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**SYNDICATE 3622**  
**ANNUAL REPORT AND ACCOUNTS**  
**YEAR ENDED**  
**31 DECEMBER 2018**

**SYNDICATE 3622**  
**31 DECEMBER 2018**

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# SYNDICATE 3622

## 31 DECEMBER 2018

### STRATEGIC REPORT OF THE MANAGING AGENT

#### Overview

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

The capacities of the managed syndicates are as follows:

Syndicate Number	Capacity 2018	Capacity 2017
2623	£1,554.0m	£1,349.7m
623	£351.0m	£304.5m
3623	£213.0m	£215.0m
6107	£55.1m	£46.6m
<b>3622</b>	<b>£23.0m</b>	<b>£19.5m</b>
5623	£22.5m	-
6050	-	£14.6m

The result for syndicate 3622 for the year ended 31 December 2018 is a profit of £2,091.9k (2017: £1,297.8k).

#### Year of account results

The 2016 year of account declares a loss on capacity of 0.5%. The 2017 year of account currently forecasts closing with a return on capacity of 2%.

#### Rating environment

Overall rates on renewal business remained flat in 2018 (2017: decreased by 2%).

#### Combined ratio

The combined ratio of an insurance provider is a common measure of its operating performance and represents the ratio of its total costs (excluding foreign exchange movements) to net earned premium. The syndicate's combined ratio for 2018 was 89% (2017: 91%).

#### Claims

The claims ratio of an insurance provider is a measure of the claims experience and represents the ratio of its net insurance claims to net earned premium. The claims ratio has decreased to 54% (2017: 59%).

#### Net operating expenses

Net operating expenses, including business acquisition costs and administrative expenses were £5,759.7k (2017: £4,899.2k). The expense ratio of an insurance provider is a measure of the net operating expenses to net earned premium. The expense ratio for 2018 is 35% (2017: 32%). The breakdown of these costs is shown below:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Brokerage costs	3,737.9	3,026.2
Other acquisition costs	770.7	563.5
<b>Total acquisition costs</b>	<b>4,508.6</b>	<b>3,589.7</b>
Administrative and other expenses	1,251.1	1,309.5
<b>Net operating expenses*</b>	<b>5,759.7</b>	<b>4,899.2</b>

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

Brokerage costs as a percentage of net earned premiums, are approximately 23% (2017: 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 2018**

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

#### **Reinsurance**

In 2018, the amount spent on outward reinsurance was £923.8k (2017: £371.1k). 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**

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 2017 year of account currently forecasts closing with a mid point return on capacity of 2.0%. The 2018 year of account has been impacted by an adverse underwriting event. This event has been reserved for on a prudent basis, however, there remains greater uncertainty than usual as to the ultimate result.

.....  
**A P Cox**

Active underwriter

08 March 2019

# **SYNDICATE 3622**

## **31 DECEMBER 2018**

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

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

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS102') and Financial Reporting Standard 103: Insurance Contracts ('FRS103').

#### **Principal 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 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.

#### **2018 in review**

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

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

#### **External change**

The main political change that the managing agent continued to navigate in 2018 was Brexit, although this is not a significant risk as only around 6% of the syndicate's premium originates from the EU. Despite the uncertainty throughout the year, a cross functional working group has prepared the syndicate for the worst case scenario of a hard Brexit, which is where the UK leaves the EU without agreements and a transitional period. From an underwriting perspective, we have entered into a strategic quota share reinsurance partnership with Swiss Life (Luxembourg) SA for clients based in the EU and EEA. This arrangement will come into effect from 1st February 2019 and will cater for any EU and EEA Life business that comes into the Beazley team at Lloyd's. From a staff perspective, we continue to work with the 40 EU nationals (3% of employees) who are working in our UK offices to minimise the impact of Brexit on them. As such, the managing agent has successfully navigated the key risks of a potential hard Brexit. Since such a hard Brexit is not certain, our preparations have also considered two other outcomes in order to ensure that the syndicate is able to operate in every eventuality; namely 1) some form of transitional arrangement or 2) the UK decides not to leave the EU prior to Brexit.

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

We have included a new section within this risk management report (see page 9) covering the impact of climate change on the syndicate. We explain how climate change could affect the syndicate's own risk profile, highlighting how we respond to these risks. These include the performance of our insurance contracts, the investments we make, the office spaces we occupy, the companies we partner with and our travel footprint.

# **SYNDICATE 3622**

## **31 DECEMBER 2018**

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

#### **Internal change**

The board undertook a regular review of its strategy which culminated in wide ranging discussions, supported by Beazley Furlonge Limited board members, at its strategy day in May. As a result, four new strategic initiatives were identified to support our vision. The first, Beazley Digital, looks at how we can use technology to transact and process smaller, more simple, business. The second, faster smarter underwriting, aims to equip underwriters with data and analytics to better support the underwriting of larger, more complex, business. The third is about getting closer to our clients to better understand how we can support their risk management either with existing insurance products or by designing innovative new products to tackle a risk that our clients are worrying about. Finally, the fourth initiative is how we can do more in the London Market, particularly because this is the core part of our risk profile.

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

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

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

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

#### **Risk management philosophy**

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

#### **Risk management strategy**

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

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

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

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## 31 DECEMBER 2018

### MANAGING AGENT'S REPORT (continued)

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

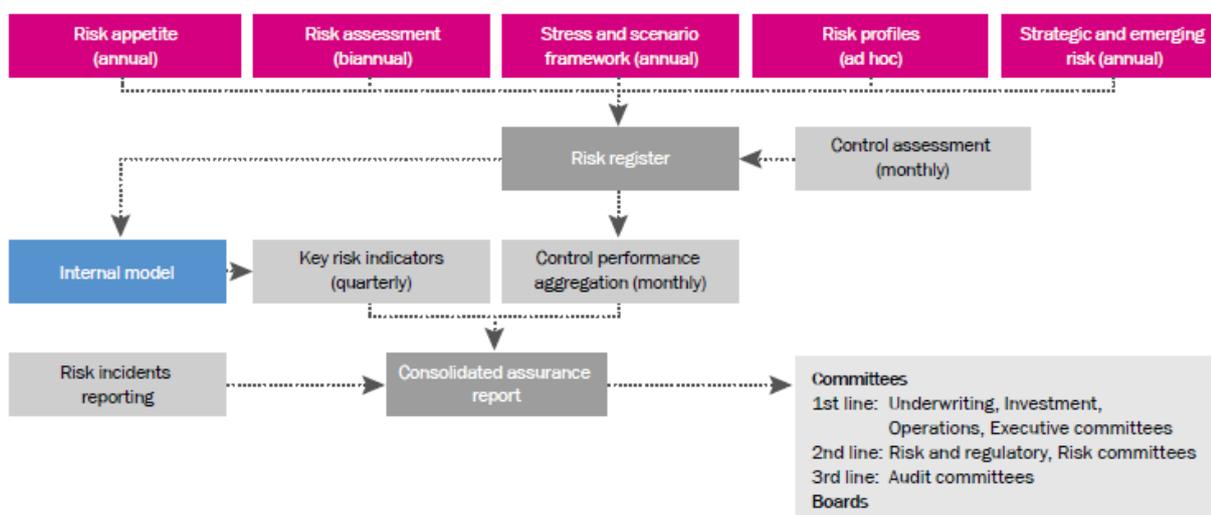
- risk management is a part of the wider governance environment;
  - techniques employed are fit for purpose and proportionate to the business;
  - risk management is a core capability for all employees;
  - risk management is embedded in day-to-day activities;
  - there is a culture of risk awareness,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

### Risk management framework

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



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



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

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## 31 DECEMBER 2018

### MANAGING AGENT'S REPORT (continued)

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

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

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

#### The risks to financial performance

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

#### Insurance risk

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

- **Reserve risk:** The syndicate has a consistent 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 managing agent uses a range of techniques to mitigate this risk including a detailed reserving process which compares, claim by claim, estimates established by the claims team with a top down statistical view developed by the actuarial team. A suite of metrics is also used to ensure consistency each year.
- **Single risk losses:** Given the size of policy limits offered on each risk and the reinsurance purchased, 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 managing agent on behalf of the syndicate mitigates this risk through the combination of recommendations and challenge from non-executive directors, debate at the Beazley plc executive committee and input from the strategy and performance group (a group of approximately 30+ senior individuals from across different disciplines at Beazley).
- **Environment:** There is a risk that the chosen strategy cannot be executed because of the current environmental conditions within which the syndicate operates, thereby delaying the timing of the strategy.
- **Communication:** Having the right strategy and environment is of little value if it is not communicated internally so that the whole group is heading in the same direction, or if key external stakeholders are not aware of the syndicate's progress against its strategy.
- **Senior management performance:** There is a risk that senior management could be overstretched or could fail to perform, which would have a detrimental impact on the syndicate's performance. The performance of the senior management team is monitored by the chief executive and talent management team and overseen by the Beazley plc nomination committee.
- **Reputation:** Although reputational risk is a consequential risk, i.e. it emerges upon the occurrence of another risk manifesting, it has the potential to have a significant impact on an organisation. The syndicate expects staff working on their behalf to act honourably by doing the right thing.
- **Flight:** There is a risk that the managing agent could be unable to deliver its strategy due to the loss of key personnel. The syndicate has controls in place to identify and monitor this risk, for example, through succession planning.

# SYNDICATE 3622

## 31 DECEMBER 2018

### MANAGING AGENT'S REPORT (continued)

- **Crisis management:** This is the risk caused by the destabilising effect of the syndicate having to deal with a crisis and is mitigated by having a detailed crisis management plan.
- **Corporate transaction:** There is a risk that the syndicate could undertake a corporate transaction which did not return the expected value to shareholders. This risk is mitigated through the due diligence performed, the financial structure of transactions and the implementation activity. Under the environmental risk heading, the board identifies and analyses emerging and strategic risk on an annual basis for discussion at the board strategy day in May.

#### Other risks

The remaining six risk categories monitored by the board are:

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

#### Anti-bribery and corruption risk

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

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

#### Climate change risk

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

## SYNDICATE 3622

### 31 DECEMBER 2018

#### MANAGING AGENT'S REPORT (continued)

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

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

# **SYNDICATE 3622**

## **31 DECEMBER 2018**

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

#### **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 34.

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

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

#### **Auditor**

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

On behalf of the board

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**M L Bride**  
Finance director

8 March 2019

# **SYNDICATE 3622**

## **31 DECEMBER 2018**

### **STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES**

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

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

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

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

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

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

On behalf of the board

.....  
**M L Bride**  
Finance director

8 March 2019

# **SYNDICATE 3622**

## **31 DECEMBER 2018**

### **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 2018 which comprise the Statement of Profit or Loss: Technical account – General business, Statement of Profit or Loss: non-technical account, Balance Sheet – Assets, Balance Sheet – Liabilities, Statement of Changes in Members' Balances, Statement of Cash Flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2018 and of its 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**

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

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

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

#### **Report of the directors of the Managing Agent**

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

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

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

# **SYNDICATE 3622**

## **31 DECEMBER 2018**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SYNDICATE 3622**

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

#### **Auditor's responsibilities**

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

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

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

**Elizabeth Cox (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL

8 March 2019

**SYNDICATE 3622**  
**PROFIT OR LOSS ACCOUNT**  
**YEAR ENDED 31 DECEMBER 2018**

	<b>Notes</b>	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
Gross premiums written		18,330.4	17,720.1
Outward reinsurance premiums		(923.8)	(371.1)
Net premiums written		17,406.6	17,349.0
Change in the gross provision for unearned premiums	12	(1,188.9)	(1,864.6)
Change in the provision for unearned premiums, reinsurers' share	12	86.8	(12.2)
Change in the net provision for unearned premiums		(1,102.1)	(1,876.8)
<b>Earned premiums, net of reinsurance</b>		16,304.5	15,472.2
Allocated investment return transferred from the non-technical account	8	3.4	7.4
Gross claims paid		(9,287.8)	(7,682.3)
Reinsurers' share of claims paid		-	-
Claims paid net of reinsurance		(9,287.8)	(7,682.3)
Change in the gross provision for claims	12	285.0	(1,422.3)
Change in the provision for claims, reinsurers' share	12	258.4	(0.8)
Change in the net provision for claims		543.4	(1,423.1)
<b>Claims incurred, net of reinsurance</b>		(8,744.4)	(9,105.4)
<b>Net operating expenses</b>	4	(5,759.7)	(4,899.2)
<b>Balance on the technical account</b>		1,803.8	1,475.0
Investment income	8	3.4	7.4
Allocated investment return transferred to general business technical account		(3.4)	(7.4)
Profit /(loss) on foreign exchange		288.1	(177.2)
<b>Profit for the financial year</b>		2,091.9	1,297.8

All of the above operations are continuing.

The notes on pages 19 to 33 form part of these financial statements.

**SYNDICATE 3622**  
**STATEMENT OF OTHER COMPREHENSIVE INCOME**  
**YEAR ENDED 31 DECEMBER 2018**

	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
Profit for the financial year	2,091.9	1,297.8
Foreign exchange (loss)/gain on brought forward reserves	(136.9)	150.5
Total comprehensive income in the year	<u>1,955.0</u>	<u>1,448.3</u>

**SYNDICATE 3622**  
**STATEMENT OF CHANGES IN MEMBER BALANCES**  
**31 DECEMBER 2018**

	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
<b>Member balance brought forward at 1 January</b>	(4,217.5)	(3,217.1)
Total comprehensive income for the year	1,955.0	1,448.3
Payment of profit to member personal reserve fund	(364.0)	(2,448.7)
<b>Member balance carried forward at 31 December</b>	<u>(2,626.5)</u>	<u>(4,217.5)</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 19 to 33 form part of these financial statements.

**SYNDICATE 3622  
BALANCE SHEET  
AS AT 31 DECEMBER 2018**

<b>ASSETS</b>	<b>Notes</b>	<b>2018 £'000</b>	<b>2017 £'000</b>
<b>Financial assets at fair value</b>	9	543.7	146.7
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums, reinsurers' share	12	152.8	64.6
Claims outstanding, reinsurers' share	12	614.6	348.0
		<u>767.4</u>	<u>412.6</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations		7,104.1	11,768.4
Debtors arising out of reinsurance operations		4,320.1	2,058.5
Other debtors	10	13.7	33.2
		<u>11,437.9</u>	<u>13,860.1</u>
<b>Cash at bank and in hand</b>	11	9,486.0	8,378.3
<b>Prepayments</b>			
Deferred acquisition costs		2,409.8	1,778.4
Prepayments and accrued interest		30.7	20.9
<b>TOTAL ASSETS</b>		<u>24,675.5</u>	<u>24,597.0</u>
<b>LIABILITIES, CAPITAL AND RESERVES</b>			
<b>Capital and reserves</b>			
Member's balances attributable to underwriting participations		(2,626.5)	(4,217.5)
<b>Technical provisions</b>			
Provision for unearned premiums	12	9,899.3	8,632.3
Claims outstanding	12	12,877.6	12,814.0
		<u>22,776.9</u>	<u>21,446.3</u>
<b>Creditors</b>			
Creditors arising out of direct insurance operations		270.7	168.3
Creditors arising out of reinsurance operations		70.0	1.3
Other creditors	13	4,040.7	7,196.4
		<u>4,381.4</u>	<u>7,366.0</u>
<b>Accruals and deferred income</b>		143.7	2.2
<b>TOTAL LIABILITIES, CAPITAL AND RESERVES</b>		<u>24,675.5</u>	<u>24,597.0</u>

The notes on pages 19 to 33 form part of these financial statements.

The syndicate annual accounts on pages 15 to 33 were approved by the board of Beazley Furlonge Limited on 8 March 2019 and were signed on its behalf by

.....  
**A P Cox**  
(Active underwriter)

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

**SYNDICATE 3622**  
**CASH FLOW STATEMENT**  
**YEAR ENDED 31 DECEMBER 2018**

	<u>Notes</u>	<u>2018</u> <u>£'000</u>	<u>2017</u> <u>£'000</u>
<b>RECONCILIATION OF TOTAL COMPREHENSIVE INCOME FOR THE YEAR TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>			
Total comprehensive income in the year		1,955.0	1,448.3
Increase in net technical provisions		975.8	2,823.9
Decrease/(increase) in debtors		2,412.4	(4,895.5)
(Decrease)/increase in creditors		(2,843.1)	4,384.0
Increase in deferred acquisition costs		(631.4)	(79.4)
Investment return		(3.4)	(7.4)
<b>Net cash generated from operating activities</b>		<u>1,865.3</u>	<u>3,673.9</u>
Net (purchases)/sales of investments		(615.7)	7.4
Cash received from investment return		3.4	7.4
<b>Net cash generated from investing activities</b>		<u>(612.3)</u>	<u>14.8</u>
Transfer to member in respect of underwriting participations		(364.0)	(2,448.7)
<b>Net cash from financing activities</b>		<u>(364.0)</u>	<u>(2,448.7)</u>
<b>Net increase in cash and cash equivalents</b>		889.0	1,240.0
<b>Cash and cash equivalents at the beginning of the year</b>		8,378.3	7,138.3
Effect of exchange rate changes on cash and cash equivalents		218.7	-
<b>Cash and cash equivalents at the end of the year</b>	11	<u>9,486.0</u>	<u>8,378.3</u>

The notes on pages 19 to 33 form part of these financial statements.

# **SYNDICATE 3622**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **YEAR ENDED 31 DECEMBER 2018**

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

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

Syndicate 3622 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 34.

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 2018 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 incepted during the financial year. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the syndicate not yet notified, as well as adjustments made in the year to premiums written in prior accounting periods.

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

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

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

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

# **SYNDICATE 3622**

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

### **YEAR ENDED 31 DECEMBER 2018**

#### **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 2018**

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

(h) Ceded reinsurance (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 2018**

**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 2018, the normal maximum line that any one underwriter could commit the syndicate to was \$25m. 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>2018</u>	<u>2017</u>
Life insurance	62%	80%
Life reinsurance	38%	20%
<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 group’s 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 2018**

**2. Risk management (continued)**

*c) Claims management risk (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:

<b>Sensitivity to insurance risk (claims reserves)</b>	<b>5% increase in claims reserves</b>		<b>5% decrease in claims reserves</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Impact on profit and equity	(613.2)	(623.3)	613.2	623.3

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>2018</b>	<b>2017</b>
	<b>%</b>	<b>%</b>
Europe*	71	74
Other	29	26
Total	100	100

\*Includes UK

**2.2 Financial risk**

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

**SYNDICATE 3622**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2018**

**2. Risk management (continued)**

**2.3 Strategic risk**

This is the risk that Beazley Furlonge Limited's strategy is inappropriate or that Beazley Furlonge Limited is unable to implement its strategy. Where events supersede the strategic plan this is escalated at the earliest opportunity through Beazley Furlonge Limited's monitoring tools and governance structure.

**2.4 Market risk**

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

**Foreign exchange risk**

The functional currency of the syndicate is 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:

<b>31 December 2018</b>	<b>US \$ £'000</b>	<b>CAD \$ £'000</b>	<b>EUR € £'000</b>	<b>Subtotal £'000</b>	<b>UK £ £'000</b>	<b>Total £'000</b>
Total assets	11,240.7	214.7	1,753.6	13,209.0	11,466.5	24,675.5
Total liabilities	(8,162.2)	(142.2)	(501.5)	(8,805.9)	(18,496.1)	(27,302.0)
<b>Net assets</b>	<b>3,078.5</b>	<b>72.5</b>	<b>1,252.1</b>	<b>4,403.1</b>	<b>(7,029.6)</b>	<b>(2,626.5)</b>

<b>31 December 2017</b>	<b>US \$ £'000</b>	<b>CAD \$ £'000</b>	<b>EUR € £'000</b>	<b>Subtotal £'000</b>	<b>UK £ £'000</b>	<b>Total £'000</b>
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)
<b>Net assets</b>	<b>1,502.6</b>	<b>9.5</b>	<b>757.5</b>	<b>2,269.6</b>	<b>(6,487.1)</b>	<b>(4,217.5)</b>

**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.

**SYNDICATE 3622**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2018**

**2. Risk management (continued)**

**Foreign exchange risk (continued)**

**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	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Sterling weakens 30% against other currencies	1,321.0	680.9	1,321.0	680.9
Sterling weakens 20% against other currencies	880.6	453.9	880.6	453.9
Sterling weakens 10% against other currencies	440.3	227.0	440.3	227.0
Sterling strengthens 10% against other currencies	(440.3)	(227.0)	(440.3)	(227.0)
Sterling strengthens 20% against other currencies	(880.6)	(453.9)	(880.6)	(453.9)
Sterling strengthens 30% against other currencies	(1,321.0)	(680.9)	(1,321.0)	(680.9)

**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 2018 and 31 December 2017 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 2018 or 31 December 2017.

**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.

**2.5 Operational risk**

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

There are a number of business activities for which the syndicate uses the services of a third-party company, such as 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.

**SYNDICATE 3622**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2018**

**2. Risk management (continued)**

**2.5 Operational risk (continued)**

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

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

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

**2.6 Credit risk**

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

- 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.

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 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

**SYNDICATE 3622**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2018**

**2. Risk management (continued)**

**2.6 Credit risk (continued)**

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

<b>31 December 2018</b>	<b>Tier 1 £'000</b>	<b>Tier 2 £'000</b>	<b>Tier 3 £'000</b>	<b>Tier 4 £'000</b>	<b>Unrated £'000</b>	<b>Total £'000</b>
Financial assets at fair value	-	-	-	-	543.7	543.7
Reinsurance debtors	4,320.1	-	-	-	-	4,320.1
Reinsurers' share of outstanding claims	401.3	-	-	-	213.3	614.6
Cash at bank and in hand	-	-	-	-	9,486.0	9,486.0
<b>Total</b>	<b>4,721.4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,243.0</b>	<b>14,964.4</b>

<b>31 December 2017</b>	<b>Tier 1 £'000</b>	<b>Tier 2 £'000</b>	<b>Tier 3 £'000</b>	<b>Tier 4 £'000</b>	<b>Unrated £'000</b>	<b>Total £'000</b>
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
<b>Total</b>	<b>10,784.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>146.7</b>	<b>10,931.5</b>

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.

The syndicate has no insurance debtors that are past due.

**2.7 Regulatory and legal risk**

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

**2.8 Liquidity risk**

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. 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 2018 and 31 December 2017, 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.

**2.9 Senior management responsibilities**

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

# **SYNDICATE 3622**

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

### **YEAR ENDED 31 DECEMBER 2018**

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

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.

##### **2.10 Capital management**

###### *Capital framework at Lloyd's*

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

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

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

###### *Provision of capital by members*

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

#### **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 2018**

**4. Net operating expenses**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Acquisition costs	5,119.0	3,691.2
Change in deferred acquisition costs	(610.4)	(101.5)
Member's standard personal expenses	319.1	243.3
Administrative expenses	932.0	1,066.2
	<u>5,759.7</u>	<u>4,899.2</u>

Administrative expenses include:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Auditor's remuneration:		
Fees payable to the syndicate's auditor for the audit of these annual accounts	17.6	13.1
Fees payable to the syndicate's auditor and its associates in respect of:		
Other services pursuant to legislation	46.9	35.0

Managing agent fees paid to Beazley Furlonge Limited in respect of services provided to the syndicate amounted to £127,111 (2017: £117,000).

**5. Staff costs**

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

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	849.6	485.1
Short-term incentive payments	168.9	307.7
Social security costs	190.7	146.5
Pension costs	172.7	122.0
	<u>1,381.9</u>	<u>1,061.3</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 3622 and included within net operating expenses:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Emoluments and fees	52.0	110.6
Contributions to defined contribution pension schemes	1.5	1.7
	<u>53.5</u>	<u>112.3</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 £12,545 (2017: £18,235).

**SYNDICATE 3622**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2018**

**8. Net investment income**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Interest and dividends on financial investments at fair value through profit or loss	0.4	9.4
Interest on cash and cash equivalents	3.0	(2.0)
<b>Investment income from financial investments</b>	<b>3.4</b>	<b>7.4</b>
<b>Total net investment income</b>	<b>3.4</b>	<b>7.4</b>

**9. Financial assets**

	<b>Market value</b>		<b>Cost</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Financial assets at fair value</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Overseas cash fund and deposit	543.7	146.7	543.7	146.7
	543.7	146.7	543.7	146.7

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 2018 or 2017.

**10. Other debtors**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Sundry debtors	13.7	33.2
<b>Total debtors</b>	<b>13.7</b>	<b>33.2</b>

**SYNDICATE 3622**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2018**

**11. Cash and cash equivalents**

	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
Cash at bank and in hand	9,486.0	8,378.3
<b>Total cash and cash equivalents</b>	<b>9,486.0</b>	<b>8,378.3</b>

**12. Technical provisions**

	<b>Provision for unearned premium £'000</b>	<b>Claims outstanding £'000</b>
<b>Gross technical provisions</b>		
As at 1 January 2018	8,632.3	12,814.0
Movement in the provision	1,188.9	(285.0)
Exchange adjustments	78.1	348.6
<b>As at 31 December 2018</b>	<b>9,899.3</b>	<b>12,877.6</b>
<b>Reinsurers' share of technical provisions</b>		
As at 1 January 2018	64.6	348.0
Movement in the provision	86.8	258.4
Exchange adjustments	1.4	8.2
<b>As at 31 December 2018</b>	<b>152.8</b>	<b>614.6</b>
<b>Net technical provisions</b>		
As at 1 January 2018	8,567.7	12,466.0
<b>As at 31 December 2018</b>	<b>9,746.5</b>	<b>12,263.0</b>
	<b>Provision for unearned premium £'000</b>	<b>Claims outstanding £'000</b>
<b>Gross technical provisions</b>		
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)
<b>As at 31 December 2017</b>	<b>8,632.3</b>	<b>12,814.0</b>
<b>Reinsurers' share of technical provisions</b>		
As at 1 January 2017	75.8	353.1
Movement in the provision	(12.2)	(0.8)
Exchange adjustments	1.0	(4.3)
<b>As at 31 December 2017</b>	<b>64.6</b>	<b>348.0</b>
<b>Net technical provisions</b>		
As at 1 January 2017	6,774.8	11,435.0
<b>As at 31 December 2017</b>	<b>8,567.7</b>	<b>12,466.0</b>

**SYNDICATE 3622**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2018**

**12. Technical provisions (continued)**

**Gross Claims Development**

	2008 <sup>ae</sup>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
		%	%	%	%	%	%	%	%	%	%	
12 months		51.2	50.9	59.3	61.9	63.0	64.9	65.0	89.3	61.5	76.3	
24 months		51.1	49.8	59.5	62.8	68.5	63.7	62.3	87.1	57.9		
36 months		48.0	47.8	63.5	58.8	64.2	52.8	63.8	60.3			
48 months		46.1	45.8	61.3	55.0	59.2	51.3	63.1				
60 months		45.1	46.2	60.1	53.3	56.9	51.0					
72 months		45.0	46.3	60.1	53.0	56.8						
84 months		45.1	46.4	60.1	53.0							
96 months		45.1	46.4	60.1								
108 months		45.1	46.4									
120 months		45.1										
<b>Gross claims liabilities (Beazley managed level)*</b>	<b>192.7</b>	<b>80.0</b>	<b>61.6</b>	<b>85.7</b>	<b>93.3</b>	<b>161.5</b>	<b>263.6</b>	<b>371.2</b>	<b>659.7</b>	<b>1,036.6</b>	<b>758.7</b>	<b>3,764.6</b>
Less non 3622 share*	(192.7)	(80.0)	(61.6)	(85.6)	(93.3)	(161.5)	(263.5)	(370.9)	(659.4)	(1,032.6)	(750.6)	(3,751.7)
<b>Gross claims liabilities (3622 share)*</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.3</b>	<b>0.3</b>	<b>4.0</b>	<b>8.1</b>	<b>12.9</b>

\*The numbers above are presented in GBP £ms

**Net Claims Development**

	2008 <sup>ae</sup>	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
		%	%	%	%	%	%	%	%	%	%	
12 months		49.7	49.6	58.5	59.9	64.2	64.0	65.6	92.9	62.5	77.6	
24 months		47.5	48.7	59.7	62.1	71.4	63.5	63.6	89.7	59.0		
36 months		44.3	50.5	65.8	60.5	67.8	53.9	65.1	63.0			
48 months		44.1	48.9	63.6	56.5	62.3	52.3	64.7				
60 months		43.0	49.2	62.3	54.7	59.9	52.0					
72 months		43.0	49.4	62.3	54.5	59.8						
84 months		43.0	49.4	62.3	54.5							
96 months		43.0	49.4	62.3								
108 months		43.0	49.4									
120 months		43.0										
<b>Net claims liabilities (Beazley managed level)*</b>	<b>123.7</b>	<b>47.9</b>	<b>48.8</b>	<b>68.4</b>	<b>80.6</b>	<b>133.2</b>	<b>199.9</b>	<b>279.4</b>	<b>504.7</b>	<b>808.5</b>	<b>579.2</b>	<b>2,874.3</b>
Less non 3622 share*	(123.7)	(47.9)	(48.8)	(68.3)	(80.6)	(133.2)	(199.8)	(279.1)	(504.4)	(804.8)	(571.4)	(2,862.0)
<b>Net claims liabilities (3622 share)*</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.3</b>	<b>0.3</b>	<b>3.7</b>	<b>7.8</b>	<b>12.3</b>

\*The numbers above are presented in GBP £ms

**SYNDICATE 3622**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED 31 DECEMBER 2018**

**13. Other creditors**

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Net amount due to other group undertakings	4,040.7	7,196.4
<b>Total creditors</b>	<b>4,040.7</b>	<b>7,196.4</b>

The above balances are payable within one year.

**14. Related Party transactions**

The intercompany positions with syndicates not wholly owned by Beazley plc. at 31 December 2018 are shown in the table below:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Syndicate 623	0.7	-

**15. Post balance sheet events**

The following amounts are proposed to be transferred (from)/to member's personal reserve funds.

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
2015 Year of account	-	364.0
2016 Year of account	(87.0)	-
	(87.0)	364.0

**SYNDICATE 3622  
MANAGING AGENT CORPORATE INFORMATION  
YEAR ENDED 31 DECEMBER 2018**

Directors

D L Roberts\*- (appointed chairman 22/03/2018)  
M R Bernacki  
G P Blunden\*  
M L Bride – finance director  
A P Cox - (appointed active underwriter 31/12/2018)  
A Crawford-Ingle\*  
N H Furlonge\*  
D A Horton - chief executive officer  
N P Maidment (resigned 31/12/2018)  
R Stuchbery\*  
D Holt\* (resigned 22/03/2018)  
C A Washbourn (resigned 24/12/2018)  
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