REG - Beazley PLC -Final Results

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Press Release

Beazley delivers growth and underwriting profits despite the natural catastrophes

London, 8 February 2018

Beazley plc results for year ended 31 December 2017

- Profit before tax of $168.0m (2016: $293.2m)
- Return on equity of 9% (2016: 18%)
- Gross premiums written increased by 7% to $2,343.8m (2016: $2,195.6m)
- Combined ratio of 99% (2016: 89%)
- Rate reduction on renewal portfolio of 1% (2016: reduction of 2%)
- Prior year reserve releases of $203.9m (2016: $180.7m)
- Net investment income of $138.3m (2016: $93.1m)
- Second interim dividend of 7.4p (2016: 7.0p), taking full year ordinary dividends for the year to 11.1p (2016: ordinary dividend: 10.5p; special dividend: 10.0p).

	Year ended 31 December 2017	Year ended 31 December 2016	% movement
Gross premiums written ($m)	**2,343.8**	2,195.6	7%
Net premiums written ($m)	**1,978.8**	1,854.0	7%
Profit before tax ($m)	**168.0**	293.2	(43%)
Earnings per share (pence)	**19.5**	35.5	(45%)
Net assets per share (pence)	**215.3**	225.9	(5%)
Net tangible assets per share (pence)	**196.2**	211.2	(7%)
Dividend per share (pence)	**11.1**	10.5	6%
Special dividend (pence)	**-**	10.0	

Andrew Horton, chief executive officer, said:

"Beazley achieved an underwriting profit in 2017, a year in which hurricanes, earthquakes and wildfires generated heavy claims for the insurance industry. More importantly, we delivered on our commitments to our policyholders, already paying out more than $110m in claims following the year's natural catastrophes. Premiums grew 7% in 2017 - a strong performance given market conditions. Looking ahead, we see potential for double digit growth in 2018."

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Note to editors:

Beazley plc (BEZ.L), is the parent company of specialist insurance businesses with operations in Europe, United States, Canada, Latin America and Asia. Beazley manages seven Lloyd's syndicates and, in 2017, underwrote gross premiums worldwide of $2,343.8 million. All Lloyd's syndicates are rated A by A.M. Best.

Beazley's underwriters in the United States focus on writing a range of specialist insurance products. In the admitted market, coverage is provided by Beazley Insurance Company, Inc., an A.M. Best A rated carrier licensed in all 50 states. In the surplus lines market, coverage is provided by the Beazley syndicates at Lloyd's.

Beazley is a market leader in many of its chosen lines, which include professional indemnity, property, marine, reinsurance, accident and life, and political risks and contingency business.

For more information please go to: www.beazley.com

Chairman's statement

The diversification of Beazley's business once again showed its value in 2017, enabling the company to generate a return on average shareholders' equity of 9% (2016: 18%), despite recognising substantial claims due to policyholders affected by natural catastrophes in the second half of the year.

In a year in which many insurers and reinsurers are expected to post underwriting losses, Beazley recorded a combined ratio of 99% (2016: 89%) and a strong investment return of 2.9% (2016: 2.0%). Earnings per share were 25.0c (2016: 48.6c) and net tangible assets per share were 261.6c (2016: 268.2c).

The value of insurance was brought home to millions of people in 2017 and Beazley's claims teams responded swiftly, as they did in the wake of comparably severe events in 2011. Natural catastrophes shine a spotlight on the claims paying ability of insurers, and particularly the speed with which funds can be dispatched to those in need. However, the less high profile work of claims teams who focus on other lines of business plays an equally important role. Beazley is often able to distinguish itself by the quality of the claims service provided for third party risks as well as first party risks: for many businesses a lawsuit can be just as damaging as a hurricane.

The board is pleased to announce a second interim dividend of 7.4p per ordinary share. Together with the first interim dividend of 3.7p this takes the total dividends declared for 2017 to 11.1p per ordinary share (2016: first interim dividend of 3.5p, second interim dividend of 7.0p plus a special dividend of 10.0p, totalling 20.5p).

Since Beazley's stock market flotation in 2002, we have aimed to achieve dividend growth (excluding special dividends) of between 5% and 10%, a record we have maintained this year. We identified a number of opportunities to invest further in the business in 2017, particularly in the growth of our specialty lines division outside the US. Our long term approach to capital management is clear. We do not hoard capital and we will continue to distribute excess capital to shareholders if cash flow exceeds the opportunity to invest in profitable growth.

Beazley has a track record of premium growth, even in challenging markets, and in 2017 we delivered the high single digit growth we are targeting, with gross premiums written increasing 7% to $2,343.8m (2016: $2,195.6m). Profitable growth has proved steadily harder for insurers to achieve in recent years as premium rates for short tail, catastrophe exposed business have declined, but 2017's catastrophe events have arrested these declines and - in the lines of business most directly affected - reversed them. Beazley is accordingly well placed for stronger growth in 2018.

Innovation is the lifeblood of a specialist insurer, which must stay ahead of the inevitable commoditisation that affects insurance products as much as any other products over time. Beazley has had notable successes in launching products that are entirely new to world markets, but innovation also consists of bringing products developed in one market to others. This approach has informed the thinking behind the geographic expansion of our specialty lines division, which began in earnest in 2017. The team identified an opportunity to offer products that are market-leading in the US - such as our cyber, management liability and medical malpractice policies - to clients in Europe, Asia and Latin America.

Most of the growth resulting from this strategy is likely to be organic, but small scale acquisitions where there is an excellent strategic fit can also contribute. Our acquisition of Creechurch Underwriters, a managing general agency in Canada that we have supported for many years, fell into

this category. Beazley now has an underwriting platform for growth in Canada which would have taken far longer to establish organically.

Another building block for future growth was put in place in July, when we received authorisation from the Central Bank of Ireland to convert our long established Dublin-based reinsurance company (Beazley Re dac) into an insurance company (Beazley Insurance dac) permitted to transact business throughout the European Union. Planning for this predated the British referendum vote to withdraw from the European Union in June 2016. We can now offer prospective clients in continental Europe a choice of cover, backed by either the Dublin-based insurance company or by our Lloyd's syndicates.

Investments in technology have also underpinned Beazley's growth and these have increased significantly in recent years. 2017 saw the establishment of a data and analytics strategic initiative, the performance of which will be followed closely by the board.

Money has continued to pour into so-called insurtech ventures in recent months, but the distinction that is sometimes drawn in the media between disruptive startups and stodgy incumbents oversimplifies and distorts the changes that are taking place. The most successful businesses are likely to be those that combine the expertise of established insurers with new tools and data sources that the insurtech ventures are developing. A priority for Beazley is to increase the volume of business that underwriters can handle without diminishing the focus they can bring to bear on the more complex risks. Advances in areas such as robotics can play an important role here.

Board changes

Clive Washbourn stood down from the Beazley board in July 2017. I am extremely grateful to Clive for his exceptional contribution to the board over the past 10 years. Clive will continue to provide a valuable service to Beazley by remaining head of our marine division.

David Roberts joined the board in November 2017. I have now served two, three year terms as chairman of Beazley and I am delighted that David will be succeeding me as chairman following the annual general meeting in March 2018.

Beazley has demonstrated an impressive ability to weather rapidly shifting market conditions, as the past year has once again demonstrated. David's experience and acumen give me added confidence that the company will be well equipped to continue to grow profitably in the years ahead.

It has been a privilege to work with such a strong executive and non-executive team on the board and also to get to know so many talented individuals at many levels across the company. It is a cliché - but true - that the success of a service-oriented business such as Beazley depends on the quality of its people and the culture that binds them together. On both counts, Beazley should have a very successful future.

Dennis Holt
Chairman

7 February 2018

Chief executive's statement

In a year that tested the mettle of many insurers, Beazley performed strongly, delivering a profit before income tax of $168.0m (2016: $293.2m) on gross premiums written that rose by 7% to $2,343.8m (2016: $2,195.6m). After absorbing the impact of an exceptional series of natural catastrophes, we achieved a modest underwriting profit, with a combined ratio of 99% (2016: 89%).

Claims service is our product and our claims teams moved swiftly in the wake of the hurricanes, earthquakes and wildfires to redeem our promise to our policyholders. By the end of the year we had disbursed more than $110m in cash advances and claims settlements to help our insureds in the Caribbean and US in the wake of Hurricanes Harvey, Irma and Maria, the two earthquakes that rocked central Mexico in September 2017 and the California wildfires in October and December 2017, the worst in that state's history.

All told, these claims added roughly 10 percentage points to our combined ratio for last year and directly affected all of our five divisions. The largest claims were, naturally, focused on our reinsurance and property divisions, but our marine division also incurred some cargo claims while our newly amalgamated political, accident & contingency division (PAC) picked up some event cancellation claims due to the storms.

The losses we paid in 2017 were well within the scenarios for which our underwriting teams routinely plan. A detailed claims plan is a major part of the annual business plan for divisions exposed to potential catastrophe losses. In 2017 our plans included a larger role for technology than in prior years, with sophisticated satellite imagery enabling claims adjusters to be dispatched rapidly to the Beazley clients located in the areas most severely affected by the storms.

These events were, in aggregate, by far the largest insurance industry losses since 2011, accounting for an estimated $100bn in claims. After five years of largely benign catastrophe experience (superstorm Sandy in 2012 being the only significant exception), it is not surprising that pricing for

the affected lines of business had eroded significantly. In the property insurance and reinsurance markets, price declines were aggravated by a large influx of new capital from pension funds and other investors seeking profitable diversification from other asset classes. Across Beazley's portfolio as a whole, premium rates fell 1% in 2017.

Prudent risk selection and effective cycle management are disciplines that any insurer must get right if it is to prosper in the long term. The events of 2017 punished insurers that had succumbed to the lure of premium growth in short tail lines with inadequate pricing. Beazley's relatively strong performance in such a challenging year speaks to the resilience of our business model.

The events of late 2017 have since spurred material price rises in the classes of business directly affected. We saw reinsurance renewal prices climb by 3% for non-US business and 8% for US business in January 2018. Our property division, which derives 71% of its business from the US, saw prices overall rise by 6% with the biggest increases focused on the large risk business that we underwrite predominantly in London. In the marine market, premium rates for cargo business - the class most affected by the Atlantic storms rose by between 2.5% - 5.0% in the last quarter of 2017.

It is too early to say how sustainable these price increases will prove to be. Much will depend on the continuing appetite of non-traditional capital providers, who shouldered some of the largest reinsurance losses.

In other areas we expect to see a decline in a practice that frequently undermines pricing discipline in a soft market - the subsidisation of unprofitable lines of business by profitable lines. Prior to last year, this underpinned the willingness of many insurers to countenance combined ratios of over 100% on their marine books, whilst catastrophe-related claims were low or non-existent. Now that offsetting profits from other short tail lines have disappeared, some upward adjustment in marine rates can be expected.

The same may prove true for some of the large risk business underwritten by teams within our largest division, specialty lines. The specialty lines division, which focuses on professional liability, management liability and cyber risks, has accounted for much of Beazley's growth in recent years as margins on small and mid sized risks - much of it accessed by our underwriters in the US - have remained attractive. However aggressive competition from new entrants in areas such as large risk architects' and engineers' professional liability and medical malpractice for large US hospitals have held back our growth in these segments. This too may change as opportunities for cross-subsidisation diminish.

Across our five divisions, the balance of our underwriting portfolio continued to serve Beazley well in 2017. We were able to achieve growth of 11% in specialty lines on gross premiums written and, after a slow start to the year, our underwriters in the US delivered premium growth of 12% to write $778.0m (2016: $695.7m).

Specialty lines also significantly increased their contribution of prior year reserve releases by 77% to $121.4m (2016: $68.5m). Our consistent approach to reserving means that some distribution of prior year reserves for specialty lines business is often possible in excess of three years after the business was underwritten, by which time claims have largely been paid. The scale of these reserve releases was reduced by the elevated claims that we saw - and had expected to see - in the wake of the 2008 financial crisis; but with this period now well behind us, the contribution specialty lines should make to overall reserve releases is on the increase.

Looking ahead, we are budgeting for growth in all of our divisions in 2018, the first time this has been the case for over 10 years. Overall, we expect to reach double digit growth in 2018.

Growth initiatives

Our approach to growth remains unchanged. We do not sacrifice profitability for growth. Instead we look for growth from three sources: increasing the flow of profitable business to our teams through brokers who know they can rely on Beazley for high quality service; designing new products to cater for our clients' changing needs; and expanding geographically into new markets.

We pursued all of these growth strategies in 2017. A team within specialty lines under the leadership of Gerard Bloom focused on geographic growth in markets where Beazley has historically had a modest presence, including continental Europe, Canada, Latin America and parts of Asia. To facilitate this growth and that of other teams, we took two important steps.

In February 2017 we acquired Creechurch Underwriters, a Canadian managing general agency specialising in small and mid sized specialty business. And in July 2017 we received authorisation from the Central Bank of Ireland to underwrite business through a new Dublin-based insurance company, Beazley Insurance dac, broadening our access to business from continental Europe.

Our longstanding preference is for organic growth, but our purchase of Creechurch Underwriters was an exception that was not difficult to justify. We had supported the company with underwriting capital since its creation in 1996 and we knew the team extremely well. Now that we have a local presence in Canada, we see significant growth opportunities and have already begun to supplement the existing team with new underwriters focusing on media liability, cyber and environmental liability business.

In Europe, we opened a new office in Spain, expanded our office in Germany and plan to transact business for the account of Beazley Insurance dac through branches in those countries, as well as in the UK and France. Clients will have a choice of security: that of the insurance company, which enjoys passporting freedoms under European Union law, and that of our Lloyd's syndicates.

In Asia and Latin America, we continue to focus on the growth opportunities available through regional hubs. Singapore has been playing such a role in Asia and Miami continues to grow in importance as a hub for Latin American business: we expanded our specialty lines teams in both locations in 2017.

Other divisions also targeted growth in geographies that, while not new to Beazley, were new for the products in question. Our marine division, the last Beazley division to establish a local presence in the US, began underwriting hull and liability cover for the marine and marine construction industries from our New York office in December 2017, targeting business not normally seen by our underwriters in London. Earlier in 2017 we also began writing large scale property business locally in the US on the same basis - a move that should stand us in good stead in the changed market conditions now prevailing.

All measures to grow internationally come with risk and they do not always pay off. In 2017 we closed the office in Dubai that we had opened in 2014 and sold the renewal rights to our Australian accident and health portfolio. In both instances we did not see the profit potential as large enough to warrant further investment. Crispin Hodges, who set up our Dubai office, has a strong track record of business development for Beazley in Asia and Europe and upon his return has taken up the position of international business producer as a cross division resource for our marine, political, accident & contingency and property divisions. Also members of our Australian accident and health team joined Blend Insurance Solutions, a Sydney-based Lloyd's service company, which took over our local portfolio.

Product innovation is another important source of growth in the specialist markets in which Beazley operates. Our track record in this area is strong and we continued to expand our product range in 2017. We have seen particularly strong demand in the US for our Virtual Care product, launched in July 2017, which addresses the wide range of risks affecting both healthcare and technology companies in the fast-growing telemedicine market.

Sometimes product adaptation can be as important as pure innovation. In November, we relaunched our market-leading cyber product for small and mid sized businesses, Beazley Breach Response (BBR). When the product was first launched in 2009, the strongest demand was for liability cover and breach response services following the loss or theft of large numbers of customer records. This need has not gone away, but recent cyber attacks have sensitised other organisations, such as manufacturers, to the operational risks they face. The new BBR offers far broader protection against first party risks such as business interruption.

Given the depth of our experience, the cyber market continues to afford strong growth opportunities for Beazley. This spring the European Union's General Data Protection Regulation will come into force, continuing a process through which data regulation outside the US has been catching up with - and in some respects exceeding - the stringency of US regulation. Beazley's product range is adapted to the needs of clients of all sizes and in all industries.

All of our business at Beazley is sourced through brokers and, even when we are not offering new products or expanding geographically, we can rely on brokers to show us attractive business in our specialist lines. Our brokers continue to rate our teams highly for service - both in underwriting and claims - and we strive to maintain their confidence and that of their clients. In most of the markets in which we do business, there remains significant headroom for growth, providing pricing levels are attractive - as in many cases they are now becoming.

We are also exploring writing a portfolio of facilities business through a newly created syndicate, syndicate 5623. This syndicate will be backed mainly by third party capital and is expected to deliver returns with lower volatility.

Investment performance

Beazley's profitability in 2017 was supported by a very strong investment performance. Our financial assets returned $138.3m, or 2.9% (2016: $93.1m, 2.0%). Signs of strength in the global economy helped equities and corporate credit exposures to rally strongly throughout much of the year, generating good returns on these elements of our portfolio. However, expectations of higher US interest rates led to rising yields later in the year, adversely impacting the value of our bond exposures.

We restructured our fixed income investments in 2016, adopting additional credit exposures, and this proved helpful in 2017 as declining credit spreads generated additional value. As a result, our core portfolio returned a respectable 1.6% (2016: 1.5%), despite rising yields in the final months of the year. Our capital growth investments produced a particularly strong return, at 11.0% (2016: 5.6%), driven by equities, to which we added during the year. We kept a focus on emerging markets, which performed particularly well in 2017.

Risk management

2017 was our second year of operating within the new Solvency II regime with our internal model approved by the Central Bank of Ireland. During this period we have seen the work undertaken by the capital modelling team in the pre-application stages pay off. We have in place a capital model which reflects the reality of the business and can be used across the group to support business processes and inform the board on how risk is changing. We have continued to use an external consultancy to provide independent challenge and to support the production of a detailed validation report to the board.

Although risk appetite is established with reference to earnings volatility, there are a number of risks that do not necessarily have an immediate financial consequence but which are taken into account by our processes. Reputational risk is one example. The qualitative risk appetite statements first introduced in 2015 have helped business functions prioritise activity within their teams to ensure that all parts of the business operate as the board expects.

The latest chief risk officer report to the board confirmed that the control environment has not identified any significant failings or weaknesses in key processes and that Beazley is operating within risk appetite as at 31 December 2017.

Board changes
In October 2017, we announced the appointment of David Roberts as a non-executive director. David has been chairman of Nationwide Building Society since July 2015 and during his career has served as an executive director at Barclays Bank and deputy chairman at Lloyds Banking Group. He will take up the position of non-executive chairman following the annual general meeting in March 2018, succeeding Dennis Holt who will step down from the board having served two full three year terms as chairman.

Dennis took on the role of non-executive chairman in March 2012. During his tenure, Beazley has achieved premium growth of 37% in often challenging market conditions, an average return on equity of 17%, and ordinary dividend growth of 5-6% annually.

During this period, the board has benefited enormously from his sound judgement and guidance, and his influence has been widely felt and appreciated across the company. The antithesis of an ivory tower chairman, Dennis has engaged consistently with colleagues at all levels within the organisation, always looking for ways in which we can build on our successes and learn from our failures. We are immensely grateful to him.

Clive Washbourn also stepped down from the board in 2017 but will remain an important part of the executive committee heading up our marine division. I am very grateful for Clive's contribution to the board and am delighted we will continue to benefit from Clive's expertise through the executive committee.

Outlook
Some variations in profitability, year on year, should be expected in a business such as ours that specialises in assuming the risks of others. However over the years we have built a portfolio that is expressly designed to cushion the shocks that will inevitably occur from time to time in individual lines of business. As such we were able to obtain an average combined ratio of 99% across all divisions.

Our business model should, equally, prove well adapted to the more favourable market conditions now prevailing. Our underwriters have shown patience and discipline through a difficult period during which the supply of capital in many parts of our market significantly outstripped demand, resulting in steadily falling prices. Through this period we have continued to invest in talent and today we employ 117 more underwriters than we did in 2011, the last year in which premium rates were significantly affected by catastrophe losses.

Looking ahead, the expertise and dedication of our underwriters will be a necessary but not sufficient condition for profitable growth. We are also looking to our technology and operations teams to enhance our underwriters' productivity and ensure they have the data they need to make well informed decisions. Also, as in 2017, we will continue to rely heavily on the preparedness of our claims teams to redeem the promises that our underwriters have made.

The breadth of our expertise in all these areas means that we can innovate in ways that benefit our clients and our brokers but without necessarily assuming more underwriting risk. Insurance is, for the most part, a complicated, jargon-laden business and anything we can do to make our clients' lives simpler and easier is likely to be rewarded with increased loyalty. This is particularly true of small business clients that do not employ professional risk managers. Last year we simplified and streamlined our data breach product, BBR, while expanding the cover offered. We are committed to providing 'beautifully designed insurance' across our product range and see considerable scope for further simplification of policies and processes.

A well established design precept is sometimes expressed as 'what you see is what you get', meaning that there should be no mismatch between the way in which a product or service is sold and the way in which it performs. It is a precept we have long sought to apply at Beazley in relation to all of our stakeholders. Today's world offers enough surprises: we have no desire to add to them.

In a catastrophe year such as that of 2017, a short term reduction in profits is inevitable. However, with appropriate cycle management and a balanced portfolio of business, the temporary reduction in profits can be minimised before deploying resources to take advantage of improving underwriting conditions.

Andrew Horton
Chief executive

7 February 2018

Chief underwriting officer's report

In a year defined by a high incidence of natural catastrophe events, Beazley delivered a creditable underwriting performance achieving a combined ratio of 99% (2016: 89%) on gross premiums written of $2,343.8m (2016: $2,195.6m).

The combined cost to the insurance industry of Hurricanes Harvey, Irma, Maria, the Mexican earthquakes and the California wildfires is estimated to be around $100bn. The loss to Beazley arising from these events, net of reinsurance, is expected to be between $200m to $300m, with the majority of the impact being felt in our property and reinsurance divisions. Our balanced portfolio, which has underpinned our consistent underwriting performance in recent years, meant we were able to weather the events of 2017, while continuing to support our insureds who have been affected.

Given the level of insured natural catastrophe losses during the year, we were pleased to report a positive underwriting result. This result was driven by a number of factors. In particular, we have benefited from the fact that our largest division, specialty lines, was largely unaffected by these natural disasters. We have also benefited from effective cycle management over the past few years, reducing our exposure to catastrophe business, with our risk budget decreasing from $574m in 2013 to $370m in 2017.

Rating environment

The rating environment in 2017 once again proved to be challenging, with an average decrease in rates of 1% (2016: decrease 2%). Most of our lines of business saw decreases in rates compared to 2016, with political, accident & contingency experiencing rate decreases of 4%, marine decreasing by 3% and reinsurance rates decreasing by 2%. Rates on renewals in the property and specialty lines divisions remained stable compared to 2016.

With the claims activity seen in the second half of the year, market rate increases across a number of lines of business are expected in 2018.

Cumulative renewal rate changes since 2008 below:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Marine	100%	106%	104%	103%	103%	98%	92%	85%	79%	77%
Political, accident & contingency	100%	100%	99%	98%	97%	96%	98%	92%	91%	87%
Property	100%	105%	102%	104%	110%	114%	112%	108%	104%	104%
Reinsurance	100%	109%	106%	109%	115%	112%	101%	94%	90%	88%
Specialty lines	100%	99%	98%	97%	100%	103%	103%	105%	106%	106%
All divisions	100%	103%	100%	101%	104%	104%	103%	101%	99%	98%

Premium retention rates

In 2017, we were able to maintain a strong retention of business from existing clients and brokers. We believe that being able to work with clients and brokers for a number of years has enabled Beazley to provide coverage which was sustainably priced while still covering the insureds' needs.

The table below shows our premium retention rates by division compared to 2016:

Retention rates[1]	2017	2016
Marine	88%	87%
Political, accident & contingency	79%	79%
Property	82%	81%
Reinsurance	85%	85%
Specialty lines	84%	84%
Overall	84%	83%

1 Based on premiums due for renewal in each calendar year.

We would generally expect to experience some level of volatility between individual divisions, however, we are pleased that our overall premium retention rate remains broadly in line with our five year average.

Divisional commentary

In 2017, specialty lines once again delivered strong growth, achieving an 11% increase on 2016 with premiums of $1,292.2m (2016: $1,159.8m). Profit increased to $227.4m (2016: $133.9m), partly driven by the prior year reserve releases which increased from $68.5m to $121.4m while the combined ratio improved to 89% (2016: 93%).

Premiums written by our underwriters based locally in the US increased to $778.0m (2016: $695.7m). Despite strong growth in recent years, we continue to see opportunities and our US business remains a key area of focus for us as we move into 2018.

In 2017 our specialty lines international strategy, led by Gerard Bloom, laid the foundations for the future with the acquisition of a Canadian managing general agent, Creechurch Underwriters, as well as the conversion of our Irish reinsurance company to an insurance company, Beazley Insurance dac, which has licences to write throughout the EU. On the back of this conversion we have created strategic hubs in the UK, France, Germany and Spain and we expect that in 2018 business written through these offices will begin to complement our well established US operations.

Demand for our cyber product continues to increase and in 2017 we were pleased to relaunch our Beazley Breach Response (BBR) product in the US to address growing demand for robust first party cover. Our offering of BBR, alongside our Beazley InfoSec product and our Vector partnership (a large scale cyber risk facility offering capacity up to $100m) with Munich Re, means that Beazley is a market leader in cyber insurance, able to leverage a depth of expertise within the team.

Our reinsurance division achieved a break-even result despite heightened catastrophe activity. Its combined ratio increased to 107% (2016: 65%) on gross premiums written of $206.8m (2016: $213.4m) with net insurance claims increasing to $97.5m (2016: $40.2m). Over the last 10 years we have enhanced our access to business globally with underwriters in Munich, Paris, Singapore, Shanghai and Miami complementing our team in London. The improved balance of the portfolio, alongside active management of our risk appetite, helped mitigate the effect of the losses in 2017.

Our property division experienced its most active year for catastrophe losses since 2011. Hurricanes, earthquakes and wildfires all affected the US and Central America in the second half of the year, contributing to a combined ratio of 130% (2016: 87%) on gross premiums written of $362.9m (2016: $329.7m).

We continue to look for areas to grow our property business and in 2017 we achieved this in both the US and the UK. In the US, we expanded our local presence by increasing our large risk underwriting capabilities, while outside the US we continued to grow our specialist property lines such as jewellers' block, fine art and specie, and our small business unit. As has been the case for many years, we remain focused on managing a balanced and diverse book of business.

In 2017 we combined our political risk & contingency division and our life, accident & health division to form a new division: political, accident & contingency (PAC). Through the newly created division, headed up by Christian Tolle, we see potential for a number of cross selling opportunities between several of these classes of business.

Our newly created division took the difficult decision to close its Australian operations in 2017 which, alongside an uptick in claims in our political and contingency teams, contributed to a reduction in profits to $7.9m (2016: $27.6m). Our plans for 2018 include growing our accident and health business in the US, under the leadership of Brian Thompson, and exploiting some of the cross selling opportunities between the division's various product lines.

Our marine division has experienced tough underwriting conditions over the past few years and 2017 was no exception. Overall, our marine division wrote gross premiums of $267.6m (2016: $247.4m) and achieved a combined ratio of 98% (2016: 90%). 2017 saw the launch of our US marine business, led by Stephen Vivian. We see potential to expand our US liability and hull business through local underwriters accessing business which generally would not be seen in London.

Outlook
After a sustained period of low catastrophe activity, the insurance industry experienced one of the most costly years for natural disaster losses on record in 2017. Beazley's 2017 result benefited from our balanced business model and our active risk appetite management, leaving us well placed to benefit from any improvement in market conditions in 2018. We have already seen rate increases in the latter part of 2017 and early 2018 across our property and treaty books as the market recalibrates its pricing of catastrophe exposed risks.

We also see continued opportunities for profitable growth in specialty lines in 2018, with further development of our US platform and the first full year of operation for our international business.

While market conditions may improve across some of our product lines in 2018, Beazley's core underwriting philosophy remains stable. Our underwriting approach of exercising discipline across a diverse portfolio of specialist insurance products, particularly in lines of business where competitive pressures are strongest, will remain a key component of our underwriting strategy. This strategy has delivered an underwriting profit in difficult market conditions during 2017 and we are confident that we are well placed as we move into 2018.

Neil Maidment
Chief underwriting officer

7 February 2018

Financial review

Statement of profit or loss

	2017 $m	2016 $m	Movement %
Gross premiums written	2,343.8	2,195.6	7%
Net premiums written	1,978.8	1,854.0	7%
Net earned premiums	1,869.4	1,768.2	6%
Net investment income	138.3	93.1	49%
Other income	35.5	32.7	9%
Revenue	**2,043.2**	**1,894.0**	**8%**
Net insurance claims	1,075.7	855.6	26%
Acquisition and administrative expenses	774.4	720.3	8%
Foreign exchange loss	3.1	9.5	(67%)
Expenses	**1,853.2**	**1,585.4**	**17%**
Share of profit/(loss) of associates	0.1	(0.2)	(150%)
Finance costs	(22.1)	(15.2)	45%
Profit before tax	**168.0**	**293.2**	
Income tax expense	(38.0)	(42.2)	
Profit after tax	**130.0**	**251.0**	
Claims ratio	58%	48%	
Expense ratio	41%	41%	
Combined ratio	99%	89%	
Rate decrease	(1%)	(2%)	
Investment return	2.9%	2.0%	

The group is of the view that some of the above metrics constitute alternative performance measures (APMs). Further information on our APMs can be found in the glossary.

Profit
Profit before tax in 2017 was $168.0m (2016: $293.2m). The group's combined ratio increased to 99% (2016: 89%) off the back of an active catastrophe environment. However, to achieve an underwriting profit in such conditions is testament to our underwriting and active cycle management. Our investment team contributed a strong investment return of 2.9% (2016: 2.0%) or $138.3m (2016: $93.1m).

Premiums
Gross premiums written have increased by 7% in 2017 to $2,343.8m (2016: $2,195.6m). Rates on renewal business on average decreased by 1% across the portfolio (2016: decrease 2%). We have continued to adjust our underwriting appetite in areas where competition is most intense.

Our portfolio by business division is broadly unchanged from 2016. We continue to operate a diversified portfolio by type of business and geographical location. However, we took the decision to merge our life, accident & health division and our political risk & contingency division to form political, accident & contingency.

Reinsurance purchased
Reinsurance is purchased for a number of reasons:
- to mitigate the impact of natural catastrophes such as hurricanes and non natural catastrophes such as cyberattacks;
- to enable the group to put down large lead lines on the risks we underwrite; and
- to manage capital to lower levels.

The amount the group spent on reinsurance in 2017 was $365.0m (2016: $341.6m). The increase in purchased reinsurance was in line with our growth in gross premiums written of 7%.

Combined ratio
The combined ratio of an insurance company is a measure of its operating performance and represents the ratio of its total costs (including claims and expenses) to total net earned premium. A combined ratio under 100% indicates an underwriting profit. Consistent delivery of operating performance across the market cycle is clearly a key objective for an insurer. Beazley's combined ratio increased in 2017 to 99% (2016: 89%) due to a high incidence of claims from natural catastrophes in the second half of 2017, which added circa 10% to the full year ratio.

Claims
2017 experienced a number of natural catastrophes with Hurricanes Harvey, Irma and Maria, the Mexican earthquakes and Californian wildfires, all of which were major contributors to an increase in net insurance claims of $220.1m, which brought the 2017 total net insurance claims to $1,075.7m (2016: $855.6m). These claims, while large, were not outside of our expectation for such types of natural catastrophes. The claims ratio increased to 58% (2016: 48%).

Reserve releases
Beazley has a consistent reserving philosophy, with initial reserves being set to include risk margins that may be released over time as and when any uncertainty reduces. Historically these margins have given rise to held reserves within the range of 5-10% above our actuarial estimates, which themselves include some margin for uncertainty. The margin held above the actuarial estimate was 5.0% at the end of 2017 (2016: 6.6%). This margin decreased in 2017 which was in part due to the catastrophe activity in the second half of the year, which resulted in much lower margins than usual in the affected areas. As the overall margin is at the lower end of the range that management target, reserve releases in 2018 may be slightly lower than those over the last three years. However, it is important to recognise that while there is strong correlation between the level of margin and future reserve releases, current year developments can also affect releases either positively or negatively.

Reserve monitoring is performed at a quarterly 'peer review', which involves a challenge process contrasting the claims reserves of underwriters and claim managers, who make detailed claim-by-claim assessments, and the actuarial team, who provide statistical analysis. This process allows early identification of areas where claims reserves may need adjustment.

Prior year reserve adjustments across all divisions over the last five years are shown below:

	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	5 year average $m
Marine	47.3	40.2	31.2	15.9	10.7	29.0
Political, accident & contingency[1]	34.8	24.5	23.7	27.2	3.9	22.8
Property	33.7	35.9	37.8	36.8	13.2	31.5
Reinsurance	55.6	27.8	44.9	32.3	54.7	43.1
Specialty lines	46.6	29.7	38.7	68.5	121.4	61.0
Total	**218.0**	**158.1**	**176.3**	**180.7**	**203.9**	**187.4**
Releases as a percentage of net earned premium	13.7%	9.5%	10.4%	10.2%	10.9%	10.9%

1 During 2017, the life, accident & health division and political risks & contingency division were combined to form the political, accident & contingency division.

The reserve releases in 2017 increased to $203.9m (2016: $180.7m). Our specialty lines division continued to increase its reserve releases as the post recession portfolio from 2012 onwards matures. This division's releases also included meaningful amounts from the 2014/2015 cyber portfolio, an area that has more year on year variability than the balance of the specialty lines account. This counter-balanced lower releases on short tail classes, where the mechanical effect that reduced margins have on reserve releases, along with the effects of a large series of natural disasters, is now visible.

Please refer to the financial statements for information on reserve releases and loss development tables.

Acquisition costs and administrative expenses
Business acquisition costs and administrative expenses increased during 2017 to $774.4m from $720.3m in 2016. The breakdown of these costs is shown below:

	2017 $m	2016 $m
Brokerage costs	431.1	390.0
Other acquisition costs	88.6	82.5
Total acquisition costs	**519.7**	**472.5**
Administrative expenses	254.7	247.8
Total acquisition costs and administrative expenses	**774.4**	**720.3**

Brokerage costs are the premium commissions paid to insurance intermediaries for providing business. As a percentage of net earned premiums they have increased slightly to 23% in the current year (2016: 22%). Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with the group's accounting policy.

Other acquisition costs comprise costs that have been identified as being directly related to underwriting activity (e.g. underwriters' salaries and Lloyd's box rental). These costs are also deferred in line with premium earning patterns.

The group expense ratio remained unchanged compared to the previous year. Internal administrative expenses have increased less than premium due to a continued conscious drive to challenge costs. This was offset by the aforementioned small increase in acquisition costs versus our earned premium growth.

Foreign exchange
The majority of Beazley's business is transacted in US dollars, which is the currency we have reported in since 2010 and the currency in which we hold the company's net assets. Changes in the US dollar exchange rate with sterling, the Canadian dollar and the euro do have an impact as we receive premiums in those currencies and the majority of our staff still receive their salary in sterling. Beazley's foreign exchange loss taken through the statement of profit or loss in 2017 was $3.1m (2016: loss of $9.5m).

Investment performance
Geo-political headlines had limited overall impact on financial markets in 2017. Instead, more traditional macro-economic considerations provided direction: improving global growth, controlled inflation and easy monetary policy helped equities and corporate credit exposures to rally strongly whilst, later in the year, expectations of rising interest rates, particularly in the US, led risk-free yields to increase significantly. Our core portfolio of mainly fixed income assets, which constitute the majority of our investments, returned 1.6% overall in 2017 (2016: 1.5%) helped, as credit spreads declined, by the additional corporate bond exposures which we added in 2016. Our capital growth investments, which target higher returns whilst accepting some additional volatility, increased to 14.8% of assets in 2017 (2016: 12.0%), which was beneficial as these investments returned 11.0% in the period (2016: 5.6%), driven by strong performance from our equity and illiquid credit exposures. Our overall investment return for the year ended 31 December 2017 was 2.9%, or $138.3m (2016: 2.0%, $93.1m).

The table below details the breakdown of our portfolio by asset class:

	31 Dec 2017		31 Dec 2016	
	$m	%	$m	%
Cash and cash equivalents	440.5	9.0	507.2	10.8
Fixed and floating rate debt securities				
- Government, quasi-government and supranational	1,390.6	28.4	1,261.5	26.8
- Corporate bonds				
- Investment grade	2,179.7	44.6	2,158.0	45.9
- High yield	58.8	1.2	97.1	2.1
- Senior secured loans	85.6	1.8	96.2	2.0
- Asset backed securities	-	-	4.6	0.1
Derivative financial instruments	8.8	0.2	12.2	0.3
Core portfolio	4,164.0	85.2	4,136.8	88.0
Equity linked funds	168.3	3.4	116.3	2.5
Hedge funds	377.4	7.7	317.1	6.7
Illiquid credit assets	180.4	3.7	132.4	2.8
Total capital growth assets	726.1	14.8	565.8	12.0
Total	**4,890.1**	**100.0**	**4,702.6**	**100.0**

Comparison of return by major asset class:

	31 Dec 2017		31 Dec 2016	
	$m	%	$m	%
Core portfolio	67.3	1.6	61.3	1.5
Capital growth assets	71.0	11.0	31.8	5.6
Overall return	**138.3**	**2.9**	**93.1**	**2.0**

In 2017, the funds managed by the Beazley group increased on the prior year, with financial assets at fair value and cash and cash equivalents of $4,890.1m at the end of the year (2016: $4,702.6m).

Tax
Beazley is liable to corporation tax in a number of jurisdictions, notably the UK, the US and Ireland. Beazley's effective tax rate is thus a composite tax rate mainly driven by the Irish, UK and US tax rates. The weighted average of the statutory tax rates for the year was 18.7% (2016: 14.9%) and has increased over 2016 due to an increased level of US based profits which are taxed at 35%. We expect this rate to be around 16% to 17% in 2018 as the group benefits from a reduced US corporation tax rate and non-US profits hopefully revert to long term levels. Our effective tax rate for the year was 22.6% (2016: 14.4%). The increases compared to 2016 were due to the higher composite tax rate and a reduction of approximately $5m in the value of our US deferred tax asset following the reduction in the US corporation tax rate from 35% to 21%, which was enacted in 2017.

The application of the diverted profits tax legislation passed by the government early in 2015 still remains uncertain. We have considered the implication of this and retain the view that this tax should not apply to Beazley (see note 8 in the financial statements).

Summary statement of financial position

	2017 $m	2016 $m	Movement %
Intangible assets	133.5	96.6	38%
Reinsurance assets	1,231.1	1,082.1	14%
Insurance receivables	918.0	794.7	16%
Other assets	386.0	332.5	16%
Financial assets at fair value and cash and cash equivalents	4,890.1	4,702.6	4%
Total assets	**7,558.7**	**7,008.5**	**8%**
Insurance liabilities	5,167.8	4,657.7	11%
Financial liabilities	367.3	363.8	1%
Other liabilities	524.7	503.3	4%
Total liabilities	**6,059.8**	**5,524.8**	**10%**
Net assets	1,498.9	1,483.7	1%
Net assets per share (cents)	287.1c	286.9c	-
Net tangible assets per share (cents)	261.6c	268.2c	(2%)
Net assets per share (pence)	215.3p	225.9p	(5%)
Net tangible assets per share (pence)	196.2p	211.2p	(7%)
Number of shares[1]	522.0m	517.2m	1%

[1] Excludes shares held in the employee share trust and treasury shares.

Intangible assets
Intangible assets consist of goodwill on acquisitions of $62.0m (2016: $62.0m), purchased syndicate capacity of $10.7m (2016: $10.7m), US admitted licences of $9.3m (2016: $9.3m), renewal rights of $35.2m (2016: $7.0m) and capitalised expenditure on IT projects of $16.3m (2016: $7.6m).

Reinsurance assets
Reinsurance assets represent recoveries from reinsurers in respect of incurred claims of $993.2m (2016: $853.9m), and the unearned reinsurance premiums reserve of $237.9m (2016: $228.2m). The reinsurance receivables from reinsurers are split between recoveries on claims paid or notified of $219.4m (2016: $201.8m) and an actuarial estimate of recoveries on claims that have not yet been reported of $773.8m (2016: $652.1m). The group's exposure to reinsurers is managed through:

- minimising risk through selection of reinsurers who meet strict financial criteria (e.g. minimum net assets, minimum 'A' rating by S&P). These criteria vary by type of business (short vs medium tail);
- timely calculation and issuance of reinsurance collection notes from our ceded reinsurance team; and
- regular monitoring of the outstanding debtor position by our reinsurance security committee and credit control committee.

We continue to provide against impairment of reinsurance recoveries, and at the end of 2017 our provision in respect of reinsurance recoveries totalled $13.2m (2016: $12.6m).

Insurance receivables
Insurance receivables are amounts receivable from brokers in respect of premiums written. The balance at 31 December 2017 was $918.0m (2016: $794.7m).

Other assets

Other assets are analysed separately in the notes to the financial statements. The largest items included comprise:

- deferred acquisition costs of $281.4m (2016: $242.8m);
- profit commissions of $10.1m (2016: $15.2m); and
- deferred tax assets available for use against future taxes payable of $6.9m (2016: $11.0m).

Judgement is required in determining the policy for deferring acquisition costs. Beazley's policy assumes that variable reward paid to underwriters relates to prior years' business and is not an acquisition cost. As a result, the quantum of costs classified as acquisition is towards the lower end of the possible range. Costs identified as related to acquisition are then deferred in line with premium earnings.

Insurance liabilities
Insurance liabilities of $5,167.8m (2016: $4,657.7m) consist of two main elements, being the unearned premium reserve (UPR) and gross insurance claims liabilities.

Our UPR has increased by 10% to $1,259.2m (2016: $1,140.8m). The majority of the UPR balance relates to current year premiums that have been deferred and will be earned in future periods. Current indicators are that this business is profitable.

Gross insurance claims reserves are made up of claims which have been notified to us but not yet paid of $1,056.3m (2016: $949.5m) and an estimate of claims incurred but not yet reported (IBNR) of $2,852.3m (2016: $2,567.4m). These are estimated as part of the quarterly reserving process involving the underwriters and group actuary. Gross insurance claims reserves have increased 11% from 2016 to $3,908.6m (2016: $3,516.9m).

Financial liabilities
Financial liabilities comprise borrowings and derivative financial liabilities. The group utilises three long term debt facilities:

- a US$18m subordinated debt facility was raised in 2004. This loan is also unsecured and interest is payable at the US$ London interbank offered rate (LIBOR) plus 3.65%. These subordinated notes are due in 2034 and have been callable at the group's option since 2009;
- during September 2012 we issued a sterling denominated 5.375% retail bond under a £250m euro medium term note programme which raised £75m for the group and is due in 2019. This diversified the source and maturity profile of the group's debt financing; and
- in November 2016, Beazley Insurance dac issued $250m of 5.875% subordinated tier 2 notes due in 2026.

A syndicated short term banking facility led by Lloyds Banking Group plc provides potential borrowings up to $225m. Under the facility $225m may be drawn as letters of credit to support underwriting at Lloyd's. Of this, 100% may be advanced as cash under a revolving facility. The cost of the facility is based on a commitment fee of 0.385% per annum and any amounts drawn are charged at a margin of 1.1% per annum. The cash element of the facility will expire on 31 July 2019, whilst letters of credit issued under the facility can be used to provide support for the 2017, 2018 and 2019 underwriting years. The facility is currently unutilised.

Capital structure
Beazley has a number of requirements for capital at a group and subsidiary level. Capital is primarily required to support underwriting at Lloyd's and in the US and is subject to prudential regulation by local regulators (PRA, Lloyd's, Central Bank of Ireland, and the US state level supervisors). Beazley is subject to the capital adequacy requirements of the European Union (EU) Solvency II regime ('SII'). We comply with all relevant SII requirements.

Further capital requirements come from rating agencies who provide ratings for Beazley Insurance Company, Inc and Beazley Insurance dac. We aim to manage our capital levels to obtain the ratings necessary to trade with our preferred client base.

Beazley holds a level of capital over and above its regulatory requirements. The amount of surplus capital held is considered on an ongoing basis in light of the current regulatory framework, opportunities for organic or acquisitive growth and a desire to maximise returns for investors.

The group actively seeks to manage its capital structure. Our preferred use of capital is to deploy it on opportunities to underwrite profitably. However, there may be times in the cycle when the group will generate excess capital and not have the opportunity to deploy it. At such points in time the board will consider returning capital to shareholders.

On issuance of the new tier 2 subordinated debt in 2016, Beazley Insurance dac was assigned an Insurer Financial Strength (IFS) rating of 'A+' by Fitch.

In 2017, Beazley acquired 3.0m of its own shares into the employee benefit trust. These were acquired at an average price of 437p and the cost to the group was £13.1m.

The following table sets out the group's sources of funds:

	2017 $m	2016 $m
Shareholders' funds	1,498.9	1,483.7

Tier 2 subordinated debt (2026)	248.5	248.3
Retail bond (2019)	99.5	94.7
Long term subordinated debt (2034)	18.0	18.0
	1,864.9	**1,844.7**

Our funding comes from a mixture of our own equity alongside $248.5m of tier 2 subordinated debt, $18.0m of subordinated long term debt, a $99.5m retail bond and an undrawn banking facility of $225.0m.

We signalled at the interim results that we expected the Lloyd's economic capital requirement (ECR) to increase, reflecting our plans for growth. The final figure at year end 2017 is lower than our projection reflecting the improved profitability of the natural catastrophe underwriting expected in 2018. Our guidance, that we expect underwriting capital to grow in the mid to high single digits, remains.

The following table sets out the group's capital requirement:

	2017 $m	**2016 $m**
Lloyd's economic capital requirement (ECR)	1,517.2	1,489.2
Capital for US insurance company[1]	96.5	107.7
	1,613.7	**1,596.9**

[1] The A.M. Best rating of our US insurance company Beazley Insurance Company Inc. (BICI) is now maintained via a group support mechanism rather than on a stand alone basis. As a result the capital requirement for BICI is now taken as a minimum realistic risk based capital (RBC) level as opposed to the capital level required to achieve a stand alone A.M. Best rating.

At 31 December 2017, we have surplus capital of 39% of ECR (on a Solvency II basis). Following payment of the second interim dividend of 7.4p, this surplus reduces to 35% compared to our current target range of 15% to 25% of ECR.

Solvency II

The Solvency II regime came into force on 1 January 2016. Beazley continue to provide quarterly Solvency II pillar 3 reporting to both Lloyd's for the Beazley managed syndicates and the Central Bank of Ireland for Beazley Insurance dac and Beazley plc. In 2017 the first annual solvency financial condition report (SFCR) of Beazley plc was published.

Under Solvency II requirements, the group is required to produce a Solvency Capital Requirement (SCR) which sets out the amount of capital that is required to reflect the risks contained within the business. Lloyd's reviews the syndicates' SCRs to ensure that SCRs are consistent across the market. On 10 December 2015 Beazley received internal model approval from the Central Bank of Ireland (the group supervisor under Solvency II).

The current SCR has been established using our Solvency II approved internal model which has been run within the regime as prescribed by Lloyd's. In order to perform the capital assessment, we have made significant investments in both models and process:

- we use sophisticated mathematical models that reflect the key risks in the business allowing for probability of occurrence, impact if they do occur, and interaction between risk types. A key focus of these models is to understand the risk posed to individual teams, and to the business as a whole, of a possible deterioration in the underwriting cycle; and
- the internal model process is embedded so that teams can see the direct and objective link between underwriting decisions and the capital allocated to that team. This gives a consistent and comprehensive picture of the risk/reward profile of the business and allows teams to focus on strategies that improve return on capital.

Group structure

The group operates across Lloyd's, Europe, Asia, Canada and the US through a variety of legal entities and structures. The main entities within the legal entity structure are as follows:

- Beazley plc - group holding company and investment vehicle, quoted on the London Stock Exchange;
- Beazley Ireland Holdings plc - intermediate holding company which holds £75m sterling denominated notes;
- Beazley Underwriting Limited - corporate member at Lloyd's writing business through syndicates 2623, 3622 and 3623;
- Beazley Furlonge Limited - managing agency for the seven syndicates managed by the group (623, 2623, 3622, 3623, 6107, 6050 and 5623);
- Beazley Insurance dac - reinsurance company that accepts non-life reinsurance premiums ceded by the corporate member, Beazley Underwriting Limited and writes direct business in Europe;
- Syndicate 2623 - corporate body regulated by Lloyd's through which the group underwrites its general insurance business excluding accident & life. Business is written in parallel with syndicate 623;
- Syndicate 623 - corporate body regulated by Lloyd's which has its capital supplied by third party names;

- Syndicate 6107 - special purpose syndicate writing reinsurance business, and from 2017 cyber, on behalf of third party names;
- Syndicate 3622 - corporate body regulated by Lloyd's through which the group underwrites its life insurance and reinsurance business;
- Syndicate 3623 - corporate body regulated by Lloyd's through which the group underwrites its personal accident,
- BICI reinsurance business and, from 2018, facilities business;
- Syndicate 6050 - special purpose syndicate which has its capital provided by third party names and provides reinsurance to syndicates 623 and 2623 on the 2015, 2016 and 2017 years of account;
- Syndicate 5623 - special purpose syndicate writing facilities ceded from syndicate 3623;
- Beazley Insurance Company, Inc. (BICI) - insurance company regulated in the US. Licensed to write insurance business in all 50 states; and
- Beazley USA Services, Inc. ('BUSA') - managing general agent based in Farmington, Connecticut. Underwrites business on behalf of Beazley syndicates and BICI.

Consolidated statement of profit or loss for the year ended 31 December 2017

	2017 $m	**2016 $m**
Gross premiums written	2,343.8	2,195.6
Written premiums ceded to reinsurers	(365.0)	(341.6)
Net premiums written	**1,978.8**	**1,854.0**
Change in gross provision for unearned premiums	(118.4)	(83.4)
Reinsurer's share of change in the provision for unearned premiums	9.0	(2.4)
Change in net provision for unearned premiums	**(109.4)**	**(85.8)**
Net earned premiums	**1,869.4**	**1,768.2**
Net investment income	138.3	93.1
Other income	35.5	32.7
	173.8	**125.8**
Revenue	**2,043.2**	**1,894.0**
Insurance claims	1,388.0	1,027.3
Insurance claims recoverable from reinsurers	(312.3)	(171.7)
Net insurance claims	**1,075.7**	**855.6**
Expenses for the acquisition of insurance contracts	519.7	472.5
Administrative expenses	254.7	247.8
Foreign exchange loss	3.1	9.5
Operating expenses	**777.5**	**729.8**
Expenses	**1,853.2**	**1,585.4**
Share of profit/(loss) in associates	0.1	(0.2)
Results of operating activities	**190.1**	**308.4**
Finance costs	(22.1)	(15.2)
Profit before income tax	**168.0**	**293.2**
Income tax expense	(38.0)	(42.2)
Profit for year attributable to equity shareholders	**130.0**	**251.0**

Earnings per share (cents per share):		
Basic	25.0	48.6
Diluted	24.4	47.3
Earnings per share (pence per share):		
Basic	19.5	35.5
Diluted	19.0	34.5

Statement of comprehensive income for the year ended 31 December 2017

	2017 $m	2016 $m
Group		
Profit for the year attributable to equity shareholders	130.0	251.0
Other comprehensive income		
Items that will never be reclassified to profit or loss:		
Loss on remeasurement of retirement benefit obligations	(0.6)	(6.1)
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange translation differences	2.9	(10.1)
Total other comprehensive income	2.3	(16.2)
Total comprehensive income recognised	**132.3**	**234.8**

Statement of comprehensive income for the year ended 31 December 2017

	2017 $m	2016 $m
Company		
Profit for the year attributable to equity shareholders	134.8	18.2
Total comprehensive income recognised	**134.8**	**18.2**

Statement of changes in equity for the year ended 31 December 2017

	Share capital $m	Merger reserve $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Group						
Balance at 1 January 2016	**666.7**	**(628.5)**	**(87.3)**	**6.7**	**1,483.8**	**1,441.4**
Total comprehensive income recognised	-	-	(10.1)	-	244.9	234.8
Dividends paid	-	-	-	-	(212.2)	(212.2)
Issue of shares[1]	2.5	(2.3)	-	-	-	0.2
Capital reduction[2]	(631.5)	630.8	0.7	-	-	-
Equity settled share based payments	-	-	-	26.0	-	26.0
Acquisition of own shares in trust	-	-	-	(9.7)	-	(9.7)
Tax on share option vestings	-	-	-	-	2.1	2.1
Transfer of shares to employees	-	-	-	0.4	0.7	1.1

Balance at 31 December 2016	**37.7**	**-**	**(96.7)**	**23.4**	**1,519.3**	**1,483.7**
Total comprehensive income recognised	-	-	2.9	-	129.4	132.3
Dividends paid	-			-	(135.9)	(135.9)
Issue of shares	0.1	-	-	-	-	0.1
Equity settled share based payments	-	-	-	24.5	-	24.5
Acquisition of own shares in trust	-	-	-	(16.2)	-	(16.2)
Tax on share option vestings	-	-	-	4.3	4.0	8.3
Transfer of shares to employees	-	-	-	(4.0)	6.1	2.1
Balance at 31 December 2017	**37.8**	**-**	**(93.8)**	**32.0**	**1,522.9**	**1,498.9**

[1] During the first half of 2016, 1.9m new ordinary shares were issued, as well as 0.1m of preference shares prior to a scheme of arrangement. The preference shares were redeemed by the company in 2016.

[2] Subsequent to a scheme of arrangement, a capital reduction was executed in April 2016 which involved a reduction in the nominal value of the shares in the new parent from 90 pence per share to 5 pence per share.

Statement of changes in equity for the year ended 31 December 2017

	Share capital $m	Merger reserve $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Company						
Balance at 1 January 2016	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income recognised	-	-	-	-	18.2	18.2
Dividends paid	-	-	-	-	(23.9)	(23.9)
Issue of shares[1]	669.2	55.4	-	-	-	724.6
Capital reduction[2]	(631.5)	-	0.7	-	630.8	-
Equity settled share based payments	-	-	-	22.5	-	22.5
Acquisition of own shares in trust	-	-	-	(4.6)	-	(4.6)
Transfer of shares to employees	-	-	-	2.0	(1.8)	0.2
Balance at 31 December 2016	**37.7**	**55.4**	**0.7**	**19.9**	**623.3**	**737.0**
Total comprehensive income recognised	-	-	-	-	134.8	134.8
Dividends paid	-	-	-	-	(135.9)	(135.9)
Issue of shares	0.1	-	-	-	-	0.1
Equity settled share based payments	-	-	-	24.5	-	24.5
Acquisition of own shares in trust	-	-	-	(16.2)	-	(16.2)
Transfer of shares to employees	-	-	-	(4.0)	6.1	2.1
Balance at 31 December 2017	**37.8**	**55.4**	**0.7**	**24.2**	**628.3**	**746.4**

[1] On 13 April 2016, the company issued 523.3m ordinary shares at a nominal value of 90 pence per share.

[2] Following the issuing of the shares, a capital reduction reduced the nominal value of the shares from 90 pence per share to 5 pence per share.

Statements of financial position as at 31 December 2017

	2017		2016	
	Group $m	Company $m	Group $m	Company $m

Assets				
Intangible assets	133.5	-	96.6	-
Plant and equipment	4.4	-	5.4	-
Deferred tax asset	6.9	-	11.0	-
Investment in subsidiaries	-	724.6	-	724.6
Investment in associates	7.0	-	9.9	-
Deferred acquisition costs	281.4	-	242.8	-
Reinsurance assets	1,231.1	-	1,082.1	-
Financial assets at fair value	4,449.6	-	4,195.4	-
Insurance receivables	918.0	-	794.7	-
Other receivables	68.6	21.0	46.4	13.0
Current income tax asset	17.7	0.5	17.0	-
Cash and cash equivalents	440.5	0.7	507.2	-
Total assets	**7,558.7**	**746.8**	**7,008.5**	**737.6**
Equity				
Share capital	37.8	37.8	37.7	37.7
Merger reserve	-	55.4	-	55.4
Foreign currency translation reserve	(93.8)	0.7	(96.7)	0.7
Other reserves	32.0	24.2	23.4	19.9
Retained earnings	1,522.9	628.3	1,519.3	623.3
Total equity	**1,498.9**	**746.4**	**1,483.7**	**737.0**
Liabilities				
Insurance liabilities	5,167.8	-	4,657.7	-
Financial liabilities	367.3	-	363.8	-
Retirement benefit liability	2.3	-	6.2	-
Deferred tax liabilities	9.9	-	12.8	-
Other payables	512.5	0.4	484.3	0.6
Total liabilities	**6,059.8**	**0.4**	**5,524.8**	**0.6**
Total equity and liabilities	**7,558.7**	**746.8**	**7,008.5**	**737.6**

Statements of cash flows for the year ended 31 December 2017

		2017		**2016**
	Group $m	**Company $m**	**Group $m**	**Company $m**
Cash flow from operating activities				
Profit before income tax	**168.0**	**133.3**	**293.2**	**18.2**
Adjustments for:				
Amortisation of intangibles	11.6	-	5.3	-
Equity settled share based compensation	23.6	24.5	23.0	22.5
Net fair value gain on financial assets	(69.6)	-	(28.9)	-
Share of (profit)/loss in associates	(0.1)	-	0.2	-
Depreciation of plant and equipment	2.7	-	1.8	-
Impairment of reinsurance assets recognised/(written back)	0.6	-	(1.1)	-
Increase/(decrease) in insurance and other payables	534.4	(0.2)	72.4	0.6
Increase in insurance, reinsurance and other receivables	(295.9)	(7.0)	(59.3)	(13.0)
Increase in deferred acquisition costs	(38.6)	-	(16.6)	-
Financial income	(76.6)	(136.8)	(71.5)	(23.9)

Financial expense	22.1	0.9	15.2	0.8
Income tax paid	(27.9)	-	(39.8)	-
Net cash generated from operating activities	**254.3**	**14.7**	**193.9**	**5.2**
Cash flow from investing activities				
Purchase of plant and equipment	(1.7)	-	(2.9)	-
Expenditure on software development	(9.3)	-	(4.7)	-
Purchase of investments	(3,299.3)	-	(5,985.4)	-
Proceeds from sale of investments	3,093.7	-	5,666.0	-
Investment in associate	-	-	(0.1)	-
Sale of associate	3.0	-	-	-
Sale of LAH renewal rights	0.8	-	-	-
Acquisition of subsidiaries (net of cash)	(31.8)	-	(8.0)	-
Interest and dividends received	74.5	136.8	71.5	23.9
Issuance of shares	2.2	2.2	-	-
Net cash (used in)/from investing activities	**(167.9)**	**139.0**	**(263.6)**	**23.9**
Cash flow from financing activities				
Acquisition of own shares in trust	(16.2)	(16.2)	(9.7)	(4.6)
Repayment of borrowings	-	-	(107.1)	-
Proceeds from debt issue	-	-	248.7	-
Finance costs	(20.7)	(0.9)	(15.2)	(0.8)
Foreign exchange of financial liabilities	4.6	-	-	-
Dividends paid	(135.9)	(135.9)	(212.2)	(23.9)
Net cash used in financing activities	**(168.2)**	**(153.0)**	**(95.5)**	**(29.3)**
Net (decrease)/ increase in cash and cash equivalents	(81.8)	0.7	(165.2)	(0.2)
Cash and cash equivalents at beginning of year	507.2	-	676.9	-
Effect of exchange rate changes on cash and cash equivalents	15.1	-	(4.5)	0.2
Cash and cash equivalents at end of year	**440.5**	**0.7**	**507.2**	**-**

1 Statement of accounting policies

Beazley plc (registered number 09763575) is a company incorporated in England and Wales and is resident for tax purposes in the United Kingdom. The company's registered address is Plantation Place South, 60 Great Tower Street, London EC3R 5AD, United Kingdom. The group financial statements for the year ended 31 December 2017 comprise the parent company, its subsidiaries and the group's interest in associates. The principal activity of the company and its subsidiaries ('the group') is to participate as a specialist insurer which transacts primarily in commercial lines of business through its subsidiaries and through Lloyd's syndicates.

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2017 or 2016 but is derived from those accounts. Statutory accounts for 2016 have been delivered to the registrar of companies, and those for 2017 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The financial statements of the parent company, Beazley plc, and the group financial statements have been prepared and approved by the directors in accordance with IFRSs as adopted by the EU ('Adopted IFRSs'). On publishing the parent company financial statements together with the group financial statements, the company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual statement of profit or loss and related notes that form a part of these approved financial statements.

In the current year, the group has applied amendments to IFRSs issued by the IASB that are mandatorily effective for an accounting period that beings on or after 1 January 2017. The new effective requirements are:

IAS 7: Amendment: Disclosure Initiative (EU effective date: 1 January 2017); and
IAS 12: Amendment: Recognition of deferred tax assets for unrealised losses (EU effective date: 1 January 2017).

A number of new standards and interpretations adopted by the EU which are not mandatorily effective, as well as standards and interpretations issued by the IASB but not yet adopted by the EU, have not been applied in preparing these financial statements. The group does not plan to adopt these standards early; instead it will apply them from their effective dates as determined by their dates of EU endorsement. The group is still reviewing the upcoming standards to determine their impact:

- IFRS 2: Amendment: Classification and Measurement of Share-based Payment Transactions (IASB effective date: 1 January 2018);*
- IFRS 9: Financial Instruments (EU effective date: 1 January 2018, deferred in line with implementation of IFRS 17);
- IFRS 15: Revenue from Contracts with Customers (EU effective date: 1 January 2018);
- IFRS 16: Leases (EU effective date: 1 January 2019);
- IFRS 17: Insurance Contracts (IASB effective date: 1 January 2021);*
- IAS 40: Amendment: Transfers of Investment Property (IASB effective date: 1 January 2018);*
- IFRS 9: Amendment: Prepayment Features with Negative Compensation (IASB effective date: 1 January 2019);*
- IAS 28: Amendment: Long-term Interests in Associates and Joint Ventures (IASB effective date: 1 January 2019);*
- Annual Improvements to IFRSs 2014-2016 Cycle (IASB effective date: 1 January 2018);*
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (IASB effective date: 1 January 2018);* and
- IFRIC 23 Uncertainty over Income Tax Treatments (IASB effective date: 1 January 2019).*

* The amendments have not been endorsed by the EU.

Of the upcoming accounting standard changes that we are aware of, we anticipate that IFRS 17, IFRS 9 and IFRS 16 will have the most material impact on the financial statements' presentation and disclosures. The accounting developments and implementation timelines of these standards are being closely monitored and the impacts of the standards themselves are being assessed. Full impact analysis in respect of these standards is in the process of being completed. The impact of IFRS 15 has been assessed, and the impact is deemed to be immaterial. A brief overview of the standards is provided below:

- IFRS 17, effective from 1 January 2021, will fundamentally change the way insurance contracts are accounted for and reported. Revenue will no longer be equal to premiums written but instead reflect a change in the contract liability on which consideration is expected. On initial assessment the major change will be on the presentation of the statement of profit or loss with premium and claims figures being replaced with insurance contract revenue, insurance service expense and insurance finance income and expense. It is not currently known what impact the new requirements will have on the group's profit and financial position, but it is expected that profit recognition will be altered with expenses for onerous contracts being accelerated and recognised upfront rather than being spread over the term of the insurance contract. We are currently carrying out an impact assessment to identify the main areas within the group that the standard will affect, as well as assessing whether any synergies, potentially with Solvency II, can be achieved. A more detailed update will be provided after the assessment has been completed;
- IFRS 9 provides a reform of financial instruments accounting to supersede IAS 39: Financial Instruments: Recognition and Measurement. The standard contains the requirements for a) the classification and measurement of financial assets and liabilities; b) a new impairment methodology, and c) general hedge accounting. During 2016, the IASB stated that the effective date of IFRS 17 'Insurance Contracts' will be 1 January 2021. The IASB also amended IFRS 4 to permit certain entities/groups that issue insurance contracts within the scope of IFRS 4 to defer application of IFRS 9 (Financial instruments) until accounting periods beginning on or after 1 January 2021 (the deferral approach), in order to align with IFRS 17 implementation. The activities of the group are predominately related to insurance, and there are no further significant activities not related to that of insurance. Therefore the group will opt to apply the deferral approach for the implementation of IFRS 9 and will assess the impact of this standard closer to the implementation date. Beazley plc as a standalone company will adopt IFRS 9 from 1 January 2018. However, as the standalone company has no financial investments we do not expect the adoption to have an effect on the financial statements;
- IFRS 15, effective from 1 January 2018, establishes a single comprehensive model for entities to use in accounting for revenue from contracts with customers. Revenue from contracts accounted for under IFRS 4 'Insurance contracts' is outside the scope of IFRS 15, but the group will have to apply the new revenue recognition standard to non-insurance contracts, such as profit and service commission agreements with third party syndicates. In 2017 the revenue from such contracts was $32.9m (2016: $32.4m). The new standard's requirement for accounting for variable consideration could change the timing of revenue recognition for these contracts issued by the group. The group has assessed the impact of this new standard on its financial statements, and our conclusion is that new revenue standard does not have a material impact on the group's earned income and does not change the timing of recognition of revenue from the contracts outlined above, as our current recognition approach is consistent with the new requirements under IFRS 15. On transition to the new standard, the group opts to retain prior period figures as reported under the previous standards. No cumulative effect on the group's equity from applying IFRS 15 is expected in the period of initial application; and
- IFRS 16, effective from 1 January 2019, replaces existing leases standard, including IAS 17: Leases, and introduces a single, on-balance sheet accounting model for leases, where distinction between operating and finance leases is eliminated. The group is currently assessing the impact of the new

standard on financial statements in the period of initial application and actual impact will depend on unknown factors such as lease portfolio at the date of application, borrowing rates and renewal plans for leases. The standard is expected to have a material impact on the group's statement of financial position as large assets and liabilities related to the recognition of a right-of-use asset and lease liability will now be included. As at 31 December 2017 the group's future minimum estimated payments under non-cancellable lease contracts amounted to $45.7m on an undiscounted basis. This represents the estimated value of the gross up of assets and liabilities on the statement of financial position. With regards to profit and loss impact, this new approach will have no long term impact. However, the group will have a different profit recognition pattern to the current process. On transition to the new standard the group will opt to retain prior period figures as reported under the previous standards. The cumulative effect of applying IFRS 16 will be shown as an adjustment to the opening balance of equity as at the date of initial application.

Basis of presentation
The group financial statements are prepared using the historical cost convention, with the exception of financial assets and derivative financial instruments which are stated at their fair value. All amounts presented are stated in US dollars and millions, unless stated otherwise.

The financial statements of Beazley plc have been prepared on a going concern basis. The directors of the company have a reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future. In accordance with the requirements of IAS 1 the financial statements' assets and liabilities have been presented based on order of liquidity which provides information that is more reliable and relevant for a financial institution.

Use of estimates and judgements
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

a) Estimates
Estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most critical estimate included within the group's financial position is the estimate for insurance losses incurred but not reported, which is included within total insurance liabilities and reinsurance assets in the statement of financial position and note 24 of the annual report and accounts. This estimate is critical as it outlines the current liability for future expenses expected to be incurred in relation to claims. If this estimation was to prove inadequate then an exposure would arise in future years where a liability has not been provided for. The total estimate for insurance losses incurred but not reported gross of reinsurers' share as at 31 December 2017 is $2,852.3m (2016: $2,567.4m). The total estimate for insurance losses incurred but not reported net of reinsurers' share as at 31 December 2017 is $2,078.5m (2016: $1,915.3m) and is included within total insurance liabilities and reinsurance assets in the statement of financial position and note 24 of the annual report and accounts.

Another significant area of estimation is the group's financial assets and liabilities. Information about estimation uncertainty related to the group's financial assets and liabilities is described in this statement of accounting policies and note 16: financial assets and liabilities (valuations based on models and unobservable inputs) of the annual report and accounts.

Another key estimate contained within our close process is premium estimates.

b) Judgements
Information about significant areas of critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in this statement of accounting policies and specifically in the following notes in the annual report and accounts:
- note 1a: accounting treatment for the group's interest in managed syndicates; and
- note 12: intangible assets including goodwill (assumptions underlying recoverable amounts).

2 Segmental analysis
a) Reporting segments
Segment information is presented in respect of reportable segments. These are based on the group's management and internal reporting structures and represent the level at which financial information is reported to the board, being the chief operating decision-maker as defined in IFRS 8.

The operating segments are based upon the different types of insurance risk underwritten by the group, as described below:

Marine
This segment underwrites a broad spectrum of marine classes including hull, energy, cargo and specie, piracy, satellite, aviation, kidnap & ransom and war risks.

Political, accident & contingency
During 2017, the life, accident & health division and political risks & contingency division were combined to form the political, accident & contingency division. This segment underwrites terrorism, political violence, expropriation and credit risks as well as contingency and risks associated with contract

frustration. In addition, this segment underwrites life, health, personal accident, sports and income protection risks.

Property
The property segment underwrites commercial, high-value homeowners' and construction and engineering property insurance on a worldwide basis.

Reinsurance
This segment specialises in writing property catastrophe, property per risk, casualty clash, aggregate excess of loss and pro-rata business.

Specialty lines
This segment underwrites professional liability, management liability and environmental liability, including architects and engineers, healthcare, cyber, lawyers, technology, media and business services, directors and officers and employment practices risks.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The reporting segments do not cross-sell business to each other. There are no individual policyholders who comprise greater than 10% of the group's total gross premiums written.

b) Segment information

2017	**Marine $m**	**Political, accident & contingency[1] $m**	**Property $m**	**Reinsurance $m**	**Specialty lines $m**	**Total $m**
Segment results						
Gross premiums written	267.6	214.3	362.9	206.8	1,292.2	2,343.8
Net premiums written	233.2	190.8	300.0	134.6	1,120.2	1,978.8
Net earned premiums	227.9	188.7	293.8	136.9	1,022.1	1,869.4
Net investment income	12.7	6.7	14.1	9.4	95.4	138.3
Other income	3.2	3.6	7.3	3.7	17.7	35.5
Revenue	**243.8**	**199.0**	**315.2**	**150.0**	**1,135.2**	**2,043.2**
Net insurance claims	124.7	96.2	251.6	97.5	505.7	1,075.7
Expenses for the acquisition of insurance contracts	68.9	67.2	95.3	32.9	255.4	519.7
Administrative expenses	30.5	27.8	36.1	15.6	144.7	254.7
Foreign exchange loss	0.4	0.3	0.5	0.2	1.7	3.1
Expenses	**224.5**	**191.5**	**383.5**	**146.2**	**907.5**	**1,853.2**
Share of profit/(loss) of associates	-	0.4	-	-	(0.3)	0.1
Segment result	**19.3**	**7.9**	**(68.3)**	**3.8**	**227.4**	**190.1**
Finance costs						(22.1)
Profit before income tax						168.0
Income tax expense						(38.0)
Profit for the year attributable to equity shareholders						**130.0**
Claims ratio	55%	51%	86%	71%	50%	58%
Expense ratio	43%	50%	44%	36%	39%	41%
Combined ratio	98%	101%	130%	107%	89%	99%
Segment assets and liabilities						
Segment assets	694.1	448.9	841.7	665.4	4,908.6	7,558.7

Segment liabilities	(574.2)	(344.0)	(676.8)	(485.5)	(3,979.3)	(6,059.8)
Net assets	**119.9**	**104.9**	**164.9**	**179.9**	**929.3**	**1,498.9**
Additional information						
Investment in associates[2]	-	-	-	-	7.0	7.0
Impairment of non-financial assets	-	-	-	-	-	-
Capital expenditure	0.9	0.8	1.2	1.3	6.8	11.0
Increase in intangibles	-	-	-	-	34.4	34.4
Amortisation and depreciation	(2.1)	(0.4)	(0.7)	(0.7)	(10.4)	(14.3)
Net cash flow	(2.6)	(2.3)	(3.6)	(3.9)	(54.3)	(66.7)

[1] During 2017, the life, accident & health division and political risks & contingency division were combined to form the political, accident & contingency division. Comparative figures for 31 December 2016 have been re-presented to reflect this change in structure and allow comparability.

[2] In July 2017 the group sold its share in associate, Equinox Global Limited, to Nexus Underwriting Management Limited.

2016	**Marine $m**	**Political, accident & contingency $m**	**Property $m**	**Reinsurance $m**	**Specialty lines $m**	**Total $m**
Segment results						
Gross premiums written	247.4	245.3	329.7	213.4	1,159.8	2,195.6
Net premiums written	220.7	215.6	277.1	141.2	999.4	1,854.0
Net earned premiums	223.2	221.1	287.0	138.4	898.5	1,768.2
Net investment income	8.9	4.9	10.2	6.4	62.7	93.1
Other income	3.8	2.9	6.4	6.2	13.4	32.7
Revenue	**235.9**	**228.9**	**303.6**	**151.0**	**974.6**	**1,894.0**
Net insurance claims	98.9	99.7	115.3	40.2	501.5	855.6
Expenses for the acquisition of insurance contracts	65.9	67.1	88.8	34.7	216.0	472.5
Administrative expenses	35.5	33.4	46.6	14.5	117.8	247.8
Foreign exchange loss	1.1	1.1	1.4	0.7	5.2	9.5
Expenses	**201.4**	**201.3**	**252.1**	**90.1**	**840.5**	**1,585.4**
Share of loss of associates	-	-	-	-	(0.2)	(0.2)
Segment result	**34.5**	**27.6**	**51.5**	**60.9**	**133.9**	**308.4**
Finance costs						(15.2)
Profit before income tax						**293.2**
Income tax expense						(42.2)
Profit for the year attributable to equity shareholders						**251.0**
Claims ratio	44%	45%	40%	29%	56%	48%
Expense ratio	46%	46%	47%	36%	37%	41%
Combined ratio	90%	91%	87%	65%	93%	89%
Segment assets and liabilities						
Segment assets	610.5	455.0	773.5	595.4	4,574.1	7,008.5

Segment liabilities	(491.8)	(351.1)	(610.3)	(417.4)	(3,654.2)	(5,524.8)
Net assets	**118.7**	**103.9**	**163.2**	**178.0**	**919.9**	**1,483.7**
Additional information						
Investment in associates	-	2.6	-	-	7.3	9.9
Impairment of non-financial assets	-	-	-	-	-	-
Capital expenditure	1.2	0.7	1.3	0.8	3.2	7.2
Increase in intangibles	8.0	-	-	-	-	8.0
Amortisation and depreciation	(1.2)	(0.7)	(1.3)	(0.8)	(3.1)	(7.1)
Net cash flow	(46.3)	(20.6)	(25.5)	(18.9)	(58.4)	(169.7)

c) Information about geographical areas
The group's operating segments are also managed geographically by placement of risk. UK earned premium in the analysis below represents all risks placed at Lloyd's and US earned premium represents all risks placed at the group's US insurance company, Beazley Insurance Company, Inc.

	2017 $m	2016 $m
Net earned premiums		
UK (Lloyd's)	1,807.8	1,697.5
US (Non-Lloyd's)	61.6	70.7
	1,869.4	**1,768.2**

	2017 $m	2016 $m
Segment assets		
UK (Lloyd's)	7,207.3	6,657.3
US (Non-Lloyd's)	351.4	351.2
	7,558.7	**7,008.5**

Segment assets are allocated based on where the assets are located.

	2017 $m	2016 $m
Capital expenditure		
Non-US	10.2	5.1
US	0.8	2.1
	11.0	**7.2**

3 Net investment income

	2017 $m	2016 $m
Interest and dividends on financial investments at fair value through profit or loss	76.1	70.9
Interest on cash and cash equivalents	0.5	0.6
Net realised gain/(losses) on financial investments at fair value through profit or loss	23.1	(4.9)
Net unrealised fair value gains on financial investments at fair value through profit or loss	46.5	33.8
Investment income from financial investments	**146.2**	**100.4**
Investment management expenses	(7.9)	(7.3)
	138.3	**93.1**

4 Other income

	2017 $m	2016 $m
Commissions received by Beazley service companies	22.7	15.5
Profit commissions from syndicates 623/6107	8.0	14.9

Agency fees from 623	2.2	2.0
Other income[1]	2.6	0.3
	35.5	**32.7**

[1] In May 2017 the group sold its Australian accident and health business, previously included in PAC segment, to Blend Insurance Solutions PTY Limited, a Sydney-based Lloyd's service company. The current gain on the disposal of $0.4m is included in other income line of the consolidated statement of profit or loss. This figure represents the net of the amounts received from the transaction and an estimate of the most probable amount that is expected to be received in respect of contingent consideration.

5 Operating expenses

	2017 $m	2016 $m
Operating expenses include:		
Amounts receivable by the auditor and associates in respect of:		
- audit services for the group and subsidiaries	0.9	1.0
- audit-related assurance services	0.7	0.3
- taxation compliance services	0.1	-
- other assurance services	-	0.5
- other non-audit services	0.6	0.4
	2.3	2.2
Impairment loss recognised/(written back) on reinsurance assets	0.6	(1.1)
Operating leases	9.3	9.5

Other than the fees disclosed above, no other fees were paid to the company's auditor.

6 Employee benefit expenses

	2017 $m	2016 $m
Wages and salaries	142.4	134.6
Short term incentive payments	70.2	77.8
Social security	18.2	18.3
Share based remuneration	21.1	23.0
Pension costs[1]	10.9	9.2
	262.8	262.9
Recharged to syndicate 623	(39.4)	(38.5)
	223.4	**224.4**

[1] Pension costs refer to the contributions made under the defined contribution scheme.

7 Finance costs

	2017 $m	2016 $m
Interest expense	22.1	15.2
	22.1	**15.2**

8 Income tax expense

	2017 $m	2016 $m
Current tax expense		
Current year	35.4	37.1
Prior year adjustments	(0.6)	2.1
	34.8	39.2

Deferred tax expense		
Origination and reversal of temporary differences	(3.6)	2.1
Impact of change in UK/US tax rates	5.3	(0.8)
Prior year adjustments	1.5	1.7
	3.2	3.0
Income tax expense	**38.0**	**42.2**

Reconciliation of tax expense
The weighted average of statutory tax rates applied to the profits earned in each country in which the group operates is 18.7% (2016: 14.9%), whereas the tax charged for the year 31 December 2017 as a percentage of profit before tax is 22.6% (2016: 14.4%). The increases compared to 2016 were due to a higher weighted average statutory tax rate and a reduction of approximately $5m in deferred tax assets (see below):

	2017 $m	**2017 %**	**2016 $m**	**2016 %**
Profit before tax	**168.0**		**293.2**	
Tax calculated at the weighted average statutory tax rates	31.4	18.7	43.6	14.9
Effects of:				
- non-deductible expenses	0.9	0.5	1.8	0.6
- non-taxable gains on foreign exchange	(0.5)	(0.3)	(5.6)	(1.9)
- tax relief on share based payments - current and future years	-	-	(0.6)	(0.2)
- under provided in prior years	0.9	0.5	3.8	1.3
- change in UK/US tax rates[1]	5.3	3.2	(0.8)	(0.3)
Tax charge for the period	**38.0**	**22.6**	**42.2**	**14.4**

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

A change in the effective corporation tax in the US from 35% to 21% was substantively enacted in December 2017. This resulted in a $5m reduction to the carrying value of the group's US deferred tax asset at 31 December 2017.

The group has assessed the potential impact of the diverted profits tax (DPT) following the enactment of new legislation in April 2015 and is of the view that no liability arises. The ultimate outcome may differ and any profits that did fall within scope of DPT would potentially be taxed at a rate of 25% rather than 12.5% (the current rate of tax on corporate earnings in Ireland).

9 Earnings per share

	2017	**2016**
Basic (cents)	25.0c	48.6c
Diluted (cents)	24.4c	47.3c
Basic (pence)	19.5p	35.5p
Diluted (pence)	19.0p	34.5p

Basic
Basic earnings per share are calculated by dividing profit after tax of $130.0m (2016: $251.0m) by the weighted average number of shares in issue during the year of 520.5m (2016: 516.3m). The shares held in the Employee Share Options Plan (ESOP) of 3.8m (2016: 6.1m) have been excluded from the calculation, until such time as they vest unconditionally with the employees.

Diluted
Diluted earnings per share are calculated by dividing profit after tax of $130.0m (2016: $251.0m) by the adjusted weighted average number of shares of 533.6m (2016: 531.0m). The adjusted weighted average number of shares assumes conversion of dilutive potential ordinary shares, being shares from the SAYE, retention and deferred share schemes. The shares held in the ESOP of 3.8m (2016: 6.1m) have been excluded from the calculation, until such time as they vest unconditionally with the employees.

10 Dividends per share

A second interim dividend of 7.4p per ordinary share (2016: 7.0p) will be payable on 28 March 2018 to Beazley plc shareholders registered at 5.00pm on 2 March 2018 in respect of the six months ended 31 December 2017. No special dividend was declared in 2017 (2016: 10.0p). The company expects the total amount to be paid in respect of the second interim to be approximately £38.6m. These financial statements do not provide for the second interim dividend as a liability.

Together with the interim dividend of 3.7p (2016: 3.5p) this gives a total dividend for the year of 11.1p (2016: 20.5p).

The aforementioned interim dividend will be payable on 28 March 2018 to shareholders registered at 5.00pm on 2 March 2018.

11 Insurance liabilities and reinsurance assets

	2017 $m	2016 $m
Gross		
Claims reported and loss adjustment expenses	1,056.3	949.5
Claims incurred but not reported	2,852.3	2,567.4
Gross claims liabilities	3,908.6	3,516.9
Unearned premiums	1,259.2	1,140.8
Total insurance liabilities, gross	**5,167.8**	**4,657.7**
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	219.4	201.8
Claims incurred but not reported	773.8	652.1
Reinsurers' share of claims liabilities	993.2	853.9
Unearned premiums	237.9	228.2
Total reinsurers' share of insurance liabilities	**1,231.1**	**1,082.1**
Net		
Claims reported and loss adjustment expenses	836.9	747.7
Claims incurred but not reported	2,078.5	1,915.3
Net claims liabilities	2,915.4	2,663.0
Unearned premiums	1,021.3	912.6
Total insurance liabilities, net	**3,936.7**	**3,575.6**

The gross claims reported, the loss adjustment liabilities and the liabilities for claims incurred but not reported are net of recoveries from salvage and subrogation.

During the year the claims incurred but not reported (IBNR) estimate calculation was amended to bring our calculations in line with new guidance received from Lloyd's. This change in estimation has no impact to profit and loss and a movement on the statement of financial position of $45.9m between insurance receivables and technical provisions, and $5.0m between insurance liabilities and reinsurance assets.

11.1 Movements in insurance liabilities and reinsurance assets

a) Claims and loss adjustment expenses

	2017			**2016**		
	Gross $m	**Reinsurance $m**	**Net $m**	**Gross $m**	**Reinsurance $m**	**Net $m**
Claims reported and loss adjustment expenses	949.5	(201.8)	747.7	937.5	(210.3)	727.2
Claims incurred but not reported	2,567.4	(652.1)	1,915.3	2,588.4	(658.1)	1,930.3
Balance at 1 January	3,516.9	(853.9)	2,663.0	3,525.9	(868.4)	2,657.5
Claims paid	(1,028.2)	179.1	(849.1)	(989.5)	177.5	(812.0)
Increase in claims						

- Arising from current year claims	1,737.4	(457.8)	1,279.6	1,314.0	(277.7)	1,036.3
- Arising from prior year claims	(349.4)	145.5	(203.9)	(286.4)	105.7	(180.7)
Net exchange differences	31.9	(6.1)	25.8	(47.1)	9.0	(38.1)
Balance at 31 December	**3,908.6**	**(993.2)**	**2,915.4**	**3,516.9**	**(853.9)**	**2,663.0**
Claims reported and loss adjustment expenses	1,056.3	(219.4)	836.9	949.5	(201.8)	747.7
Claims incurred but not reported	2,852.3	(773.8)	2,078.5	2,567.4	(652.1)	1,915.3
Balance at 31 December	**3,908.6**	**(993.2)**	**2,915.4**	**3,516.9**	**(853.9)**	**2,663.0**

b) Unearned premiums reserve

		2017			**2016**	
	Gross $m	**Reinsurance $m**	**Net $m**	**Gross $m**	**Reinsurance $m**	**Net $m**
Balance at 1 January	1,140.8	(228.2)	912.6	1,060.8	(231.3)	829.5
Increase in the year	2,343.8	(375.4)	1,968.4	2,195.6	(348.5)	1,847.1
Release in the year	(2,225.4)	365.7	(1,859.7)	(2,115.6)	351.6	(1,764.0)
Balance at 31 December	**1,259.2**	**(237.9)**	**1,021.3**	**1,140.8**	**(228.2)**	**912.6**

11.2 Assumptions, changes in assumptions and claims reserve strength analysis
a) Process used to decide on assumptions

The peer review reserving process
Beazley uses a quarterly dual track process to set its reserves:

- the actuarial team uses several actuarial and statistical methods to estimate the ultimate premium and claims costs, with the most appropriate methods selected depending on the nature of each class of business; and
- the underwriting teams concurrently review the development of the incurred loss ratio over time, work with our claims managers to set reserve estimates for identified claims and utilise their detailed understanding of both risks underwritten and the nature of the claims to establish an alternative estimate of ultimate claims cost, which is compared to the actuarially established figures.

A formal internal peer review process is then undertaken to determine the reserves held for accounting purposes which, in totality, are not lower than the actuarially established figure. The group also commissions an annual independent review to ensure that the reserves established are reasonable or within a reasonable range.

The group has a consistent reserving philosophy, with initial reserves being set to include risk margins which may be released over time as uncertainty reduces.

Actuarial assumptions
Chain-ladder techniques are applied to premiums, paid claims and incurred claims (i.e. paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on historical patterns. The selected development factors are then applied to cumulative claims data for each underwriting year that is not yet fully developed to produce an estimated ultimate claims cost for each underwriting year.

Chain-ladder techniques are most appropriate for classes of business that have a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business or for underwriting years that are still at immature stages of development where there is a higher level of assumption volatility.

The Bornhuetter-Ferguson method uses a combination of a benchmark/market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims observed to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used in situations where developed claims experience was not available for the projection (e.g. recent underwriting years or new classes of business).

The expected loss ratio method uses a benchmark/market-based estimate applied to the expected premium and is used for classes with little or no relevant historical data.

The choice of selected results for each underwriting year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been

selected for individual underwriting years or groups of underwriting years within the same class of business. As such, there are many assumptions used to estimate general insurance liabilities.

We also review triangulations of the paid/outstanding claim ratios as a way of monitoring any changes in the strength of the outstanding claim estimates between underwriting years so that adjustments can be made to mitigate any subsequent over/(under)reserving. To date, this analysis indicates no systematic change to the outstanding claim strength across underwriting years.

Where significant large losses impact an underwriting year (e.g. the events of 11 September 2001, the hurricanes in 2004, 2005, 2008, 2012 and 2017 or the earthquakes in 2010, 2011 and 2017), the development is usually very different from the attritional losses. In these situations, the large loss total is extracted from the remainder of the data and analysed separately by the respective claims managers using exposure analysis of the policies in force in the areas affected.

Further assumptions are required to convert gross of reinsurance estimates of ultimate claims cost to a net of reinsurance level and to establish reserves for unallocated claims handling expenses and reinsurance bad debt.

b) Major assumptions
The main assumption underlying these techniques is that the group's past claims development experience (with appropriate adjustments for known changes) can be used to project future claims development and hence ultimate claims costs. As such these methods extrapolate the development of premiums, paid and incurred losses, average costs per claim and claim numbers for each underwriting year based on the observed development of earlier years.

Throughout, judgement is used to assess the extent to which past trends may or may not apply in the future; for example, to reflect changes in external or market factors such as economic conditions, public attitudes to claiming, levels of claims inflation, premium rate changes, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

c) Changes in assumptions
As already discussed, general insurance business requires many different assumptions.

Given the range of assumptions used, the group's profit or loss is relatively insensitive to changes to a particular assumption used for an underwriting year/class combination. However, the group's profit or loss is potentially more sensitive to a systematic change in assumptions that affect many classes, such as judicial changes or when catastrophes produce more claims than expected. The group uses a range of risk mitigation strategies to reduce the volatility including the purchase of reinsurance. In addition, the group holds capital to absorb volatility.

d) Claims reserve strength analysis
The estimation of IBNR reserves for future claim notifications is subject to a greater degree of uncertainty than the estimation of the outstanding claims already notified. This is particularly true for the specialty lines business, which will typically display greater variations between initial estimates and final outcomes as a result of the greater degree of difficulty in estimating these reserves. The estimation of IBNR reserves for other business written is generally subject to less variability as claims are generally reported and settled relatively quickly.

As such, our reserving assumptions contain a reasonable margin for prudence given the uncertainties inherent in the insurance business underwritten, particularly on the longer tailed specialty lines classes.

Since year end 2004, we have identified a range of possible outcomes for each class and underwriting year combination directly from our internal model (previously our individual capital assessment (ICA)) process. Comparing these with our pricing assumptions and reserving estimates gives our management team increased clarity into our perceived reserving strength and the relative uncertainties of the business written.

To illustrate the robustness of our reserves, the loss development tables below provide information about historical claims development by the five segments - marine, political, accident & contingency, property, reinsurance and specialty lines. The tables are by underwriting year which in our view provides the most transparent reserving basis. We have supplied tables for both ultimate gross claims and ultimate net claims.

The top part of the table illustrates how the group's estimate of the claims ratio for each underwriting year has changed at successive year ends. The bottom half of the table reconciles the gross and net claims to the amount appearing in the statement of financial position.

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of these financial statements are cautioned against extrapolating past redundancies or deficiencies on current claims liabilities. The group believes that the

estimate of total claims liabilities as at 31 December 2017 is adequate. However, due to inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Gross ultimate claims	**2007 ae %**	**2008 %**	**2009 %**	**2010 %**	**2011 %**	**2012 %**	**2013 %**	**2014 %**	**2015 %**	**2016 %**	**2017 %**
Marine											
12 months		69.3	54.5	50.5	54.7	55.9	56.6	57.6	56.7	59.5	68.0
24 months		65.5	51.0	49.7	47.4	46.3	52.0	46.9	54.0	70.2	
36 months		59.3	44.3	44.0	39.1	34.7	44.5	47.2	47.4		
48 months		63.2	40.7	42.3	33.8	32.1	42.8	46.7			
60 months		62.8	40.5	40.4	35.4	31.4	42.2				
72 months		59.1	48.8	40.2	31.8	30.6					
84 months		55.4	47.9	42.2	31.0						
96 months		54.7	49.2	40.8							
108 months		51.8	49.1								
120 months		58.5									
Political, accident & contingency											
12 months		57.4	58.3	57.7	57.5	60.0	59.2	59.3	59.8	61.3	58.0
24 months		71.1	43.4	44.8	44.4	54.4	49.7	51.2	58.8	54.3	
36 months		75.3	38.1	39.0	44.3	51.4	45.2	46.9	56.9		
48 months		88.9	33.9	32.6	39.5	49.1	44.3	50.2			
60 months		73.5	29.5	31.6	37.8	46.0	46.3				
72 months		62.3	25.1	30.4	35.7	45.3					
84 months		58.9	25.3	29.5	35.2						
96 months		59.6	25.3	29.7							
108 months		58.7	25.5								
120 months		57.9									
Property											
12 months		70.6	53.7	57.9	58.4	55.5	55.2	53.2	55.0	59.0	72.4
24 months		65.3	41.7	60.6	50.6	47.6	49.2	47.8	49.1	68.5	
36 months		64.3	36.5	58.6	48.1	39.9	45.8	41.4	46.0		
48 months		62.2	35.4	55.9	46.3	36.8	45.8	40.7			
60 months		60.6	34.3	53.2	45.4	36.2	45.7				
72 months		59.5	33.4	52.2	44.2	35.7					
84 months		58.4	32.8	51.3	43.7						
96 months		57.8	32.3	51.1							
108 months		57.5	32.2								
120 months		57.3									
Reinsurance											
12 months		59.8	60.8	68.1	78.8	62.9	59.4	61.4	65.8	67.9	123.1
24 months		53.8	48.1	142.6	77.7	37.3	45.6	33.5	33.7	41.7	
36 months		44.3	40.1	129.6	69.9	31.9	43.0	30.9	25.7		
48 months		40.9	39.5	122.1	66.1	31.0	41.7	27.7			
60 months		40.5	35.3	125.7	63.3	31.0	38.7				
72 months		40.7	32.5	124.4	63.1	30.8					
84 months		39.9	31.9	124.5	58.3						
96 months		39.6	31.9	123.5							
108 months		39.5	31.7								
120 months		39.5									
Specialty lines											

12 months		72.1	72.5	73.8	75.5	73.9	73.4	68.5	67.4	65.4	63.3	
24 months		71.9	72.5	73.8	75.5	74.0	73.2	68.4	67.8	65.2		
36 months		71.8	71.6	72.9	76.5	72.1	72.9	65.0	64.7			
48 months		72.0	71.3	73.3	75.5	70.2	69.3	63.4				
60 months		71.5	71.6	69.5	74.2	67.4	65.4					
72 months		71.8	68.6	69.6	69.4	65.8						
84 months		70.1	69.7	69.3	68.2							
96 months		73.5	70.3	66.2								
108 months		72.9	69.1									
120 months		72.8										
Total												
12 months		69.1	62.9	64.5	67.2	64.6	63.9	62.2	62.7	63.4	70.5	
24 months		68.0	57.0	71.6	62.8	58.2	59.3	55.8	58.4	62.9		
36 months		66.4	53.2	67.6	60.5	53.2	56.5	52.5	54.5			
48 months		67.7	51.7	65.5	57.9	51.0	54.5	51.5				
60 months		65.7	50.8	63.3	57.0	49.2	52.5					
72 months		64.1	49.8	62.9	53.9	48.1						
84 months		62.1	50.0	62.8	52.6							
96 months		63.5	50.4	61.1								
108 months		62.6	49.8									
120 months		63.6										
Estimated total ultimate losses ($m)	5,464.6	1,201.0	1,053.9	1,277.4	1,015.2	943.5	1,142.6	1,197.0	1,371.5	1,597.5	2,011.1	18,275.3
Less paid claims ($m)	(5,230.6)	(1,036.6)	(864.7)	(1,158.2)	(881.1)	(783.1)	(844.6)	(768.4)	(586.7)	(421.7)	(154.1)	(12,729.8)
Less unearned portion of ultimate losses ($m)	-	-	-	-	-	-	-	-	-	(29.4)	(853.6)	(883.0)
Gross claims liabilities (100% level) ($m)	**234.0**	**164.4**	**189.2**	**119.2**	**134.1**	**160.4**	**298.0**	**428.6**	**784.8**	**1,146.4**	**1,003.4**	**4,662.5**
Less non-group share ($m)	(45.1)	(23.5)	(29.0)	(22.9)	(26.5)	(35.6)	(49.9)	(67.1)	(120.9)	(173.1)	(160.3)	(753.9)
Gross claims liabilities, group share ($m)	**188.9**	**140.9**	**160.2**	**96.3**	**107.6**	**124.8**	**248.1**	**361.5**	**663.9**	**973.3**	**843.1**	**3,908.6**

Net ultimate claims	**2007 ae %**	**2008 %**	**2009 %**	**2010 %**	**2011 %**	**2012 %**	**2013 %**	**2014 %**	**2015 %**	**2016 %**	**2017 %**
Marine											
12 months		61.3	53.4	52.1	55.6	55.4	56.2	56.5	56.7	56.7	57.6
24 months		56.9	47.7	49.2	47.6	46.0	53.2	48.6	52.5	62.5	
36 months		50.6	38.9	44.7	38.7	37.4	47.6	46.6	47.2		
48 months		47.4	35.2	42.6	34.5	35.0	46.0	45.7			
60 months		46.9	34.9	41.1	35.6	33.9	45.4				
72 months		46.3	38.6	40.2	32.3	33.2					
84 months		45.1	37.9	42.4	31.4						
96 months		44.6	37.2	40.8							
108 months		45.0	37.0								
120 months		48.1									
Political, accident & contingency											
12 months		55.8	56.3	54.4	54.9	58.6	58.7	57.0	57.5	60.2	56.9
24 months		78.9	41.4	43.7	45.0	52.4	51.2	49.8	56.1	53.2	
36 months		78.1	36.6	39.6	45.5	49.9	47.7	44.9	55.1		
48 months		81.3	33.8	33.4	42.3	46.9	45.1	49.8			
60 months		70.5	29.8	32.5	40.3	43.8	45.6				

72 months	59.8	26.3	31.3	38.2	42.9					
84 months	56.2	26.4	29.8	37.7						
96 months	56.6	26.4	30.4							
108 months	56.2	26.6								
120 months	55.4									
Property										
12 months	67.0	53.4	58.8	60.3	58.6	56.7	54.5	55.0	57.7	76.3
24 months	66.8	47.5	65.2	57.7	53.0	56.3	51.2	50.3	69.6	
36 months	64.7	43.9	65.8	53.7	46.0	52.3	44.3	46.9		
48 months	63.6	41.7	59.8	50.4	41.3	50.2	42.9			
60 months	62.5	41.1	57.7	49.1	40.7	49.9				
72 months	61.1	39.8	56.7	48.0	40.2					
84 months	60.4	39.3	56.2	47.7						
96 months	59.4	39.0	55.9							
108 months	59.2	38.9								
120 months	59.0									
Reinsurance										
12 months	68.4	55.5	76.8	89.3	67.0	57.4	58.7	61.4	61.2	105.7
24 months	60.6	52.7	126.8	87.9	45.1	52.2	37.2	34.1	38.9	
36 months	50.5	46.9	117.6	80.5	38.8	48.7	33.4	24.2		
48 months	48.3	46.1	111.7	74.9	37.4	47.4	30.6			
60 months	47.7	41.3	120.8	72.7	37.4	43.8				
72 months	48.0	38.0	115.9	72.6	37.0					
84 months	46.8	37.2	116.0	67.3						
96 months	46.5	37.2	115.4							
108 months	46.5	37.0								
120 months	46.5									
Specialty lines										
12 months	70.1	69.6	71.0	72.5	71.1	69.5	66.0	63.6	63.0	61.6
24 months	70.0	69.4	71.1	72.5	70.6	69.0	66.0	63.9	62.8	
36 months	69.9	68.8	70.5	71.8	68.7	68.5	63.6	60.8		
48 months	68.6	65.8	69.5	69.6	65.8	63.6	60.3			
60 months	67.9	65.8	68.9	70.2	63.9	59.7				
72 months	67.8	64.9	69.0	68.9	63.2					
84 months	67.8	65.5	68.8	67.9						
96 months	70.0	65.5	66.4							
108 months	69.8	64.7								
120 months	69.1									
Total										
12 months	66.7	60.6	64.2	67.0	64.0	62.3	60.6	60.1	60.9	66.2
24 months	67.0	56.5	68.6	63.6	58.3	60.2	56.0	56.5	61.0	
36 months	64.5	52.9	66.3	60.2	53.7	57.4	52.5	52.8		
48 months	63.4	50.4	63.2	57.1	50.7	54.3	50.9			
60 months	61.8	49.4	63.1	56.8	49.3	52.2				
72 months	60.6	48.7	62.1	55.2	48.6					
84 months	59.8	48.6	62.1	54.0						
96 months	60.6	48.4	60.8							
108 months	60.5	48.0								
120 months	60.6									

Estimated total ultimate losses ($m)	3,620.3	936.5	780.1	1,045.8	862.0	827.3	963.4	1,000.3	1,094.7	1,295.6	1,599.2	14,025.2
Less paid claims ($m)	(3,468.2)	(831.6)	(678.8)	(947.6)	(749.3)	(682.8)	(723.4)	(661.0)	(505.0)	(388.3)	(132.6)	(9,768.6)
Less unearned portion of ultimate losses ($m)	-	-	-	-	-	-	-	-	-	(24.1)	(758.9)	(783.0)
Net claims liabilities (100% level) ($m)	**152.1**	**104.9**	**101.3**	**98.2**	**112.7**	**144.5**	**240.0**	**339.3**	**589.7**	**883.2**	**707.7**	**3,473.6**
Less non-group share ($m)	(28.7)	(16.0)	(16.8)	(18.7)	(20.8)	(27.5)	(39.9)	(53.8)	(91.5)	(132.5)	(112.0)	(558.2)
Net claims liabilities, group share ($m)	**123.4**	**88.9**	**84.5**	**79.5**	**91.9**	**117.0**	**200.1**	**285.5**	**498.2**	**750.7**	**595.7**	**2,915.4**

Analysis of movements in loss development tables
We have updated our loss development tables to show the ultimate loss ratios as at 31 December 2017 for each underwriting year.

Marine
There was deterioration in the energy book in 2008 in respect of a specific claim. The 2009 to 2015 underwriting years have delivered releases, but at lower levels than in recent years due to an increase in claim activity. The recent catastrophe events have led to the deterioration of the 2016 underwriting year, and resulted in the 2017 underwriting year opening higher than previous years.

Political, accident & contingency
The increases on the 2013 and 2014 underwriting years follow deterioration on specific underlying claims within the political book. This has been offset by reductions on the 2015 and 2016 underwriting years, mainly from the terrorism account.

The 2017 underwriting year has opened lower than 2016, where the life, accident & health book has reduced exposure to underperforming accounts.

Property
The 2015 and prior years have delivered releases, but at lower levels than in recent years due to an increase in claim activity. There was deterioration in the property book in 2016, where claims experience was worse than anticipated. The 2017 underwriting year has opened higher than previous years reflecting the impact of the recent catastrophe events.

Reinsurance
The 2016 and prior underwriting years have seen material releases driven by reductions in reserves for catastrophe claims and the release of catastrophe margins. The 2017 underwriting year has opened higher than previous years reflecting the impact of the recent catastrophe events.

Specialty lines
Strong reserve releases on prior years from the traditional specialty lines business have been supplemented by releases from the 2014 and 2015 underwriting years of the cyber business, where the risk has expired.

The 2017 underwriting year has opened lower than previous years, reflecting the improved experience emerging within the more recent underwriting years, particularly on the cyber book.

Claim releases
The table below analyses our net claims between current year claims and adjustments to prior year net claims reserves. These have been broken down by segment and underwriting year. Beazley's reserving policy is to maintain catastrophe reserve margins either until the end of the exposure period or until catastrophe events occur. Therefore margins have been released from prior year reserves where risks have expired during 2017.

The net of reinsurance estimates of ultimate claims costs on the 2016 and prior underwriting years have improved to $203.9m during 2017 (2016: $180.7m). This movement arose from a combination of better than expected claims experience coupled with small changes to the many assumptions resulting from the observed experience.

The movements shown on 2014 and earlier are absolute claim movements and are not impacted by any current year movements in premium on those underwriting years.

2017	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	135.4	100.1	264.8	152.2	627.1	1,279.6
Prior year						
- 2014 underwriting year and earlier	(5.8)	5.8	(6.3)	(16.1)	(91.1)	(113.5)
- 2015 underwriting year	(9.3)	(3.5)	(9.1)	(12.6)	(30.5)	(65.0)

- 2016 underwriting year	4.4	(6.2)	2.2	(26.0)	0.2	(25.4)
	(10.7)	(3.9)	(13.2)	(54.7)	(121.4)	(203.9)
Net insurance claims	**124.7**	**96.2**	**251.6**	**97.5**	**505.7**	**1,075.7**

2016	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	114.8	127.0	152.0	72.5	570.0	1,036.3
Prior year						
- 2013 underwriting year and earlier	(7.0)	(17.7)	(11.6)	-	(52.0)	(88.3)
- 2014 underwriting year	(4.1)	(9.0)	(18.4)	(4.2)	(17.0)	(52.7)
- 2015 underwriting year	(4.8)	(0.5)	(6.8)	(28.1)	0.5	(39.7)
	(15.9)	(27.2)	(36.8)	(32.3)	(68.5)	(180.7)
Net insurance claims	**98.9**	**99.8**	**115.2**	**40.2**	**501.5**	**855.6**

12 Subsequent events
There are no other events that are material to the operations of the group that have occurred since the reporting date.

13 Business combinations
Acquisition of business portfolio
In January 2017 Beazley Furlonge Holdings Limited, an intermediate holding company within the group, set up a direct 100% subsidiary, 1104980 BC Limited, in Canada. The principal activity of 1104980 BC Limited was to act as an intermediate holding company within the group. This subsidiary acquired 100% of the share capital of a Canadian coverholder, Creechurch International Underwriters Limited (now Beazley Canada Limited), on 3 February 2017. In June 2017 1104980 BC Limited and Beazley Canada Limited amalgamated under the name of Beazley Canada Limited.

The acquisition secured a strategic platform for specialty lines and Beazley's expansion in Canada. It also allowed us to write more business through increased line size and launching new specialist products through the acquiree's distribution channels. The acquisition was achieved in one stage. The total amount of consideration paid was $33.8m. Total amount of consideration represents cash and no contingent consideration was offered. No material costs related to the acquisition were incurred by the group.

The acquisition had the following effect on the group's assets and liabilities:

Net assets acquired	Carrying value at acquisition $m	Fair value adjustment $m	Fair value on completion $m
Intangible assets - renewal rights	-	34.4	34.4
Fixed assets	0.1	-	0.1
Cash and cash equivalents	2.6	-	2.6
Other receivables	0.3	-	0.3
Other payables	(1.0)	-	(1.0)
Deferred tax liability	-	(2.6)	(2.6)
Estimated value of net assets acquired	**2.0**	**31.8**	**33.8**
Intangible assets - goodwill			-
Consideration paid			**33.8**

As per the recognition principle, we have identified separate intangible assets. These intangibles meet the separability criterion and represent renewal rights which comprise future profits relating to insurance contracts acquired and the expected renewal of those contracts. The fair value of renewal rights of $31.8m was derived from the profits (net of tax) expected to be earned from these contracts over a 5 year period, discounted using a weighted average cost of capital of 10.4%. Renewal rights are being amortised over a 5 year period, starting from February 2017. A related deferred tax liability has been recognised. No further fair value adjustments were made in relation to other assets and liabilities acquired.

The effect of the acquisition on the group's revenue was $3.0m ($3.4m if the acquisition happened on 1 January 2017) and the effect on the group's consolidated statement of profit or loss in the current

period was a profit of $2.4m ($2.6m if the acquisition happened on 1 January 2017).

Glossary

Aggregates/aggregations
Accumulations of insurance loss exposures which result from underwriting multiple risks that are exposed to common causes of loss.

Aggregate excess of loss
The reinsurer indemnifies an insurance company (the reinsured) for an aggregate (or cumulative) amount of losses in excess of a specified aggregate amount.

Alternative performance measures (APMs)
The group uses APMs to help explain its financial performance and position. These measures, such as combined ratio, expense ratio, claims ratio and investment return, are not defined under IFRS. The group is of the view that the use of these measures enhances the usefulness of the financial statements. Definitions of key APMs are included within the glossary.

A.M. Best
A.M. Best is a worldwide insurance-rating and information agency whose ratings are recognised as an ideal benchmark for assessing the financial strength of insurance related organisations, following a rigorous quantitative and qualitative analysis of a company's statement of financial position strength, operating performance and business profile.

Binding authority
A contracted agreement between a managing agent and a coverholder under which the coverholder is authorised to enter into contracts of insurance for the account of the members of the syndicate concerned, subject to specified terms and conditions.

Capacity
This is the maximum amount of premiums that can be accepted by a syndicate. Capacity also refers to the amount of insurance coverage allocated to a particular policyholder or in the marketplace in general.

Capital growth assets
These are assets that do not pay a regular income and target an increase in value over the long term. They will typically have a higher risk and volatility than that of the core portfolio. Currently these are the hedge funds, equity funds and illiquid credit assets.

Catastrophe reinsurance
A form of excess of loss reinsurance which, subject to a specified limit, indemnifies the reinsured company for the amount of loss in excess of a specified retention with respect to an accumulation of losses resulting from a catastrophic event or series of events.

Claims
Demand by an insured for indemnity under an insurance contract.

Claims ratio
Ratio, in percentage terms, of net insurance claims to net earned premiums. The calculation is performed excluding
the impact of foreign exchange. In 2017, this ratio was 58% (2016: 48%). This represented total claims of $1,075.7m (2016: $855.6m) divided by net earned premiums of $1,869.4m (2016: $1,768.2m).

Combined ratio
Ratio, in percentage terms, of the sum of net insurance claims, expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. This is also the sum of the expense ratio and the claims ratio. The calculation is performed excluding the impact of foreign exchange. In 2017, this ratio was 99% (2016: 89%). This represents the sum of net insurance claims of $1,075.7m (2016: $855.6m), expenses for acquisition of insurance contracts of $519.7m (2016: $472.5m) and administrative expenses of $254.7m (2016: $247.8m) to net earned premiums of $1,869.4m (2016: $1,768.2m). This is also the sum of the expense ratio 41% (2016: 41%) and the claims ratio 58% (2016: 48%).

Coverholder
A firm either in the United Kingdom or overseas authorised by a managing agent under the terms of a binding authority to enter into contracts of insurance in the name of the members of the syndicate concerned, subject to certain written terms and conditions. A Lloyd's broker can act as a coverholder.

Deferred acquisition costs (DAC)
Costs incurred for the acquisition or the renewal of insurance policies (e.g. brokerage, premium levy and staff related
costs) which are capitalised and amortised over the term of the contracts.

Earnings per share (EPS) - basic/diluted
Ratio, in pence and cents, calculated by dividing the consolidated profit after tax by the weighted average number
of ordinary shares issued, excluding shares owned by the group. For calculating diluted earnings per share the number of shares and profit or loss for the year is adjusted for certain dilutive potential ordinary shares such as share options granted to employees.

Economic Capital Requirement (ECR)
The capital required by a syndicate's members to support their underwriting. Calculated as the uSCR 'uplifted' by 35% to ensure capital is in place to support Lloyd's ratings and financial strength.

Excess per risk reinsurance
A form of excess of loss reinsurance which, subject to a specified limit, indemnifies the reinsured company against the amount of loss in excess of a specified retention with respect to each risk involved in each loss.

Expense ratio
Ratio, in percentage terms, of the sum of expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. The calculation is performed excluding the impact of foreign exchange on non-monetary items. In 2017, the expense ratio was 41% (2016: 41%). This represents the sum of expenses for acquisition of insurance contracts of $519.7m (2016: $472.5m) and administrative expenses of $254.7m (2016: $247.8m) to earned premiums of $1,869.4m (2016: $1,768.2m).

Facultative reinsurance
A reinsurance risk that is placed by means of a separately negotiated contract as opposed to one that is ceded under
a reinsurance treaty.

Gross premiums written
Amounts payable by the insured, excluding any taxes or duties levied on the premium, including any brokerage and commission deducted by intermediaries.

Hard market
An insurance market where prevalent prices are high, with restrictive terms and conditions offered by insurers.

Horizontal limits
Reinsurance coverage limits for multiple events.

Incurred but not reported (IBNR)
These are anticipated or likely claims that may result from an insured event although no claims have been reported so far.

International Accounting Standards Board (IASB)
An independent accounting body responsible for developing IFRS (see below).

International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS)
Standards formulated by the IASB with the intention of achieving internationally comparable financial statements. Since 2002, the standards adopted by the IASB have been referred to as International Financial Reporting Standards (IFRS). Until existing standards are renamed, they continue to be referred to as International Accounting Standards (IAS).

Investment return
Ratio, in percentage terms, calculated by dividing the net investment income by the average financial assets at fair value, including cash. In 2017, this was calculated as net investment income of $138.3m (2016: $93.1m) divided by average financial assets at fair value, including cash, of $4,796.4m (2016: $4,610.9m).

Lead underwriter
The underwriter of a syndicate who is responsible for setting the terms of an insurance or reinsurance contract that is subscribed by more than one syndicate and who generally has primary responsibility for handling any claims arising under such a contract.

Line
The proportion of an insurance or reinsurance risk that is accepted by an underwriter or which an underwriter is willing to accept.

Managing agent
A company that is permitted by Lloyd's to manage the underwriting of a syndicate.

Managing general agent (MGA)
An insurance intermediary acting as an agent on behalf of an insurer.

Medium tail
A type of insurance where the claims may be made a few years after the period of insurance has expired.

Net assets per share
Ratio, in pence and cents, calculated by dividing the net assets (total equity) by the number of shares issued.

Net premiums written
Net premiums written is equal to gross premiums written less outward reinsurance premiums written.

Private enterprise
The private enterprise team offers specialised professional and general liability coverage supported by a high service proposition, focusing on meeting the needs of small businesses with assets up to $35.0m and up to 500 employees.

Provision for outstanding claims
Provision for claims that have already been incurred at the reporting date but have either not yet been reported or not yet been fully settled.

Rate
The premium expressed as a percentage of the sum insured or limit of indemnity.

Rate change
The percentage change in premium income we are charging relative to the level of risk on renewals.

Reinsurance special purpose syndicate
A special purpose syndicate (SPS) created to operate as a reinsurance 'sidecar' to Beazley's treaty account, capitalising on Beazley's position in the treaty reinsurance market.

Reinsurance to close (RITC)
A reinsurance which closes a year of account by transferring the responsibility for discharging all the liabilities that attach to that year of account (and any year of account closed into that year), plus the right to buy any income due to the closing year of account, into an open year of account in return for a premium.

Retention limits
Limits imposed upon underwriters for retention of exposures by the group after the application of reinsurance programmes.

Retrocessional reinsurance
The reinsurance of the reinsurance account. It serves to 'lay off' risk.

Return on equity (ROE)
Ratio, in percentage terms, calculated by dividing the consolidated profit after tax by the average daily total equity. In 2017, this was calculated as profit after tax of $130.0m (2016: $251.0m) divided by average equity of $1,429.5m (2016: $1,381.6m).

Risk
This term may refer to:
a) the possibility of some event occurring which causes injury or loss;
b) the subject matter of an insurance or reinsurance contract; or
c) an insured peril.

Short tail
A type of insurance where claims are usually made during the term of the policy or shortly after the policy has expired. Property insurance is an example of short tail business.

Sidecar special purpose syndicate
Specialty reinsurance company designed to provide additional capacity to a specific insurance company. It operates by purchasing a portion or all of a group of insurance policies, typically cat exposures. These companies have become quite prominent in the aftermath of Hurricane Katrina as a vehicle to add risk-bearing capacity, and for investors to participate in the potential profits resulting from sharp price increases.

Soft market
An insurance market where prevalent prices are low, and terms and conditions offered by insurers are less restrictive.

Solvency Capital Requirement on an ultimate basis (uSCR)
The capital requirement under Solvency II calculated by Beazley's internal model which captures the risk in respect
of the planned underwriting for the prospective year of account in full covering ultimate adverse development and all exposures.

Surplus lines insurer
An insurer that underwrites surplus lines insurance in the USA. Lloyd's underwriters are surplus lines insurers in all jurisdictions of the USA except Kentucky and the US Virgin Islands.

Total shareholder return (TSR)
The increase in the share price plus the value of any first and second dividends paid and proposed during the year.

Treaty reinsurance
A reinsurance contract under which the reinsurer agrees to offer and to accept all risks of certain size within a defined class.

Unearned premiums reserve
The portion of premium income in the business year that is attributable to periods after the reporting date in the underwriting provisions.

This information is provided by RNS
The company news service from the London Stock Exchange

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