

**Company No 01893407**

**BEAZLEY FURLONGE LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2015**



## **Directors and Advisors**

### **Directors**

D Holt - chairman  
M R Bernacki (appointed – 24/04/2015)  
G P Blunden  
M L Bride – finance director  
A P Cox  
A Crawford-Ingle  
N H Furlonge  
J G Gray (resigned – 11/03/2015)  
D A Horton - chief executive officer  
N P Maidment - active underwriter  
R A W Tolle  
C A Washbourn  
K W Wilkins (appointed – 02/03/2015)

### **Secretary**

S A Coope

### **Registered office**

Plantation Place South  
60 Great Tower Street  
London  
EC3R 5AD

### **Registered Number**

01893407

### **Auditor**

KPMG LLP  
15 Canada Square  
London  
E14 5GL

### **Banker**

Lloyds Banking Group plc  
113-116 Leadenhall Street  
London  
EC3A 4AX

## Strategic report

The directors present their strategic report which accompanies the audited financial statements of Beazley Furlonge Limited ('the company', registered no: 01893407) for the period ended 31 December 2015 set out on pages 13 to 24.

### Business review and principal activity

The principal activity of the company is that of a Lloyd's managing agent.

The capacities of the managed syndicates are as follows:

Syndicate Number	Capacity 2015	Capacity 2014
2623	£1,019.5m	£1,093.9m
623	£230.3m	£242.8m
3623	£150.0m	£140.0m
6107	£28.6m	£21.0m
3622	£17.0m	£16.0m
6050	£12.0m	n/a

The principal risks and uncertainties of the company arise from the management of syndicates 2623, 6107, 623, 3622, 3623 and 6050. The principal risks and uncertainties of Beazley plc ("the Parent"), which include those of the company, are discussed on pages 52 to 57 and 127 to 139 of Beazley plc's annual report.

With effect from 10 October 2014, Beazley Furlonge Limited was appointed as the investment manager on behalf of the managed syndicates. Prior to this date, Falcon Money Management Limited was the appointed investment manager. There was no significant impact on Beazley Furlonge Limited's operations as a result of this change.

Further information on the strategy of the Beazley group can be found in Beazley plc's annual report.

### Going concern

The directors have prepared these accounts on a going concern basis, as they are of the opinion that the company will be able to pay its debts as and when they fall due.

As a wholly owned subsidiary of Beazley plc, the directors expect the company to have adequate resources to remain in existence for the foreseeable future.

### Risk management philosophy

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

### Risk governance and reporting

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

## Strategic report (continued)

### 2015 in review

As at 31 December 2015, the managed syndicates are operating within risk appetite as set by the Beazley Furlonge Limited board. There have been no new risk areas identified and no major shifts in existing risks. In addition, the control environment has not identified any significant failings or weaknesses in key processes.

Risk management has undertaken two key risk profile reviews. The first was to review the design and operation of the underwriting standards, particularly in soft market conditions. Whilst the conclusion was that the underwriting standards remain appropriately designed, we have increased the focus on oversight of policy wordings (which can become a target in a soft market) and monitoring more closely the new underwriters who have joined Beazley in 2015. The second risk profile review was an annual review of Beazley's cyber exposure with the aim of improving our understanding of how an aggregation of claims across a number of policies could be triggered by a single cause or event. We used external technical expertise to benefit from the latest thinking on what is possible, which has led to the development of five new realistic disaster scenarios that will be monitored. We have also developed a cyber risk budget which the new scenarios will be compared against to assist the board in overseeing the growth of our cyber premium.

Risk appetite sets the navigational parameters and so supports board discussion. For example, because asset risk appetite is based on how much earnings volatility the board is prepared to tolerate, it is set with consideration of the insurance conditions in mind rather than the asset environment alone. This tempers the amount of asset risk taken in soft insurance market conditions when the initial reaction may be to take on more asset risk to make up for an expectation of reduced insurance profits.

We have also complemented our quantitative risk appetite measures by developing qualitative statements which guide on what type of activity would be outside risk appetite using relevant language for that part of the business. This has helped to improve the understanding across the business of how the board expects the company to operate.

In 2015, we reviewed the way we manage conduct risk. Conduct risk describes Beazley's behaviour that aims to provide appropriate products to the right group of consumers that achieve fair outcomes. Beazley's approach starts with culture. The Professional and Integrity elements of our PIED values and the Honourable and Deliver elements of Being Beazley mean we consider and understand the needs of our customers and form an important cultural base to getting this right. This is supported by product specific activity dependent on the type of customer. From a risk management perspective, we facilitated the development of the conduct objective, the conduct risk appetite and the standards required to remain within this risk appetite.

We are able to extract conduct related controls from the risk register to provide the board with assurance that the expected behaviours towards customers are being demonstrated.

The quarterly Own Risk and Solvency Assessment (ORSA) report captures and explains the current and prospective risks and associated capital requirements. Since 2010, the board has received 20 regular quarterly ORSAs and three ad hoc transactional ORSAs and these reports have proved to be one of the key benefits arising from the introduction of the Solvency II regime.

There is widespread belief that the approach to remuneration is a key determinant of a business's success or failure. As such, this is now the fifth year that the chief risk officer has provided a detailed report Beazley Plc's remuneration committee to provide assurance that the design of the remuneration structure drives the intended behaviours not only over the next year but also over the next three to five years. Members of the risk management team have visited Beazley offices in the US, Europe, Asia and Australia to identify how we can improve what we do and to observe how consistently the Beazley culture ensures our staff do the right thing.

## **Strategic report (continued)**

Turning to capital, we have continued to make minor changes to the internal model during 2015, the last year before the Solvency II regime goes live. Some changes have been in response to regulatory review to ensure that the internal model completely meets all the requirements. Other changes have been made to ensure that the internal model remains aligned to Beazley's risk profile. We have observed that there is increasing interest across the market in utilising a 'drivers of risk' approach, which is used by Beazley to describe how risks interact rather than using a statistical correlation matrices approach. Since we implemented such an approach in 2004, we have found that a 'drivers of risk' approach leads to a more informed discussion given the more intuitive approach to aggregating risk. Our focus in 2015 has been on reviewing the universe of risk drivers to ensure that all appropriate drivers have been included in the model and that the emergence of future drivers will be incorporated as necessary.

The board has received a detailed validation report to provide assurance that the model design and its output are appropriate. This report, coupled with a programme of regular and tailored director briefings called "KRAM", ensure that the internal model is widely understood and actively used.

Beazley received approval for its Solvency II internal model from the Central Bank of Ireland in December 2015. This ensures that Beazley's capital efficiency is maintained as the company will continue to use a model that more accurately reflects its risk profile to set capital requirements, rather than having to use the standard formula which typically generates higher capital requirements.

### **Preparing for the future**

Beazley's current risk management framework has been successfully operating over the last five years. Although we have continued to enhance the framework during that period, we have undertaken a detailed review in the second half of 2015 of the operation of the risk register and associated reporting. This review has made use of our experiences of operating the framework during that period and has considered how market best practice has developed. We will be implementing changes in the first half of 2016 with the aim of ensuring that the next evolution of the risk management framework is up to the challenge of helping Beazley navigate the next five years.

### **Risk management strategy**

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

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

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

## Strategic report (continued)

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

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

### Risk management framework

Beazley has adopted the 'three lines of defence' framework: namely business risk management, the risk management function and the internal audit function. Within business risk management, there are two defined risk and control roles: risk owner and control reporter. Each risk event is owned by the risk owner who is a senior member of staff. Risk owners, supported by the risk management team, formally perform a risk assessment twice a year, including an assessment of heightened and emerging risks.

The risk management framework comprises a number of risk management components, which when added together describe how risk is managed on a day to day basis. The framework includes a risk register that captures the risk universe (55 risk events grouped into eight risk categories: insurance, market, credit, liquidity, operational, regulatory and legal, group and strategic), the risk appetite set by the Beazley Furlong Limited board, and the control environment that is operated by the business to remain within the risk appetite. The following diagram illustrates the components of the risk management framework.

In summary, the board identifies risk, assesses risk and sets risk appetite. The business then implements a control environment which describes how the business should operate to stay within risk appetite. Risk management then reports to the board on how well the business is operating using a consolidated assurance report. For each risk, the consolidated assurance report brings together a view of how successfully the business is managing risk, qualitative commentary from the assurance function and whether there have been any events that we can learn from (risk incidents). Finally, the framework is continually improved, through the consideration of stress and scenario testing, themed reviews using risk profiles and an assessment of strategic and emerging risks.

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

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

### The risks to financial performance

The board monitors and manages risks grouped into eight categories, which cover the universe of risk that could affect Beazley. 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.

## Strategic report (continued)

### **Insurance risk**

Given the nature of Beazley's business, the key risks that impact financial performance arise from insurance activities.

The main insurance risks can be summarised in the following categories:

- **Market cycle risk:** The risk of systematic mispricing of the medium tailed specialty lines business which could arise due to a change in the US tort environment, changes to the supply and demand of capital, and companies' using incomplete data to make decisions. This risk would affect multiple classes within the specialty lines division across a number of underwriting years. The syndicate uses a range of techniques to mitigate this risk including sophisticated pricing tools, analysis of macro trends, analysis of claim frequency and the expertise of our experienced underwriters and claims managers;
- **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 Beazley'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. Given Beazley's risk profile, examples include a coordinated cyber attack, an act of terrorism, an act of war or a political event. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area;
- **Reserve risk:** Beazley 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 syndicates' financial performance.

### **Strategic risk**

Alongside these insurance risks, the success of the syndicates depends on the execution of an appropriate strategy.

The main strategic risks can be summarised as follows:

- **Strategic decisions:** The syndicates' performance would be affected in the event of making strategic decisions that do not add value. The syndicates mitigate 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 35 senior individuals from across different disciplines at Beazley);
- **Environment:** There is a risk that the chosen strategy cannot be executed because of the current environmental conditions within which Beazley operates, thereby delaying the timing of the strategy.
- **Communication:** Having the right strategy and environment is of little value if it is not communicated internally so that the whole group is heading in the same direction, or if key external stakeholders are not aware of Beazley's progress against its strategy;
- **Senior management performance:** There is a risk that senior management is overstretched or does not perform, which would have a detrimental impact on the syndicate's performance. The performance of the senior management team is monitored by the CEO and talent management team and overseen by the nomination committee;

## Strategic report (continued)

### Strategic risk (continued)

- 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 (one of seven ingredients of Being Beazley) 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 the syndicate having to deal with a crisis and is mitigated by having a detailed crisis management plan; and
- Corporate transaction: There is a risk that Beazley undertakes a corporate transaction which does not return the expected value to shareholders. This risk is mitigated through the due diligence performed, the financial structure of transactions and the implementation activity. Under the environmental risk heading, the board monitors five categories of emerging and strategic risk on a quarterly basis, namely; socio-political risk, distribution, market conditions, talent and regulation.

### Other risks

The remaining six risk categories monitored by the 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 Beazley's operations, and is monitored by the operations committee;
- Credit risk: Beazley 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 Beazley does not operate in line with the relevant regulatory framework in the territories where it operates. Of the eight risk categories, the board has the lowest tolerance for this risk;
- Liquidity risk: This is the risk that the syndicate 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. Although this risk is currently small, the Beazley plc board monitors this risk through the reports it receives from each entity.

### Key performance indicators ("KPIs")

The company's directors are of the opinion that the KPIs for the company are best represented by the financial statements and related notes, in particular note 2 and note 4, set out on pages 18 and 19.

Signed on behalf of the board



N P Maidment  
Director

10 March 2016

Plantation Place South  
60 Great Tower Street  
London  
EC3R 5AD



## Directors' report

### Business review

A review of the company's activities is included in the strategic report.

### Results and dividends

The results for the period are shown in the profit and loss account on page 13. A total dividend of £nil was paid in 2015 (2014: £7.5m).

Following the balance sheet date, the board declared a dividend of £11.3m.

### Donations

During the period the company made £nil charitable donations (2014: £nil).

### Directors

The directors of the company at 31 December 2015, who served during the year and to the date of this report, were as follows:

D Holt \* - chairman  
M R Bernacki (appointed – 24/04/2015)  
G P Blunden \*  
M L Bride – finance director  
A P Cox  
A Crawford-Ingle\*  
N H Furlonge \*  
J G Gray (resigned – 11/03/2015)  
D A Horton – chief executive officer  
N P Maidment – active underwriter  
R A W Tolle \*  
C A Washbourn  
K Wilkins \* (appointed – 02/03/2015)

\* denotes non-executive director

The directors of Beazley Furlonge Limited during the period covered by this annual report who participated in syndicate 623 through Beazley Staff Underwriting Limited are as follows:

Year of Account	Total bonuses deferred and at risk £	2014 year of account underwriting capacity £	2015 year of account underwriting capacity £	2016 year of account underwriting capacity £
M R Bernacki	163,000	250,000	300,000	400,000
M L Bride	199,000	400,000	400,000	400,000
A P Cox	199,000	400,000	400,000	400,000
J G Gray	199,000	400,000	-	-
D A Horton	199,000	400,000	400,000	400,000
N P Maidment	199,000	400,000	400,000	400,000
C A Washbourn	199,000	400,000	400,000	400,000

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

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

### **Auditor**

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

### **Social, environmental and ethical (SEE) risks**

Social, environmental and ethical risks are managed on a group basis. More information can be obtained on how the group manages these risks from the financial statements of Beazley plc.

Signed on behalf of the board



N P Maidment  
Director

10 March 2016

Plantation Place South  
60 Great Tower Street  
London  
EC3R 5AD

## **Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements**

The directors are responsible for preparing the Strategic Report, the 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under 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 affairs of the company and of the profit or loss of the company for that period. In preparing these 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



M L Bride  
Director

10 March 2016

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BEAZLEY FURLONGE LIMITED**

We have audited the financial statements of Beazley Furlonge Limited for the year ended 31 December 2015 set out on pages 13 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements 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 Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

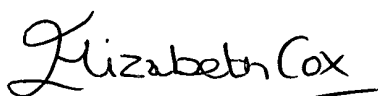
### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion 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.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where 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.



**Elizabeth Cox (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
Chartered Accountants  
15 Canada Square  
London E14 5GL  
10 March 2016

**Profit or loss account**  
**For the year ended 31 December 2015**

	Note	<b>2015 £m</b>	<b>2014 £m</b>
Turnover	2	14.8	14.4
Other operating income	2	153.2	147.4
		<hr/>	<hr/>
		168.0	161.8
Administrative expenses	4	(153.9)	(147.6)
		<hr/>	<hr/>
Operating profit		14.1	14.2
		<hr/>	<hr/>
Profit on ordinary activities before taxation		14.1	14.2
Income tax expense	5	(2.8)	(3.2)
		<hr/>	<hr/>
Profit for the financial year		11.3	11.0
		<hr/>	<hr/>

The company's operating activities all relate to continuing operations.

The notes on pages 13 to 24 form part of these financial statements.

**Statement of comprehensive income**  
**For the year ended 31 December 2015**

	Note	2015 £m	2014 £m
Profit for the financial year		11.3	11.0
Actuarial gain/(loss) on retirement benefit obligations	10	0.2	(1.2)
(Distributed)/recharged to managed syndicates		(0.2)	1.2
		<hr/>	<hr/>
Total comprehensive income for the year		11.3	11.0
		<hr/>	<hr/>
<b>Retained earnings at the beginning of the year as previously stated</b>		12.8	9.3
Income for the year attributable to the owners of the parent		11.3	11.0
Dividends declared and paid		-	(7.5)
		<hr/>	<hr/>
<b>Retained earnings at the end of the year</b>		24.1	12.8
		<hr/>	<hr/>

The notes on pages 13 to 24 form part of these financial statements.

**Balance sheet**  
**As at 31 December 2015**

	Note	2015 £m	2014 £m
<b>Assets</b>			
Debtors (including £2.6m due after more than one year (2014: 1.7m))	6	57.5	53.2
Deferred tax	8	0.1	0.3
Total assets		<u>57.6</u>	<u>53.5</u>
<b>Liabilities, capital and reserves</b>			
Called up share capital	9	0.4	0.4
Profit and loss account		24.1	12.8
Equity shareholder's funds		<u>24.5</u>	<u>13.2</u>
Liabilities:			
Creditors: amounts falling due within one year	7	33.1	40.3
<b>Total liabilities, capital and reserves</b>		<u>57.6</u>	<u>53.5</u>

Signed on behalf of the board of directors



M L Bride

The financial statements were approved by the board of directors on 10 March 2016.

The notes on pages 13 to 24 form part of these financial statements.

## Notes to the financial statements

### 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.

#### General information and basis of accounting

Beazley Furlonge Limited is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 2. The nature of the company's operations and its principle activities are set out in the strategic report on page 3 to 8.

The financial statements have been prepared in accordance with the applicable Accounting Standard in the United Kingdom, Financial Reporting Standard 102 (FRS 102). This is the first year that FRS 102 has been applicable. Further explanation of the adoption of these standards can be found in note 15. The financial statements are presented in pounds sterling, this being the functional currency of the company.

#### Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions. These conditions, including the notification of these exemptions to the shareholders with no objections, have been complied with. The company has taken advantage of the following exemptions:

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

(ii) from preparing 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) from disclosing share based payment arrangements concerning its own equity instruments. The group's share based payment arrangements and relevant disclosures are presented in the group's consolidated financial statements;

(iv) from disclosing the company key management personnel compensation, as required by FRS 102.

(v) from disclosing transactions entered into between related parties within a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

#### Going concern

The directors have prepared these accounts on a going concern basis, as they are of the opinion that the company will be able to pay its debts as and when they fall due.

As a wholly owned subsidiary of Beazley plc, the directors expect the company to have adequate resources to remain in existence for the foreseeable future.

#### Turnover

Turnover represents agency fees and profit commission derived from underwriting names at Lloyd's.

Agency fees represent net retained fees in respect of the 2015 underwriting account.

Profit commission which is recognised as profit is earned in the managed syndicates.



## **Notes to the financial statements (continued)**

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

#### **Deferred taxation**

Except where otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

#### **Foreign currencies**

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 and loss account.

#### **Post-retirement benefits**

The company operates a defined benefit pension plan that is now closed to future service accruals. The scheme is generally funded by the company taking account of the recommendations of an independent qualified actuary. All employees now participate in a defined contribution pension. Pension costs relating to the contributions made are recognised by Beazley Management Limited.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors like age, years of service and compensation. The pension costs are assessed using the projected unit credit method. Under this method the costs of providing pensions are charged to the profit or loss account so as to spread the regular costs over the service lives of employees in accordance with the advice of the qualified actuary, who values the plans annually. The pension obligation is measured at the present value of the estimated future net cash flows and is stated net of plan assets.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of comprehensive income, actuarial gains and losses.

#### **Dividends**

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are not recognised in the financial statements but are disclosed in the notes to the financial statements.

## Notes to the financial statements (continued)

### 2. Turnover and other operating income

	2015 £m	2014 £m
Underwriting agency fees	8.4	8.8
Profit commission	6.4	5.6
	<hr/>	<hr/>
	14.8	14.4
	<hr/>	<hr/>

Turnover and profit before taxation arise in the United Kingdom, from business underwritten at Lloyd's on behalf of names resident in the United Kingdom and overseas.

Other operating income of £153.2m (2014: £147.4m) represents charges to managed syndicates (623/2623/3622/3623/6107/6050). All charges to the syndicates other than those directly charged by Lloyd's to the syndicates are now paid by Beazley Management Limited and are then charged through Beazley Furlonge Limited to the relevant syndicate.

### 3. Directors and employees

The directors and employees rendering services to the company are paid for those services through Beazley Management Limited. Remuneration paid to directors of Beazley Furlonge Limited specifically relating to services rendered to the company are shown below.

	2015 £	2014 £
D Holt	33,150	32,500
G P Blunden	16,500	16,250
A Crawford-Ingle	16,500	16,250
N H Furlonge	52,000	51,000
R V Deutsch	-	25,500
K W Wilkins	52,000	-
R A W Tolle	16,500	24,250
	<hr/>	<hr/>
	186,650	165,750
	<hr/>	<hr/>

Further details of the remuneration paid to directors and employees for their services to the group are shown in the ultimate parent undertaking's accounts, Beazley plc, which can be found at [www.beazley.com](http://www.beazley.com).

## Notes to the financial statements (continued)

### 4. Administrative expenses

	2015 £m	2014 £m
Recharged from Beazley Management Limited	154.7	148.9
Gain on foreign exchange	(0.8)	(1.3)
Administrative expenses	153.9	147.6

The main drivers of the increase in administrative expenses is an increase in salary and incentive costs, investment in Solvency II costs and investment in our infrastructure aimed at securing future growth in the managed syndicates.

The audit fee in the current financial year was £34,800 (2014: £23,963) and was borne by Beazley Management Limited.

Amounts receivable by the company's auditor and its associates in respect of services to the company and its associates, other than the audit of the company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the company's ultimate parent, Beazley plc.

All staff are employed and paid by Beazley Management Limited. The directors of the company are paid by Beazley Management Limited in relation to their directorships of this company.

### 5. Income tax expense

	2015 £m	2014 £m
<i>Current tax</i>		
UK corporation tax charge at 20.25% (2014: 21.5%)	2.6	3.1
Adjustment in respect of prior year	-	0.1
<i>Deferred tax:</i>		
Origination of and reversal of timing differences	0.2	-
Taxation charge for the year	2.8	3.2

## Notes to the financial statements (continued)

### 5. Income tax expense (continued)

The tax charge for the current year is lower (2014: higher) than the standard rate of corporation tax in the UK, 20.25% (2014: 21.5%) due to the differences explained below.

	<b>2015 £m</b>	<b>2014 £m</b>
Profit on ordinary activities before taxation	14.1	14.2
Tax calculated at 20.25% (2014: 21.5%)	2.9	3.1
<i>Effect of;</i>		
Permanent differences	(0.1)	-
Prior year over provision	-	0.1
	<hr/>	<hr/>
Tax charge for the year	2.8	3.2
	<hr/>	<hr/>

The Finance Act 2015, which provides for reduction in the UK corporation tax rates down to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020, was substantively enacted on 26 October 2015. These rate reductions to 19% and 18% will reduce the company's future current tax charge and have been reflected in the calculation of the deferred tax balance at 31 December 2015.

### 6. Debtors

	<b>2015 £m</b>	<b>2014 £m</b>
Amounts due from group companies	22.1	11.8
Amounts due from other syndicates	27.1	33.5
Profit commission receivable	8.3	7.9
	<hr/>	<hr/>
	57.5	53.2
	<hr/>	<hr/>

Debtors include profit commission receivable of £2.6m (2014: £1.7m) due after more than one year. The remainder of the company's debtors are due within one year.

### 7. Creditors

	<b>2015 £m</b>	<b>2014 £m</b>
Amounts due to other group companies	30.0	35.5
Current tax payable	2.6	3.1
Retirement benefit obligation (Note 10)	0.5	1.7
	<hr/>	<hr/>
	33.1	40.3
	<hr/>	<hr/>

## Notes to the financial statements (continued)

### 8. Deferred tax

	2015 £m	2014 £m
The movement in deferred tax during the year was:		
Opening balance	0.3	0.3
Movements during the year	(0.2)	-
Closing balance	0.1	0.3
Deferred tax assets provided in the accounts are:		
Timing differences	0.1	0.3

### 9. Share capital

	2015 £m	2014 £m
Authorised: 400,000 ordinary shares of £1 each	0.4	0.4
Allotted, issued and fully paid	0.4	0.4

### 10. Retirement benefit obligations

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Present value of funded obligations	28.5	28.0	24.0	20.3	17.8
Fair value of plan assets	28.0	26.3	22.6	19.9	17.3
Experience gains/ (losses) on scheme liabilities	-	(0.3)	(0.1)	(0.1)	(0.2)

Beazley Furlonge Limited operates a defined benefit pension scheme ('the Beazley Furlonge Limited Pension Scheme') which closed to new members in January 2002. The scheme provides benefits based on final pensionable pay, with contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. No additional years of service can be accrued for those members still employed by the company. Contributions are determined by a qualified independent actuary using the projected unit credit method and the most recent valuation was at 31 December 2015.

## Notes to the financial statements (continued)

### 10. Retirement benefit obligations (continued)

The major assumptions used in this valuation were:

	2015	2014
Future salary increases	3.1%	3.0%
Future pensions increases	2.7%	2.6%
Discount rate	3.5%	3.4%
Inflation rate	3.1%	3.0%
Life expectancy	90 years	90 years

The assumptions used by the actuary are chosen from the range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

#### Plan assets

The fair value of plan assets, which are not intended to be realised in the short term and may be subject to significant change in fair value before they are realised, and the present value of funded obligations, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	2015 £m	2014 £m
Equities	13.9	13.0
Bonds	10.8	10.5
Cash	3.3	2.8
Fair value of plan assets	28.0	26.3
Present value of funded obligations	(28.5)	(28.0)
Net pension liability	(0.5)	(1.7)

The expected rate of return on scheme assets (including bonds, equities and cash) was 3.5% at 31 December 2015 (31 December 2014: 3.4%). This expected return on scheme assets reflects the discount rate.

#### Movement in defined benefit obligation

	2015 £m	2014 £m
Balance at beginning of year	28.0	24.0
Interest cost	0.9	1.1
Actuarial (gains)/losses	(0.1)	3.1
Benefits paid	(0.3)	(0.2)
Balance at the end of year	28.5	28.0

## Notes to the financial statements (continued)

### 10. Retirement benefit obligations (continued)

Movement in fair value of plan assets

	2015 £m	2014 £m
Balance at beginning of year	26.3	22.6
Expected return on assets	0.9	1.0
Contributions paid	1.0	1.0
Actuarial gains	0.1	1.9
Benefits paid	(0.3)	(0.2)
	<hr/>	<hr/>
Balance at the end of year	28.0	26.3
	<hr/>	<hr/>

Analysis of amounts recognised in statement of comprehensive income

	2015 £m	2014 £m
Actual return less expected return on plan assets	0.1	1.9
Experience gains arising on scheme liabilities	-	0.3
Changes in assumptions underlying the present value of scheme liabilities	<hr/> 0.1	<hr/> (3.4)
Actuarial losses recognised in statement of comprehensive income	<hr/> 0.2	<hr/> (1.2)

	2015 £m	2014 £m
<i>Difference between the expected and actual return on scheme</i>		
- Amount	0.1	1.9
- Percentage of year end scheme assets	-	7%
<i>Experience gains/(losses) on scheme liabilities</i>		
- Amount	-	0.3
- Percentage of year end present value of scheme liabilities	-	1%
<i>Total recognised in statement of comprehensive income</i>		
- Amount	0.2	(1.2)
- Percentage of year end present value of scheme liabilities	1%	5%

### 11. Dividends

The following dividends were recognised during the period:

	2015 £m	2014 £m
£nil (2014: £18.75) per qualifying ordinary share	<hr/> -	<hr/> 7.5

## **Notes to the financial statements (continued)**

### **11. Dividends (continued)**

During 2015 dividends of £nil (2014: £7.5m) were paid by the company. On 10 March 2016, the board declared a dividend of £11.3m payable to the company's parent company.

### **12. Ultimate controlling company**

The company's ultimate controlling company is Beazley plc incorporated in Jersey. The immediate controlling company is Beazley Furlonge Holdings Limited incorporated in the UK.

The largest and the smallest group in which the results of the company are consolidated is that headed by Beazley plc. No other group financial statements include the results of the company.

The consolidated financial statements of Beazley plc can be obtained from the website [www.beazley.com](http://www.beazley.com)

### **13. Related party disclosures**

Certain directors of the company participate in syndicate 623 through Beazley Staff Underwriting Limited. The details of the participations are disclosed in the Directors' report, on page 9.

### **14. Post balance sheet events**

On 10 March 2016, the board declared a dividend of £11.3m payable to the company's parent company, Beazley Furlonge Holdings Limited.

### **15. Adoption of new accounting standard**

The company has prepared these financial statements in accordance with Financial Reporting Standard 102 (FRS 102) for the first time for the financial year ended 31 December 2015. The adoption of this new standard has had no impact on the measurement bases applied in these financial statements.

The last financial statements under old UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2015. The new accounting standard has not resulted in the need for any restatement of prior period information. The new accounting standard has not resulted in new disclosure requirements.