RenaissanceRe

RenaissanceRe Corporate Member (No. 2) Limited

Financial Statements
For the year ended 31 December 2018
Company Number 09229679

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Strategic report

The directors present the Strategic Report for the year ended 31 December 2018.

Business review and principle activity

The principal activity of RenaissanceRe Corporate Member (No. 2) Limited ('the Company' or 'RCM2') is to act as a Lloyd's corporate member, participating on selected syndicates on a limited liability basis. Up to and including the 2018 underwriting year, RCM2 has participated on Syndicate 6107. The principal activity of Syndicate 6107 is the transaction of property reinsurance and cyber reinsurance business with Syndicates 623 and 2623 at Lloyd's.

The managing agent for Syndicate 6107 is Beazley Furlonge Limited ('Beazley').

RCM2 was initially incorporated as Beazley Corporate Member (No. 5) Limited ('BCM5') on 22 September 2014. On 20 October 2017, Renaissance Reinsurance Ltd. ('RRL') purchased the one voting share of BCM5 from Beazley Furlonge Holdings Limited. On 14 November 2017, BCM5 was renamed to RCM2.

RCM2 has entered into a reinsurance agreement with RRL to cede 100% of RCM2's results to RRL. Under this agreement, RRL provides the capital to support RCM2's underwriting at Lloyd's.

RCM2 trades at Lloyd's on the 2016 to 2018 underwriting years of account with an 11.0% participation. These financial statements reflect the results for the year ended 31 December 2018.

Principal risks and uncertainties

The principal risks and uncertainties of the Company are aligned with those of Syndicate 6107. The principal risks and uncertainties of Syndicate 6107, which include those of the Company, are discussed on pages 4 to 9 and pages 18 to 24 of the Syndicate 6107 annual report for the year ended 31 December 2018, which does not form part of this report. The annual report for Syndicate 6107 can be obtained from the website www.beazley.com.

Relevant extracts from pages 4 to 9 of the Syndicate 6107 annual report have been included below for reference:

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

Insurance risk
Given the nature of Syndicate 6107's business, the key risks that impact financial performance arise from insurance activities. The main insurance risks can be summarised in the following categories:

- *Natural catastrophe risk: The risk of one large event caused by nature affecting a number of policies and therefore giving rise to multiple losses. Given Syndicate 6107's risk profile, this could be a hurricane, major windstorm or earthquake. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area;*
- *Non-natural catastrophe risk: This risk is similar to natural catastrophe risk except that multiple losses arise from one event caused by mankind. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area;*
- *Reserve risk: Syndicate 6107 has a consistent and conservative reserving philosophy. However, there is a risk that the reserves put aside for expected losses turn out to be insufficient. This could be due to any of the three drivers of risk described above. The syndicates use a range of techniques to mitigate this risk including a detailed reserving process which compares, claim by claim, estimates established by the claims team with a top down statistical view developed by the actuarial team. A suite of metrics is also used to ensure consistency each year; and*
- *Single risk losses: Given the size of policy limits offered on each risk, it is unlikely that the poor performance of one policy will have a material impact on the financial performance of Syndicate 6107.*

Strategic risk

Alongside these insurance risks, the success of Syndicate 6107 depends on the execution of an appropriate strategy. The main strategic risks can be summarised as follows:

- *Strategic decisions: The performance of Syndicate 6107 would be affected in the event of making strategic decisions that do not add value. Beazley mitigates this risk through the combination of recommendations and challenge from non-executive directors, debate at the executive committee and input from the strategy and performance group (a group of approximately 30+ senior individuals from across different disciplines);*
- *Environment: There is a risk that the chosen strategy cannot be executed because of the current environmental conditions within which the Syndicate operates, thereby delaying the timing of the strategy;*
- *Communication: Having the right strategy and environment is of little value if it is not communicated internally so that everybody is heading in the same direction, or if key external stakeholders are not aware of the company's progress against its strategy;*
- *Senior management performance: There is a risk that senior management of the managing agent is overstretched or does not perform, which would have a detrimental impact on the performance of the syndicates. The performance of the managing agent's senior management team is monitored by the CEO and talent management team and overseen by the nomination committee;*
- *Reputation: Although reputational risk is a consequential risk, i.e. it emerges upon the occurrence of another risk manifesting; it has the potential to have a significant impact on an organisation. Beazley expects its staff to act honourably by doing the right thing;*
- *Flight risk: There is a risk that Beazley is unable to deliver its strategy due to the loss of key personnel. Beazley has controls in place to identify and monitor this risk, for example, through succession planning;*
- *Crisis management: This is the risk caused by the destabilising effect of Syndicate 6107 having to deal with a crisis and is mitigated by having a detailed crisis management plan; and*
- *Corporate transaction: There is a risk that Syndicate 6107 undertakes a corporate transaction which does not return the expected value. This risk is mitigated through the due diligence performed, the financial structure of transactions and the implementation activity. Under the environmental risk heading, the board monitors five categories of emerging and strategic risk on a quarterly basis, namely; socio-political risk, distribution, market conditions, talent and regulation.*

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

Other risks

The remaining six risk categories monitored by the managing agent's board are:

- *Market (asset) risk: This is the risk that the value of investments is adversely impacted by movements in interest rates, exchange rates, default rates or external market forces. This risk is monitored by the investment committee;*
- *Operational risk: This risk is the failure of people, processes and systems or the impact of an external event on the syndicates' operations, and is monitored by the operations committee;*
- *Credit risk: The Syndicate has credit risk to its reinsurers, brokers and coverholders of which the reinsurance asset is the largest. The underwriting committee monitors this risk;*
- *Regulatory and legal risk: This is the risk that the Syndicate does not operate in line with the relevant regulatory framework in the territories where they operate. Of the eight risk categories, the board has the lowest tolerance for this risk. This risk is monitored by the risk and regulatory committee;*
- *Liquidity risk: This is the risk that Syndicate 6107 does not have sufficient liquid funds following a catastrophic event. The investment committee monitors this risk which, given the nature of the asset portfolio, is currently small; and*
- *Group risk: The structure of the Beazley group is not complex and so the main group risk is that one group entity operates to the detriment of another group entity or entities. This includes, for example, changes in tax legislation such as the US Tax Cuts and Jobs Act enacted in late 2017 which affects which types of intra-group reinsurance it is efficient for Beazley to use. The Beazley plc board monitors this risk through the reports it receives from each entity.*

Anti-bribery and corruption risk

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

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

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

The Syndicate acknowledges and accepts that over time climate change could impact the risks facing its insureds and it aims to manage the resulting risk to the Syndicate as described below.

- *Pricing risk: This is the risk that current pricing benchmarks do not adequately consider the prospective impact of climate change resulting in systemic under-pricing of climate exposed risks. The Syndicate's business planning process establishes how much exposure in certain classes of business or geographic area it wishes to accept. The Syndicate relies on a strong feedback loop between its claims and underwriting teams to ensure that emerging claims trends and themes can be contemplated in the business planning process, the rating tools and the underwriter's risk by risk transactional level considerations. Its underwriters are empowered to think about climate risk during their underwriting process in order to determine the implication on each risk.*
- *Catastrophe risk: This is the risk that current models do not adequately capture the impacts of climate change on the frequency, severity or nature of natural catastrophes or other extreme weather events. The Syndicate utilises Risk Management Solutions (RMS) models to facilitate the estimation of aggregate exposures based on the syndicate's underwriting portfolio. There is an on-going feedback loop between (re)insurers and catastrophe model vendors which has contributed to model improvements. Catastrophe models are evolving to include new or secondary perils which may or may not be related to climate change. In addition, the Syndicate runs a series of Natural Catastrophe Realistic Disaster Scenarios (RDS) on a regular basis which monitors the Syndicate's exposure to these perils. These include hurricanes in the US, typhoons in Japan, European windstorms and floods in the UK.*
- *Reserve risk: This is the risk that established reserves are not sufficient, in particular for longer tail business, to reflect the ultimate impact climate change may have on paid losses. With support from the Beazley group actuarial team, claims teams and other members of management the Syndicate establishes financial provisions for its ultimate claims liabilities. The Syndicate maintains a prudent approach to reserving to help mitigate the uncertainty within the reserves estimation process.*
- *Asset risk: This is the risk that climate change has a significant impact across a number of industries which may negatively impact the value of investments in those companies. The Syndicate considers the impact of climate change on its asset portfolio by seeking to incorporate an assessment of environmental risks in the investment process. The managing agent subscribes to the research services of a specialist company in the field of environmental, social and governance research and have integrated their proprietary ratings into the internal credit process applied to investments in corporate debt securities. A minimum standard for Environmental, Social and Governance (ESG) performance is defined and companies not meeting the required standard will be excluded from the approved list of issuers. The analysis also includes a consideration of the sustainability of each company with regard to the potential decline in demand in specific sectors.*

- *External event risk: This is the risk that the physical impact of climate related events has a material impact on its own people, processes and systems leading to increased operating costs or the inability to deliver uninterrupted client service. The Syndicate has business continuity plans in place to facilitate the delivery of uninterrupted client service in the event of a disaster.*
- *Commercial management risk: The Syndicate aims to minimise where possible the environmental impact of its business activities and those that arise from the occupation of its office spaces. As it operates in leased office spaces, its ability to direct environmental impacts is relatively limited however it does engage with its employees, vendors and customers in an effort to reduce overall waste and environmental footprint.*
- *Credit risk: As a result of material natural catastrophe events there is a risk that its reinsurance counterparties are unable to pay reinsurance balances due to the Syndicate. If the frequency or severity of these events is increased due to climate change this could have a corresponding increase on credit risk. An important consideration when placing its reinsurance programme is evaluation of its counterparty risk. Every potential reinsurer is evaluated through a detailed benchmarking which considers: financial strength ratings, capital metrics, performance metrics as well as other considerations.*
- *Regulatory and legal risk: Regulators, investors and other stakeholders (including political activists) are becoming increasingly interested in the private sectors' response to climate change. Failure to appropriately engage with these stakeholders and provide transparent information may result in the risk of reputational damage or increased scrutiny. The Syndicate regularly monitors the regulatory landscape to ensure that it can adhere to any changes in relevant laws and regulations. This includes making any necessary regulatory or statutory filings with regard to climate risk.*
- *Liquidity risk: Linked to the underwriting and credit risks noted above, losses resulting from unprecedented natural disasters or extreme weather erode the Syndicate's ability to pay claims and remain solvent. The Beazley group establishes capital at a 1:250 level based on the prevailing business plan. Whilst over time it anticipates climate change to have an impact on the frequency, severity and nature of natural catastrophe events on a year to year basis this is captured in the internal capital modelling.*
- *Strategic risk: This is the risk that the managing agent's strategy fails to effectively consider climate change resulting in its business planning not adapting fast enough to respond to changes in wider claims trends. In addition, market pressure or external factors result in a decision to stop underwriting certain classes of business which impacts its ability to deliver business plan results. This results in loss of value for investors which erode their confidence in management. This risk is considered through the annual and long term business planning process, the managing agent additionally looks to the Lloyd's market to provide additional guidance.*

Key performance indicators ('KPIs')

The directors are of the opinion that the level of gross premiums written in the period is the main KPI to be used for an understanding of the development, performance and position of the Company's business.

By order of the Board

D D Upadhyaya
Director

16 September 2019

Directors' report

Registered No. 09229679

The directors present their report and the financial statements for the year ended 31 December 2018.

Details of the Directors

The directors of the Company who served from 1 January 2018 until the date of this report were as follows:

H R T Brennan
R A Curtis
D D Upadhyaya

Going concern

The directors have prepared these accounts on a going concern basis, not withstanding the break-even position. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future due to the support of its parent, RRL.

Future developments

RCM2 will continue to participate on the 2019 year of account of Syndicate 6107.

For the 2019 year of account, the Company will participate in Syndicate 5623 in addition to Syndicate 6107. Syndicate 5623 was established in 2018 as a special purpose arrangement syndicate to write market facility business via a quota share from Syndicate 3623.

RCM2's participation for the 2019 year of account based on syndicate capacity (gross premium net of acquisition costs) is forecast to be £13.8M (2018 year of account - £6.1M):

- Syndicate 6107 £7.5M (2018 year of account - £6.1M)
- Syndicate 5623 £6.3M (2018 year of account - nil)

Statement of disclosure of information to the auditors

So far as each person who was a director of the Company at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors of the Company and the Company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Re-appointment of auditors

Ernst & Young LLP have indicated their willingness to continue in office as the Company's auditors.

On behalf of the Board

D D Upadhyaya
Director

16 September 2019

Directors' responsibilities statement

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the Company and of the profit or loss for that period.

In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Principal risks and uncertainties are discussed in the Strategic Report.

Independent auditor's report to the member of RenaissanceRe Corporate Member (No. 2) Limited

Opinion

We have audited the financial statements of RenaissanceRe Corporate Member (No.2) Limited for the year ended 31 December 2018 which comprise the Income Statement and Retained Earnings, the Statement of Financial Position and the related notes 1 to 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its results for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report
to the member of RenaissanceRe Corporate Member (No. 2) Limited

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report
to the member of RenaissanceRe Corporate Member (No. 2) Limited

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Michael Purrington (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

London
17 September 2019

Income statement and retained earnings
Technical account - General business
For the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Gross premiums written		7,622.4	6,681.0
Outward reinsurance premiums		(6,155.5)	(5,027.4)
Net premiums written		1,466.9	1,653.6
Change in the provision for unearned premiums			
- Gross amount	9	(311.9)	(758.9)
- Reinsurers' share	9	278.8	720.4
Change in the net provision for unearned premiums		(33.1)	(38.5)
Earned premiums, net of reinsurance		1,433.8	1,615.1
Allocated investment return transferred from the non-technical account	4	211.8	90.0
		1,645.6	1,705.1
Claims paid			
- Gross amount		(3,899.2)	(2,520.3)
- Reinsurers' share		3,899.2	2,520.3
Net claims paid		—	—
Change in claims outstanding			
- Gross amount	10	(2,926.3)	(3,463.7)
- Reinsurers' share	10	2,926.3	3,463.7
Net change in provision for claims		—	—
Claims incurred, net of reinsurance		—	—
Net operating expenses	3	(1,645.6)	(1,705.1)
Total claims and expenses		(1,645.6)	(1,705.1)
Balance on technical account - general business		—	—

Income statement and retained earnings
Non-technical account - General business
For the year ended 31 December 2018

	Notes	*2018* *$'000*	*2017* *$'000*
Balance on technical account - general business		—	—
Investment income	4	211.8	90.0
Investment expenses and charges		—	—
Allocated investment return transferred to general business technical account	4	(211.8)	(90.0)
Profit on ordinary activities before tax		—	—
Tax on profit on ordinary activities	5	—	—
Profit for the financial year attributable to member of the company		—	—
Retained earnings, beginning of year		—	—
Dividends declared and paid or payable during the period		—	—
Restatements of retained earnings for corrections of prior period material errors		—	—
Restatements of retained earnings for changes in accounting policy		—	—
Retained earnings, end of year		—	—

The Company's operating activities all relate to continuing operations. The Company has no recognised gains and losses other than those passing through the profit or loss account. Accordingly, a separate statement of comprehensive income has not been presented.

The accounting policies and notes on pages 14 to 29 form part of these financial statements.

Statement of financial position
As at 31 December 2018

	Notes	2018 $'000	2017 $'000
ASSETS			
Reinsurers' share of technical provisions			
Provision for unearned premiums	9	1,946.0	1,687.0
Claims outstanding	10	10,820.9	7,934.7
		12,766.9	9,621.7
Debtors			
Debtors arising out of reinsurance operations		2,643.3	2,367.3
Other debtors	6	7,250.0	6,335.6
		9,893.3	8,702.9
Other assets			
Cash at bank and in hand	7	20.5	10.2
Prepayments and accrued income			
Deferred acquisition costs	14	271.8	240.7
Accruals and deferred income		49.8	43.1
		321.6	283.8
Total assets		23,002.3	18,618.6

Statement of financial position
As at 31 December 2018

	Notes	2018 $'000	2017 $'000
EQUITY AND LIABILITIES			
Shareholder's equity			
Called up share capital	8	—	—
Profit and loss account		—	—
Total capital and reserves		—	—
Liabilities			
Technical provisions			
Provision for unearned premiums	9	2,217.8	1,927.7
Claims outstanding	10	10,820.9	7,934.7
		13,038.7	9,862.4
Creditors			
Creditors arising out of reinsurance operations		8,562.3	8,756.2
Other creditors		1,401.3	—
		9,963.6	8,756.2
Total liabilities		23,002.3	18,618.6
Total equity and liabilities		23,002.3	18,618.6

The Company has no changes in equity other than those passing through the profit or loss account. Accordingly, a separate statement of changes in equity has not been presented.

The financial statements were approved by the board of directors on 16 September 2019 and were signed on its behalf by:

D D Upadhyaya
Director

16 September 2019

Company number 09229679

Notes to the financial statements
For the year ended 31 December 2018

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of accounting

The Company is a limited liability company incorporated in England. The Registered Office is 125 Old Broad Street, London, EC2N 1AR. The financial statements cover those of the individual entity and are prepared as at 31 December 2018 and for the year ended 31 December 2018.

The financial statements have been prepared in compliance with FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

The financial statements are presented in US dollars, this being the functional currency of the Company.

Exemptions for qualifying entities under FRS 102

The Company is a wholly owned subsidiary of the ultimate parent company, RenaissanceRe Holdings Ltd ('the group'). As a qualifying entity, the Company has taken the exemption for reduced disclosure under FRS 102 section 1.12 for the requirement to:

(i) prepare a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

(ii) prepare a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in the group's consolidated financial statements, includes the Company's cash flows;

(iii) disclose the Company key management personnel compensation;

(iv) disclose transactions entered into between two or more members of a group.

Basis of accounting for underwriting activities

The Company underwrites as a corporate member of Lloyd's on Syndicate 6107. Underwriting transactions are undertaken within premium trust funds applicable to the syndicate and profits arising from underwriting may only be released in accordance with Lloyd's syndicate accounting rules and after satisfying Lloyd's solvency requirements for all years of account open at the time of the release.

The accounting information in respect of Syndicate 6107 has been provided by Beazley Furlonge Limited to Lloyd's and has been audited by Syndicate 6107's auditor.

The underwriting results are determined on an annual basis. Results reported on an annual basis recognise profits as they are earned instead of at the closure of a particular year of account, normally after three years.

Premiums

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

Notes to the financial statements
For the year ended 31 December 2018

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.

Acquisition costs

Acquisition costs comprise brokerage, staff and staff related costs of the underwriters acquiring the business. The proportion of acquisition costs in respect of unearned premiums is deferred at the balance sheet date and recognised in later years when the related premiums are earned.

Reinsurance premiums

These are contracts entered into by the Company with reinsurers under which the Company is compensated for any losses on contracts issued by the Company which meet the definition of an insurance contract.

Claims incurred and reinsurers' share

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

The provision for claims outstanding comprises amounts set aside for claims notified and claims IBNR. The amount included in respect of IBNR is based on statistical techniques of estimation applied by Syndicate 6107's in house reserving team and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to Syndicate 6107's 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. Syndicate 6107 uses a number of statistical techniques to assist in making these estimates.

Accordingly the two most critical assumptions made by Syndicate 6107's managing agent regarding claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used including pricing models for recent business are reasonable indicators of the likely level of ultimate claims to be incurred.

The level of uncertainty with regard to the estimations within these provisions generally decreases with time since the underlying contracts were exposed to new risks. In addition the nature of short tail claims such as property where claims are typically notified and settled within a short period of time will normally have less uncertainty after a few years than long tail risks such as some liability business where it may be several years before claims are fully advised and settled. In addition to these factors if there are disputes regarding coverage under policies or changes in the relevant law regarding a claim this may increase the uncertainty in the estimation of the outcomes.

The assessment of these provisions is usually the most subjective aspect of an insurer's accounts and may result in greater uncertainty within an insurer's accounts than within those of many other businesses. The provisions for gross claims and related reinsurance recoveries have been assessed on the basis of the information currently available to the directors of Syndicate 6107's managing agent. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the year in which the adjustments are made. The provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly.

Unexpired risks provision

Provisions for unexpired risks are made where the costs of outstanding claims, related expenses and deferred acquisition costs are expected to exceed the unearned premium provision carried forward at the balance sheet date. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return. The provision is made on a syndicate by syndicate basis by the relevant managing agent.

Closed years of account

At the end of the third year, the underwriting account is normally closed by reinsurance into the following year of account. The amount of the reinsurance to close premium payable is determined by the managing agent, generally by estimating the cost of claims notified but not settled at 31 December, together with the estimated cost of claims incurred but not reported at that date, and an estimate of future claims handling costs.

Any subsequent variation in the ultimate liabilities of the closed year of account is borne by the underwriting year into which it is reinsured.

The payment of a reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and the other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle outstanding claims.

The directors consider that the likelihood of such a failure of the reinsurance to close is extremely remote, and consequently the reinsurance to close has been deemed to settle the liabilities outstanding at the closure of an underwriting account. The Company has included its share of the reinsurance to close premiums payable as technical provisions at the end of the current year, and no further provision is made for any potential variation in the ultimate liability of that year of account.

Run-off years of account

Where an underwriting year of account is not closed at the end of the third year (a run-off year of account) a provision is made for the estimated cost of all known and unknown outstanding liabilities of that year. The provision is determined initially by the managing agent on a similar basis to the reinsurance to close. However, any subsequent variation in the ultimate liabilities for that year remains with the corporate member participating therein. As a result any run-off year will continue to report movements in its results after the third year until such time as it secures a reinsurance to close (where outstanding risks are reinsured by payment of reinsurance premium to enable the accounts for the underwriting year to be closed).

Net operating expenses (including acquisition costs)

Net operating costs include acquisition costs and other amounts incurred by the syndicate on which the Company participates.

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

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Distribution of profits and collection of losses

Lloyd's operates a detailed set of regulations regarding solvency and the distribution of profits and payment of losses between Syndicate 6107 and its members. Lloyd's continues to require membership of the syndicate to be on an underwriting year of account basis and profits and losses belong to members according to their membership of a year of account. Normally profits and losses are transferred between the syndicate and members once results for a year of account are finalised after 36 months. This period may be extended if a year of account goes into run-off. The syndicate may make earlier on account distributions or cash calls according to the cash flow of a particular year of account and subject to Lloyd's requirements.

Investments

Investments are stated at market value, including accrued interest at the balance sheet date.

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges.

Realised and unrealised gains and losses are measured by reference to the original cost of the investment if purchased in the year, or if held at the beginning of the year by reference to the current value at that date.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting the underwriting business.

Basis of currency translation

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit or loss account.

Debtors/creditors arising from insurance/reinsurance operations

The amounts shown in the balance sheet include the totals of all of the Company's share of Syndicate 6107's outstanding debit and credit transactions as processed by the Lloyd's central facility. These are stated at amortised cost.

Taxation

The Company is taxed on its results including its share of underwriting results declared by Syndicate 6107 and these are deemed to accrue evenly over the calendar year in which they are declared. Syndicate 6107's results included in these financial statements are only declared for tax purposes in the calendar year following the normal closure of the year of account. No provision is made for corporation tax in relation to open years of account. However, full provision is made for deferred tax on underwriting results not subject to current corporation tax.

HM Revenue & Customs agrees the taxable results of the syndicate at a syndicate level on the basis of computations submitted by the managing agent. At the date of the approval of these financial statements, Syndicate 6107's taxable results of years of account closed at this and at previous year ends may not have been fully agreed with the Inland Revenue. Any adjustments that may be necessary to the tax provisions established by the Company, as a result of HM Revenue & Customs agreement of Syndicate 6107's results, will be reflected in the financial statements of subsequent years.

Deferred taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities have not been discounted.

Cash at bank and in hand

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

2. Segmental analysis

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

3. Net operating expenses

	2018	2017
	$'000	$'000
Acquisition costs	1,433.8	1,615.1
Administrative expenses	211.8	90.0
	1,645.6	1,705.1

Administrative expenses include auditor's remuneration for the audit of the financial statements for the year ended 31 December 2018 of $20,112 (2017 - $19,227).

4. Investment return

	2018	2017
	$'000	$'000
Interest Income	211.8	90.0

5. Taxation

No provision has been made for any United States Federal Income Tax payable or for any other overseas tax payable on underwriting results or investment earnings. Accordingly, a separate table of reconciliation of tax has not been presented.

6. Other debtors

	2018	2017
	$'000	$'000
Amounts due from Syndicates 2623 and 623	7,250.0	6,335.6

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7. Cash at bank and in hand

	2018	2017
	$'000	$'000
Cash at bank and in hand	20.5	10.2

8. Called-up share capital

	2018	2017
	$	$
Authorised: 1 ordinary shares of £1 each	1.5	1.5
Allotted, issued and fully paid ordinary shares of £1	1.5	1.5

9. Provisions for unearned premiums

	Gross	Reinsurers' share	Net
	$'000	$'000	$'000
At 1 January 2018	1,927.7	(1,687.0)	240.7
Premiums written in the year	7,622.4	(6,155.5)	1,466.9
Premiums earned in the year	(7,310.5)	5,876.7	(1,433.8)
Foreign exchange	(21.8)	19.8	(2.0)
At 31 December 2018	2,217.8	(1,946.0)	271.8

	Gross	Reinsurers' share	Net
	$'000	$'000	$'000
At 1 January 2017	1,150.9	(950.5)	200.4
Premiums written in the year	6,681.0	(5,027.4)	1,653.6
Premiums earned in the year	(5,922.1)	4,307.0	(1,615.1)
Foreign exchange	17.9	(16.1)	1.8
At 31 December 2017	1,927.7	(1,687.0)	240.7

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10. Claims outstanding and development

	Gross	*Reinsurers' share*	*Net*
	$'000	*$'000*	*$'000*
At 1 January 2018	7,934.7	(7,934.7)	—
Claims incurred during the year	6,825.5	(6,825.5)	—
Claims paid during the year	(3,899.2)	3,899.2	—
Foreign exchange	(40.1)	40.1	—
At 31 December 2018	10,820.9	(10,820.9)	—

	Gross	*Reinsurers' share*	*Net*
	$'000	*$'000*	*$'000*
At 1 January 2017	3,612.9	(3,612.9)	—
Claims incurred during the year	5,984.0	(5,984.0)	—
Claims paid during the year	(2,520.3)	2,520.3	—
Foreign exchange	858.1	(858.1)	—
At 31 December 2017	7,934.7	(7,934.7)	—

Gross claims development tables for each underwriting year are presented below. As the Company has no net claim exposure, no net claims development tables have been presented.

Underwriting year	*2015*	*2016*	*2017*	*2018*	*Total*
Gross claims development at	*%*	*%*	*%*	*%*	
12 months	65.0	65.5	117.1	89.9	
24 months	29.5	36.8	119.2		
36 months	20.9	38.2			
48 months	21.4				
Gross claims liabilities of Syndicate 6107 ($'000)	6,059.5	6,545.3	34,662.5	50,409.9	97,677.2
Less share not attributable to RenaissanceRe Corporate Member (No. 2) Limited ($'000)	(5,390.5)	(5,823.2)	(30,816.7)	(44,825.9)	(86,856.3)
Gross claims liabilities ($'000)	669.0	722.1	3,845.8	5,584.0	10,820.9

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11. Ultimate parent company

The immediate parent company of this Company is Renaissance Reinsurance Ltd., a company incorporated in Bermuda. The ultimate parent company of the largest group of which the Company is a member is RenaisanceRe Holdings Ltd., a company incorporated in Bermuda. The consolidated financial statements of RenaissanceRe Holdings Ltd., within which this Company is included, can be obtained from that company's offices at Renaissance House, 12 Crow Lane, Pembroke HM 19, Bermuda.

12. Funds at Lloyd's

Underwriting capacity of a member of Lloyd's must be supported by providing a deposit in the form of cash, securities or letters of credit, which are referred as Funds at Lloyd's ('FAL'). This amount is determined by Lloyd's and is based on the underlying syndicate solvency and capital requirement as calculated through the syndicate internal model. In addition, if the FAL are not sufficient to cover all losses, the Lloyd's Central Fund provides an additional level of security for policyholders.

For the 2019 year of account, the Company will participate in Syndicate 5623 in addition to Syndicate 6107. Syndicate 5623 was established in 2018 as a special purpose arrangement syndicate to write market facility business via a quota share from Syndicate 3623.

At 31 December 2018, the FAL requirement set by Lloyd's for the Company's participation in Syndicate 6107 and 5623 was £14.9M (2017 - £4.7M). Actual FAL posted by the Company for its participation in Syndicate 6107 and 5623 at 31 December 2018 was £15.5M (2017 - £13.0M).

13. Off-balance sheet items

The Company has not been party to an arrangement, which is not reflected in its statement of financial position, where material risks and benefits arise for the Company.

14. Deferred acquisition costs

	Gross	*Reinsurers' share*	*Net*
	$'000	*$'000*	*$'000*
At 1 January 2018	240.7	—	240.7
Change in deferred acquisition costs	33.0	—	33.0
Foreign exchange	(1.9)	—	(1.9)
At 31 December 2018	271.8	—	271.8

	Gross	*Reinsurers' share*	*Net*
	$'000	*$'000*	*$'000*
At 1 January 2017	200.4	—	200.4
Change in deferred acquisition costs	38.6	—	38.6
Foreign exchange	1.7	—	1.7
At 31 December 2017	240.7	—	240.7

15. Staff costs and directors' emoluments

The Company had no employees during the year (2017 - none).

Directors' emoluments

The directors of the Company are also directors of other companies within the RenaissanceRe group. The directors' remuneration for 2018 was paid by a fellow subsidiary company. There is no directors' remuneration allocated to the Company (2017 - nil) as it is not practicable to apportion this amount between their services as directors of the Company and their services as directors or employees of other group companies.

16. Risk management

The risk management of the Company is aligned with that of Syndicate 6107. The risk management of Syndicate 6107, which includes those of the Company, are discussed on pages 4 to 9 and pages 18 to 24 of the Syndicate 6107 annual report for the year ended 31 December 2018, which does not form part of this report. The annual report for Syndicate 6107 can be obtained from the website www.beazley.com.

The residual risk for the corporate member is not considered material in all areas with the exception of credit risk on the 100% cession to RRL. This is addressed in note 16.6.

Relevant extracts from pages 18 to 24 of the Syndicate 6107 annual report have been included below for reference:

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

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

a) Underwriting risk
Underwriting risk comprises four elements that apply to all insurance products offered by the Syndicate:

- cycle risk - the risk that business is written without full knowledge as to the (in)adequacy of rates, terms and conditions;
- event risk - the risk that individual risk losses or catastrophes lead to claims that are higher than anticipated in plans and pricing;
- pricing risk - the risk that the level of expected loss is understated in the pricing process; and
- expense risk - the risk that the allowance for expenses and inflation in pricing is inadequate.

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

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

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

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

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

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

To manage underwriting exposures, the Syndicate has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry. In 2018, the normal maximum line that any one underwriter could commit the Syndicate to was $20.0m. In most cases, maximum lines for classes of business were much lower than this.

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

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

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

Binding authority contracts
A proportion of the Syndicate's insurance risks are transacted by third parties under delegated underwriting authorities. Each third party is thoroughly vetted by its coverholder approval group before it can bind risks and is subject to rigorous monitoring to maintain underwriting quality and confirm ongoing compliance with contractual guidelines.

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

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

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

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

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

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

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

The objective of the Syndicate's reserving policy is to produce accurate and reliable estimates that are consistent over time and across classes of business. The estimates of gross premiums written and claims prepared by the actuarial department are used through a formal quarterly peer review process to independently test the integrity of the estimates produced by the underwriting teams for each class of business. These meetings are attended by senior management, senior underwriters, actuarial, claims, and finance representatives.

In relation to sensitivity to insurance risk (claims reserves), an increase or decrease in total claims liability would have nil impact on profit and equity due to the 100% cession of RCM2's results to RRL.

The Syndicate also monitors its exposure to insurance risk by location. The below table provides an analysis of the geographical breakdown of Syndicate 6107's written premiums.

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

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

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

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

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

The Syndicate has four main settlement currencies: US dollars, sterling, Canadian dollars and euro. Transactions in all currencies are converted to US dollars on initial recognition and revalued at the reporting date.

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

The following table summarises RCM2's carrying value of total assets and total liabilities categorised by currency:

Converted $'000	*GBP*	*USD*	*EUR*	*CAD*	*Total*
31 December 2018					
Total assets	11,714.2	10,789.2	531.4	(32.5)	23,002.3
Total liabilities	(9,882.4)	(12,625.2)	(225.5)	(269.2)	(23,002.3)
Net assets	1,831.8	(1,836)	305.9	(301.7)	—
31 December 2017					
Total assets	7,981.4	8,196.2	162.5	2,278.5	18,618.6
Total liabilities	(8,710.5)	(9,555.6)	68.3	(420.8)	(18,618.6)
Net assets	(729.1)	(1,359.4)	230.8	1,857.7	—

There is no net currency exposure due to the 100% cession of RCM2's results, which includes foreign exchange gains and losses, to RRL.

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

Fluctuations in the Syndicate's trading currencies against the US dollar would result in nil change to profit and to net asset value due to the 100% cession of RCM2's results to RRL.

Interest rate risk
The Syndicate has no material interest rate risk.

Price risk
This is not a material risk to the Syndicate.

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

There are a number of business activities for which the Syndicate uses the services of a third-party company, such as data entry and credit control. These service providers are selected against rigorous criteria and formal service level agreements are in place, and regularly monitored and reviewed.

Beazley Furlonge Limited also recognises that it is necessary for people, systems and infrastructure to be available to support the Syndicate's operations and has therefore taken significant steps to mitigate the impact of business interruption which could follow a variety of events, including the loss of key individuals and facilities. The Syndicate operates a formal disaster recovery plan which, in the event of an incident, allows the movement of critical operations to an alternative location within 24 hours.

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

Key components of Beazley Furlonge Limited's operational control environment include:
- solvency capital requirement 'SCR' modeling of operational risk exposure and scenario testing;
- management review of activities;
- documentation of policies and procedures;
- preventative and detective controls within key processes;
- contingency planning; and
- other systems controls.

16.6 Credit risk
Credit risk arises from the failure of another party to perform its financial or contractual obligations to the Syndicate in a timely manner. The primary sources of credit risk for the Syndicate are:
- reinsurers - whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the Syndicate;
- brokers and coverholders - whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the Syndicate;
- investments - whereby issuer default results in the Syndicate losing all or part of the value of a financial instrument and derivative financial instrument; and
- cash at bank and in hand.

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

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

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

The Syndicate has developed processes to formally examine all reinsurers before entering into new business arrangements. New reinsurers are approved by the reinsurance security committee (RSC), which also reviews arrangements with all existing reinsurers at least annually. Vulnerable or slow-paying reinsurers are examined more frequently.

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To assist in the understanding of credit risks, A.M. Best, Moody's and Standard & Poor's (S&P) ratings are used. The following tables summarise RCM2's concentrations of credit risk:

	AAA	*AA*	*A*	*BBB*	*<BBB*	*Not rated*	*Total*
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
31 December 2018							
Reinsurers' share of outstanding claims	—	2,102.9	8,663.6	—	—	54.4	10,820.9
Cash at bank and in hand	—	—	—	—	—	20.5	20.5
Total	—	2,102.9	8,663.6	—	—	74.9	10,841.4
31 December 2017							
Reinsurers' share of outstanding claims	1,157.7	325.9	6,421.5	—	—	29.6	7,934.7
Cash at bank and in hand	10.2	—	—	—	—	—	10.2
Total	1,167.9	325.9	6,421.5	—	—	29.6	7,944.9

The balances relating to the 100% cession with RRL are included in the above table under rating 'A' and its related credit risk is not considered significant.

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

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

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

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

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

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

16.10 Capital management

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level respectively, not at syndicate level.

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

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

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

Accordingly the Company's share of the assets less liabilities of Syndicate 6107, as represented in the Company's balances reported on the statement of financial position, represent resources available to meet the Company's and Lloyd's capital requirements.