Beazley Furlonge Limited | Syndicate 6107 at Lloyd's
Annual report 2012

beazley

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Highlights

	2012	2011
Syndicate capacity (£'000)	10,152.6	14,114.5
Gross premiums written ($'000)	14,508.0	17,087.3
Earned premiums, net of reinsurance ($'000)	11,065.3	17,333.7
Profit/(loss) for the financial year ($'000)	**1,962.7**	**(11,281.7)**
Claims ratio	60%	147%
Expense ratio	22%	16%
Combined ratio	82%	163%

Underwriter's report

Overview

Syndicate 6107 continued to write a share of the property reinsurance business written by syndicates 623 and 2623 in 2012 following its establishment in 2010.

For 2012 total managed premium capacity for Beazley Furlonge Limited was £1,318.1m (2011: £1,319.2m), which includes £12.5m, £135.0m and £10.2m for 3622, 3623 and 6107 respectively. Syndicate 623 contributed £214.2m and Beazley plc through syndicate 2623, the remaining £946.2m.

Year of account results

As a result of significant natural catastrophe loss activity during 2011, the 2010 year of account will declare a loss on capacity of 39.1%. The 2011 year of account is currently forecasting a return on capacity of 5%.

Rating environment

In 2012, rates continued to improved in loss affected areas such as Asia and North America, resulting in the syndicate experiencing an increase of 5% on premium rates on renewal business.

Combined ratio

The combined ratio of an insurance company is a common measure of its operating performance and represents the ratio of its total costs (excluding foreign exchange movements) to total premium income. The syndicate's combined ratio for 2012 was 82% (2011: 163%). Within the combined ratio, the claims ratio was 60%, while the expense ratio made up 22%.

Claims

The severe events which impacted the reinsurance market in late 2010 and early 2011 have contributed to the 2010 year of account closing at a loss of $9.3m. Having forecast that the 2010 year of account would close at a loss, the syndicate made a cash call of £6.8m (approximately $11m) in early 2012 and so there will be a moderate distribution to the members as the year is closed.

On our 2011 year of account, the expected cost of these natural catastrophes remains unchanged and the syndicate currently forecasts a profit on capacity of 5%.

Claims notifications (with the exception of superstorm Sandy) were at normalised levels during 2012, with loss developments in line with our expectations. Despite an active storm season in the North Atlantic, we did not incur a significant loss until Sandy made landfall in October. We estimate the cost of Sandy to be $3.9m to the syndicate based on market losses of $20bn-$25bn.

Net operating expenses

Net operating expenses, including business acquisition costs and administrative expenses were $2.5m (2011: $3.0m). The breakdown of these costs is shown below:

	2012 $'000	2011 $'000
Brokerage costs	1,992.1	2,083.0
Total acquisition costs	**1,992.1**	**2,083.0**
Administrative expenses	490.6	966.9
Net operating expenses	**2,482.7**	**3,049.9**

Brokerage costs are the premium commissions paid to insurance intermediaries for providing business. As a percentage of net earned premium they are approximately 18% (2011: 12%). 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.

Individual capital assessment

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

The current capital assessment has been established using our Solvency II internal model which has been run within the ICA regime as prescribed by Lloyd's. In order to determine the capital assessment, we have made significant 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 by natural catastrophe events; and
- the ICA process is embedded so that the reinsurance team can see the direct and objective link between underwriting decisions and the capital allocated to the team. This gives a consistent and comprehensive picture of the risk reward profile of the portfolio and allows the team to focus on strategies that improve return on capital.

The capital requirement in 2013 for syndicate 6107 has increased in line with the increase in stamp capacity.

Solvency II

Beazley has set two guiding principles for Solvency II, namely:

- to develop a framework that can be used to inform management and assist with business decision making; and
- to hold an appropriate and efficient level of capital for the agreed risk appetite through risk identification and mitigation.

During 2012 the dedicated project management team and subject matter experts completed all outstanding activities for Lloyd's. We confirmed our Final Application Status to Lloyd's, including a confirmation that we were expecting to be fully compliant by the end of 2012 and a detailed Target Operating Model, describing the business as usual processes for maintaining ongoing compliance with the tests and standards. We embedded the SII internal model and all the new processes into the business, taking further advantage of our improved management information and decision making processes, and had our capital approved for 2013 using the new model. All Pillar I and Pillar II aspects of SII have now been fully transferred into business as usual. The remaining work on Pillar III (reporting and disclosure) will be completed in line with the Lloyd's plan over the next few years.

The syndicate also went through an extensive review process with the FSA, with a number of aspects of the SII internal model already having been reviewed in depth. During 2013, the syndicate will continue to work with Lloyd's and the FSA to facilitate any further reviews, to further embed the model and the procedures, and to prepare ourselves for the regime coming into force – which is now assumed to be in 2016 at the earliest.

Outlook

While the syndicate's first year of account has closed with a loss, performance has improved significantly in the current year. Market conditions are still attractive in the core reinsurance business and we are well positioned to take advantage of the positive rating environment we have seen.

N P Maidment
Active Underwriter

6 March 2013

Managing agent's report

The managing agent presents its report for the year ended 31 December 2012.

These syndicate annual accounts have been prepared using the annual basis of accounting as required by Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Separate underwriting year accounts for the closed year of account will also be made available to the syndicate members.

Principal activity

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

Risk management philosophy

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

Risk governance and reporting

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

2012 in review

We have now been using the revised risk management framework for three years and, supported by a comprehensive training programme, the framework has become part of usual business activity. The risk management function has also remained stable and at full capacity during 2012 and has supported the operation of the framework through facilitation, challenge and the provision of timely risk information. It is by embedding an effective risk management culture throughout the managing agency, underpinned by a robust risk management framework that we can anticipate and plan for our future challenges.

A robust risk assessment is an important cornerstone of the framework. The risks and opportunities in the reinsurance area have not changed significantly in 2012, and for this reason neither has our risk management strategy of maintaining a diversified portfolio, exposed to the main natural catastrophe employing a conservative investment strategy and operating a robust underwriting and claims control environment. The main risk for the syndicate is catastrophe risk. Underwriting risk and reserving risk are also applicable to the syndicate.

Whilst the near term risks have not changed, potential emerging risks arising from US windstorms, US earthquakes and Japanese earthquakes have also been considered and the response to these risks have been monitored within the quarterly Own Risk and Solvency Assessment ('ORSA') report. This work was supported by two formal risk assessment exercises led by risk owners in 2012 to ensure that the risk management framework and control environment keeps pace with the changing environment within which the syndicate operates.

The ORSA has also emerged as a valuable addition to the risk reports of Beazley Furlonge Limited. In summary, the ORSA combines risk assessment information with risk quantification to inform decisions over a one year and five year timeframe.

Finally, the governance of the risk management framework has continued to evolve in 2012 with the introduction of a board risk committee for Beazley Furlonge Limited. The membership of this committee is restricted to non-executive directors who provide independent oversight and challenge how Beazley Furlonge Limited is managing and optimising risk.

Risk management strategy

The board of Beazley Furlonge has delegated the oversight of the risk management department to the Beazley executive committee, which in turn has delegated immediate oversight to the risk and regulatory 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 continually reassessed and changes are made when necessary. On an annual basis, the board agrees the risk appetite for each risk and this is documented in the risk framework document. The value of 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, we have adopted the following risk management principles:

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

Managing the cycle

Market cycle risk is characterised by the periodic rise and fall in reinsurance prices and is driven largely by changes in supply and demand rather than the actual cost of cover. The cycle varies between a soft market where reinsurance is readily available and premium rates fall as a result of increased competition and a hard market, where clients find reinsurance coverage more difficult to obtain and rates rise and terms and conditions become more restrictive.

On a day to day basis, market cycle risk is managed in the following ways:

- business planning - ensuring the reinsurance portfolio is getting an appropriate total risk budget given market conditions and that the budget is effectively deployed region by region;
- cascaded peer review and underwriter challenge – monitoring of individual risks against limits allocated to each underwriter and performing a ‘second pair of eyes’ check to ensure that there is sufficient oversight of the whole portfolio and that it remains in line with the business plan;
- rate adequacy and benchmark pricing – quantitative monitoring of risks to ensure that we are charging appropriate premiums for the risks we are taking; and
- reserving – having a clear view of the underlying profitability of each element of the portfolio with transparent links to capital allocation.

Catastrophe risk

Catastrophe risk is assessed both in terms of modelled losses and the risk of losing more than expected through poor exposure management. Our portfolio is analysed for classes of business where accumulations of losses can result from a single or a series of large catastrophic events.

Catastrophe risk is managed through:

- risk appetite setting and monitoring of exposures – risk appetite limits are defined in the business planning process and set by the board and calculated on a probabilistic basis using catastrophe models. We acknowledge the uncertainty present within these models and therefore also monitor deterministic output using Lloyd’s realistic disaster scenarios (RDS’s) and our aggregate position to stress test our book. Risk appetite is set based upon the impact on earnings and capital, whilst being mindful of potential opportunities that exist following the event; and
- individual risk monitoring – in certain classes of business we model the impact of individual property locations to our overall exposure prior to quoting to ensure we are not creating accumulations of risk and to ensure we are receiving an appropriate minimum premium on catastrophe exposed business.

Managing agent's report *continued*

Asset risk
Asset risk is limited given the cash or cash equivalent nature of the assets held.

Liquidity risk
Liquidity risk is the risk that we do not have sufficient financial resources to meet our obligations as they fall due. Strategically, we seek to maintain sufficient liquid assets or assets that can be liquidated at short notice and without capital loss to meet our expected cash flow requirements. Our RDS's are stress tested on a regular basis.

Credit risk
Credit risk arises from the failure of another party to perform its financial or contractual obligations to the group 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;
- cash and cash equivalents.

Our exposure to credit risk is mitigated by vetting of all of our key counterparties before trading with them. Performance is closely monitored and managed through our committee structure.

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.

We actively manage operational risks and minimise them where appropriate by implementing and communicating guidelines to staff and other third parties. The impact of control failure is quantified and compared to the effectiveness of these controls to allow us to see where our attention should be focussed. The quantitative impact of operational risk, and those controls designed to mitigate those risks, are captured in the capital modelling process so that there is a clear link between operational risk and its financial impact on the business.

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 auditors are 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 auditors are aware of that information.

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

Directors
A full list of the directors of the managing agent who held office during the year can be found on page 24.

By order of the board

M L Bride
Finance Director

6 March 2013

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the syndicate annual report and accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate annual accounts at 31 December each year in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice). The syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the syndicate as at that date and of its profit or loss for that year.

In preparing the syndicate annual accounts, the directors of the managing agent are required to:

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

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

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

By order of the board

M L Bride
Finance Director

6 March 2013

Independent auditor's report to the members of syndicate 6107

We have audited the syndicate 6107 annual accounts for the year ended 31 December 2012, as set out on pages 9 to 16. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the members of the syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state 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's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the statement of managing agent's responsibilities set out on page 7, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

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

Opinion on syndicate annual accounts

In our opinion the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

In our opinion the information given in the managing agent's report for the financial year in which the annual accounts are prepared is consistent with the annual accounts.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require us to report to you if, in our opinion:

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

Stuart Crisp
Senior Statutory Auditor
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

7 March 2013

Profit and loss account

year ended 31 December 2012

	Notes	2012 $'000	2011 $'000
Gross premiums written	3	14,508.0	17,087.3
Outward reinsurance premiums		(3,000.0)	–
Net premiums written		11,508.0	17,087.3
Change in the gross provision for unearned premiums	4	(442.7)	246.4
Change in the provision for unearned premiums, reinsurers' share		–	–
Earned premiums, net of reinsurance		**11,065.3**	**17,333.7**
Allocated investment return transferred from the non-technical account		43.9	(66.2)
Gross claims paid		(9,638.1)	(9,623.4)
Reinsurers' share of claims paid		–	–
Claims paid net of reinsurance		(9,638.1)	(9,623.4)
Change in the gross provision for claims	4	2,875.6	(15,926.8)
Change in the provision for claims, reinsurers' share	4	98.7	–
Change in the net provision for claims		**2,974.3**	**(15,926.8)**
Claims incurred, net of reinsurance		**(6,663.8)**	(25,550.2)
Net operating expenses	5	**(2,482.7)**	**(3,049.9)**
Balance on the technical account		**1,962.7**	**(11,332.6)**
Investment income		43.9	(66.2)
		2,006.6	(11,398.8)
Allocated investment return transferred to general business technical account		(43.9)	66.2
Other income	6	–	50.9
Profit/(loss) for the financial year		**1,962.7**	**(11,281.7)**

All of the above operations are continuing.

Statement of total recognised gains and losses

year ended 31 December 2012

	2012 $'000	2011 $'000
Profit/(loss) for the financial year	1,962.7	(11,281.7)
Foreign exchange gain/(loss) on brought forward reserves	345.0	(35.7)
Total recognised gains and losses since last annual report	**2,307.7**	**(11,317.4)**

Balance sheet

as at 31 December 2012

	Notes	2012 $'000	2011 $'000
Assets			
Reinsurers' share of technical provisions			
Provision for unearned premiums, reinsurers' share	4	–	–
Claims outstanding, reinsurers' share	4	67.1	–
		67.1	**–**
Debtors			
Debtors arising out of reinsurance operations		3,515.7	3,633.2
Other debtors	7	27,472.0	14,075.7
		30,987.7	**17,708.9**
Prepayments			
Deferred acquisition costs		499.3	412.8
		499.3	**412.8**
Total assets		**31,554.1**	**18,121.7**
Liabilities, capital and reserves			
Capital and reserves			
Members' balances attributable to underwriting participations	8	2,456.1	(10,645.3)
		2,456.1	**(10,645.3)**
Technical provisions			
Provision for unearned premiums	4	3,501.0	3,010.2
Claims outstanding	4	22,596.8	25,756.8
		26,097.8	**28,767.0**
Creditors			
Creditors arising out of reinsurance operations		3,000.0	–
Other creditors		0.2	–
		3,000.2	**–**
Total liabilities, capital and reserves		**31,554.1**	**18,121.7**

The syndicate annual accounts on pages 9 to 16 were approved by the board of Beazley Furlonge Limited on 6 March 2013 and were signed on its behalf by:

N P Maidment
Active Underwriter

M L Bride
Finance Director

Cash flow statement
year ended 31 December 2012

	2012 $'000	2011 $'000
Reconciliation of profit/(loss) for the year to net cash flow from operating activities		
Profit/(loss) for the financial year	1,962.7	(11,281.7)
Translation differences	345.0	(35.7)
Increase/(decrease) in net technical provisions	(2,736.3)	15,900.3
(Increase) in debtors	(13,365.3)	(4,582.9)
Increase in creditors	3,000.2	–
Other translation difference	(290.3)	–
Cash call received from members	11,084.0	–
Net cash flow from operating activities	–	–

Notes to the syndicate annual accounts

1 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. They comply with the Statement of Recommended Practice on accounting for Insurance Business issued by the Association of British Insurers in December 2006 ('the ABI SORP').

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 2012 is included within claims outstanding in the balance sheet.

2 Accounting policies

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

a) Premiums

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

b) Unearned premiums

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

c) Claims

Claims incurred represent the cost of claims 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.

2 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 income statement initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests ('unexpired risk provision').

e) Acquisition costs

Acquisition costs comprise brokerage, 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

Income and expenditure in Sterling, Canadian dollars and Euros are translated at the average rates of exchange for the period.

Syndicate assets and liabilities are translated into US dollars at the rates of exchange at the balance sheet dates unless contracts to sell currency for US dollars have been entered into prior to the year end, in which case the contracted rates have been used. Foreign exchange differences on opening reserves are taken through the statement of recognised gains and losses. All other differences arising on translation of foreign currency amounts in the syndicate are included in the profit and loss account.

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 managing agent 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 3-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 income statement.

Notes to the syndicate annual accounts *continued*

2 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) Other debtors

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

l) Other creditors

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

3 Segmental analysis

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

4 Technical provisions

	Provision for unearned premium outstanding $'000	Claims $'000
Gross technical provisions		
As at 1 January 2012	3,010.2	25,756.8
Foreign exchange adjustments	48.1	(284.4)
Movement in the provision	442.7	(2,875.6)
As at 31 December 2012	**3,501.0**	**22,596.8**
Reinsurers' share of technical provisions		
As at 1 January 2012	–	–
Foreign exchange adjustments	–	(31.6)
Movement in the provision	–	98.7
As at 31 December 2012	**–**	**67.1**
Net technical provisions		
As at 1 January 2012	3,010.2	25,756.8
As at 31 December 2012	**3,501.0**	**22,529.7**

	Provision for unearned premium outstanding $'000	Claims $'000
Gross technical provisions		
As at 1 January 2011	3,262.9	9,603.8
Foreign exchange adjustments	(6.3)	226.2
Movement in the provision	(246.4)	15,926.8
As at 31 December 2011	**3,010.2**	**25,756.8**

5 Net operating expenses

	2012 $'000	2011 $'000
Acquisition costs	2,073.4	2,028.3
Change in deferred acquisition costs	(81.3)	54.7
Administrative expenses	682.4	683.0
(Profit)/loss on foreign exchange	(191.8)	283.9
	2,482.7	**3,049.9**

Administrative expenses include:

	2012 $'000	2011 $'000
Fees payable to the syndicate's auditor for the audit of these syndicate annual accounts	16.8	16.8
Fees payable to the syndicate's auditor and its associates in respect of: Other services pursuant to legislation	28.9	24.0
	45.7	**40.8**

6 Other income/(charges)

	2012 $'000	2011 $'000
Profit commissions refunded by/(paid to) Beazley Furlonge Limited	–	50.9

7 Other debtors

	2012 $'000	2011 $'000
Amount due from syndicate 623	13,130.5	2,665.8
Amount due from syndicate 2623	13,764.4	11,409.9
Amount due from members	577.1	–
	27,472.0	**14,075.7**

8 Reconciliation of members' balances

	2012 $'000	2011 $'000
Members' balances at 1 January	(10,645.3)	672.1
Foreign exchange on brought forward reserves	345.0	(35.7)
Profit/(loss) for the financial year	1,962.7	(11,281.7)
Other translation differences	(290.3)	–
Cash call made	11,084.0	–
Members' balances carried forward at 31 December	**2,456.1**	**(10,645.3)**

Members participate on the syndicates by reference to years of account 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.

9 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.

Beazley Furlonge Limited, the managing agency 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 6107, managed by the managing agent, indirectly through Beazley Staff Underwriting Limited are as follows:

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 2011 balance sheet date.

Notes to the syndicate annual accounts *continued*

10 Related parties transactions *continued*

£	Total bonuses deferred and at risk	2011 year of account underwriting capacity	2012 year of account underwriting capacity	2013 year of account underwriting capacity
M L Bride	216,000	350,000	400,000	400,000
A P Cox	216,000	350,000	400,000	400,000
J G Gray	216,000	350,000	400,000	400,000
D A Horton	216,000	350,000	400,000	400,000
N P Maidment	216,000	350,000	400,000	400,000
C A Washbourn	216,000	350,000	400,000	400,000

The directors of Beazley Furlonge Limited have shareholdings in Beazley plc which provides the capacity for syndicates 2623, 3622 and 3623.

	Shareholding of Beazley plc as at 31 December 2012	Shareholding of Beazley plc as at 31 December 2011
D Holt	50,000	–
G P Blunden	107,156	107,156
M L Bride	340,875	227,310
A P Cox	422,618	320,758
R V Deutsch	–	–
N H Furlonge	1,006,375	1,256,375
J G Gray	1,009,549	1,259,549
A G K Hamilton	37,991	37,991
D A Horton	1,281,610	1,185,883
N P Maidment	3,624,001	3,543,257
R A W Tolle	60,000	60,000
C A Washbourn	516,737	378,852

Beazley plc has the following service companies (managing general agents):
- Beazley Solutions Limited – (UK & Europe);
- Beazley USA Services, Inc. – (USA);
- Beazley Limited – (Hong Kong); and
- Beazley Pte Limited – (Singapore).

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.

11 Post balance sheet events

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

	2012 $'000	2011 $'000
2010 year of account	1,810.1	–
	1,810.1	–

2010 year of account for syndicate 6107

18 Managing agent's report

18 Statement of managing agent's responsibilities

19 Independent auditor's report to the members of syndicate 6107 – 2010 closed year of account

20 Profit and loss account

21 Balance sheet at 31 December 2012

22 Notes to the 2010 syndicate underwriting year accounts

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), applicable accounting standards in the United Kingdom and comply with the Statement of Recommended practice issued by the Association of British Insurers in December 2006 ('the ABI SORP').

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These syndicate underwriting year accounts relate to the 2010 year of account which has been closed by reinsurance to close at 31 December 2012; consequently the balance sheet represents the assets and liabilities of the 2010 year of account and the profit and loss account reflect the transactions for that year of account during the 36 months period until closure.

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 auditors are 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 auditors are aware of that information.

Auditor

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

Directors

A list of directors of the managing agent who held office during the current year can be found on page 24 of the syndicate annual accounts.

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the syndicate underwriting year report and accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate underwriting year accounts for the year which is being closed by reinsurance to close which give a true and fair view of the underwriting result at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No 8 of 2005).

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

- select suitable accounting policies which are applied 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. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these underwriting year accounts.

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

Legislation in the UK governing the preparation and dissemination of the financial statement may differ from legislation in other jurisdictions.

By order of the board

M L Bride
Finance Director

6 March 2013

Independent auditor's report to the members of syndicate 6107 2010 closed year of account

We have audited the syndicate 6107 underwriting year accounts for 2010 year of acounts for the three years ended 31 December 2012, as set out on pages 20 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the members of the syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state 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's members as a body for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 18, the managing agent is responsible for the preparation of syndicate underwriting year accounts under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005), which give a true and fair view.

Our responsibility is to audit, and express an opinion on, the syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the syndicate underwriting year accounts

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

Opinion on syndicate underwriting year accounts

In our opinion the syndicate underwriting year accounts:

- give a true and fair view of the loss for the 2010 closed year of account;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005).

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 require us to report to you if, in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate 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.

Stuart Crisp
Senior Statutory Auditor
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
E14 5GL
London

7 March 2013

Profit and loss account

for the 36 months ended 31 December 2012

	Notes	2010 year of account $'000
Gross premiums written		15,958.7
Allocated investment return transferred from the non-technical account		43.9
Gross claims paid		(13,819.3)
Reinsurance to close premiums payable	2	(8,629.8)
		(22,449.1)
Net operating expenses	4	(2,827.4)
Balance on the technical account		**(9,273.9)**
Investment Income		43.9
Allocated investment return transferred to the technical account		(43.9)
Loss for the 2010 closed year of account	3	**(9,273.9)**
Syndicate allocated capacity (£m)		14,542.4
Loss for the 2010 closed year of account (£m)		(5,689.5)
Loss on capacity		(39.1%)

There are no recognised gains or losses in the accounting period other than those dealt with within the technical and non-technical accounts.

Balance sheet
closed at 31 December 2012

	Notes	2010 year of account $000
Assets		
Debtors	5	9,870.3
Total assets		**9,870.3**
Liabilities		
Amounts due to members	6	1,578.9
Reinsurance to close premium payable to close the account – gross amount	2	8,291.4
Total liabilities		**9,870.3**

The syndicate underwriting year accounts on pages 20 to 24 were approved by the board of directors on 6 March 2013 and were signed on its behalf by:

N P Maidment
Active Underwriter

M L Bride
Finance Director

Notes to the syndicate underwriting year accounts
closed at 31 December 2012

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. They comply with the Statement of Recommended Practice on accounting for Insurance Business issued by the Association of British Insurers in December 2006 ('the ABI SORP').

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.

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.

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.

1 Accounting policies *continued*

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, United States ('US') dollars and Canadian dollars. Items expressed in sterling, Euros 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 2012 are Euro 0.75, Sterling 0.63 and Canadian dollar 1.00.

2 Reinsurance to close premiums payable

	2010 year of account $000
Gross reinsurance to close premiums payable	8,629.8
Foreign exchange	(338.4)
Reinsurance to close premiums payable to 2011, net of reinsurance	**8,291.4**

	Reported $m	IBNR $m	Total $m
Reinsurance to close premium payable	6,061.5	2,229.9	8,291.4
Reinsurance to close premiums payable, net of reinsurance	**6,061.5**	**2,229.9**	**8,291.4**

3 Analysis of the 2010 year of account result

	2010 year of account $000
Loss attributable to business allocated to the 2010 year of account	9,273.9

4 Net operating expenses

	2010 year of account $000
Acquisition costs	2,182.9
Administrative expenses	715.9
Profit of foreign exchange	(71.4)
	2,827.4
Administrative expenses include:	
Audit services	10.0

5 Debtors

	2010 year of account $000
Arising out of reinsurance operations	9,870.3

All insurance debtors relate to business transacted with brokers and intermediaries. These balances are due within one year.

Notes to the syndicate underwriting year accounts *cont.*
closed at 31 December 2012

6 Amounts due to members

	2010 year of account $000
Loss for the 2010 closed year of account	(9,273.9)
Cash call made to date	11,084.0
Members agents fees	(231.2)
Amounts due to members at 31 December 2012	**1,578.9**

7 Related party transactions
Please refer to page 18 for further details of related party transactions for the 2010 year of account.

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.

Other information
Directors
D Holt* - chairman**
J G W Agnew* – (resigned 27/03/2012)**
G P Blunden*
M L Bride – finance director
A P Cox
R V Deutsch*
N H Furlonge*
JG Gray
A G K Hamilton*
D A Horton – chief executive officer
N P Maidment – active underwriter
RA W Tolle*
C A Washbourn

* Non-executive director
** J G W Agnew resigned from the Board on 27 March 2012. Dennis Holt was appointed as chairman of the board on 27 March 2012

Company secretary
Sian A Coope

Auditors
KPMG Audit Plc
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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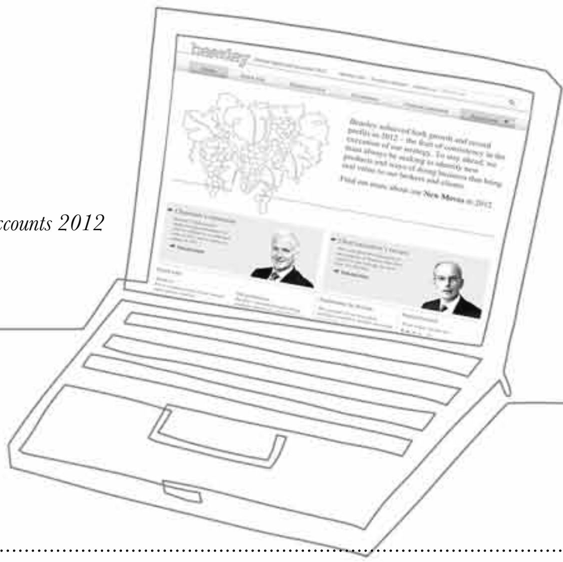

Beazley online Annual report and accounts 2012
www.reports.beazley.com/2012

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