Keeping balance

Premier Partner of BRITISH FENCING

Contents

Cover illustration: The dramatic fencing exchange shown on the front cover of this report is a drawing by artist Geoffrey Appleton based on an earlier drawing by Jenny Osbaldeston. That in turn was based on a photograph taken by Graham Morrison during the final of the 1991 Martini International épée tournament in London between Cuomo of Italy, making the flèche attack, and Sandegren of Sweden.

Highlights

	2011	2010
Syndicate capacity (£'000)	14,114.5	14,542.4
Gross premiums written ($'000)	17,087.3	16,218.3
Earned premiums, net of reinsurance ($'000)	17,333.7	12,958.8
(Loss)/profit for the financial year ($'000)	**(11,281.7)**	**672.1**
Claims ratio	147%	78%
Expense ratio	16%	17%
Combined ratio	163%	95%

Underwriter's report

Overview

Syndicate 6107 continued to write a share of the property reinsurance business written by syndicates 623 and 2623 in 2011 following its establishment in 2010.

For 2011 total managed premium capacity for Beazley Furlonge Limited was £1,319.2m (2010: £1,307.4m), which includes £12.5m, £135.0m and £14.1m for 3622, 3623 and 6107 respectively. Syndicate 623 contributed £214.9m and Beazley plc through syndicate 2623, the remaining £942.7m.

Year of account results

Syndicate 6107 commenced writing business in the 2010 year of account with the intention of taking increased shares on syndicates 623 and 2623's well established portfolio of property reinsurance.

As a result of significant natural catastrophe loss activity, the 2010 year of account is currently forecasting a loss on capacity of 54%. The 2011 year of account, which is still in the early stages of development, is currently forecasting a return on capacity of 2.5%.

Rating environment

Reinsurance rates, as a result of the natural catastrophe events described below, have increased by approximately 50% to 100% in Australia; 150% to 300% in New Zealand; 50% to 100% in Japan; 25% in the US; and more than 100% in Thailand on loss affected business. In other areas, rate increases have been more modest and correspond more closely to capacity, supply and demand.

An additional consequence of these events has been to drive a significant improvement in terms for low frequency, high severity areas, typically exposed to earthquake or extreme flood. Beazley's reinsurance team has been at the forefront of driving changes to the catastrophe risk environment by limiting territorial coverage and more closely assigning a rate per peril, which has enabled us to calibrate the price of cover more accurately with the exposures we are running.

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 2011 was 163% (2010: 95%). Within the combined ratio, the claims ratio was 147%, while the expense ratio made up 16%.

Claims

A succession of severe events impacted the reinsurance market in 2011 beginning with widespread flooding in Queensland, Australia during January costing approximately $2.3bn. In February, a shallow but deadly earthquake hit Christchurch, New Zealand causing in the region of $12bn in insured damage. Less than three weeks later, the Tohoku earthquake, with a magnitude of 9.0 – the strongest ever recorded in Japan – devastated the north east coast of Japan through the combination of shock and, more overwhelmingly, tsunami. Insured damage has been estimated at $35bn – $40bn with economic damage of some $200bn. While the US was spared a significant hurricane in 2011 (Hurricane Irene proved less costly than at first feared, at $7bn), the combination of winter storms in the first quarter followed by two of the most violent tornados in the second quarter caused insured losses of approximately $14bn, double the previous year. The last quarter of 2011 was impacted by the Thailand floods. Syndicate 6107's share of the loss is estimated at $3.07m, which is a material exposure for this syndicate and has been provided for in these financial statements. As this loss is still in the early stages of being assessed there is still significant uncertainty surrounding its ultimate cost.

Losses from 2010, including the earthquakes in Chile and New Zealand, are developing in line with our expectations.

Estimating the scale of natural catastrophe losses, particularly in the early days after an event, is notoriously difficult. Our methodology in catastrophe and loss assessment and reserving is primarily based on using a ground - up approach to our portfolio. By these means, we aim to provide our investors with robust loss estimates that do not require subsequent revision.

The syndicate forecasts a loss on the 2010 year of account due to a series of natural catastrophe events. The claim payments in relation to these events have been met from the syndicate's resources but it is anticipated that a cash call will be made later in 2012. Details of the amount and timing of the cash call will be communicated at that time.

Net operating expenses

Net operating expenses, including business acquisition costs and administrative expenses were $2.8m (2010: $2.3m). The breakdown of these costs is shown below:

	2011 $'000	2010 $'000
Brokerage costs	2,083.0	1,704.8
Total acquisition costs	**2,083.0**	**1,704.8**
Administrative expenses	683.0	562.7
Net operating expenses	**2,766.0**	**2,267.5**

Brokerage costs are the premium commissions paid to insurance intermediaries for providing business. As a percentage of net earned premium they are around 12% (2010: 13%). 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.

In order to determine the ICA, we made significant investment in both models and process:
- We use sophisticated mathematical models that reflect the key risks in the business allowing for probability of occurrence, impact if they do occur, and interaction between risk types. A key focus of these models is to understand the risk posed to the team, and to the business as a whole, of a possible deterioration in the underwriting cycle; and
- The ICA process is embedded so that the 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 business and allows the team to focus on strategies that improve return on capital.

Solvency II

Solvency II is an EU-wide proposal on capital adequacy and risk management for all insurers.

- Pillar 1: Demonstrating adequate financial resources – quantification
- Pillar 2: Demonstrating an adequate system of governance – risk assessment
- Pillar 3: Public disclosure and regulatory reporting requirements

The board of Beazley Furlonge Limited, the managing agent of syndicate 6107, 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.

Beazley's dedicated project management team and subject matter experts have continued throughout 2011 to build the framework required to make Beazley Solvency II compliant. The Solvency II internal model, which calculates our solvency capital requirements based on Beazley's risk profile in line with the new principles, was built and tested. The internal model has incorporated new design characteristics which increase the level of sophistication and granularity. The Solvency II Final Application Pack for the syndicate was submitted to Lloyd's on 16 December 2011, containing our estimated capital requirements under the new regime, as well as detailed information on the status of the programme and the activities remaining to be completed in order to reach the full Solvency II standard. The team also completed a comprehensive training programme tailored to educate all our staff on their specific knowledge requirements as well as what business as usual will look like under Solvency II.

Our objective for 2012 is to complete our outstanding activities in line with the Lloyd's plan and to embed the model and the changes into the business. This will include going through a review process with the FSA in relation to the Lloyd's application. We will also continue to take advantage of the benefits delivered by the programme, such as better management information and strengthened decision making.

Outlook

Following a difficult first year, the syndicate has shown an improved performance in the 2011 underwriting year despite continued catastrophe loss activity. Market conditions are still attractive in the core reinsurance business and we are well positioned to take advantage of the positive rate environment we have seen.

N P Maidment
Active Underwriter

2 March 2012

Managing agent's report

The managing agent presents its report for the year ended 31 December 2011.

Results

For 2011, the total managed premium capacity for 6107 was £14.1m (2010: £14.5m). The result for the year ended 31 December 2011 is a loss of $11.3m (2010: profit of $0.7m).

Principal activities

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

Basis of preparation

These financial statements 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.

Risk management

Risk management is an essential part of what we do at Beazley and our risk framework facilitates communication and dialogue across each of our business areas to help achieve the overall group's and within that the syndicate's strategic objectives.

Our business is based on controlled and informed risk taking within our chosen class of business. Our risk appetite allocation methodology is clearly understood and articulated to ensure that where appropriate it is fully utilised to give maximum reward. Our framework is centred on the following principles:

- Transparency – to ensure all risks are clearly understood, measured and controlled by setting limits and monitoring against these;
- Accountability – the organisational structure ensures all risks are owned by appropriate individuals and everyone takes responsibility for managing their risks; and
- Culture – to promote a risk aware culture and to ensure that every decision we take is based upon an evaluation of risk versus reward.

Risk governance and reporting

Beazley plc's board of directors has the responsibility for defining 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 and active participation by the risk management team in all board meetings and senior management committees ensures that risks are monitored and managed as they arise.

2011 year in review

The past year saw the continuing evolution of both the risk management framework and the risk management function. The risk management function within Beazley was appropriately resourced throughout 2011 with additional personnel recruited to ensure there is the appropriate combination of skills and experience for Beazley Furlonge Limited to operate in a Solvency II environment.

A risk and regulatory committee was introduced at the beginning of 2011, meeting on a monthly basis throughout the year with immediate oversight of the risk management framework at Beazley. The members of this committee include the risk owners from across the business and are joined on a quarterly basis by three non-executive directors to provide independent challenge.

For much of 2011, the risk management team focussed on refining the risk management framework which we established in 2010. This included working closely with all risk owners and control owners and developing a partnership model with our colleagues in the various business departments. Risk management and Solvency II training has been provided to all staff by way of a bespoke e-learning module. This training has been supplemented for personnel with specific risk management responsibilities. Challenging years, such as 2011, demonstrate the importance of having embedded an effective risk management culture throughout the business. Important elements for 2011 were our diversified portfolio of insurance risks, executing on our cycle management expertise, employing a conservative investment strategy and operating a robust underwriting and claims control environment.

The risk management function has developed and implemented risk management software tailored specifically to meet our needs. This has accelerated and built resilience into the reporting timetable and has enabled the team to provide a consolidated assurance report to executive management on a monthly basis and our boards on a quarterly basis.

A key theme for the risk management function in 2011 was to implement timely and trusted risk management reports. In addition to the monthly consolidated assurance report, the risk management function provided an emerging and strategic risk report for the board strategy day in May, developed risk profiles throughout 2011 on emerging risk and presented a full year's cycle of quarterly Own Risk and Solvency Assessment (ORSA) reports, which have been used by our boards to assist with their oversight and decision making responsibilities. The ORSA is a key requirement of Solvency II and uses output from both the risk management framework, which provides the qualitative aspect, and the internal model, which provides the quantitative aspects. It demonstrates the link between these two elements, showing they are of consistent design, with feedback loops between the two processes.

An important feature of the internal model that is used to establish capital is the objective and transparent link between actions taken by underwriters and the capital estimated and allocated to the underwriting teams. This means that the business is more comfortable using the internal model as part of its decision making. In 2011, this concept has been extended to operational risk. Therefore, as the control environment strengthens there is an objective link to reduce the capital estimated. Similarly, if the control environment weakens, the capital estimated increases, which reinforces the strong risk management culture.

Looking forward

The top three risks to Beazley remain relatively static, and are in common with many of our peers. These are underwriting and reserving risks, catastrophe risk and asset risk. At a high level, the continued soft insurance market caused in part by the availability of capacity, the number of catastrophe losses reported in the year and the continued uncertainty surrounding the global economy and financial markets are the factors that underlie these risks.

We remain on track to meet the regulator's timetable for the implementation of Solvency II. Despite the postponement of the implementation of this regulation until at least January 2014, Lloyd's market participants have agreed to pursue the initial timetable. This will ensure that we comply with the regulation by January 2013, at the latest.

The resourcing of the risk management function will also remain under review in 2012, to ensure the right balance of skills and experience is in place to manage Beazley's risk environment as and when it changes.

Managing the cycle

Market cycle risk is characterised by the periodic rise and fall in insurance 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 insurance is readily available and premium rates fall as a result of increased competition and a hard market, where clients find insurance coverage more difficult to obtain and rates rise and terms and conditions become more restrictive. Our focus on managing market cycle risk lies at the heart of our underwriting philosophy and this is demonstrated by our strong and consistent trading record.

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

- Business planning – transitioning the portfolio of business to ensure a sufficiently diverse range of good quality products, whose profitability is aligned to the correct position in the cycle. During a hard market we maximise profits by targeting growth on the best opportunities available and in a soft market we focus our portfolio on less volatile business;
- 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 individual products 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.

Asset risk

Asset risk is viewed as the risk arising from adverse changes in the value of our income from assets and changes in exchange rates and interest rates. Through setting comprehensive investment guidelines via the investment committee and monitoring against these, reviewing the performance of our investment managers and stress testing our investment portfolio, we can assess if our overall risk and return targets are being met.

To minimise the risk of an event impacting both our claims liabilities and our investment portfolios, we endeavour to limit investments in areas which correlate with our insurance portfolios.

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 group are:
- Reinsurers – whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the group;
- Brokers and coverholders – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the group; and
- Investments – whereby issuer default results in the group losing all or part of the value of a financial instrument and derivative financial instrument.

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 ICA process so that there is a clear link between operational risk and its financial impact on the business.

Emerging risk identification

We employ specialist teams to support our underwriters to help identify external trends and issues. Using this research improves our underwriting risk selection, allows us to avoid markets in decline and improves our claims management capabilities.

An example of the business's emerging risk process is the recession plan, which sets out the underwriting actions required in the light of the downturn in the economy in 2008. Specific risks were identified by class of business and the portfolio was adjusted and specific underwriting actions were taken to mitigate negative impacts.

Internal audit and compliance

Our internal audit and compliance functions work closely with the risk management team and the business to co-ordinate activity, avoid duplication and deliver a targeted risk-based approach. These functions create three lines of defence against risks facing Beazley.

- Business risk management – the majority of risk management is carried out within the business teams. The syndicate has delegated robust local governance to each team but required ongoing evidence that the mechanisms are in place;
- Risk management function – this is required to ensure that the risk management framework is operating effectively and is being consistently applied as required by the BFL board; and
- Internal audit – an independent check on the effectiveness of the internal controls.

To complement the above, compliance provides robust internal challenge from a regulatory and governance perspective and the actuarial function provides the business with a suite of management information that facilitates informed decision making.

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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information.

Auditor

The managing agent intends to re-appoint KPMG Audit Plc as the syndicate's registered auditor.

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

Statement of managing agent's responsibilities

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 is required to:

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

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

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

By order of the board

M L Bride
Finance Director

2 March 2012

Independent auditor's report to the members of syndicate 6107

We have audited the syndicate 6107 annual accounts for the year ended 31 December 2011, as set out on pages 10 to 18. 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 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 8, 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/apb/scope/private.cfm.

Opinion on syndicate annual accounts

In our opinion the annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2011 and of its loss 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

2 March 2012

Profit and loss account

year ended 31 December 2011

	Notes	2011 $'000	2010 $'000
Gross premiums written		17,087.3	16,218.3
Change in the gross provision for unearned premiums	3	246.4	(3,259.5)
Earned premiums		**17,333.7**	**12,958.8**
Allocated investment return transferred from the non-technical account		(66.2)	63.2
Gross claims paid		(9,623.4)	(512.7)
Change in the gross provision for claims	3	(15,926.8)	(9,589.7)
Claims incurred		**(25,550.2)**	**(10,102.4)**
Net operating expenses	4	**(2,766.0)**	**(2,267.5)**
Balance on the technical account		**(11,048.7)**	**652.1**
Investment income		(66.2)	63.2
		(11,114.9)	715.3
Allocated investment return transferred to general business technical account		66.2	(63.2)
Other income/(charges)	5	50.9	(17.9)
(Loss)/profit on foreign exchange		(283.9)	37.9
(Loss)/profit for the financial year		**(11,281.7)**	**672.1**

All of the above operations are continuing.

Statement of recognised gains and losses

year ended 31 December 2011

	2011 $'000	2010 $'000
(Loss)/profit for the financial year	(11,281.7)	672.1
Foreign exchange loss on brought forward reserves	(35.7)	–
Total recognised gains and losses since last annual report	**(11,317.4)**	**672.1**

Balance sheet
as at 31 December 2011

	Notes	2011 $'000	2010 $'000
Assets			
Debtors			
Debtors arising out of reinsurance operations		3,633.2	3,473.5
Other debtors	6	14,075.7	9,597.0
		17,708.9	13,070.5
Prepayments			
Deferred acquisition costs		412.8	468.3
		412.8	468.3
Total assets		**18,121.7**	**13,538.8**
Liabilities, capital and reserves			
Capital and reserves			
Members' balances attributable to underwriting participations	7	(10,645.3)	672.1
		(10,645.3)	672.1
Technical provisions			
Provision for unearned premiums	3	3,010.2	3,262.9
Claims outstanding	3	25,756.8	9,603.8
		28,767.0	12,866.7
Total liabilities, capital and reserves		**18,121.7**	**13,538.8**

The financial statements on pages 10 to 18 were approved by the board of Beazley Furlonge Limited on 2 March 2012 and were signed on its behalf by:

N P Maidment
Active Underwriter

M L Bride
Finance Director

Cash flow statement

year ended 31 December 2011

	2011 $'000	2010 $'000
Reconciliation of (loss)/profit for the year to net cash flow from operating activities		
Operating (loss)/profit on ordinary activities	(11,281.7)	672.1
Translation differences	(35.7)	–
Increase in net technical provisions	15,900.3	12,866.7
Increase in debtors	(4,582.9)	(13,538.8)
Net cash flow from operating activities	–	–
	–	–

Notes to the financial statements

1 Basis of preparation
These financial statements 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 issued by the Association of British Insurers in December 2006 ("the ABI SORP").

The principal accounting policies applied in the preparation of these financial statements 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 financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

The most critical estimate included within the Syndicate's financial position is the estimate for losses incurred but not reported. The total estimate as at 31 December 2011 is included within total insurance liabilities in the balance sheet.

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

a) Premiums
Gross premiums written 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
A provision for unearned premiums (gross of reinsurance) represents that part of the gross premiums written that is estimated will be earned in the following financial periods. It is calculated using the daily pro-rata method where the premium is apportioned over the period of risk.

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 26%) 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 financial statements *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 “loans and receivables” 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 Technical provisions

	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**

	Provision for unearned premium outstanding $'000	Claims $'000
Gross technical provisions		
As at 1 January 2010	–	–
Foreign exchange adjustments	3.4	14.1
Movement in the provision	3,259.5	9,589.7
As at 31 December 2010	**3,262.9**	**9,603.8**

4 Net operating expenses

	2011 $'000	2010 $'000
Acquisition costs	2,028.3	2,172.7
Change in deferred acquisition costs	54.7	(467.9)
Administrative expenses	683.0	562.7
	2,766.0	**2,267.5**

Total overrider commission paid to Beazley syndicates in respect of the syndicate’s business amounted to $0.7m (2010: $0.6m).

5 Other income/(charges)

	2011 $'000	2010 $'000
Profit commissions refunded by /(paid to) Beazley Furlonge Limited	50.9	(17.9)

6 Other debtors

	2011 $'000	2010 $'000
Amount due from syndicate 623	2,665.8	1,814.9
Amount due from syndicate 2623	11,409.9	7,782.1
	14,075.7	**9,597.0**

7 Reconciliation of members' balances

	2011 $'000	2010 $'000
Members' balances at 1 January	672.1	–
Foreign exchange on brought forward reserves	(35.7)	–
(Loss)/profit for the financial year	(11,281.7)	672.1
Members' balances carried forward at 31 December	**(10,645.3)**	**672.1**

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.

8 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 5 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 this annual report 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	2010 year of account underwriting capacity	2011 year of account underwriting capacity	2012 year of account underwriting capacity
M L Bride	150,000	400,000	350,000	400,000
A P Cox	216,000	400,000	350,000	400,000
J G Gray	216,000	400,000	350,000	400,000
N H Furlonge*	216,000	400,000	350,000	–
D A Horton	216,000	400,000	350,000	400,000
N P Maidment	216,000	400,000	350,000	400,000
D G Marock**	216,000	400,000	350,000	–
C A Washbourn	216,000	400,000	350,000	400,000

* N H Furlonge ceased to participate in syndicate 623 when he retired as an executive director and was appointed as a non-executive director on 30 June 2011.
** D G Marock still participates in syndicate 623 even though he resigned as an executive director on 30 June 2011.

Notes to the financial statements *continued*

8 Related parties transactions *continued*

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 2011	Shareholding of Beazley plc as at 31 December 2010
J G W Agnew	226,147	226,147
G P Blunden	107,156	107,156
M L Bride	227,310	219,616
A P Cox	320,748	254,089
R V Deutsch**	–	–
N H Furlonge*	1,256,375	1,689,651
J G Gray	1,259,549	2,487,026
A G K Hamilton	37,991	37,991
D Holt**	–	–
D A Horton	1,185,883	973,491
C M London***	294,737	294,737
N P Maidment	3,543,257	3,462,526
D G Marock****	169,241	111,589
A D Pomfret*****	24,315	24,315
R A W Tolle	60,000	–
C A Washbourn	378,852	378,852

* Retired as an executive director and appointed as a non-executive director on 30 June 2011.
** Appointed 29 December 2011.
*** Resigned 31 December 2011.
**** Resigned 30 June 2011.
***** Resigned 21 July 2011.

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).

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

Jonathan G W Agnew* – chairman
George P Blunden*
Martin L Bride – finance director
Adrian P Cox
Robert V Deutsch* (appointed 29 December 2011)
Nicholas H Furlonge (retired as an excutive director and appointed as a non-executive director on 30 June 2011)
Jonathan G Gray
A Gordon K Hamilton*
Dennis Holt* (appointed 29 December 2011)
D Andrew Horton – chief executive officer
Chris M London* (resigned 31 December 2011)
Neil P Maidment – active underwriter
David G Marock (resigned 30 June 2011)
Andy D Pomfret* (resigned 21 July 2011)
Rolf A W Tolle*
Clive A Washbourn

* Non-executive director

Company secretary

Sian A Coope

Auditor

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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