Company No 01893407

# BEAZLEY FURLONGE LIMITED

# DIRECTORS' REPORT AND FINANCIAL STATEMENTS

# 31 DECEMBER 2011



# Beazley Furlonge Limited

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# Beazley Furlonge Limited
# Directors and Advisors

## Directors

J G W Agnew - Chairman
G P Blunden
M L Bride – Finance director
A P Cox
R V Deutsch – appointed 29/12/2011
N H Furlonge
J G Gray
A G K Hamilton
D Holt – appointed 29/12/2011
D A Horton - Chief executive officer
C M London - resigned 31/12/2011
N P Maidment - Active underwriter
D G Marock - resigned 30/06/2011
A D Pomfret - resigned 21/07/2011
R A W Tolle
C A Washbourn

## Secretary

S A Coope

## Registered office

Plantation Place South
60 Great Tower Street
London
EC3R 5AD

## Registered Number

01893407

## Auditors

KPMG Audit Plc
15 Canada Square
London
E14 5GL

## Banker

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

# Beazley Furlonge Limited
# Directors' report

The directors present their report and the audited financial statements of Beazley Furlonge Limited (company no 01893407) ('the company') for the period ended 31 December 2011.

## Business review and principal activity

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

The capacity of the managed syndicates was, syndicate 623 £215m, syndicate 2623 £943m, syndicate 3622 £13m, syndicate 3623 £135m and syndicate 6107 £14m respectively for 2011 (2010: 623 £216m, syndicate 2623 £942m, syndicate 3622 £10m, syndicate 3623 £125m and 6107 £15m)

## Principal risks and uncertainties

The principal risks and uncertainties of the company arise from the management of syndicates 2623, 6107, 623, 3622 and 3623. The principal risks and uncertainties of Beazley plc, which include those of the company, are discussed on pages 43 to 45 and 94 to 103 of Beazley plc's annual report which does not form part of this report.

## 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 set out on pages 7 to 18

## Profit and appropriations

The results for the period are shown in the profit and loss account on page 7. A dividend of £3 4m was declared in 2011 (2010: £16.0m) A total dividend of £19.4m, consisting of £3 4m for 2011 and £16.0m for 2010, was approved and paid in 2011 (2010 nil)

## Directors

The directors of the company at 31 December 2011, who served during the year and to the date of this report, were as follows:

J G W Agnew - Chairman
G P Blunden *
M L Bride – Finance director
A P Cox
R V Deutsch (appointed 29/12/2011)
N H Furlonge *#
J G Gray
A G K Hamilton *
D Holt (appointed 29/12/2011)
D A Horton – Chief executive officer
C M London (resigned 31/12/2011)
N P Maidment - Active underwriter
D G Marock (resigned 30/06/2011)
A D Pomfret * (resigned 21/07/2011)
R A W Tolle *
C A Washbourn

*** denotes non-executive director**
**# retired as an executive director and appointed as a non-executive director on 30/06/2011**

## Directors' report (continued)

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

| Year of Account | Total bonuses deferred and at risk £ | 2010 year of account underwriting capacity £ | 2011 year of account underwriting capacity £ | 2012 year of account underwriting capacity £ |
|---|---|---|---|---|
| M L Bride | 150,000 | 400,000 | 350,000 | 400,000 |
| A P Cox | 216,000 | 400,000 | 350,000 | 400,000 |
| N H Furlonge* | 216,000 | 400,000 | 350,000 | - |
| J G Gray | 216,000 | 400,000 | 350,000 | 400,000 |
| D A Horton | 216,000 | 400,000 | 350,000 | 400,000 |
| N P Maidment | 216,000 | 400,000 | 350,000 | 400,000 |
| D G Marock** | 216,000 | 400,000 | 350,000 | - |
| C A Washbourn | 216,000 | 400,000 | 350,000 | 400,000 |

* N H Furlonge ceased to participate in syndicate 623 when he retired as an executive director and was appointed as a non-executive director on 30/06/2011
** D G Marock still participates in syndicate 623 even though he resigned as an executive director on 30/06/2011.

### 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

### Charitable donations

During the period the company made no charitable donations (2010: £nil)

### 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 auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

**Auditor**

In accordance with Section 485 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditor of the company is to be proposed at the forthcoming Annual General Meeting

On behalf of the board



D A Horton
Director

2 March 2012

Plantation Place South
60 Great Tower Street
London
EC3R 5AD

## Beazley Furlonge Limited
## Statement of directors' responsibilities

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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of 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 judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

M L Bride
Director

2 March 2012

## Beazley Furlonge Limited

### Independent auditor's report to the members of Beazley Furlonge Limited

We have audited the financial statements of Beazley Furlonge Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

**Respective responsibilities of directors and auditors**
As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc org uk/apb/scope/private cfm

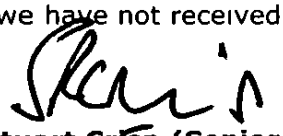
**Opinion on financial statements**
In our opinion the financial statements·

- give a true and fair view of the state of the company's affairs as at 31 December 2011 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

**Opinion on other matter prescribed by the Companies Act 2006**
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



**Stuart Crisp (Senior Statutory Auditor)**

**for and on behalf of KPMG Audit plc, Statutory Auditor**
*Chartered Accountants*

15 Canada Square
London
E14 5GL

2 March 2012

## Beazley Furlonge Limited
## Profit & loss account
## For the year ended 31 December 2011

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| Turnover | 2 | 10 7 | 14 3 |
| Administrative expenses | 3 | (87.2) | (83.9) |
| | | (76.5) | (69 6) |
| Other operating income | 2 | 86 4 | 83.2 |
| Operating profit | | 9.9 | 13 6 |
| Profit on ordinary activities before taxation | | 9.9 | 13 6 |
| Income tax expenses | 4 | (1.6) | (3.6) |
| Profit for the financial year | | 8.3 | 10.0 |

The company's operating activities all relate to continuing operations

The notes on pages 10 to 18 form part of these financial statements.

## Beazley Furlonge Limited
## Statement of total recognised gains and losses
## For the year ended 31 December 2011

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| Profit after tax for the financial year | | 8 3 | 10 0 |
| Actuarial (loss) /gain on retirement benefit obligations | 10 | (0 4) | 0 4 |
| Transferable from managed syndicates | | 0.4 | (0 4) |
| Total recognised gains for the year | | 8.3 | 10.0 |

The notes on pages 10 to 18 form part of these financial statements

# Beazley Furlonge Limited
# Balance sheet
# As at 31 December 2011

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| Non-current assets | | | |
| Debtors due after more than one year | 6 | - | 3 3 |
| Current assets | | | |
| Debtors due within one year | 5 | 18.8 | 27 7 |
| Creditors: amounts falling due within one year | 7 | (9 7) | (10 2) |
| Net current assets | | 9 1 | 17 5 |
| Total assets less current liabilities | | 9 1 | 20 8 |
| Retirement benefit obligations | 10 | (0.5) | (1.1) |
| Net assets | | 8.6 | 19.7 |
| Capital and reserves | | | |
| Called up share capital | 8 | 0 4 | 0 4 |
| Profit and loss account | 9 | 8 2 | 19.3 |
| Equity shareholders funds | 11 | 8.6 | 19 7 |

The financial statements on pages 7 to 18 were approved by the board of directors on 2 March 2012

Signed on behalf of the board of directors

M L Bride

The notes on pages 10 to 18 form part of these financial statements.

# Beazley Furlonge Limited
# Notes to the financial statements

## 1. Accounting policies

### Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules

The financial statements are presented in Pounds Sterling being the functional currency of the Company

The largest and the smallest group in which the results of the company are consolidated is that headed by Beazley plc The company has taken advantage of the exemption contained in FRS 2 and therefore no consolidated financial statements are prepared for the company and no other group financial statements include the results of the company.

As the Company is a wholly owned subsidiary undertaking of Beazley plc, the Company has taken advantage of the exemption contained in FRS 1 "Cash Flow Statements", as revised, and therefore has not prepared a cash flow statement.

### 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 2011 underwriting account

Profit commission is recognised as profit is earned

### 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 exchange

Transactions in foreign currencies are translated using the rate of exchange prevailing at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange at the balance sheet date. Any gains or losses arising on translation are included in the profit and loss account.

### Post retirement benefits

The Company operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company.

Pension scheme assets are measured using market values Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

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 total recognised gains and losses, 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 disclosed in the notes to the financial statements.

### Cash flow statement

Under Financial Reporting Standard 1 (revised 1996) the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own consolidated financial statements.

## 2 Turnover and income

| | 2011 £m | 2010 £m |
|---|---|---|
| Underwriting agency fees | 7 8 | 7.7 |
| Profit commission | 2 9 | 6.6 |
| | 10.7 | 14.3 |

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 £86.4m; (2010 83 2m) represents charges to other group companies. All charges to the syndicates (623/2623/3622/3623) other than those directly charged by Lloyd's to the syndicates are now paid by Beazley Management Limited and are then charged through Beazley Furlonge Limited to the relevant syndicate

## 3 Administrative expenses

| | 2011 £m | 2010 £m |
|---|---|---|
| Recharged from Beazley Management Limited | 87 2 | 83.9 |
| Administrative expenses | 87 2 | 83.9 |

Audit fees of £23,265 were paid by Beazley Management Ltd for current financial year (2010: 22,588)

All staff are employed by Beazley Management Limited

The directors of the company are paid by Beazley Management Limited.

## 4 Income Tax Expense

| | 2011 £m | 2010 £m |
|---|---|---|
| *Current tax* | | |
| UK corporation tax on profit for the period | 1.5 | 3.9 |
| Adjustment in respect of prior year | 0 1 | (0.3) |
| Income tax expense | 1 6 | 3.6 |

*Factors affecting the tax charge for the current period*

The current tax charge for both the current year and prior years is lower than the standard rate of corporation tax in the UK, 26 5% (2010 28%) due to the differences explained below.

| | 2011 £m | 2010 £m |
|---|---|---|
| Profit on ordinary activities before taxation | 9 9 | 13.6 |
| Current tax at 26 5% (2010 28%) | 2 6 | 3 8 |
| *Effect of,* | | |
| Permanent differences | (1.1) | 0 1 |
| Prior year over provision | 0.1 | (0.3) |
| Current tax charge for the year | 1.6 | 3.6 |

## 5 Debtors: amounts falling due within one year

| | 2011 £m | 2010 £m |
|---|---|---|
| Amounts owed by group companies | 12.2 | 22 7 |
| Profit commission receivable | 6.6 | 5 0 |
| | 18.8 | 27 7 |

## 6. Debtors: amounts falling due after more than one year

| | 2011 £m | 2010 £m |
|---|---|---|
| Profit commission receivable | - | 3.3 |
| | - | 3.3 |

## 7. Creditors: amounts falling due within one year

| | 2011 £m | 2010 £m |
|---|---|---|
| Amounts owed to group companies | 5 1 | 4 5 |
| Amounts owed to managed syndicates | 2 4 | 1 4 |
| Amounts owed to syndicate 623 | 0 6 | 0.4 |
| Current income tax liability | 1.6 | 3.9 |
| | 9 7 | 10 2 |

## 8. Share capital

| | 2011 £m | 2010 £m |
|---|---|---|
| Authorised. 400,000 ordinary shares of £1 each | 0 4 | 0 4 |
| Allotted, issued and fully paid | 0.4 | 0.4 |

## 9. Profit and loss account

| | 2011 £m | 2010 £m |
|---|---|---|
| Balance brought forward at 1 January | 19.3 | 9 3 |
| Profit for the financial year | 8 3 | 10.0 |
| Dividends paid | (19.4) | - |
| Balance carried forward 31 December | 8.2 | 19 3 |

During 2011 dividends of £19.4m (2010. £nil) were paid to the company's parent company. This was part of an exercise to manage the surplus capital held by subsidiaries within the Beazley Group and facilitate future dividend payments to external shareholders of Beazley plc, the company's ultimate parent Following payment of this dividend the company retains sufficient capital to meet its regulatory and trading requirements

## 10 Retirement benefit obligations

| | 2011 £m | 2010 £m | 2009 £m | 2008 £m | 2007 £m |
|---|---|---|---|---|---|
| Retirement benefit obligations | - | - | - | - | 0.9 |
| Present value of funded obligations | 17.8 | 16.9 | 15.4 | 10 3 | 17 5 |
| Fair value of plan assets | 17 3 | 15 8 | 12 9 | 10 0 | 15 5 |
| Experience (losses)/gains on scheme liabilities | (0.2) | (0.1) | 0.3 | 1.1 | 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 and loss account so as to spread the cost of pensions over employees' working lives with the company No additional years of service can be accrued for those members still employed by the company. Contributions are determined by a qualified independent actuary using the projected unit method and the most recent valuation was at 31 December 2011.

The major assumptions used in this valuation were:

| | 2011 | 2010 |
|---|---|---|
| Future salary increases | 5.5% | 6 2% |
| Future pensions increases | 2 3% | 3 0% |
| Discount rate | 4 7% | 5.4% |
| Inflation rate | 2 7% | 3.4% |
| Life expectancy | 88 years | 88 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

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

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:

| | 2011 £m | 2010 £m |
|---|---|---|
| Equities | 9.0 | 10 8 |
| Bonds | 8.2 | 5 0 |
| Cash | 0.1 | - |
| Fair value of plan assets | 17.3 | 15 8 |
| Present value of funded obligations | (17.8) | (16 9) |
| Net pension liability | (0 5) | (1.1) |

The expected rates of return on the assets in the scheme were:

| | 2011 | 2010 |
|---|---|---|
| Equities | 4.5% | 6.0% |
| Bonds | 2 9% | 4.6% |
| Cash | 0.5% | 2.0% |

Movement in defined benefit obligation

| | 2011 £m | 2010 £m |
|---|---|---|
| Balance at beginning of year | 16.9 | 15.4 |
| Interest cost | 0.9 | 0 9 |
| Actuarial losses | 0.3 | 0 6 |
| Benefits paid | (0 3) | - |
| Balance at the end of year | 17 8 | 16.9 |

Movement in fair value of plan assets

| | 2011 £m | 2010 £m |
|---|---|---|
| Balance at beginning of year | 15 8 | 12.9 |
| Expected return on assets | 0.9 | 0 8 |
| Contributions paid | 1.0 | 1 0 |
| Actuarial (losses)/gains | (0.1) | 1 1 |
| Benefits paid | (0 3) | |
| Balance at the end of year | 17 3 | 15 8 |

## 10. Retirement benefit obligations (continued)

Analysis of amounts recognised in statement of total recognised gains and losses

| | 2011 £m | 2010 £m |
|---|---|---|
| Actual return less expected return on plan assets | (0.1) | 0.9 |
| Experience gains and losses arising on scheme liabilities | (0 2) | (0.1) |
| Changes in assumptions underlying the present value of scheme liabilities | (0 1) | (0.4) |
| Actuarial (losses) /gains recognised in statement of total recognised gains and losses | (0 4) | 0.4 |

| | 2011 £m | 2010 £m |
|---|---|---|
| Difference between the expected and actual return on scheme | | |
| - Amount | (0 1) | 0 9 |
| - Percentage of year end scheme assets | 1% | 6% |
| Experience gains and losses on scheme liabilities | | |
| - Amount | (0 2) | (0.1) |
| - Percentage of year end present value of scheme liabilities | 1% | 1% |
| Total recognised in statement of total recognised gains and losses | | |
| - Amount | (0.4) | 0 4 |
| - Percentage of year end present value of scheme liabilities | 2% | 2% |

## 11. Reconciliation of movements in shareholders' funds

| | 2011 £m | 2010 £m |
|---|---|---|
| Opening shareholders' funds | 19 7 | 9.7 |
| Profit for the financial year | 8.3 | 10 0 |
| Dividends paid | (19.4) | - |
| Closing shareholders' funds | 8.6 | 19.7 |

## 12. Dividends

The following dividends were recognised during the period

| | 2011 £m | 2010 £m |
|---|---|---|
| £48 5 (2010· £nil) per qualifying ordinary share | 19 4 | - |

After the balance sheet date dividends of £nil per qualifying ordinary share (2010 £40) were proposed by the directors.

## 13 Ultimate controlling company

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

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

## 14 Related party transactions

Certain of the directors of the company and its subsidiaries are or have been names on the Lloyd's syndicates which are managed by the group. The details of the participations are disclosed on page 3.

### Beazley service companies

Beazley plc owns the following service companies (managing general agents):

Beazley Solutions Ltd – (UK & Europe),
Beazley USA Services Inc – (USA),
Beazley Ltd – (Hong Kong); and
Beazley Pte Ltd – (Singapore).

The entities listed above are service companies for syndicates 623 and 2623

Beazley Underwriting Proprietary Ltd, Blue-GUM Special Risks Pty Ltd and Australian Income Protection Pty Ltd are service companies for syndicate 3623

Beazley Underwriting Services Ltd is a service company for syndicates 3622 and 3623.

The syndicates will be charged commissions for the type of business underwritten by these companies. The commission is based on the costs incurred by these service companies in generating the business on behalf of the syndicates

### Beazley USA

Beazley plc has a licensed insurance company in the US (Beazley Insurance Company, Inc (BICI)) to write business not normally available to the Names of the syndicate. Reinsurance contracts from BICI will be placed with the syndicates, for which the syndicates pay a commission. The commission is based on the costs incurred by BICI in generating the business relating to the reinsurance contracts