Company No 01893407

BEAZLEY FURLONGE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2017

Directors and Advisors

Directors

D Holt - chairman
M R Bernacki
G P Blunden
M L Bride – finance director
A P Cox
A Crawford-Ingle
N H Furlonge
D A Horton - chief executive officer
N P Maidment - active underwriter
D L Roberts (appointed - 20/10/2017)
R A Stuchbery
C A Washbourn
K W Wilkins

Secretary

C P Oldridge

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

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', registered no: 01893407) for the period ended 31 December 2017 set out on pages 2 to 8.

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 2017	Capacity 2016
2623	£1,349.7m	£1,141.9m
623	£304.5m	£257.3m
3623	£215.0m	£185.0m
6107	£46.6m	£28.6m
3622	£19.5m	£19.0m
6050	£14.6m	£12.9m
5623	-	-

The principal risks and uncertainties of the company arise from the management of syndicates 2623, 6107, 623, 3622, 3623, 5623 and 6050. The principal risks and uncertainties of Beazley plc ('the parent'), which include those of the company, are discussed on pages 55 to 61 and 142 to 154 of Beazley plc's 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.

2017 in review

As at 31 December 2017, the company (through the syndicates) is exposed to three key insurance risks where one event can lead to multiple claims. These are, in order of potential impact, 1) a specialty lines catastrophe, 2) a natural catastrophe and 3) a cyber catastrophe. The natural catastrophes of hurricanes, earthquakes and wildfires which occurred in the second half of 2017 demonstrate why careful aggregate management is important to avoid undue surprises. This starts with the board setting risk appetite which is managed to throughout the year as risks are underwritten. The monitoring is performed using catastrophe modelling tools which help to manage the aggregation of exposure in different geographical areas. The same catastrophe modelling tools are used to assist the underwriting teams with pricing the risk and to establish the amount of capital that must be held to support the underwriting given the risk being taken. Therefore, when natural catastrophes occur, it is important to test the models, particularly the methods and assumptions used, to ensure that they are still fit for purpose. This validation exercise has been completed and has confirmed that the catastrophe modelling tools remain reasonable in light of the events observed without the need for an immediate off cycle adjustment, and they remain a useful aid to the underwriting process.

The aggregation potential of multiple claims arising from a cyber event is managed using a similar process. However, given that there have been very few cyber events that have led to a notable aggregation of claims, the monitoring is based on a suite of realistic disaster scenarios - which is how the monitoring of natural catastrophes started. We have been undertaking a cyber risk review for the past four years, which has charted the evolution of the modelling approach and has evidenced improvements in sophistication each year. This year, the syndicates have added new coverages to the cyber product to meet the needs of its clients. As a result, the group have introduced a new realistic disaster scenario to monitor this additional exposure. The group have also added a new realistic disaster scenario to monitor the increasing trend of ransomware attacks. The group's internal cyber experts' knowledge have been supplemented with advice and analysis from external experts working in the cyber field to ensure that we have sight of emerging technical trends. Finally, we continue to monitor and support the development of third party catastrophe modelling tools as more analysis is being performed in this risk area. It is expected, over time, that the modelling of cyber risks will be able to mirror the sophistication of the modelling of natural catastrophe risks.

Realistic disaster scenarios are also used to monitor the potential impact of a specialty lines catastrophe - for example the impact that a recession might have on the various professional indemnity risks underwritten. This approach was tested and validated following the 2008 global financial crisis and, whilst there has been less reserve release than usual from the underwriting years immediately following the crisis, they remained profitable. The purpose of performing this modelling and monitoring is to ensure that in the event of a catastrophe occurring, such as those in the second half of 2017, claims can be paid promptly to our policyholders in their time of greatest need and a return can still be provided to the investors who support the syndicates' ongoing business.

This year also included organisational changes which have impacted the risk and control environment. This included the group purchasing a managing general agent, Creechurch Underwriters (now called Beazley Canada Limited), in order to provide more of Beazley's products to our clients in Canada. This business is underwritten by syndicates 2623 and 623.

The group's risk management team have been involved throughout the process which involved the production of an Own Risk and Solvency Assessment (ORSA) report which informed the board of the risk and capital considerations, and updating the risk register, controls and governance to reflect the new risk profile. This has included ensuring that the new underwriting and claims processes meet the group's consistent underwriting and claims standards.

During the year a contingency plan for the UK's exit from the European Union ('Brexit') was produced setting out a central plan and testing it against a range of potential outcomes.

2017 in review (continued)

The main concern for the syndicates is the ability to offer insurance to European clients following Brexit as, around 4% of the syndicates' current business is within scope. The central plan is to be able to offer policies, through the subsidiary that Lloyd's is in the process of establishing in Brussels. A Brexit working group, led by Beazley plc's chief risk officer, was established to oversee the syndicates' response to Brexit and this working group will remain in place until the conclusion of the Brexit process.

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 group is operating within risk appetite as at 31 December 2017. This also applies for Beazley Furlonge Limited and the managed syndicates.

Preparing for the future

The group's current risk management framework has been successfully operating over the last five years. Although the framework has continued to enhance during that period, the group has undertaken a detailed review in the second half of 2017 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. Changes will be implemented in the first half of 2018 with the aim of ensuring that the next evolution of the risk management framework is up to the challenge of helping the group navigate the next five years.

Risk management strategy

The Beazley Furlonge Limited 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 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 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;
- 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.

Strategic report (continued)

Risk management framework

The group 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 (53 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 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 various boards and committees within the group 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 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.

Insurance risk

Given the nature of the group'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 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;

Strategic report (continued)

Insurance risk (continued)

- 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 the syndicates' 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 the syndicates' risk profile, examples include a coordinated cyber-attack, 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 group has a consistent and conservative reserving philosophy. However, there is a risk that the reserves put aside for expected losses turn out to be insufficient. This could be due to any of the three drivers of risk described above. The syndicates use a range of techniques to mitigate this risk including a detailed reserving process which compares, claim by claim, estimates established by the claims team with a top down statistical view developed by the actuarial team. A suite of metrics is also used to ensure consistency each year; and
- Single risk losses: Given the size of policy limits offered on each risk, it is unlikely that the poor performance of one policy will have a material impact on the financial performance of the managed syndicates.

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 performance of the syndicates 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 executive committee and input from the strategy and performance group (a group of approximately 35 senior individuals from across different disciplines);
- Environment: There is a risk that the chosen strategy cannot be executed because of the current environmental conditions within which the syndicates 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 the company'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 performance of the syndicates. The performance of the senior management team is monitored by the CEO and talent management team and overseen by the nomination committee of the group;
- 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 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 syndicates having to deal with a crisis and is mitigated by having a detailed crisis management plan; and
- Corporate transaction: There is a risk that the group undertakes a corporate transaction which does not return the expected value. This risk is mitigated through the due diligence performed, the financial structure of transactions and the implementation activity. Under the environmental risk heading, the board monitors five categories of emerging and strategic risk on a quarterly basis, namely; socio-political risk, distribution, market conditions, talent and regulation.

Strategic report (continued)

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 group's 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 group's operations committee;
- Credit risk: the group has credit risk to its reinsurers, brokers and coverholders of which the reinsurance asset is the largest. The group's underwriting committee monitors this risk;
- Regulatory and legal risk: This is the risk that the syndicates do not operate in line with the relevant regulatory framework in the territories where they operate. Of the eight risk categories, the Beazley Furlonge Limited board has the lowest tolerance for this risk;
- Liquidity risk: This is the risk that the syndicates do not have sufficient liquid funds following a catastrophic event. The group's investment committee monitors this risk which, given the nature of the asset portfolio, is currently small; and
- Group risk: The structure of the 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.

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. 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 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. The group 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, the group 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)

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 19 and 20.

Signed on behalf of the board

N P Maidment
Director

15 March 2018

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 or loss account on page 14. A total dividend of £16.2m was paid in 2017 (2016: £11.3m).

Following the balance sheet date, the board declared a dividend of £14.2m.

Donations

During the period the company made no charitable donations (2016: £nil).

Directors

The directors of the company at 31 December 2017, who served during the year and to the date of this report, were as follows:

D Holt * - chairman
M R Bernacki
G P Blunden *
M L Bride – finance director
A P Cox
A Crawford-Ingle*
N H Furlonge *
D A Horton – chief executive officer
N P Maidment – active underwriter
D L Roberts* (appointed - 20/10/2017)
R A Stuchbery*
C A Washbourn
K Wilkins *

* 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 £	2016 year of account underwriting capacity £	2017 year of account underwriting capacity £	2018 year of account underwriting capacity £
M R Bernacki	191,600	400,000	400,000	400,000
M L Bride	191,600	400,000	400,000	400,000
A P Cox	191,600	400,000	400,000	400,000
D A Horton	191,600	400,000	400,000	400,000
N P Maidment	191,600	400,000	400,000	400,000
C A Washbourn	191,600	400,000	400,000	400,000

Directors' report (continued)

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

15 March 2018

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;
- 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.

M L Bride
Director

15 March 2018

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

Opinion

We have audited the financial statements of Beazley Furlonge Limited ("the company") for the year ended 31 December 2017 which comprise the profit or loss accounts, statement of comprehensive income, balance sheet and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their 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; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Rajan Thakrar (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

15 March 2018

Profit or loss account
For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Turnover	2	16.4	17.3
Other operating income	2	175.8	166.7
		192.2	184.0
Administrative expenses	4	(177.6)	(168.4)
Foreign exchange (loss)/gain		(2.2)	6.0
Operating profit		12.4	21.6
Profit on ordinary activities before taxation		12.4	21.6
Income tax expense	5	(2.0)	(5.4)
Profit for the financial year		10.4	16.2

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

The notes on pages 17 to 25 form part of these financial statements.

Statement of income and retained earnings
For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Profit for the financial year		10.4	16.2
Actuarial gain/(loss) on retirement benefit obligations	10	0.1	(5.4)
(Distributed)/recharged to managed syndicates		(0.1)	5.4
Tax impact of actuarial loss on retirement benefit		-	1.0
Total comprehensive income for the year		10.4	17.2
Retained earnings at the beginning of the year		30.0	24.1
Income for the year attributable to the owners of the parent		10.4	17.2
Dividends declared and paid		(16.2)	(11.3)
Retained earnings at the end of the year		24.2	30.0

The notes on pages 17 to 25 form part of these financial statements.

Balance sheet
As at 31 December 2017

	Note	2017 £m	2016 £m
Assets			
Debtors (including £0.5m due after more than one year (2016: £3.1m))	6	31.4	68.7
Deferred tax asset	8	0.3	0.9
Total assets		31.7	69.6
Liabilities, capital and reserves			
Called up share capital	9	0.4	0.4
Profit and loss account		24.2	30.0
Equity shareholder's funds		24.6	30.4
Liabilities:			
Creditors: amounts falling due within one year	7	7.1	39.2
Total liabilities, capital and reserves		31.7	69.6

Signed on behalf of the board of directors

M L Bride
Director - 01893407

The financial statements were approved by the board of directors on 15 March 2018.

The notes on pages 17 to 25 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 8.

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

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.

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 2017 underwriting account.

Profit commission, which is recognised as profit, is commission on profit 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**

	2017 £m	2016 £m
Underwriting agency fees	11.6	9.8
Profit commission	4.8	7.5
	16.4	17.3

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 £175.8m (2016: £166.7m) 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. The financial statements on pages 14 to 16 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.

	2017 £	2016 £
D Holt	40,800	40,000
G P Blunden	17,250	16,750
A Crawford-Ingle	17,250	16,750
N H Furlonge	54,250	53,000
K W Wilkins	54,250	53,000
R A Stuchbery	26,000	9,787
D L Roberts	3,406	-
	213,206	189,287

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.

Notes to the financial statements (continued)

4. Administrative expenses

	2017 £m	2016 £m
Recharged from Beazley Management Limited	177.6	168.4
Administrative expenses	177.6	168.4

The main drivers of the increase in administrative expenses are 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 £24,000 (2016: £24,000) 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

	2017 £m	2016 £m
Current tax		
UK corporation tax charge at 19.25% (2016: 20%)	1.8	5.2
Adjustment in respect of prior year	(0.4)	-
Deferred tax:		
Origination of and reversal of timing differences	0.6	0.2
Taxation charge for the year	2.0	5.4

5. Income tax expense (continued)

The tax charge for the current year is lower (2016: higher) than the standard rate of corporation tax in the UK, 19.25% (2016: 20%) due to the differences explained below.

	2017 £m	2016 £m
Profit on ordinary activities before taxation	12.4	21.6
Tax calculated at 19.25% (2016: 20%)	2.4	4.3
Effect of;		
Permanent differences	-	1.1
Adjustment in respect of prior year	(0.4)	-
Tax charge for the year	2.0	5.4

The Finance Act 2015, which provides for reduction in the UK corporation tax rates down to 19% effective from 1 April 2017 was substantively enacted on 26 October 2015. The Finance Act 2016, which provides for reduction in the UK Corporate tax rate down to 17% effective from 1 April 2020 was substantively enacted on 6 September 2016. These rate reductions to 19% and 17% will reduce the company's future current tax charge and have been reflected in the calculation of the deferred tax balance at 31 December 2017.

6. Debtors

	2017 £m	2016 £m
Amounts due from group companies	22.0	13.4
Amounts due from other syndicates	1.8	44.0
Profit commission receivable	7.6	11.3
	31.4	68.7

Debtors include profit commission receivable of £0.5m (2016: £3.1m) due after more than one year. The remainder of the company's debtors are due within one year.

7. Creditors

	2017 £m	2016 £m
Amounts due to other group companies	3.6	29.1
Current tax payable	1.8	5.2
Retirement benefit obligation (note 10)	1.7	4.9
	7.1	39.2

Notes to the financial statements (continued)

8. Deferred tax

	2017 £m	2016 £m
The movement in deferred tax during the year was:		
Opening balance	0.9	0.1
Movements during the year	(0.6)	0.8
Closing balance	0.3	0.9

	2017 £m	2016 £m
Deferred tax assets provided in the accounts are:		
Timing differences	0.3	0.9

9. Share capital

	2017 £m	2016 £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

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Present value of funded obligations	41.9	37.9	28.5	28.0	24.0
Fair value of plan assets	40.2	33.0	28.0	26.3	22.6
Experience gains/(losses) on scheme liabilities	1.3	(0.1)	-	(0.3)	(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 2017.

Notes to the financial statements (continued)

10. **Retirement benefit obligations (continued)**

The major assumptions used in this valuation were:

	2017	2016
Future salary increases	3.4%	3.5%
Future pensions increases	3.3%	3.0%
Discount rate	2.4%	2.8%
Inflation rate	3.4%	3.5%
Life expectancy for male members aged 60 at 31 December	90 years	90 years
Life expectancy for female members aged 60 at 31 December	91 years	93 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:

	2017 £m	2016 £m
Equities	26.6	21.8
Bonds	7.6	6.3
UCITS funds	6.0	4.9
	40.2	33.0
Fair value of plan assets	40.2	33.0
Present value of funded obligations	(41.9)	(37.9)
Net pension liability	(1.7)	(4.9)

The expected rate of return on scheme assets (including bonds, equities and UCITS funds) was 2.4% at 31 December 2017 (31 December 2016: 2.8%). This expected return on scheme assets reflects the discount rate.

Movement in defined benefit obligation

	2017 £m	2016 £m
Balance at beginning of year	37.9	28.5
Interest cost	1.1	1.0
Actuarial losses	3.2	8.7
Benefits paid	(0.3)	(0.3)
Balance at the end of year	41.9	37.9

Notes to the financial statements (continued)

10. **Retirement benefit obligations (continued)**

Movement in fair value of plan assets

	2017 £m	2016 £m
Balance at beginning of year	33.0	28.0
Expected return on assets	1.0	1.0
Contributions paid	3.5	1.0
Actuarial gains	3.2	3.4
Benefits paid	(0.3)	(0.3)
Expenses of administrative plan	(0.2)	(0.1)
Balance at the end of year	40.2	33.0

Analysis of amounts recognised in statement of comprehensive income

	2017 £m	2016 £m
Actual return less expected return on plan assets	3.2	3.3
Experience gain/(loss) on scheme liabilities	1.3	(0.1)
Changes in assumptions underlying the present value of scheme liabilities	(5.7)	(8.6)
Changes in assumptions demographic	1.3	-
Actuarial gain/(loss) recognised in statement of comprehensive income	0.1	(5.4)

	2017 £m	2016 £m
Difference between the expected and actual return on scheme		
- Amount	3.2	3.3
- Percentage of year end scheme assets	8%	10%
Experience gains/(losses) on scheme liabilities		
- Amount	1.3	(0.1)
- Percentage of year end present value of scheme liabilities	3%	-
Total recognised in statement of comprehensive income		
- Amount	0.1	(5.4)
- Percentage of year end present value of scheme liabilities	-	14%

11. **Dividends**

The following dividends were recognised during the period:

	2017 £m	2016 £m
£40.50 (2016: £28.25) per qualifying ordinary share	16.2	11.3

11. **Dividends (continued)**

During 2017 dividends of £16.2m (2016: £11.3m) were paid by the company. On 15 March 2018, the board declared a dividend of £14.2m 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 are those headed by Beazley plc and Beazley Group Limited respectively. Beazley Ireland Holdings plc financial statements also include the results of the company.

The consolidated financial statements of the ultimate controlling company, Beazley plc, can be obtained from the website 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 15 March 2018, the board declared a dividend of £14.2m payable to the company's parent company, Beazley Furlonge Holdings Limited.