Important information about Syndicate Reports and Accounts

Beazley Furlonge Limited | Syndicate 6107 at Lloyd's
Annual report 2018

Sustaining growth

Welcome to our Annual report 2018

Contents

Two of the major perils that affect the syndicate's claims experience, hurricanes and wildfires, recurred in 2018. Beazley's claims teams worked tirelessly to meet client expectations.

Highlights

Syndicate capacity
£55.1m
(2017: £46.6m)

Claims ratio
85%
(2017: 91%)

Gross premiums written
$68.8m
(2017: $60.2m)

Expense ratio
23%
(2017: 23%)

Earned premiums, net of reinsurance
$54.5m
(2017: $45.2m)

Combined ratio
108%
(2017: 114%)

Loss for the financial year
$2.9m
(2017: Loss $7.9m)

Strategic report of the managing agent

Overview
Syndicate 6107 ('the syndicate') continued to write a share of the property reinsurance business and a share of certain cyber business written by syndicates 623 and 2623.

The capacities of the managed syndicates are as follows:

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

Year of account results
The 2016 underwriting year has closed with a declared profit of $12.2m, which represents a return on capacity of 33.3%. The syndicate has incurred material losses as a result of the natural catastrophe events of 2017 and 2018 and the 2017 underwriting year currently forecasts a loss on capacity of 20.0%. However, the ultimate result of the 2017 underwriting year will be dependant on the performance of both its property reinsurance business and its cyber business (which is currently forecast to close with a profit). The 2018 underwriting year is currently loss making due to the natural catastrophe events of Hurricanes Florence and Michael, the Californian Wildfires in the US, as well as Typhoons Jebi and Trami in Japan.

Rating environment
Premium rates charged for renewal business increased by 6% during 2018 (2017: decreased by 2%). Rates increased in 2018 due to the net effect of the 2017 catastrophe losses. Due to the claims activity seen in the second half of the year, market rate increases are also expected in 2019 on the catastrophe impacted lines of business.

Combined ratio
The combined ratio of an insurance provider is a common measure of its operating performance and represents the ratio of its total costs (excluding foreign exchange movements) to total net earned premium. The syndicates combined ratio for 2018 decreased to 108% (2017: 114%).

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 of syndicate 6107 has decreased to 85% in 2018 (2017: 91%).

Net operating expenses
Net operating expenses, including business acquisition costs and administrative expenses were $12.7m (2017: $10.3m). The breakdown of these costs is shown below:

	2018 $m	2017 $m
Brokerage costs	8.4	7.0
Administrative and other expenses	4.3	3.3
Net operating expenses[1]	**12.7**	10.3

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

As a percentage of net earned premium brokerage costs are approximately 15% (2017: 16%). Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with accounting guidelines. Administrative expenses comprise primarily IT costs, facilities costs, Lloyd's central costs and other support costs. The expense ratio of an insurance provider is a measure of the net operating expenses to net earned premium. The expense ratio for 2018 is 23% (2017: 23%).

Reinsurance
With a view to managing its net exposures, the syndicate increased its outward reinsurance spend in 2018 to $11.5m (2017: $10.8m).

Reinsurance is purchased for a number of reasons:
- to mitigate the impact of catastrophes such as hurricanes;
- to enable the syndicate to put down large, lead lines on risks we underwrite; and
- to manage capital to lower 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 underwriting year has incurred material losses as a result of the natural catastrophe events of 2017. It is currently forecast to close with a mid point loss on capacity of 20.0%.

The 2018 underwriting year is currently loss making at this early stage of development, mainly due to the natural catastrophe experience during the year.

We do anticipate some modest rate increases in the property reinsurance book in 2019. We also anticipate premium growth in cyber business in 2019, as a growing book combined with an increased reinsurance cede from syndicates 623 and 2623 are likely to increase volumes in the syndicate.

A P Cox
Active underwriter

8 March 2019

Managing agent's report

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

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS102') and Financial Reporting Standard 103: Insurance Contracts ('FRS103'). Underwriting year accounts for the 2016 closed year of account will be made available to the syndicate members.

Principal activity

The principal activity of syndicate 6107 is the transaction of property reinsurance and cyber reinsurance business with syndicates 623 and 2623 at Lloyd's.

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 a minimal amount of the syndicate's premium originates from the EU. Despite the uncertainty throughout the year, a cross functional working group has prepared the syndicate for the worst case scenario of a hard Brexit, which is where the UK leaves the EU without agreements and a transitional period. From an underwriting perspective, the EU risks expiring from 1 January 2019 have been successfully renewed onto the newly established Lloyd's Brussels platform. However a small number of the syndicate's reinsurance clients have declined to have their reinsurance renewed at Lloyds from 2019 as a result of Brexit and have instead sought coverage with Beazley Insurance dac in Dublin which results in a small reduction in premium for the syndicate. 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 8) covering the impact of climate change on the syndicate. 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. In addition, we explain how climate change could affect the syndicate's own risk profile, highlighting how we respond to these risks. These include the performance of our insurance contracts, the investments we make, the office spaces we occupy, the companies we partner with and our travel footprint.

Internal change

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.

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.

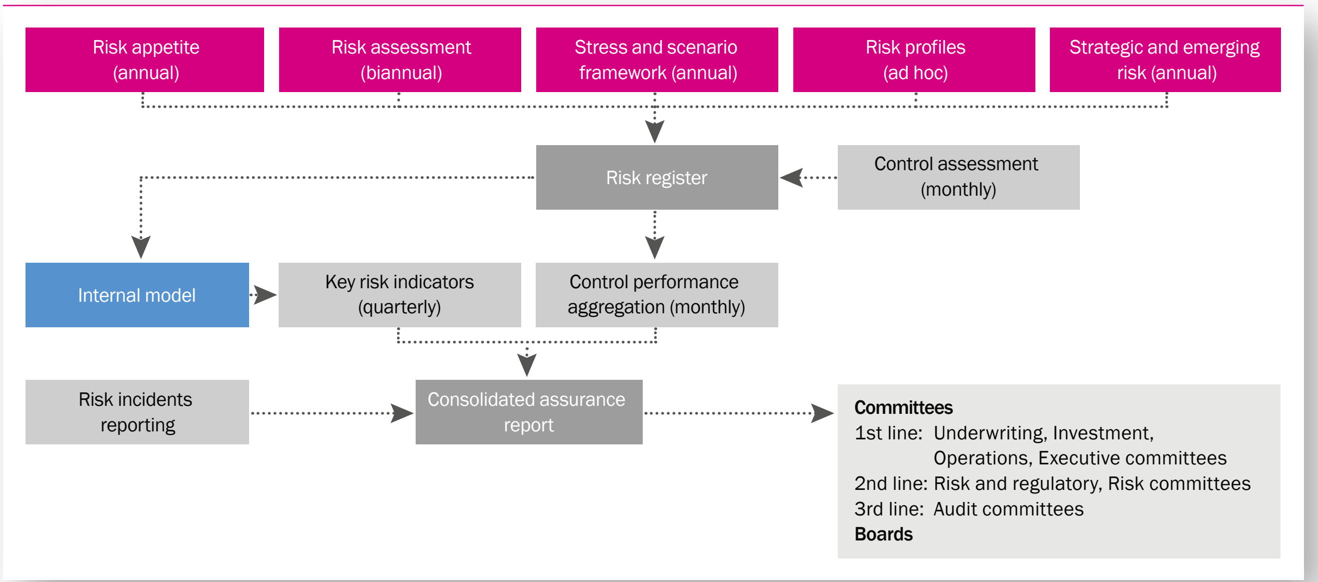
Managing agent's report *continued*

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.

Business risk management *Risk ownership*	*Risk management* *Risk oversight*	*Internal audit* *Risk assurance*
– Identifies risk *– Assesses risk* *– Mitigates risk* *– Monitors risk* *– Records status* *– Remediates when required*	*– Are risks being identified?* *– Are controls operating effectively?* *– Are controls being signed off?* *– Reports to committees and board*	*– Independently tests control design* *– Independently tests control operation* *– Reports to committees and board*

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



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

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

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

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

The risks to financial performance

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

Insurance risk

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

- **Natural catastrophe risk:** The risk of one or more large events caused by nature affecting a number of policies and therefore giving rise to multiple losses. Given the syndicate's risk profile, such an event could be a hurricane, major windstorm or earthquake. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.
- **Non natural catastrophe risk:** This risk is similar to natural catastrophe risk except that multiple losses arise from one event caused by mankind. Given the syndicate's risk profile, examples include a coordinated cyber attack, an act of terrorism, an act of war or a political event. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.
- **Reserve risk:** 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, 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.
- **Crisis management:** This is the risk caused by the destabilising effect of the syndicate having to deal with a crisis and is mitigated by having a detailed crisis management plan.
- **Corporate transaction:** There is a risk that the syndicate could undertake a corporate transaction which did not return the expected value to shareholders. This risk is mitigated through the due diligence performed, the financial structure of transactions and the implementation activity.

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

Managing agent's report *continued*

Other risks

The remaining six risk categories monitored by the board are:

- **Market (asset) risk:** This is the risk that the value of investments could be adversely impacted by movements in interest rates, exchange rates, default rates or external market forces. This risk is monitored by the investment committee.
- **Operational risk:** This risk is the failure of people, processes and systems or the impact of an external event on the syndicate's operations, and is monitored by the operations committee. An example would be a cyber attack having a detrimental impact on our operations.
- **Credit risk:** The syndicate has credit risk to 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.

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.
- **Catastrophe risk:** This is the risk that current models do not adequately capture the impacts of climate change on the frequency, severity or nature of natural catastrophes or other extreme weather events. The syndicate utilises Risk Management Solutions (RMS) models to facilitate the estimation of aggregate exposures based on the syndicate's underwriting portfolio. There is an on-going feedback loop between (re)insurers and catastrophe model vendors which has contributed to model improvements. Catastrophe models are evolving to include new or secondary perils which may or may not be related to climate change. In addition, the syndicate runs a series of Natural Catastrophe Realistic Disaster Scenarios (RDS) on a regular basis which monitors the syndicate's exposure to these perils. These include hurricanes in the US, typhoons in Japan, European windstorms and floods in the UK.
- **Reserve risk:** This is the risk that established reserves are not sufficient, in particular for longer tail business, to reflect the ultimate impact climate change may have on paid losses. With support from our group actuarial team, claims teams and other members of management the syndicate establishes financial provisions for our ultimate claims liabilities. 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.

Directors

A list of directors of the managing agent who held office during the year can be found on page 43 of this syndicate annual report.

Disclosure of information to the auditor

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

Auditor

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

On behalf of the board

M L Bride
Finance director

8 March 2019

Statement of managing agent's responsibilities

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

The Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires the directors of the managing agent to prepare their syndicates financial statements for each financial year. Under that law they have elected to prepare the 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 annual accounts, the directors of the managing agent are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

The directors of the managing agent are responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable them to ensure that the annual accounts 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 annual accounts 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 annual accounts may differ from legislation in other jurisdictions.

On behalf of the board

M L Bride
Finance director

8 March 2019

Independent auditor's report to the members of syndicate 6107

Opinion

We have audited the financial statements of Syndicate 6107 for the year ended 31 December 2018 which comprise the Statement of Profit or Loss: Technical account – General business, Statement of Profit or Loss: non-technical account, Balance Sheet – Assets, Balance Sheet – Liabilities, Statement of Changes in Members' Balances, Statement of Cash Flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

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

Basis for opinion

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

Going concern

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

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

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

Report of the directors of the Managing Agent

The directors are responsible for the Report of the directors of the Managing Agent. Our opinion on the financial statements does not cover that report and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.
Our responsibility is to read the Report of the directors of the Managing Agent and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in that report.

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Independent auditor's report to the members of syndicate 6107 *continued*

Responsibilities of the directors of the Managing Agent

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

Auditor's responsibilities

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

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

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

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

Elizabeth Cox (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

8 March 2019

Profit or loss account

year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Gross premiums written		68,813.0	60,205.2
Outward reinsurance premiums		(11,534.3)	(10,793.7)
Net premiums written		**57,278.7**	**49,411.5**
Change in the gross provision for unearned premiums	10	(2,843.7)	(6,780.9)
Change in the provision for unearned premiums, reinsurers' share	10	78.8	2,569.8
Change in the net provision for unearned premiums		(2,764.9)	(4,211.1)
Earned premiums, net of reinsurance		**54,513.8**	**45,200.4**
Allocated investment return transferred from the non-technical account		1,917.4	814.5
Gross claims paid		(35,174.0)	(22,769.8)
Reinsurers' share of claims paid		6,760.5	0.1
Claims paid net of reinsurance		(28,413.5)	(22,769.7)
Change in the gross provision for claims	10	(26,434.1)	(31,091.3)
Change in the provision for claims, reinsurers' share	10	8,473.5	12,416.6
Change in the net provision for claims		(17,960.6)	(18,678.7)
Claims incurred, net of reinsurance		**(46,374.1)**	**(41,448.4)**
Net operating expenses	4	**(12,749.4)**	**(10,302.5)**
Balance on the technical account		**(2,692.3)**	**(5,736.0)**
Investment income	5	1,917.4	814.5
Allocated investment return transferred to general business technical account		(1,917.4)	(814.5)
Gain on foreign exchange		5.4	2,129.5
Other charges	6	(189.7)	(4,286.9)
Loss for the financial year		**(2,876.6)**	**(7,893.4)**

All of the above operations are continuing.

Statement of other comprehensive income

year ended 31 December 2018

	2018 $'000	2017 $'000
Loss for the financial year	(2,876.6)	(7,893.4)
Foreign exchange loss on brought forward reserves	(441.4)	(862.1)
Total comprehensive loss in the year	**(3,318.0)**	**(8,755.5)**

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

Balance sheet

as at 31 December 2018

	Notes	2018 $'000	2017 $'000
Assets			
Reinsurers' share of technical provisions			
Provision for unearned premiums, reinsurers' share	10	4,545.6	4,495.9
Claims outstanding, reinsurers' share	10	26,678.2	18,239.1
		31,223.8	**22,735.0**
Debtors			
Debtors arising out of reinsurance operations		23,866.6	21,355.9
Other debtors	7	65,596.9	57,320.6
		89,463.5	**78,676.5**
Deferred acquisition costs		**2,453.7**	**2,169.4**
Cash at bank and in hand	8	**185.5**	**92.6**
Other prepayments and accrued income		**449.7**	**389.5**
Total assets		**123,776.2**	**104,063.0**
Liabilities, capital and reserves			
Capital and reserves			
Members' balances attributable to underwriting participations		(13,932.9)	8,819.2
		(13,932.9)	**8,819.2**
Technical provisions			
Provision for unearned premiums	10	20,021.4	17,373.7
Claims outstanding	10	97,681.3	71,604.1
		117,702.7	**88,977.8**
Creditors			
Creditors arising out of reinsurance operations		7,278.5	6,266.0
Other creditors	9	12,727.9	–
		20,006.4	**6,266.0**
Total liabilities, capital and reserves		**123,776.2**	**104,063.0**

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

The syndicate annual accounts on pages 13 to 30 were approved by the board of Beazley Furlonge Limited on 8 March 2019 and were signed on its behalf by:

A P Cox
Active underwriter

M L Bride
Finance director

Cash flow statement

year ended 31 December 2018

	2018 $'000	2017 $'000
Reconciliation of total comprehensive loss for the year to net cash flow from operating activities		
Total comprehensive loss in the year	(3,318.0)	(8,755.5)
Increase in net technical provisions	20,236.1	23,644.9
Increase in deferred acquisition costs	(284.3)	(352.6)
Increase in debtors	(10,847.2)	(10,754.6)
Increase in creditors	13,740.4	4,135.6
Investment return	(1,917.4)	(814.5)
Net cash flow from operating activities	**17,609.6**	**7,103.3**
Cash received from investment return	1,917.4	814.5
Net cash from investing activities	**1,917.4**	**814.5**
Transfer to member in respect of underwriting participations	(19,434.1)	(7,913.8)
Net cash from financing activities	**(19,434.1)**	**(7,913.8)**
Net increase in cash and cash equivalents	**92.9**	**4.0**
Cash and cash equivalents at the beginning of the year	92.6	88.6
Effect of exchange rate changes on cash and cash equivalents	–	–
Cash and cash equivalents at the end of the year	**185.5**	**92.6**

Statement of changes in members' balances

31 December 2018

	2018 $'000	2017 $'000
Members' balances brought forward at 1 January	8,819.2	25,488.5
Total comprehensive loss for the financial year	(3,318.0)	(8,755.5)
Profit distribution before members agent's fees – 2014 year of account		(7,913.8)
Profit distribution before members agent's fees – 2015 year of account	(19,434.1)	–
Members' balances carried forward at 31 December	**(13,932.9)**	**8,819.2**

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

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

Notes to the syndicate annual accounts

1 Accounting policies

Basis of preparation

Syndicate 6107 ('the syndicate') comprises a group of members of the Society of Lloyd's that underwrites reinsurance business in the London Market. The address of the syndicate's managing agent is given on page 43. These syndicate annual accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the Regulations') and applicable Accounting Standards in the United Kingdom and the Republic of Ireland, Financial Reporting Standard 102 'FRS 102' and the applicable Accounting Standard on insurance contracts, Financial Reporting Standard 103 'FRS 103'.

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

Use of estimates and judgements

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

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

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

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

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

a) Premiums

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

b) Unearned premiums

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

c) Claims incurred and reinsurers' share

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

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

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

1 Accounting policies *continued*

d) Liability adequacy testing

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

e) Acquisition costs

Acquisition costs comprise brokerage, premium levy and staff-related costs of the underwriters acquiring new business and renewing existing contracts. The proportion of acquisition costs in respect of unearned premiums is deferred at the balance sheet date and recognised in later periods when the related premiums are earned.

f) Foreign currencies

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

g) Taxation

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

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

h) Profit commission

Profit commission is charged by the ceding syndicates at a rate of 20% of the profit after a 10% expense allowance on a year of account basis subject to the operating of a two-year deficit clause. This is charged to the syndicate as incurred but does not become payable until after the appropriate year of account closes, normally at 36 months.

i) Ceded reinsurance

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

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

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

Notes to the syndicate annual accounts *continued*

1 Accounting policies *continued*

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 less any impairment losses.

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

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

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

2 Risk management

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

2.1 Insurance risk

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

a) Underwriting risk
Underwriting risk comprises four elements that apply to all insurance products offered by the syndicate:
- cycle risk – the risk that business is written without full knowledge as to the (in)adequacy of rates, terms and conditions;
- event risk – the risk that individual risk losses or catastrophes lead to claims that are higher than anticipated in plans and pricing;
- pricing risk – the risk that the level of expected loss is understated in the pricing process; and
- expense risk – the risk that the allowance for expenses and inflation in pricing is inadequate.

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

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

2 Risk management *continued*

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

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

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

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

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 $20.0m. In most cases, maximum lines for classes of business were much lower than this.

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

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

The syndicate also has exposure to man-made claim aggregations, such as those arising from terrorism and data breach events. The syndicate chooses to underwrite data breach insurance within the specialty lines division using it’s team of specialist underwriters, claims managers and data breach services managers. Other than for data breach, the syndicate’s preference is to exclude cyber exposure where possible.

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.

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.

Notes to the syndicate annual accounts *continued*

2 Risk management *continued*

c) Claims management risk

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

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

d) Reserving and ultimate reserves risk

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

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

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:

	5% increase in claims reserves		5% decreases in claims reserves	
Sensitivity to insurance risk (claims reserves)	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Impact on profit and equity	(3,550.2)	(2,668.3)	3,550.2	2,668.3

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.

	2018 %	2017 %
US	60	65
Europe[1]	18	16
Other	22	19
	100	**100**

1 Includes UK.

2.2 Financial risk

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

2.3 Strategic risk

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

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.

2 Risk management *continued*

Foreign exchange risk

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

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

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

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

31 December 2018	UK £ $'000	CAD $ $'000	EUR € $'000	Subtotal $'000	US $ $'000	Total $'000
Total assets	22,216.2	(296.5)	4,796.0	26,715.7	97,060.5	123,776.2
Total liabilities	(19,246.9)	(2,437.2)	(2,042.2)	(23,726.3)	(113,982.8)	(137,709.1)
Net assets	**2,969.3**	**(2,733.7)**	**2,753.8**	**2,989.4**	**(16,922.3)**	**(13,932.9)**

31 December 2017	UK £ $'000	CAD $ $'000	EUR € $'000	Subtotal $'000	US $ $'000	Total $'000
Total assets	8,405.1	1,465.0	20,613.8	30,483.9	73,579.1	104,063.0
Total liabilities	(5,850.2)	622.4	(3,806.2)	(9,034.0)	(86,209.8)	(95,243.8)
Net assets	**2,554.9**	**2,087.4**	**16,807.6**	**21,449.9**	**(12,630.7)**	**8,819.2**

Sensitivity analysis

In 2018, the syndicate managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting net assets to be entirely US dollar denominated. As part of this hedging strategy, exchange rate derivatives may be used to rebalance currency exposure. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk.

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

	Impact on profit for the year ended		Impact on net assets	
Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar	2018 $m	2017 $m	2018 $m	2017 $m
Dollar weakens 30% against other currencies	0.9	6.4	0.9	6.4
Dollar weakens 20% against other currencies	0.6	4.3	0.6	4.3
Dollar weakens 10% against other currencies	0.3	2.1	0.3	2.1
Dollar strengthens 10% against other currencies	(0.3)	(2.1)	(0.3)	(2.1)
Dollar strengthens 20% against other currencies	(0.6)	(4.3)	(0.6)	(4.3)
Dollar strengthens 30% against other currencies	(0.9)	(6.4)	(0.9)	(6.4)

Interest rate risk

The syndicate has no material interest rate risk.

Price risk

This is not a material risk to the syndicate.

Notes to the syndicate annual accounts *continued*

2 Risk management *continued*

2.5 Operational risk

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

There are a number of business activities for which the 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 operate's a formal disaster recovery plan which, in the event of an incident, allows the movement of critical operations to an alternative location within 24 hours.

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

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

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

2.6 Credit risk

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

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

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

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

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

The 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.

2 Risk management *continued*

To assist in the understanding of credit risks, A.M. Best, Moody's and Standard & Poor's (S&P) ratings are used. These ratings have been categorised below as used for Lloyd's reporting:

	A.M. Best	Moody's	S&P
Tier 1	A++ to A-	Aaa to A3	AAA to A-
Tier 2	B++ to B-	Baa1 to Ba3	BBB+ to BB-
Tier 3	C++ to C-	B1 to Caa	B+ to CCC
Tier 4	D,E,F,S	Ca to C	R,(U,S) 3

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

31 December 2018	Tier 1 $'000	Tier 2 $'000	Tier 3 $'000	Tier 4 $'000	Unrated $'000	Total $'000
Reinsurers' share of outstanding claims	26,188.1	–	–	–	490.1	26,678.2
Reinsurance debtors	–	–	–	–	23,866.6	23,866.6
Cash at bank and in hand	–	–	–	–	185.5	185.5
Total	**26,188.1**	**–**	**–**	**–**	**24,542.2**	**50,730.3**

31 December 2017	Tier 1 $'000	Tier 2 $'000	Tier 3 $'000	Tier 4 $'000	Unrated $'000	Total $'000
Reinsurers' share of outstanding claims	17,971.7	–	–	–	267.4	18,239.1
Reinsurance debtors	21,355.9	–	–	–	–	21,355.9
Cash at bank and in hand	92.6	–	–	–	–	92.6
Total	**39,420.2**	**–**	**–**	**–**	**267.4**	**39,687.6**

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

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

A proportion of syndicate 6107's reinsurance recoverable is collateralised through Letters of Credit and trust funds pledged in its favour. This reduces the syndicate's exposure to credit risk related to reinsurance debtors. At 31 December 2018, these are valued at $26.7m, of which $2.9m is collateralised (2017: $10.5m collateralised).

2.7 Regulatory and legal risk

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

2.8 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. As syndicate 6107 is a special purpose syndicate, liquidity risk is not material to the syndicate.

2.9 Senior management responsibilities

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

Notes to the syndicate annual accounts *continued*

2 Risk management *continued*

2.10 Capital management

Capital framework at Lloyd's

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level respectively, not at syndicate level. Accordingly the capital requirement in respect of syndicate 6107 is not disclosed in these financial statements.

Lloyd's capital setting process

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

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

Provision of capital by members

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

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

3 Segmental analysis

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

4 Net operating expenses

	2018 $'000	2017 $'000
Acquisition costs	8,692.7	7,379.3
Change in deferred acquisition costs	(301.8)	(337.5)
Administrative expenses	4,358.5	3,260.7
	12,749.4	**10,302.5**

Administrative expenses include:

	2018 $'000	2017 $'000
Fees payable to the syndicate's auditor for the audit of these annual accounts	14.3	13.6
Fees payable to the syndicate's auditor and its associates in respect of:		
Other services pursuant to legislation	37.0	35.4
	51.3	**49.0**

5 Net investment income

	2018 $'000	2017 $'000
Interest income	1,917.4	814.5

6 Other charges

	2018 $'000	2017 $'000
Profit commissions paid to syndicate 623/2623	189.7	4,286.9

7 Other debtors

	2018 $'000	2017 $'000
Amount due from syndicate 623	–	4,627.8
Amount due from syndicate 2623	65,124.3	52,215.5
Amount due from members	472.6	477.3
	65,596.9	**57,320.6**

These balances are due within one year.

8 Cash and cash equivalents

	2018 $'000	2017 $'000
Cash at bank and in hand	185.5	92.6
Cash and cash equivalents	**185.5**	**92.6**

9 Other creditors

	2018 $'000	2017 $'000
Amount due to syndicate 623	12,727.9	–
	12,727.9	**–**

These balances are due within one year.

Notes to the syndicate annual accounts *continued*

10 Technical provisions

	Provision for unearned premium outstanding $'000	Claims $'000
Gross technical provisions		
As at 1 January 2018	17,373.7	71,604.1
Movement in the provision	2,843.7	26,434.0
Exchange adjustments	(196.0)	(356.8)
As at 31 December 2018	**20,021.4**	**97,681.3**
Reinsurers' share of technical provisions		
As at 1 January 2018	4,495.9	18,239.1
Movement in the provision	78.8	8,473.5
Exchange adjustments	(29.1)	(34.4)
As at 31 December 2018	**4,545.6**	**26,678.2**
Net technical provisions		
As at 1 January 2018	12,877.8	53,365.0
As at 31 December 2018	**15,475.8**	**71,003.1**

	Provision for unearned premium outstanding $'000	Claims $'000
Gross technical provisions		
As at 1 January 2017	10,433.9	39,915.8
Movement in the provision	6,780.9	31,091.3
Exchange adjustments	158.9	597.0
As at 31 December 2017	**17,373.7**	**71,604.1**
Reinsurers' share of technical provisions		
As at 1 January 2017	1,923.4	5,828.4
Movement in the provision	2,569.8	12,412.6
Exchange adjustments	2.7	(1.9)
As at 31 December 2017	**4,495.9**	**18,239.1**
Net technical provisions		
As at 1 January 2017	8,510.5	34,087.4
As at 31 December 2017	**12,877.8**	**53,365.0**

10 Technical provisions *continued*

Gross ultimate claims	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	
Reinsurance										
12 months	57.9%	52.9%	60.9%	59.4%	61.2%	65.0%	65.5%	132.6%	97.3%	
24 months	142.4%	72.5%	37.0%	45.6%	32.5%	29.5%	36.8%	132.2%		
36 months	124.0%	66.7%	31.7%	43.0%	30.9%	20.9%	38.2%			
48 months	120.0%	61.9%	30.6%	42.2%	27.8%	21.4%				
60 months	124.1%	61.4%	31.4%	39.6%	27.7%					
72 months	124.7%	61.3%	31.4%	39.3%						
84 months	124.3%	57.4%	31.4%							
96 months	123.5%	57.4%								
108 months	121.0%									
Specialty lines										
12 months								59.6%	69.8%	
24 months								61.3%		
Total										
12 months	57.9%	52.9%	60.9%	59.4%	61.2%	65.0%	65.5%	117.1%	89.9%	
24 months	142.4%	72.5%	37.0%	45.6%	32.5%	29.5%	36.8%	119.2%		
36 months	124.0%	66.7%	31.7%	43.0%	30.9%	20.9%	38.2%			
48 months	120.0%	61.9%	30.6%	42.2%	27.8%	21.4%				
60 months	124.1%	61.4%	31.4%	39.6%	27.7%					
72 months	124.7%	61.3%	31.4%	39.3%						
84 months	124.3%	57.4%	31.4%							
96 months	123.5%	57.4%								
108 months	121.0%									
Total ultimate losses ($'000)	19,337.4	8,666.7	4,580.9	10,055.4	7,429.7	9,777.3	16,649.9	70,279.3	65,760.4	212,537.0
Less paid claims ($'000)	(18,533.2)	(8,494.3)	(3,784.4)	(9,287.8)	(6,597.9)	(7,086.2)	(10,104.6)	(35,445.4)	(3,615.7)	(102,949.5)
Less unearned portion of ultimate losses ($'000)	–	–	–	–	–	–	–	(171.4)	(11,734.8)	(11,906.2)
Gross claims liabilities ($'000)	**804.2**	**172.4**	**796.5**	**767.6**	**831.8**	**2,691.1**	**6,545.3**	**34,662.5**	**50,409.9**	**97,681.3**

Notes to the syndicate annual accounts *continued*

10 Technical provisions *continued*

Net ultimate claims	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	
Reinsurance										
12 months	57.9%	52.9%	60.9%	67.6%	59.1%	63.5%	64.2%	120.5%	95.3%	
24 months	142.4%	72.5%	46.0%	54.4%	36.9%	30.0%	36.3%	118.8%		
36 months	124.0%	66.7%	41.7%	51.5%	36.1%	22.0%	40.0%			
48 months	120.0%	61.9%	40.2%	50.3%	33.8%	22.8%				
60 months	124.1%	61.4%	41.1%	47.3%	33.5%					
72 months	124.7%	61.3%	41.2%	47.0%						
84 months	124.3%	57.4%	41.2%							
96 months	123.5%	57.4%								
108 months	121.0%									
Specialty lines										
12 months								59.8%	67.9%	
24 months								60.6%		
Total										
12 months	57.9%	52.9%	60.9%	67.6%	59.1%	63.5%	64.2%	101.6%	89.1%	
24 months	142.4%	72.5%	46.0%	54.4%	36.9%	30.0%	36.3%	111.0%		
36 months	124.0%	66.7%	41.7%	51.5%	36.1%	22.0%	40.0%			
48 months	120.0%	61.9%	40.2%	50.3%	33.8%	22.8%				
60 months	124.1%	61.4%	41.1%	47.3%	33.5%					
72 months	124.7%	61.3%	41.2%	47.0%						
84 months	124.3%	57.4%	41.2%							
96 months	123.5%	57.4%								
108 months	121.0%									
Total ultimate losses ($'000)	19,337.4	8,666.7	4,578.5	10,044.9	7,390.0	9,249.5	14,551.5	50,981.1	79,945.0	204,744.6
Less paid claims ($'000)	(18,533.2)	(8,494.3)	(3,784.4)	(9,287.8)	(6,597.9)	(7,057.0)	(9,991.8)	(28,831.3)	(3,822.8)	(96,400.5)
Less unearned portion of ultimate losses ($'000)	–	–	–	–	–	–	–	–	(37,341.0)	(37,341.0)
Net claims liabilities ($'000)	**804.2**	**172.4**	**794.1**	**757.1**	**792.1**	**2,192.5**	**4,559.7**	**22,149.8**	**38,781.2**	**71,003.1**

11 Related parties transactions

The business written by syndicate 6107 is ceded from syndicates 2623 and 623, for which syndicate 6107 pays a profit commission. This profit commission payable is disclosed in note 6 and the overrider commission is included within operating expenses.

As at the balance sheet date, the syndicate has no intercompany balances outstanding with the managing agent. There were also no amounts due at the 2017 balance sheet date.

The intercompany positions with other syndicates managed by Beazley Furlonge Limited at 31 December 2018 are disclosed above in note 7 (other debtors) and note 9 (other creditors).

Beazley Furlonge Limited, the managing agent of syndicate 6107, is a wholly-owned subsidiary of Beazley plc. The directors of Beazley Furlonge Limited during the period covered by these syndicate annual accounts who participated on syndicate 623, managed by the managing agent, indirectly through Beazley Staff Underwriting Limited are as follows:

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

1 M R Bernacki and M L Bride are expected to step down from the board in 2019.
2 C A Washbourn and N P Maidment stepped down from the board during the year.

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

	Shareholding of Beazley plc as at 31 December 2018	Shareholding of Beazley plc as at 31 December 2017
DL Roberts[1] (appointed chairman 22/03/2018)	41,300	41,300
M R Bernacki	293,433	213,659
G P Blunden[1]	40,000	45,000
M L Bride – finance director	169,643	313,365
A P Cox (appointed active underwriter 31/12/2018)	785,756	626,947
A Crawford-Ingle[1]	34,207	34,207
N H Furlonge[1]	355,584	655,584
D A Horton – chief executive officer	1,716,766	1,712,966
N P Maidment (resigned 31/12/2018)	2,917,188	2,917,188
R Stuchbery[1]	62,500	53,000
D Holt[1] (resigned 22/03/2018)	50,000	50,000
C A Washbourn (resigned 24/12/2018)	465,700	465,700
K W Wilkins[1]	14,000	14,000

1 Non-executive director.

Notes to the syndicate annual accounts *continued*

11 Related parties transactions *continued*

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

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

All of the above companies are coverholders for syndicates 623 and 2623 (the syndicates).

The syndicates are charged commissions for the type of business underwritten by these companies. The commission is based on the costs incurred by these service companies in generating the business on behalf of the syndicates. As Beazley plc owns 100% of the share capital, it could receive profits from these entities in the future from the business underwritten by the names on syndicate 623.

In 2015, syndicates 623 and 2623 entered into a whole account quota share reinsurance agreement with a special purpose syndicate 6050. Syndicate 6050 is managed by Beazley Furlonge Limited and the syndicates receive commission income under this agreement. During 2018, syndicate 623 and 2623 entered into a commutation agreement with syndicate 6050 on the 2016 and 2017 year of account contracts.

12 Post balance sheet events

The following amounts are proposed to be transferred to members' personal reserve funds. The figures stated are after members' agents' fees incurred.

	2018 $'000	2017 $'000
2015 year of account	–	19,269.5
2016 year of account	12,179.5	–
	12,179.5	**19,269.5**

2016 year of account for syndicate 6107

Managing agent's report

The syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (the 'Lloyd's Regulations') and in accordance with the Syndicate Accounting Byelaw (No.9 of 2005), including Financial Reporting Standard 102 (FRS 102) and Insurance Contracts 103 (FRS 103).

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2016 year of account which has been closed by reinsurance to close at 31 December 2018; consequently the balance sheet represents the assets and liabilities of the 2016 year of account and the profit or loss account reflect the transactions for that year of account during the 36 months period until closure.

Directors

A list of directors of the managing agent who held office during the current year can be found on page 43 of the syndicate annual accounts.

Disclosure of information to the auditor

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

Auditor

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

On behalf of the board

M L Bride
Finance director

8 March 2019

Statement of managing agent's responsibilities

The directors of the managing agent are responsible for preparing the syndicate underwriting year accounts in accordance with the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw. They have elected to prepare the accounts in accordance with 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 underwriting year accounts unless they are satisfied that they give a true and fair view of the result of the underwriting year at closure. In preparing these accounts, the directors of the managing agent are required to:

- select suitable accounting policies and then apply them consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable between the members of the syndicate affected is used;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounts;
- 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. As explained in note 1 the directors of the managing agent have not prepared the underwriting year accounts on a going concern basis.

The directors of the managing agent are responsible for keeping adequate and proper 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 underwriting year accounts 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 accounts 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.

On behalf of the board

M L Bride
Finance director

8 March 2019

Independent auditor's report to the members of syndicate 6107

2016 closed year of account

Opinion

We have audited the Syndicate underwriting year accounts for the 2016 year of account of Syndicate 6107 for the three year period ended 31 December 2018, which comprise the Profit or loss account, Balance sheet, Cash flow statement, Statement of changes in members' balances and related notes, including the accounting policies in note 1. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, as modified by the Insurance Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008) and the Lloyd's Syndicate Accounting Byelaw. Note 1 to the financial statements further explains the basis of preparation of the underwriting year accounts.

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 and the Lloyd's Syndicate Accounting Byelaw. 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 Syndicate and the Syndicate's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors of the managing agent and auditor

As explained more fully in the statement of the directors of the Managing Agent's responsibilities set out on page 33, the directors of the Managing Agent are responsible for the preparation of the underwriting year accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express and opinion on, the underwriting year accounts in accordance with the applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the underwriting year of accounts

A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at **www.frc.org.uk/auditscopeukprivate**.

Opinion on underwriting year accounts

In our opinion the underwriting year accounts:
- give a true and fair view of the syndicate's profit for the 2016 closed year; and
- have been properly prepared in accordance with the requirements of the Lloyd's Syndicate Accounting Byelaw.

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 and proper accounting records have not been kept by the directors of the managing agent on behalf of the syndicate; or
- the underwriting year accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Elizabeth Cox (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
E14 5GL
London

8 March 2019

Profit or loss account

2016 year of account for the 36 months ended 31 December 2018

	Notes	2016 year of account $'000
Gross premiums written		46,263.0
Outward reinsurance premiums		(6,617.3)
Earned premiums, net of reinsurance		**39,645.7**
Allocated investment return transferred from the non-technical account		1,579.9
Reinsurance to close premiums received	2	5,412.7
		6,992.6
Gross claims paid		(12,749.7)
Reinsurers' share		142.0
Claims incurred, net of reinsurance		**(12,607.7)**
Reinsurance to close premiums payable	3	(8,174.0)
		(20,781.7)
Net operating expenses	4	(9,307.0)
Balance on the technical account		**16,549.6**
Loss on foreign exchange		(607.9)
Other charges	8	(3,762.2)
Investment income		1,579.9
Allocated investment return transferred to the technical account		(1,579.9)
Profit for the 2016 closed year of account	5	**12,179.5**
Syndicate allocated capacity (£'000)		28,621.6
Profit for the 2016 closed year of account (£'000)		9,538.4
Return on capacity		33.3%

There are no recognised gains or losses in the accounting period other than those dealt with within the technical account above.

Balance sheet

closed at 31 December 2018

	Notes	2016 year of account $'000
Assets		
Debtors	6	20,018.8
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	3	1,962.6
Cash at bank and in hand		92.8
Other prepayments and accrued income		112.1
Total assets		**22,186.3**
Liabilities		
Amounts due to members	7	12,179.5
Reinsurance to close premium payable to close the account – gross amount	3	10,006.8
Total liabilities		**22,186.3**

The syndicate underwriting year accounts on pages 35 to 41 were approved by the board of directors on 8 March 2019 and were signed on its behalf by:

A P Cox
Active underwriter

M L Bride
Finance director

Cash flow statement

2016 year of account for the 36 months ended 31 December 2018

	2016 year of account $'000
Reconciliation of profit for the financial year to net cash inflow from operating activities	
Profit for the 2016 closed year of account	12,179.5
Increase in gross reinsurance to close payable	10,006.8
Increase in reinsurers' share of reinsurance to close	(1,962.6)
Increase in debtors	(20,130.9)
Investment income received	(1,579.9)
Net cash flows from operating activities	**(1,487.1)**
Net purchases of financial instruments	–
Investment income received	1,579.9
Net cash from investing activities	**1,579.9**
Transfer to members in respect of underwriting participations	–
Net cash from financing activities	**–**
Net increase in cash and cash equivalents	**92.8**
Cash and cash equivalents at 1 January 2016	–
Cash and cash equivalents at 31 December 2018	**92.8**

Statement of changes in members' balances

for the 36 months ended 31 December 2018

	2016 year of account $'000
Profit for the 2016 closed year of account	12,179.5
Amounts due to members at 31 December 2018	**12,179.5**

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

Notes to the syndicate underwriting year accounts

closed at 31 December 2018

1 Accounting policies

Basis of preparation

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

Whilst the directors of the managing agent have a reasonable expectation that the syndicate has adequate resources to continue in operational existence for the foreseeable future, these financial statements represent the participation of members in the 2016 year of account which closed on 31 December 2018. The accumulated profits of the 2016 year of account will be distributed shortly after publication of these accounts. Therefore the 2016 year of account is not continuing to trade and, accordingly, the directors have not adopted the going concern basis in the preparation of these accounts. The amounts reported would be identical if the accounts had been prepared on a going concern basis as the 2016 year of account will be closed by payment of a reinsurance to close premium, as outlined in note (a) below, which is consistent with the normal course of business for a Lloyd's syndicate and with the approach we have applied to earlier underwriting years.

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

Underwriting transactions

a) The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

b) Gross premiums are allocated to years of account on the basis of the inception date of the policy. Commission and brokerage are charged to the year of account to which the relevant policy is allocated. Policies written under binding authorities, lineslips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums follow the year of account of the original premium. Premiums in respect of reinsurance ceded are attributed to the same year as the original risk being protected. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due but not yet notified to the syndicate year of account.

c) Gross claims paid are allocated to the same year of account as that to which the corresponding premiums are allocated and include internal and external claims settlement expenses. Reinsurance recoveries are allocated to the year of account to which the claim was charged.

d) A provision for unexpired risks is made where claims, related expenses and deferred acquisition costs, likely to arise after the balance sheet date in respect of contracts relating to the closing year of account, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

e) The reinsurance to close premium is determined by reference to outstanding liabilities, including claims incurred but not yet reported, relating to the closed year and to all previous closed years reinsured therein. Although the estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined. The reinsurance to close premium includes a provision for unearned premiums and unexpired risks at the balance sheet date, net of deferred acquisition costs.

Comparatives

f) Comparatives are not provided in these syndicate underwriting year accounts as each syndicate year of account is a separate annual venture.

Notes to the syndicate underwriting year accounts *continued*

1 Accounting policies *continued*

Syndicate operating expenses

g) Costs incurred by the managing agent in respect of the syndicate are charged to the syndicate. Where expenses do not relate to any specific year of account they are apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense.

h) Where expenses are incurred jointly by the managing agent and the syndicate, they are apportioned as follows:
- salaries and related costs – according to the staff time spent on dealing with syndicate matters;
- accommodation costs – proportioned based on the overall staff costs allocation above; and
- other costs – as appropriate in each case.

Taxation

i) Under Schedule 19 of the Finance Act 1993, managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax. It is the responsibility of members to agree and settle their individual tax liabilities with the Inland Revenue.

j) No provision has been made for any United States Federal Income Tax or any overseas tax payable on the underwriting results or investment earnings.

Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

Basis of currency translation

k) The syndicate operates in four separate currency funds of sterling, euro, US dollars and Canadian dollars. Items expressed in sterling, euro and Canadian dollars are translated to US dollars at the three years' average rates of exchange ruling at the balance sheet date. The euro, US dollar and Canadian dollar three years' average exchange rates as at 31 December 2018 are euro 0.88, sterling 0.75 and Canadian dollar 1.31.

2 Reinsurance to close premiums received

	2016 year of account $'000
Gross reinsurance to close premiums received	5,754.1
Reinsurance recoveries anticipated	(341.4)
Reinsurance to close premiums received, from 2015	**5,412.7**

3 Reinsurance to close premiums payable

	2016 year of account $'000
Gross reinsurance to close premiums payable	10,123.9
Reinsurance recoveries anticipated	(1,949.9)
Foreign exchange	(129.8)
Reinsurance to close premiums payable to 2017	**8,044.2**

	Reported $'000	IBNR $'000	Total $'000
Reinsurance to close premiums payable	5,339.5	4,667.2	10,006.7
Reinsurance recoveries anticipated	(447.6)	(1,514.9)	(1,962.5)
Reinsurance to close premiums payable	**4,891.9**	**3,152.3**	**8,044.2**

4 Net operating expenses

	2016 year of account $'000
Acquisition costs	7,308.4
Administrative expenses	1,834.5
Members standard personal expenses	164.1
	9,307.0

Administrative expenses include:	
Audit services	17.7

5 Analysis of the 2016 year of account result

	2016 year of account $'000
Profit attributable to business allocated to the 2016 year of account	11,433.9
Surplus on the reinsurance to close for the 2015 year of account	745.6
	12,179.5

6 Debtors

	2016 year of account $'000
Amounts due from other syndicates	20,018.8
	20,018.8

These balances are due within one year.

7 Amounts due to members

	2016 year of account $'000
Profit for the 2016 closed year of account	12,179.5
Amounts due to members at 31 December 2018	**12,179.5**

Amounts are stated after the deduction of members' agents' fees.

8 Other charges

	2016 year of account $'000
Profit commission paid to syndicate 623/2623	3,762.2

9 Related party transactions

Please refer to page 29 of the syndicate annual accounts for further details of related party transactions for the 2016 year of account.

Summary of closed year results

at 31 December 2018

	2016	2015	2014	2013	2012	2011
Syndicate allocated capacity – £'000	28,622	28,602	21,042	18,382	10,153	14,115
Syndicate allocated capacity – $'000	44,936	48,910	31,983	28,859	15,432	22,160
Capacity utilised	87%	79%	73%	83%	69%	65%
Aggregate net premiums – $'000	32,337	33,477	18,437	19,806	10,599	14,550
Underwriting profit as a percentage of gross premiums	43.6%	68.2%	46.9%	34.5%	38.2%	40.5%
Return on capacity	33.3%	50.6%	29.1%	17.4%	32.8%	10.1%
Results for an illustrative £10,000 share	$	$	$	$	$	$
Gross premiums	13,610	13,541	11,073	13,019	13,393	9,779
Net premiums	11,298	11,705	8,762	10,775	10,439	9,779
Reinsurance to close from an earlier account	1,891	1,909	3,409	3,537	7,691	5,871
Net claims	(4,405)	(2,550)	(4,249)	(5,907)	(5,488)	(8,074)
Reinsurance to close the year of account	(2,856)	(1,826)	(2,734)	(3,919)	(6,746)	(5,201)
Underwriting profit	5,928	9,238	5,188	4,486	5,896	2,375
(Loss)/profit on foreign exchange	(25)	201	1,081	(141)	(21)	342
Syndicate operating expenses	(147)	(920)	(1,284)	(644)	(859)	(1,114)
Balance on technical account	5,756	8,519	4,985	3,701	5,016	1,603
Gross investment return	552	274	99	55	101	79
Profit before personal expenses	6,309	8,793	5,084	3,756	5,117	1,682
Illustrative personal expenses						
Illustrative personal expenses	(60)	(61)	(77)	(72)	–	(11)
Managing agent's profit commission	(1,994)	(1,995)	(1,311)	(1,060)	–	–
Profit after illustrative profit commission and personal expenses ($)	4,254	6,737	3,696	2,624	5,117	1,671
Profit after illustrative profit commission and personal expenses (£)	3,332	5,056	2,910	1,738	3,281	1,007

Notes:
1 The illustrative profit commission and personal expenses are estimates of amounts which might be charged on an illustrative share of £10,000. The agency agreements for 1991 and subsequent years of account only provide for the deduction of fees and profit commission on behalf of the managing agent.
2 The effect of any minimum charges on personal expenses or deficit clauses on profit commission have been ignored.
3 Internal claims settlement expenses have been included in 'net claims'.
4 The above figures are stated before members' agents' fees.
5 Profit after illustrative profit commission and personal expenses is shown in dollars and converted to sterling at the closing rate.
6 Gross and net premium amounts shown above are net of brokerage expenses.

Managing agent corporate information

Beazley Furlonge Limited has been the managing agent of syndicate 6107 throughout the period covered by this report and the registered office is Plantation Place South, 60 Great Tower Street, London EC3R 5AD.

Directors

D L Roberts[1] (appointed chairman 22/03/2018)
M R Bernacki
G P Blunden[1]
M L Bride – finance director
A P Cox (appointed active underwriter 31/12/2018)
A Crawford-Ingle[1]
N H Furlonge[1]
D A Horton – chief executive officer
N P Maidment (resigned 31/12/2018)
R Stuchbery[1]
D Holt[1] (resigned 22/03/2018)
C A Washbourn (resigned 24/12/2018)
K W Wilkins[1]

1 Non-executive director.

Company secretary

C P Oldridge

Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Managing agent's registered office

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

Registered number

01893407

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