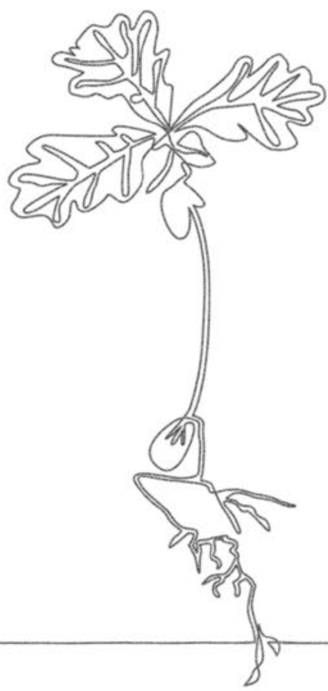
Sustaining growth

Contents

Sustaining growth

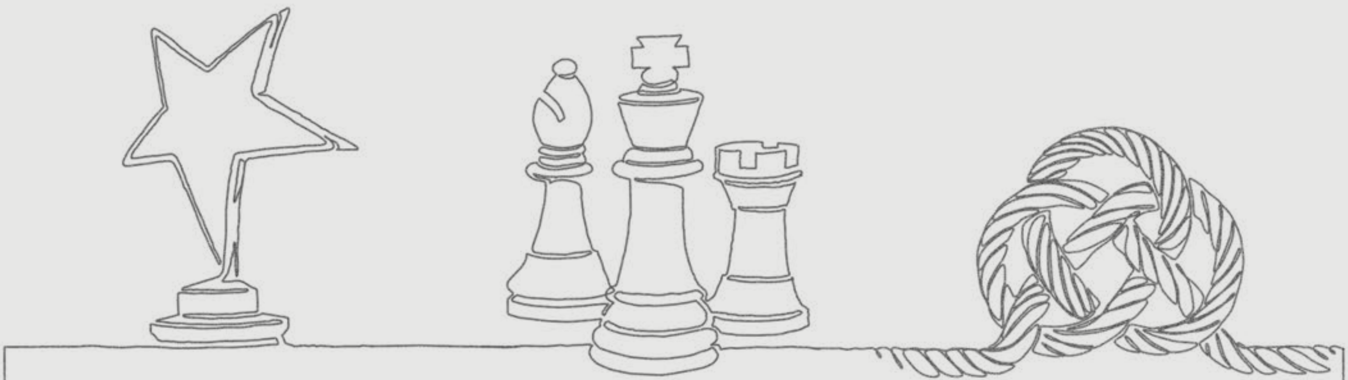
Beazley Ireland Holdings plc ('the company') is a holding company within the Beazley plc group. These accounts are for Beazley Ireland Holdings plc and its subsidiaries ('the group') only.

Sustaining growth requires sustained investment. Our strong premium growth in 2018 was the result of continuous investment in our people, technology and global office network over many years. This investment continues.



Our key differentiators

We create value through the implementation of three key differentiators – consistently applied and nurtured across our specialist insurance operations around the world



Entrepreneurial spirit

We look for individuals with a strong sense of ownership for the business they are engaged in, who are willing – indeed keen – to be accountable for their decisions

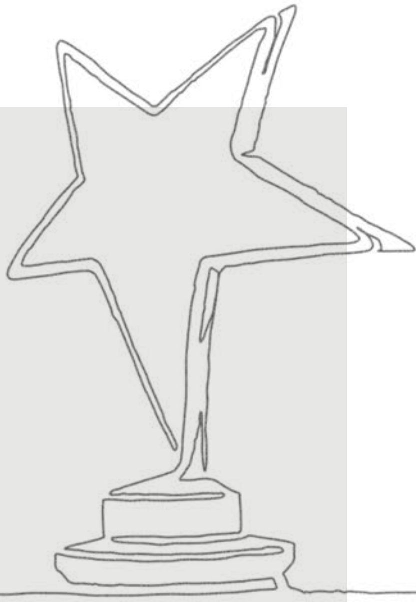
Strong partnerships

Strong long term relationships have sustained our business over more than three decades

Diversified business

We target a diverse underwriting portfolio and actively manage the different insurance cycles to achieve consistent results year on year

Our key differentiators *continued*



Entrepreneurial spirit

We look for individuals with a strong sense of ownership for the business they are engaged in, who are willing – indeed keen – to be accountable for their decisions

"We've built a billion dollar business in the US in 14 years, based on our ability to respond quickly and creatively to the challenges brokers and clients bring us. The growth opportunities open to us today are greater than ever."

Jennifer Englund
Head of US operations

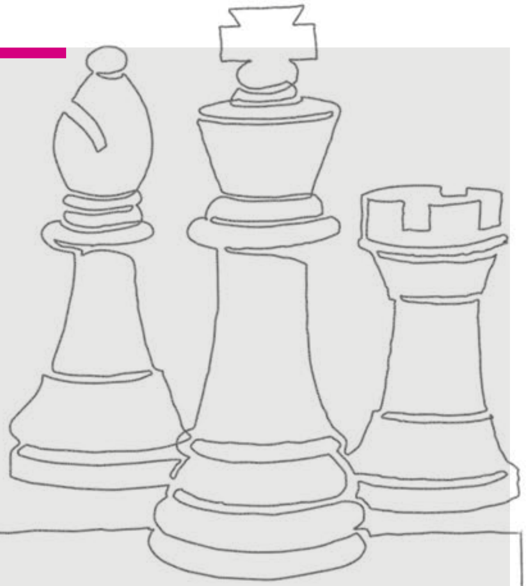
Since Beazley was founded in 1986, the group has relied on the zeal and commitment of people who want to build a business, not just do a job. For the first two decades, most of the individuals who embodied this spirit were underwriters who had deep knowledge of a particular line of business and a vision of how best to grow their book.

Highly motivated entrepreneurial underwriters are still crucial to the group's success. However in recent years other functions within the group, such as IT, operations and marketing, have been encouraged to take a similar broad view of the opportunities Beazley offers. Initiatives such as the launch of the world's first fully personalised digital insurance policy in 2018 owed their existence to multi-disciplinary teams of individuals from varied backgrounds working towards a common goal.

As the digital transformation of the group's operations gathers pace, driving internal efficiencies and enhancing the experience of brokers and clients, the capability of the group's employees to think and act like entrepreneurs will continue to be critical.

Strong partnerships

Strong long term relationships have sustained our business over more than three decades



Insurance is a highly collaborative business and much of the group's success is derived from the strength of its relationships with other participants in the market. Strong client relationships are of course crucial and the group's relationships with its clients frequently span many years in some cases, decades. However relationships with other insurers are also important, particularly within the London market.

In London, most business is transacted on a subscription basis, meaning that large risks are parcelled out among numerous Lloyd's syndicates and insurance companies. As a widely recognised lead underwriter for many of the classes of business in which we specialise, Beazley sets the price and terms and conditions for most of the business it writes.

On occasion a group of Lloyd's syndicates will come together to form a consortium, increasing the capacity limits they can offer. Such was the case in July 2018 when the group spearheaded the creation of a 'wage & hour' consortium at Lloyd's to protect US companies against claims made under the Fair Labor Standards Act. Limits up to $25m are thus available for the costs of defending and indemnifying US organisations that are alleged to have violated their obligations under this extremely complex legislation.

Lloyd's of London

The Lloyd's syndicates

The Lloyd's syndicates managed by the group compete vigorously with other syndicates, but they also collaborate with both Lloyd's syndicates and insurance companies to provide the underwriting capacity that clients need.

Our key differentiators *continued*

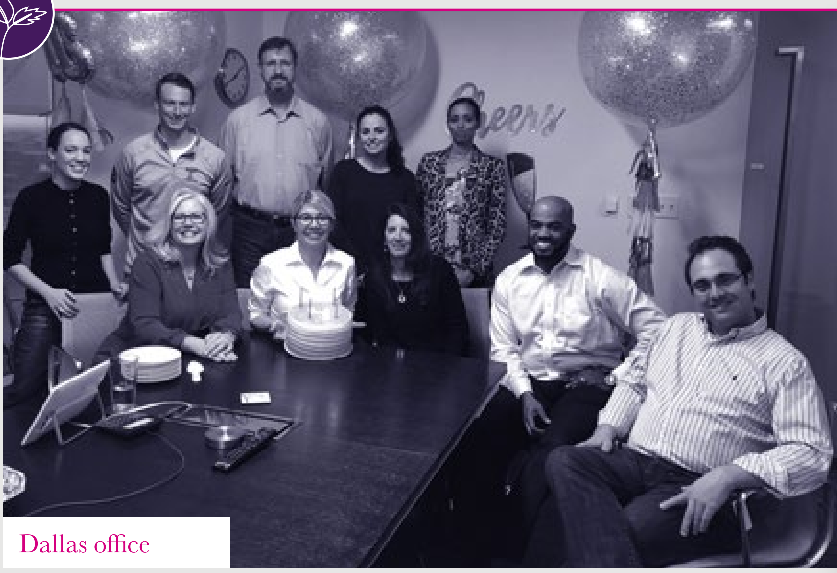
Diversified business

We target a diverse underwriting portfolio and actively manage the different insurance cycles to achieve consistent results year on year

For the second year in a row, natural catastrophe activity was relatively intense in 2018, testing the diversification of our underwriting portfolio. As it had in 2017, the portfolio – and the principles on which it was built – stood up well, generating a combined ratio of 98%.

Not all of the areas of diversification within the group's portfolio are obvious. For example, large risks and small risks in a particular line of business tend to perform quite differently as the supply and demand of insurance fluctuates. Large risks tend to be more volatile, with greater swings between the peaks and troughs of the insurance cycle, whereas small risks are generally more stable. A judicious mix of large and small business can thus help optimise an insurer's risk adjusted return.

It was with the goal of expanding Beazley's small and mid-sized business that the group established a local underwriting presence in the US market in 2005. The goal was to write business from smaller clients, who would not normally seek cover in the London market, but for the same lines of business for which Beazley was already well known. The strategy has paid off, securing access to significant growth opportunities while balancing the overall underwriting portfolio. The group's US underwriters wrote in excess of $1bn in gross premiums during 2018.

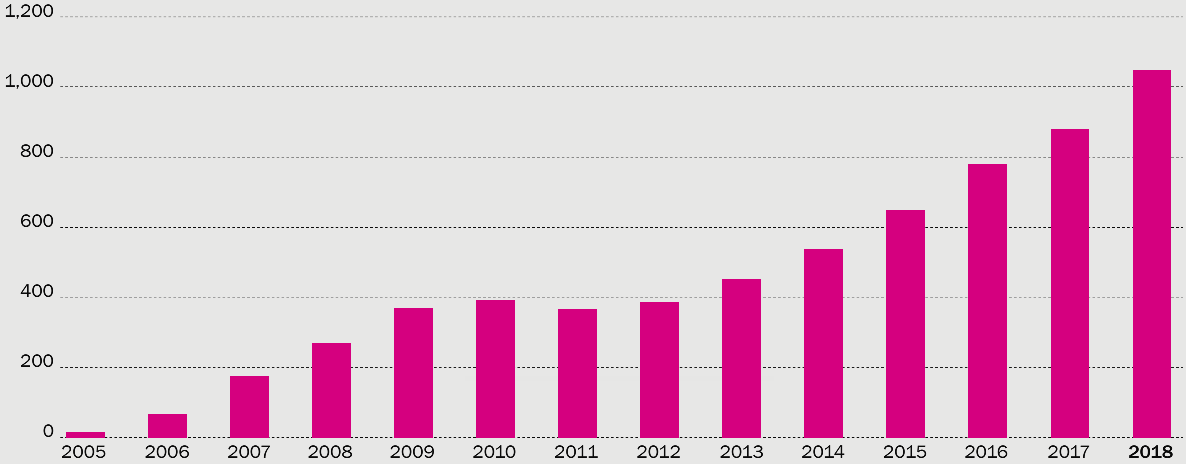


Dallas office

$1bn achievement

On 13 December, our US offices celebrated achieving our milestone of $1bn gross premiums written in the US. Since launching in 2005, our US business has grown from a single office to 589 employees across 13 locations. We maintain our A rated status, write over 27 product lines and continue to pursue our vision. In early 2019, we will celebrate this achievement and thank our brokers by hosting them at various events across the US. We are proud of this accomplishment and have already set our sights on our next milestone in the US.

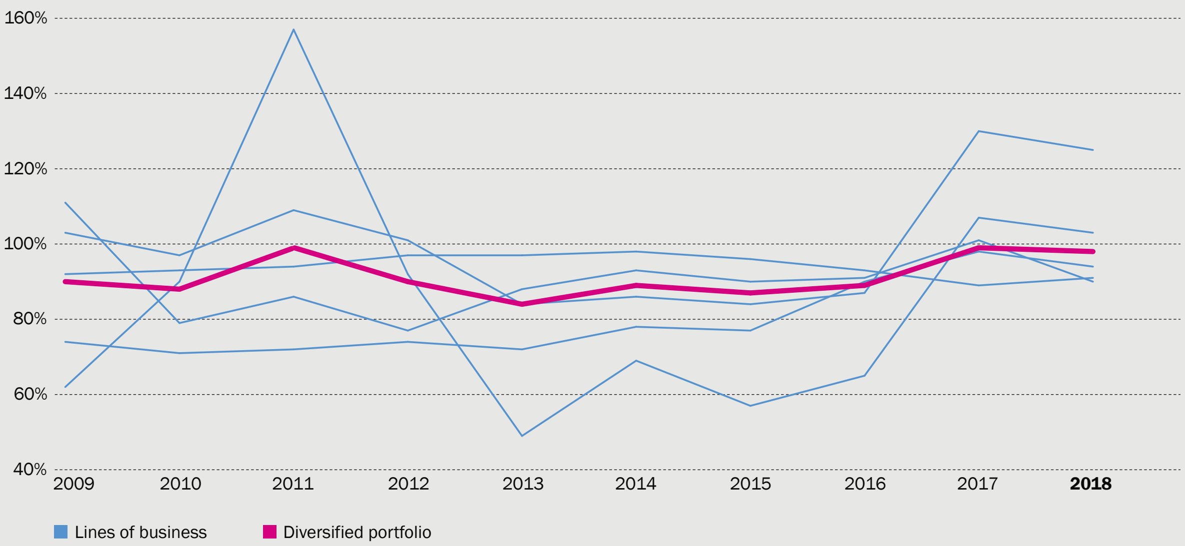
US managed gross premiums $m



Diversified portfolio

The spread of our overall portfolio by division and the impact this diversification has had on our combined ratio over the past nine years can be seen in the chart below.

Diversified portfolio achieves consistent combined ratio through market cycles



Our key differentiators *continued*

Diversified business

Growth of managed gross premiums by division $m

Marine

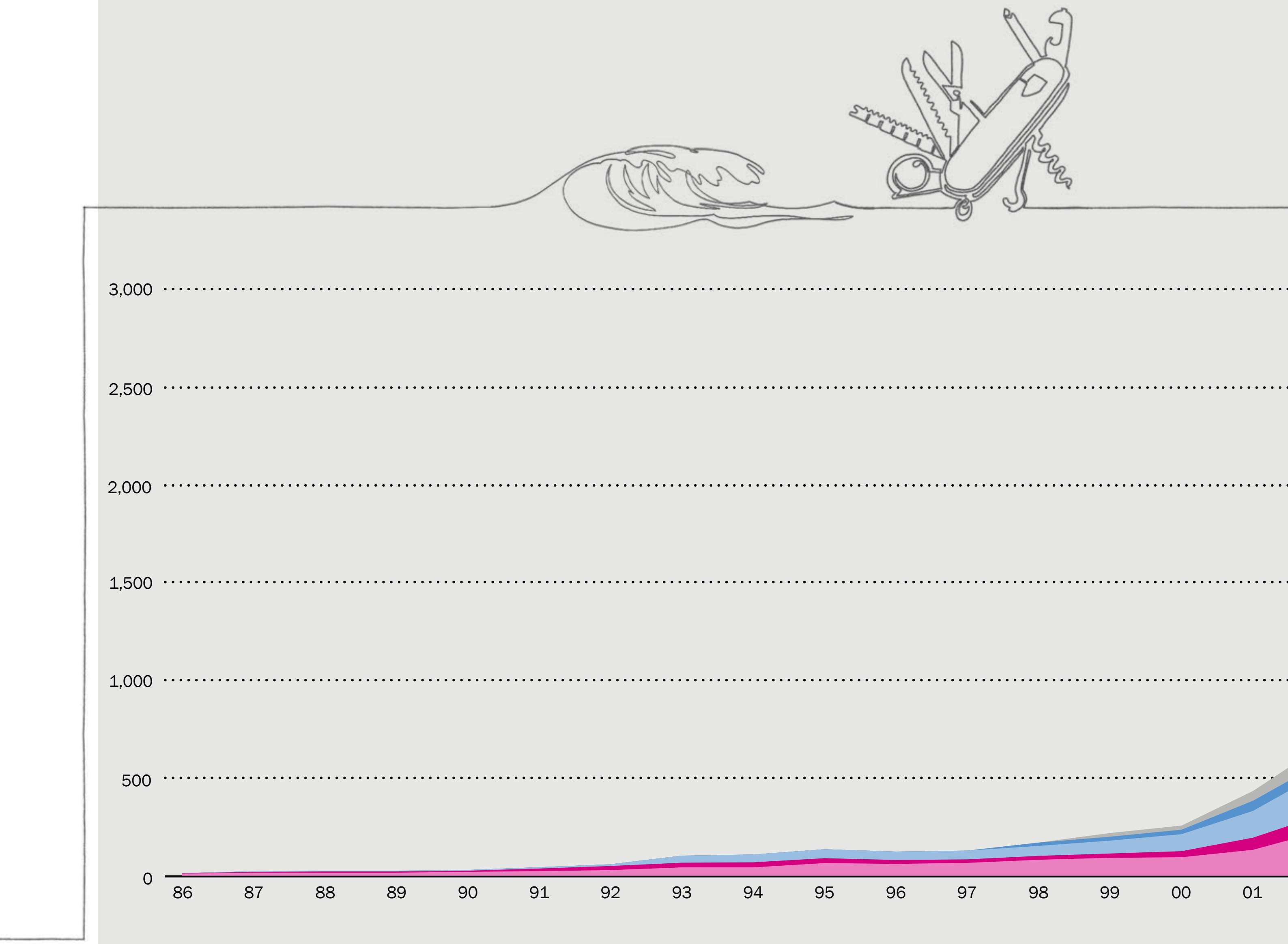
We help insure in excess of 20% of the world's ocean-going tonnage and are the pre-eminent leader of voyage and tow business in the London market. The energy team work with over 500 oil and gas companies, drilling contractors and service companies globally offering insurance solutions for these complex risks. We have extensive experience insuring a wide variety of cargoes including project cargo, fine art and specie.

Find out more on pages 18 to 19

Political, accident & contingency

In addition to traditional lines such as contract frustration, expropriation and credit, we insure a growing number of businesses against terrorism and political violence. Our personal accident product covers a number of niche classes and we have a growing account of US supplemental health business providing tailored benefit solutions to a wide range of employers.

Find out more on pages 20 to 21



Property

We've protected clients ranging from Fortune 1000 companies to homeowners through 25 years of natural and man-made catastrophes. We underwrite this business through five platforms: London, the US, Canada, Latin America and Singapore, with a business focus on commercial property risks, valuable assets and select homeowners' business.

Find out more on pages 22 to 23

Reinsurance

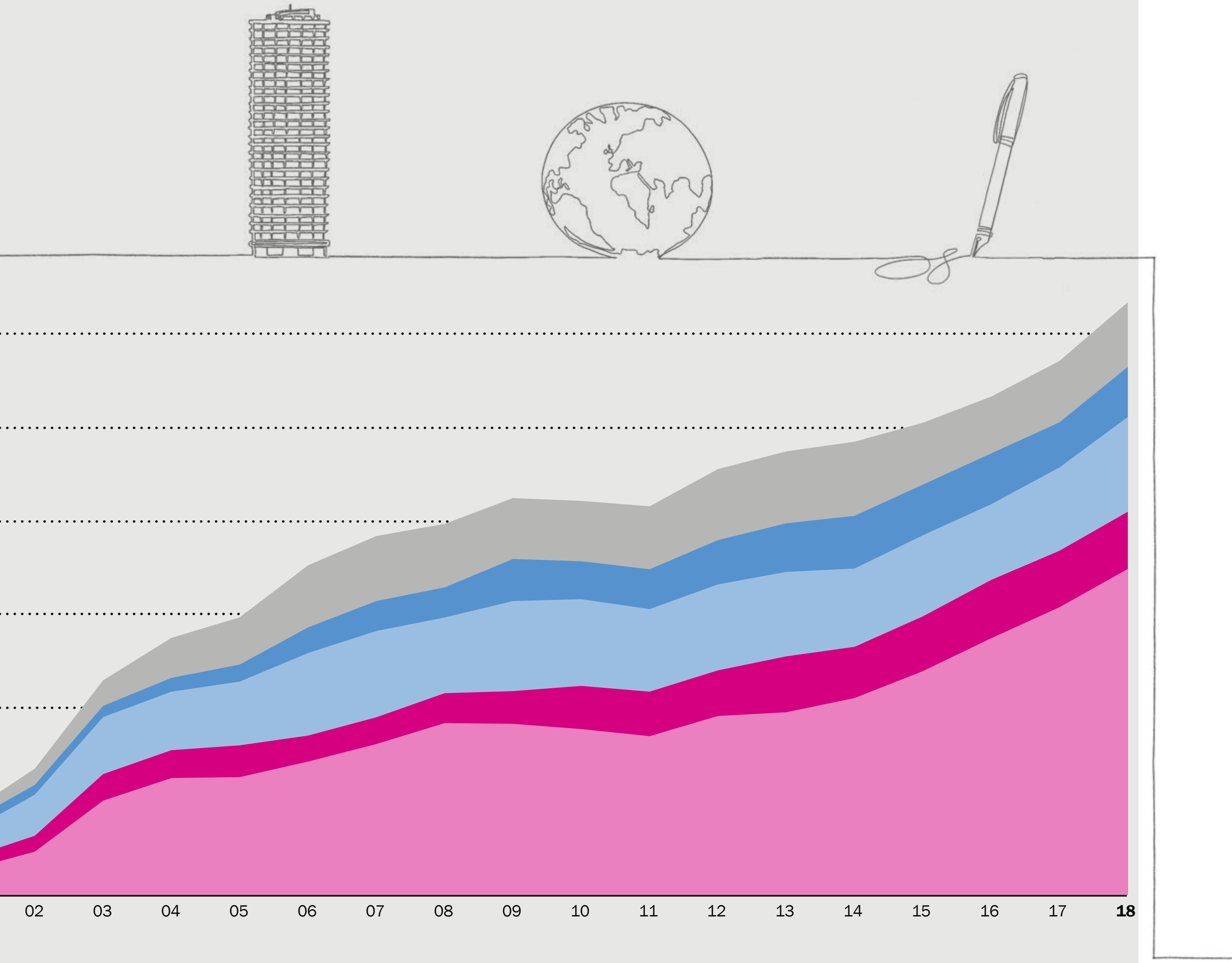
The reinsurance team specialises in writing worldwide property catastrophe, per risk, aggregate excess of loss and pro-rata business, and casualty clash. Approximately 80% of our top clients have reinsured with us for 20 years or more.

Find out more on pages 24 to 25

Specialty lines

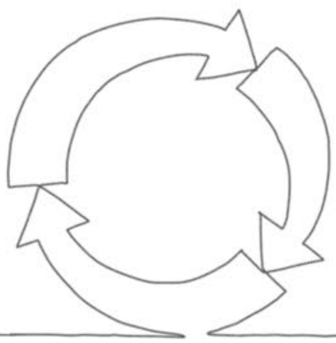
Specialty lines comprises management liability and professional liability risks, including cyber liability, underwritten for clients on both a primary and excess basis worldwide. Our clients are served both by our underwriters at Lloyd's and by our local underwriters in hubs around the world.

Find out more on pages 26 to 27



Our business model and strategy

Beazley's vision is to become, and be recognised as, the highest performing specialist insurer. The group's business model, strategy, and approach to risk management are geared to the achievement of this vision, as well as to creating value for our stakeholders



Our business model

Reconfirmed annually through the business planning process, our business model is as follows:

- We are a specialist insurer. We have a targeted product set, largely in commercial lines of business, and underwrite each risk on its own merits;
- We employ highly skilled, experienced and specialist underwriters and claims managers;
- We tend to write capped liabilities;
- We operate through specific insurance hubs rather than seeking a local presence in every country in which we do business; and
- We primarily transact business through brokers and work with selected managing general agencies and managing general underwriters to improve distribution in specialist niches.

Our strategy

Our strategy is directed towards the achievement of our vision, which is to become, and be recognised as, the highest performing specialist insurer. To this end, our strategy comprises:

- Prudent capital allocation to achieve a well diversified portfolio that is resistant to shocks in any individual line of business;
- The creation of an environment in which talented individuals with entrepreneurial spirit can build successful businesses;
- The ability to scale our operations to ensure that client and broker service keeps pace and, wherever possible, improves as the company grows; and
- Consistent investment in product innovations to provide better products and services to improve our clients' risk transfer.

Our current strategic initiatives

Beazley Digital
Focus on smaller/less complex risks by doing business in a way which maximises the value we get from technology and provides seamless and efficient solutions to brokers and clients.

Faster, Smarter Underwriting
Focus on larger more complex risks using new technology and data analytics to improve the efficiency and the quality of our complex risk underwriting and claims settlement.

Closer to the Client
By better understanding our clients' needs, we will be able to enhance our product design and improve our clients' experience. Also we look to improve the client experience and strengthen our brand as a client-focused insurer by enhancing our client attraction, retention and cross-selling.

London Market
Explore ways of promoting London as a great place to write specialist insurance while improving the efficiency of the London market (Lloyd's and company market). Also ensure the market continues to obtain the most value for our clients, brokers and shareholders. Enhance ways that the London market can generate access to business and capital more efficiently.

Risks

Given the nature of our business, the key risks that impact financial performance arise from insurance activities and fall into the following categories:

- Market cycle risk:
  The risk of systematic mispricing of the medium tailed specialty lines business which could arise due to a change in the US tort environment, changes to the supply and demand of capital, and companies using incomplete data to make decisions;
- Natural catastrophe risk:
  The risk of one large event caused by nature affecting a number of policies and therefore giving rise to multiple losses. Given Beazley's risk profile, this could be a hurricane, major windstorm or earthquake;
- Non-natural catastrophe risk:
  This risk is similar to natural catastrophe risk except that multiple losses arise from one event caused by mankind. Given Beazley's risk profile, examples include a coordinated cyber attack, an act of terrorism, an act of war or a political event;
- Reserve risk:
  The risk that the reserves put aside for claims to be settled in the future turn out to be insufficient; and
- Market (asset) risk:
  The risk that the value of investments could be adversely impacted by movements in interest rates, exchange rates, default rates or external market forces.

Our approach to managing these and other risks is described in detail on pages 41 to 46

How we measure value creation

For investors of Beazley plc
We measure value creation for Beazley plc investors through our underwriting performance, reflected in our combined ratio, and through our financial strength, which is demonstrated by our surplus in economic capital requirement (ECR) assessed on a Beazley plc group level. Our combined ratio in 2018, another year of high natural catastrophes, was 98%. In the five years prior to 2018 it averaged 90%. Capital is measured at the ultimate parent company level. After Beazley plc has paid its second interim dividend, Beazley plc's capital surplus will total 23% of ECR compared to the target range of 15% to 25%.

For staff
Beazley employs talented people and we invest accordingly in expanding their skills and helping them build rewarding careers. We measure the impact of these investments on the perceptions of our people in two main ways: by monitoring staff retention levels and through a detailed employee engagement survey, which we conduct every two years. On both counts, the evidence is strongly positive. Our staff retention levels are very high and the most recent employee engagement survey, conducted in 2017, positioned Beazley in the top quartile of the 6,000 companies surveyed by Aon Hewitt.

For customers
Nearly all business at Beazley comes through brokers. We monitor broker and client perceptions of our service – particularly our claims service – in a variety of ways, including through a detailed annual broker survey. This is the third year Beazley have conducted a global survey, and the number of brokers participating continues to increase, reflecting strong engagement. Over 5,000 brokers provided feedback on our underwriting and claims service. Our high Net Promoter Scores in both areas reflect their continued willingness to recommend Beazley to their clients.

2018 in review

Achieving profitable growth while supporting our insureds is key to the group maintaining its long term value

The group delivered strong premium growth in 2018, with gross premiums written rising 12% to $2,615.3m (2017: $2,343.8m). Profit before income tax declined by 55% to $78.0m (2017: $171.5m) due to a decline in investment returns. Our combined ratio stood at 98% (2017: 99%) and was affected by severe natural catastrophe claims again in 2018.

In November, we estimated the combined cost of two US hurricanes, Florence and Michael, and two Japanese typhoons, Jebi and Trami, at $105m net of reinsurance and reinstatement premiums. As the year drew to a close, we sustained an additional $40m of claims net of reinsurance for the wildfires that blazed with unprecedented ferocity in northern California. The previous year's exceptionally heavy catastrophe losses had already depleted our catastrophe reserves with the outcome that prior year reserve releases for the group as a whole in 2018 fell to $115.0m (2017: $203.9m).

We are in business to pay claims and the long term value of the company depends on the claims service we provide, which supports strong, enduring relationships with our clients and brokers. When insurers talk of catastrophe claims, they usually mean claims triggered by events such as storms, earthquakes or wildfires. However for our clients any loss may potentially rank as a catastrophe.

Our claims teams worked tirelessly in 2018 to provide the swift and supportive claims service expected by all of our clients.

We have now seen two years of above average claims for short tail property insurance and reinsurance business, following on from five years of very subdued claims activity. The erosion of premium rates we saw between 2012 and 2016 has, to some extent, been reversed. We hope to build on last year's price increases during 2019. In particular, numerous competitors have curtailed their property underwriting following heavy losses and this withdrawal of capacity should make recent price rises more sustainable.

Growth opportunities

Growth in insurance can be opportunistic – driven by firming premium rates – but it can also be strategic, based on an insurer's position in growth markets. Over time, the latter is more important. Beazley is well positioned in a wide array of growth markets. The cyber insurance market, showing double digit annual growth, is perhaps the most widely discussed. Nevertheless demand is also very strong for the specialty liability products we offer to healthcare providers, technology companies, and property developers confronting environmental liability risks.

Our position in markets such as these has underpinned the strong growth of our US operations in recent years, which continued in 2018. We saw locally underwritten US premiums grow 20% during the year to $1,051.2m (2017: $878.2m), nearly 90% of which is written on behalf of the group (the balance is attributable to the external investors supporting Beazley syndicate 623). Our US business has grown at an average rate of 18% for the past five years and we foresee further double digit growth during 2019.

Developing a strong foothold in new markets often takes time. Our US accident and health business is a case in point. In recent years, the soaring cost of health benefits to US companies has generated strong demand for 'supplemental health' offerings to employees that are either partly funded by employers or wholly funded by employees. This has not historically been a target market for the group and it has taken time to develop the relationships needed to win a share of this business. Under the leadership of Brian Thompson, our US team began to gain real traction in this market in 2017 and this continued into 2018, when we wrote $20.6m.

Outside the US, we have also been laying the foundations for long term growth. In 2017, our specialty lines division – the group's largest – began a concerted effort to capitalise on the growing demand for specialty liability products that we saw developing outside the US, particularly in continental Europe. We saw opportunities in many of the industries that have also fuelled our US growth, such as healthcare and technology, but we also saw significant growth potential in financial institutions business, which we have not historically underwritten in the US.

We have invested heavily in both people and technology to support the growth of our non-US business, hiring 34 underwriters outside the US in 2018. Although we are a UK-based business, Brexit should not present any insurmountable challenges for Beazley. In July 2017 we secured approval from the Central Bank of Ireland for our Dublin based European insurance company, Beazley Insurance dac, to write insurance business. We are accordingly able to underwrite European business for the account of Beazley Insurance dac – which has branches in Germany, France, Spain and the UK – and for the account of our Lloyd's syndicates through the Lloyd's Brussels office.

New strategic initiatives

Change is gathering pace in our industry, fuelled by new technologies and new data sources. In 2018 we launched a series of strategic initiatives to help us adjust to these changes and benefit from them. Our overarching goal is to make the company an even better business partner to our clients and brokers.

A key objective of these initiatives will be to lower, over time, the expense ratios that have proved stubbornly high in our industry. Our value to our clients will dramatically increase if we can pay out less in expenses and more in claims. This in turn will depend on enlisting technology to enhance the productivity of our underwriters and other staff, automating manual processes wherever possible.

Two of our strategic initiatives are tackling this challenge in different ways. Our Beazley Digital initiative focuses on small, relatively simple business, where we see significant scope for automation. Our Faster, Smarter Underwriting initiative is tackling the larger, more complex risks that are the historic mainstay of Beazley's business. We see some opportunities for automation here too, but there is also scope for enlisting new data sources to help us underwrite risks that were previously very hard to price or even deemed uninsurable.

The value we offer to clients depends of course on our underwriting appetite and the claims service that we provide. However it also depends on how easy it is to do business with us. To improve our overall service we need to stand in our clients' shoes and this is the focus of a third strategic initiative we are calling Closer to the Client. In parallel with this, we have been working hard to simplify our policies – a drive epitomised in April 2018 by the launch of a digital version of our WeatherGuard policy that dramatically simplifies weather-related cover for event organisers.

Finally, as a London-based insurer our success is in many respects bound up with the broader success – and particularly the efficiency – of the London insurance market. Last April Beazley plc's chief executive officer, Andrew Horton, was invited to chair the London Market Group (LMG), a body that represents all of the market's businesses. Beazley plc launched the London Market strategic initiative during 2018 to ensure that we benefit to the fullest possible extent from the work that the LMG is doing to modernise and promote the London market.

2018 in review *continued*

Senior management changes

Succession planning is something we take very seriously at Beazley at all levels in the organisation. Some of these plans are currently being executed: four new members were welcomed to Beazley plc's executive committee in 2018 and a further four will join during 2019. More than half of recent senior appointments are internal promotions, including all of those to senior underwriting roles.

At the beginning of 2019, Adrian Cox succeeded Neil Maidment as Beazley's chief underwriting officer. Adrian is exceptionally well qualified to assume the role, having run our largest division, specialty lines, since 2008. From the beginning of 2019, we have split this division – which accounted for 56% of our total premiums in 2018 – into two. The new divisions are headed by seasoned Beazley underwriters: one, under the leadership of James Eaton, will continue to be called specialty lines, while the other, under the leadership of Mike Donovan, has been named cyber & executive risk (CyEx).

In November 2018, Tim Turner succeeded Clive Washbourn as head of the group's marine division. Tim joined Beazley in 1998 when the marine division was established and has for several years headed the marine, hull and war risk account within the division. He has represented the marine division on Beazley plc's underwriting committee since 2016. Clive took the decision to step down for personal reasons. We are however delighted that he has expressed his willingness to continue to offer the team the benefit of his expertise in underwriting and business development.

Mark Bernacki, who joined Beazley in 2005 and has led our property division since 2012, will also be leaving during 2019 and there will be an announcement about his successor as head of property in due course.

Jerry Sullivan, who leads our professions group within specialty lines, is one of the four individuals joining Beazley plc's executive committee during 2019 replacing Mark as the chairman of our US management committee.

Two other key appointments have ensued from the planned retirements of Martin Bride, Beazley plc's finance director, and Dan Jones, who heads our marketing and broker relations functions, in 2019. Martin will be succeeded by Sally Lake in May 2019. Sally has been with Beazley since 2006 in various roles and is the current group actuary. In late 2018, Lou Ann Layton joined us from Marsh as Dan's successor. Prior to joining Beazley Lou Ann held a series of senior positions at Marsh in the US, most recently as head of the south east region.

Investment performance

The group's investment returns fell to $41.1m or 0.8% in 2018 (2017: $138.3m, or 2.9%), mainly due to a series of interest rate hikes in the US that only generated a modest return for our fixed income portfolio, which accounted for 81% (2017: 76%) of our total investments at year end. A higher US dollar interest rate does, however, mean that the longer term outlook for these investments is more positive than it has been for a number of years.

Our capital growth investments, accounting for 12% of our portfolio at year end (2017: 15%), suffered from the very adverse market conditions that affected many asset classes, generating a loss of 1% (2017: return of 11%). This performance could have been materially worse had our investment team, led by Stuart Simpson, not prudently reduced our exposure to equities part way through the year.

The group maintains a conservative investment strategy which has served us well over the years. Nevertheless with financial assets of $5.1bn, it is clear that sharp gyrations in asset values can significantly affect the company's overall performance. In 2018, the 70% decline in our investment return was equivalent in effect to a large catastrophe loss on our underwriting portfolio.

Risk management

Risk management continued to be an invaluable part of our business model and the team, led by Andrew Pryde, undertook a number of special assignments in 2018. In light of the impending Brexit deadline, Beazley plc, on behalf of the group, implemented a cross business working group to discuss and work through the various possible outcomes ahead of March 2019. At the time of writing, many outcomes still remain on the table but we believe we are well placed to navigate through the uncertainties.

With changes to corporate taxation arising within the US, we also revisited and amended our intragroup reinsurance contracts to ensure that they continued to be as efficient as possible in providing the desired effect on capital allocation and risk management.

The latest Beazley plc's chief risk officer report to the Beazley plc board confirmed that the control environment has not identified any significant failings or weaknesses in key processes and that the group is operating within risk appetite as at 31 December 2018.

Outlook

Our business confronted some stiff headwinds in 2018, which impacted both our underwriting and investment returns. By contrast, we enter 2019 with some moderate tailwinds: firmer pricing for some lines of business and higher interest rates to underpin our investment returns. However the world remains a very uncertain place, with political risk – the kind that none of us can insure against – threatening global growth through trade wars and protectionism.

In this environment our focus will continue to be on the determinants of growth that we can control, investing in our people, our systems, and in our offices around the world. Emblematic of these investments is our new Birmingham office which opened in February 2018: the first of many new and remodelled offices around the world designed to accommodate the varied workplace needs of our people in the years to come. In 2020, our London staff will move into similar, futuristic office space at Twentytwo Bishopsgate in the City of London and our New York and Toronto colleagues are already ahead of London in the queue.

It is perhaps fitting that our new Birmingham office houses our robotics team, whose work will free up many of our people's time from repetitive tasks. Our watchword, reflected in the design of our new offices, is flexibility. The group has thrived as a specialist insurer by being quicker than competitors to spot opportunities and more decisive in grasping them. The investments we have been making and the strategic initiatives we launched last year are designed to ensure that we can maintain this competitive edge in the years to come.

C Jones
Director

2018 underwriting report

Effective cycle management through an active claims environment

Against the backdrop of an active claims environment, 2018 saw the group deliver a combined ratio of 98% (2017: 99%) and gross premiums written of $2,615.3m (2017: $2,343.8m). All five divisions achieved top line growth year on year with political, accident & contingency, property and specialty lines all achieving double digit growth.

With 2018 being another year of significant natural catastrophes we were pleased that we could record an underwriting profit. Maintaining a diverse portfolio once again showed its value, as the group as a whole was able to compensate for the claims experienced in our catastrophe exposed lines of business.

As is inevitably the case with natural catastrophe claims, our reinsurance and property teams were hardest hit with the former registering claims of $97.7m (2017: $97.5m). The claims were in the reinsurance division's expectation for such events, with the division recording a combined ratio of 103% (2017: 107%).

We have maintained our philosophy of setting prudent claims reserves initially. In aggregate, the current cost of the 2017 events is within our original estimates albeit there have been some variances at a divisional level.

Our property division saw overall premiums increase 14% to $415.4m for 2018 (2017: $362.9m) driven by the double digit rate increase of 10%. However, the active claims market in 2018, with claims arising from the 2018 natural catastrophes as well as a higher level of attritional claims from prior underwriting years, meant that the property division recorded an overall loss of $80.2m for 2018 (2017: loss of $67.9m). The division also decided to cease underwriting construction and engineering business during the year since it was concluded, following close scrutiny of the plans for this product over a number of years, that it would be unlikely to satisfy our cross-cycle profitability requirements in the foreseeable future. This business accounted for approximately 10% of the division's premiums in 2017.

Our specialty lines division was the largest contributor to the group's result achieving a combined ratio of 91% (2017: 89%). The division continued to see strong growth with premiums increasing 14% to $1,469.0m (2017: $1,292.2m) helped by rate increases of 1% (2017: flat). Our US platform continues to be the core driver of the division's premiums written, contributing $760.7m in 2018 (2017: $632.9m). Our specialty lines international business also began to show promising developments as we saw steady growth in the first full year of underwriting. It is expected that our non-US specialty lines business will become more prominent as we move through 2019.

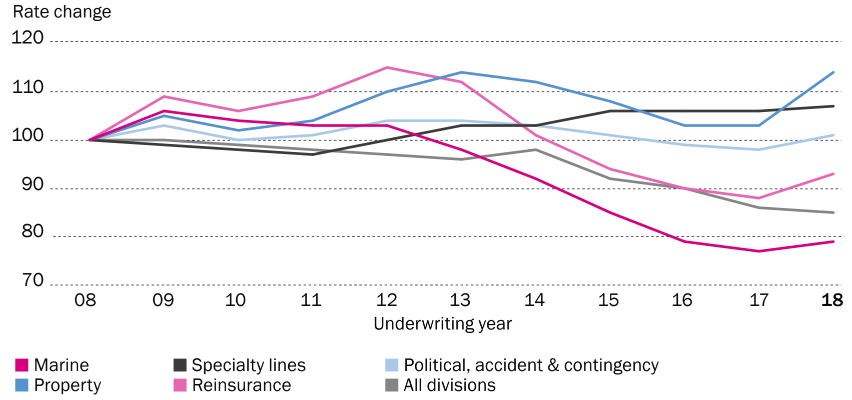
Our political, accident & contingency division achieved strong top line growth with an increase of 11% to $238.7m (2017: $214.3m). We were pleased in particular with the development of our US accident and health business which is focused on the growing supplemental health cover market. It was also pleasing to see all of the lines of business performing well in 2018, generating an improved combined ratio for the division of 90% (2017: 101%).

Our marine division started to benefit from an improved rating environment, most prominent in areas such as aviation and cargo, which allowed the division as a whole to achieve premium growth of 6% to $284.8m (2017: $267.6m) and an improved combined ratio for 2018 of 94% (2017: 98%). We expanded our presence in the US during 2018, with the division starting to write marine business out of the Houston office.

Rating environment

The catastrophe loss activity during 2017 had a positive effect on the rating environment with rates increasing by 3% in 2018 across the portfolio (2017: decrease of 1%). Most of our lines of business saw increases in rates compared to 2017, with marine increasing by 3%, property increasing by 10%, reinsurance rates increasing by 6% and specialty lines increasing 1%. However, rates on renewals in our political, accident & contingency division decreased by 1%.

Cumulative renewal rate changes since 2008 (%)



Premium retention rates

In 2018, 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 2017:

Retention rates[1]	2018	2017
Marine	89%	88%
Political, accident & contingency	76%	79%
Property	73%	82%
Reinsurance	88%	85%
Specialty lines	83%	84%
Overall	82%	84%

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

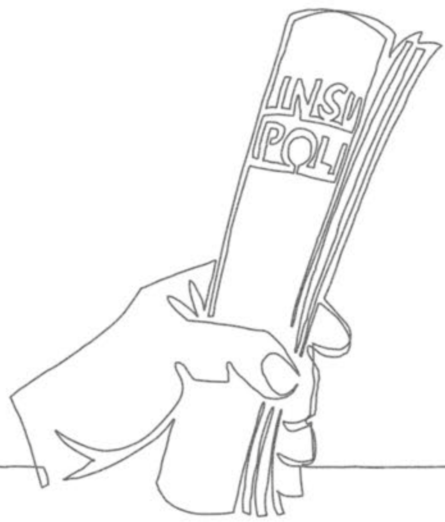
Outlook

The group continues to benefit from the diverse portfolio which the group maintains across its underwriting divisions. Our philosophy of effective cycle management has underpinned our underwriting strategy for many years. We actively seek to grow the areas where we see the best opportunities for future profitability and shrink areas where margins are challenged.

As we enter 2019 we continue to see opportunities for high single digit premium growth. Further development of our business written onshore in the US and of our international specialty lines platform will support this.

The group's underwriting strategy of exercising discipline across a diverse portfolio of specialist products will remain a constant. It has enabled us to achieve an underwriting profit in another catastrophe year in 2018 and will position us well as the group goes into 2019.

E McGivney
Director



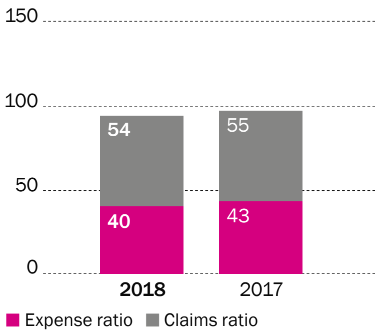
Performance by division

Increased premium with double digit top line growth across three divisions

Marine

Tim Turner
Head of marine

Combined ratio %



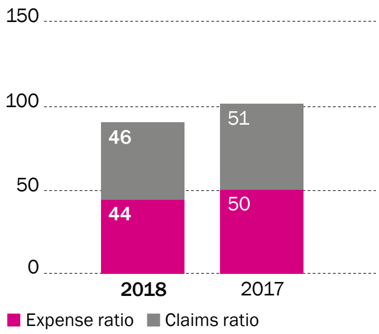
	2018 $m	2017 $m
Gross premiums written	284.8	267.6
Net premiums written	255.0	233.2
Results from operating activities	20.5	19.6
Claims ratio	54%	55%
Expense ratio	40%	43%
Combined ratio	94%	98%
Rate change	3%	(3%)

Find out more on pages 18 to 19

Political, accident & contingency

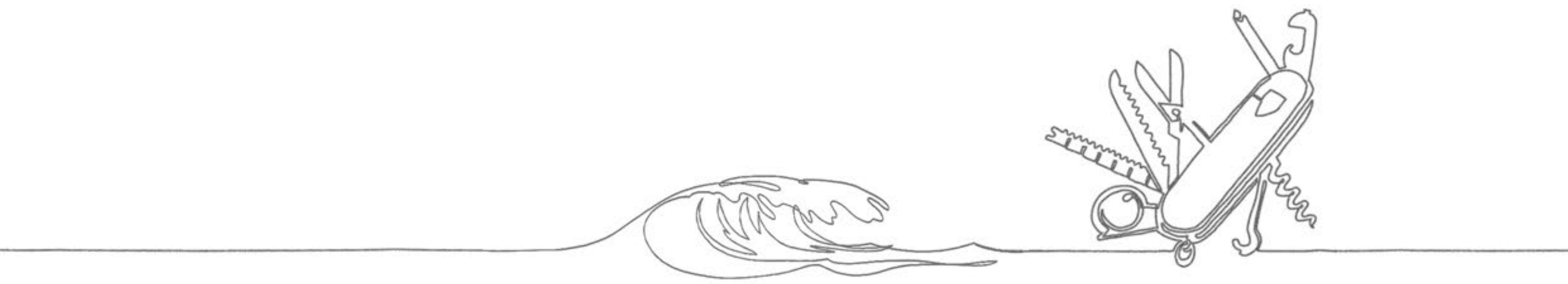
Christian Tolle
Head of political, accident & contingency

Combined ratio %



	2018 $m	2017 $m
Gross premiums written	238.7	214.3
Net premiums written	212.7	190.8
Results from operating activities	24.2	8.2
Claims ratio	46%	51%
Expense ratio	44%	50%
Combined ratio	90%	101%
Rate change	(1%)	(4%)

Find out more on pages 20 to 21

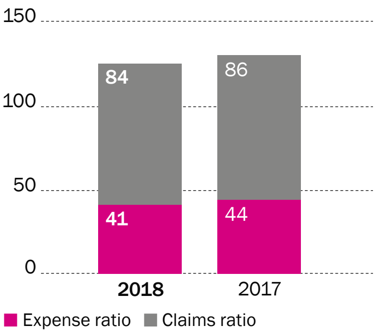


Strategic report

Property

Mark Bernacki
Head of property

Combined ratio %



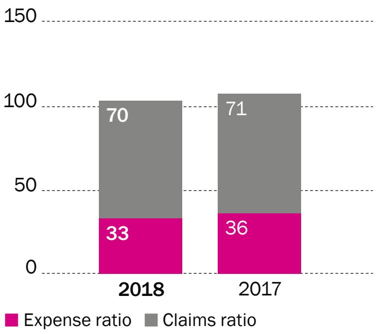
	2018 $m	2017 $m
Gross premiums written	415.4	362.9
Net premiums written	360.2	300.0
Results from operating activities	(80.2)	(67.9)
Claims ratio	84%	86%
Expense ratio	41%	44%
Combined ratio	125%	130%
Rate change	10%	–

Find out more on pages 22 to 23

Reinsurance

Patrick Hartigan
Head of reinsurance

Combined ratio %



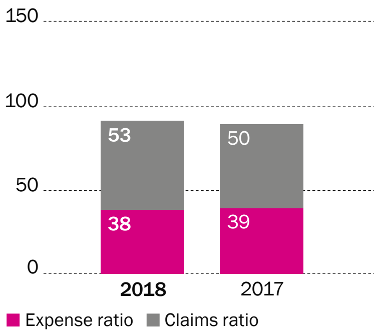
	2018 $m	2017 $m
Gross premiums written	207.4	206.8
Net premiums written	137.3	134.6
Results from operating activities	(1.8)	4.0
Claims ratio	70%	71%
Expense ratio	33%	36%
Combined ratio	103%	107%
Rate change	6%	(2%)

Find out more on pages 24 to 25

Specialty lines

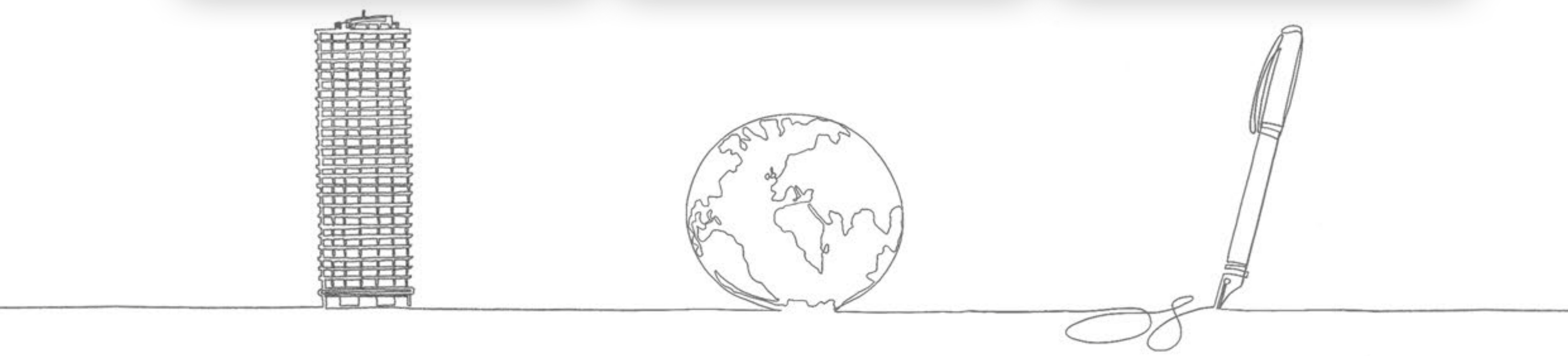
Adrian Cox
Head of specialty lines

Combined ratio %



	2018 $m	2017 $m
Gross premiums written	1,469.0	1,292.2
Net premiums written	1,283.3	1,120.2
Results from operating activities	136.8	228.7
Claims ratio	53%	50%
Expense ratio	38%	39%
Combined ratio	91%	89%
Rate change	1%	–

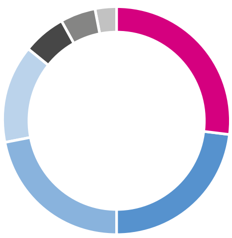
Find out more on pages 26 to 27



Marine

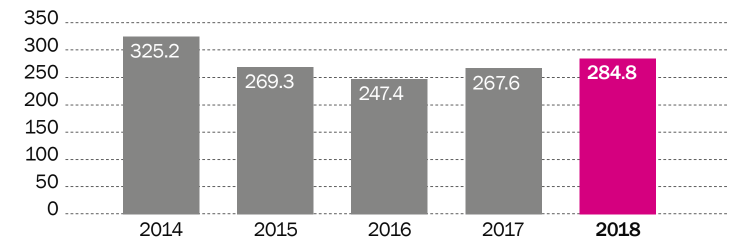
Tim Turner
Head of marine

Portfolio mix



Liability	27%
Hull & miscellaneous	23%
Cargo	22%
Energy	14%
Aviation	6%
War	5%
Satellite	3%

Gross premiums written ($m)



Gross premiums written

$284.8m

Result from operating activities

$20.5m

Premium rates for much of the business underwritten in the group's marine division started to rise last year, enabling the division to achieve a combined ratio of 94% on premiums of $284.8m (2017: 98% on premium of $267.6m), but competition remained intense.

Lloyd's 'decile 10' initiative, through which Lloyd's syndicates were asked in 2018 to submit remediation plans for the worst-performing 10% of business lines in their portfolios, has had a significant effect on the marine market. After several years of competition that drove the combined ratios of many syndicates well into triple digits, we saw a number of syndicates withdrawing from marine hull, cargo and aviation business. Hull, cargo and aviation rates have recently increased materially.

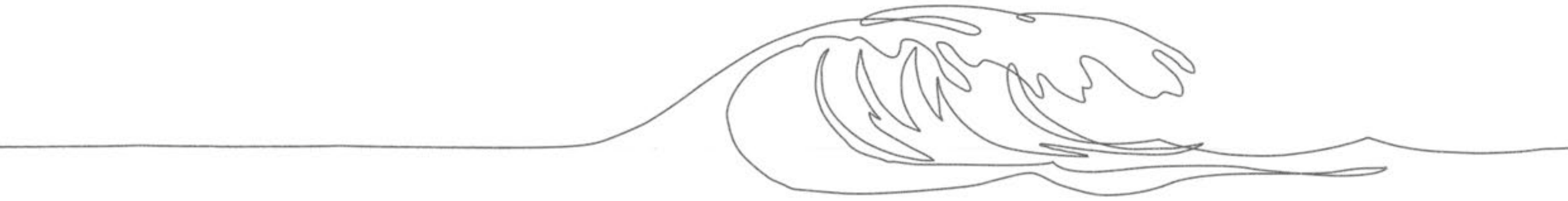
The hull market was significantly impacted by one major loss after the superyacht Sassi caught fire while under construction at the Lürssen shipyard in Bremen in northern Germany in September. We expect the loss to contribute further to rising premium rates in this market.

Beazley is well positioned in this context, achieving consistent underwriting profitability within the marine division over the past 10 years and accounting on average for a quarter of the entire Lloyd's marine market's profits between 2013 and 2017.

Two smaller lines of business – marine and aviation war risks and satellite business – made good contributions to our overall profitability in 2018, although we have seen the war risks account shrink steadily in recent years. Aviation business, another relatively small component of the division's total portfolio, has begun at last to see meaningful rate rises after the withdrawal of capacity by a number of our competitors.

Political factors, such as tariffs on trade between the US and China, could potentially have a material effect on the volume of goods transported by our clients and thus on demand for hull and cargo cover, but we have yet to see any impact from such trade tensions.

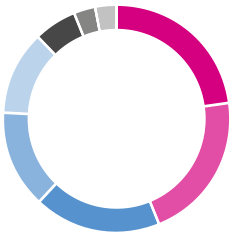
We had also seen our larger energy account reduce in size under the pressure of falling rates and a declining oil price from 2012, but this trend was reversed in 2018 as the rating environment began to improve. Rising energy prices during much of the year also stimulated an uptick in exploration activity, benefiting our sub-sea team which insures the equipment used in offshore oil and gas exploration. For 2019 we plan to grow our energy business as well as our hull and machinery account.



Political, accident & contingency

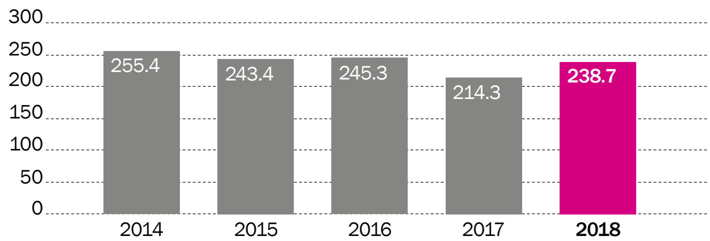
Christian Tolle
Head of political, accident & contingency

Portfolio mix



Political	23%
Contingency	21%
PA direct	18%
Stand alone terrorism	14%
PA reinsurance	12%
Life direct	6%
Sports	3%
Life reinsurance	3%

Gross premiums written ($m)



Gross premiums written

$238.7m

Result from operating activities

$24.2m

All of the lines of business comprising the political, accident & contingency (PAC) division performed well in 2018, generating an improved combined ratio for the division of 90% (2017: 101%) on premiums that grew by 11% to $238.7m (2017: $214.3m).

Many of the lines of business in which we specialise, including political risks, terrorism and contingency, are historic areas of focus for the London market and we continue to write the bulk of our business in London. However we also have local teams in the US, Europe and Singapore to access business we would not normally see in London, including the fast growing market for supplemental health insurance solutions for company employees in the US.

Our political risks team had a good year with premium growth of 11% and a far more benign claims environment than we had witnessed in 2017. Only about a third of political risk accounts are renewable so we depend on brokers to bring our teams a steady flow of new business. However, as political tensions rise in many parts of the world, we expect demand for cover to remain strong. Our practice is to reserve prudently for claims, and if the claims do not fully materialise this enables us to make reserve releases in later years: in 2018 we were able to release funds no longer required to meet political risks and trade credit claims on the 2016 and prior underwriting years.

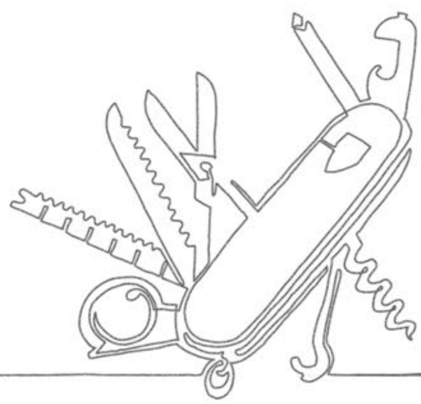
The terrorism market continued to see premium rates decline in 2018, but at a slower rate than in previous years, due to the relative rarity of attacks that result in widespread physical damage. The potential for such attacks of course continues to exist but in recent years terrorists have sadly tended to target people more than property. Attacks of any kind can have a chilling effect on local businesses and we have accordingly been offering loss of attraction cover to companies that may find their business affected by a nearby incident.

Terrorism, or the threat thereof, is also a peril covered by our contingency team, which offers broad cancellation cover for events of widely varying sizes, including some of the world's largest sports and entertainment events. The team had a good year with premium growth of 25%. Our London team, the largest and most experienced in the market, focuses predominantly on large scale events whereas our US underwriters also underwrite a large volume of smaller risks.

In April 2018 in the US we launched a new version of our WeatherGuard policy for weather-related event cancellation risks, offering each policyholder a fully personalised digital policy that can be consulted on a phone. The easy to use digital policy, which also offers automatic claims payment in the event that the insured weather peril occurs, has been very well received by brokers and clients.

The final major component of our business – life, accident and health risks – also performed strongly in 2018. We continued to reshape our London book with a focus on improving the balance in the portfolio. We have been adding underwriting talent to our London team, which now numbers seven, including two underwriters focused on sports disability insurance.

The focus of our US team is purely on accident and health business, and specifically on supplemental health cover for the employees of companies seeking additional protection over and above that provided by high deductible benefit plans. Under the leadership of Brian Thompson, we made excellent progress in carving out a niche for Beazley in this growing market in 2018.

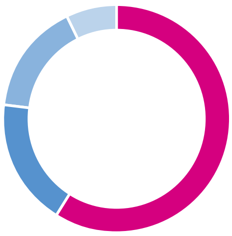


Property

Mark Bernacki
Head of property

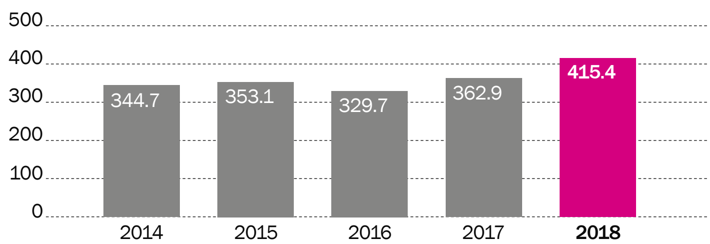
Deteriorating claims experience made 2018 a challenging year for property insurers while ushering in a more favourable pricing environment. At Beazley we saw the cost of the previous year's catastrophes, notably Hurricane Irma, rise and combine with fresh losses from Hurricanes Michael and Florence in the US. Attritional losses also continued at a higher rate than in recent years.

Portfolio mix



Commercial property	59%
Small property business	18%
Jewellers & homeowners	16%
Engineering	7%

Gross premiums written ($m)



Gross premiums written
$415.4m

Result from operating activities
($80.2m)

As a result we experienced a very high combined ratio of 125% (2017: 130%). This was the second year in a row where a combined ratio over 100% was seen, but after two years of severe claims the strain is telling on the broader market. We have seen more than a dozen Lloyd's businesses either withdraw from direct and facultative property business altogether or sharply curtail their exposures.

In light of the scale of the market losses it is not surprising that we saw significant rate rises on renewal business this year. Rates for our large risk open market property team in London rose by 18% and we saw rates rise across the entirety of our portfolio by 10%.

These rate rises have made for a healthier pricing environment after several years of price erosion. We wrote 14% more business in 2018 than the previous year.

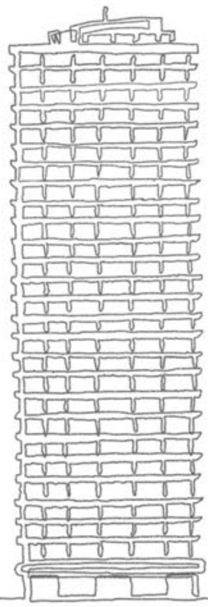
The large risk property business we underwrite in London was most affected by the catastrophe losses of the past two years and increased attritional activity, but other segments of our portfolio were also impacted by increased claims experience. Our small business team led by Paul Bromley writes a large volume of business through binding authorities granted to Lloyd's coverholders around the world. In recent months we have cancelled some of these binders with coverholders in North America, as they failed to meet our profitability requirements.

Furthermore, in October 2018 we took the difficult decision to exit the market for construction and engineering business around the world, transacted through teams in London, the US (where the business is known as builders' risk), Singapore and Latin America. This business accounted for approximately 10%, or $35m, of our property division's premiums in 2017. After careful analysis, we concluded it was unlikely to satisfy our cross-cycle profitability requirements in the foreseeable future.

We will of course honour the commitments we have made to our brokers and clients as we run off our existing construction and engineering book in a professional and orderly manner, but we have ceased underwriting new business. This decision affects only property risks and has no bearing on the construction liability business that our colleagues in Beazley's specialty lines division continue to write.

London remains our largest underwriting location but we have continued to see strong top line growth in the business we write locally in the US. This business – which comprises mid-market commercial property risks underwritten on a surplus lines basis, a portfolio of homeowners' business in catastrophe-exposed locations, and some large risk commercial accounts – grew 2% last year, contributing to the strong premium growth of Beazley's US operations.

I will be leaving Beazley at the end of April after 13 years with the company and seven years at the helm of our property division and I wish the team continuing success.

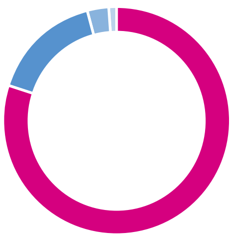


Reinsurance

Patrick Hartigan
Head of reinsurance

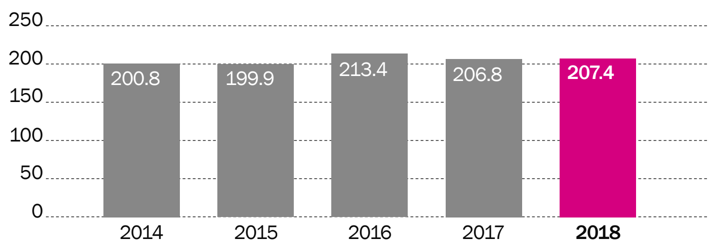
Two of the major perils that drove our claims experience in 2017 – hurricanes and wildfires – recurred in 2018, resulting in a combined ratio for the year of 103% (2017: 107%) on premiums of $207.4m (2017: $206.8m).

Portfolio mix



Property catastrophe	80%
Property risk	16%
Miscellaneous	3%
Casualty class	1%

Gross premiums written ($m)



Gross premiums written

$207.4m

Result from operating activities

($1.8m)

The group has provided consistent reinsurance support to clients in Japan for more than two decades and we accordingly incurred a share of the reinsurance losses from Typhoon Jebi in September, the most severe storm to make landfall in Japan since 1993, and from Typhoon Trami, which hit the south of the country a few weeks later.

Also in September, Hurricane Florence came ashore in North Carolina, triggering massive flood damage over a wide area. The following month, Hurricane Michael became the strongest storm ever to hit the Florida panhandle, with wind speeds of 155 mph. For our reinsurance book, Michael was the more expensive storm, generating reinsurance losses of about half those of Hurricane Irma in 2017.

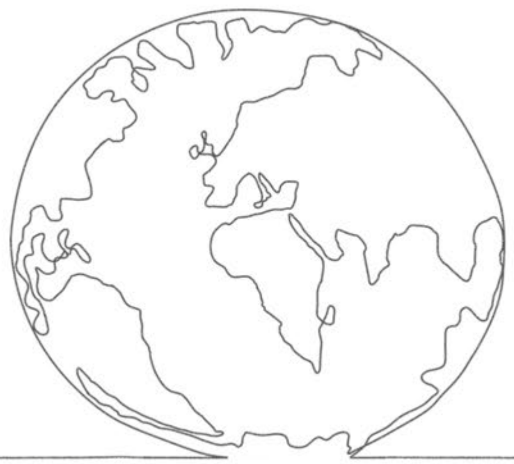
In aggregate, we incurred an estimated \$41m in reinsurance losses from the storms in Japan and the US in 2018. Total market losses for the Japanese typhoons are estimated at between \$10bn and \$12bn and for the US hurricanes at between \$11bn and \$14bn.

For the reinsurance market, the wildfires that ravaged California for the second year in a row were far less predictable. Wildfire has historically been regarded as an attritional peril by insurers in California but this approach looks unsustainable after the experience of the past two years. Wildfire losses in 2017 are estimated to have cost insurers \$10bn and losses in 2018 look likely to exceed this figure, with current estimates running between \$9bn and \$15bn. Beazley's share of this loss is currently estimated at \$40m.

Questions are now being raised about the insurability of wildfires, but our hope is that it will prove possible to identify effective loss control precautions that can continue to make affordable cover available.

The net effect of 2017's catastrophe losses exerted continued upward pressure on premium renewal rates in January 2018. We saw rate rises averaging 8% for US business, which accounts for approximately 54% of our portfolio, and 5% for non-US business.

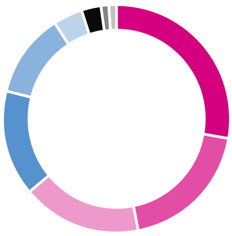
In light of the current rating environment, we plan to continue to grow our reinsurance account in 2019.



Specialty lines

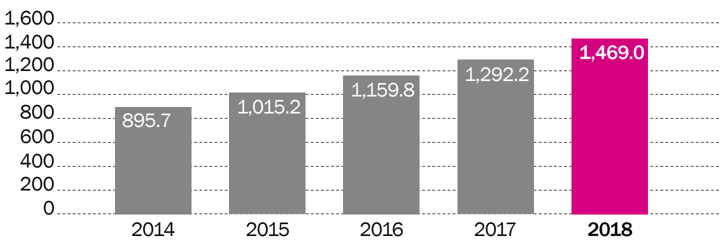
Adrian Cox
Head of specialty lines

Portfolio mix



Technology, media and business services	28%
Management liability	19%
Small business	17%
Professions	15%
Healthcare	12%
Treaty	4%
International financial lines	3%
Crime	1%
Market facilities	1%

Gross premiums written ($m)



Gross premiums written
$1,469.0m

Result from operating activities
$136.8m

Specialty lines, the group's largest division, was an engine of premium growth for the company in 2018, with premiums rising 14% to $1,469.0m (2017: $1,292.2m). Our combined ratio was up to 91% (2017: 89%) following reserve releases that were slightly below those of 2017. Overall we saw rates rise by 1% (2017: flat).

For more than three decades, the US has been the largest and most attractive market for Beazley's specialty lines products, ranging from architects' and engineers' professional liability (A&E) in the early years (and still today) to healthcare and environmental liability insurance more recently. The US continued to account for the bulk of our premium in 2018 and we saw top line growth of 20% in our locally underwritten US business. However our efforts to grow internationally outside the US are also gathering pace, especially in Europe, as demand for our products intensifies.

We expect that the rapid development of our non-US business will, over time, change the geographic mix of our portfolio, although our focus on the US market will certainly not diminish in the process. Our 2019 plan envisages the non-US portion of our portfolio growing to 20%, from 17% in 2018.

Specialty lines accounted for 56% of the group's total premium in 2018, covering a very wide array of types of cover and clients ranging in size from the world's largest engineering firms, health systems and technology companies to thousands of small businesses requiring specialist liability policies.

We concluded that it would be beneficial to split this diverse portfolio into two new divisions from 2019 onwards. One division, which continues to be called specialty lines, is now led by James Eaton, who was previously responsible for our small business portfolio. The other, called cyber & executive risk (CyEx), is now led by Mike Donovan, who previously ran our technology, media and business services team.

The rationale for this grouping is that we saw great value in bringing our management liability and cyber business together 'under one roof'. Many of our brokers already group cyber and management liability business together and discuss them in the same breath with clients. Both directors' and officers' insurance (D&O), a major management liability line, and cyber liability risks rank as boardroom issues in the eyes of many of our clients.

The strength of the group's cyber business is well known. We saw premiums from this line grow by 9% in 2018 and there is further scope to grow significantly, given that more than half the new business we saw in 2018 was from first time buyers. However we see excellent growth opportunities within our management liability portfolio as well, particularly for products such as Beazley Safeguard, which combines risk management advice, crisis response and liability coverage for organisations entrusted with the care of children or vulnerable adults.

Our ambition within the CyEx division will be to position Beazley as the leading provider of quality management liability coverage for both traditional and emerging exposures – a reputation our cyber team already enjoys. Our London market business will continue to serve as a crucible for innovation in many of these lines: our London underwriters have deep expertise in a number of areas that are not well addressed by many domestic markets, such as 'wage & hour' coverage in the US, protecting companies against claims made under the Fair Labor Standards Act. In July 2018 our management liability launched in London a Lloyd's consortium to offer increased capacity for wage & hour risks.

Innovation is equally important to the team that will continue to trade under the specialty lines name. These include our professions group, led by Jerry Sullivan, with teams focusing on the professional liability needs of lawyers and architects and engineers, as well as our fast growing environmental liability team.

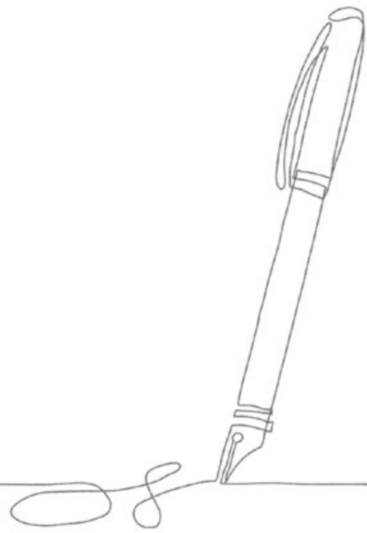
Another major growth area within specialty lines is in the healthcare space, where we have been expanding our offerings to life sciences companies. This segment currently comprises medical device manufacturers, contract research organisations involved in clinical trials, blood and tissue banks, and a range of service providers to the life services sector. It is a field in which companies collaborate closely, generating complex exposures. Adaptability and willingness to innovate need to be second nature: around two thirds of the risks underwritten by Marc Amis and his life sciences team are tailored to meet the unique needs of the individual clients involved. They are accordingly able to offer clients bundled cover for multiple exposures, which is invaluable when a single claim can span multiple forms of insurance.

Finally, specialty lines will also continue to include our small business teams. Automating the operations of these teams as much as possible is the focus of our Beazley Digital strategic initiative, which should increase the productivity of our underwriters significantly. Like most Lloyd's businesses, the group began life as a large risk insurer but in recent years we have been writing an ever growing volume of small business risks. These clients, and the brokers who serve them, appreciate the quality of our specialist cover and the claims service that supports them, but we do see opportunities to simplify these products and make the placement process more efficient.

Maintaining the right mix of large risk, mid-market and small business will continue to be central to our thinking. In 2018, we continued to observe an active claims environment for some of our larger risk business, including D&O risks, and large professional liability business, including hospitals and health systems. However, in contrast to previous years, we have seen prices beginning to firm in these areas.

In the cyber market, rates have been softening, but we continue to see profitable growth opportunities. The strongest growth we saw last year was outside the US, where the impact of the European Union's General Data Protection Regulation and similar regulations in other regions is now beginning to bite. The business interruption risk presented by cyber attacks also continues to worry our clients and is no longer exclusively the concern of the larger businesses we insure.

From the beginning of 2019, I assumed the role of chief underwriting officer for the Beazley plc group. It was very gratifying that we did not need to look externally to fill the key underwriting and leadership roles within our two new divisions.



Financial review
Group performance

A robust financial performance despite high levels of claims and a low investment return

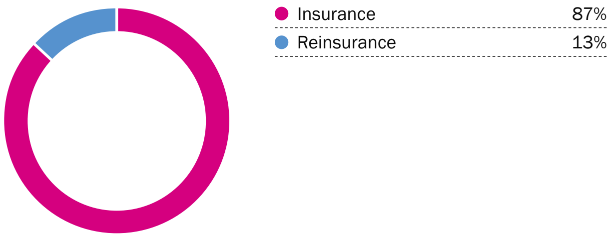
Profit
Profit before tax in 2018 was $78.0m (2017: $171.5m). The group's combined ratio improved slightly to 98% (2017: 99%) thanks to an improving expense ratio in what was another year of high claims activity. By recording an underwriting profit we once again demonstrated the resilience of our portfolio. Our investment team achieved an investment return of 0.8% (2017: 2.9%) or $41.1m (2017: $138.3m).

Premiums
Gross premiums written have increased by 12% in 2018 to $2,615.3m (2017: $2,343.8m). We are confident of the quality of this growth, which is the fruit of sustained investment in our underwriting teams and our patience in waiting for the appropriate conditions, market by market, before growing. Rates on renewal business on average increased by 3% across the portfolio (2017: decreased by 1%) with our catastrophe exposed lines obtaining the largest increases.

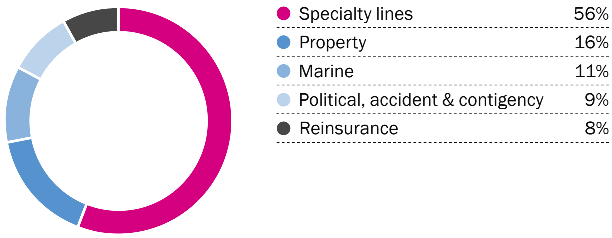
Our portfolio mix is broadly unchanged from 2017. We continue to operate a diversified portfolio by type of business and geographical location.

The charts below highlight how we achieve diversification by product mix, geography and type of business.

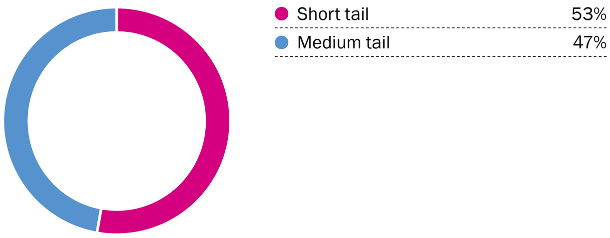
Insurance type



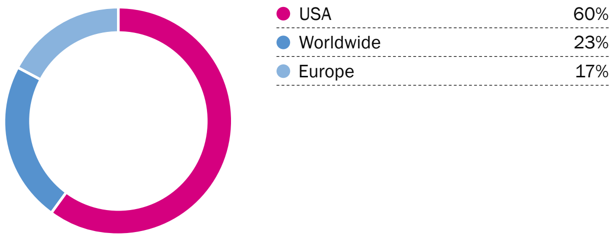
Business by division



Premium written by claim settlement term



Location of insured



Statement of profit or loss

	2018 $m	2017 $m	Movement %
Gross premiums written	2,615.3	2,343.8	12%
Net premiums written	2,248.5	1,978.8	14%
Net earned premiums	2,084.6	1,869.4	12%
Net investment income	41.1	138.3	(70%)
Other income	33.7	35.5	(5%)
Revenue	**2,159.4**	**2,043.2**	**6%**
Net insurance claims	1,227.8	1,075.7	14%
Acquisition and administrative expenses	811.3	773.1	5%
Foreign exchange loss	13.8	1.9	626%
Expenses	**2,052.9**	**1,850.7**	**11%**
Share of profit of associates	–	0.1	
Impairment of investment in associate	(7.0)	–	
Finance costs	(21.5)	(21.1)	
Profit before tax	**78.0**	**171.5**	
Income tax expense	(8.6)	(38.8)	
Profit after tax	**69.4**	**132.7**	
Claims ratio	59%	58%	
Expense ratio	39%	41%	
Combined ratio	98%	99%	
Rate increase/(decrease)	3%	(1%)	
Investment return	0.8%	2.9%	

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 on page 124.

Financial review *continued*
Group performance *continued*

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 cyber attacks;
- 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 2018 was $366.8m (2017: $365.0m). As a percentage of gross premiums written it decreased to 14% from 16% in 2017 due to a desire to keep reinsurance spend flat year on year.

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. The group's combined ratio reduced in 2018 to 98% (2017: 99%) thanks to an improvement in the expense ratio.

Claims
Claims activity in 2018 was very similar to that seen in 2017. Hurricanes Florence and Michael hit the US, while Typhoons Jebi and Trami affected Japan. Added to this, wildfires broke out in California for the second year in a row causing widespread damage. Whilst these natural disasters were not quite at the level of the catastrophes experienced in 2017, they combined with higher attritional claims particularly in our property account and the lower reserve releases compared to 2017 that we had signalled, to cause the claims ratio to increase slightly to 59% (2017: 58%).

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 5.6% at the end of 2018 (2017: 5.0%). Whilst the margin is higher than year end 2017, it is still towards the low end of the range that management targets, which is in part a result of the above average natural catastrophe activity again in 2018. As a consequence, reserve releases in 2019 are likely to be below the long term average level particularly in the short tail classes affected by the natural catastrophes. 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:

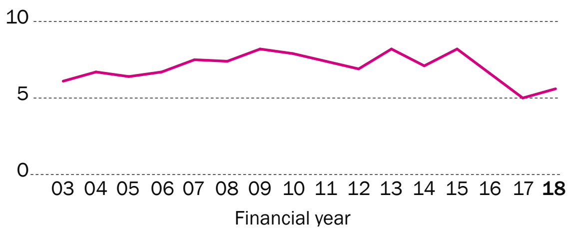
	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	5 year average $m
Marine	40.2	31.2	15.9	10.7	12.5	22.1
Political, accident & contingency	24.5	23.7	27.2	3.9	14.8	18.8
Property	35.9	37.8	36.8	13.2	(47.3)	15.3
Reinsurance	27.8	44.9	32.3	54.7	23.8	36.7
Specialty lines	29.7	38.7	68.5	121.4	111.2	73.9
Total	**158.1**	**176.3**	**180.7**	**203.9**	**115.0**	**166.8**
Releases as a percentage of net earned premium	9.5%	10.4%	10.2%	10.9%	5.5%	9.3%

The reserve releases in 2018 decreased to $115.0m (2017: $203.9m). Our property division strengthened its reserves materially. Approximately half of this was driven by increasing the reserves for the 2017 catastrophes, notably Hurricane Irma, and the balance was due to higher than expected attritional claims in our property division, particularly in relation to the 2016 and 2017 underwriting years. Our overall reserves for the 2017 catastrophes proved sufficient and the downward revisions in our reinsurance division that counter balanced the increases in the property division were the major driver of that division's release. Our specialty lines division maintained a strong level of reserve release in 2018 at $111.2m (2017: $121.4m) including meaningful amounts from the 2015/2016 cyber portfolio. This part of the specialty lines portfolio is effectively short tail and will show more year on year variability than the balance of the division.

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

Whole account reserve strength within our 5-10% target range (%)

Surplus in net held assets: reserves



Financial review *continued*
Group performance *continued*

Acquisition costs and administrative expenses

Business acquisition costs and administrative expenses increased during 2018 to $811.3m from $773.1m in 2017. The breakdown of these costs is shown below:

	2018 $m	2017 $m
Brokerage costs	461.1	431.1
Other acquisition costs	100.8	88.6
Total acquisition costs	**561.9**	**519.7**
Administrative expenses	249.4	253.4
Total acquisition costs and administrative expenses	**811.3**	**773.1**

Brokerage costs are the premium commissions paid to insurance intermediaries for providing business. As a percentage of net earned premiums they have decreased slightly to 22% in the current year (2017: 23%). 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.

Beazley's overall expense ratio was down by two percent from 41% in 2017 to 39%. It is also flat five years on from 2013 when it was also 39%. The company has always stressed that improving the expense ratio during the phases of stronger growth was a key objective. It is encouraging that this outcome has been achieved whilst at the same time maintaining investment in future growth opportunities.

Foreign exchange

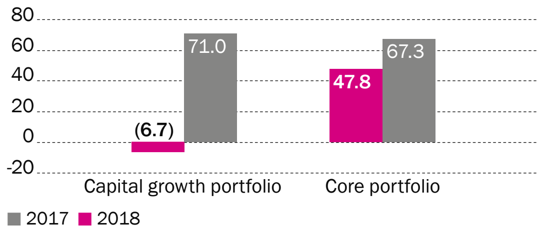
The majority of the group's business is transacted in US dollars, which is the currency the group has reported in since 2010 and the currency in which the group holds its net assets. Changes in the US dollar exchange rate with sterling, the Canadian dollar and the euro do have an impact as we receive premiums in those currencies and a material number of our staff receive their salary in sterling. Beazley's foreign exchange loss taken through the statement of profit or loss in 2018 was $13.8m (2017: loss of $1.9m).

Investment performance

2018 proved to be a difficult year for investments and many asset classes have produced negative returns. Whilst our absolute return was disappointing, most of the portfolio performed well relative to its benchmarks and the management actions of Stuart Simpson and his team had a positive effect at the margin. US interest rates were increased four times as the Federal Reserve continued to reverse the easing monetary policies of recent years and officials indicated that interest rates would continue to rise through 2019. As a result US bond yields rose throughout most of the year, generating capital losses on these securities. These developments, combined with continuing tensions over international trade and signs that global economic growth may be slowing, has led to growing pessimism about prospects for global economic activity, culminating in a significant correction in risk asset values, including equities and credit, in the final quarter of the year.

We reduced our exposure to more volatile capital growth investments from 14.9% to 12.1% of assets during the year, which was beneficial as these exposures produced a negative return in this period, with equities the worst performing asset class as the global equity index declined by more than 7%. We halved our equity exposure, from 3.5% to 1.7% of assets, during the period. Our fixed income investments grew from 75.9% to 81.1% of assets in 2018 and this portfolio returned 1.3%, held back by rising interest rates and widening credit spreads, but helped by the significant decline in US bond yields during December. Our overall investment return for the year ending 31 December 2018 was 0.8%, or $41.1m (2017: 2.9%, $138.3m). Rising yields in 2018 have increased the average yield of our fixed income investments to 3.3% and this should support better investment returns in future periods.

Comparison of returns – major asset classes ($m)



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

	31 Dec 2018 $m	31 Dec 2018 %	31 Dec 2017 $m	31 Dec 2017 %
Cash and cash equivalents	334.0	6.7	439.8	9.0
Fixed and floating rate debt securities				
– Government, quasi-government and supranational	1,410.1	27.9	1,390.6	28.4
– Corporate bonds				
– Investment grade	2,525.3	50.0	2,179.7	44.6
– High yield	32.7	0.6	58.8	1.2
– Senior secured loans	132.1	2.6	85.6	1.7
Derivative financial instruments	6.9	0.1	8.8	0.2
Core portfolio	4,441.1	87.9	4,163.3	85.1
Equity funds	85.4	1.7	168.3	3.5
Hedge funds	337.2	6.7	377.4	7.7
Illiquid credit assets	186.6	3.7	180.4	3.7
Total capital growth assets	609.2	12.1	726.1	14.9
Total	**5,050.3**	**100.0**	**4,889.4**	**100.0**

Comparison of return by major asset class:

	31 Dec 2018 $m	31 Dec 2018 %	31 Dec 2017 $m	31 Dec 2017 %
Core portfolio	47.8	1.1	67.3	1.6
Capital growth assets	(6.7)	(1.0)	71.0	11.0
Overall return	**41.1**	**0.8**	**138.3**	**2.9**

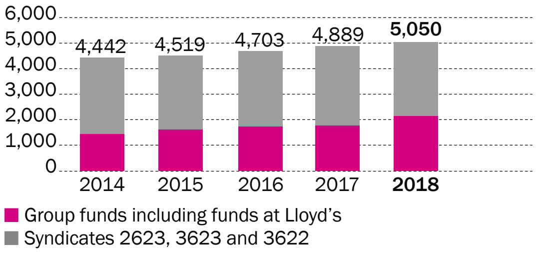
During 2018, the funds managed by the Beazley group increased on the prior year, with financial assets at fair value and cash and cash equivalents of $5,050.3m at the end of the year (2017: $4,889.4m). The chart below shows the increase in our group funds since 2014.

Tax

Beazley Ireland Holdings plc and its subsidiaries are 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 18.6% (2017: 18.7%). The effective tax rate has decreased in 2018 to 11.0% (2017: 22.6%). The decrease has been possible thanks to the revision of prior years' US tax returns to incorporate additional tax deductions for staff costs, including share based payments.

The application of the diverted profits tax legislation passed by the UK 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 9 to the financial statements). Whilst the uncertainty around the legislation remains, the quantum of our earnings that could theoretically fall within its scope grows as the period since the legislation started to apply lengthens.

Beazley group funds ($m)



Financial review *continued*

Balance sheet management

Summary statement of financial position

	2018 $m	2017 $m	Movement %
Intangible assets	126.5	133.5	(5%)
Reinsurance assets	1,192.8	1,231.1	(3%)
Insurance receivables	943.3	918.0	3%
Other assets	423.9	385.4	10%
Financial assets at fair value and cash and cash equivalents	5,050.3	4,889.4	3%
Total assets	**7,736.8**	**7,557.4**	**2%**
Insurance liabilities	5,456.2	5,167.8	6%
Financial liabilities	356.7	367.3	(3%)
Other liabilities	453.7	545.2	(17%)
Total liabilities	**6,266.6**	**6,080.3**	**3%**
Net assets	**1,470.2**	**1,477.1**	**–**

Intangible assets

Intangible assets consist of goodwill on acquisitions of $62.0m (2017: $62.0m), purchased syndicate capacity of $10.7m (2017: $10.7m), US admitted licences of $9.3m (2017: $9.3m), renewal rights of $25.2m (2017: $35.2m) and capitalised expenditure on IT projects of $19.3m (2017: $16.3m).

Reinsurance assets

Reinsurance assets represent recoveries from reinsurers in respect of incurred claims of $951.7m (2017: $993.2m), and the unearned reinsurance premiums reserve of $241.1m (2017: $237.9m). The reinsurance receivables from reinsurers are split between recoveries on claims paid or notified of $231.9m (2017: $219.4m) and an actuarial estimate of recoveries on claims that have not yet been reported of $719.8m (2017: $773.8m). 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). The chart on page 35 shows the profile of these assets (based on their S&P rating) at the end of 2018;
- timely calculation and issuance of reinsurance collection notes from our ceded reinsurance team; and
- regular monitoring of the outstanding debtor position by Beazley plc's reinsurance security committee and its credit control committee.

We continue to provide against impairment of reinsurance recoveries, and at the end of 2018 our provision in respect of reinsurance recoveries totalled $12.2m (2017: $13.2m).

Insurance receivables

Insurance receivables are amounts receivable from brokers in respect of premiums written. The balance at 31 December 2018 was $943.3m (2017: $918.0m).

Other assets

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

- deferred acquisition costs of $307.4m (2017: $281.4m);
- profit commissions of $5.9m (2017: $10.1m); and
- deferred tax assets available for use against future taxes payable of $28.9m (2017: $6.9m).

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 seen across the insurance market. Costs identified as related to acquisition are then deferred in line with premium earnings.

Insurance liabilities

Insurance liabilities of $5,456.2m (2017: $5,167.8m) consist of two main elements, being the unearned premium reserve (UPR) and gross insurance claims liabilities.

Our UPR has increased by 12% to $1,415.5m (2017: $1,259.2m). 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 $1,171.2m (2017: $1,056.3m) and an estimate of claims incurred but not yet reported (IBNR) of $2,869.5m (2017: $2,852.3m). These are estimated as part of the quarterly reserving process involving the underwriters and group actuary. Gross insurance claims reserves have increased 3% from 2017 to $4,040.7m (2017: $3,908.6m).

Financial liabilities

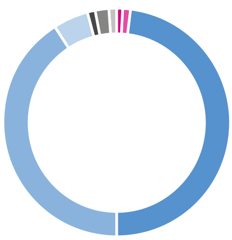
Financial liabilities comprise borrowings and derivative financial liabilities. The group utilises two long term debt facilities:

- 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.

In October 2018, the group exercised its call option and redeemed the full nominal amount of $18.0m subordinated debt issued in 2004.

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 by Beazley Ireland Holdings plc's parent company, Beazley plc, 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, borne by Beazley plc, 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.

Reinsurance debtor credit quality



AA+	1%
AA	1%
AA-	48%
A+	41%
A	5%
A-	1%
Collateralised	2%
Others	1%

Financial review *continued*

Capital structure

Capital structure

The group 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). The Beazley plc group 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 company board will consider returning capital to Beazley plc.

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.

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

	2018 $m	2017 $m
Shareholders' funds	1,470.2	1,477.1
Tier 2 subordinated debt (2026)	248.7	248.5
Retail bond (2019)	95.6	99.5
Long term subordinated debt (2034)	–	18.0
	1,814.5	**1,843.1**

Our funding comes from a mixture of our own equity alongside $248.7m of tier 2 subordinated debt and a $95.6m retail bond.

The changes in the US tax legislation announced towards the end of 2017 have led us to reconsider how risk is distributed across the group and following changes to the group's internal reinsurance programs, more premium and more risk is retained within the US in our admitted insurance company, BICI. As a result of this, BICI has required a c.$80m increase in its capital, which was partially offset by a decrease in the Lloyd's ECR. The net impact on the group's capital requirement was not material. These changes do not impact how the group manages its operations. We expect that the group's revised internal reinsurance arrangements may still result in some exposure to the new US BEAT tax, but that it will not have any significant impact on the group's effective tax rate.

The final Lloyd's economic capital requirement (ECR) at year end 2018 as confirmed by Lloyd's is consistent with our projection at the interim results and reflects our plans for growth. Overall we expect our capital requirement to increase in line with the net written premiums in our business plan, which in the short term should be high single digit growth.

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

	2018 $m	2017 $m
Lloyd's economic capital requirement (ECR)	1,594.5	1,517.2
Capital for US insurance company	173.4	96.5
	1,767.9	**1,613.7**

Surplus capital is assessed on a Beazley plc group level. At 31 December 2018, the Beazley plc group had surplus capital of 26% of ECR (on a Solvency II basis). Following payment of the second interim dividend of 7.8p by Beazley plc, this surplus reduces to 23% compared to the current target range of 15% to 25% of ECR. Should the capital surplus be assessed on a Beazley Ireland Holdings plc group level, the surplus would be 26% of ECR and 23% after paying out the second interim dividend of £40m to its parent, Beazley plc.

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. During 2018 the second annual solvency financial condition report (SFCR) of Beazley Insurance dac was published.

Under Solvency II requirements, the syndicates and Beazley Insurance dac are 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.

The current SCR has been established using our Solvency II internal model approved by Central Bank of Ireland (CBI). In order to perform the capital assessment:

- 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.

IFRS 17

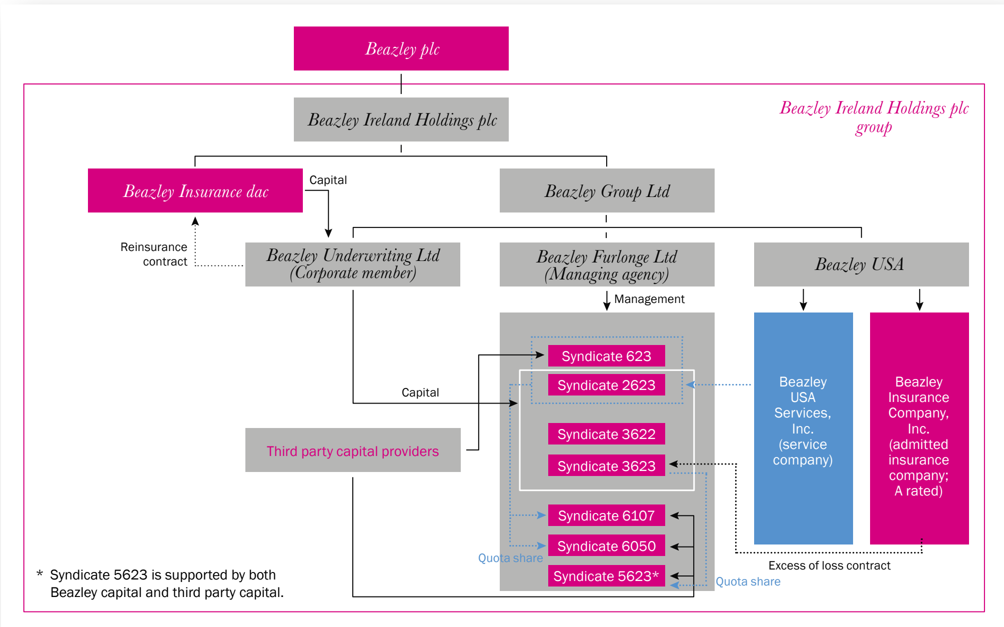
The implementation of IFRS 17: Insurance contracts is currently scheduled for accounting periods commencing on or after 1 January 2021, although a 12 month deferral is widely expected. Applying this standard is a major undertaking and so Beazley has established a multi-disciplinary project group to oversee this activity. The project has made good progress during 2018 and the group's preparations for IFRS 17 are on schedule.

Group structure

The Beazley Ireland Holdings plc group operates across Lloyd's, Europe, Asia, Canada and the US through a variety of legal entities and structures. The company holds £75m sterling denominated notes. The main entities within the legal entity structure are as follows:

- 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 – insurance company based in Ireland that accepts non-life reinsurance premiums ceded by the corporate member, Beazley Underwriting Limited and also writes business directly from Europe;
- Syndicate 2623 – corporate body regulated by Lloyd's through which the group underwrites its general insurance business excluding accident, life and facilities. 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 provided 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.

Beazley plc is the ultimate group holding company and the immediate parent of Beazley Ireland Holdings plc, as well as an investment vehicle, quoted on the London Stock Exchange.



Operational update

Maintaining operations and preparing our business for high performance in an increasingly digital world

To support the group's continuing growth we have developed a scalable and efficient operating platform that through focused investment has become an important competitive advantage. A high performing global operations function relies on us maintaining consistency in operational standards throughout the group, while simultaneously being prepared to try new things and leverage our depth of insurance operations expertise to give us a lead over the competition. In order to achieve this, we pursue our group operations strategy. This focuses on the areas below:

Supporting growth initiatives

In support of our growth plan, we have continued to enhance our infrastructure so that we can bring attractive new products to market as efficiently as possible. Expanded versions of our products such as Information Security for mid-sized and large businesses, and expanded regulatory coverage for nutraceutical firms are examples of products we launched in 2018.

We have also supported the launch of several financial lines products in Europe via our Europe based insurance company. Key to growing the distribution of smaller risk business has been the ongoing expansion of our myBeazley.com e-trading platform. The latest e-trading product launches have been for our financial lines market offering, with a new management liability package product delivered in October 2018, with subsequent go-lives planned in early 2019 for France and Spain. Meanwhile in the US, another myBeazley.com product launch was the small enterprise MediaTech package, which provides a quick and simple way for small businesses to access specialist insurance coverage.

Supporting business growth relies on effective processes and systems, but it is also important that we have a high quality working environment that is conducive to team working and thought leadership. In 2018, we opened a new larger Munich office that will help to increase our access to continental European business. We also opened a new Birmingham office which has the capacity to take over 150 staff. This office now provides both an operations hub to support our UK and European growth, and also a facility to make it easier for UK regional brokers to access our business.

Cost efficiency

The group is organised to a large degree around global underwriting and claims teams. This model has served us well in ensuring that products that succeed in one market can be swiftly introduced in others. However, it is important that this does not result in back office systems and support resources becoming duplicative or the administration of insurance transactions impeding the business in any way.

In pursuit of greater efficiency and consistency of operational service, we have centralised operations support or outsourced it where this brings further value. We want to make sure that operations and processing are done by appropriately skilled people, at the most cost effective location, whilst providing the best service levels. To help achieve this we have built operations service centres in Connecticut and Georgia, both in the US, and the new Birmingham office provides a cost-effective alternative to London. It also benefits from excellent access to skills relevant to the group's future growth plans, for example in technology, data analytics and financial services support generally.

We also make use of global outsourcing agreements for business processing support and information technology support. These arrangements have been carefully planned and selected to ensure we can maximise a highly efficient and scalable operating platform to support our business growth. A significant proportion of our IT is now outsourced to specialist technology vendors. Not only has this enabled us to deliver far more for our shareholders' money, but it has also been a source of expertise and ideas that would have been difficult to build in-house.

Managing operational risk effectively

Effective risk management requires clear visibility of the level of operational risk we maintain. Critical to supporting an effective control environment is consistency of ownership for operations support and the provision of management information.

A widely discussed topic across our industry is the preparation for the UK departure from the EU. We have worked closely with the Lloyd's Brussels subsidiary and our regulators to make sure that we are operationally ready for a post Brexit world.

Over the last two years, another area of focus across our industry was the preparation for the General Data Protection Regulation (GDPR) which came into effect in May 2018. We see the privacy of our customer data, and the rights associated to the use of personal data, as very important to preserve. In previous years, the group has made significant investment in this area and so our preparation for GDPR had been a continuation of this work. We completed our GDPR readiness project prior to the May deadline and believe that we have put the necessary measures in place to be GDPR compliant.

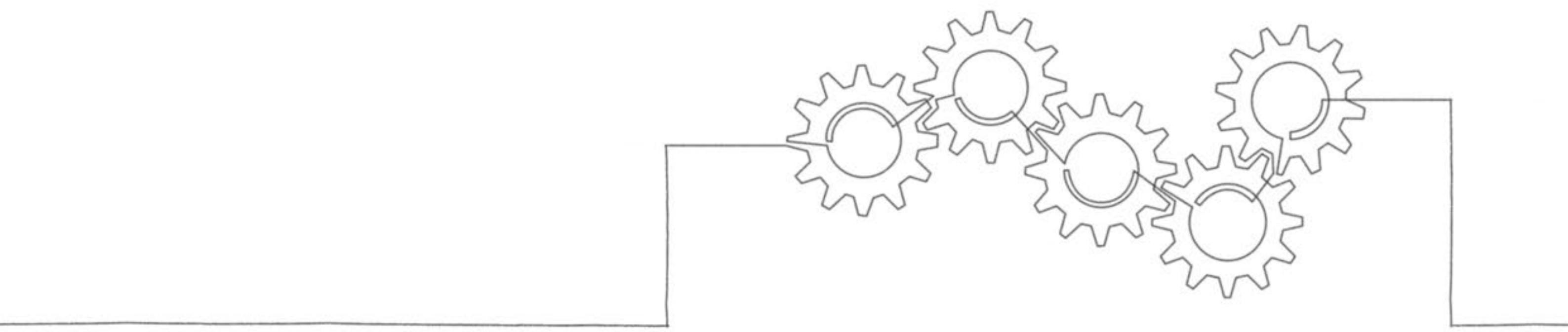
Digital transformation

We have had some notable successes in the two years since establishing the Beazley Labs team, which provides dedicated resource for researching new technology and data analytics solutions. One has been the implementation of a permanent robotics development team that is steadily eliminating manual or repetitive tasks within our back office. We have run several data analysis trials which have generated new insights to support our specialist underwriting and claims handling. A recent example was the use of natural language processing software to identify patterns within high volumes of US hospital claims data. The analysis has been used to identify correlations between key terms in submission data and claims activity, and these are now used to support our medical malpractice underwriting and to provide risk management advice back to our clients.

We can see many applications of data and technology across our business, and there continues to be a flow of technology innovations that we could pursue. However, as we move further into the digital age, we recognise that it's not just about the technology. To truly transform our business and make it fit for a digital environment, there are other areas we must focus on:

1) Applying technology and data to our business model

Our specialist insurance business provides cover for a broad range of client risks – both smaller risks such as those covered by our SME business products, and larger complex risks such as those covered by our marine energy products. Different technology solutions are best applicable to different points on this spectrum of risk size and complexity. So that we best leverage technology, we have created two new strategic initiatives: Beazley Digital to focus on our smaller and higher volume underwriting; and Faster, Smarter Underwriting to focus on our larger and more complex risk underwriting.



Operational update *continued*

The goal of Beazley Digital is to take out any unnecessary points of manual interaction in the underwriting process, which is key to writing profitable business and to minimising response times for our higher volume products. The main technologies that we are applying here are: myBeazley.com, for our brokers wanting an end-to-end electronic trading portal; natural language processing, to enable us to quickly extract underwriting data from the high volumes of submission emails we receive; and Application Programming Interfaces (APIs), so that we can interface directly with broker IT systems and provide quotes or policies without any re-keying required by either the broker or our staff. In an increasingly connected world, we see APIs as a critical technology for transacting business. In 2018, for example, in partnership with a large broker, we launched our cyber pricing API in both Spain and Australia.

Faster, Smarter Underwriting aims to use technology and data to support the expert judgement of our underwriters. The types of technology most applicable here are data science tools which identify correlations in external data sets that could enhance our underwriting decisions. A practical example of this is with our Reputational Risk product, which uses a technology to provide the underwriters with public sentiment trends on emerging risks being discussed on social media.

2) Building an agile delivery capability
One thing is certain in a digital world – business agility is key. Beazley is well regarded for its innovation in specialist insurance. To stay ahead of the competition, we seek to innovate in an increasingly agile way, taking new ideas to the market quickly, gathering feedback, evolving or failing them fast. This is why during 2018 we restructured our operations and technology teams to what we call a platform delivery model.

Instead of delivering change and technology via many individual projects, we have reorganised our teams into ‘platforms’ that are aligned both to the markets that Beazley operates in, and to the type of business being written. Each platform has an annual delivery budget within which there is greater flexibility afforded to the relevant business lines on how the budget is applied, and with the discipline of achieving against specific business outcomes aligned to our group strategy – such as increasing cost efficiency and responsiveness in customer service.

The move to the platform delivery model has enabled us to increase the speed of process and technology delivery by using an agile approach. This is instead of a more conventional ‘waterfall’ delivery approach which could in the past impede our ability to deliver new ideas quickly. Today, we often start the process of solving a business problem or addressing an opportunity by running a ‘hackathon’, where we put underwriting, operations and technology talent together for a short and intensive period of delivery. An early notable success has been our US operations platform, which has managed to cut its product delivery time by half.

3) Developing our talent to best leverage technology
We are investing in our workforce to ensure we have the right blend of skills for the future. This means that our talent development programmes are placing emphasis on cross-skilled staff so they can operate in a more digital insurance market. In practice this means underwriters with increased understanding of technology, and similarly technology teams with greater knowledge of how specialist underwriting works. The outcome we strive for is to put technology and data at the centre of our specialist underwriting proposition. It also means we are increasingly equipped for changes driven by our business partners – ranging from brokers wanting to trial new digital distribution methods to better understanding new insurance risks such as the growth in crypto currencies.

4) Creating the optimum physical environment
Although the group receives plenty of interest when attracting new operations and technology talent, we recognise that our working environment needs to keep evolving to maintain this attraction and to then retain and further motivate this talent. In 2017 we commenced a project to develop our larger offices into activity based working (ABW) environments. Although one benefit of ABW is more efficient use of office space, it also creates a physical and technology environment that maximises the potential for our staff to carry out their daily activities. In 2018 we opened our first ABW environment in the Birmingham office and we are in the process of building ABW offices in Toronto and New York, both opening in 2019. We have also signed a lease for a London office move in 2020. The new London office will also be an ABW environment.

As we proceed into 2019 we are well placed not only as a high performing specialist insurer, but also because we have developed great strength in our operational capability. The changes we have made in 2018 will allow us to build on this operational strength and ensure we remain a high performing specialist insurer in an increasingly digital world.

Risk management

Creating the environment for sustainable growth

2018 in review

Beazley Ireland Holdings plc's group risk management is undertaken by the Beazley plc risk management team. A key design principle of the risk management framework is that all members of staff are responsible for identifying, managing and communicating risk. Whilst this activity is supported by the risk management function, all Beazley staff understand that with the benefits of an empowered culture comes the responsibility for identifying and managing risk. This is particularly important when an organisation is navigating above average levels of change.

In 2018, the group has successfully responded to both external and internal change.

External change

The main political change that the group continued to navigate in 2018 was Brexit, although this is not a significant risk as only around 4% of Beazley's premium originates from the EU. Despite the uncertainty throughout the year, a cross functional working group has prepared the group for the worst case scenario of a hard Brexit, which is where the UK leaves the EU without agreements and a transitional period. From an underwriting perspective, the EU risks expiring from 1 January 2019 have been successfully renewed. Generally the renewals have been onto the newly established Lloyd's Brussels platform. However EU renewals within the specialty lines and reinsurance divisions have been written on the Beazley Insurance dac platform where clients have requested it. From a staff perspective, we continue to work with the 40 EU nationals (3% of employees) who are working in our UK offices to minimise the impact of Brexit on them. As such, the group has successfully navigated the key risks of a potential hard Brexit. Since such a hard Brexit is not certain, our preparations have also considered two other potential outcomes in order to ensure that the group is able to operate in every eventuality; namely 1) some form of transitional arrangement or 2) the UK decides not to leave the EU prior to Brexit.

In light of political decisions in the US, the group reviewed its intragroup reinsurance arrangements, which resulted in more premium being retained in the US in Beazley Insurance Company Inc. with a corresponding reduction in premium in syndicate 3623 at Lloyd's of London. Two key consequences of this change are that the group is slightly less capital efficient, as the change has required a c.$80m increase in the US capital which was partially offset by a specific reduction in our Lloyd's ECR, and the risk profile of syndicate 3623 is more diversified with a relatively equal mix of specialty lines risks and personal accident risks. This was an example of an important use of our internal model to balance risk and capital resources. These changes however did not impact how the group manages its operations.

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

The introduction of IFRS 17 will change the way that the group measures and reports the profitability of our insurance contracts to the market in the future. A multi-year programme of work has been progressing as planned during 2018 to ensure that our data and systems are able to meet the new accounting requirements when they come into force, while continuing to support our internal management practices.

We have included a new section within this risk management report (see page 45) covering the impact of climate change on the group. A key aspect of Beazley's business model is to support clients who have been affected by natural catastrophes, helping them return to pre-catastrophe conditions as soon as possible. In addition, we explain how climate change could affect the group's own risk profile, highlighting how we respond to these risks. These include the performance of our insurance contracts, the investments we make, the office spaces we occupy, the companies we partner with and our travel footprint.

Internal change

The Beazley plc board undertook regular reviews of Beazley's strategy which culminated in wide ranging discussions at the Beazley plc strategy day in May. As a result, four new strategic initiatives were identified to support the group's vision. The first, Beazley Digital, looks at how we can use technology to transact and process smaller, simpler business.

Risk management *continued*

The second, Faster, Smarter Underwriting, aims to equip underwriters with data and analytics to better support the underwriting of larger, more complex business. The third is about getting closer to our clients to better understand how we can support their risk management either with existing insurance products or by designing innovative new products to tackle a risk that our clients are worrying about. Finally, the fourth initiative is how we can do more in the London market, particularly because this is the core part of our risk profile.

The risk management function is also providing assurance to the group that it continues to operate within risk appetite and is supported in this by internal audit who have completed an audit of risk culture.

The group's risk profile has altered with the exit from the construction and engineering class of business within the property division and the closing the office in Norway, which underwrote part of our energy class of business within the marine division. Growth continues in the US with the $1bn annual managed premiums milestone being reached during 2018. The Beazley plc chief risk officer completed his secondment to the Atlanta office and provided a report to the Beazley plc board. This report provided assurance that the US operations have coped well with the recent growth and that processes and practices have evolved to adapt to the risks and challenges associated with operating a larger company. As such, the US operations are well placed to achieve the planned growth over the next five years.

Finally, we have introduced a number of new working practices across the group to provide our staff with the best environment and to continue to attract new talent to the group. This included starting to introduce activity based working environments in our larger offices, which provide staff with the space most conducive to the task in hand. We have also provided staff with technology to be able to work remotely and to work more flexibly around our core hours, so that Beazley employees can better balance the demands of work and personal life. We now also provide staff with flexibility to dress for the day. These various changes help ensure that our staff can perform to the best of their ability, which helps to lower the operational risk inherent in the company.

The group's approach of empowering all our employees, coupled with thoughtful 'management of risk' means that we can nimbly respond to and manage change, which creates the right environment for delivering sustainable growth.

The latest Beazley plc chief risk officer report to the Beazley plc board has confirmed that the control environment has not identified any significant failings or weaknesses in key processes and that Beazley is operating within risk appetite as at 31 December 2018.

Risk management philosophy

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

Risk management strategy

The Beazley plc board has delegated executive oversight of the risk management department to the Beazley plc executive committee, which in turn has delegated immediate oversight to the Beazley plc risk and regulatory committee. The Beazley plc board has also delegated oversight of the risk management framework to the Beazley plc audit and risk committee, and the primary regulated subsidiary boards have each established a risk committee.

Clear roles, responsibilities and accountabilities are in place for the management of risks and controls, and all employees are aware of the role they play in all aspects of the risk management process, from identifying sources of risk to playing their part in the control environment. The impact of each risk is recorded in the risk register on a 1:10 likelihood of that risk manifesting in the next 12 months. A risk owner has been assigned responsibility for each risk, and it is the responsibility of that individual to periodically assess the impact of the risk and to ensure appropriate risk mitigation procedures are in place. External factors facing the business and the internal controls in place are routinely reassessed and changes made when necessary.

On an annual basis, the risk appetite is agreed for each risk event and this is documented in the risk management framework document. The residual financial impact is managed in a number of ways, including:

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

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

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

Risk management framework

Beazley takes an enterprise-wide approach to managing risk following the group's risk management framework. The framework establishes our approach to identifying, measuring, mitigating and monitoring the group's key risks. Beazley has adopted the 'three lines of defence' framework: namely business risk management, the risk management function and the internal audit function. Within business risk management, there are two defined roles: risk owner and control reporter. Each risk event is owned by the risk owner, who is a senior member of staff.

Risk owners, supported by the risk management team, perform a risk assessment twice a year, including an assessment of heightened and emerging risks.

The risk management framework comprises a number of risk management components, which when added together describe how risk is managed on a day to day basis. The framework includes a risk register that captures the risk universe (53 risk events grouped into eight risk categories: insurance, market, credit, liquidity, operational, regulatory and legal, group and strategic), the risk appetite set by the Beazley plc board, and the control environment that is operated by the business to remain within the risk appetite.

In summary, the Beazley plc board identifies risk, assesses risk and sets risk appetite on behalf of the group. The business then implements a control environment which describes how the business should operate to stay within risk appetite. Risk management then reports to the Beazley plc board on how well the business is operating using a risk management report.

For each risk, the risk management report brings together a view of how successfully the business is managing risk, qualitative commentary from the assurance functions and whether there have been any events that we can learn from (risk incidents).

Finally, the framework is continually evaluated and where appropriate improved, through the consideration of stress and scenario testing, themed reviews using risk profiles and an assessment of strategic and emerging risks. There were no material changes made during 2018.

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

Business risk management
Risk ownership

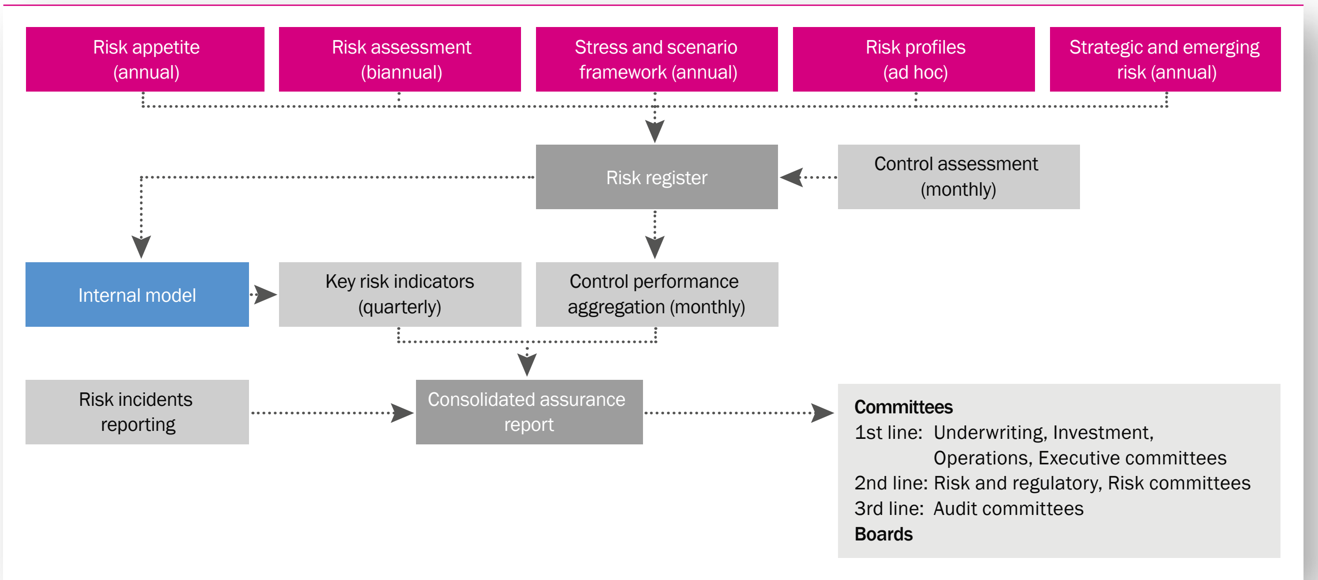
- *Identifies risk*
- *Assesses risk*
- *Mitigates risk*
- *Monitors risk*
- *Records status*
- *Remediates when required*

Risk management
Risk oversight

- *Are risks being identified?*
- *Are controls operating effectively?*
- *Are controls being signed off?*
- *Reports to committees and board*

Internal audit
Risk assurance

- *Independently tests control design*
- *Independently tests control operation*
- *Reports to committees and board*



Risk management *continued*

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

The risks to financial performance

The Beazley plc board and committees monitor and manage risk on behalf of its subsidiaries, including Beazley Ireland Holdings plc.

Risks are grouped into eight categories, which cover the universe of risk that could affect Beazley. There have been no new risk areas identified and no major shifts in existing risks. The following two risk categories are deemed to be the most significant.

Insurance risk

Given the nature of the group's business, the key risks that impact financial performance arise from insurance activities. The main insurance risks can be summarised in the following categories:

- **Market cycle risk:** The risk of systematic mispricing of the medium tailed specialty lines business which could arise due to a change in the US tort environment, changes to the supply and demand of capital, and companies using incomplete data to make decisions. This risk would affect multiple classes within the specialty lines division across a number of underwriting years. The group uses a range of techniques to mitigate this risk including sophisticated pricing tools, analysis of macro trends, analysis of claim frequency and the expertise of our experienced underwriters and claims managers.
- **Natural catastrophe risk:** The risk of one or more large events caused by nature affecting a number of policies and therefore giving rise to multiple losses. Given the group's risk profile, such an event could be a hurricane, major windstorm or earthquake. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.
- **Non-natural catastrophe risk:** This risk is similar to natural catastrophe risk except that multiple losses arise from one event caused by mankind. Given the group's risk profile, examples include a coordinated cyber attack, an act of terrorism, an act of war or a political event. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area
- **Reserve risk:** The group has a consistent reserving philosophy. However, there is a risk that the reserves put aside for expected losses turn out to be insufficient. This could be due to any of the three drivers of risk described above. The group uses a range of techniques to mitigate this risk including a detailed reserving process which compares, claim by claim, estimates established by the claims team with a top down statistical view developed by the actuarial team. A suite of metrics is also used to ensure consistency each year.
- **Single risk losses:** Given the size of policy limits offered on each risk, it is unlikely that the poor performance of one policy will have a material impact on the group's financial performance.

Strategic risk

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

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

- **Flight:** There is a risk that Beazley could be unable to deliver its strategy due to the loss of key personnel. Beazley has controls in place to identify and monitor this risk, for example through succession planning.
- **Crisis management:** This is the risk caused by the destabilising effect of the group having to deal with a crisis and is mitigated by having a detailed crisis management plan.
- **Corporate transaction:** There is a risk that Beazley could undertake a corporate transaction which did not return the expected value to shareholders of Beazley plc. This risk is mitigated through the due diligence performed, the financial structure of transactions and the implementation activity.

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

Other risks

The remaining six risk categories monitored by the board are:

- **Market (asset) risk:** This is the risk that the value of investments could be adversely impacted by movements in interest rates, exchange rates, default rates or external market forces. This risk is monitored by the Beazley plc investment committee.
- **Operational risk:** This risk is the failure of people, processes and systems or the impact of an external event on Beazley's operations, and is monitored by the Beazley plc operations committee. An example would be a cyber attack having a detrimental impact on our operations.
- **Credit risk:** Beazley has credit risk to its reinsurers, brokers and coverholders of which the reinsurance asset is the largest. The Beazley plc underwriting committee monitors this risk.
- **Regulatory and legal risk:** This is the risk that Beazley might fail to operate in line with the relevant regulatory framework in the territories where it does business. Of the eight risk categories, the board has the lowest tolerance for this risk. This risk is monitored by the Beazley plc risk and regulatory committee.
- **Liquidity risk:** This is the risk that the group might not have sufficient liquid funds following a catastrophic event. The Beazley plc investment committee monitors this risk which, given the nature of the asset portfolio, is currently small.
- **Group risk:** The structure of the Beazley group is not complex and so the main group risk is that one group entity might operate to the detriment of another group entity or entities. This includes, for example, changes in tax legislation such as the US Tax Cuts and Jobs Act enacted in late 2017 which affects which types of intragroup reinsurance it is efficient for Beazley to use. The risk is monitored at the Beazley plc board level through receiving the reports from each entity.

Anti-bribery and corruption risk

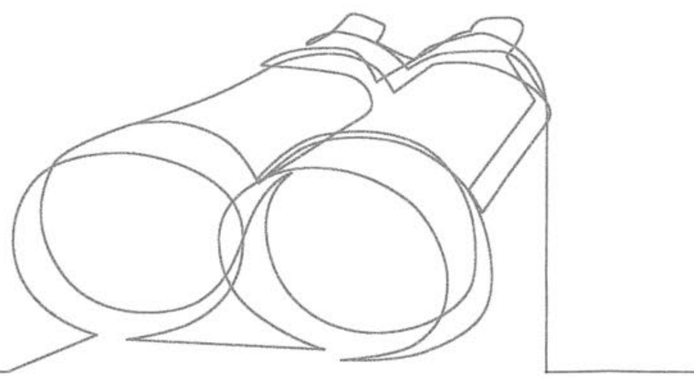
The group also considered anti-bribery and corruption risk across all risk categories. We are committed to ensuring that all business is conducted in an ethical and honest manner, and that we are not involved in any illicit activity as defined under the UK Bribery Act and US Foreign Corrupt Practices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

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

Climate change risk

The warming of the global climate is recognised as an important emerging risk due to its widespread potential impact on the global population, environment and economy. A key aspect of the group's business model is to support our clients who have been affected by natural catastrophes, helping them return to pre-catastrophe conditions as soon as possible. As a specialist insurer, various classes of business we underwrite are subject to the effect climate change presents to the risk environment.

As part of the underwriting process, we work with our insureds to understand the risks facing their organisation, including applicable climate related risks, to tailor insurance coverages to mitigate the associated financial risks.



Risk management *continued*

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

- **Pricing risk:** This is the risk that current pricing levels do not adequately consider the prospective impact of climate change resulting in systemic underpricing of climate exposed risks. The group's business planning process establishes how much exposure in certain classes of business or geographic area we wish to accept. We benefit from a feedback loop between our claims and underwriting teams to ensure that emerging claims trends and themes can be contemplated in the business planning process, the rating tools and the underwriter's risk by risk transactional level considerations. Our underwriters are empowered to think about climate risk during their underwriting process in order to determine the implication on each risk.

- **Catastrophe risk:** This is the risk that current models do not adequately capture the impact of climate change on the frequency, severity or nature of natural catastrophes or other extreme weather events that could drive higher-than-expected insured losses. The group utilises commercial catastrophe models to facilitate the estimation of aggregate exposures based on the group's underwriting portfolio. These catastrophe models are updated to reflect the latest scientific perspectives. Catastrophe models are evolving to include new or secondary perils which may be related to climate change. In addition, the group runs a series of Natural Catastrophe Realistic Disaster Scenarios (RDS's) on a monthly basis which monitors the group's exposure to certain scenarios that could occur. These RDS's include hurricanes in the US, typhoons in Japan, European windstorms and floods in the UK.

- **Reserve risk:** This is the risk that established reserves are not sufficient to reflect the ultimate impact climate change may have on paid losses. This includes liability risk unanticipated losses arising from our clients facing litigation if they are held to be responsible for contributing to climate change, or for failing to act properly to respond to the various impacts of climate change. With support from our group actuarial team, claims teams and other members of management the group establishes financial provisions for our ultimate claims liabilities. The group maintains a consistent approach to reserving to help mitigate the uncertainty within the reserves estimation process.

- **Asset risk:** This is the risk that climate change has a significant impact across a number of industries which may negatively impact the value of investments in those companies. The group considers the impact of climate change on its asset portfolio by seeking to incorporate an assessment of environmental risks in the investment process. We subscribe to the research services of a specialist company in the field of environmental, social and governance research and have integrated their proprietary ratings into the internal credit process applied to investments in corporate debt securities. A minimum standard for the economic scenario generator performance is defined and companies not meeting the required standard will be excluded from the approved list of issuers. The analysis also includes a consideration of the sustainability of each company with regard to the potential decline in demand in specific sectors.

- **External event risk:** This is the risk that the physical impact of climate related events has a material impact on our own people, processes and systems leading to increased operating costs or the inability to deliver uninterrupted client service. The Beazley plc group has business continuity plans in place to minimise the risk of an interrupted client service in the event of a disaster.

- **Commercial management risk:** The group aims to minimise where possible the environmental impact of our business activities and those that arise from the occupation of our office spaces. As we operate in leased office spaces our ability to direct environmental impacts is limited. However, we do choose office space and engage with our employees, vendors and customers in an effort to reduce overall waste and our environmental footprint.

- **Credit risk:** As a result of material natural catastrophe events, there is a risk that our reinsurance counterparties are unable to pay reinsurance balances due to Beazley. If the frequency or severity of these events is increased due to climate change this could have a corresponding increase on credit risk. An important consideration when placing our reinsurance programme is evaluation of our counterparty risk. Every potential reinsurer is evaluated through a detailed benchmarking which considers: financial strength ratings, capital metrics, performance metrics as well as other considerations.

- **Regulatory and legal risk:** Regulators, investors and other stakeholders are becoming increasingly interested in companies' response to climate change. Failure to appropriately engage with these stakeholders and provide transparent information may result in the risk of reputational damage or increased scrutiny. The group regularly monitors the regulatory landscape to ensure that we can adhere to any changes in relevant laws and regulations. This includes making any necessary regulatory or statutory filings with regard to climate risk.

- **Liquidity risk:** Linked to the underwriting and credit risks noted above, there is a risk that losses resulting from unprecedented natural disasters or extreme weather could erode our ability to pay claims and remain solvent. Capital at a 1:200 level is established by Beazley plc group and is based on the prevailing business plan.

- **Strategic risk:** This is the risk that our strategy fails to effectively consider climate change resulting in our business planning not adapting fast enough to respond to changes in wider claims trends. This creates a transition risk that our underwriting portfolio might not keep pace with the changes, being heavily exposed to declining industries and failing to capitalise on the opportunities. The emerging Risks analysis and business planning process seeks to mitigate this risk through horizon scanning for our longer-tail book, while we are able to be more flexible in responding to events impacting our short tail exposures.

Directors' report

Principal activity
Beazley Ireland Holdings plc is an intermediary holding company and the parent company of Beazley Group Limited (the intermediate holding company for the majority of the subsidiaries of the Beazley group) and Beazley Insurance dac.

Management report
The directors' report, together with the strategic report on pages 1 to 46, serves as the management report for the purpose of Disclosure and Transparency Rule 4.1.8R.

Directors' responsibilities
The statement of directors' responsibilities in respect of the annual report and financial statements is set out on page 49.

Review of business
A more detailed review of the business for the year and a summary of future developments are included in the 2018 in review, underwriting review and the financial review sections of this report.

Results and dividends
The consolidated profit before taxation for the year ended 31 December 2018 amounted to $78.0m (2017: $171.5m).

A 2018 first interim dividend of £21.0m (2017: £20.0m) was paid to the company's immediate parent company, Beazley plc, on 17 August 2018. On 27 February 2019 the directors declared a 2018 second interim dividend of £40.0m (2017: £40.0m) payable to Beazley plc prior to 20 March 2019.

Going concern
A review of the financial performance of the group is set out on pages 28 to 37. The financial position of the group, its cash flows and borrowing facilities are included therein.

After reviewing the group's budgets and medium term plans, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Directors
The directors of the company who served during 2018 and to the date of this report were as follows:

Christopher Carl Whitmore Jones	Director
Niall Peter Lillis	Director
Edward Joseph McGivney	Director
Christine Paula Oldridge	Director

Company secretary
The company secretary of the company who served during 2018 and to the date of this report was as follows:

Christine Paula Oldridge	Company secretary

Donations
No political donations were made by the group in either the current or prior reporting period.

Risk management
The group's approach to risk management is set out on pages 41 to 46 and further detail is contained in note 2 to the financial statements on pages 76 to 88.

Directors' report *continued*

Recent developments and post balance sheet events
Recent developments and post balance sheet events are given in note 33 to the financial statements on page 123.

Likely future developments
Information relating to likely future developments can be found in the strategic report.

Research and development
In the ordinary course of business the group develops new products and services in each of its business divisions and develops IT solutions to support the business requirements.

Share capital
The company has ordinary shares in issue. Ordinary shares therefore represent 100% of the total issued share capital as at 31 December 2018 and 27 February 2019. Details of the ordinary share capital during the year can be found in note 21 on page 105.

Auditor
Beazley plc's auditor, KPMG LLP, will be subject to mandatory rotation in Ireland after the 2018 year end and therefore the Beazley plc board decided to conduct a tender for the audit services for the whole group. Following a rigorous process, Beazley Ireland Holdings plc is pleased to announce that it has appointed EY as its auditor for financial periods incepting on or after 1 January 2019. This is subject to Beazley plc receiving approval for EY's appointment from Beazley plc shareholders at its next AGM. KPMG will resign as auditor following completion of the 31 December 2018 audit.

Audit committee
Beazley plc, the ultimate controlling parent within the Beazley plc group, prepares consolidated financial statements which incorporate the interests of Beazley Ireland Holdings plc and has an audit committee. The directors are therefore of the opinion that an audit committee is not required for the company. This opinion will be reassessed on an ongoing basis.

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

By order of the board, covering the strategic report from pages 1 to 46 and the directors' report from pages 47 to 48.

C Jones
Director
2 Northwood Avenue
Santry
Dublin
D09 X5N9
Ireland

27 February 2019

Statement of directors' responsibilities in respect of the annual report and financial statements

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with Companies (Jersey) Law, 1991. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Beazley plc website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report/directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

E McGivney
Director

C Jones
Director

27 February 2019

Independent Auditor's Report to the Members of Beazley Ireland Holdings plc

Our opinion is unmodified

We have audited the consolidated financial statements (the "Consolidated Financial Statements") of Beazley Ireland Holdings plc (the "Company") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Company and Group as at 31 December 2018, and of the Group's financial performance and the Group's cash flows for the year then ended;
- are prepared in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Companies (Jersey) Law, 1991.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company and Group in accordance with, UK ethical requirements including FRC Ethical Standards as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Key Audit Matters: our assessment of the risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, were as follows:

	The risk	Our response
Valuation of insurance liabilities ($2,869.5m, gross, $2,149.7m, net; 2017: $2,852.3m, gross, $2,078.5m, net) *Refer to page 67 (Statement of accounting policies) and page 107 (financial disclosures).*	**Subjective valuation:** Insurance liabilities represent the single largest liability for the Group. valuation of these liabilities is highly judgemental because it requires a number of assumptions to be made with high estimation uncertainty such as expected loss ratios, estimates of ultimate premium and of the frequency and severity of claims and, where appropriate, the discount rate for longer tail classes of business by territory and line of business. The determination and application of the methodology and performance of the calculations are also complex. These judgemental and complex calculations for insurance liabilities are also used to derive the valuation of the related reinsurance assets. A margin is added to the actuarial best estimate of insurance liabilities to make allowance for specific risks identified in assessment of the best estimate. The appropriate margin to recognise is a subjective judgement and estimate taken by the directors, based on the perceived uncertainty and potential for volatility in the underlying claims. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of insurance liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. **Completeness and accuracy of data:** The valuation of insurance liabilities depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating the insurance liabilities, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise.	We used our own actuarial specialists to assist us in performing our procedures in this area. Our procedures included: — **Sector experience and benchmarking:** Performed benchmarking of the Group's ultimate loss ratios, initial expected loss ratios, premium rate change and expectations of total losses on natural catastrophes, in order to identify specific trends and outliers; — **Re-projections:** Used our projection of premiums and claims (on a gross and net basis) and compared these with the Group's estimates to assess their reasonableness. — **Methodology assessment:** Assessed the reserving assumptions and methodology (on a gross basis and net of outwards reinsurance) for reasonableness and consistency year on year, including inspecting the Group's margin paper. — **Actual versus expected testing:** Challenged the quality of the Group's historical reserving estimates by monitoring progression of loss ratios against expectations. — **Assessing transparency:** Considered the adequacy of the Group's disclosures in respect of the valuation of insurance liabilities. In addition to the procedures above, the audit team performed procedures to assess the completeness and accuracy of data: — **Data reconciliations:** Checked the completeness and accuracy of the data used within the reserving process by reconciling the actuarial source data to the financial systems. We have also checked the completeness and accuracy of the data flow from the claims and policy systems into the financial systems primarily by performing substantive testing over data reconciliations. **Our results** — We found the resulting estimate of insurance liabilities to be acceptable. (2017 result: acceptable).

	The risk	Our response
Recoverability of insurance receivables and reinsurance assets (Insurance receivables $943.3m; 2017: $918.0m, Reinsurance assets: $1,192.8m; 2017: $1,231.1m) *Refer to page 70 (Statement of accounting policies) and pages 104 and 105 (financial disclosures).*	**Recoverability of debtors** — **Insurance receivables:** The ability to identify, monitor and age insurance debtors relies on the timely availability of reliable data. The availability of this data is also impacted by the source, being either settled direct through intermediaries or through Xchanging. — **Reinsurance assets:** Major catastrophes could impair the Group's ability to recover incurred losses from its reinsurers, depending on the financial strength of the counterparties, which would then impact the recoverability of reinsurance assets. In recent years, Beazley has adopted a consistent approach in determining the bad debt provisions to be booked in the financial statements. However, judgement is required in ensuring this approach remains relevant and that any aged balances are being given appropriate attention. The effect of these matters is that, as part of our risk assessment, we determined that the recoverability of insurance receivables and reinsurance assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	Our procedures included: — **Data reconciliation:** Reperformed the Group's prepared reconciliations between Xchanging and the Group's financial systems; — **Assessing future premium debtors:** Performed an analysis over the unsigned debtors within the insurance receivables balance in order to assess the valuation and recoverability of the debtors. — **Provisioning analysis:** Critically assessed, based on our sector expertise, the adequacy of the provisioning policy in place for Beazley by assessing and investigating any material movements in policy and the overall percentage of bad debt during the reporting period. — **Recoverability assessment:** Considered potential indications of non-recovery for a sample of reinsurance assets, in light of the credit standing of the counterparty and age of the debt. — **Assessing transparency:** Considered the adequacy of the Group's disclosures in respect of the recoverability of insurance receivables and reinsurance assets. **Our results** — We found the resulting estimate of the recoverability of insurance and reinsurance debtors to be acceptable (2017 result: acceptable).

	The risk	*Our response*
Valuation of hard to value investments ($523.8m; 2017: $557.8m) *Refer to page 145 (Statement of accounting policies) and page 72 (financial disclosures).*	**Subjective valuation:** A proportion of the Group's investment assets are comprised of either illiquid credit assets or investments in hedge funds. These assets are inherently harder to value due to the inability to obtain a market price of these assets as at the balance sheet date. As such there is judgement involved in the valuation of these assets. The valuation of the investments are based on third party valuation reports which are received at dates other than the year end date. The investments are subject to variations in value between the date of the valuation report and the period end date. These variations where applicable require judgement to assess whether adjustments are required to the valuation of the investments at the period end date. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of hard to value investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	Our procedures included: — **Reconciliation controls:** Tested the design and operating effectiveness of the controls associated with the existence and valuation of the hedge funds and illiquid credit assets. — **Comparing valuations:** For investments in hedge funds we inspected the financial statements of the underlying funds to assess that the valuation approach was acceptable. — **Historical accuracy:** For illiquid credit assets and investments in hedge funds the historical accuracy of the valuations was assessed by comparing interim valuation reports to the final year-end reports for prior periods. — **Roll forward testing:** Assessed the quantum of change in the valuation of investments between the early close date and the period end date to consider whether there was a material movement post the early close date that required adjustment. — **Assessing transparency:** Considered the adequacy of the Group's disclosures in respect of the valuation of hard to value investments. **Our results** — We found the resulting estimate of the valuation of hard to value investments to be acceptable. (2017 result: acceptable).

	The risk	Our response
Valuation of gross premium written estimates ($2,615.3m; 2017: $2,343.8m) *Refer to page 69 (Statement of accounting policies) and page 89 (financial disclosures).*	**Subjective valuation** There are adjustments made to gross premiums written to reflect adjustments to ultimate premium estimates, binding authority contract ('binders') adjustments, reinstatement premiums and other ad hoc adjustments to premium income. There is a large proportion of premium is written through the Group syndicates via binders. Such premiums are uncertain at inception and the model used in the recognition and earning of such premiums is subject to judgement and estimation. There is an increased risk of premium estimates being misstated as a result of the early close process which requires Beazley to estimate the premiums relating to the month of December and where necessary make adjustments at the period end. The effect of these matters is that, as part of our risk assessment, we determined that valuation of gross premium written estimates has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	Our procedures included: — **Retrospective analysis:** Critically assessed the Group's past expertise in making premium estimates by comparing the estimates and actuals for prior years for a sample of binders. We also compared the Group's estimate of gross premiums written between the early close date and reporting date to actuals. — **Methodology assessment:** Inspected the binder adjustment calculation and agreed that the methodology remains consistent and appropriate in the context of the timing of business written throughout the year. — **Independent reperformance:** Recalculated, on a sample basis, the earning of premium and investigated any changes to earnings patterns. — **Assessing transparency:** Considered the adequacy of the Group's disclosures in respect of the valuation of gross premium written estimates. **Our results** — We found the resulting estimate of the valuation of estimated premium to be acceptable. (2017 result: acceptable).

	The risk	*Our response*
Parent: Recoverability of parent company's investment in subsidiaries ($747.2m; 2017: $747.2m) *Refer to page 68 (Statement of accounting policies) and page 122 (financial disclosures).*	**Low risk, high value** The carrying amount of the parent company's investments in subsidiaries represents 99% (2017: 99%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: — **Tests of detail:** Comparing the carrying amount of 100% of investments with the relevant subsidiaries' financial statements/draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. — **Assessing subsidiary audits:** Assessing the findings of the audit work performed by the relevant component auditors and whether these findings provide any indicators that the value of the subsidiaries may be impaired. **Our results** — We found the Group's assessment of the recoverability of the parent company's investment in subsidiaries to be acceptable. (2017 result: acceptable).

Our application of materiality and an overview of the scope of our audit

Materiality for the Group Financial Statements as a whole was set at $20.0m, determined with reference to a benchmark of Group Gross premiums written of $2,615.3m, of which it represents 0.76% (2017: 0.85%). In addition, we applied materiality of $10m (31 December 2017: $10m) for UK balances other than insurance and reinsurance technical balances and investments, for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could be reasonably expected to influence the company's members' assessment of the financial performance of the Group.

Materiality for the parent company financial statements as a whole was set at $7m (31 December 2017: $7m), determined with reference to a benchmark of 2017 total assets (of which it represents 0.94%, 31 December 2017 0.93%). We have used total assets as the benchmark rather than profit before tax because the purpose of the entity is to act as the ultimate parent company of the Group and hold investments in other Group companies and not to generate profits.

We reported to the Directors any corrected or uncorrected identified misstatements exceeding $1m ($0.5m for non-technical), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Group was undertaken to the materiality level specified above, which has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality level set out above and covered 99% of total Group revenue, 100% of total Group profit before tax, 97% of total Group assets and 100% of total Group liabilities.

We have nothing to report on going concern

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

We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the Financial Statements. Our opinion on the Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

We have nothing to report on other matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the parent company; or
- the parent Financial Statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 49, the Directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

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

The purpose of this report and restrictions on its use by persons other than the Company's members as a body

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Daniel Cazeaux
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants and Recognised Auditors
15 Canada Square
London, E14 5GL

27 February 2019

Financial statements

Consolidated statement of profit or loss

for the year ended 31 December 2018

	Notes	2018 $m	2017 $m
Gross premiums written	3	2,615.3	2,343.8
Written premiums ceded to reinsurers		(366.8)	(365.0)
Net premiums written	3	**2,248.5**	**1,978.8**
Change in gross provision for unearned premiums		(167.6)	(118.4)
Reinsurer's share of change in the provision for unearned premiums		3.7	9.0
Change in net provision for unearned premiums		**(163.9)**	**(109.4)**
Net earned premiums	3	**2,084.6**	**1,869.4**
Net investment income	4	41.1	138.3
Other income	5	33.7	35.5
		74.8	**173.8**
Revenue		**2,159.4**	**2,043.2**
Insurance claims		1,463.9	1,388.0
Insurance claims recoverable from reinsurers		(236.1)	(312.3)
Net insurance claims	3	**1,227.8**	**1,075.7**
Expenses for the acquisition of insurance contracts	3	561.9	519.7
Administrative expenses	3	249.4	253.4
Foreign exchange loss	3	13.8	1.9
Operating expenses		**825.1**	**775.0**
Expenses	3	**2,052.9**	**1,850.7**
Share of profit in associates	14	–	0.1
Impairment of investment in associate	14	(7.0)	–
Results of operating activities		**99.5**	**192.6**
Finance costs	8	(21.5)	(21.1)
Profit before income tax		**78.0**	**171.5**
Income tax expense	9	(8.6)	(38.8)
Profit for the year attributable to equity shareholders		**69.4**	**132.7**

Statement of comprehensive income

for the year ended 31 December 2018

	2018 $m	2017 $m
Group		
Profit for the year attributable to equity shareholders	69.4	132.7
Other comprehensive income		
Items that will never be reclassified to profit or loss:		
Loss on remeasurement of retirement benefit obligations	(1.5)	(0.6)
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange translation differences	(2.1)	2.9
Total other comprehensive income	(3.6)	2.3
Total comprehensive income recognised	**65.8**	**135.0**

Statement of comprehensive income

for the year ended 31 December 2018

	2018 $m	2017 $m
Company		
Profit for the year attributable to equity shareholders	76.0	73.6
Total comprehensive income recognised	**76.0**	**73.6**

Statement of changes in equity

for the year ended 31 December 2018

	Notes	Share capital $m	Share premium $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Group							
Balance at 1 January 2017		**37.2**	**12.0**	**(97.4)**	**(10.9)**	**1,529.7**	**1,470.6**
Total comprehensive income recognised		–	–	2.9	–	132.1	135.0
Dividends paid	11	–	–	–	–	(136.8)	(136.8)
Tax on share option vestings	9	–	–	–	–	8.3	8.3
Balance at 31 December 2017		**37.2**	**12.0**	**(94.5)**	**(10.9)**	**1,533.3**	**1,477.1**
Total comprehensive income recognised		–	–	(2.1)	–	67.9	65.8
Dividends paid	11, 22	–	–	–	(4.5)	(78.4)	(82.9)
Tax on share option vestings	9	–	–	–	–	10.2	10.2
Balance at 31 December 2018		**37.2**	**12.0**	**(96.6)**	**(15.4)**	**1,533.0**	**1,470.2**

Statement of changes in equity

for the year ended 31 December 2018

	Notes	Share capital $m	Share premium $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Company							
Balance at 1 January 2017		**37.2**	12.0	**(35.9)**	**(30.9)**	**731.3**	**713.7**
Total comprehensive income recognised		–	–	–	–	73.6	73.6
Dividends paid	11	–	–	–	–	(136.8)	(136.8)
Balance at 31 December 2017		**37.2**	**12.0**	**(35.9)**	**(30.9)**	**668.1**	**650.5**
Total comprehensive income recognised		–	–	–	–	76.0	76.0
Dividends paid	11, 22	–	–	–	(4.5)	(78.4)	(82.9)
Balance at 31 December 2018		**37.2**	**12.0**	**(35.9)**	**(35.4)**	**665.7**	**643.6**

Statements of financial position

as at 31 December 2018

	Notes	2018 Group $m	2018 Company $m	2017 Group $m	2017 Company $m
Assets					
Intangible assets	12	126.5	–	133.5	–
Plant and equipment	13	4.9	0.2	4.4	0.3
Deferred tax asset	27	28.9	–	6.9	–
Investment in subsidiaries	30	–	747.2	–	747.2
Investment in associates	14	–	–	7.0	–
Deferred acquisition costs	15	307.4	–	281.4	–
Reinsurance assets	19, 23	1,192.8	–	1,231.1	–
Financial assets at fair value	16, 17	4,716.3	–	4,449.6	–
Insurance receivables	18	943.3	–	918.0	–
Other receivables		64.0	–	68.5	4.1
Current income tax asset		18.7	–	17.2	–
Cash and cash equivalents	20	334.0	0.1	439.8	0.1
Total assets		**7,736.8**	**747.5**	**7,557.4**	**751.7**
Equity					
Share capital	21	37.2	37.2	37.2	37.2
Share premium		12.0	12.0	12.0	12.0
Foreign currency translation reserve		(96.6)	(35.9)	(94.5)	(35.9)
Other reserves	22	(15.4)	(35.4)	(10.9)	(30.9)
Retained earnings		1,533.0	665.7	1,533.3	668.1
Total equity		**1,470.2**	**643.6**	**1,477.1**	**650.5**
Liabilities					
Insurance liabilities	23	5,456.2	–	5,167.8	–
Financial liabilities	16, 17, 24	356.7	95.6	367.3	99.5
Retirement benefit liability	26	2.4	–	2.3	–
Deferred tax liability	27	9.1	–	9.9	–
Other payables	25	442.2	8.3	533.0	1.7
Total liabilities		**6,266.6**	**103.9**	**6,080.3**	**101.2**
Total equity and liabilities		**7,736.8**	**747.5**	**7,557.4**	**751.7**

The financial statements were approved by the board of directors on 27 February 2019 and were signed on its behalf by:

E McGivney
Director

C Jones
Director

27 February 2019

Statements of cash flows

for the year ended 31 December 2018

	Notes	2018 Group $m	2018 Company $m	2017 Group $m	2017 Company $m
Cash flow from operating activities					
Profit before income tax		**78.0**	**76.0**	**171.5**	**73.6**
Adjustments for:					
Amortisation of intangibles	12	12.6	–	11.6	–
Net fair value loss/(gain) on financial assets		53.7	–	(69.6)	–
Share of profit in associates	14	–	–	(0.1)	–
Impairment of investment in associate	14	7.0	–	–	–
Depreciation of plant and equipment	13	2.1	0.1	2.7	0.2
Impairment of reinsurance assets (written back)/recognised	6	(1.0)	–	0.6	–
Increase in insurance and other payables		197.6	6.6	542.2	0.1
Decrease/(increase) in insurance, reinsurance and other receivables		18.5	4.1	(295.5)	57.5
Increase in deferred acquisition costs		(26.0)	–	(38.6)	–
Financial income	4	(102.6)	(78.0)	(76.6)	(80.9)
Financial expense	8	21.5	5.6	21.1	5.3
Foreign exchange on financial liabilities		(4.1)	(4.1)	4.6	4.6
Income tax paid		(21.1)	–	(27.9)	–
Net cash generated from operating activities		**236.2**	**10.3**	**246.0**	**60.4**
Cash flow from investing activities					
Purchase of plant and equipment	13	(2.6)	–	(1.7)	–
Expenditure on software development	12	(7.2)	–	(9.3)	–
Purchase of investments		(2,686.2)	–	(3,299.3)	–
Proceeds from sale of investments		2,376.9	–	3,093.7	–
Sale of associate	14	–	–	3.0	–
Sale of LAH renewal rights		–	–	0.8	–
Acquisition of subsidiaries (net of cash)		–	–	(31.8)	–
Interest and dividends received		102.6	78.0	74.5	80.9
Net cash (used in)/from investing activities		**(216.5)**	**78.0**	**(170.1)**	**80.9**
Cash flow from financing activities					
Finance costs		(21.1)	(5.4)	(20.7)	(5.1)
Repayment of borrowings		(18.0)	–	–	–
Dividend paid		(82.9)	(82.9)	(136.8)	(136.8)
Net cash used in financing activities		**(122.0)**	**(88.3)**	**(157.5)**	**(141.9)**
Net decrease in cash and cash equivalents		**(102.3)**	–	**(81.6)**	**(0.6)**
Cash and cash equivalents at beginning of year		439.8	0.1	507.2	0.7
Effect of exchange rate changes on cash and cash equivalents		(3.5)	–	14.2	–
Cash and cash equivalents at end of year	20	**334.0**	**0.1**	**439.8**	**0.1**

Notes to the financial statements

1 Statement of accounting policies

Beazley Ireland Holdings plc (registered number 102680) is a company incorporated in Jersey and domiciled in Ireland. The company's registered address is 2 Northwood Avenue, Santry, Dublin D09 X5N9, Ireland. The group financial statements for the year ended 31 December 2018 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 statements of the parent company, Beazley Ireland Holdings 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 s105 of the Companies (Jersey) Law 1991 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 begins on or after 1 January 2018. The new effective requirements are:
- IFRS 2: Amendment: Classification and Measurement of Share-based Payment Transactions (EU effective date: 1 January 2018);
- IFRS 4: Amendment: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (EU effective date: 1 January 2018);
- IFRIC 22: Foreign Currency Transactions and Advance Consideration (EU effective date: 1 January 2018);
- IAS 40: Amendment: Transfers of Investment Property (EU effective date: 1 January 2018);
- Annual Improvements to IFRS Standards 2014-2016 Cycle (EU effective date: 1 January 2018); and
- Clarifications to IFRS 15: Revenue from Contracts with Customers (EU effective date: 1 January 2018).

These amendments did not result in a material impact on the financial statements of the company.

An additional standard, IFRS 15: Revenue from Contracts with Customers, has been applied when preparing these financial statements. The new standard has no material impact on the financial statements. Note 5 provides an income breakdown for each contract type within the scope of IFRS 15. When recognising profit commission from syndicate 623, the revenue is recognised on a year of account basis as soon as the year of account becomes profitable. No other significant judgements were made when recognising income from other contracts. All related balances are classified as receivables and included within the other receivables line in the statement of financial position.

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 9: Financial Instruments (EU effective date: 1 January 2018, deferred in line with implementation of IFRS 17);
- IFRS 9: Amendment: Prepayment Features with Negative Compensation (EU effective date: 1 January 2019);
- IFRIC 23: Uncertainty over Income Tax Treatments (EU effective date: 1 January 2019);
- IFRS 17: Insurance Contracts (IASB effective date: 1 January 2021);[1]
- IAS 19: Amendment: Plan Amendment, Curtailment or Settlement (IASB effective date: 1 January 2019);[1]
- IAS 28: Amendment: Long-term Interests in Associates and Joint Ventures (EU effective date: 1 January 2019);
- Annual Improvements to IFRS Standards IFRS Standards 2015-2017 Cycle (IASB effective date: 1 January 2019);[1]
- Amendments to References to the Conceptual Framework in IFRS Standards (IASB effective date: 1 January 2020);
- IFRS 3: Amendment: Business Combinations (IASB effective date: 1 January 2020);[1] and
- IAS 1 and IAS 8: Amendment: Definition of Material (IASB effective date: 1 January 2020).[1]

1 Have not been endorsed by EU.

The following upcoming standards have been reviewed:
- IFRS 16: Leases (EU effective date: 1 January 2019).

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

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. For IFRS 16 a full impact assessment has been carried out and processes put in place for transition on 1 January 2019. The accounting developments and implementation timelines of IFRS 17 and IFRS 9 are being closely monitored and the impacts of the standards themselves are being assessed. A brief overview of each of these 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. During 2018, the group undertook a number of tasks in preparation for IFRS 17. These tasks included completing various modelling exercises to understand the data requirements needed under IFRS 17. Various assumptions have also been agreed upon such as unit of account and whether to pursue the general measurement model (building block approach) or the simplified model (premium allocation approach) or to use both for different contracts. A more detailed update will be provided after the implementation has been completed.
- As was stated in the 2017 annual report, the group chose to apply the temporary exemption permitted by IFRS 4 from applying IFRS 9: Financial Instruments. The group qualifies for this exemption as at 31 December 2015 $5,040.7m or 95% of its total liabilities were connected with insurance. There has been no change in the group's activities since 31 December 2015, therefore the exemption still remains. Beazley Ireland Holdings plc as a standalone company adopted IFRS 9 from 1 January 2018. The company has financial liabilities in the form of a retail bond with a carrying value as at 31 December 2018 of $95.6m. This retail bond is held at amortised cost which is consistent with IFRS 9 requirements. Therefore there was no impact on the company's financial statements from adopting this standard. The group has also disclosed information in relation to specific types of financial instruments to ensure the comparability with the entities applying IFRS 9. As such, fair values are disclosed separately for the group's financial assets which are managed and evaluated on a fair value basis and those which meet the solely payments of principal and interest (SPPI) test under IFRS 9. Below is a table outlining the fair value of assets which are managed and evaluated on a fair value basis and those which meet the SPPI test under IFRS 9. The information on credit exposures can be found in note 2 to the financial statements on page 84.

	2018 $m	2017 $m
Financial assets managed and evaluated on a fair value basis		
Cash and cash equivalent	334.0	439.8
Fixed and floating rate debt securities:		
– Government issued	1,384.2	1,345.4
– Quasi-government	25.9	24.1
– Supranational	–	21.1
– Corporate bonds		
– Investment grade	2,525.3	2,179.7
– High yield	32.7	58.8
– Senior secured loans	132.1	85.6
Equity funds	85.4	168.3
Hedge funds	337.2	377.4
Illiquid credit assets	186.6	180.4
Derivative financial assets	6.9	8.8
Total financial assets managed and evaluated on a fair value basis	**5,050.3**	**4,889.4**
Financial assets meeting the SPPI test		
Insurance receivables	943.3	918.0
Other receivables	64.0	68.5
Total financial assets meeting the SPPI test	**1,007.3**	**986.5**

1 Statement of accounting policies *continued*

- IFRS 16, effective from 1 January 2019, replaces the existing leases standard IAS 17: Leases, and introduces a single, on-balance-sheet accounting model for leases, where distinction between operating and finance leases is eliminated. The standard will 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 2018 the group's future minimum estimated payments under non-cancellable lease contracts amounted to $35.6m. This represents the value of the opening lease liability on the statement of financial position as at 1 January 2019. The group has three portfolios of leases: IT equipment, vehicles and property. The group does not have any instances where it is a lessor or is involved in a sublease arrangement. The group has taken the approach of recognising a right-of-use asset of the same amount as the lease liability on initial recognition as at 1 January 2019. With regard 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 with interest expense now being contained within finance costs, but the depreciation of the right-of-use asset going through administrative expenses. This is expected to have the overall impact of reducing administrative expenses and increasing finance costs. The net impact is a reduction to profit before tax. On transition to the new standard the group will opt to retain prior period figures as reported under the previous standards as per the modified retrospective approach of transition. The cumulative effect of applying IFRS 16 will have an immaterial impact on the opening balance in 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 in US dollars and millions, unless stated otherwise.

The financial statements of Beazley Ireland Holdings 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 in 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 in note 23. 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 2018 is $2,869.5m (2017: $2,852.3m). The total estimate for insurance losses incurred but not reported net of reinsurers' share as at 31 December 2018 is $2,149.7m (2017: $2,078.5m) and is included within total insurance liabilities and reinsurance assets in the statement of financial position and in note 23.

The claims handling expense provision is based on a set percentage of IBNR which is reviewed on an annual basis.

The best estimate of the most likely ultimate outcome is used when calculating notified claim. This estimate is based upon the facts available at the time, in conjunction with the claims manager's view of likely future developments.

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).

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

Other key estimates contained within our close process are premium estimates and the earning pattern of recognising premium over the life of the contract. In the syndicates the premium written is initially based on the estimated premium income (EPI) of each contract. Where premium is sourced through binders, the binder EPI is pro-rated across the binder period. This is done on a straight-line basis unless the underlying writing pattern from the prior period indicates the actual underlying writing pattern is materially different. The underwriters adjust their EPI estimates as the year of account matures. As the year of account closes premiums are adjusted to match the actual signed premium. An accrual for estimated future reinstatement premiums is retained. Premiums are earned on a straight-line basis over the life of each contract. At a portfolio level this is considered to provide a reasonable estimate for the full year of the pattern of risk over the coverage period.

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 also specifically in the following notes:
- note 1a: accounting treatment for the group's interest in managed syndicates; and
- note 12: intangible assets including goodwill (assumptions underlying recoverable amounts).

Consolidation

a) Subsidiary undertakings

Subsidiary undertakings are entities controlled by the group. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The group has used the acquisition method of accounting for business combinations arising on the purchase of subsidiaries. Under this method, the cost of acquisition is measured as the fair value of assets given, shares issued or liabilities undertaken at the date of acquisition directly attributable to the acquisition. The excess of the cost of an acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired is recorded as goodwill. The accounting treatment of acquisition expenses per IFRS 3 (2008) has changed; however, as the group applied the revised standard prospectively to all business combinations from 1 January 2010 there is no impact on accounting for the acquisition of subsidiaries made in previous periods.

For all business combinations from 1 January 2010:
(i) transaction costs, other than those associated with the issue of debt or equity securities, that the group incurs in connection with a business combination, are expensed as incurred;
(ii) in addition, any consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognised in profit or loss; and
(iii) any contingent consideration is measured at fair value at the acquisition date.

Equity financial investments made by the parent company in subsidiary undertakings and associates are stated at cost in its separate financial statements and are reviewed for impairment when events or changes in circumstances indicate the carrying value may be impaired.

Certain group subsidiaries underwrite as corporate members of Lloyd's on syndicates managed by Beazley Furlonge Limited. In view of the several and direct liability of underwriting members at Lloyd's for the transactions of syndicates in which they participate, only attributable shares of transactions, assets and liabilities of those syndicates are included in the group financial statements. The group continues to conclude that it remains appropriate to consolidate its share of the result of these syndicates and accordingly, as the group is the sole provider of capacity on syndicates 2623, 3622 and 3623, these financial statements include 100% of the economic interest in these syndicates. For the other syndicates to which Beazley is appointed managing agent, being syndicates 623, 6107, and 6050, for which the capacity is provided entirely by third parties to the group, these financial statements reflect Beazley's economic interest in the form of agency fees and profit commission to which it is entitled. In 2018, the group also consolidated a 33.85% of the business written through syndicate 5623, which is aligned with Beazley Corporate Member No.3 Limited's participation in the syndicate.

1 Statement of accounting policies *continued*

b) Associates

Associates are those entities over which the group has power to exert significant influence but which it does not control. Significant influence is generally presumed if the group has between 20% and 50% of voting rights. Investments in associates are accounted for using the equity method of accounting. Under this method the investments are initially measured at cost and the group's share of post-acquisition profits or losses is recognised in the statement of profit or loss. Therefore the cumulative post-acquisition movements in the associates' net assets are adjusted against the cost of the investment.

When the group's share of losses equals or exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition for the losses is discontinued except to the extent that the group has incurred obligations in respect of the associate. Equity accounting is discontinued when the group no longer has significant influence over the investment.

c) Intercompany balances and transactions

All intercompany transactions, balances and unrealised gains or losses on transactions between group companies are eliminated in the group financial statements. Transactions and balances between the group and associates are not eliminated.

Foreign currency translation

a) Functional and presentational currency

Items included in the financial statements of the parent and the subsidiaries are measured using the currency of the primary economic environment in which the relevant entity operates (the functional currency). The group financial statements are presented in US dollars, being the functional and presentational currency of the parent and its main trading subsidiaries, as the majority of trading assets and insurance premiums are denominated in US dollars.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using average exchange rates applicable to the period in which the transactions take place and where the group considers these to be a reasonable approximation of the transaction rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at the period end of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss. Non-monetary items recorded at historical cost in foreign currencies are translated using the exchange rate on the date of the initial transaction.

c) Foreign operations

The results and financial position of the group companies that have a functional currency different from the group presentational currency are translated into the presentational currency as follows:
- assets and liabilities are translated at the closing rate ruling at the statement of financial position date;
- income and expenses for each statement of profit or loss are translated at average exchange rates for the reporting period where this is determined to be a reasonable approximation of the actual transaction rates; and
- all resulting exchange differences are recognised in other comprehensive income and as a separate component of equity.

On disposal of foreign operations, cumulative exchange differences previously recognised in other comprehensive income are recognised in the statement of profit or loss as part of the gain or loss on disposal.

Insurance contracts

Insurance contracts (including inwards reinsurance contracts) are defined as those containing significant insurance risk. Insurance risk is considered significant if, and only if, an insured event could cause Beazley to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Net earned premiums

a) Premiums

Gross premiums written represent premiums on business commencing in the financial year together with adjustments to premiums written in previous accounting periods and estimates for premiums from contracts entered into during the course of the year. Gross premiums written are stated before deduction of brokerage, taxes, duties levied on premiums and other deductions.

b) Unearned premiums

A provision for unearned premiums (gross of reinsurance) represents that part of the gross premiums written that it is estimated will be earned in the following financial periods. It is calculated using the daily pro-rata method, under which the premium is apportioned over the period of risk.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

Deferred acquisition costs (DAC)

Acquisition costs comprise brokerage, premium levy and staff-related costs (excluding performance related pay) of the underwriters acquiring new business and renewing existing contracts. The proportion of acquisition costs in respect of unearned premiums is deferred at the reporting date and recognised in later periods when the related premiums are earned.

Claims

These include the cost of claims and claims handling expenses paid during the period, together with the movements in provisions for outstanding claims, claims incurred but not reported (IBNR) and claims handling provisions. The provision for claims comprises amounts set aside for claims advised and IBNR, including claims handling expenses.

The IBNR amount is based on estimates calculated using widely accepted actuarial techniques which are reviewed quarterly by the group actuary and annually by Beazley's independent syndicate reporting actuary. The techniques generally use projections, based on past experience of the development of claims over time, to form a view on the likely ultimate claims to be experienced.

For more recent underwriting years, attention is paid to the variations in the business portfolio accepted and the underlying terms and conditions. Thus, the critical assumptions used when estimating provisions are that past experience is a reasonable predictor of likely future claims development and that the rating and business portfolio assumptions are a fair reflection of the likely level of ultimate claims to be incurred for the more recent years.

Liability adequacy testing

At each reporting date, liability adequacy tests are performed by segment to ensure the adequacy of the claims liabilities net of DAC and unearned premium reserves. In performing these tests, current best estimates of future contractual cash flows, claims handling and administration expenses, and investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to the statement of profit or loss, initially by writing off DAC and subsequently by establishing a provision for losses arising from liability adequacy tests ('unexpired risk provision').

Ceded reinsurance

These are contracts entered into by the group with reinsurers under which the group is compensated for losses on contracts issued by the group that meet the definition of an insurance contract. Insurance contracts entered into by the group under which the contract holder is another insurer (inwards reinsurance) are included within insurance contracts.

Any benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers and include reinsurers' share of provisions for claims. These balances are based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the period and the current security rating of the reinsurer involved. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The group assesses its reinsurance assets for impairment. If there is objective evidence of impairment, then the carrying amount is reduced to its recoverable amount and the impairment loss is recognised in the statement of profit or loss.

Revenue

Revenue consists of net earned premiums, net investment income and other income (made up of commissions received from Beazley service companies, profit commissions, managing agent's fees and service fees). Profit commissions are recognised as profit is earned. Managing agent's fees are recognised as the services are provided.

Dividends paid

Dividend distributions to the shareholders of the group are recognised in the period in which the dividends are paid, as a first interim dividend and second interim dividend.

1 Statement of accounting policies *continued*

Plant and equipment

All plant and equipment is recorded at cost less accumulated depreciation and any impairment losses. Depreciation is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives as follows:

Fixtures and fittings	Three to ten years
Computer equipment	Three years

These assets' residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may be impaired. If any such condition exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment and the difference is charged to the statement of profit or loss.

Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses.

Goodwill has an indefinite life and is annually tested for impairment. Goodwill is allocated to each cash-generating unit (CGU, being the group's operating segments) for the purpose of impairment testing. Goodwill is impaired when the net carrying amount of the relevant CGU exceeds its recoverable amount, being the higher of its value in use or fair value less costs to sell. Value in use is defined as the present value of the future cash flows expected to be derived from the CGU. On transition to IFRS at 1 January 2004, any goodwill previously amortised or written off was not reinstated.

In respect of equity accounted associates, the carrying amount of any goodwill is included in the carrying amount of the associate, and any impairment is allocated to the carrying amount of the associate as a whole.

b) Syndicate capacity

The syndicate capacity represents the cost of purchasing the group's participation in the combined syndicates. The capacity is capitalised at cost in the statement of financial position. It has an indefinite useful life and is carried at cost less accumulated impairment. It is annually tested for impairment by reference to the latest auction prices provided by Lloyd's.

c) Licences

Licences have an indefinite useful life and are initially recorded at fair value. Licences are annually tested for impairment and provision is made for any impairment when the recoverable amount, being the higher of its value in use and fair value, is less than the carrying value.

d) IT development costs

Costs that are directly associated with the development of identifiable and unique software products and that are anticipated to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include external consultants' fees, certain qualifying internal staff costs and other costs incurred to develop software programs. These costs are amortised over their estimated useful life (three years) on a straight-line basis and subject to impairment testing annually. Other non-qualifying costs are expensed as incurred.

e) Renewal rights

Renewal rights comprise future profits relating to insurance contracts acquired and the expected renewal of those contracts. The costs directly attributable to acquire the renewal rights are recognised as intangible assets where they can be measured reliably and it is probable that they will be recovered by directly related future profits. These costs are subject to an impairment review annually and are amortised on a straight-line basis, based on the estimated useful life of the assets, which is estimated to be between five and 10 years.

Financial instruments

Financial instruments are recognised in the statement of financial position at such time as the group becomes a party to the contractual provisions of the financial instrument. Purchases and sales of financial assets are recognised on the trade date, which is the date the group commits to purchase or sell the asset. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the group's obligations specified in the contract expire, are discharged or are cancelled.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

a) Financial assets

On acquisition of a financial asset, the group is required to classify the asset into one of the following categories: financial assets at fair value through the statement of profit or loss, loans and receivables, assets held to maturity and assets available for sale. The group does not make use of the held to maturity and available for sale categories.

b) Financial assets at fair value through profit or loss

Except for derivative financial instruments and other financial assets listed in policies (f) and (g) below, all financial assets are designated as fair value through the statement of profit or loss upon initial recognition because they are managed and their performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the group's key management. The group's investment strategy is to invest and evaluate their performance with reference to their fair values.

c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortised cost less any impairment losses.

d) Fair value measurement

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.

When available, the group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available as well as representing actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the group establishes fair value using a valuation technique. Valuation techniques include using recent orderly transactions between market participants (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk return factors inherent in the financial instrument. The group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When the transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but before the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. These prices are monitored and deemed to approximate exit price. Where the group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the group entity and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the group believes a third-party market participant would take them into account in pricing a transaction.

Upon initial recognition, attributable transaction costs relating to financial instruments at fair value through profit or loss are recognised in the statement of profit or loss when incurred. Financial assets at fair value through profit or loss are continuously measured at fair value, and changes therein are recognised in the statement of profit or loss. Net changes in the fair value of financial assets at fair value through profit or loss exclude interest and dividend income, as these items are accounted for separately as set out on the next page.

1 Statement of accounting policies *continued*

e) Hedge funds, equity funds and illiquid credit assets

The group invests in a number of hedge funds, equity funds and illiquid credit assets for which there are no available quoted market prices. The valuation of these assets is based on fair value techniques as described above. The fair value of our hedge fund portfolio is calculated by reference to the underlying net asset values (NAVs) of each of the individual funds. Consideration is also given to adjusting such NAV valuations for any restriction applied to distributions, the existence of side pocket provisions and the timing of the latest available valuations. At certain times, we will have uncalled unfunded commitments in relation to our illiquid credit assets. These uncalled unfunded commitments are actively monitored by the group and are disclosed in the notes 2 and 16 to the financial statements. The additional investment into our illiquid credit asset portfolio is recognised on the date that this funding is provided by the group.

f) Insurance receivables and payables

Insurance receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. Insurance receivables are classified as 'loans and receivables' as they are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Insurance receivables are measured at amortised cost less any impairment losses. Insurance payables are stated at amortised cost.

g) Other receivables

Other receivables categorised as loans and receivables are carried at amortised cost less any impairment losses.

h) Investment income

Investment income consists of dividends, interest, realised and unrealised gains and losses and foreign exchange gains and losses on financial assets at fair value through the statement of profit or loss. Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest is recognised on an effective rate basis for financial assets at fair value through the statement of profit or loss. The realised gains or losses on disposal of an investment are the difference between the proceeds and the original cost of the investment. Unrealised investment gains and losses represent the difference between the carrying value at the reporting date, and the carrying value at the previous period end or purchase value during the period.

i) Borrowings

Borrowings are initially recorded at fair value less transaction costs incurred. Subsequently borrowings are stated at amortised cost and interest is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

Finance costs comprise interest, fees paid for the arrangement of debt and letter of credit facilities, and commissions charged for the utilisation of letters of credit. These costs are recognised in the statement of profit or loss using the effective interest method.

In addition, finance costs include gains on the early redemption of the group's borrowings. These gains are recognised in the statement of profit or loss, being the difference between proceeds paid plus related costs and the carrying value of the borrowings redeemed.

j) Other payables

Other payables are stated at amortised cost determined according to the effective interest rate method.

k) Hedge accounting and derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The best evidence of fair value of a derivative at initial recognition is the transaction price. The method of recognising the resulting fair value gains or losses depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in active markets, recent market transactions, and valuation techniques which include discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivative assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the parties intend to settle on a net basis, or realise the assets and settle the liability simultaneously.

The group has not designated any derivatives as fair value hedges, cash flow hedges or net investment hedges and therefore all fair value movements are recorded through profit or loss.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

l) Impairment of financial assets

The group considers evidence of impairment for financial assets measured at amortised cost at both a specific asset and a collective level. The group assesses at each reporting date whether there is objective evidence that a specific financial asset measured at amortised cost is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the assets and that event has an impact on the estimated cash flows of the financial asset that can be reliably estimated. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

If there is objective evidence that impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount and the value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in the statement of profit or loss.

In assessing collective impairment, the group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

m) Cash and cash equivalents

Cash and cash equivalents consist of cash held at bank, cash in hand, deposits held at call with banks, cash held in Lloyd's trust accounts and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These investments have less than three months maturity from the date of acquisition. Cash and cash equivalents are measured at fair value through the profit and loss account.

n) Unfunded commitment capital

Unfunded committed capital arising in relation to certain financial asset investments is not shown on the statement of financial position as unfunded committed capital represents a loan commitment that is scoped out of IAS 39.

Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made by the group for operating leases are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

Employee benefits

a) Pension obligations

The group operates a defined benefit pension plan that is now closed to future service accruals. The scheme is generally funded by payments from the group, taking account of the recommendations of an independent qualified actuary. All employees now participate in defined contribution pension arrangements, to which the group contributes.

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

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income.

1 Statement of accounting policies *continued*

The group also determines the net interest expense/(income) for the period on the net defined benefit liability/(asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset) at the beginning of the annual period, taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the defined benefit liability/(asset) comprises:

- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect of the asset ceiling.

Net interest expense/(income) is recognised in the statement of profit or loss.
Past service costs are recognised as an expense at the earlier of the date when a plan amendment or curtailment occurs and the date when an entity recognises any termination benefits.

For the defined contribution plan, the group pays contributions to a privately administered pension plan. Once the contributions have been paid, the group has no further obligations. The group's contributions are charged to the statement of profit or loss in the period to which they relate.

Income taxes

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised respectively in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the year end reporting date and any adjustments to tax payable in respect of prior periods.

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets are recognised in the statement of financial position to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Provisions and contingencies

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources or economic benefits will be required to settle the obligation, and a reliable estimate of the obligation can be made. Where the group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Contingent liabilities are present obligations that are not recognised because it is not probable that an outflow of resources will be required to meet the liabilities or because the amount of the obligation cannot be measured with sufficient reliability.

Notes to the financial statements *continued*

2 Risk management
The group has identified the risks arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite. The group categorises its risks into eight areas: insurance, strategic, market, operational, credit, regulatory and legal, liquidity and group risk. The sections below outline the group's risk appetite and explain how it defines and manages each category of risk.

The eight categories of risk have also been considered in the context of the company (Beazley Ireland Holdings plc). The following areas are applicable to the company: market, operational, regulatory and legal, and liquidity. The following disclosures cover the company to the extent that these areas are applicable.

The symbol † by a heading indicates that the information in that section has not been audited.

2.1 Insurance risk
The group's insurance business assumes the risk of loss from persons or organisations that are directly exposed to an underlying loss. Insurance risk arises from this risk transfer due to inherent uncertainties about the occurrence, amount and timing of insurance liabilities. The four key components of insurance risk are underwriting, reinsurance, claims management and reserving. Each element is considered below.

a) Underwriting risk
Underwriting risk comprises four elements that apply to all insurance products offered by the group:
- cycle risk – the risk that business is written without full knowledge as to the (in)adequacy of rates, terms and conditions;
- event risk – the risk that individual risk losses or catastrophes lead to claims that are higher than anticipated in plans and pricing;
- pricing risk – the risk that the level of expected loss is understated in the pricing process; and
- expense risk – the risk that the allowance for expenses and inflation in pricing is inadequate.

We manage and model these four elements in the following three categories: attritional claims, large claims and catastrophe events.

The group's underwriting strategy is to seek a diverse and balanced portfolio of risks in order to limit the variability of outcomes. This is achieved by accepting a spread of business over time, segmented between different products, geographies and sizes.

The annual business plans for each underwriting team reflect the group's underwriting strategy, and set out the classes of business, the territories and the industry sectors in which business is to be written. These plans are approved by the Beazley plc board and monitored by the Beazley plc underwriting committee.

Our underwriters calculate premiums for risks written based on a range of criteria tailored specifically to each individual risk. These factors include but are not limited to financial exposure, loss history, risk characteristics, limits, deductibles, terms and conditions and acquisition expenses.

The group also recognises that insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

To address this, the group sets out the exposure that it is prepared to accept in certain territories to a range of events such as natural catastrophes and specific scenarios which may result in large industry losses. This is monitored through regular calculation of realistic disaster scenarios (RDSs). The aggregate position is monitored at the time of underwriting a risk, and reports are regularly produced to highlight the key aggregations to which the group is exposed.

The group uses a number of modelling tools to monitor its exposures against the agreed risk appetite set and to simulate catastrophe losses in order to measure the effectiveness of its reinsurance programmes. Stress and scenario tests are also run using these models. The range of scenarios considered includes natural catastrophe, cyber, marine, liability, political, terrorism and war events.

One of the largest types of event exposure relates to natural catastrophe events such as windstorm or earthquake. Where possible the group measures geographic accumulations and uses its knowledge of the business, historical loss behaviour and commercial catastrophe modelling software to assess the expected range of losses at different return periods. Upon application of the reinsurance coverage purchased, the key gross and net exposures are calculated on the basis of extreme events at a range of return periods.

The group's high level catastrophe risk appetite is set by the board and the business plans of each team are determined within these parameters. The Beazley plc board may adjust these limits over time as conditions change. In 2018 the group operated to a catastrophe risk appetite for a probabilistic 1-in-250 years US event of $416.0m (2017: $370.0m) net of reinsurance. This represented an increase in our catastrophe risk appetite of 12% compared to 2017.

2 Risk management *continued*

Lloyd's has also defined its own specific set of RDS events for which all syndicates with relevant exposures must report. Of these the three largest, net of reinsurance, events which could have impacted the group in 2017 and 2018 are:

Unaudited †

Lloyd's prescribed natural catastrophe event (total incurred losses)	2018 Modelled PML[1] (before reinsurance) $m	2018 Modelled PML[1] (after reinsurance) $m
San Francisco quake (2018: $78.0bn)	704.4	236.9
Gulf of Mexico windstorm (2018: $112.0bn)	595.1	199.0
Los Angeles quake (2018: $78.0bn)	697.2	235.9

Unaudited †

Lloyd's prescribed natural catastrophe event (total incurred losses)	2017 Modelled PML[1] (before reinsurance) $m	2017 Modelled PML[1] (after reinsurance) $m
San Francisco quake (2017: $78.0bn)	676.9	228.2
Gulf of Mexico windstorm (2017: $112.0bn)	609.0	163.3
Los Angeles quake (2017: $78.0bn)	637.3	218.5

1 Probable market loss.

The net of reinsurance exposures for all three scenarios have increased during 2018, with the Gulf of Mexico windstorm increasing the most, by 22%. These increases are being driven by less reinsurance being purchased by the reinsurance division, which was in line with the plan to increase the natural catastrophe risk appetite in 2018.

The net exposure of the group to each of these modelled events at a given point in time is a function of assumptions made about how and where the event occurs, its magnitude, the amount of business written that is exposed to each event and the reinsurance arrangements in place.

The group also has exposure to man-made claim aggregations, such as those arising from terrorism and data breach events. Beazley chooses to underwrite data breach insurance within the specialty lines division using our team of specialist underwriters, claims managers and data breach services managers. Other than for data breach, Beazley's preference is to exclude cyber exposure where possible.

To manage the potential exposure, the Beazley plc board has established a risk budget for the aggregation of data breach related claims which is monitored by reference to the largest of 15 realistic disaster scenarios that have been developed internally. These scenarios have been peer reviewed by an external technical expert and include the failure of a data aggregator, the failure of a shared hardware or software platform, the failure of a cloud provider, the failure of a financial transaction system and four property damage related scenarios. These scenarios include all aspects of coverage, including dependent business interruption. Whilst it is not possible to be precise, as there is sparse data on actual aggregated events, these severe scenarios are expected to be very infrequent. The largest realistic disaster scenario is currently lower than the exposure to the Lloyd's prescribed natural catastrophe events listed above for the group as at 31 December 2018. However, the cost of these scenarios will increase as Beazley continues to grow its data breach product. The clash reinsurance programme that protects the specialty lines account would partially mitigate the cost of most, but not all, data breach catastrophes.

Beazley also reports on cyber exposure to Lloyd's using the three largest internal realistic disaster scenarios and three prescribed scenarios which include both data breach and property damage related cyber exposure. Given Beazley's risk profile, the quantum from the internal data breach scenarios is larger than any of the cyber property damage related scenarios.

To manage underwriting exposures, the group has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry. In 2018, the maximum line that any one underwriter could commit the managed syndicates to was $100m. In most cases, maximum lines for classes of business were much lower than this.

Notes to the financial statements *continued*

2 Risk management *continued*

These authority limits are enforced through a comprehensive sign-off process for underwriting transactions including dual sign-off for all line underwriters and peer review for all risks exceeding individual underwriters' authority limits. Exception reports are also run regularly to monitor compliance.

All underwriters also have a right to refuse renewal or change the terms and conditions of insurance contracts upon renewal. Rate monitoring details, including limits, deductibles, exposures, terms and conditions and risk characteristics are also captured and the results are combined to monitor the rating environment for each class of business.

Binding authority contracts

A proportion of the group's insurance risks are transacted by third parties under delegated underwriting authorities. Each third party is thoroughly vetted by our coverholder approval group before it can bind risks, and is subject to rigorous monitoring to maintain underwriting quality and confirm ongoing compliance with contractual guidelines.

Operating divisions

In 2018, the group's business consisted of five operating divisions. The following table provides a breakdown of gross premiums written by division, and also provides a geographical split based on placement of risk.

2018	UK (Lloyd's)	US (Non-Lloyd's)	Europe (Non-Lloyd's)	Total
Marine	11%	–	–	11%
Political, accident & contingency	8%	1%	–	9%
Property	16%	–	–	16%
Reinsurance	8%	–	–	8%
Specialty lines	40%	16%	–	56%
Total	**83%**	**17%**	**–**	**100%**

2017	UK (Lloyd's)	US (Non-Lloyd's)	Europe (Non-Lloyd's)	Total
Marine	11%	–	–	11%
Political, accident & contingency	9%	–	–	9%
Property	15%	–	–	15%
Reinsurance	9%	–	–	9%
Specialty lines	44%	12%	–	56%
Total	**88%**	**12%**	**–**	**100%**

b) Reinsurance risk

Reinsurance risk to the group arises where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated, result in coverage disputes or prove inadequate in terms of the vertical or horizontal limits purchased. Failure of a reinsurer to pay a valid claim is considered a credit risk which is detailed in the credit risk section on page 83.

The group's reinsurance programmes complement the underwriting team business plans and seek to protect group capital from an adverse volume or volatility of claims on both a per risk and per event basis. In some cases the group deems it more economic to hold capital than purchase reinsurance. These decisions are regularly reviewed as an integral part of the business planning and performance monitoring process.

The Beazley plc reinsurance security committee examines and approves all reinsurers to ensure that they possess suitable security. The group's ceded reinsurance team ensures that these guidelines are followed, undertakes the administration of reinsurance contracts and monitors and instigates our responses to any erosion of the reinsurance programmes.

2 Risk management *continued*

c) Claims management risk

Claims management risk may arise within the group in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. These risks may damage the group brand and undermine its ability to win and retain business, or incur punitive damages. These risks can occur at any stage of the claims life cycle. The group's claims teams are focused on delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business's broader interests. Case reserves are set for all known claims liabilities, including provisions for expenses, as soon as a reliable estimate can be made of the claims liability.

d) Reserving and ultimate reserves risk

Reserving and ultimate reserves risk occurs within the group where established insurance liabilities are insufficient through inaccurate forecasting, or where there is inadequate allowance for expenses and reinsurance bad debts in provisions.

To manage reserving and ultimate reserves risk, our actuarial team uses a range of recognised techniques to project gross premiums written, monitor claims development patterns and stress-test ultimate insurance liability balances. An external independent actuary also performs an annual review to produce a statement of actuarial opinion for reporting entities within the group.

The objective of the group's reserving policy is to produce accurate and reliable estimates that are consistent over time and across classes of business. The estimates of gross premiums written and claims prepared by the actuarial department are used through a formal quarterly peer review process to independently test the integrity of the estimates produced by the underwriting teams for each class of business. These meetings are attended by senior management, senior underwriters, and actuarial, claims, and finance representatives.

2.2 Strategic risk †

This is the risk that the group's strategy is inappropriate or that the group is unable to implement its strategy. Where events supersede the group's strategic plan this is escalated at the earliest opportunity through the group's monitoring tools and governance structure.

Senior management performance

Management stretch is the risk that business growth might result in an insufficient or overly complicated management team structure, thereby undermining accountability and control within the group. As the group expands its worldwide business in the UK, North America, Europe, South America and Asia, management stretch may make the identification, analysis and control of group risks more complex.

On a day-to-day basis, the group's management structure encourages organisational flexibility and adaptability, while ensuring that activities are appropriately coordinated and controlled. By focusing on the needs of their customers and demonstrating both progressive and responsive abilities, staff, management and outsourced service providers are expected to excel in service and quality. Individuals and teams are also expected to transact their activities in an open and transparent way. These behavioural expectations reaffirm low group risk tolerance by aligning interests to ensure that routine activities, projects and other initiatives are implemented to benefit and protect resources of both local business segments and the group as a whole.

2.3 Market risk

Market risk arises where the value of assets and liabilities or future cash flows changes as a result of movements in foreign exchange rates, interest rates and market prices. Efficient management of market risk is key to the investment of group assets. Appropriate levels of investment risk are determined by limiting the proportion of forecast group earnings which could be at risk from lower than expected investment returns, using a 1 in 10 confidence level as a practical measure of such risk. In 2018, this permitted variance from the forecast investment return was set at $150.0m (unaudited). For 2019, the permitted variance is likely to be at the same level. Investment strategy is developed to be consistent with this limit and investment risk is monitored on an ongoing basis, using outputs from our internal model.

Changes in interest rates also impact the present values of estimated group liabilities, which are used for solvency and capital calculations. Our investment strategy reflects the nature of our liabilities, and the combined market risk of investment assets and estimated liabilities is monitored and managed within specified limits.

Notes to the financial statements *continued*

2 Risk management *continued*

a) Foreign exchange risk

The functional currency of Beazley Ireland Holdings plc and its main trading entities is US dollars and the presentational currency in which the group reports its consolidated results is US dollars. The effect of this on foreign exchange risk is that the group is mainly exposed to fluctuations in exchange rates for non-dollar denominated transactions and to net asset translation risk on non-dollar functional currency entities.

The group operates in four main currencies: US dollars, sterling, Canadian dollars and euros. Transactions in all currencies are converted to US dollars on initial recognition with any resulting monetary items being translated to the US dollar spot rate at the reporting date. If any foreign exchange risk arises it is actively managed as described below.

In 2018, the group managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting to have net assets that are predominantly denominated in US dollar. As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure across the group. Details of foreign currency derivative contracts entered into with external parties are disclosed in note 17. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk.

The group's underwriting capital is matched by currency to the principal underlying currencies of its written premiums. This helps to mitigate the risk that the group's capital required to underwrite business is materially affected by any future movements in exchange rates.

The group also has foreign operations with functional currencies that are different from the group's presentational currency. The effect of this on foreign exchange risk is that the group is exposed to fluctuations in exchange rates for US dollar denominated transactions and net assets arising in those foreign currency operations. It also gives rise to a currency translation exposure for the group to sterling, euro, Norwegian krone, Canadian dollars, Singapore dollars and Australian dollars on translation to the group's presentational currency. These exposures are minimal and are not hedged.

The following table summarises the carrying value of total assets and total liabilities categorised by the group's main currencies:

31 December 2018	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	505.9	131.6	290.6	928.1	6,808.7	7,736.8
Total liabilities	(511.7)	(138.9)	(305.7)	(956.3)	(5,310.3)	(6,266.6)
Net assets	**(5.8)**	**(7.3)**	**(15.1)**	**(28.2)**	**1,498.4**	**1,470.2**

31 December 2017	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	547.8	130.8	333.6	1,012.2	6,545.2	7,557.4
Total liabilities	(538.1)	(110.0)	(304.4)	(952.5)	(5,127.8)	(6,080.3)
Net assets	**9.7**	**20.8**	**29.2**	**59.7**	**1,417.4**	**1,477.1**

Sensitivity analysis

Fluctuations in the group's trading currencies against the US dollar would result in a change to profit after tax and net asset value. The table below gives an indication of the impact on profit after tax and net assets of a percentage change in the relative strength of the US dollar against the value of sterling, the Canadian dollar and the euro, simultaneously. The analysis is based on information on net asset positions as at the balance sheet date.

	Impact on profit after tax for the year ended		Impact on net assets	
Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar	2018 $m	2017 $m	2018 $m	2017 $m
Dollar weakens 30% against other currencies	(7.5)	13.9	(11.5)	6.1
Dollar weakens 20% against other currencies	(5.0)	9.2	(7.6)	4.1
Dollar weakens 10% against other currencies	(2.5)	4.6	(3.8)	2.0
Dollar strengthens 10% against other currencies	2.5	(4.6)	3.8	(2.0)
Dollar strengthens 20% against other currencies	5.0	(9.2)	7.6	(4.1)
Dollar strengthens 30% against other currencies	7.5	(13.9)	11.5	(6.1)

2 Risk management *continued*

b) Interest rate risk

Some of the group's financial instruments, including cash and cash equivalents, certain financial assets at fair value and borrowings, are exposed to movements in market interest rates.

The group manages interest rate risk by primarily investing in short duration financial assets along with cash and cash equivalents. The Beazley plc investment committee monitors the duration of these assets on a regular basis.

The group also entered into bond futures contracts to manage the interest rate risk on bond portfolios.

The following table shows the modified duration at the reporting date of the financial instruments that are exposed to movements in market interest rates. Duration is a commonly used measure of volatility and we believe gives a better indication than maturity of the likely sensitivity of our portfolio to changes in interest rates.

Duration 31 December 2018	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	1,566.0	831.0	963.8	467.4	188.2	83.8	–	4,100.2
Cash and cash equivalents	334.0	–	–	–	–	–	–	334.0
Derivative financial instruments	6.9	–	–	–	–	–	–	6.9
Borrowings	(95.6)	–	–	–	–	(248.7)	–	(344.3)
Total	**1,811.3**	**831.0**	**963.8**	**467.4**	**188.2**	**(164.9)**	**–**	**4,096.8**

31 December 2017	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	1,447.4	851.7	571.1	366.3	382.0	96.2	–	3,714.7
Cash and cash equivalents	439.8	–	–	–	–	–	–	439.8
Derivative financial instruments	8.8	–	–	–	–	–	–	8.8
Borrowings	–	(99.5)	–	–	–	(248.5)	(18.0)	(366.0)
Total	**1,896.0**	**752.2**	**571.1**	**366.3**	**382.0**	**(152.3)**	**(18.0)**	**3,797.3**

Borrowings consist of two items as at 31 December 2018. The first is $250.0m of subordinated tier 2 debt raised in November 2016. This debt is due in 2026 and has annual interest of 5.875% payable in May and November of each year. The second comprises £75m of sterling denominated 5.375% notes due in 2019 with interest payable in March and September each year.

As at 31 December 2017, borrowings included $18.0m subordinated debt that was due in October 2034 and callable at the group's option since 2009. The group exercised its call option and gave notice in October 2018. As the debt was recalled in November 2018 it is not included within any of the categories in the 31 December 2018 table (2017: >10 yrs category).

Sensitivity analysis

Changes in yields, with all other variables constant, would result in changes in the capital value of debt securities as well as subsequent interest receipts and payments. This would affect reported profits and net assets as indicated in the table below:

	Impact on profit after income tax for the year		Impact on net assets	
	2018 $m	2017 $m	2018 $m	2017 $m
Shift in yield (basis points)				
150 basis point increase	(93.8)	(50.9)	(93.8)	(50.9)
100 basis point increase	(62.6)	(33.9)	(62.6)	(33.9)
50 basis point increase	(31.3)	(17.0)	(31.3)	(17.0)
50 basis point decrease	31.3	17.0	31.3	17.0
100 basis point decrease	62.6	33.9	62.6	33.9

Notes to the financial statements *continued*

2 Risk management *continued*

c) Price risk

Financial assets and derivatives that are recognised in the statement of financial position at their fair value are susceptible to losses due to adverse changes in prices. This is referred to as price risk.

Financial assets include fixed and floating rate debt securities, hedge funds, illiquid credit assets, equity investments and derivative financial assets. The price of debt securities is affected by interest rate risk, as described above, and also by issuer's credit risk. The sensitivity to price risk that relates to the group's hedge fund, illiquid credit and equity investments is presented below.

Listed investments that are quoted in an active market are recognised in the statement of financial position at quoted bid price, which is deemed to be approximate exit price. If the market for the investment is not considered to be active, then the group establishes fair value using valuation techniques (refer to note 16). This includes comparison of orderly transactions between market participants, reference to the current fair value of other investments that are substantially the same, discounted cash flow models and other valuation techniques that are commonly used by market participants.

	Impact on profit after income tax for the year		Impact on net assets	
	2018 $m	2017 $m	2018 $m	2017 $m
Change in fair value of hedge funds, equity funds and illiquid credit assets				
30% increase in fair value	163.2	168.6	163.2	168.6
20% increase in fair value	108.8	112.4	108.8	112.4
10% increase in fair value	54.4	56.2	54.4	56.2
10% decrease in fair value	(54.4)	(56.2)	(54.4)	(56.2)
20% decrease in fair value	(108.8)	(112.4)	(108.8)	(112.4)
30% decrease in fair value	(163.2)	(168.6)	(163.2)	(168.6)

d) Investment risk

The value of our investment portfolio is impacted by interest rate and market price risks, as described above. Managing the group's exposures to these risks is an intrinsic part of our investment strategy.

Beazley uses an Economic Scenario Generator (ESG) to simulate multiple simulations of financial conditions, to support stochastic analysis of market risk. Beazley uses these outputs to assess the value at risk (VAR) of its investments, at different confidence levels, including '1 in 200', which reflects Solvency II modelling requirements, and '1 in 10', reflecting scenarios which are more likely to occur in practice. Risk is typically considered to a 12 month horizon. It is assessed for investments in isolation and also in conjunction with the present value of our liabilities, to help us monitor and manage market risk for solvency and capital purposes. By its nature, stochastic modelling does not provide a precise measure of risk, ESG outputs are regularly validated against actual market conditions, and Beazley also uses a number of other, qualitative, measures to support the monitoring and management of investment risk. These include stress testing and scenario analysis.

Beazley's investment strategy is developed by reference to an investment risk budget, set annually by the Beazley plc board as part of the overall risk budgeting framework of the business. The Solvency II internal model is used to monitor compliance with the budget, which limits the amount by which our reported annual investment return may deviate from a predetermined target, at the 1 in 10 confidence level. In 2018, the permitted deviation was $150.0m. Additionally, a limit is specified for the net interest rate sensitivity of assets and liabilities combined and investments are managed to ensure that this limit is not exceeded.

2.4 Operational risk †

Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or external events.

There are a number of business activities for which the group uses the services of a third-party company, such as investment management, data entry and credit control. These service providers are selected against rigorous criteria and formal service level agreements are in place, and regularly monitored and reviewed.

2 Risk management *continued*

The group also recognises that it is necessary for people, systems and infrastructure to be available to support our operations. Therefore we have taken significant steps to mitigate the impact of business interruption which could follow a variety of events, including the loss of key individuals and facilities. We operate a formal disaster recovery plan which, in the event of an incident, allows the group to move critical operations to an alternative location within 24 hours.

The group actively manages operational risks and minimises them where appropriate. This is achieved by implementing and communicating guidelines to staff and other third parties. The group also regularly monitors the performance of its controls and adherence to these guidelines through the risk management reporting process.

Key components of the group's operational control environment include:
- modelling of operational risk exposure and scenario testing;
- management review of activities;
- documentation of policies and procedures;
- preventative and detective controls within key processes;
- contingency planning; and
- other systems controls.

2.5 Credit risk

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the group are:
- reinsurers – reinsurers may fail to pay valid claims against a reinsurance contract held by the group;
- brokers and coverholders – counterparties fail to pass on premiums or claims collected or paid on behalf of the group;
- investments – issuer default results in the group losing all or part of the value of a financial instrument or a derivative financial instrument; and
- cash and cash equivalents.

The group's core business is to accept significant insurance risk and the appetite for other risks is low. This protects the group's capital from erosion so that it can meet its insurance liabilities.

The group limits exposure to a single counterparty or a group of counterparties and analyses the geographical locations of exposures when assessing credit risk.

An approval system also exists for all new brokers, and broker performance is carefully monitored. Regular exception reports highlight trading with non-approved brokers, and the group's credit control function frequently assesses the ageing and collectability of debtor balances. Any large, aged items are prioritised and where collection is outsourced incentives are in place to support these priorities.

The Beazley plc investment committee has established comprehensive guidelines for the group's investment managers regarding the type, duration and quality of investments acceptable to the group. The performance of investment managers is regularly reviewed to confirm adherence to these guidelines.

The group has developed processes to formally examine all reinsurers before entering into new business arrangements. New reinsurers are approved by the Beazley plc reinsurance security committee, which also reviews arrangements with all existing reinsurers at least annually. Vulnerable or slow-paying reinsurers are examined more frequently.

To assist in the understanding of credit risks, A.M. Best, Moody's and Standard & Poor's (S&P) ratings are used. These ratings have been categorised below as used for Lloyd's reporting:

	A.M. Best	Moody's	S&P
Tier 1	A++ to A-	Aaa to A3	AAA to A-
Tier 2	B++ to B-	Baa1 to Ba3	BBB+ to BB-
Tier 3	C++ to C-	B1 to Caa	B+ to CCC
Tier 4	D, E, F, S	Ca to C	R, (U,S) 3

Notes to the financial statements *continued*

2 Risk management *continued*

The following tables summarise the group's concentrations of credit risk:

31 December 2018	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	3,041.2	1,059.0	–	–	–	4,100.2
– equity funds	–	–	–	–	85.4	85.4
– hedge funds	–	–	–	–	337.2	337.2
– illiquid credit assets	–	–	–	–	186.6	186.6
– derivative financial instruments	–	–	–	–	6.9	6.9
Insurance receivables	–	–	–	–	943.3	943.3
Reinsurance assets	1,192.8	–	–	–	–	1,192.8
Other receivables	64.0	–	–	–	–	64.0
Cash and cash equivalents	334.0	–	–	–	–	334.0
Total	**4,632.0**	**1,059.0**	**–**	**–**	**1,559.4**	**7,250.4**

31 December 2017	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	2,840.0	874.7	–	–	–	3,714.7
– equity funds	–	–	–	–	168.3	168.3
– hedge funds	–	–	–	–	377.4	377.4
– illiquid credit assets	–	–	–	–	180.4	180.4
– derivative financial instruments	–	–	–	–	8.8	8.8
Insurance receivables	–	–	–	–	918.0	918.0
Reinsurance assets	1,231.1	–	–	–	–	1,231.1
Other receivables	68.5	–	–	–	–	68.5
Cash and cash equivalents	439.8	–	–	–	–	439.8
Total	**4,579.4**	**874.7**	**–**	**–**	**1,652.9**	**7,107.0**

The largest counterparty exposure within tier 1 is $1,106.5m of US treasuries (2017: $936.7m).

Financial investments falling within the unrated category comprise hedge funds and illiquid credit assets for which there is no readily available market data to allow classification within the respective tiers. Additionally, insurance receivables are classified as unrated, due to premium debtors not being credit rated.

Insurance receivables and other receivables balances held by the group have not been impaired, based on all evidence available, and no impairment provision has been recognised in respect of these assets. Insurance receivables in respect of coverholder business are credit controlled by third-party managers. We monitor third party coverholders' performance and their financial processes through the group's coverholder management team. These assets are individually impaired after considering information such as the occurrence of significant changes in the counterparties' financial position, patterns of historical payment information and disputes with counterparties.

2 Risk management *continued*

An analysis of the overall credit risk exposure indicates that the group has reinsurance assets that are impaired at the reporting date. The total impairment in respect of the reinsurance assets, including reinsurer's share of outstanding claims, at 31 December 2018 was as follows:

	Individual impairment $m	Collective impairment $m	Total $m
Balance at 1 January 2017	2.4	10.2	12.6
Impairment loss recognised	0.5	0.1	0.6
Balance at 31 December 2017	2.9	10.3	13.2
Impairment loss written back	(0.1)	(0.9)	(1.0)
Balance at 31 December 2018	**2.8**	**9.4**	**12.2**

The group has insurance receivables and reinsurance assets that are past due at the reporting date. An aged analysis of these is presented below:

31 December 2018	Up to 30 days past due $m	30-60 days past due $m	60-90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance receivables	49.6	13.9	5.3	18.8	87.6
Reinsurance assets	1.0	2.3	0.3	3.4	7.0

31 December 2017	Up to 30 days past due $m	30-60 days past due $m	60-90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance receivables	57.5	13.7	5.3	18.9	95.4
Reinsurance assets	20.4	2.9	0.5	5.2	29.0

The total impairment provision in the statement of financial position in respect of reinsurance assets past due (being reinsurance recoverables due on paid claims) by more than 30 days at 31 December 2018 was $3.1m (2017: $3.1m). This $3.1m provision in respect of overdue reinsurance recoverables is included within the total provision of $12.2m shown in the table at the top of the page.

The group believes that the unimpaired amounts that are past due more than 30 days are still collectable in full, based on historic payment behaviour and analyses of credit risk.

2.6 Regulatory and legal risk †

Regulatory and legal risk is the risk arising from not complying with regulatory and legal requirements. The operations of the group are subject to legal and regulatory requirements within the jurisdictions in which it operates and the group's compliance function is responsible for ensuring that these requirements are adhered to.

2.7 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The group is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business. In the majority of the cases, these claims are settled from the premiums received.

The group's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (details of the group's exposure to realistic disaster scenarios are provided on page 77). This means that the group maintains sufficient liquid assets, or assets that can be converted into liquid assets at short notice and without any significant capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return. The group also makes use of loan facilities and borrowings, details of which can be found in note 24. Further information on the group's capital resources is contained on pages 36 to 37.

Notes to the financial statements *continued*

2 Risk management *continued*

The following is an analysis by business segment of the estimated timing of the net cash flows based on the net claims liabilities[1] balance held at 31 December:

31 December 2018	Within 1 year $m	1-3 years $m	3-5 years $m	Greater than 5 years $m	Total $m	Weighted average term to settlement (years)
Marine	116.3	97.3	28.6	21.8	264.0	2.0
Political, accident & contingency	59.5	44.2	12.2	16.8	132.7	2.4
Property	179.9	111.9	29.0	27.0	347.8	1.8
Reinsurance	88.4	71.5	22.8	21.3	204.0	2.2
Specialty lines	431.3	731.2	471.9	506.1	2,140.5	3.5
Net claims liabilities	**875.4**	**1,056.1**	**564.5**	**593.0**	**3,089.0**	

1 For a breakdown of net claims liabilities refer to note 23.

31 December 2017	Within 1 year $m	1-3 years $m	3-5 years $m	Greater than 5 years $m	Total $m	Weighted average term to settlement (years)
Marine	100.6	89.3	26.7	20.4	237.0	2.0
Political, accident & contingency	62.6	45.8	9.9	12.0	130.3	2.3
Property	134.5	101.2	29.2	32.8	297.7	2.2
Reinsurance	70.8	66.1	20.8	19.8	177.5	2.3
Specialty lines	542.7	713.8	360.4	456.0	2,072.9	3.4
Net claims liabilities	**911.2**	**1,016.2**	**447.0**	**541.0**	**2,915.4**	

The following table is an analysis of the net contractual cash flows based on all the liabilities held at 31 December:

31 December 2018	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Net claims liabilities	875.4	1,056.1	564.5	593.0	3,089.0
Borrowings	95.6	–	–	248.7	344.3
Other payables	442.2	–	–	–	442.2

31 December 2017	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Net claims liabilities	911.2	1,016.2	447.0	541.0	2,915.4
Borrowings	–	99.5	–	266.5	366.0
Other payables	533.0	–	–	–	533.0

The group makes additional interest payments for borrowings. Further details are provided in notes 8 and 24.

The next two tables summarise the carrying amount at reporting date of financial instruments analysed by maturity date.

Maturity 31 December 2018	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	1,114.0	909.1	1,050.2	516.6	322.1	188.2	–	4,100.2
Derivative financial instruments	6.9	–	–	–	–	–	–	6.9
Cash and cash equivalents	334.0	–	–	–	–	–	–	334.0
Insurance receivables	943.3	–	–	–	–	–	–	943.3
Other receivables	64.0	–	–	–	–	–	–	64.0
Other payables	(442.2)	–	–	–	–	–	–	(442.2)
Borrowings	(95.6)		–	–	–	(248.7)	–	(344.3)
Total	**1,924.4**	**909.1**	**1,050.2**	**516.6**	**322.1**	**(60.5)**	**–**	**4,661.9**

2 Risk management *continued*

31 December 2017	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	926.5	967.1	653.0	511.9	454.3	201.9	–	3,714.7
Derivative financial instruments	8.8	–	–	–	–	–	–	8.8
Cash and cash equivalents	439.8	–	–	–	–	–	–	439.8
Insurance receivables	918.0	–	–	–	–	–	–	918.0
Other receivables	68.5	–	–	–	–	–	–	68.5
Other payables	(533.0)	–	–	–	–	–	–	(533.0)
Borrowings	–	(99.5)	–	–	–	(248.5)	(18.0)	(366.0)
Total	**1,828.6**	**867.6**	**653.0**	**511.9**	**454.3**	**(46.6)**	**(18.0)**	**4,250.8**

Borrowings consist of two items as at 31 December 2018. The first is $250m of subordinated tier 2 debt raised in November 2016. This debt is due in 2026 and has annual interest of 5.875% payable in May and November of each year. The second comprises a of £75m sterling denominated 5.375% notes due in 2019 with interest payable in March and September each year.

As at 31 December 2017, borrowings included $18.0m subordinated debt that was due in October 2034 and callable at the group's option since 2009. The group exercised its call option and gave notice in October 2018. As the debt was recalled in November 2018 it is not included within any of the categories in the 31 December 2018 table (2017: >10 yrs category).

Illiquid credit assets, hedge funds and equity funds are not included in the maturity profile because the basis of maturity profile can not be determined with any degree of certainty.

2.8 Group risk †

Group risk occurs where business units fail to consider the impact of their activities on other parts of the group, as well as the risks arising from these activities. There are two main components of group risk which are explained below.

a) Contagion

Contagion risk is the risk arising from actions of one part of the group which could adversely affect any other part of the group. As the two largest components of the group, this is of particular relevance for actions in any of the US operations, which could adversely affect the UK operations, and vice versa. The group has limited appetite for contagion risk and minimises the impact of this occurring by operating with clear lines of communication across the group to ensure all group entities are well informed and working to common goals.

b) Reputation

Reputation risk is the risk of negative publicity as a result of the group's contractual arrangements, customers, products, services and other activities. Key sources of reputation risk include operation of a Lloyd's franchise, interaction with capital markets since IPO during 2002, and reliance upon the Beazley brand in North America, Europe, South America and Asia. The group's preference is to minimise reputation risks but where it is not possible or beneficial to avoid them, we seek to minimise their frequency and severity by management through public relations and communication channels.

2.9 Capital management

The group follows a risk-based approach to determine the amount of capital required to support its activities. Recognised stochastic modelling techniques are used to measure risk exposures, and capital to support business activities is allocated according to risk profile. Stress and scenario analysis is regularly performed and the results are documented and reconciled to the Beazley plc board's risk appetite where necessary.

The group has several requirements for capital, including:

- to support underwriting at Lloyd's through the syndicates in which it participates, being 2623, 3623, 3622 and 5623. This is based on the group's own individual capital assessment. It may be provided in the form of either the group's cash and investments or debt facilities;
- to support underwriting in Beazley Insurance Company, Inc. in the US;
- to support underwriting in Beazley Insurance dac in Europe; and
- to make acquisitions of insurance companies or managing general agents (MGAs) whose strategic goals are aligned with our own.

The Internal Model Solvency Capital Requirement is a dedicated quantitative review of syndicate models and it sets out to be a key input to the Lloyd's Internal Model.

Notes to the financial statements *continued*

2 Risk management *continued*

The Beazley plc board's strategy is to grow the dividend (excluding special dividend) by between 5% and 10% per year. Our capital management strategy is to carry some surplus capital to enable us to take advantage of growth opportunities which may arise. At 31 December 2018, the Beazley plc group had surplus capital of 26% of ECR (unaudited, on a Solvency II basis). Following payment of the second interim dividend of 7.8p per share by Beazley plc, the surplus reduces to 23% (unaudited) compared to the current target range of 15% to 25% of ECR. Should the capital surplus be assessed on a Beazley Ireland Holdings plc group level, the surplus would be 26% of ECR and 23% after paying out the second interim dividend of £40.0m to its parent, Beazley plc.

2.10 Company risk

The company is exposed to the same interest rate and liquidity risk exposure experienced on its mutual borrowings with the group. The group's exposure can be seen in sections 2.3b and 2.7. The company also experiences operational, regulatory and legal risks as defined in section 2.4 and 2.6.

3 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 Beazley plc 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

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 and high-value homeowners' 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.

3 Segmental analysis *continued*

b) Segment information

2018	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Segment results						
Gross premiums written	284.8	238.7	415.4	207.4	1,469.0	2,615.3
Net premiums written	255.0	212.7	360.2	137.3	1,283.3	2,248.5
Net earned premiums	249.5	194.3	344.1	139.5	1,157.2	2,084.6
Net investment income	3.3	2.3	3.1	1.8	30.6	41.1
Other income	2.9	3.8	6.4	1.7	18.9	33.7
Revenue	**255.7**	**200.4**	**353.6**	**143.0**	**1,206.7**	**2,159.4**
Net insurance claims	134.0	90.2	289.4	97.7	616.5	1,227.8
Expenses for the acquisition of insurance contracts	74.5	63.3	103.5	33.2	287.4	561.9
Administrative expenses	25.0	21.4	38.6	13.0	151.4	249.4
Foreign exchange loss	1.7	1.3	2.3	0.9	7.6	13.8
Expenses	**235.2**	**176.2**	**433.8**	**144.8**	**1,062.9**	**2,052.9**
Impairment of associate[1]	–	–	–	–	(7.0)	(7.0)
Segment result	**20.5**	**24.2**	**(80.2)**	**(1.8)**	**136.8**	**99.5**
Finance costs						(21.5)
Profit before income tax						**78.0**
Income tax expense						(8.6)
Profit for the year attributable to equity shareholders						**69.4**
Claims ratio	54%	46%	84%	70%	53%	59%
Expense ratio	40%	44%	41%	33%	38%	39%
Combined ratio	94%	90%	125%	103%	91%	98%
Segment assets and liabilities						
Segment assets	689.9	445.6	882.4	666.7	5,052.2	7,736.8
Segment liabilities	(571.9)	(347.2)	(726.1)	(505.8)	(4,115.6)	(6,266.6)
Net assets	**118.0**	**98.4**	**156.3**	**160.9**	**936.6**	**1,470.2**
Additional information						
Impairment of associate[1]	–	–	–	–	(7.0)	(7.0)
Capital expenditure	0.8	0.7	1.0	1.1	6.2	9.8
Increase in intangibles	–	–	–	–	–	–
Amortisation and depreciation	(2.1)	(0.4)	(0.6)	(0.6)	(11.0)	(14.7)
Net cash flow	(8.5)	(7.0)	(11.3)	(11.6)	(67.4)	(105.8)

1 In 2018, management received information which led them to conclude that the recoverable amount of the group's investment in Capson was lower than its carrying value. In March 2018 the group took the decision to write down its investment in Capson Corp., Inc to $2.8m. In December the group took the further decision to fully write down its investment in Capson Corp., Inc to nil. This is deemed to be an appropriate value for Beazley's share in Capson.

Notes to the financial statements *continued*

3 Segmental analysis *continued*

2017	Marine $m	Political, accident & contingency $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	30.4	27.6	35.9	15.5	144.0	253.4
Foreign exchange loss	0.2	0.2	0.3	0.1	1.1	1.9
Expenses	**224.2**	**191.2**	**383.1**	**146.0**	**906.2**	**1,850.7**
Share of loss of associates	–	0.4	–	–	(0.3)	0.1
Segment result	**19.6**	**8.2**	**(67.9)**	**4.0**	**228.7**	**192.6**
Finance costs						(21.1)
Profit before income tax						**171.5**
Income tax expense						(38.8)
Profit for the year attributable to equity shareholders						**132.7**
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	694.0	448.8	841.6	665.2	4,907.8	7,557.4
Segment liabilities	(575.8)	(345.4)	(679.1)	(487.9)	(3,992.1)	(6,080.3)
Net assets	**118.2**	**103.4**	**162.5**	**177.3**	**915.7**	**1,477.1**
Additional information						
Investment in associates[1]	–	–	–	–	7.0	7.0
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	(2.7)	(2.4)	(3.7)	(4.0)	(54.6)	(67.4)

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

3 Segmental analysis *continued*

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; US earned premium represents all risks placed at the group's US insurance company, Beazley Insurance Company, Inc; and Europe earned premium represents all risks placed at the group's European insurance company, Beazley Insurance dac. An analysis of gross premiums written split geographically by placement of risk and by reportable segment is provided in note 2 on page 78.

	2018 $m	2017 $m
Net earned premiums		
UK (Lloyd's)	1,821.8	1,807.8
US (Non-Lloyd's)[1]	260.2	61.6
Europe (Non-Lloyd's)	2.6	–
	2,084.6	**1,869.4**

	2018 $m	2017 $m
Segment assets		
UK (Lloyd's)	7,216.1	7,206.0
US (Non-Lloyd's)[1]	482.1	351.4
Europe (Non-Lloyd's)	38.6	–
	7,736.8	**7,557.4**

1 Increase in US net earned premiums and assets is driven by a change of internal reinsurance contract. As a result of this, more premiums are retained in the US.

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

	2018 $m	2017 $m
Capital expenditure		
Non-US	9.5	10.2
US	0.3	0.8
	9.8	**11.0**

4 Net investment income

	2018 $m	2017 $m
Interest and dividends on financial investments at fair value through profit or loss	102.1	76.1
Interest on cash and cash equivalents	0.5	0.5
Net realised gains on financial investments at fair value through profit or loss	12.4	23.1
Net unrealised fair value (losses)/gains on financial investments at fair value through profit or loss	(66.1)	46.5
Investment income from financial investments	**48.9**	**146.2**
Investment management expenses	(7.8)	(7.9)
	41.1	**138.3**

Notes to the financial statements *continued*

5 Other income

	2018 $m	2017 $m
Commissions received by Beazley service companies	20.7	22.7
Profit commissions from syndicates 623/6107	7.5	8.0
Agency fees from 623	2.5	2.2
Other income	3.0	2.6
	33.7	**35.5**

As at 31 December 2018 there was no accrued profit commission at risk of being reversed if there were to be an adverse impact on syndicate 623's profit (31 December 2017: $0.7m). We have not experienced any deterioration to profits on this contract recognised previously.

6 Operating expenses

	2018 $m	2017 $m
Operating expenses include:		
Amounts receivable by the auditor and associates in respect of:		
– audit services for the group and subsidiaries	0.9	0.8
– audit-related assurance services	0.5	0.5
– taxation compliance services	0.1	0.1
– other non-audit services	0.8	0.6
	2.3	2.0
Impairment loss (written back)/recognised on reinsurance assets	(1.0)	0.6
Operating leases	11.4	9.3

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

7 Employee benefit expenses

	2018 $m	2017 $m
Wages and salaries	156.0	142.4
Short term incentive payments	38.0	70.2
Social security	21.0	18.2
Share based remuneration[1]	17.7	21.1
Pension costs[2]	11.7	10.9
	244.4	262.8
Recharged to syndicate 623	(35.6)	(39.4)
	208.8	**223.4**

1 Share based remuneration was borne by Beazley Management Limited, a company within the group, and includes payments in relation to share options held by Beazley plc, an immediate parent company of Beazley Ireland Holdings plc.

2 Pension costs refer to the contributions made under the defined contribution scheme. Further information on the defined benefit pension scheme can be found in note 26.

8 Finance costs

	2018 $m	2017 $m
Interest expense	21.5	21.1
	21.5	**21.1**

During 2018, Beazley redeemed debt with a nominal value of $18.0m and a market value of $18.0m in the form of subordinated debt using its call right. No profit or loss was realised at redemption as there was no difference between the carrying value and market value of the debt. Please refer to note 24 for further detail on subordinated debt.

9 Income tax expense

	2018 $m	2017 $m
Current tax expense		
Current year	32.6	35.8
Prior year adjustments	(5.2)	(0.2)
	27.4	35.6
Deferred tax expense		
Origination and reversal of temporary differences	(14.6)	(3.6)
Impact of change in UK/US tax rates	0.7	5.3
Prior year adjustments	(4.9)	1.5
	(18.8)	3.2
Income tax expense	**8.6**	**38.8**

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 18.6% (2017: 18.7%), whereas the tax charged for the year 31 December 2018 as a percentage of profit before tax is 11.0% (2017: 22.6%). The reasons for the difference are explained below:

	2018 $m	2018 %	2017 $m	2017 %
Profit before tax	**78.0**	–	**171.5**	–
Tax calculated at the weighted average of statutory tax rates	14.5	18.6	32.0	18.7
Effects of:				
– non-deductible expenses	3.0	3.8	0.7	0.4
– non-taxable losses/(gains) on foreign exchange	0.3	0.4	(0.5)	(0.3)
– tax relief on share based payments – current and future years	0.2	0.2	–	–
– (over)/under provided in prior years	(10.1)	(12.9)	1.3	0.7
– change in UK/US tax rates[1]	0.7	0.9	5.3	3.1
Tax charge for the period	**8.6**	**11.0**	**38.8**	**22.6**

1 The Finance Act 2016, which provides for reduction in the UK Corporation tax rate down to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. This 17% tax rate will reduce the company's future current tax charge and has been reflected in the calculation of the deferred tax balance as at 31 December 2018.

A change in the effective corporation tax in the US from 35% to 21% was substantively enacted in December 2017 and has been reflected in the calculation of the deferred tax balance as at 31 December 2018.

As noted on page 33, 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 the scope of the DPT would potentially be taxed at a rate of 25% rather than 12.5% (the current rate of tax on corporate earnings in Ireland). The earnings that would potentially be taxed at 25% are the relevant earnings from 2015 to 2018. The relevant earnings are determined in relation to 75% of the profits and losses in Beazley's syndicates potentially starting with a proportion of the profits on the 2013, 2014 and 2015 years of account and 75% of all profits and losses in Beazley's syndicates on years of account from 2016 onwards.

Notes to the financial statements *continued*

10 Directors and employees

None of the directors of the company, or employees of the group, received any remuneration in respect of services rendered to the company. Details of the remuneration paid to the Beazley plc group's directors and employees for their services to the Beazley plc group are shown in the ultimate parent undertaking's accounts, Beazley plc, which can be found at **www.beazley.com**.

11 Dividends

A 2018 first interim dividend of £21.0m (2017: £20.0m) was paid to the company's immediate parent company, Beazley plc, on 17 August 2018. A 2018 second interim dividend of £40.0m (2017: £40.0m) was declared on 27 February 2019 and is payable to Beazley plc prior to 20 March 2019. These financial statements do not provide for the second interim dividend as a liability.

12 Intangible assets

	Goodwill $m	Syndicate capacity $m	Licences $m	IT development costs $m	Renewal rights $m	Total $m
Cost						
Balance at 1 January 2017	72.0	10.7	9.3	57.0	24.6	173.6
Other additions	–	–	–	9.3	34.4	43.7
Foreign exchange gain	–	–	–	4.8	2.0	6.8
Balance at 31 December 2017	**72.0**	**10.7**	**9.3**	**71.1**	**61.0**	**224.1**
Balance at 1 January 2018	72.0	10.7	9.3	71.1	61.0	224.1
Other additions	–	–	–	7.2	–	7.2
Foreign exchange loss	–	–	–	(3.3)	(2.0)	(5.3)
Balance at 31 December 2018	**72.0**	**10.7**	**9.3**	**75.0**	**59.0**	**226.0**
Amortisation and impairment						
Balance at 1 January 2017	(10.0)	–	–	(49.4)	(17.6)	(77.0)
Amortisation for the year	–	–	–	(3.5)	(8.1)	(11.6)
Foreign exchange loss	–	–	–	(1.9)	(0.1)	(2.0)
Balance at 31 December 2017	**(10.0)**	**–**	**–**	**(54.8)**	**(25.8)**	**(90.6)**
Balance at 1 January 2018	(10.0)	–	–	(54.8)	(25.8)	(90.6)
Amortisation for the year	–	–	–	(3.8)	(8.8)	(12.6)
Foreign exchange gain	–	–	–	2.9	0.8	3.7
Balance at 31 December 2018	**(10.0)**	**–**	**–**	**(55.7)**	**(33.8)**	**(99.5)**
Carrying amount						
31 December 2018	**62.0**	**10.7**	**9.3**	**19.3**	**25.2**	**126.5**
31 December 2017	62.0	10.7	9.3	16.3	35.2	133.5

12 Intangible assets *continued*

Impairment tests

Goodwill, syndicate capacity and US insurance authorisation licences are deemed to have indefinite life as they are expected to have value in use that does not erode or become obsolete over the course of time. Consequently, they are not amortised but annually tested for impairment. For the purpose of impairment testing, they are allocated to the group's cash-generating units (CGUs) as follows:

2018	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Goodwill	2.3	29.6	24.9	0.8	4.4	62.0
Capacity	1.6	1.0	2.5	0.8	4.8	10.7
Licences	–	–	1.9	–	7.4	9.3
Total	**3.9**	**30.6**	**29.3**	**1.6**	**16.6**	**82.0**

2017	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Goodwill	2.3	29.6	24.9	0.8	4.4	62.0
Capacity	1.6	1.0	2.5	0.8	4.8	10.7
Licences	–	–	1.9	–	7.4	9.3
Total	**3.9**	**30.6**	**29.3**	**1.6**	**16.6**	**82.0**

Value in use is defined as the present value of the future cash flows expected to be derived from the CGU and represents recoverable amount for goodwill. It is estimated by discounting future cash flows sourced from financial budgets approved by management which cover specific estimates for a five year period. A terminal growth rate of 0% has been used to extrapolate projections beyond the covered five year period. The key assumptions used in the preparation of future cash flows are: premium growth rates, claims experience, retention rates and expected future market conditions.

A discount rate, based on weighted average cost of capital (WACC) of 9% (2017: 6%) has been applied to projected future cash flows. This has been calculated using independent measures of the risk-free rate of return and is indicative of the group's risk profile relative to the market. The impairment test for goodwill confirms that no impairment is required.

Significant changes in the economic and regulatory environment, such as US legislation and Brexit, could impact the amount of premiums written and investment income for each CGU. This could potentially have an impact on the carrying value of the CGU, however this remains remote.

To test the segment's sensitivity to variances (including those caused by the factors listed above) from forecast profits, the discount rate has been flexed to 5% above and 5% below the central assumption. Within this range, the recovery of goodwill was stress tested and remains supportable across all CGUs. Headroom was calculated in respect of the value in use of all the group's other intangible assets.

The group's intangible asset relating to syndicate capacity is allocated across all CGUs. The fair value of syndicate capacity can be determined from the latest Lloyd's of London capacity auctions. Based upon the latest market prices, management concludes that the fair value exceeds the carrying amount and as such no impairment is necessary.

US insurance authorisation licences represent the privilege to write insurance business in particular states in the US. Licences are allocated to the relevant CGU. There is no active market for licences, therefore value in use is deemed to be fair value. As described above, a WACC rate is applied to projected future cash flows sourced from management approved budgets. Key assumptions are the same as those outlined above. Based upon all available evidence the results of the testing indicate that no impairment is required.

Notes to the financial statements *continued*

13 Plant and equipment

	Company	Group		
	Fixtures & fittings $m	Fixtures & fittings $m	Computer equipment $m	Total $m
Cost				
Balance at 1 January 2017	**2.4**	**21.5**	**9.2**	**30.7**
Additions	–	1.1	0.6	1.7
Write off	–	(0.1)	(2.2)	(2.3)
Foreign exchange gain	–	0.4	–	0.4
Balance at 31 December 2017	**2.4**	**22.9**	**7.6**	**30.5**
Balance at 1 January 2018	**2.4**	**22.9**	**7.6**	**30.5**
Additions	–	2.1	0.5	2.6
Write off	–	(1.2)	(0.1)	(1.3)
Foreign exchange loss	–	(0.4)	(0.1)	(0.5)
Balance at 31 December 2018	**2.4**	**23.4**	**7.9**	**31.3**
Accumulated depreciation				
Balance at 1 January 2017	(1.9)	(17.3)	(8.0)	(25.3)
Depreciation charge for the year	(0.2)	(1.8)	(0.9)	(2.7)
Write off	–	0.1	2.2	2.3
Foreign exchange loss	–	(0.3)	(0.1)	(0.4)
Balance at 31 December 2017	**(2.1)**	**(19.3)**	**(6.8)**	**(26.1)**
Balance at 1 January 2018	**(2.1)**	**(19.3)**	**(6.8)**	**(26.1)**
Depreciation charge for the year	(0.1)	(1.5)	(0.6)	(2.1)
Write off	–	1.2	0.1	1.3
Foreign exchange gain	–	0.3	0.2	0.5
Balance at 31 December 2018	**(2.2)**	**(19.3)**	**(7.1)**	**(26.4)**
Carrying amounts				
31 December 2018	**0.2**	**4.1**	**0.8**	**4.9**
31 December 2017	0.3	3.6	0.8	4.4

14 Investment in associates

Associates are those entities over which the group has power to exert significant influence but which it does not control. Significant influence is generally presumed if the group has between 20% and 50% of voting rights.

Group	2018 $m	2017 $m
As at 1 January	**7.0**	**9.9**
Sale of share in Equinox Global Limited	–	(3.0)
Impairment of Capson Corp., Inc.	(7.0)	–
Share of profit after tax	–	0.1
As at 31 December	**–**	**7.0**

The group's investment in associates consists of:

	Country of incorporation	% interest held	Carrying value $m
2018			
Falcon Money Management Holdings Limited (and subsidiaries)	Malta[1]	25%	–
Capson Corp., Inc. (and subsidiary)	USA[2]	31%	–
			–

1 259 St Paul Street, Valletta, Malta.

2 221 West 6th Street, Suite 301, Austin TX 78701, USA.

In March 2018 the group took the decision to write down its investment in Capson Corp., Inc. to $2.8m. In December the group took the further decision to fully write down its investment in Capson Corp., Inc. to nil. This is deemed to be an appropriate value for the group's share in Capson.

The aggregate financial information for all associates (100%) held at 31 December 2018 is as follows:

	2018 $m	2017 $m
Assets	36.7	35.1
Liabilities	24.6	21.2
Equity	12.1	13.9
Revenue	18.8	17.1
Profit/(loss) after tax	0.9	(1.0)
Share of other comprehensive income	–	–
Share of total comprehensive income	**0.9**	**(1.0)**

All of the investments in associates are unlisted and are equity accounted using available financial information as at 31 December 2018. Falcon Money Management Holdings Limited is an investment management company which also acts in an intermediary capacity.

15 Deferred acquisition costs

	2018 $m	2017 $m
Balance at 1 January	281.4	242.8
Additions	587.9	558.3
Amortisation charge	(561.9)	(519.7)
Balance at 31 December	**307.4**	**281.4**

Notes to the financial statements *continued*

16 Financial assets and liabilities

	2018 $m	2017 $m
Financial assets at fair value		
Fixed and floating rate debt securities:		
– Government issued	1,384.2	1,345.4
– Quasi-government	25.9	24.1
– Supranational	–	21.1
– Corporate bonds		
– Investment grade	2,525.3	2,179.7
– High yield	32.7	58.8
– Senior secured loans	132.1	85.6
Total fixed and floating rate debt securities	**4,100.2**	**3,714.7**
Equity funds	85.4	168.3
Hedge funds	337.2	377.4
Illiquid credit assets	186.6	180.4
Total capital growth assets	609.2	726.1
Total financial investments at fair value through statement of profit or loss	**4,709.4**	**4,440.8**
Derivative financial assets	6.9	8.8
Total financial assets at fair value	**4,716.3**	**4,449.6**

Quasi-government securities include securities which are issued by non-sovereign entities but which have an explicit sovereign guarantee. Supranational securities are issued by institutions sponsored by more than one sovereign issuer. Investment corporate bonds are rated BBB-/Baa3 or higher by at least one major rating agency, while high yield corporate bonds have lower credit ratings. Senior secured loans are tradeable, floating rate debt obligations of corporate issuers, with credit ratings of BB+/Ba1 or below. Hedge funds are investment vehicles pursuing alternative investment strategies, structured to have minimal correlation to traditional asset classes. Equity funds are investment vehicles which invest in equity securities and provide diversified exposure to global equity markets. Illiquid credit assets are investment vehicles that predominantly target private lending opportunities, often with longer investment horizons. The fair value of these assets at 31 December 2018 excludes an unfunded commitment of $81.8m (2017: $63.0m).

The amounts expected to mature within and after one year are:	2018 $m	2017 $m
Within one year	1,121.0	935.3
After one year	2,986.1	2,788.2
Total	**4,107.1**	**3,723.5**

Our capital growth assets have no defined maturity dates and have thus been excluded from the above maturity table. However, all $85.4m (2017: $153.1m) of equity funds could be liquidated within two weeks, $256.5m (2017: $299.5m) of hedge fund assets within six months and the remaining $80.7m (2017: $77.9m) of hedge fund assets within 18 months, in normal market conditions. Illiquid credit assets are not readily realisable and principal will be returned over the life of these assets, which may be up to 12 years.

As noted on page 73 consideration is also given when valuing the hedge funds to the timing of the latest valuations, and the impact of any significant market stress events. The adjustment to the underlying net asset value of the funds as a result of these considerations was $nil at 31 December 2018 (2017: $nil).

16 Financial assets and liabilities *continued*

Financial liabilities	2018 $m	2017 $m
Retail bond	95.6	99.5
Subordinated debt	–	18.0
Tier 2 subordinated debt (2026)	248.7	248.5
Derivative financial liabilities	12.4	1.3
Total financial liabilities	**356.7**	**367.3**

The amounts expected to mature before and after one year are:		
Within one year	108.0	1.3
After one year	248.7	366.0
	356.7	**367.3**

A breakdown of the group's investment portfolio is provided on page 33.
A breakdown of derivative financial instruments is disclosed in note 17.

The retail bond was issued in 2012. The subordinated debt was issued in 2004 and redeemed in 2018. Tier 2 subordinated debt was issued in 2016. Please refer to note 24 for further details of our borrowings and associated repayment terms.

The group has given a fixed and floating charge over certain of its investments and other assets to secure obligations to Lloyd's in respect of its corporate member subsidiary. Further details are provided in note 31.

Valuation hierarchy

The table below summarises financial assets carried at fair value using a valuation hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – Valuations based on quoted prices in active markets for identical instruments. An active market is a market in which transactions for the instrument occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Included within level 1 are bonds, treasury bills of government and government agencies, corporate bonds and equity funds which are measured based on quoted prices in active markets.

Level 2 – Valuations based on quoted prices in markets that are not active, or based on pricing models for which significant inputs can be corroborated by observable market data (e.g. interest rates, exchange rates). Included within level 2 are government bonds and treasury bills, equity funds and corporate bonds, which are not actively traded, hedge funds and senior secured loans.

Level 3 – Valuations based on inputs that are unobservable or for which there is limited market activity against which to measure fair value.

The availability of financial data can vary for different financial assets and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on models or inputs that are unobservable in the market, the determination of fair value requires more judgement. Accordingly the degree of judgement exercised by management in determining fair value is greatest for instruments classified in level 3. The group uses prices and inputs that are current as of the measurement date for valuation of these instruments.

If the inputs used to measure the fair value of an asset or a liability can be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The group has an established control framework and valuation policy with respect to the measurement of fair values.

Notes to the financial statements *continued*

16 Financial assets and liabilities *continued*

Level 2 investments

For the group's level 2 debt securities our fund administrator obtains the prices used in the valuation from independent pricing vendors such as Bloomberg, Standard and Poor's, Reuters, Markit and International Data Corporation. The independent pricing vendors derive an evaluated price from observable market inputs. The market inputs include trade data, two-sided markets, institutional bids, comparable trades, dealer quotes, and other relevant market data. These inputs are verified in their pricing engines and calibrated with the pricing models to calculate spread to benchmarks, as well as other pricing assumptions such as weighted average life (WAL), discount margins (DM), default rates, and recovery and prepayment assumptions for mortgage securities. While such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.

The group records the unadjusted price provided and validates the price through various tolerance checks such as comparison with the investment custodians and the investment managers to assess the reasonableness and accuracy of the price to be used to value the security. In the rare case that the price fails the tolerance test, it is escalated and discussed internally. We would not override the price on a retrospective basis, but we would work with the administrator and pricing vendor to investigate the difference. This generally results in the vendor updating their inputs. We also review the valuation policy on a regular basis to ensure it is fit for purpose. No adjustments have been made to the prices obtained from the administrator at the current year end.

For our hedge funds and equity funds, the pricing and valuation of each fund is undertaken by administrators in accordance with each underlying fund's valuation policy. For the equity funds, the individual fund prices are published on a daily, weekly or monthly basis via Bloomberg and other market data providers such as Reuters. For the hedge funds, the individual fund prices are communicated by the administrators to all investors via the monthly investor statements. The fair value of the hedge fund and equity fund portfolios are calculated by reference to the underlying net asset values of each of the individual funds.

Additional information is obtained from fund managers relating to the underlying assets within individual hedge funds. We identified that 83% (2017: 67%) of these underlying assets were level 1 and the remainder level 2. This enables us to categorise hedge funds as level 2.

Prior to any new hedge fund investment, extensive due diligence is undertaken on each fund to ensure that pricing and valuation are undertaken by the administrators and that each fund's valuation policy is appropriate for the financial instruments the manager will be employing to execute the investment strategy. Fund liquidity terms are reviewed prior to the execution of any investment to ensure that there is no mismatch between the liquidity of the underlying fund assets and the liquidity terms offered to fund investors. As part of the monitoring process, underlying fund subscriptions and redemptions are assessed by reconciling the increase or decrease in fund assets with the investment performance in any given period.

Level 3 investments

During 2018, the Beazley plc investment committee approved additional allocations to an illiquid asset portfolio comprising investments in funds managed by third party managers (generally closed end limited partnerships or open ended funds). While the funds provide full transparency on their underlying investments, the investments themselves are in many cases private and unquoted, and are therefore classified as level 3 investments.

These inputs can be subjective and may include a discount rate applied to the investment based on market factors and expectations of future cash flows, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance relative to benchmarks, financial condition, and financing transactions subsequent to the acquisition of the investment.

We take the following steps to ensure accurate valuation of these level 3 assets. A substantial part of the preinvestment due diligence process is dedicated to a comprehensive review of each fund's valuation policy and the internal controls of the manager. In addition to this, confirmation that the investment reaches a minimum set of standards relating to the independence of service providers, corporate governance, and transparency is sought prior to approval. Post investment, unaudited capital statements confirming the fair value of the limited partner interests are received and reviewed on a quarterly (or more frequent) basis. Audited financial statements are received on an annual basis, with the valuation of each transaction being confirmed.

16 Financial assets and liabilities *continued*

The following table shows the fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

2018	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets measured at fair value				
Fixed and floating rate debt securities				
– Government issued	1,384.2	–	–	1,384.2
– Quasi-government	25.9	–	–	25.9
– Corporate bonds				
– Investment grade	–	2,525.3	–	2,525.3
– High yield	–	32.7	–	32.7
– Senior secured loans	–	132.1	–	132.1
Equity funds	–	85.4	–	85.4
Hedge funds	–	337.2	–	337.2
Illiquid credit assets	–	–	186.6	186.6
Derivative financial assets	6.9	–	–	6.9
Total financial assets measured at fair value	**1,417.0**	**3,112.7**	**186.6**	**4,716.3**
Financial liabilities measured at fair value				
Derivative financial liabilities	12.4	–	–	12.4
Financial liabilities not measured at fair value				
Retail bond	–	98.2	–	98.2
Tier 2 subordinated debt (2026)	–	249.4	–	249.4
Total financial liabilities not measured at fair value	–	347.6	–	347.6

2017	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets measured at fair value				
Fixed and floating rate debt securities				
– Government issued	1,345.4	–	–	1,345.4
– Quasi-government	24.1	–	–	24.1
– Supranational	21.1	–	–	21.1
– Corporate bonds				
– Investment grade	15.2	2,164.5	–	2,179.7
– High yield	–	58.8	–	58.8
– Senior secured loans	–	85.6	–	85.6
Equity funds	–	168.3	–	168.3
Hedge funds	–	377.4	–	377.4
Illiquid credit assets	–	–	180.4	180.4
Derivative financial assets	8.8	–	–	8.8
Total financial assets measured at fair value	**1,414.6**	**2,854.6**	**180.4**	**4,449.6**

Notes to the financial statements *continued*

16 Financial assets and liabilities *continued*

2017	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial liabilities measured at fair value				
Derivative financial liabilities	1.3	–	–	1.3
Financial liabilities not measured at fair value				
Retail bond	–	104.1	–	104.1
Tier 2 subordinated debt (2026)	–	266.6	–	266.6
Total financial liabilities not measured at fair value	**–**	**370.7**	**–**	**370.7**

The table above does not include financial assets and liabilities that are, in accordance with the group's accounting policies, recorded at amortised cost, if the carrying amount of these financial assets and liabilities approximates their fair values at the reporting date. Cash and cash equivalents have not been included in the table above; however, the full amount of cash and cash equivalents would be classified under level 1 in both the current and prior year.

Transfers and level 3 investment reconciliations

There were no transfers in either direction between Level 1, 2 and 3 in either 2017 or 2018.

The table below shows a reconciliation from the opening balances to the closing balances of level 3 fair values.

	2018 $m	2017 $m
As at 1 January	180.4	126.1
Purchases	46.3	55.4
Sales	(52.4)	(21.1)
Total net gains recognised in profit or loss	12.3	20.0
As at 31 December	**186.6**	**180.4**

Total unrealised loss on level 3 investments included into net gains above was $0.7m (2017: gain of $16.4m).

Unconsolidated structured entities

A structured entity is defined as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements.

As part of its standard investment activities the group holds fixed interest investments in high yield bond funds, as well as capital growth investments in equity funds, hedge funds and illiquid credit assets which in accordance with IFRS 12 are classified as unconsolidated structured entities. The group does not sponsor any of the unconsolidated structured entities. The assets classified as unconsolidated structured entities are held at fair value on the statement of financial position.

As at 31 December the investments comprising the group's unconsolidated structured entities are as follows:

	2018 $m	2017 $m
High yield bond funds	32.7	58.8
Equity funds	85.4	168.3
Hedge funds	337.2	377.4
Illiquid credit assets	186.6	180.4
Investments through unconsolidated structured entities	**641.9**	**784.9**

Apart from a relatively small exposure to high yield bond funds, our unconsolidated structured entity exposures fall within our capital growth assets. The capital growth assets are held in investee funds managed by asset managers who apply various investment strategies to accomplish their respective investment objectives. The group's investments in investee funds are subject to the terms and conditions of the respective investee fund's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investee funds. Investment decisions are made after extensive due diligence on the underlying fund, its strategy and the overall quality of the underlying fund's manager and assets.

16 Financial assets and liabilities *continued*

All the investee funds in the investment portfolio are managed by portfolio managers who are compensated by the respective investee funds for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee and is reflected in the valuation of the fund's investment in each of the investee funds. The right to sell or request redemption of investments in high yield bond funds, asset backed securities, equity funds and hedge funds ranges in frequency from daily to semi-annually. The group did not sponsor any of the respective structured entities.

These investments are included in financial assets at fair value through profit or loss in the statement of financial position. The group's maximum exposure to loss from its interests in investee funds is equal to the total fair value of its investments in investee funds and unfunded commitments. Once the group has disposed of its shares in an investee fund, it ceases to be exposed to any risk from that investee fund.

As described in note 2 to the financial statements, the group monitors and manages its currency exposures to net assets and financial assets held at fair value.

Currency exposures

The currency exposures of our financial assets held at fair value are detailed below:

2018	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Financial assets at fair value						
Fixed and floating rate debt securities	6.6	184.5	–	191.1	3,909.1	4,100.2
Equity funds	–	–	22.2	22.2	63.2	85.4
Hedge funds	–	–	–	–	337.2	337.2
Illiquid credit assets	–	–	16.2	16.2	170.4	186.6
Derivative financial assets	–	–	–	–	6.9	6.9
Total	**6.6**	**184.5**	**38.4**	**229.5**	**4,486.8**	**4,716.3**

2017	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Financial assets at fair value						
Fixed and floating rate debt securities	12.4	161.1	–	173.5	3,541.2	3,714.7
Equity funds	–	–	39.9	39.9	128.4	168.3
Hedge funds	–	–	–	–	377.4	377.4
Illiquid credit assets	–	–	13.7	13.7	166.7	180.4
Derivative financial assets	–	–	–	–	8.8	8.8
Total	**12.4**	**161.1**	**53.6**	**227.1**	**4,222.5**	**4,449.6**

The above qualitative and quantitative disclosure along with the risk management discussions in note 2 enable more comprehensive evaluation of Beazley's exposure to risks arising from financial instruments.

Notes to the financial statements *continued*

17 Derivative financial instruments

In 2018 and 2017 the group entered into over-the-counter and exchange traded derivative contracts. The group had the right and the intention to settle each contract on a net basis.

The assets and liabilities of these contracts at 31 December are detailed below:

	2018		2017	
Derivative financial instrument assets	Gross contract amount $m	Market value of derivative position $m	Gross contract amount $m	Market value of derivative position $m
Foreign exchange forward contracts	365.1	6.9	446.7	7.2
Bond futures contract	–	–	(341.4)	1.6
	365.1	**6.9**	**105.3**	**8.8**

	2018		2017	
Derivative financial instrument liabilities	Gross contract amount $m	Market value of derivative position $m	Gross contract amount $m	Market value of derivative position $m
Foreign exchange forward contracts	205.6	9.6	361.7	1.3
Bond futures contract	189.2	2.8	–	–
	394.8	**12.4**	**361.7**	**1.3**

Foreign exchange forward contracts

The group entered into over-the-counter foreign exchange forward agreements in order to economically hedge the foreign currency exposure resulting from transactions and balances held in currencies that are different to the functional currency of the group.

Bond futures positions

The group entered in bond futures transactions for the purpose of efficiently managing the term structure of its interest rate exposures. A negative gross contract amount represents a notional short position that generates positive fair value as interest rates rise.

18 Insurance receivables

	2018 $m	2017 $m
Insurance receivables	943.3	918.0
	943.3	**918.0**

These are receivables within one year and relate to business transacted with brokers and intermediaries. All insurance receivables are classified as loans and receivables and their carrying values approximate fair value at the reporting date.

19 Reinsurance assets

	2018 $m	2017 $m
Reinsurers' share of claims	963.9	1,006.4
Impairment provision	(12.2)	(13.2)
	951.7	993.2
Reinsurers' share of unearned premium reserve	241.1	237.9
	1,192.8	**1,231.1**

Further analysis of the reinsurance assets is provided in note 23.

20 Cash and cash equivalents

Group	2018 $m	2017 $m
Cash at bank and in hand	289.0	375.5
Short term deposits and highly liquid investments	45.0	64.3
	334.0	**439.8**

Total cash and cash equivalents include $10.4m (2017: $9.0m) held in Lloyd's Singapore trust accounts. These funds are only available for use by the group to meet local claim and expense obligations.

Company	2018 $m	2017 $m
Cash at bank and in hand	0.1	0.1
	0.1	**0.1**

21 Share capital

	2018		2017	
	No. of shares (m)	$m	No. of shares (m)	$m
Ordinary shares of 5p each				
Authorised	700.0	55.8	700.0	55.8
Issued and fully paid	523.3	37.2	523.3	37.2
Balance at 1 January	**523.3**	**37.2**	**523.3**	**37.2**
Issue of shares	–	–	–	–
Balance at 31 December	**523.3**	**37.2**	**523.3**	**37.2**

Notes to the financial statements *continued*

22 Other reserves

	Merger reserve $m	Scheme of arrangement reserve $m	Total $m
Group			
Balance at 1 January 2017	(15.4)	**4.5**	(10.9)
Balance at 31 December 2017	(15.4)	**4.5**	**(10.9)**
Dividends paid	–	(4.5)	**(4.5)**
Balance at 31 December 2018	**(15.4)**	**–**	**(15.4)**

	Merger reserve $m	Scheme of arrangement reserve $m	Total $m
Company			
Balance at 1 January 2017	(35.4)	4.5	(30.9)
Balance at 31 December 2017	**(35.4)**	**4.5**	(30.9)
Dividends paid	–	(4.5)	(4.5)
Balance at 31 December 2018	**(35.4)**	**–**	**(35.4)**

The merger reserve has arisen as a result of historical Beazley group restructuring. The most significant item is the reverse acquisition that occurred in 2009.

23 Insurance liabilities and reinsurance assets

	2018 $m	2017 $m
Gross		
Claims reported and loss adjustment expenses	1,171.2	1,056.3
Claims incurred but not reported	2,869.5	2,852.3
Gross claims liabilities	4,040.7	3,908.6
Unearned premiums	1,415.5	1,259.2
Total insurance liabilities, gross	**5,456.2**	**5,167.8**
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	231.9	219.4
Claims incurred but not reported	719.8	773.8
Reinsurers’ share of claims liabilities	951.7	993.2
Unearned premiums	241.1	237.9
Total reinsurers’ share of insurance liabilities	**1,192.8**	**1,231.1**

	2018 $m	2017 $m
Net		
Claims reported and loss adjustment expenses	939.3	836.9
Claims incurred but not reported	2,149.7	2,078.5
Net claims liabilities	3,089.0	2,915.4
Unearned premiums	1,174.4	1,021.3
Total insurance liabilities, net	**4,263.4**	**3,936.7**

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.

Notes to the financial statements *continued*

23 Insurance liabilities and reinsurance assets *continued*

23.1 Movements in insurance liabilities and reinsurance assets

a) Claims and loss adjustment expenses

	2018			2017		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
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 1 January	**3,908.6**	**(993.2)**	**2,915.4**	**3,516.9**	**(853.9)**	**2,663.0**
Claims paid	(1,301.1)	261.5	(1,039.6)	(1,028.2)	179.1	(849.1)
Increase in claims						
– Arising from current year claims	1,844.7	(501.9)	1,342.8	1,737.4	(457.8)	1,279.6
– Arising from prior year claims	(380.8)	265.8	(115.0)	(349.4)	145.5	(203.9)
Net exchange differences	(30.7)	16.1	(14.6)	31.9	(6.1)	25.8
Balance at 31 December	**4,040.7**	**(951.7)**	**3,089.0**	**3,908.6**	**(993.2)**	**2,915.4**
Claims reported and loss adjustment expenses	1,171.2	(231.9)	939.3	1,056.3	(219.4)	836.9
Claims incurred but not reported	2,869.5	(719.8)	2,149.7	2,852.3	(773.8)	2,078.5
Balance at 31 December	**4,040.7**	**(951.7)**	**3,089.0**	**3,908.6**	**(993.2)**	**2,915.4**

b) Unearned premiums reserve

	2018			2017		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
Balance at 1 January	1,259.2	(237.9)	1,021.3	1,140.8	(228.2)	912.6
Increase in the year	2,615.3	(375.6)	2,239.7	2,343.8	(375.4)	1,968.4
Release in the year	(2,459.0)	372.4	(2,086.6)	(2,225.4)	365.7	(1,859.7)
Balance at 31 December	**1,415.5**	**(241.1)**	**1,174.4**	**1,259.2**	**(237.9)**	**1,021.3**

23 Insurance liabilities and reinsurance assets *continued*

23.2 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, 2017 and 2018 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.

Notes to the financial statements *continued*

23 Insurance liabilities and reinsurance assets *continued*

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. The diagram below illustrates the main categories of assumptions used for each underwriting year and class combination.

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 such 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 insight 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 2018 is adequate. However, due to inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

23 Insurance liabilities and reinsurance assets *continued*

Gross ultimate claims	2008 ae %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %
Marine											
12 months		54.2	50.4	54.6	55.9	56.5	57.5	56.7	59.5	68.1	61.9
24 months		50.8	49.7	47.3	46.3	52.0	46.8	54.0	70.4	62.6	
36 months		44.0	44.0	38.9	34.7	44.4	47.1	47.3	65.6		
48 months		40.5	42.3	33.6	32.2	42.8	46.6	45.4			
60 months		40.2	40.3	35.3	31.4	42.1	55.5				
72 months		48.5	40.1	31.6	30.6	41.5					
84 months		47.7	42.1	30.8	29.9						
96 months		49.0	40.6	29.3							
108 months		48.9	41.0								
120 months		40.2									
Political, accident & contingency											
12 months		58.4	57.7	57.5	60.0	59.2	59.2	59.8	61.3	57.9	59.1
24 months		43.4	44.7	44.5	54.4	49.4	51.2	58.8	54.3	49.3	
36 months		37.9	39.0	44.1	51.3	45.0	46.9	57.0	49.3		
48 months		33.7	32.4	39.3	48.9	43.9	50.1	57.7			
60 months		29.3	31.5	37.5	45.8	46.0	51.5				
72 months		24.9	30.3	35.4	45.1	45.8					
84 months		25.1	29.3	35.0	44.2						
96 months		25.1	29.5	35.1							
108 months		25.3	27.4								
120 months		24.8									
Property											
12 months		53.6	57.7	58.1	55.4	55.1	53.2	55.0	58.9	72.5	63.4
24 months		41.5	60.3	50.3	47.4	49.1	47.7	49.0	68.4	88.7	
36 months		36.3	58.3	47.7	39.7	45.7	41.3	45.9	71.3		
48 months		35.1	55.6	46.0	36.6	45.7	40.6	44.8			
60 months		34.1	52.9	45.1	36.1	45.6	39.7				
72 months		33.1	51.9	43.9	35.5	47.3					
84 months		32.5	51.0	43.4	35.4						
96 months		32.1	50.8	43.1							
108 months		31.9	50.7								
120 months		31.8									

Notes to the financial statements *continued*

Gross ultimate claims	2008 ae %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	
Reinsurance												
12 months		60.7	68.0	79.1	62.9	59.1	61.5	65.8	66.8	124.6	95.3	
24 months		48.1	140.7	77.7	37.5	45.3	33.6	33.7	41.4	117.3		
36 months		40.0	127.4	69.5	32.1	42.7	31.0	25.7	40.3			
48 months		39.4	119.7	65.7	31.2	41.4	27.8	25.5				
60 months		35.2	123.1	62.9	31.2	38.4	27.6					
72 months		32.4	121.8	62.7	31.0	38.1						
84 months		31.7	121.8	57.9	31.0							
96 months		31.8	120.8	58.0								
108 months		31.6	118.6									
120 months		31.0										
Specialty lines												
12 months		72.5	73.7	75.4	73.9	73.4	68.5	67.4	65.3	63.1	65.7	
24 months		72.4	73.8	75.5	74.0	73.2	68.4	67.8	65.1	63.2		
36 months		71.6	72.8	76.5	72.1	72.9	65.0	64.6	62.1			
48 months		71.3	73.3	75.5	70.2	69.3	63.4	62.0				
60 months		71.6	69.6	74.2	67.3	65.4	63.6					
72 months		68.7	69.7	69.4	65.8	62.7						
84 months		69.8	69.4	68.2	65.1							
96 months		70.4	66.3	67.8								
108 months		69.1	63.5									
120 months		69.2										
Total												
12 months		62.8	64.4	67.2	64.6	63.8	62.2	62.7	63.3	70.5	67.0	
24 months		56.9	71.3	62.7	58.2	59.3	55.8	58.4	62.9	71.2		
36 months		53.0	67.3	60.4	53.2	56.4	52.5	54.5	60.6			
48 months		51.6	65.2	57.8	51.0	54.4	51.5	52.4				
60 months		50.7	63.0	56.9	49.1	52.5	52.7					
72 months		49.8	62.5	53.7	48.1	51.6						
84 months		49.9	62.4	52.5	47.4							
96 months		50.3	60.8	52.2								
108 months		49.7	59.7									
120 months		48.7										
Estimated total ultimate losses ($m)	6,508.5	1,003.0	1,232.5	997.5	942.9	1,115.4	1,218.8	1,265.5	1,570.8	2,000.1	1,834.2	19,689.2
Less paid claims ($m)	(6,262.5)	(900.9)	(1,153.9)	(888.1)	(823.7)	(909.1)	(882.2)	(791.5)	(728.4)	(641.2)	(126.6)	(14,108.1)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(35.3)	(738.8)	(774.1)
Gross claims liabilities (100% level) ($m)	**246.0**	**102.1**	**78.6**	**109.4**	**119.2**	**206.3**	**336.6**	**474.0**	**842.4**	**1,323.6**	**968.8**	**4,807.0**
Less non-group share ($m)	(43.3)	(15.3)	(14.3)	(19.8)	(21.4)	(35.0)	(55.1)	(79.8)	(121.7)	(206.9)	(153.7)	(766.3)
Gross claims liabilities, group share ($m)	**202.7**	**86.8**	**64.3**	**89.6**	**97.8**	**171.3**	**281.5**	**394.2**	**720.7**	**1,116.7**	**815.1**	**4,040.7**

23 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2008 ae %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %
Marine											
12 months		53.1	52.0	55.5	55.4	56.1	56.4	56.7	56.7	57.6	59.4
24 months		47.5	49.2	47.5	46.0	53.2	48.4	52.5	62.6	61.7	
36 months		38.7	44.7	38.5	37.4	47.5	46.5	47.1	61.7		
48 months		35.0	42.6	34.3	35.0	45.9	45.5	46.7			
60 months		34.8	41.0	35.4	33.9	45.3	46.7				
72 months		38.4	40.0	32.1	33.2	44.7					
84 months		37.7	42.2	31.2	32.8						
96 months		37.0	40.6	30.1							
108 months		36.8	41.1								
120 months		32.7									
Political, accident & contingency											
12 months		56.4	54.4	54.8	58.6	58.6	56.9	57.5	60.2	56.9	58.3
24 months		41.5	43.6	45.1	52.5	50.9	49.8	56.1	53.2	48.6	
36 months		36.5	39.6	45.4	49.9	47.4	44.9	55.2	49.7		
48 months		33.6	33.2	42.1	46.9	44.8	49.9	54.6			
60 months		29.7	32.3	40.1	43.7	45.3	50.3				
72 months		26.1	31.1	38.0	42.9	45.5					
84 months		26.3	29.6	37.4	42.4						
96 months		26.3	30.2	37.5							
108 months		26.4	28.2								
120 months		26.1									
Property											
12 months		53.3	58.8	60.2	58.6	56.7	54.5	55.0	57.6	76.5	64.5
24 months		47.2	64.9	57.6	52.9	56.3	51.1	50.2	69.6	93.9	
36 months		43.6	65.6	53.5	45.9	52.2	44.2	46.8	71.4		
48 months		41.4	59.7	50.3	41.2	50.1	42.8	44.7			
60 months		40.8	57.5	48.9	40.6	49.9	41.9				
72 months		39.5	56.5	47.8	40.2	51.6					
84 months		39.0	56.0	47.5	39.9						
96 months		38.8	55.7	47.3							
108 months		38.6	55.7								
120 months		38.5									

Notes to the financial statements *continued*

23 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2008 ae %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	
Reinsurance												
12 months		55.5	76.7	89.9	67.0	57.1	58.9	61.4	60.3	107.0	84.5	
24 months		52.7	124.6	87.9	45.5	52.0	37.5	34.1	38.6	93.6		
36 months		46.9	114.8	80.2	39.1	48.6	33.6	24.2	38.0			
48 months		46.1	108.7	74.7	37.7	47.1	30.7	24.0				
60 months		41.3	118.5	72.4	37.7	43.5	30.5					
72 months		38.0	112.6	72.3	37.4	43.2						
84 months		37.2	112.6	67.1	37.5							
96 months		37.2	112.1	67.1								
108 months		37.0	108.9									
120 months		36.3										
Specialty lines												
12 months		69.5	70.9	72.4	71.0	69.5	66.0	63.6	62.9	61.4	63.5	
24 months		69.3	71.0	72.4	70.6	69.0	65.9	63.9	62.8	61.6		
36 months		68.7	70.5	71.7	68.7	68.5	63.6	60.8	59.0			
48 months		65.8	69.5	69.6	65.8	63.5	60.4	55.6				
60 months		65.8	68.9	70.1	63.9	59.7	60.5					
72 months		64.9	69.0	68.9	63.2	57.8						
84 months		65.5	68.9	67.8	62.8							
96 months		65.4	66.5	67.5								
108 months		64.6	63.7									
120 months		64.3										
Total												
12 months		60.5	64.2	67.0	64.0	62.2	60.7	60.1	60.7	66.2	64.2	
24 months		56.5	68.3	63.6	58.3	60.2	56.1	56.5	61.0	68.1		
36 months		52.8	65.9	60.1	53.7	57.4	52.5	52.7	58.8			
48 months		50.3	62.8	57.0	50.7	54.2	50.9	49.8				
60 months		49.3	62.8	56.7	49.3	52.1	51.1					
72 months		48.6	61.7	55.1	48.6	51.5						
84 months		48.5	61.7	53.9	48.3							
96 months		48.3	60.4	53.5								
108 months		47.9	58.8									
120 months		47.0										
Estimated total ultimate losses ($m)	4,456.5	759.5	1,011.3	857.1	819.7	945.7	1,008.1	1,018.3	1,273.5	1,616.1	1,516.3	15,282.1
Less paid claims ($m)	(4,298.6)	(698.4)	(949.0)	(769.7)	(716.8)	(775.6)	(752.8)	(661.5)	(629.1)	(550.7)	(132.5)	(10,934.7)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(33.0)	(644.2)	(677.2)
Net claims liabilities (100% level) ($m)	**157.9**	**61.1**	**62.3**	**87.4**	**102.9**	**170.1**	**255.3**	**356.8**	**644.4**	**1,032.4**	**739.6**	**3,670.2**
Less non-group share ($m)	(28.6)	(9.0)	(11.5)	(15.7)	(17.3)	(29.0)	(39.4)	(59.1)	(93.8)	(160.9)	(116.9)	(581.2)
Net claims liabilities, group share ($m)	**129.3**	**52.1**	**50.8**	**71.7**	**85.6**	**141.1**	**215.9**	**297.7**	**550.6**	**871.5**	**622.7**	**3,089.0**

23 Insurance liabilities and reinsurance assets *continued*

Analysis of movements in loss development tables

We have updated our loss development tables to show the ultimate loss ratios as at 31 December 2018 for each underwriting year.

Marine

There have been reserve releases in the energy book in the 2009 underwriting year following the improvement of a specific claim. The 2010 and 2014 underwriting years have been impacted by specific claims in energy and hull respectively. The 2018 underwriting year has been opened higher than previous years to allow for the recent increased claims activity.

Political, accident & contingency

The 2017 underwriting year has reduced supported by benign claims activity on the terrorism book, and a number of older years of the political risks account have contributed small claims recoveries.

Property

Minor releases have been seen on a number of underwriting years, with one claim on the commercial property book leading to a small strengthening in 2013. The recent years have been significantly impacted by higher attritional claims, as well as some strengthening on the 2017 catastrophe estimates during the year.

Reinsurance

The 2017 underwriting year is showing improvement generated by redundancy in the 2017 catastrophe estimates.

Specialty lines

Releases have been made from underwriting years as they mature and claims crystallise. The more recent years have also benefited from the release of cyber catastrophe margin. The most recent underwriting year has been opened slightly higher in order to maintain margin.

Notes to the financial statements *continued*

23 Insurance liabilities and reinsurance assets *continued*

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 2018.

Reserve releases during the year totalled $115.0m (2017: $203.9m). The net of reinsurance estimates of ultimate claims costs on the 2016 and prior underwriting years have improved by $133.5m during 2018, while 2017 underwriting year strengthened by $18.5m driven by the deterioration of catastrophe and attritional claims in our property division.

The movements shown on 2015 and earlier are absolute claim movements and are not impacted by any current year movements in premium on those underwriting years.

2018	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	146.5	105.0	242.1	121.5	727.7	1,342.8
Prior year						
– 2015 underwriting year and earlier	(11.6)	0.4	(2.9)	(5.2)	(88.4)	(107.7)
– 2016 underwriting year	(2.2)	(7.9)	7.4	(0.7)	(22.4)	(25.8)
– 2017 underwriting year	1.3	(7.3)	42.8	(17.9)	(0.4)	18.5
	(12.5)	(14.8)	47.3	(23.8)	(111.2)	(115.0)
Net insurance claims	**134.0**	**90.2**	**289.4**	**97.7**	**616.5**	**1,227.8**

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**

24 Borrowings

The carrying amount and fair values of the non-current borrowings are as follows:

Group **Carrying value**	Subordinated debt $m	Tier 2 subordinated debt $m	Retail bond $m	Total $m
Balance at 1 January 2018	**18.0**	**248.5**	**99.5**	**366.0**
Interest expensed	1.0	14.7	5.4	21.1
Interest paid	(1.0)	(14.7)	(5.4)	(21.1)
Debt redemption	(18.0)	–	–	(18.0)
Amortisation of capitalised borrowing costs	–	0.2	0.2	0.4
Foreign exchange gain	–	–	(4.1)	(4.1)
Balance at 31 December 2018	**–**	**248.7**	**95.6**	**344.3**

Fair value	Subordinated debt $m	Tier 2 subordinated debt $m	Retail bond $m	Total $m
Balance at 1 January 2018	**18.0**	**266.6**	**104.1**	**388.7**
Change in fair value	(18.0)	(17.2)	(5.9)	(41.1)
Balance at 31 December 2018	**–**	**249.4**	**98.2**	**347.6**

Company **Carrying value**	Retail bond $m	Total $m
Balance at 1 January 2018	**99.5**	**99.5**
Interest expensed	5.4	5.4
Interest paid	(5.4)	(5.4)
Debt redemption	–	–
Amortisation of capitalised borrowing costs	0.2	0.2
Foreign exchange gain	(4.1)	(4.1)
Balance at 31 December 2018	**95.6**	**95.6**

Fair value	Retail bond $m	Total $m
Balance at 1 January 2018	**104.1**	**104.1**
Change in fair value	(5.9)	(5.9)
Balance at 31 December 2018	**98.2**	**98.2**

The fair values of the subordinated debt, the tier 2 subordinated debt and the retail bond are based on quoted market prices.

In November 2004, the group issued subordinated debt of $18m to JPMorgan Chase Bank, N.A., JPMorgan. The loan is unsecured and interest is payable at the USD London interbank offered rate (LIBOR) plus a margin of 3.65% per annum. In October 2018, the group exercised its call option and redeemed the full nominal amount of debt of $18.0m on 26 November 2018. Please refer to note 8 for further detail on debt buyback.

In September 2012, the group issued £75m of sterling denominated 5.375% notes due 2019. Interest at a fixed rate of 5.375% is payable in March and September each year.

In November 2016, the group issued $250m of subordinated tier 2 notes due in 2026. Annual interest, at a fixed rate of 5.875%, is payable in May and November each year.

Notes to the financial statements *continued*

25 Other payables

Group	2018 $m	2017 $m
Reinsurance premiums payable	183.8	182.8
Accrued expenses including staff bonuses	137.9	165.3
Other payables	48.4	100.1
Deferred consideration payable on acquisition of MGAs	–	0.3
Due to syndicate 623	5.0	–
Due to syndicate 6107	65.1	52.2
Due to syndicate 6050	0.4	11.4
Due to syndicate 5623	1.6	–
Due to Beazley plc	–	20.9
	442.2	**533.0**

Company	2018 $m	2017 $m
Other payables	8.3	1.7
	8.3	**1.7**

All other payables are payable within one year of the reporting date. The carrying value approximates fair values.

26 Retirement benefit obligations

	2018 $m	2017 $m
Present value of funded obligations	47.0	55.9
Fair value of plan assets	(44.6)	(53.6)
Retirement benefit liability in the statement of financial position	**2.4**	**2.3**

Amounts recognised in the statement of profit or loss		
Interest cost	1.3	1.4
Expected return on plan assets	(1.3)	(1.3)
	–	**0.1**

Beazley Furlonge Limited operates a defined benefit pension scheme ('the Beazley Furlonge Limited Pension Scheme'). The scheme provides the following benefits:

- an annual pension payable to the member from his or her normal pension age (60th birthday) of generally 1/60th of final pensionable salary for each year of pensionable service up to 31 March 2006;
- a spouse's pension of 2/3rds of the member's pension payable on the member's death after retirement;
- a lump sum of four times current pensionable salary for death in service at the date of death; and
- a pension of 2/3rds of the member's prospective pension at the date of death, payable to the spouse until their death. This pension is related to salary at the date of death.

The scheme is administered by a trust that is legally separated from the group. The trustees consist of both employee and employer representatives and an independent chairman, all of whom are governed by the scheme rules.

The scheme exposes the group to additional actuarial, interest rate and market risk.

Contributions to the scheme are determined by a qualified actuary using the projected unit credit method as set out in the scheme rules and the most recent valuation was at 31 December 2018. According to the Schedule of Contributions, the group expects to contribute approximately $1.3m in each of the next two years.

Trustees obligations

Under section 222 of the Pension Act 2004, every scheme is subject to the Statutory Funding Objective (SFO), which is to have sufficient and appropriate assets to cover its technical provisions, which represent the present value of benefits to which members are entitled based on pensionable service to the valuation date. This is assessed at least every three years using assumptions agreed between the Trustees and the employer as set out in the Statement of Funding Principles produced in accordance with

26 Retirement benefit obligations *continued*

the Occupational Pensions (Scheme Funding) Regulations 2005 (OP(SF)R 2005) Regulation 6. The Trustees written Statement of Funding Principles is dated 27 December 2017 and it sets out their policy for securing that the SFO is met (that the scheme will have sufficient assets to cover its technical provisions). In accordance with the OP(SF)R 2005 Regulation 5(2) trustees have chosen the Defined Accrued Benefit Method, a variant of the projected unit credit method where accrual has ceased.

The most recently completed Actuarial Valuation of the Scheme was carried out at 1 January 2017 including a valuation carried out in accordance with the Pensions Protection Fund (Valuation) Regulations 2005 and with appropriate section 179 guidance and assumptions issued by the Board of the Pension Protection Fund.

A recovery plan was agreed between the Trustees and the employer on 27 December 2017 in accordance with OP(SF)R 2005 Regulation 8. These arrangements were formalised in a schedule of contributions which the scheme Actuary certified on 27 December 2017 in accordance with OP(SF)R 2005 Regulation 9.

	2018 $m	2017 $m
Movement in present value of funded obligations recognised in the statement of financial position		
Balance at 1 January	**55.9**	**48.2**
Interest cost	1.3	1.4
Actuarial (gain)/loss	(6.8)	4.2
Benefits paid	(1.1)	(0.4)
Foreign exchange (gain)/loss	(2.3)	2.5
Balance at 31 December	**47.0**	**55.9**

	2018 $m	2017 $m
Movement in fair value of plan assets recognised in the statement of financial position		
Balance at 1 January	**53.6**	**42.0**
Expected return on plan assets	1.3	1.3
Actuarial (loss)/gain	(8.0)	4.2
Employer contributions	1.0	4.4
Benefits paid	(1.1)	(0.4)
Foreign exchange (loss)/gain	(2.2)	2.1
Balance at 31 December	**44.6**	**53.6**
Plan assets are comprised as follows:		
Equities	44.4	34.5
Bonds	–	8.6
Cash	0.2	3.4
UCITS funds	–	7.1
Total	**44.6**	**53.6**

The actual loss on plan assets was $6.8m (2017: gain of $5.5m).

	2018 $m	2017 $m
Principal actuarial assumptions		
Discount rate	2.8%	2.4%
Inflation rate	3.5%	3.4%
Expected return on plan assets	2.8%	2.4%
Future salary increases	3.5%	3.4%
Future pensions increases	3.0%	3.3%
Life expectancy for members aged 60 at 31 December	90 years	90 years
Life expectancy for members aged 40 at 31 December	93 years	93 years

At 31 December 2018, the weighted-average duration of the defined benefit obligation was 8.8 years (2017: 9.7 years).

Notes to the financial statements *continued*

26 Retirement benefit obligations *continued*

Sensitivity analyses

Changes in the relevant actuarial assumptions would result in a change in the value of the funded obligation as shown below:

31 December 2018	Increase $m	Decrease $m
Discount rate (0.5% decrease)	6.0	–
Inflation rate (0.3% decrease)	–	(2.2)
Future salary changes (0.5% decrease)	–	(0.5)
Life expectancy (1 year increase)	1.6	–

31 December 2017	Increase $m	Decrease $m
Discount rate (0.5% decrease)	7.7	–
Inflation rate (0.3% decrease)	–	(1.1)
Future salary changes (0.5% decrease)	–	(0.7)
Life expectancy (1 year increase)	2.0	–

27 Deferred tax

	2018 $m	2017 $m
Deferred tax asset	28.9	6.9
Deferred tax liability	(9.1)	(9.9)
	19.8	**(3.0)**

The movement in the net deferred income tax is as follows:		
Balance at 1 January	(3.0)	(1.8)
Income tax charge	18.8	(3.2)
Amounts recorded through equity	4.2	2.2
Foreign exchange translation differences	(0.2)	(0.2)
Balance at 31 December	**19.8**	**(3.0)**

	Balance 1 Jan 18 $m	Recognised in income $m	Recognised in equity $m	FX translation differences $m	Balance 31 Dec 18 $m
Plant and equipment	0.3	(0.2)	–	–	0.1
Intangible assets	(1.1)	(1.0)	–	–	(2.1)
Underwriting profits	(16.7)	14.8	–	–	(1.9)
Deferred acquisition costs	6.8	(9.3)	–	–	(2.5)
Tax losses carried forward	–	10.0	–	–	10.0
Share based payments	9.6	0.2	4.2	(0.1)	13.9
Other	(1.9)	4.3	–	(0.1)	2.3
Net deferred income tax account	**(3.0)**	**18.8**	**4.2**	**(0.2)**	**19.8**

	Balance 1 Jan 17 $m	Recognised in income $m	Recognised in equity $m	FX translation differences $m	Balance 31 Dec 17 $m
Plant and equipment	0.3	–	–	–	0.3
Intangible assets	1.2	(0.1)	(2.2)	–	(1.1)
Underwriting profits	(23.0)	6.3	–	–	(16.7)
Deferred acquisition costs	10.9	(4.1)	–	–	6.8
Share based payments	6.6	(1.2)	4.4	(0.2)	9.6
Other	2.2	(4.1)	–	–	(1.9)
Net deferred income tax account	**(1.8)**	**(3.2)**	**2.2**	**(0.2)**	**(3.0)**

27 Deferred tax *continued*

The group has tax adjusted losses carried forward giving rise to a deferred tax asset of $1.2m, measured at the UK corporation tax rate of 17%. The deferred tax asset has not been recognised on the group statement of financial position in the current year as losses are not expected to be utilised in the foreseeable future based on the current taxable profit estimates and forecasts of the underlying entity in question.

28 Operating lease commitments

The group leases land and buildings under non-cancellable operating lease agreements.

The future minimum lease payments under the non-cancellable operating leases are as follows:

	2018 $m	2017 $m
No later than one year	9.8	10.3
Later than one year and no later than five years	16.6	26.9
Later than five years	6.5	8.5
	32.9	**45.7**

29 Related party transactions

The group and company have related party relationships with syndicates 623, 6107, 6050, 5623, its subsidiaries, associates and its directors.

29.1 Syndicates 623, 6107, 6050 and 5623

The group received management fees and profit commissions for providing a range of management services to syndicates 623, 6107 and 6050, which are all managed by the group. In addition, the group ceded portions or all of a group of insurance policies to syndicates 6107, 5623 and 6050. The participants on syndicates 623, 6107 and 6050 are solely third party capital.

Details of transactions entered into and the balances with these syndicates are as follows:

	2018 $m	2017 $m
Written premium ceded to syndicates	65.0	66.1
Other income received from syndicates	29.0	35.7
Services provided	36.3	38.6
Balances due:		
Due (to)/from syndicate 623	(5.0)	30.6
Due to syndicate 6107	(65.1)	(52.2)
Due to syndicate 6050	(0.4)	(11.4)
Due to syndicate 5623	(1.6)	–

29.2 Key management compensation

	2018 $m	2017 $m
Salaries and other short term benefits	11.8	16.4
Post-employment benefits	0.5	0.6
Share based remuneration	5.9	9.8
	18.2	**26.8**

Key management include executive and non-executive directors of Beazley plc and other senior management. This compensation was borne by Beazley Management Limited, which is a part of Beazley Ireland Holdings plc group.

29.3 Other related party transactions

At 31 December 2018, the group had purchased services from the associate of $2.3m (2017: $2.5m) throughout the year. All transactions with the associate and subsidiaries are priced on an arm's length basis.

At 31 December 2018, the amount owed by Beazley plc to Beazley Ireland Holdings plc and its subsidiaries was $5.5m (2017: $20.9m due to Beazley plc).

Notes to the financial statements *continued*

30 Parent company and subsidiary undertakings

Beazley Ireland Holdings plc, a company incorporated in Jersey and resident for tax purposes in the Republic of Ireland, is the parent company of the group. Beazley plc is the ultimate parent of Beazley Ireland Holdings plc and the ultimate controlling party within the Beazley plc group.

The following is a list of all the subsidiaries in the group as at 31 December 2018:

	Country of incorporation	Ownership interest	Nature of business	Functional currency	Beazley Ireland Holdings plc direct investment in subsidiary ($m)
Beazley Group Limited[1]	England	100%	Intermediate holding company	USD	–
Beazley Furlonge Holdings Limited	England	100%	Intermediate holding company	USD	
Beazley Furlonge Limited	England	100%	Lloyd's underwriting agents	GBP	
Beazley Investments Limited	England	100%	Investment company	USD	
Beazley Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Management Limited	England	100%	Intermediate management company	GBP	
Beazley Staff Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Solutions Limited	England	100%	Insurance services	GBP	
Beazley Underwriting Services Limited	England	100%	Insurance services	GBP	
Beazley Corporate Member (No.2) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.3) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.6) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Leviathan Limited	England	100%	Underwriting at Lloyd's	GBP	
Beazley Canada Limited	Canada	100%	Insurance services	CAD	
Beazley Insurance dac	Ireland	100%	Insurance and reinsurance company	USD	747.2
Beazley Solutions International Limited	Ireland	100%	Insurance services	EUR	
Beazley Underwriting Pty Ltd	Australia	100%	Insurance services	AUD	
Beazley USA Services, Inc.*	USA	100%	Insurance services	USD	
Beazley Holdings, Inc.*	USA	100%	Holding company	USD	
Beazley Group (USA) General Partnership**	USA	100%	General partnership	USD	
Beazley Insurance Company, Inc.***	USA	100%	Underwriting admitted lines	USD	
Beazley America Insurance Company, Inc.***	USA	100%	Underwriting admitted lines	USD	
Lodestone Securities LLC****	USA	100%	Consultancy services	USD	
Beazley Limited	Hong Kong	100%	Insurance services	HKD	
Beazley Pte. Limited	Singapore	100%	Underwriting at Lloyd's	SGD	
					747.2

1 Beazley Ireland Holdings plc holds a direct investment in Beazley Group Limited of $2.

Please see page 123 for registered addresses.

30 Parent company and subsidiary undertakings *continued*

The following is a list of group registered office locations:

Address	City	Postcode	Country
United Kingdom and Europe			
60 Great Tower Street	London	EC3R 5AD	England
2 Northwood Avenue	Dublin	D09 X5N9	Ireland
22 Grenville Street	Saint Helier	JE4 8PX	Jersey
North America			
1209 Orange Street*	Wilmington, Delaware	19801	USA
2711 Centerville Road Suite 400**	Wilmington, Delaware	19808	USA
30 Batterson Park Road***	Farmington, Connecticut	06032	USA
160 Greentree Drive, Suite 101****	Dover, Delaware	19904	USA
55 University Avenue, Suite 550	Toronto, Ontario	M5J 2HJ	Canada
Asia			
138 Market Street, 03-04 Capita Green	Singapore	048946	Singapore
36/F., Tower Two, Times Square, 1 Matheson Street, Causeway Bay	Hong Kong	–	Hong Kong
Australia			
Level 15, 1 O'Connell Street	Sydney	NSW 2000	Australia

31 Contingencies

Funds at Lloyd's

The following amounts are controlled by Lloyd's to secure underwriting commitments:

	Underwriting year 2019 £m	Underwriting year 2018 £m	Underwriting year 2017 £m
Debt securities and other fixed income securities	720.4	733.2	656.9

The funds are held in trust and can be used to meet claims liabilities should syndicates' members fail to meet their claims liabilities. The funds can only be used to meet claim liabilities of the relevant member.

These balances are included within financial assets at fair value on the statement of financial position.

32 Foreign exchange rates

The group used the following exchange rates to translate foreign currency assets, liabilities, income and expenses into US dollars, being the group's presentational currency:

	2018		2017	
	Average	Year end spot	Average	Year end spot
Pound sterling	0.75	0.78	0.78	0.75
Canadian dollar	1.29	1.36	1.30	1.29
Euro	0.84	0.87	0.89	0.85

33 Subsequent events

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

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 2018, this ratio was 59% (2017: 58%). This represented total claims of $1,227.8m (2017: $1,075.7m) divided by net earned premiums of $2,084.6m (2017: $1,869.4m).

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 2018, this ratio was 98% (2017: 99%). This represents the sum of net insurance claims of $1,227.8m (2017: $1,075.7m), expenses for acquisition of insurance contracts of $561.9m (2017: $519.7m) and administrative expenses of $249.4m (2017: $253.4m) to net earned premiums of $2,084.6m (2017: $1,869.4m). This is also the sum of the expense ratio 39% (2017: 41%) and the claims ratio 59% (2017: 58%).

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.

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 2018, the expense ratio was 39% (2017: 41%). This represents the sum of expenses for acquisition of insurance contracts of $561.9m (2017: $519.7m) and administrative expenses of $249.4m (2017: $253.4m) to earned premiums of $2,084.6m (2017: $1,869.4m).

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, but 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 but which have not yet been reported.

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 2018, this was calculated as net investment income of $41.1m (2017: $138.3m) divided by average financial assets at fair value, including cash, of $4,969.9m (2017: $4,796.0m).

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 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 charged 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.

Glossary *continued*

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 catastrophe 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 US. Lloyd's underwriters are surplus lines insurers in all jurisdictions of the US 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 a 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.

If you have finished reading this report and no longer wish to keep it, please pass it on to other interested readers, return it to Beazley or recycle it. Thank you.

Designed and produced by:
Instinctif Partners www.creative.instinctif.com

investor.relations.beazley.com

Beazley Ireland Holdings plc

2 Northwood Avenue
Santry
Dublin
D09 X5N9
Ireland

Phone: +353 (0)1 854 4700
Fax: +353 (0)1 842 8481

Registered number: 102680

www.beazley.com

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