

Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.

SYNDICATE 3622
ANNUAL REPORT AND ACCOUNTS
YEAR ENDED
31 DECEMBER 2017

SYNDICATE 3622
31 DECEMBER 2017

CONTENTS

STRATEGIC REPORT OF THE MANAGING AGENT.....	3
MANAGING AGENT'S REPORT.....	5
STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES.....	9
INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SYNDICATE 3622	10
PROFIT OR LOSS ACCOUNT.....	12
STATEMENT OF OTHER COMPREHENSIVE INCOME.....	13
STATEMENT OF CHANGES IN MEMBER BALANCES.....	13
BALANCE SHEET	14
CASH FLOW STATEMENT	15
NOTES TO THE FINANCIAL STATEMENTS	16
MANAGING AGENT CORPORATE INFORMATION.....	31

SYNDICATE 3622

31 DECEMBER 2017

STRATEGIC REPORT OF THE MANAGING AGENT

Overview

Syndicate 3622 ('the syndicate') the underwrites life insurance and reinsurance at Lloyd's.

The capacities of the managed syndicates are as follows:

Syndicate Number	Capacity 2017	Capacity 2016
2623	£1,349.7m	£1,141.9m
623	£304.5m	£257.3m
3623	£215.0m	£185.0m
6107	£46.6	£28.6m
3622	£19.5	£19.0m
6050	£14.6	£12.9m

The result for syndicate 3622 for the year ended 31 December 2017 is a profit of £1,297.8k (2016: loss of £1,545.2k).

Year of account results

The 2015 year of account declares a return on capacity of 2.1%. Due to an adverse underwriting event the 2016 year of account is currently forecast to close with a loss on capacity of 20%. This event has been reserved for on a prudent basis, however, there remains greater uncertainty than usual as to the ultimate result.

Rating environment

Overall, rates on renewal business decreased by 2% in 2017 (2016: decreased by 1%).

Combined ratio

The combined ratio of an insurance provider is a common measure of its operating performance and represents the ratio of its total costs (excluding foreign exchange movements) to total premium income. The syndicate's combined ratio for 2017 was 91% (2016: 112%).

Claims

The claims ratio has decreased to 59% (2016: 78%).

Net operating expenses

Net operating expenses, including business acquisition costs and administrative expenses were £4,899.2k (2016: £5,776.2k). The expense ratio for 2017 is 32% (2016: 34%). The breakdown of these costs is shown below:

	2017	2016
	£'000	£'000
Brokerage costs	3,026.2	3,341.1
Other acquisition costs	563.5	635.0
Total acquisition costs	3,589.7	3,976.1
Administrative and other expenses	1,309.5	1,800.1
Net operating expenses*	4,899.2	5,776.2

* A further breakdown of net operating expenses can be found in note 4.

Brokerage costs as a percentage of net earned premiums, are approximately 20% (2016: 20%). 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.

SYNDICATE 3622

31 DECEMBER 2017

STRATEGIC REPORT OF THE MANAGING AGENT (CONTINUED)

Reinsurance

In 2017, the amount spent on outward reinsurance was £371.1k (2016: £557.9k). 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.

Solvency II

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

Solvency capital requirement

On 10 December 2015 Beazley received internal model approval from the Central Bank of Ireland (the group supervisor under Solvency II). The current SCR has been established using our Solvency II approved internal model which has been run within the regime as prescribed by Lloyd's. In order to perform the capital assessment, we have made significant investments in both models and process:

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

Outlook

The 2015 year of account declares a return on capacity of 2.1%. Due to an adverse underwriting event the 2016 year of account currently forecasts closing with a loss on capacity of 20%. The 2017 year of account is developing in line with expectation at this early stage.



N P Maidment

Active underwriter

15 March 2018

SYNDICATE 3622

31 DECEMBER 2017

MANAGING AGENT'S REPORT

The managing agent presents its report for the year ended 31 December 2017.

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 activity of syndicate 3622 is the transaction of life business at Lloyd's.

Business review

A review of the syndicate's activities is included in the strategic report.

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.

2017 in review

During the year a contingency plan for the UK's exit from the European Union ('Brexit') was produced setting out a central plan and testing it against a range of potential outcomes.

The main concern for the syndicate is the ability to offer insurance to European clients following Brexit. The central plan is to be able to offer policies, through the subsidiary that Lloyd's is in the process of establishing in Brussels. A Brexit working group, led by Beazley plc's chief risk officer, was established to oversee the syndicates' response to Brexit and this working group will remain in place until the conclusion of the Brexit process.

We facilitated a discussion of emerging and strategic risks at the board strategy day in May. The discussions focused on five topics, namely; developments in the US which is our largest market, developments of broker facilities as a method of placement, preparing for the office of the future, insuring uninsured risks, and developments at Lloyd's. The analysis performed by board members and members of the executive committee provided an opportunity to test how Beazley's strategy may have to evolve if these risks were to crystallise.

The latest chief risk officer report has confirmed that the control environment has not identified any significant failings or weaknesses in key processes and that the syndicate is operating within risk appetite as at 31 December 2017.

Preparing for the future

The syndicate's current risk management framework has been successfully operating over the last five years. Although the framework has continued to enhance during that period, the syndicate has undertaken a detailed review in the second half of 2017 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. Changes will be implemented in the first half of 2018 with the aim of ensuring that the next evolution of the risk management framework is up to the challenge of helping the syndicate navigate the next five years.

Risk management strategy

The Beazley Furlonge Limited board has delegated executive oversight of the risk management department to the Beazley plc 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 committee.

Clear roles, responsibilities and accountabilities are in place for the management of risks and controls, and all employees are aware of the role they play in all aspects of the risk management process, from identifying

SYNDICATE 3622

31 DECEMBER 2017

MANAGING AGENT'S REPORT (continued)

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.

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

The syndicate 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 (53 risk events grouped into eight risk categories: insurance, market, credit, liquidity, operational, regulatory and legal, group and strategic), the risk appetite set by the 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 Beazley plc remuneration committee and the ORSA report.

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

The risks to financial performance

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

Insurance risk

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

SYNDICATE 3622

31 DECEMBER 2017

MANAGING AGENT'S REPORT (continued)

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

- Reserve risk: the syndicate 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 syndicates use 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 financial performance of the syndicate.

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 performance of the syndicate would be affected in the event of making strategic decisions that do not add value. The company 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);
- Environment: There is a risk that the chosen strategy cannot be executed because of the current environmental conditions within which the syndicate operates, thereby delaying the timing of the strategy;
- Communication: Having the right strategy and environment is of little value if it is not communicated internally so that everybody is heading in the same direction, or if key external stakeholders are not aware of the company'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 performance of the syndicates. 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 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 the syndicate undertakes a corporate transaction which does not return the expected value. 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.

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 the syndicates' operations, and is monitored by the operations committee;
- Credit risk: the syndicate has credit risk to its reinsurers, brokers and coverholders of which the reinsurance asset is the largest. The syndicate's underwriting committee monitors this risk;
- Regulatory and legal risk: This is the risk that the syndicate does not operate in line with the relevant regulatory framework in the territories where they operate. 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 catastrophic event. The syndicate's investment committee monitors this risk which, given the nature of the asset portfolio, is currently small; and
- Group risk: The structure of the 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.

SYNDICATE 3622
31 DECEMBER 2017

MANAGING AGENT'S REPORT (continued)

Anti-bribery and corruption risk

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

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

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 31.

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

By order of the board



.....
M L Bride
Finance director

15 March 2018

SYNDICATE 3622
31 DECEMBER 2017

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

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

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

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

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

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

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

By order of the board



.....
M L Bride
Finance director

15 March 2018

SYNDICATE 3622

31 DECEMBER 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SYNDICATE 3622

Opinion

We have audited the financial statements of Syndicate 3622 for the year ended 31 December 2017 which comprise the Profit or Loss account, Statement of other comprehensive income, Balance Sheet, Statement of Changes in Members' Balances, Cash Flow Statement, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

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

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the annual accounts. We have nothing to report in these respects.

Report of the directors of the Managing Agent

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Responsibilities of the directors of the Managing Agent

As explained more fully in their statement set out on page 9, the directors of the Managing Agent are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

SYNDICATE 3622
31 DECEMBER 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SYNDICATE 3622

Auditor's responsibilities

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

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

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

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



Rajan Thakrar (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL
15 March 2018

SYNDICATE 3622
PROFIT OR LOSS ACCOUNT
YEAR ENDED 31 DECEMBER 2017

	<u>Notes</u>	<u>2017</u> <u>£'000</u>	<u>2016</u> <u>£'000</u>
Gross premiums written		17,720.1	17,015.8
Outward reinsurance premiums		(371.1)	(557.9)
Net premiums written		17,349.0	16,457.9
Change in the gross provision for unearned premiums	12	(1,864.6)	522.6
Change in the provision for unearned premiums, reinsurers' share	12	(12.2)	(3.2)
Change in the net provision for unearned premiums		(1,876.8)	519.4
Earned premiums, net of reinsurance		<u>15,472.2</u>	<u>16,977.3</u>
Allocated investment return transferred from the non-technical account	8	7.4	8.5
Gross claims paid		(7,682.3)	(7,151.4)
Reinsurers' share of claims paid		-	-
Claims paid net of reinsurance		(7,682.3)	(7,151.4)
Change in the gross provision for claims	12	(1,422.3)	(5,766.7)
Change in the provision for claims, reinsurers' share	12	(0.8)	(275.4)
Change in the net provision for claims		(1,423.1)	(6,042.1)
Claims incurred, net of reinsurance		<u>(9,105.4)</u>	<u>(13,193.5)</u>
Net operating expenses	4	(4,899.2)	(5,776.2)
Balance on the technical account		<u>1,475.0</u>	<u>(1,983.9)</u>
Investment income	8	7.4	8.5
Allocated investment return transferred to general business technical account		(7.4)	(8.5)
(Loss) / gain on foreign exchange		(177.2)	438.7
Profit /(Loss) for the financial year		<u>1,297.8</u>	<u>(1,545.2)</u>

All of the above operations are continuing.

The notes on pages 16 to 30 form part of these financial statements.

SYNDICATE 3622
STATEMENT OF OTHER COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2017

	2017 £'000	2016 £'000
Profit /(loss) for the financial year	1,297.8	(1,545.2)
Foreign exchange gain on brought forward reserves	150.5	123.5
Total comprehensive income/(loss) in the year	<u>1,448.3</u>	<u>(1,421.7)</u>

SYNDICATE 3622
STATEMENT OF CHANGES IN MEMBER BALANCES
31 DECEMBER 2017

	2017 £'000	2016 £'000
Member balance brought forward at 1 January	(3,217.1)	(2,682.6)
Total comprehensive income for the year	1,448.3	(1,421.7)
(Payment of profit)/recovery of loss to member personal reserve fund	(2,448.7)	887.2
Member balance carried forward at 31 December	<u>(4,217.5)</u>	<u>(3,217.1)</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.

The notes on pages 16 to 30 form part of these financial statements.

**SYNDICATE 3622
BALANCE SHEET
AS AT 31 DECEMBER 2017**

ASSETS	Notes	2017 £'000	2016 £'000
Financial assets at fair value	9	146.7	154.0
Reinsurers' share of technical provisions			
Provision for unearned premiums, reinsurers' share	12	64.6	75.8
Claims outstanding, reinsurers' share	12	348.0	353.1
		<u>412.6</u>	<u>428.9</u>
Debtors			
Debtors arising out of direct insurance operations		11,768.4	8,956.1
Debtors arising out of reinsurance operations		2,058.5	(0.6)
Other debtors	10	33.2	30.1
		<u>13,860.1</u>	<u>8,985.6</u>
Cash at bank and in hand	11	8,378.3	7,138.3
Prepayments			
Deferred acquisition costs		1,778.4	1,699.0
Prepayments and accrued interest		20.9	-
TOTAL ASSETS		<u><u>24,597.0</u></u>	<u><u>18,405.8</u></u>
LIABILITIES, CAPITAL AND RESERVES			
Capital and reserves			
Member's balances attributable to underwriting participations		(4,217.5)	(3,217.1)
Technical provisions			
Provision for unearned premiums	12	8,632.3	6,850.6
Claims outstanding	12	12,814.0	11,788.1
		<u>21,446.3</u>	<u>18,638.7</u>
Creditors			
Creditors arising out of direct insurance operations		168.3	277.3
Creditors arising out of reinsurance operations		1.3	-
Other creditors	13	7,196.4	2,642.6
		<u>7,366.0</u>	<u>2,919.9</u>
Accruals and deferred income		2.2	64.3
TOTAL LIABILITIES, CAPITAL AND RESERVES		<u><u>24,597.0</u></u>	<u><u>18,405.8</u></u>

The notes on pages 16 to 30 form part of these financial statements.

The syndicate annual accounts on pages 12 to 30 were approved by the board of Beazley Furlonge Limited on 15 March 2018 and were signed on its behalf by


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


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

SYNDICATE 3622
CASH FLOW STATEMENT
YEAR ENDED 31 DECEMBER 2017

	<u>Notes</u>	<u>2017</u> <u>£'000</u>	<u>2016</u> <u>£'000</u>
RECONCILIATION OF PROFIT/LOSS FOR THE YEAR TO NET CASH INFLOW FROM OPERATING ACTIVITIES			
Profit /(loss) for the financial year		1,297.8	(1,545.2)
Increase in net technical provisions		2,823.9	6,822.8
(Increase) in debtors		(4,895.5)	(2,769.6)
Increase in creditors		4,384.0	1,535.5
Translation differences		331.5	123.5
(Increase) in deferred acquisition costs		(79.4)	(49.2)
Investment return		(7.4)	(8.5)
Net cash generated from operating activities		<u>3,854.9</u>	<u>4,109.3</u>
Net purchases/sales of investments		7.3	(75.9)
Cash received from investment return		7.4	8.5
Net cash generated from investing activities		<u>14.7</u>	<u>(67.4)</u>
Transfer to member in respect of underwriting participations		(2,448.7)	887.2
Net cash from financing activities		<u>(2,448.7)</u>	<u>887.2</u>
Net increase/(decrease) in cash and cash equivalents		1,420.9	4,929.1
Cash and cash equivalents at the beginning of the year		7,138.3	2,209.2
Effect of exchange rate changes on cash and cash equivalents		(180.9)	-
Cash and cash equivalents at the end of the year	11	<u>8,378.3</u>	<u>7,138.3</u>

The notes on pages 16 to 30 form part of these financial statements.

SYNDICATE 3622

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2017

1. Accounting policies

Basis of preparation

Syndicate 3622 ('the syndicate') comprises a member of the Society of Lloyd's that underwrites insurance business in the London Market. The address of the syndicate's managing agent is given on page 31.

These syndicate annual accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the Regulations'), the applicable Accounting Standards in the United Kingdom and the Republic of Ireland, Financial Reporting Standard 102 'FRS 102' and the applicable Accounting Standard on insurance contracts Financial Reporting Standard 103 'FRS 103'.

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

Use of estimates and judgements

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

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

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

The most critical estimate included within the syndicate's financial position is the estimate for losses incurred but not reported. The total estimate as at 31 December 2017 is included within claims outstanding in the balance sheet.

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

(a) Premiums

Gross premiums written comprise premiums on contracts 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.

SYNDICATE 3622
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

(c) Claims (continued)

The provision for claims comprises amounts set aside for claims advised and IBNR. The IBNR amount is based on estimates calculated using widely accepted statistical techniques (e.g. chain ladder) which are reviewed annually by external consulting actuaries. The techniques generally use projections, based on past experience of the development of claims over time, to form a view on the likely ultimate claims to be experienced. For more recent underwriting, regard is given to the variations in the business portfolio accepted and the underlying terms and conditions. Thus, the critical assumptions used when estimating claims provisions are that the past experience is a reasonable predictor of likely future claims development and that the rating and other models used to analyse current business are a fair reflection of the likely level of ultimate claims to be incurred.

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

(d) Liability adequacy testing

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the claims liabilities net of deferred acquisition cost (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) Taxation

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

No provision has been made for any United States federal income tax payable on underwriting results or investment earnings.

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

(h) Ceded reinsurance

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

Any benefits to which the syndicate is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers and include reinsurers' share of provisions for claims. These balances are based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts having regard to the reinsurance programme in place for

SYNDICATE 3622

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED 31 DECEMBER 2017

1. Accounting policies (continued)

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.

(i) Pension costs

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

(j) 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.

(k) Other debtors

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

(l) Other creditors

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

(m) Cash at bank and in hand

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

(n) Related party transactions

As the syndicate is wholly owned by Beazley plc, 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.

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.

We manage and model these four elements in the following three categories: attritional claims, large claims and catastrophe events.

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 underwriting committee.

SYNDICATE 3622
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2017

2. Risk management (continued)

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. Stress and scenario test are also run using these models.

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 2017, the normal maximum line that any one underwriter could commit the syndicate to was \$25.0m. In most cases, maximum lines for classes of business were much lower than this.

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

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

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

The following table provides a breakdown of gross premiums written by underwriting team.

	<u>2017</u>	<u>2016</u>
Life insurance	80%	91%
Life reinsurance	20%	9%
Total	100%	100%

b) Reinsurance risk

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

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

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

c) Claims management risk

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

SYNDICATE 3622
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2017

2. Risk management (continued)

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

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:

Sensitivity to insurance risk (claims reserves)	5% increase in claims reserves		5% decrease in claims reserves	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Impact on profit and equity	(623.3)	(571.8)	623.3	571.8

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

	2017	2016
	%	%
Europe	74	71
Other	26	29
Total	100	100

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. 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.

SYNDICATE 3622
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2017

2. Risk management (continued)

Foreign exchange risk

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

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

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

31 December 2017	US \$ £'000	CAD \$ £'000	EUR € £'000	Subtotal £'000	UK £ £'000	Total £'000
Total assets	9,706.9	9.6	953.5	10,670.0	13,927.0	24,597.0
Total liabilities	(8,204.3)	(0.1)	(196.0)	(8,400.4)	(20,414.1)	(28,814.5)
Net assets	1,502.6	9.5	757.5	2,269.6	(6,487.1)	(4,217.5)

31 December 2016	US \$ £'000	CAD \$ £'000	EUR € £'000	Subtotal £'000	UK £ £'000	Total £'000
Total assets	16,189.3	11.8	927.4	17,128.5	1,277.3	18,405.8
Total liabilities	(13,383.5)	(1.6)	(537.1)	(13,922.2)	(7,700.7)	(21,622.9)
Net assets	2,805.8	10.2	390.3	3,206.3	(6,423.4)	(3,217.1)

Sensitivity analysis

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

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

	Impact on profit for the year ended		Impact on net assets	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Sterling weakens 30% against other currencies	680.9	961.9	680.9	961.9
Sterling weakens 20% against other currencies	453.9	641.3	453.9	641.3
Sterling weakens 10% against other currencies	227.0	320.6	227.0	320.6
Sterling strengthens 10% against other currencies	(227.0)	(320.6)	(227.0)	(320.6)
Sterling strengthens 20% against other currencies	(453.9)	(641.3)	(453.9)	(641.3)
Sterling strengthens 30% against other currencies	(680.9)	(961.9)	(680.9)	(961.9)

SYNDICATE 3622

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED 31 DECEMBER 2017

2. Risk management (continued)

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 financial assets held by the syndicate at 31 December 2017 and 31 December 2016 had a duration of less than one year.

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, will not result in changes in the capital value of deposits held. The impact of movements in interest rates was not material to the fair value of the syndicate's financial assets at 31 December 2017 or 31 December 2016.

Price risk

Financial assets are recognised on the balance sheet at their fair value are not susceptible to losses due to adverse changes in prices. This is referred to as price risk.

Financial assets include fixed term money market deposits, that invest in 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 and foreign exchange.

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, and has therefore taken significant steps to mitigate the impact of business interruption which could follow a variety of events, including the loss of key individuals and facilities. The syndicate operates a formal disaster recovery plan which, in the event of an incident, allows the movement of critical operations to an alternative location within 24 hours.

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

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

- Solvency capital requirement (SCR) 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;
- term deposits and cash at bank and in hand.

SYNDICATE 3622
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2017

2. Risk management (continued)

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.

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 £'000	Tier 2 £'000	Tier 3 £'000	Tier 4 £'000	Unrated £'000	Total £'000
31 December 2017						
Financial assets at fair value	-	-	-	-	146.7	146.7
Reinsurance debtors	2,058.5	-	-	-	-	2,058.5
Reinsurers' share of outstanding claims	348.0	-	-	-	-	348.0
Cash at bank and in hand	8,378.3	-	-	-	-	8,378.3
Total	10,784.8	-	-	-	146.7	10,931.5

	Tier 1 £'000	Tier 2 £'000	Tier 3 £'000	Tier 4 £'000	Unrated £'000	Total £'000
31 December 2016						
Financial assets at fair value	154.0	-	-	-	-	154.0
Reinsurance debtors	(0.6)	-	-	-	-	(0.6)
Reinsurers' share of outstanding claims	353.1	-	-	-	-	353.1
Cash at bank and in hand	7,138.3	-	-	-	-	7,138.3
Total	7,644.8	-	-	-	-	7,644.8

Based on all evidence available, debtors arising out of insurance operations have not been impaired and no impairment provision has been recognised in respect of these assets. No financial assets held at year end were impaired.

SYNDICATE 3622
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2017

2. Risk management (continued)

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

	0-3 months past due £'000	3-6 months past due £'000	6-12 months past due £'000	Greater than 12 months past due £'000	Total £'000
31 December 2017					
Insurance debtors	-	-	-	-	-
31 December 2016					
Insurance debtors	83.6	32.2	153.4	-	269.2

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.

At both 31 December 2017 and 31 December 2016, all amounts included in financial assets, debtors and creditors were expected to have a maturity date of less than one year from the relevant balance sheet date.

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.

SYNDICATE 3622
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2017

2. Risk management (continued)

2.9 Capital management

Capital framework at Lloyd's

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

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level respectively, not at syndicate level. Accordingly the capital requirement in respect of syndicate 3622 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A syndicate 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) and/or as the member's share of the Solvency II members' balances on each syndicate on which it participates.

3. Segmental analysis

All risks were underwritten in the UK and relate solely to life business.

SYNDICATE 3622
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2017

4. Net operating expenses

	2017	2016
	£'000	£'000
Acquisition costs	3,691.2	3,886.6
Change in deferred acquisition costs	(101.5)	89.4
Member's standard personal expenses	243.3	239.4
Administrative expenses	1,066.2	1,560.8
	<u>4,899.2</u>	<u>5,776.2</u>

Administrative expenses include:

	2017	2016
	£'000	£'000
Auditor's remuneration:		
Fees payable to the syndicate's auditor for the audit of these annual accounts	13.1	13.1
Fees payable to the syndicate's auditor and its associates in respect of:		
Other services pursuant to legislation	35.0	34.2

Managing agent fees paid to Beazley Furlonge Limited in respect of services provided to the syndicate amounted to £117,000 (2016: £114,000).

5. Staff costs

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

	2017	2016
	£'000	£'000
Wages and salaries	485.1	328.2
Short-term incentive payments	307.7	390.0
Social security costs	146.5	41.2
Pension costs	122.0	32.8
	<u>1,061.3</u>	<u>792.2</u>

Staff costs have increased from 2016 due to a reallocation of additional staff benefits within the net operating expenses. This reallocation has no impact on the total net operating expenses (note 4) or the profit of the syndicate.

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 3622 and included within net operating expenses:

	2017	2016
	£'000	£'000
Emoluments and fees	110.6	149.9
Contributions to defined contribution pension schemes	1.7	2.4
	<u>112.3</u>	<u>152.3</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 3622 was £18,235 (2016: £30,151).

SYNDICATE 3622
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2017

8. Net investment income

	2017 £'000	2016 £'000
Interest and dividends on financial investments at fair value through profit or loss	9.4	6.6
Interest on cash and cash equivalents	(2.0)	1.9
Investment income from financial investments	7.4	8.5
Total net investment income	7.4	8.5

9. Financial assets

	Market value		Cost	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Financial assets at fair value				
Overseas cash fund and deposit	146.7	154.0	146.7	154.0
	146.7	154.0	146.7	154.0

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

Fair value measurement

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.

All of the syndicate's investments are valued based on quoted market information. The financial assets carried at fair value are all level 1 financial assets as determined by the fair value hierarchy. There were no transfers in either direction between level 1, level 2 and level 3 in either 2017 or 2016.

10. Other debtors

	2017 £'000	2016 £'000
Sundry debtors	33.2	30.1
Total debtors	33.2	30.1

SYNDICATE 3622
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2017

11. Cash and cash equivalents

	2017 £'000	2016 £'000
Cash at bank and in hand	8,378.3	7,138.3
Total cash and cash equivalents	8,378.3	7,138.3

12. Technical provisions

	Provision for unearned premium £'000	Claims outstanding £'000
Gross technical provisions		
As at 1 January 2017	6,850.6	11,788.1
Movement in the provision	1,864.6	1,422.3
Exchange adjustments	(82.9)	(396.4)
As at 31 December 2017	8,632.3	12,814.0
Reinsurers' share of technical provisions		
As at 1 January 2017	75.8	353.1
Movement in the provision	(12.2)	(0.8)
Exchange adjustments	1.0	(4.3)
As at 31 December 2017	64.6	348.0
Net technical provisions		
As at 1 January 2017	6,774.8	11,435.0
As at 31 December 2017	8,567.7	12,466.0

	Provision for unearned premium £'000	Claims outstanding £'000
Gross technical provisions		
As at 1 January 2016	6,913.8	5,147.9
Movement in the provision	(522.6)	5,766.7
Exchange adjustments	459.4	873.5
As at 31 December 2016	6,850.6	11,788.1
Reinsurers' share of technical provisions		
As at 1 January 2016	75.7	599.0
Movement in the provision	(3.2)	(275.4)
Exchange adjustments	3.3	29.5
As at 31 December 2016	75.8	353.1
Net technical provisions		
As at 1 January 2016	6,838.1	4,548.9
As at 31 December 2016	6,774.8	11,435.0

SYNDICATE 3622
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2017

12. Technical provisions (continued)

Gross Claims Development

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
	%	%	%	%	%	%	%	%	%	%	
12 months		51.2	50.9	59.3	62.0	63.0	64.9	65.0	89.3	60.1	
24 months		51.1	49.8	59.5	62.8	68.5	63.8	62.3	85.0		
36 months		48.0	47.8	63.5	58.7	64.2	52.8	61.8			
48 months		46.1	45.8	61.3	55.0	59.2	49.5				
60 months		45.1	46.2	60.1	53.2	54.8					
72 months		45.0	46.3	60.1	50.8						
84 months		45.1	46.4	57.7							
96 months		45.1	46.4								
108 months		45.1									
Gross claims liabilities (Beazley managed level)			89.6	100.8	120.6	224.1	322.4	590.1	861.9	754.4	3,063.9
Less non 3622 share			(89.6)	(100.7)	(120.6)	(224.1)	(322.2)	(589.3)	(853.6)	(751.0)	(3,051.1)
Gross claims liabilities (3622 share)			0.0	0.1	0.0	0.0	0.2	0.8	8.3	3.4	12.8

*The numbers above are presented in GBP £ms

Net Claims Development

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
	ae %	%	%	%	%	%	%	%	%	%	
12 months		49.7	49.6	58.5	59.9	64.2	64.0	65.7	92.2	62.5	
24 months		47.6	48.7	59.7	62.1	71.4	63.5	63.6	89.7		
36 months		44.3	50.6	65.8	60.4	67.8	53.9	65.1			
48 months		44.1	48.9	63.6	56.5	62.3	52.3				
60 months		43.0	49.3	62.3	54.7	59.9					
72 months		43.0	49.4	62.3	54.4						
84 months		43.0	49.5	62.3							
96 months		43.0	49.5								
108 months		43.0									
Net ultimate claims											
Less net claims paid											
Less unearned portion of ultimate losses											
Net claims liabilities (Beazley managed level)			73.9	84.8	108.6	180.4	255.1	443.4	664.1	532.1	2,342.4
Less non 3622 share			(73.9)	(84.7)	(108.6)	(180.4)	(254.9)	(442.7)	(655.8)	(528.9)	(2,329.9)
Net claims liabilities (3622 share)			0.0	0.1	0.0	0.0	0.2	0.7	8.3	3.2	12.5

*The numbers above are presented in GBP £ms

SYNDICATE 3622
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED 31 DECEMBER 2017

13. Other creditors

	2017 £'000	2016 £'000
Net amount due to other group undertakings	7,196.4	2,642.6
Total creditors	7,196.4	2,642.6

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.

	2017 £'000	2016 £'000
2014 Year of account	-	2,448.6
2015 Year of account	364.0	-
	364.0	2,448.6

SYNDICATE 3622
MANAGING AGENT CORPORATE INFORMATION
YEAR ENDED 31 DECEMBER 2017

Directors

D Holt* - chairman
M R Bernacki
G P Blunden*
M L Bride – finance director
A P Cox
A Crawford-Ingle*
N H Furlonge*
D A Horton - chief executive officer
N P Maidment - active underwriter
R Stuchbery*
D L Roberts* (appointed 20/10/2017)
C A Washbourn
K W Wilkins*

* Non-executive director.

Company secretary

C P Oldridge

Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Banker

Deutsche Bank AG
6 Bishopsgate
London
EC2N 4DA

Managing agent's registered office

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

Registered number

01893407