

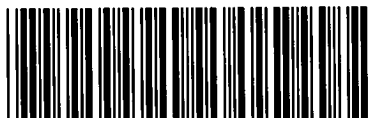
**Company No 01893407**

**BEAZLEY FURLONGE LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2019**

TUESDAY



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COMPANIES HOUSE

## **Directors and Advisors**

### **Directors**

M R Bernacki (resigned - 30/04/2019)  
G P Blunden  
M L Bride – finance director (resigned - 27/06/2019)  
A P Cox  
A D Crawford-Ingle (resigned - 31/05/2019)  
N H Furlonge  
D A Horton – chief executive officer  
D L Roberts  
R A Stuchbery  
K W Wilkins  
A J Reizenstein (appointed - 09/04/2019)  
A S Pryde (appointed - 11/06/2019)  
S M Lake (appointed - 14/06/2019)  
C C W Jones – finance director (appointed - 27/06/2019)  
I Fantozzi (appointed - 13/03/2019)

### **Secretary**

C P Oldridge

### **Registered office**

Plantation Place South  
60 Great Tower Street  
London  
EC3R 5AD

### **Registered number**

01893407

### **Auditor**

Ernst & Young LLP  
25 Churchill Place  
London  
E14 5EY

### **Banker**

Deutsche Bank AG  
6 Bishopsgate  
London  
EC2N 4DA

## Strategic report

The directors present their strategic report which accompanies the audited financial statements of Beazley Furlonge Limited (the 'company') for the period ended 31 December 2019 set out on pages 19 to 30.

### 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 2019	Capacity 2018
2623	£1,624.0m	£1,554.0m
623	£366.2m	£351.0m
3623	£69.3m	£213.0m
6107	£67.6m	£55.1m
3622	£25.0m	£23.0m
6050	-	-
5623	£63.1m	£22.5m

Capacity increased across all active syndicates except 3623. The reduction in 3623 reflects the change in the nature of reinsurance provided to the US admitted insurance capacity in the Beazley group.

The principal risks and uncertainties of the company arise from the management of syndicates 2623, 623, 3623, 6107, 3622, 6050 and 5623. The principal risks and uncertainties of Beazley plc ('the parent'), which include those of the company, are discussed on pages 44 to 50 and 155 to 168 of Beazley plc's 2019 annual report.

Further information on the strategy of the Beazley group ('the 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. In addition, our risk management processes are designed to continuously monitor our risk profile against risk appetite and to take advantage of 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)**

### **2019 in review**

In 2019, the company has successfully responded to both external and internal change.

#### ***External change***

The main political change that the company continued to navigate in 2019 was Brexit, although this is not a significant risk as only around 17% of the syndicates' premium originates from the EU. Despite the uncertainty during 2019, a cross functional working group has prepared the company for the worst case scenario of a hard Brexit, which is where the UK leaves the EU without agreements after the transition period. From an underwriting perspective, the EU risks expiring from 1 January 2019 have been successfully renewed onto the newly established Lloyd's Brussels platform. As such, the company has successfully navigated the key risks of a potential hard Brexit. Since such a hard Brexit is not certain, our preparations have also considered some form of transitional arrangement which continues after 31 December 2020.

The approach taken to business planning at Lloyd's of London during the year attracted extensive press coverage and resulted in a number of changes to the marketplace. From a company perspective, the approach taken was closely aligned to our own process of cycle management which has been followed for many years. As a result, we were able to present syndicate business plans and associated capital requirements that were approved by Lloyd's as being consistent with their objective of improved risk selection and market profitability.

We have included a new section within this risk management report (see page 8) covering the impact of climate change on the company. A key aspect of the company's business model is to support our clients who have been affected by natural catastrophes, helping them return to pre-catastrophe conditions as soon as possible. In addition, we explain how climate change could affect the group's own risk profile, highlighting how we respond to these risks. These include the performance of our insurance contracts, the investments we make, the office spaces we occupy, the companies we partner with and our travel footprint.

#### ***Internal change***

The Beazley plc board undertook a regular review of its strategy which culminated in wide ranging discussions, supported by Beazley Furlonge Limited board members, at its strategy day in May. As a result, four new strategic initiatives were identified to support the group's vision. The first, Beazley Digital, looks at how we can use technology to transact and process smaller, simpler business. The second, faster smarter underwriting, aims to equip underwriters with data and analytics to better support the underwriting of larger, more complex business. The third is about getting closer to our clients to better understand how we can support their risk management either with existing insurance products or by designing innovative new products to tackle a risk that our clients are worrying about. Finally, the fourth initiative is how we can do more in the London Market, particularly because this is the core part of our risk profile.

There has been a high level of change at the board level during 2019. The risk management function has been working with the individuals in new roles to ensure that they understand their responsibilities within the risk management framework and to minimise the risk associated with such transition periods. The risk management function is also providing assurance to the board that the syndicates continue to operate within risk appetite and is supported in this by internal audit who have completed an audit of risk culture.

## **Strategic report (continued)**

### ***Internal change (continued)***

The company's risk profile has adjusted with the exit from the construction class of business within the property division and closing Beazley's office in Norway which underwrote our energy class of business within the marine division. The group's chief risk officer completed his secondment to Beazley's Atlanta office and provided a report to the Beazley plc board. This report provided assurance that Beazley's US operations have coped well with the recent growth and that processes and practices have evolved gradually to adapt to the risks and challenges associated with operating a larger business. As such, the US operations are well placed to achieve the planned growth over the next five years.

The latest chief risk officer report to the Beazley plc board has confirmed that the control environment has not identified any significant failings or weaknesses in key processes and that the company and syndicates are operating within risk appetite as at 31 December 2019. This was reported to the board through the ORSA.

#### **Risk management philosophy**

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

#### **Risk management strategy**

The Beazley plc board has delegated executive oversight of the risk management department to the Beazley plc 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 staff 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 Beazley Furlonge Limited 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.

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

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

## **Strategic report (continued)**

### **Risk management framework**

The company 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 (52 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 Furlonge Limited board, and the control environment that is operated by the business to remain within the risk appetite.

In summary, the Beazley Furlonge Limited 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 Beazley Furlonge Limited board on how well the business is operating using a risk management report. For each risk, the risk management report brings together a view of how successfully the business is managing risk, qualitative commentary from the assurance functions and whether there have been any events that we can learn from (risk incidents). Finally, the framework is continually evaluated and where appropriate improved, through the consideration of stress and scenario testing, themed reviews using risk profiles and an assessment of strategic and emerging risks. There were no material changes made during 2019.

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

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

### **The risks to financial performance**

The Beazley Furlonge Limited 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 Beazley Furlonge Limited board considers the following two risk categories to be the most significant.

## Strategic report (continued)

### **Insurance risk**

Given the nature of the company's business, the key risks that impact financial performance arise from insurance activities of the managed syndicates. 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 syndicates use 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 or more large events caused by nature affecting a number of policies and therefore giving rise to multiple losses. Given the syndicates' risk profile, such an event could be a hurricane, major windstorm or earthquake. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area;
- **Non-natural catastrophe risk:** This risk is similar to natural catastrophe risk except that multiple losses arise from one event caused by mankind. Given the syndicates' risk profile, examples include a coordinated cyber-attack, losses linked to an economic crisis, an act of terrorism, and an act of war or a political event. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area;
- **Reserve risk:** The company has a consistent reserving philosophy. However, there is a risk that the reserves put aside for expected losses turn out to be insufficient. This could be due to any of the three drivers of risk described above. The syndicates use a range of techniques to mitigate this risk including a detailed reserving process which compares 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 the managed syndicates.

### **Strategic risk**

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

- **Strategic decisions:** The company and syndicates' performance would be affected in the event of making strategic decisions that do not add value. The company mitigates this risk through the combination of recommendations and challenge from non-executive directors, debate at the Beazley plc executive committee and input from the strategy and performance group (a group of approximately 30+ senior individuals from across different disciplines at Beazley);
- **Environment:** There is a risk that the chosen strategy cannot be executed because of the current environmental conditions within which the syndicates operates, thereby delaying the timing of the strategy;
- **Communication:** Having the right strategy and environment is of little value if the strategy is not communicated internally so that the whole group is heading in the same direction, or if key external stakeholders are not aware of the company's progress against its strategy;
- **Senior management performance:** There is a risk that senior management could be overstretched or could fail to perform, which would have a detrimental impact on the company's performance. The performance of the senior management team is monitored by the chief executive and talent management team and overseen by the Beazley plc nomination committee;

## 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. The group expects its staff to act honourably by doing the right thing;
- **Flight:** There is a risk that the company could be unable to deliver its strategy due to the loss of key personnel. The company 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 company having to deal with a crisis and is mitigated by having a detailed crisis management plan;

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

### Other risks

- **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. An example would be a cyber-attack having a detrimental impact on our operations;
- **Credit risk:** The company 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 syndicates might fail to operate in line with the relevant regulatory framework in the territories where it does business. Of the eight risk categories, the Beazley Furlonge Limited board has the lowest tolerance for this risk. This risk is monitored by the risk and regulatory committee;
- **Liquidity risk:** This is the risk that the syndicates might not have sufficient liquid funds following a catastrophic event. The investment committee monitors this risk which, given the nature of the asset portfolio, is currently small; and
- **Group risk:** The structure of the Beazley group is not complex and so the main group risk is that one group entity might operate to the detriment of another group entity or entities. This includes, for example, changes in tax legislation such as the US Tax Cuts and Jobs Act enacted in late 2017 which affects which types of intra-group reinsurance it is efficient for Beazley to use. The Beazley plc board monitors this risk through the reports it receives from each entity.

### Anti-bribery and corruption risk

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

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



## Strategic report (continued)

### Climate change risk

The changing global climate is recognised as an important emerging risk due to its widespread potential impact on the global population, environment and economy. A key aspect of the syndicates' business model is to support our clients who have been affected by natural catastrophes, helping them return to pre-catastrophe conditions as soon as possible. As a specialist insurer, various classes of business we underwrite are subject to the effect climate change presents to the risk environment. As part of the underwriting process, we work with the syndicates' insureds to understand the risks facing their organisation, including applicable climate related risks, to tailor insurance coverages to mitigate the associated financial risks.

We acknowledge and accept that over time climate change could impact the risks facing our insureds and we aim to manage the resulting risk to the syndicates as described below:

- **Pricing risk:** This is the risk that current pricing levels do not adequately consider the prospective impact of climate change resulting in systemic underpricing of climate exposed risks. The syndicates' business planning process establishes how much exposure in certain classes of business or geographic area we wish to accept. We rely on a strong feedback loop between our claims and underwriting teams to ensure that emerging claims trends and themes can be contemplated in the business planning process, the rating tools and the underwriter's risk by risk transactional level considerations. Our underwriters are empowered to think about climate risk during their underwriting process in order to determine the implication on each risk;
- **Catastrophe risk:** This is the risk that current models do not adequately capture the impacts of climate change on the frequency, severity or nature of natural catastrophes or other extreme weather events (e.g. wildfires) that could drive higher-than-expected insured losses. The syndicates utilise commercial catastrophe models to facilitate the estimation of aggregate exposures based on the syndicates' underwriting portfolio. These catastrophe models are updated to reflect the latest scientific perspectives. Catastrophe models are evolving to include new or secondary perils which may be related to climate change. In addition, the syndicates run a series of Natural Catastrophe Realistic Disaster Scenarios (RDS's) on a monthly basis which monitors the syndicates' exposure to certain scenarios that could occur. These RDS's 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 to reflect the ultimate impact climate change may have on paid losses. This includes a liability risk of unanticipated losses arising from our clients facing litigation if they are held to be responsible for contributing to climate change, or for failing to act properly to respond to the various impacts of climate change. With support from our group actuarial team, claims teams and other members of management the syndicate establishes financial provisions for our ultimate claims liabilities. The syndicates maintain a consistent 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 group considers the impact of climate change on its asset portfolio by seeking to incorporate an assessment of environmental risks in the investment process. We subscribe to the research services of a specialist company in the field of environmental, social and governance research and have integrated their proprietary ratings into the internal credit process applied to investments in corporate debt securities. A minimum standard for environmental, social and governance 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;

## Strategic report (continued)

### Climate change risk (continued)

- **External event risk:** This is the risk that the physical impact of climate related events has a material impact on our own people, processes and systems leading to increased operating costs or the inability to deliver uninterrupted client service. The company has business continuity plans in place to minimise the risk of an interrupted client service in the event of a disaster;
- **Commercial management risk:** We occupy leased office space which inherently limits our ability to influence building management with respect to environmental matters. The company aims to minimise where possible the environmental impact of our business activities and those that arise from the occupation of our office spaces. As we operate in leased office spaces our ability to direct environmental impacts is limited. However, we do choose office space and engage with our employees, vendors and customers in an effort to reduce overall waste and environmental footprint;
- **Credit risk:** As a result of material natural catastrophe events, there is a risk that the syndicates' reinsurance counterparties are unable to pay reinsurance balances due to the syndicates; if the frequency or severity of these events is increased due to climate change this could have a corresponding increase on credit risk. An important consideration when placing our reinsurance programme is evaluation of our counterparty risk. Every potential reinsurer is evaluated through a detailed benchmarking which considers: financial strength, ratings, capital metrics, performance metrics as well as other considerations;
- **Regulatory and legal risk:** Regulators, investors and other stakeholders are becoming increasingly interested in companies' 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 company regularly monitors the regulatory landscape to ensure that we can adhere to any changes in relevant laws and regulations. This includes making any necessary regulatory or statutory filings with regard to climate risk;
- **Liquidity risk:** Linked to the underwriting and credit risks noted above, there is a risk that losses resulting from unprecedented natural disasters or extreme weather could erode our ability to pay claims and remain solvent. The group establishes capital at a 1:200 level based on the prevailing business plan. Whilst over time we anticipate climate change to have an impact on the frequency, severity and nature of natural catastrophe events on a year to year basis this is captured in the internal capital modelling; and
- **Strategic risk:** This is the risk that our strategy fails to effectively consider climate change resulting in the syndicates' 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 (e.g. fossil fuels) which impacts the syndicates' ability to deliver business plan results. This results in loss of value for investors which erode their confidence in management. This risk is considered through the annual and long term business planning process, we additionally look to the Lloyd's market to provide additional guidance.

## Strategic report (continued)

### Key performance indicators ("KPIs")

The company's directors are of the opinion that the KPIs for the company are best represented by the turnover and related notes, in particular note 2 and note 4, set out on pages 24 and 25.

Signed on behalf of the board

### Section 172 statement

The directors are fully aware of their responsibilities to promote the success of the company in accordance with s172 of the Companies Act and have acted in accordance with these responsibilities during the year. The board has identified that its key stakeholders are: • the staff who act on behalf of the managed syndicates • Lloyd's • external names on our managed syndicates • the managed syndicates' customers and brokers • regulators

The company's core values, which are professionalism, integrity, effectiveness and dynamic, reflect the company's commitment to do the right thing simply because it is the right thing to do. The requirement to adhere to this principle is embedded within all job descriptions across the group.

Throughout the year the board considered the wider impact of strategic and operational decisions on the company's stakeholders. Key decisions included the various board changes undertaken throughout the year, approval of the annual results for the company and all of its managed syndicates, the change of auditors, and the approval of the syndicate business plans. The board believes that the interests of all stakeholders are aligned in the decisions that were taken. The company complies with the Prompt Payment Code reporting requirements and publishes its average payment times for supplier invoices. Where a supplier proposes payment terms that differ from our standard terms, the company uses its best endeavours to accommodate the supplier's terms.

The Beazley group has a responsible business strategy which sets out six areas of focus:

Charity – our global partnership, fund raising and match funding;

Community – how we interact the people and places in our local area;

Environment – taking responsibility for our own use of resources as we conduct our business to minimise our environmental footprint;

Marketplace - our awareness of the social and environmental impact of the business we conduct, and how we can support global sustainability efforts through the provision of insurance;

Inclusivity and diversity – our vision is to inspire and develop people with diverse perspectives to thrive at all levels of our business; and

Responsible underwriting compliance – we are committed to ensuring that our business is conducted in an ethical and honest manner, thus ensuring that we do the right thing for our stakeholders .

Further information on the group's responsible business strategy and how the group aims to provide support for our communities and the environment are discussed on pages 51 to 65 of Beazley plc's 2019 annual report.

How we engage:

The staff who act on behalf of the managed syndicates: Our people are fundamental to the long-term success of the company. We have various engagement mechanisms many of which have been in place for a number of years. Every other year the group conduct a group-wide employee survey which provides an overall employee engagement score. Overall employee engagement in 2019 was 70%. The board receives reports on the results of the survey from the chief executive officer together with the action plans that management intend to take forward. The areas that had the greatest improvement from the prior survey were inclusion and diversity, work/life balance, and empowerment and autonomy, which reflects the efforts that were made in these

## **Strategic report (continued)**

### **Section 172 statement (continued)**

areas. In addition, there are regular presentations and updates given to staff, and feedback is actively encouraged. When travelling to Beazley's offices, the group's executive directors and non-executive directors will actively engage with staff and often host question and answer sessions. Emanating from the requirements of the UK Governance Code, enhancements were made to employee engagement mechanisms in 2019 at a group level, with the introduction of the 'Sounding Board' which is chaired by Bob Stuchbery. Bob is the non-executive director nominated by the Beazley plc board to bring the views of the workforce to the boardroom. Bob has met with the group twice in 2019 and will continue to meet with the group ahead of board meetings and the board strategy day in 2020. The board strategy day includes the directors from both the Beazley plc board and the Beazley Furlonge Ltd board. The board sees the input of this group as being particularly important in discussions on the group's strategy, and acknowledges this input will evolve over time.

Lloyd's: As a Lloyd's managing agency that manages six active syndicates and one syndicate in run off, the board views the success of the Lloyd's market as a whole as fundamental to the company's success. The company has been part of the Lloyd's market for 33 years. Beazley is a strong supporter of the far-reaching reforms that are outlined in "Blueprint One" which was published by Lloyd's in September 2019.

The names on our syndicates: The support and engagement of the names is imperative to the future success of our business. In all of the board's decision making, they have ensured that they acted fairly with regard to the names of the syndicates. We have productive ongoing dialogue with a number of the names and ensure there are appropriate channels for names to contact us to discuss the performance and management of the syndicates, either directly or through the members' agents.

The syndicates' customers: Through our Closer to the Client core strategic initiative, we are focused on better understanding the needs of our clients. One of the key goals of the initiative is to ensure that the syndicates become more client-centric. The board receives regular reports on the progress against each of the strategic initiatives through the chief executive.

The syndicates' brokers: There is regular, coordinated engagement with our key broker partners which is facilitated through the group's broker relations team. There are a number of annual industry-wide events that bring our senior management together with the senior leaders of the broking firms. The board receives updates on our key broker relationships through reports from the chief executive.

Regulators: We have transparent communication with our key regulators which is facilitated through our compliance team. Our business teams and the non-executive directors have ongoing engagement with our regulators on an ad hoc basis, including when requested to discuss specific matters. Any significant regulatory engagements are reported to the board.



A P Cox  
Director

2 March 2020

Plantation Place South  
60 Great Tower Street  
London  
EC3R 5AD

## **Directors' report**

### **Business review**

A review of Beazley Furlonge Limited's (the 'company', registered no: 01893407) activities is included in the strategic report.

### **Future developments**

The future developments of the company are disclosed within the strategic report.

### **Results and dividends**

The results for the period are shown in the profit or loss account on page 19. A total dividend of £10.0m was paid in 2019 (2018: £14.2m).

Following the balance sheet date, the board declared a dividend of £7.9m.

### **Donations**

During the period the company made no charitable donations (2018: £nil).

### **Director's indemnity insurance**

Beazley plc, ultimate parent of this company, has granted indemnities to one or more of the directors against liability in respect of proceedings brought to third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provisions remain in force as at the date of approving the Directors' report.

### **Directors**

The directors of the company at 31 December 2019, who served during the year and to the date of this report, were as follows:

M R Bernacki (resigned - 30/04/2019)  
G P Blunden\*  
M L Bride – finance director (resigned - 27/06/2019)  
A P Cox  
A D Crawford-Ingle (resigned - 31/05/2019)  
N H Furlonge\*  
D A Horton – chief executive officer  
D L Roberts\*  
R A Stuchbery\*  
K W Wilkins\*  
A J Reizenstein\* (appointed - 09/04/2019)  
A S Pryde (appointed - 11/06/2019)  
S M Lake (appointed - 14/06/2019)  
C C W Jones – finance director (appointed - 27/06/2019)  
I Fantozzi (appointed - 13/03/2019)

\*denotes non-executive director

## Directors' report (continued)

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	2018 year of account underwriting capacity £	2019 year of account underwriting capacity £	2020 year of account underwriting capacity £
M R Bernacki*	400,000	n/a	n/a
M L Bride*	400,000	n/a	n/a
A P Cox	400,000	400,000	400,000
D A Horton	400,000	400,000	400,000
A S Pryde**	n/a	300,000	350,000
S M Lake**	n/a	-	100,000
I Fantozzi**	n/a	300,000	350,000

\* M R Bernacki and M L Bride left the board during 2019.

\*\* A S Pryde, S M Lake and I Fantozzi joined the board during 2019.

### 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.

### 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.

### Risk Management

Given the limited scope of the company's activities, the risk to which it is exposed are not considered significant. The principle financial risk relates to non-collection of amounts due from the group companies, although risk is mitigated by the common identity of the shareholders in each group company.

## **Directors' report (continued)**

### **Auditor**

During the year Ernst & Young LLP ('EY') was appointed as external auditor of the company in accordance with section 487 of the Companies Act 2006. In accordance with section 487(2) of the Companies Act 2006 and in the absence of notice proposing that the appointment be terminated at a general meeting, EY will be deemed to be reappointed for the next financial year.

EY were also appointed as auditor of all syndicates managed by the company. Subject to agreement of members' agents EY will be reappointed as the auditor of all syndicates managed by the company for the next financial year.

Signed on behalf of the board



A P Cox  
Director

2 March 2020

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 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 applicable law and Section 1A of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (UK Generally Accepted Accounting Practice applicable to Smaller Entities).

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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



C C W Jones  
Director

2 March 2020



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

### **Opinion**

We have audited the financial statements of Beazley Furlonge Limited for the year ended 31 December 2019 which comprise the primary statements such as the Profit or Loss Account, the Statement of income and retained earnings, the Balance Sheet and the related notes 1 to 14, 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 FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 set out on pages 2-15, 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.

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

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.

### **Opinions on other matters 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 14 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.

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

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.

### **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.



Stuart Wilson (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

2 March 2020

**Profit or loss account**  
**For the year ended 31 December 2019**

	Note	2019 £m	2018 £m
Turnover	2	12.5	16.3
Other operating income	2	164.4	159.0
		<hr/> 176.9	<hr/> 175.3
Administrative expenses	4	(166.3)	(160.8)
Foreign exchange (loss)/gain		<hr/> (0.9)	<hr/> 0.6
<b>Operating profit</b>		<hr/> <b>9.7</b>	<hr/> <b>15.1</b>
Profit on ordinary activities before taxation		9.7	15.1
Income tax expense	5	<hr/> (1.8)	<hr/> (2.9)
<b>Profit for the financial year</b>		<hr/> <b>7.9</b>	<hr/> <b>12.2</b>

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

The notes on pages 22 to 30 form part of these financial statements.

**Statement of income and retained earnings**  
**For the year ended 31 December 2019**

	Note	2019 £m	2018 £m
<b>Profit for the financial year</b>		<b>7.9</b>	<b>12.2</b>
Actuarial gain/(loss) on retirement benefit obligations	10	5.0	(1.0)
(Distributed)/recharged to managed syndicates		(5.0)	1.0
<b>Total comprehensive income for the year</b>		<b>7.9</b>	<b>12.2</b>
<b>Retained earnings at the beginning of the year</b>		<b>22.2</b>	<b>24.2</b>
Income for the year attributable to the owners of the parent		7.9	12.2
Dividends declared and paid		(10.0)	(14.2)
<b>Retained earnings at the end of the year</b>		<b>20.1</b>	<b>22.2</b>

The notes on pages 22 to 30 form part of these financial statements.

**Balance sheet**  
**As at 31 December 2019**

	Note	2019 £m	2018 £m
<b>Assets</b>			
Debtors	6	34.3	47.4
Deferred tax asset	8	-	0.3
<b>Total assets</b>		<b>34.3</b>	<b>47.7</b>
<b>Liabilities, capital and reserves</b>			
Called up share capital	9	0.4	0.4
Profit and loss account		20.1	22.2
<b>Equity shareholder's funds</b>		<b>20.5</b>	<b>22.6</b>
<b>Liabilities:</b>			
Creditors: amounts falling due within one year	7	13.1	25.1
Deferred tax liability	8	0.7	-
<b>Total liabilities, capital and reserves</b>		<b>34.3</b>	<b>47.7</b>

Signed on behalf of the board of directors



C C W Jones  
 Director  
 Company number – 01893407

The financial statements were approved by the board of directors on 2 March 2020.

The notes on pages 22 to 30 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 1. The nature of the company's operations and its principle activities are set out in the strategic report on pages 2 to 11.

The financial statements have been prepared in accordance with the applicable Accounting Standard in the United Kingdom, Financial Reporting Standard 102 ('FRS 102'). The financial statements are presented in pounds sterling, being the functional currency of the company, and in millions unless otherwise stated.

#### **Exemptions for qualifying entities under FRS 102**

Beazley Furlonge Ltd has taken advantage of Companies Act 2006 Section 400 and claimed exemption from preparing group accounts as it's a wholly owned subsidiary of the ultimate parent company, Beazley plc, whose financial statements are publicly available, please refer to note 12.

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions. As these conditions 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; and
- (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.

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

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

#### **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 2019 underwriting account.

Profit commission, which is recognised as profit, is commission on profit earned in syndicate 623.

#### **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.

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 income and retained earnings, 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

	2019 £m	2018 £m
Underwriting agency fees	12.5	12.4
Profit commission	-	3.9
	<u>12.5</u>	<u>16.3</u>

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 £164.4m (2018: £159.0m) represents charges to managed syndicates (623/2623/3622/3623). 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. The financial statements on pages 19 to 21 provide for these charges gross, as income and expense.

### 3. Directors and employees

The directors and employees rendering services to the company are paid for those services through Beazley Management Limited. The charges in relation to the services provided by directors and employees are subsequently recharged through Beazley Furlonge Limited to the managed syndicates. Remuneration paid to directors of Beazley Furlonge Limited specifically relating to services rendered to the company are shown below.

	2019 £	2018 £
D Holt (resigned – 22/03/2018)	-	9,528
G P Blunden	48,650	17,750
A Crawford-Ingle (resigned - 31/05/2019)	7,708	17,750
N H Furlonge	57,500	55,750
K W Wilkins	57,500	55,750
R A Stuchbery	28,000	26,750
D L Roberts	51,500	42,806
A J Reizenstein (appointed - 09/04/2019)	13,401	-
	<u>264,259</u>	<u>226,084</u>

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

	<b>2019</b> <b>£m</b>	<b>2018</b> <b>£m</b>
Recharged from Beazley Management Limited	166.3	160.8
Administrative expenses	166.3	160.8

The main driver of the increase in administrative expenses is an increase in incentive costs driven by the increase in the profit of Beazley plc in 2019.

The audit fee in the current financial year was £24,000 (2018: £24,000) and was paid 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 executive directors of the company are paid by Beazley Management Limited in relation to their directorships of this company.

### 5. Income tax expense

	<b>2019</b> <b>£m</b>	<b>2018</b> <b>£m</b>
<i>Current tax</i>		
UK corporation tax charge at 19.0% (2018: 19.0%)	0.8	2.9
Adjustment in respect of prior year	-	-
<i>Deferred tax:</i>		
Origination of and reversal of timing differences	1.0	-
Taxation charge for the year	1.8	2.9

## Notes to the financial statements (continued)

### 5. Income tax expense (continued)

The tax charge for the current year is higher (2018: lower) than the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%) due to the differences explained below.

	2019 £m	2018 £m
Profit on ordinary activities before taxation	9.7	15.1
Tax calculated at 19.0% (2018: 19.0%)	1.8	2.9
<i>Effect of;</i>		
Adjustment in respect of prior year	-	-
Tax charge for the year	1.8	2.9

The Finance Act 2016, which provides for reduction in the UK Corporation tax rate down to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. This 17% tax rate will reduce the company's future current tax charge and has been reflected in the calculation of the deferred tax balance as at 31 December 2019.

### 6. Debtors

	2019 £m	2018 £m
Amounts due from group companies	2.3	-
Amounts due from syndicates	3.0	30.4
Profit commission receivable	-	4.6
Managing agent fee receivable	24.9	12.4
Retirement benefit assets (note 10)	4.1	-
	34.3	47.4

Debtors include no profit commission receivable (2018: £nil) due after more than one year. The managing agent fee receivable for both the 2018YOA and 2019YOA are due after more than one year. The remainder of the company's debtors are due within one year.

### 7. Creditors

	2019 £m	2018 £m
Amounts due to other group companies	12.4	20.3
Current tax payable	0.7	2.9
Retirement benefit obligation (note 10)	-	1.9
	13.1	25.1

All amounts are payable within one year.

## Notes to the financial statements (continued)

### 8. Deferred tax

	2019 £m	2018 £m
The movement in deferred tax during the year was:		
Opening balance	0.3	0.3
Movements during the year	(1.0)	-
Closing balance	(0.7)	0.3

Deferred tax (liabilities)/assets provided in the accounts are:

Timing differences	(0.7)	0.3
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### 9. Share capital

	2019		2018	
	No. of shares (m)	£m	No. of shares (m)	£m
<b>Ordinary shares of £1 each</b>				
Issued and fully paid	0.4	0.4	0.4	0.4
<b>Balance at 1 January and 31 December</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>

### 10. Retirement benefit obligations

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Present value of funded obligations	41.5	36.8	41.9	37.9	28.5
Fair value of plan assets	45.6	34.9	40.2	33.0	28.0
Experience (losses)/gains on scheme liabilities	(0.1)	(0.5)	1.3	(0.1)	-

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 or 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 2019.

## Notes to the financial statements (continued)

### 10. Retirement benefit obligations (continued)

The major assumptions used in this valuation were:

	2019	2018
Future salary increases	3.4%	3.5%
Future pensions increases	2.9%	3.0%
Discount rate	2.0%	2.8%
Inflation rate	3.4%	3.5%
Life expectancy for male members aged 60 at 31 December	89 years	90 years
Life expectancy for female members aged 60 at 31 December	90 years	91 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:

	2019 £m	2018 £m
Equities	45.5	34.8
Cash	0.1	0.1
	<hr/> 45.6	<hr/> 34.9
Fair value of plan assets	45.6	34.9
Present value of funded obligations	(41.5)	(36.8)
	<hr/> 4.1	<hr/> (1.9)

The expected rate of return on scheme assets (including bonds, equities and UCITS funds) was 2.0% at 31 December 2019 (31 December 2018: 2.8%). This expected return on scheme assets reflects the discount rate.

#### Movement in defined benefit obligation

	2019 £m	2018 £m
Balance at beginning of year	36.8	41.9
Interest cost	1.0	1.0
Actuarial loss/(gain)	4.0	(5.3)
Benefits paid	(0.3)	(0.8)
Balance at the end of year	<hr/> 41.5	<hr/> 36.8

## Notes to the financial statements (continued)

### 10. Retirement benefit obligations (continued)

Movement in fair value of plan assets

	2019 £m	2018 £m
Balance at beginning of year	34.9	40.2
Expected return on assets	1.0	1.0
Contributions paid	1.0	1.0
Actuarial gain/(loss)	9.0	(6.3)
Benefits paid	(0.3)	(0.8)
Expenses of administrative plan	-	(0.2)
Balance at the end of year	45.6	34.9

Analysis of amounts recognised in statement of income and retained earnings

	2019 £m	2018 £m
Actual return less expected return on plan assets	9.0	(6.2)
Experience loss on scheme liabilities	(0.1)	(0.5)
Changes in assumptions underlying the present value of scheme liabilities	(5.9)	5.7
Changes in assumptions demographic	2.0	-
Actuarial gain/(loss) recognised in statement of income and retained earnings	5.0	(1.0)

	2019 £m	2018 £m
<i>Difference between the expected and actual return on scheme</i>		
- Amount	9.0	(6.2)
- Percentage of year end scheme assets	20%	18%
<i>Experience loss on scheme liabilities</i>		
- Amount	(0.1)	(0.5)
- Percentage of year end present value of scheme liabilities	-	1%
<i>Total recognised in statement of income and retained earnings</i>		
- Amount	5.0	(1.0)
- Percentage of year end present value of scheme liabilities	11%	3%

### 11. Dividends

The following dividends were recognised during the period:

	2019 £m	2018 £m
£25.0 (2018: £35.5) per qualifying ordinary share	10.0	14.2

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

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

During 2019 dividends of £10.0m (2018: £14.2m) were paid by the company. On 2 March 2020, the board declared a dividend of £7.9m payable to the company's parent company, Beazley Furlonge Holdings Limited.

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

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

The largest and the smallest groups in which the results of the company are consolidated is that headed by Beazley plc.

The consolidated financial statements of the ultimate controlling company, 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 13.

### **14. Subsequent events**

The board declared a dividend of £7.9m on 2 March 2020 payable to the company's parent company, Beazley Furlonge Holdings Limited.