses on financial investments at fair value through profit or loss	(2.1)	(0.9)
Net unrealised fair value losses on financial investments at fair value through profit or loss	(0.7)	(1.8)
<b>Investment income from financial investments</b>	<b>2.3</b>	<b>1.9</b>
Investment management expenses	(0.2)	-
<b>Total net investment income</b>	<b>2.1</b>	<b>1.9</b>

**9. Financial assets and liabilities**

	<b>Market value</b>		<b>Cost</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Financial assets at fair value</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Fixed and floating rate debt securities:				
– Government issued	175.2	154.5	173.8	161.4
– Quasi-government	51.8	46.4	51.5	45.5
– Corporate bonds				
– Investment grade credit	50.8	60.6	50.4	52.7
<b>Total fixed and floating debt securities</b>	<b>277.8</b>	<b>261.5</b>	<b>275.7</b>	<b>259.6</b>
<b>Total financial asset at fair value</b>	<b>277.8</b>	<b>261.5</b>	<b>275.7</b>	<b>259.6</b>

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2015**

**9. Financial assets and liabilities (continued)**

**Fair value measurement**

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

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

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

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

The availability of financial data can vary for different financial assets and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on non-active markets, the determination of fair value requires more judgement. Accordingly the degree of judgement exercised by management in determining fair value is greatest for instruments classified in level 2. The syndicate uses prices and inputs that are current as of the measurement date for valuation of these instruments.

The majority of the syndicate's investments are valued based on quoted market information or other observable market data.

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

<b>2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at fair value</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Fixed and floating rate debt securities:				
- Government issued	175.2	-	-	175.2
- Quasi-government	40.5	11.3	-	51.8
- Corporate bonds				
- Investment grade credit	-	50.8	-	50.8
<b>Total financial assets at fair value</b>	<b>215.7</b>	<b>62.1</b>	<b>-</b>	<b>277.8</b>

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2015**

**9. Financial assets and liabilities (continued)**

<b>2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets at fair value</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Fixed and floating rate debt securities:				
- Government issued	154.5	-	-	154.5
- Quasi-government	46.4	-	-	46.4
- Corporate bonds				
- Investment grade credit	7.4	53.2	-	60.6
<b>Total financial assets at fair value</b>	<b>208.3</b>	<b>53.2</b>	<b>-</b>	<b>261.5</b>

If the inputs used to measure the fair value of an asset or a liability could be categorised in different levels of fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significantly to the entire measurement.

The above qualitative and quantitative disclosure along with the risk management discussions in note 2 enables more accurate evaluation of syndicate's exposure to risk arising from financial instruments.

**10. Other debtors**

	<b>2015</b>	<b>2014</b>
	<b>\$m</b>	<b>\$m</b>
Amount due from 623	0.1	0.3
Sundry debtors	2.5	1.8
<b>Total other debtors</b>	<b>2.6</b>	<b>2.1</b>

The above amounts are due within one year.

**11. Cash and cash equivalent**

	<b>2015</b>	<b>2014</b>
	<b>\$m</b>	<b>\$m</b>
Cash at bank and in hand	38.1	20.8
Short term deposits	1.9	1.1
<b>Total cash and cash equivalents</b>	<b>40.0</b>	<b>21.9</b>

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2015**

**12. Technical provisions**

	<b>Provision for unearned premium \$m</b>	<b>Claims outstanding \$m</b>
<b>Gross technical provisions</b>		
As at 1 January 2015	108.7	296.5
Movement in the provision	14.4	33.3
Exchange adjustments	(0.9)	(2.2)
<b>As at 31 December 2015</b>	<b>122.2</b>	<b>327.6</b>
<b>Reinsurers' share of technical provisions</b>		
As at 1 January 2015	14.1	64.2
Movement in the provision	1.1	6.9
Exchange adjustments	(0.1)	(0.3)
<b>As at 31 December 2015</b>	<b>15.1</b>	<b>70.8</b>
<b>Net technical provisions</b>		
As at 1 January 2015	94.6	232.3
<b>As at 31 December 2015</b>	<b>107.1</b>	<b>256.8</b>
	<b>Provision for unearned premium \$m</b>	<b>Claims outstanding \$m</b>
<b>Gross technical provisions</b>		
As at 1 January 2014	90.9	265.0
Movement in the provision	19.7	35.8
Exchange adjustments	(1.9)	(4.3)
<b>As at 31 December 2014</b>	<b>108.7</b>	<b>296.5</b>
<b>Reinsurers' share of technical provisions</b>		
As at 1 January 2014	14.1	57.3
Movement in the provision	0.3	7.8
Exchange adjustments	(0.3)	(0.9)
<b>As at 31 December 2014</b>	<b>14.1</b>	<b>64.2</b>
<b>Net technical provisions</b>		
As at 1 January 2014	76.8	207.7
<b>As at 31 December 2014</b>	<b>94.6</b>	<b>232.3</b>

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
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**12. Technical provisions (continued)**

**Gross Claims Development**

	<b>2010 ae</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	
12 months		65.5	64.1	68.3	66.6	67.2	
24 months		63.6	71.1	68.5	67.2		
36 months		65.5	69.7	68.6			
48 months		60.8	82.8				
60 months		56.5					
Gross ultimate claims	9,222.6	1,108.0	1,024.1	1,262.5	1,283.6	1,501.1	15,401.9
Less gross claims paid	(8,138.4)	(765.7)	(616.1)	(560.3)	(310.3)	(49.9)	(10,440.7)
Less unearned portion of ultimate losses	-	-	-	-	(12.9)	(730.8)	(743.7)
<b>Gross claims liabilities (100% level)</b>	<b>1,084.2</b>	<b>342.3</b>	<b>408.0</b>	<b>702.2</b>	<b>960.4</b>	<b>720.4</b>	<b>4,217.5</b>
Less group and non group entities	(1,064.8)	(318.3)	(351.7)	(646.6)	(862.6)	(645.9)	(3,889.9)
<b>Gross claims liabilities (3623 share)</b>	<b>19.4</b>	<b>24.0</b>	<b>56.3</b>	<b>55.6</b>	<b>97.8</b>	<b>74.5</b>	<b>327.6</b>

**Net Claims Development**

	<b>2010 ae</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	
12 months		62.7	63.5	67.4	64.7	64.1	
24 months		62.3	68.1	68.0	65.8		
36 months		65.5	67.7	68.0			
48 months		60.0	72.5				
60 months		58.1					
Net ultimate claims	6,583.5	917.2	866.5	1,062.4	1,082.9	1,191.0	11,703.5
Less net claims paid	(5,851.7)	(670.7)	(523.4)	(484.2)	(300.3)	(44.0)	(7,874.3)
Less unearned portion of ultimate losses	-	-	-	-	(18.3)	(628.0)	(646.3)
<b>Net claims liabilities (100% level)</b>	<b>731.8</b>	<b>246.5</b>	<b>343.1</b>	<b>578.2</b>	<b>764.3</b>	<b>519.0</b>	<b>3,182.9</b>
Less group and non group entities	(716.6)	(228.2)	(302.8)	(529.7)	(687.7)	(461.1)	(2,926.1)
<b>Net claims liabilities (3623 share)</b>	<b>15.2</b>	<b>18.3</b>	<b>40.3</b>	<b>48.5</b>	<b>76.6</b>	<b>57.9</b>	<b>256.8</b>

**SYNDICATE 3623**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2015**

**13. Other creditors**

	<b>2015</b>	<b>2014</b>
	<b>\$m</b>	<b>\$m</b>
Amount due to syndicate 2623	1.8	48.0
Net amount due to other group undertakings	56.9	23.0
<b>Total other creditors</b>	<b>58.7</b>	<b>71.0</b>

The above balances are payable within one year.

**14. Post balance sheet events**

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

	<b>2014</b>	<b>2013</b>
	<b>\$m</b>	<b>\$m</b>
2012 Year of account	-	(4.5)
2013 Year of account	(5.2)	-
	<b>(5.2)</b>	<b>(4.5)</b>

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

**15. Adoption of new accounting standard**

The syndicate has prepared its financial statement in accordance with Financial Reporting Standard 102 (FRS 102) for the first time in the financial year ended 31 December 2015. There are no changes on the syndicate's financial position and financial performance.

The last financial statements under the UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2015.

The adoption of FRS 102 also impacted the disclosure requirements for the financial statements and the main impact of these new disclosure requirements include risk management disclosures, fair value levelling disclosures, loss development tables and a change in the basis of preparation of the cash flow.



**SYNDICATE 3623  
MANAGING AGENT CORPORATE INFORMATION  
YEAR ENDED 31 DECEMBER 2015**

**Directors**

D Holt\* - chairman  
M R Bernacki (appointed – 24/04/2015)  
G P Blunden\*  
M L Bride – finance director  
A P Cox  
A Crawford-Ingle\*  
N H Furlonge  
J G Gray (resigned – 11/03/2015)  
D A Horton - chief executive officer  
N P Maidment - active underwriter  
R A W Tolle\*  
C A Washbourn  
K W Wilkins\* (appointed – 02/03/2015)

\* Non-executive director.

**Secretary**

S A Coope

**Managing agent's Registered office**

Plantation Place South  
60 Great Tower Street  
London  
EC3R 5AD

**Registered Number**

01893407

**Auditor**

KPMG LLP  
15 Canada Square  
London  
E14 5GL