Interim Report - period ending 30 June 2019

Beazley Ireland Holdings plc interim report and unaudited condensed consolidated financial statements for the six month period ended 30 June 2019

Company information

Directors

C Jones
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102680

Interim management report

The directors present their interim management report for Beazley Ireland Holdings plc ('the group') that accompanies the unaudited condensed consolidated financial statements for the six month period ended 30 June 2019.

Business review and principal activity
Beazley Ireland Holdings plc is an intermediate holding company within the Beazley group which holds £75m sterling denominated debt. It is also the parent company of Beazley Group Limited, which is the intermediate holding company for the majority of the subsidiaries of the Beazley group, and Beazley Insurance dac, which provides capital and reinsurance to the group's non-life syndicates as well as writing direct insurance business through branches in Germany, France, Spain and the UK.

Performance overview
The group grew strongly in the first half of 2019. Gross premiums rose 12% to $1,483.6m (2018: $1,323.8m), supported by rate rises averaging 5% across our portfolio. Buoyed by a strong investment return, we achieved a pretax profit of $169.1m (2018: $57.4m) but our underwriting result was impacted by reserve strengthening in our shorter tail classes as well as continuing to open our medium tail classes at a higher loss ratio. Our combined ratio was 100% (2018: 95%).

The scale of claims we have seen has limited our scope for reserve releases, which were $3.4m in the first half of the year (2018: $48.1m). With cumulative rate rises of 8% across our business in the past two years and double digit rate rises in many lines of business, we see an opportunity for prudent profitable growth that should make larger releases possible in years to come.

The past nine months have seen a material change in sentiment in our market as heavy claims in numerous lines of business have driven prices higher. In September last year, the group's 2019 business plan envisaged rate rises well below what we have actually seen in the first half of the year. We accordingly see opportunities for growth in lines of business such as marine and aviation, as well as property, where margins now look healthier than they have been for some years. Within the Lloyd's market, upward pressure on rates has been boosted by the market-wide initiative to remediate lines of business that had underperformed for several years.

In the first half of the year, three of our divisions, accounting for nearly 65% of our premiums, saw double digit growth. Premiums rose 22% in specialty lines and 18% in cyber & executive risks, the two new divisions formed from the split of our old specialty lines division at the end of 2018. Our political, accident & contingency (PAC) division saw premiums rise by 22%, fueled in particular by the success of our US accident and health team.

Our property division saw premiums fall by 5% due to our withdrawal from construction and engineering business in October last year. We plan to resume the growth of our property business, including our large risk open market property book underwritten in London, during the remainder of the year.

We are in business to pay claims and have continued to provide steadfast support to our clients around the world, including in Japan where losses from typhoon Jebi – one of two major storms to hit the country last year – continued to rise. This impacted our reinsurance division, along with poor experience on the aggregate excess of loss policies to which we have since reduced our exposure significantly.

Claims have also risen in parts of our specialty lines book. Our newly formed cyber & executive risks division saw an increase in directors' and officers' (D&O) liability claims, in line with the rest of the market, while our cyber business continued to perform well.

Innovation is in the DNA of our underwriters but some of the challenges our brokers bring us are more complex than others. One is reputational risk, an issue that has long preoccupied senior management at our client companies. In April our London D&O team launched a product to address a broad spectrum of reputational risk. Our solution, which is supported by other Lloyd's insurers, offers both crisis management services in the event of a reputation-damaging event and substantial business interruption cover to make good lost revenues.

Our new specialty lines division, under the leadership of James Eaton, also contains teams with a strong track record of innovation. In February, our environmental liability team expanded its product range in the US with the launch of cover to protect banks and other lenders from pollution risks that could seriously impair the value of property used as collateral for commercial loans. Our environmental liability team has grown rapidly in recent years, supported by innovative products tailored to the evolving needs of clients in this growth market. We see these products as a force for good in our world, helping to fund the cleanup of polluted sites when an accident occurs.

Our specialty lines division is in the vanguard of our growth outside the US. In Europe, we are writing a growing volume of specialist liability products through offices in Germany, France, Spain and the UK. We have a particularly strong offering for financial services clients, combining professional and management liability cover with cyber protection.

In the US our locally underwritten premiums rose 10% over the equivalent period last year. Key to our growth in the US, has been the establishment of new offices with a spread of underwriting expertise across multiple lines of business. We opened two such offices in Denver and Seattle in the first half of the year. Later this year, we will also be expanding our existing presence in Boston and Houston.

Rating environment
The claims experience of the market as a whole has contributed to substantial rate rises for many lines of business, including marine at 7% and property at 9%. We have increased our appetite for these lines prudently to benefit from the improved pricing now available.

The following table shows the cumulative rate changes (%) since 2015 by business division.

	2015	2016	2017	2018	2019 HY
Cyber and executive risk	100	100	100	99	103
Marine	100	93	90	93	100
Political, accident & contingency	100	92	89	87	86
Property	100	96	96	106	116
Reinsurance	100	96	94	100	104
Specialty Lines	100	101	102	103	107
All divisions	100	98	97	100	105

Strategic initiatives
We have previously described a set of new strategic initiatives that we had launched last year to ensure that the Beazley group is a beneficiary of changes currently permeating the insurance market. Among these, our Faster, Smarter Underwriting initiative is exploring new data sources and workflow management technologies that can help us price larger, more complex risks more accurately and transact business more efficiently. Alongside this, our Beazley Digital initiative focuses on small, relatively simple business, where we see significant scope for automation.

We are making good progress in both areas. Our Faster, Smarter Underwriting team has identified scope for improvements in the way in which we underwrite large-scale property, marine, D&O and US hospital professional liability risks, as well as offering instant quote and bind capabilities for cyber business. For Beazley Digital, our focus has been on simplifying our products and automating processes to enhance the efficiency of two distribution channels: e-trading for brokers through our myBeazley.com system; and delegated authority business, through which we confer limited underwriting authority on carefully selected broker partners.

Our Closer to the Client strategic initiative allows us to evaluate the relevance and suitability of our products and services to our insureds. Working closely with our brokers, our aim is to stay abreast of the ever-changing needs of our insureds to ensure we remain relevant and at the forefront of insurance innovation.

Another of our strategic initiatives focuses on the London market, where we transacted 87% of our business in the first half of the year. The London market, with Lloyd's at its heart, is a cluster of expertise in insurance like no other and Beazley is proud to have contributed to the steady stream of innovative products designed and commercialised in London, most recently our reputational risk solution. However the market's most pressing challenge at present is not new ideas; it is operational efficiency and costs.

We are therefore very supportive of the reforms proposed by Lloyd's in its prospectus published in May, many of which align closely with our thinking – and some with steps we have already taken – within the group. In particular, we share Lloyd's goal of steeply reducing administration and acquisition costs for the risks most commonly placed in the market. Last year, we launched syndicate 5623 to help achieve this goal. Syndicate 5623, backed primarily by third party capital, serves as a Lloyd's market 'smart tracker', writing a market-wide portfolio of business at a competitive loss ratio and benefitting from a lean and efficient operating structure.

Executive changes
As announced in January, Sally Lake, formerly Beazley plc's group actuary, has now succeeded Martin Bride as the finance director of Beazley plc. Martin made an enormous contribution to Beazley's success since he joined in 2009, a period during which the Beazley plc group generated a total shareholder return of more than 23% per annum.

Also as announced earlier this year, Dan Jones has retired as Beazley plc's head of marketing and broker relations. He is succeeded by Lou Ann Layton, who joined from Marsh last year. As Beazley plc's first global head of broker relations, Dan built a function that has been critical to our success in growing our business in the US and around the world.

In May we welcomed Richard Montminy to succeed Mark Bernacki as head of our property division. Richard brings more than three decades of experience in commercial property insurance in senior underwriting and broking roles, most recently as head of property for the US commercial insurance operation of Zurich North America. Mark Bernacki joined the group in 2005 and took over the leadership of our property division in 2012, building a diversified portfolio of large and small risk property business around the world.

We are hugely grateful to Martin, Dan and Mark for their many contributions over the years, including to the our open and collaborative culture. We wish them well in all their future endeavours.

Investment performance

	30 June 2019 $m	30 June 2019 %	30 June 2018 $m	30 June 2018 %
Cash and cash equivalents	292.6	5.6	430.7	8.9
Government, quasi-government and supranational	1,654.3	31.9	1,352.1	27.8
Corporate bonds				
- Investment grade	2,475.4	47.7	2,175.5	44.7
- High yield	143.9	2.8	59.0	1.2
Senior secured loans	0.6	–	135.4	2.8
Derivative financial assets	3.0	0.1	11.6	0.2
Core portfolio	**4,569.8**	**88.1**	**4,164.3**	**85.6**
Equity funds	115.1	2.2	101.9	2.1
Hedge funds	285.8	5.5	420.9	8.6
Illiquid credit assets	219.8	4.2	178.2	3.7
Capital growth assets	**620.7**	**11.9**	**701.0**	**14.4**
Total	**5,190.5**	**100.0**	**4,865.3**	**100.0**

Our investments returned $170.3m, or 3.3% in the first half of 2019 (30 June 2018: $8.0m, 0.2%). Falling yields on our fixed income investments have generated capital gains in the period, while a strong rally in risk assets, including equities and credit, has also been beneficial. This unusual situation, in which nearly all asset classes have performed strongly in the period, has generated levels of investment return which we have not seen in recent years. We added to equity, credit and duration exposures early in the year and these moves helped our portfolio take advantage of the benign investment conditions. Recent market optimism suggests that US interest rates will fall and that this will be sufficient to support fragile economic growth. We think current market values are vulnerable to any disappointment in these expectations and have recently reduced our exposure to risk assets. In addition, the rising value of fixed income securities has reduced the yield on these investments. Overall, we anticipate that investment returns will be lower in the second half of the year.

Investment return by asset type

Analysis of returns on the core portfolio and the capital growth assets are set out below:

	30 June 2019 $m	30 June 2019 annualised return %	30 June 2018 $m	30 June 2018 annualised return %

Core portfolio	141.3	6.3	(1.3)	–
Capital growth assets	29.0	9.4	9.3	0.4
Overall return	**170.3**	**6.6**	8.0	**0.4**

Capital position

Our funding comes from a mixture of our own equity alongside $248.8m of tier 2 subordinated debt and a £75m retail bond. We also have an undrawn banking facility of $225.0m.

	30 June 2019 $m	30 June 2018 $m
Shareholders' funds	1,559.7	1,474.0
Tier 2 subordinated debt (2026)	248.8	248.6
Retail bond (2019)	95.3	100.0
Long term subordinated debt (2034)	–	18.0
Total	**1,903.8**	**1,840.6**

The table below shows the Beazley plc group's capital requirement.

	Projected 31 December 2019 $m	31 December 2018 $m
Lloyd's economic capital requirement (ECR)	1,745.7	1,594.5
Capital for US insurance company	173.4	173.4
Total	**1,919.1**	**1,767.9**

At 30 June 2019, the Beazley plc group have surplus capital of 19% of projected year end ECR (on a Solvency II basis). During the second half of 2019 our £75m retail bond will be redeemed. The Beazley plc group are also considering the issuance of new debt towards the end of the year.

Dividend

The board has declared a first interim dividend of £21.4m (2018:£21.0m). This will be paid before the 23rd August 2019.

Outlook

Growth opportunities in our business have, broadly speaking, two sources. The first derives from an insurer's position in growth markets. Over the years we have assiduously developed such opportunities and today are well placed to continue to grow in markets such as cyber, healthcare, and environmental liability. In Europe, Latin America and Asia, we are also seeing strong demand from financial services companies for a range of complementary insurance covers.

In the immediate future, we plan to continue to grow our US business. We now write over a billion dollars locally in the US with a well recognised brand and a critical mass of expert underwriters and claims professionals in key cities. In all the main lines of business we transact in the US we see considerable scope for further growth.

The second main category of growth opportunity in our business is market dependent, driven by firming premium rates. This is commonly catastrophe-exposed business and the relatively high incidence of catastrophe losses in the past two years has pushed premium rates sharply higher. We thus see greater opportunities for prudent growth in these lines than was the case six months ago.

The scale of the losses that we, in common with the broader market, have incurred over the past two years means that below average reserve releases will continue this year, impacting our full year combined ratio which we expect to be in the high nineties.

At the end of last year, we were envisaging premium growth in the high single digits during 2019.

The improving rating environment we have seen since then has led us to conclude that double digit growth should be attainable this year.

Social, environmental and ethical risks
Social, environmental and ethical risks are managed on a Beazley plc group basis. More information can be obtained from the 2018 annual report and accounts of Beazley plc on how the Beazley plc group manages these risks.

Responsibility statement of the directors in respect of the interim report

We confirm that to the best of our knowledge:

- the unaudited condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU; and

- the interim management report includes a fair review of the information required by:

a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the unaudited condensed set of financial statements; and the description of the principal risks and uncertainties for the remaining six months of the year.

b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that materially affected the financial position or performance of the entity during that six months; and any changes in the related party transactions described in the last annual report that could do so.

C Jones
Director
1 August 2019

Unaudited condensed consolidated statement of profit or loss for the six months ended 30 June 2019

	6 months ended 30 June 2019 $m	6 months ended 30 June 2018 $m	Year to 31 December 2018 $m
Gross premiums written	1,483.6	1,323.8	2,615.3
Written premiums ceded to reinsurers	(258.1)	(218.5)	(366.8)
Net premiums written	**1,225.5**	**1,105.3**	**2,248.5**
Change in gross provision for unearned premiums	(183.4)	(162.1)	(167.6)
Reinsurer's share of change in the provision for unearned premiums	75.9	47.0	3.7
Change in net provision for unearned premiums	**(107.5)**	**(115.1)**	**(163.9)**
Net earned premiums	**1,118.0**	**990.2**	**2,084.6**
Net investment income	170.3	8.0	41.1

Other income	14.1	16.6	33.7
	184.4	**24.6**	**74.8**
Revenue	**1,302.4**	**1,014.8**	**2,159.4**
Insurance claims	834.1	624.2	1,463.9
Insurance claims recovered from reinsurers	(141.0)	(74.7)	(236.1)
Net insurance claims	**693.1**	**549.5**	**1,227.8**
Expenses for the acquisition of insurance contracts	298.4	258.6	561.9
Administrative expenses	129.1	131.1	249.4
Foreign exchange loss	1.9	3.2	13.8
Operating expenses	**429.4**	**392.9**	**825.1**
Expenses	**1,122.5**	**942.4**	**2,052.9**
Impairment of investment in associate	–	(4.2)	(7.0)
Results of operating activities	**179.9**	**68.2**	**99.5**
Finance costs	(10.8)	(10.8)	(21.5)
Profit before income tax	**169.1**	**57.4**	**78.0**
Income tax expense	(28.3)	(9.9)	(8.6)
Profit after income tax – all attributable to equity shareholders	**140.8**	**47.5**	**69.4**

Unaudited condensed consolidated statement of comprehensive income for the six months ended 30 June 2019

	6 months ended 30 June 2019 $m	**6 months ended 30 June 2018 $m**	**Year to 31 December 2018 $m**
Profit after income tax	140.8	47.5	69.4
Other comprehensive income			
Items that will never be reclassified to profit or loss:			
Loss on remeasurement of retirement benefit obligations	–	–	(1.5)
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences	(0.4)	0.9	(2.1)
Total other comprehensive income	(0.4)	0.9	(3.6)
Total comprehensive income recognised	**140.4**	**48.4**	**65.8**

Unaudited condensed consolidated statement of changes in equity for the six months ended 30 June 2019

	Share capital $m	Share premium $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Balance as at 1 January 2018	**37.2**	**12.0**	**(94.5)**	**(10.9)**	**1,533.3**	**1,477.1**
Total comprehensive income recognised	–	–	0.9	–	47.5	48.4
Dividends paid	–	–	–	–	(55.2)	(55.2)
Tax on share option vestings	–	–	–	–	3.7	3.7
Balance as at 30 June 2018	**37.2**	**12.0**	**(93.6)**	**(10.9)**	**1,529.3**	**1,474.0**
Total comprehensive income recognised	–	–	(3.0)	–	20.4	17.4
Dividends paid	–	–	–	(4.5)	(23.2)	(27.7)
Tax on share option vestings	–	–	–	–	6.5	6.5
Balance as at 31 December 2018	**37.2**	**12.0**	**(96.6)**	**(15.4)**	**1,533.0**	**1,470.2**
Impact of adoption of IFRS 16	–	–	–	–	0.3	0.3
Balance as at 1 January 2019	**37.2**	**12.0**	**(96.6)**	**(15.4)**	**1,533.3**	**1,470.5**
Total comprehensive income recognised	–	–	(0.4)	–	140.8	140.4
Dividends paid	–	–	–	–	(53.3)	(53.3)
Tax on share option vestings	–	–	–	–	2.1	2.1
Balance as at 30 June 2019	**37.2**	**12.0**	**(97.0)**	**(15.4)**	**1,622.9**	**1,559.7**

Unaudited condensed consolidated statement of financial position as at 30 June 2019

	30 June 2019 $m	30 June 2018 $m	31 December 2018 $m
Assets			
Intangible assets	120.7	131.5	126.5
Plant and equipment	7.3	5.4	4.9
Right of use assets	40.1	–	–
Deferred tax asset	29.2	18.6	28.9
Investments in associates	–	2.8	–
Deferred acquisition costs	356.6	323.5	307.4
Reinsurance assets	1,243.3	1,193.5	1,192.8
Financial assets at fair value	4,897.9	4,434.6	4,716.3
Insurance receivables	1,107.6	970.2	943.3
Current income tax assets	–	4.3	18.7
Other receivables	85.8	73.6	64.0
Cash and cash equivalents	292.6	430.7	334.0
Total assets	**8,181.1**	**7,588.7**	**7,736.8**

Equity			
Share capital	37.2	37.2	37.2
Share premium	12.0	12.0	12.0
Foreign currency translation reserve	(97.0)	(93.6)	(96.6)
Other reserves	(15.4)	(10.9)	(15.4)
Retained earnings	1,622.9	1,529.3	1,533.0
Total equity	**1,559.7**	**1,474.0**	**1,470.2**
Liabilities			
Insurance liabilities	5,657.8	5,299.2	5,456.2
Financial liabilities	353.8	387.3	356.7
Lease liabilities	43.2	–	–
Retirement benefit liability	1.1	0.9	2.4
Deferred tax liabilities	7.8	1.8	9.1
Current income tax liabilities	8.3	–	–
Other payables	549.4	425.5	442.2
Total liabilities	**6,621.4**	**6,114.7**	**6,266.6**
Total equity and liabilities	**8,181.1**	**7,588.7**	**7,736.8**

C Jones
Director

E McGivney
Director
1 August 2019

Unaudited condensed consolidated statement of cash flows for the six months ended 30 June 2019

	6 months ended 30 June 2019 $m	**6 months ended 30 June 2018 $m**	**Year to 31 December 2018 $m**
Cash flow from operating activities			
Profit before income tax	**169.1**	**57.4**	**78.0**
Adjustments for:			
Amortisation of intangibles	6.2	6.1	12.6
Net fair value (gain)/loss on financial investments	(116.2)	32.2	53.7
Depreciation of plant and equipment	1.0	1.1	2.1
Depreciation of right of use assets	4.9	–	–
Impairment of investment in associate	–	4.2	7.0

Impairment of reinsurance assets (written back)/recognised	(2.5)	0.3	(1.0)
Increase in insurance and other liabilities	308.8	22.6	197.6
(Increase)/decrease in insurance, reinsurance and other receivables	(234.1)	(20.0)	18.5
Increase in deferred acquisition costs	(49.2)	(42.1)	(26.0)
Financial income	(60.3)	(44.4)	(102.6)
Finance expense	10.8	10.8	21.5
Foreign exchange of financial liabilities	(0.4)	0.3	(4.1)
Income tax paid	(1.2)	(4.0)	(21.1)
Net cash from operating activities	**36.9**	**24.5**	**236.2**
Cash flow from investing activities			
Purchase of plant and equipment	(1.2)	(1.8)	(2.6)
Expenditure on software development	(3.2)	(4.0)	(7.2)
Purchase of investments	(1,911.2)	(1,743.4)	(2,686.2)
Proceeds from sale of investments	1,853.2	1,738.3	2,376.9
Interest and dividends received	55.8	43.2	102.6
Net cash from investing activities	**(6.6)**	**32.3**	**(216.5)**
Cash flow from financing activities			
Finance costs	(10.6)	(10.6)	(21.1)
Payment on lease liabilities	(5.6)	–	–
Repayment of borrowings	–	–	(18.0)
Dividends paid	(53.3)	(55.2)	(82.9)
Net cash used in financing activities	**(69.5)**	**(65.8)**	**(122.0)**
Net decrease in cash and cash equivalents	**(39.2)**	**(9.0)**	**(102.3)**
Cash and cash equivalents at beginning of period	334.0	439.8	439.8
Effect of exchange rate changes on cash and cash equivalents	(2.2)	(0.1)	(3.5)
Cash and cash equivalents at end of period	**292.6**	**430.7**	**334.0**

1 Statement of accounting policies

Beazley Ireland Holdings plc (registered number 102680) is a company incorporated in Jersey and domiciled in Ireland. The condensed consolidated interim financial statements of the group for the six months ended 30 June 2019 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 condensed consolidated interim financial statements have been prepared and approved by the directors in accordance with IAS 34 Interim Financial Reporting as adopted by the EU ('Adopted IFRS'). The condensed consolidated interim financial statements of Beazley plc have been prepared on a going concern basis. The directors of the company have a reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future. The principal risks and uncertainties faced by the group remain consistent with those risks and uncertainties discussed and disclosed on pages 53 to 58 of the group's 2018 annual report and accounts.

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at, and for, the year ended 31 December 2018. As required by IFRS 13 (Fair Value Measurement) information relating to the fair value measurement of financial assets and liabilities is outlined in note 9 to the condensed consolidated interim financial statements.

The annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the company's published consolidated financial statements for the year ended 31 December 2018, apart from any amendments to standards listed below.

The independent auditor's report on the group accounts for the year ended 31 December 2018 is unqualified, does not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report.

In the current year, the group has applied amendments to IFRS issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2019. The new effective requirements are:

- IFRS 16: Leases (EU effective date: 1 January 2019);
- IFRIC 23: Uncertainty over Income Tax Treatments (EU effective date: 1 January 2019);
- IAS 28: Amendment: Long-term Interests in Associates and Joint Ventures (EU effective date: 1 January 2019);
- IAS 19: Amendment: Plan Amendment, Curtailment or Settlement (EU effective date: 1 January 2019);
- Annual Improvements to IFRS Standards 2015-2017 Cycle (EU effective date: 1 January 2019).

Apart from IFRS 16, these amendments did not have an impact on the financial statements of the company.

IFRS 16

The group has applied, for the first time, IFRS 16 Leases. As required by IAS 34, the nature and effect of these changes are disclosed below.

- IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.
- The group adopted IFRS 16 using the modified retrospective method with a date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The group elected to use the practical expedient on transition allowing the standard to be applied only to contracts that were previously identified as leases under IAS 17 and IFRIC 4 at the date of initial application. The group also elected to use the recognition exemptions for lease contracts where the underlying asset is of low value ('low-value assets').

The effect of adopting IFRS 16 as at 1 January 2019 is as follows:

	$m
Assets	
Right of use assets	31.2
Total assets	31.2
Liabilities	

Other payables	(2.4)
Lease liabilities	33.2
Deferred tax liabilities	0.1
Total liabilities	30.9

Total adjustment of equity:	
Retained Earnings	0.3

Nature of the effect of adoption of IFRS 16

The group has lease contracts for various items of property, vehicles and IT equipment. Before the adoption of IFRS 16, the group classified each of its leases at the inception date as either a finance lease or an operating lease. As at 1 January 2019, the group held operating leases only. The operating lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other payables.

Upon adoption of IFRS 16, the group applied a single recognition and measurement approach for all leases, except for leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the group.

Leases previously accounted for as operating leases

The group recognised right of use assets and lease liabilities for all leases, except for leases of low-value assets. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the weighted average incremental borrowing rate at initial application. The right of use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised.

The group also applied the available practical expedients wherein it:

- Used a weighted average incremental borrowing rate as the discount rate to a portfolio of leases with similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the above, as at 1 January 2019:

- Right of use assets of $31.2m were recognised and presented separately in the statement of financial position;
- Lease liabilities of $33.2m were recognised and presented separately in the statement of financial position;
- Other payables of $2.4m related to previous operating leases were derecognised;
- Deferred tax liabilities increased by $0.1m due to the impact of changes in assets and liabilities;
- The net effect of these adjustments was adjusted in retained earnings.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	$m
Property operating lease commitments reported as at 31 December 2018	**32.9**
Less:	
Commitments relating to assets not qualifying as leases under IFRS 16	(1.2)
Add:	
Adjustments on adoption of IFRS 16	6.3

Total lease commitments under IFRS 16 as at 31 December 2018	38.0
Weighted average incremental borrowing rate as at 1 January 2019	4.6%
Total comprehensive income recognised	**33.2**

Summary of new accounting policies
Set out below are the new accounting policies of the group upon adoption of IFRS 16, which have been applied from the date of initial application:

- Right of use assets

The group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

- Lease liabilities

At the commencement date of the lease, the group recognises a lease liability measured at the present value of the lease payments to be made over the lease term.

In calculating the present value of lease payments, the group uses the weighted average incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- Short-term leases and leases of low-value assets

The group applies the short-term lease recognition exemption to its short-term leases of property (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense in the profit or loss on a straight-line basis over the lease term.

- Significant judgement in determining the lease term of contracts with renewal options

The group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The group has the option, under some of its leases to lease the assets for various additional terms. The group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. After the commencement date, the group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affect its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

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

Finance costs and taxation have not been allocated to operating segments as these items are determined by group level factors and do not relate to operating performance.

30 June 2019	**Cyber & executive risk**	**Marine $m**	**Political, accident & contingency**	**Property $m**	**Reinsurance $m**	**Specialty lines $m**	**Total $m**

	$m		$m				
Gross premiums written	348.1	165.1	145.9	230.9	161.4	432.2	1,483.6
Net premiums written	303.9	138.4	126.0	180.7	97.8	378.7	1,225.5
Net earned premiums	296.1	134.2	109.4	176.8	57.2	344.3	1,118.0
Net investment income	50.2	14.4	8.7	19.3	11.3	66.4	170.3
Other income	3.5	0.6	0.7	2.3	0.5	6.5	14.1
Revenue	**349.8**	**149.2**	**118.8**	**198.4**	**69.0**	**417.2**	**1,302.4**
Net insurance claims	186.1	91.6	56.0	90.6	55.3	213.5	693.1
Expenses for the acquisition of insurance contracts	62.7	39.4	35.0	52.1	17.9	91.3	298.4
Administrative expenses	33.0	13.7	11.2	19.3	6.8	45.1	129.1
Foreign exchange loss	0.5	0.2	0.2	0.3	0.1	0.6	1.9
Expenses	**282.3**	**144.9**	**102.4**	**162.3**	**80.1**	**350.5**	**1,122.5**
Segment result	**67.5**	**4.3**	**16.4**	**36.1**	**(11.1)**	**66.7**	**179.9**
Finance costs							(10.8)
Profit before income tax							**169.1**
Income tax expense							(28.3)
Profit after income tax							**140.8**
Claims ratio	63%	68%	51%	51%	97%	62%	62%
Expense ratio	32%	40%	42%	41%	43%	40%	38%
Combined ratio	95%	108%	93%	92%	140%	102%	100%
Segment assets and liabilities							
Segment assets	2,152.5	715.2	505.0	894.7	735.9	3,177.8	8,181.1
Segment liabilities	(1,724.1)	(590.0)	(400.6)	(728.8)	(565.2)	(2,612.7)	(6,621.4)
Net assets	**428.4**	**125.2**	**104.4**	**165.9**	**170.7**	**565.1**	**1,559.7**

30 June 2018	**Cyber & executive risk[1] $m**	**Marine $m**	**Political, accident & contingency $m**	**Property $m**	**Reinsurance $m**	**Specialty lines[1] $m**	**Total $m**
Gross premiums written	294.3	158.0	120.0	243.4	152.5	355.6	1,323.8
Net premiums written	258.3	133.6	101.8	198.0	95.5	318.1	1,105.3
Net earned premiums	261.6	125.0	86.2	163.9	59.1	294.4	990.2
Net investment income	1.6	0.9	0.3	0.9	0.4	3.9	8.0
Other income	3.5	1.5	1.0	2.7	0.8	7.1	16.6
Revenue	**266.7**	**127.4**	**87.5**	**167.5**	**60.3**	**305.4**	**1,014.8**
Net insurance claims	136.4	73.9	47.5	125.3	17.7	148.7	549.5

Expenses for the acquisition of insurance contracts	56.4	36.2	28.7	46.2	15.2	75.9	258.6
Administrative expenses	31.9	13.8	11.0	19.3	7.4	47.7	131.1
Foreign exchange loss	0.9	0.4	0.3	0.5	0.2	0.9	3.2
Expenses	**225.6**	**124.3**	**87.5**	**191.3**	**40.5**	**273.2**	**942.4**
Impairment of investment in associate	–	–	–	–	–	(4.2)	(4.2)
Segment result	**41.1**	**3.1**	–	**(23.8)**	**19.8**	**28.0**	**68.2**
Finance costs							(10.8)
Profit before income tax							**57.4**
Income tax expense							(9.9)
Profit after income tax							**47.5**
Claims ratio	52%	59%	55%	76%	30%	50%	56%
Expense ratio	34%	40%	46%	40%	38%	42%	39%
Combined ratio	86%	99%	101%	116%	68%	92%	95%
Segment assets and liabilities							
Segment assets	1,910.3	685.7	454.1	869.6	643.8	3,025.2	7,588.7
Segment liabilities	(1,498.9)	(569.3)	(367.5)	(715.3)	(481.3)	(2,482.4)	(6,114.7)
Net assets	**411.4**	**116.4**	**86.6**	**154.3**	**162.5**	**542.8**	**1,474.0**

1 From 1 January 2019, the speciality lines division has been split into two. The prior year comparatives have been represented to allow comparison.

31 December 2018	**Cyber & executive risk[1] $m**	**Marine $m**	**Political, accident & contingency $m**	**Property $m**	**Reinsurance $m**	**Specialty lines[1] $m**	**Total $m**
Gross premiums written	713.5	284.8	238.7	415.4	207.4	755.5	2,615.3
Net premiums written	615.3	255.0	212.7	360.2	137.3	668.0	2,248.5
Net earned premiums	545.9	249.5	194.3	344.1	139.5	611.3	2,084.6
Net investment income	12.9	3.3	2.3	3.1	1.8	17.7	41.1
Other income	5.6	2.9	3.8	6.4	1.7	13.3	33.7
Revenue	**564.4**	**255.7**	**200.4**	**353.6**	**143.0**	**642.3**	**2,159.4**
Net insurance claims	303.8	134.0	90.2	289.4	97.7	312.7	1,227.8
Expenses for the acquisition of insurance contracts	122.2	74.5	63.3	103.5	33.2	165.2	561.9
Administrative expenses	61.9	25.0	21.4	38.6	13.0	89.5	249.4
Foreign exchange loss	3.6	1.7	1.3	2.3	0.9	4.0	13.8
Expenses	**491.5**	**235.2**	**176.2**	**433.8**	**144.8**	**571.4**	**2,052.9**
Impairment of investment in associate	–	–	–	–	–	(7.0)	(7.0)

Segment result	**72.9**	**20.5**	**24.2**	**(80.2)**	**(1.8)**	**63.9**	**99.5**
Finance costs							(21.5)
Profit before income tax							**78.0**
Income tax expense							(8.6)
Profit after income tax							**69.4**
Claims ratio	55%	54%	46%	84%	70%	51%	59%
Expense ratio	34%	40%	44%	41%	33%	42%	39%
Combined ratio	89%	94%	90%	125%	103%	93%	98%
Segment assets and liabilities							
Segment assets	2,178.2	689.9	445.6	882.4	666.7	2,874.0	7,736.8
Segment liabilities	(1,774.4)	(571.9)	(347.2)	(726.1)	(505.8)	(2,341.2)	(6,266.6)
Net assets	**403.8**	**118.0**	**98.4**	**156.3**	**160.9**	**532.8**	**1,470.2**

1 From 1 January 2019, the speciality lines division has been split into two. The prior year comparatives have been represented to allow comparison.

3 Net investment income

	6 months ended 30 June 2019 $m	6 months ended 30 June 2018 $m	Year to 31 December 2018 $m
Interest and dividends on financial investments at fair value through profit or loss	60.1	44.2	102.1
Interest on cash and cash equivalents	0.2	0.2	0.5
Net realised gains on financial investments at fair value through profit or loss	8.1	9.1	12.4
Net unrealised fair value gains/(losses) on financial investments at fair value through profit or loss	108.1	(41.3)	(66.1)
Investment income from financial investments	**176.5**	**12.2**	**48.9**
Investment management expenses	(6.2)	(4.2)	(7.8)
	170.3	**8.0**	**41.1**

4 Other income

	6 months ended 30 June 2019 $m	6 months ended 30 June 2018 $m	Year to 31 December 2018 $m
Commission income	10.5	9.8	20.7
Profit commissions[1]	2.0	4.8	7.5
Agency fees	1.3	1.3	2.5
Other income	0.3	0.7	3.0
	14.1	**16.6**	**33.7**

[1]As at 30 June 2019 there is no (30 June 2018: $2.0m; 31 December 2018: nil) accrued profit commission at risk of being reversed if there was to be an adverse impact on syndicate 623's profit.

5 Finance costs

	6 months ended 30 June 2019 $m	6 months ended 30 June 2018 $m	Year to 31 December 2018 $m
Interest expense on financial liabilities	10.1	10.8	21.1
Interest expense on lease liabilities	0.7	–	–
	10.8	**10.8**	**21.5**

7 Dividends

A first interim dividend of £21.4m (2018: £21.0m) is payable in respect of the six months to 30 June 2019. These financial statements do not provide for this dividend as a liability.

The first interim dividend will be paid before 23 August 2019.

A second interim dividend of £40.0m was declared to Beazley plc on 27 February 2019 and was paid on 20 March 2019.

8 Income tax expense

	6 months ended 30 June 2019 $m	6 months ended 30 June 2018 $m	Year to 31 December 2018 $m
Current tax expense			
Current year	32.8	32.1	32.3
Prior year adjustments	(2.1)	(3.9)	(5.3)
	30.7	28.2	27.0
Deferred tax expense			
Origination and reversal of temporary differences	(3.7)	(19.3)	(14.6)
Impact of change in UK/US tax rates	(0.3)	0.3	0.7
Prior year adjustments	1.6	0.7	(4.9)
	(2.4)	(18.3)	(18.8)
Income tax expense	**28.3**	**9.9**	**8.2**

In line with IAS 34: Interim Financial Reporting, income tax expense for the interim period ended 30 June 2019 has been accrued using the estimated average annual effective income tax rate.

The weighted average of statutory tax rates applied to the profits earned in each country in which the group operates is 16.7% (30 June 2018: 20.7%) and the tax charged for the period 30 June 2019 as a percentage of profit before tax (effective income tax rate) is 16.7% (30 June 2018: 17.2%).

	6 months ended 30 June 2019 $m	6 months ended 30 June 2019 %	6 months ended 30 June 2018 $m	6 months ended 30 June 2018 %	Year to 31 December 2018 $m	Year to 31 December 2018 %
Profit before tax	**169.1**		**57.4**		**78.0**	
Tax calculated at the weighted average of statutory tax rates	28.2	16.7	11.9	20.7	14.5	18.6
Effects of:						

Non-deductible expenses	0.9	0.5	1.1	1.9	3.0	3.8
Non-taxable gains on foreign exchange	0.6	0.4	–	–	0.3	0.4
Tax relief on share based payments – (future)/current years	(0.6)	(0.4)	(0.2)	(0.3)	0.2	0.2
Over provided in prior years	(0.5)	(0.3)	(3.2)	(5.6)	(10.1)	(12.9)
Change in UK/US tax rates[1]	(0.3)	(0.2)	0.3	0.5	0.7	0.9
Tax charge for the period	**28.3**	**16.7**	**9.9**	**17.2**	**8.6**	**11.0**

1 The Finance Act 2015, which provided for a reduction in the UK corporation tax rate to 19% effective from 1 April 2017 was substantively enacted on 26 October 2015. The Finance Act 2016, which provides for a reduction in the UK corporation tax rate to 17% effective from 1 April 2020 was substantively enacted on 6 September 2016. These rate reductions to 19% and 17% will reduce the group's future current tax charge and has been reflected in the calculation of the deferred tax balance as at 30 June 2019.

A change in the effective corporation tax rates in the US from 35% to 21% was substantively enacted in December 2017. This resulted in a $5m reduction to the carrying value of the group's US deferred tax asset at 30 June 2019.

The group has assessed the potential impact of diverted profits tax (DPT) following the enactment of new legislation in April 2015 and is of the view that no liability arises. The ultimate outcome may differ and any profits that did fall within scope of DPT would potentially be taxed at a rate of 25% rather than 12.5% (the current rate of tax on corporate earnings in Ireland). The earnings that would potentially be taxed at 25% are the relevant earnings from 2015 to 2019. 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.

9 Financial assets and liabilities

	30 June 2019 $m	**30 June 2018 $m**	**31 December 2018 $m**
Financial assets at fair value			
Government issued	1,629.5	1,318.0	1,384.2
Quasi-government	17.2	29.1	25.9
Supranational	7.6	5.0	–
Senior secured loans	0.6	135.4	132.1
Corporate bonds			
– Investment grade	2,475.4	2,175.5	2,525.3
– High yield	143.9	59.0	32.7
Total fixed and floating rate debt securities	**4,274.2**	**3,722.0**	**4,100.2**
Equity funds	115.1	101.9	85.4
Hedge funds	285.8	420.9	337.2
Illiquid credit assets	219.8	178.2	186.6
Total capital growth	**620.7**	**701.0**	**609.2**
Total financial investments at fair value through statement of profit or loss	**4,894.9**	**4,423.0**	**4,709.4**
Derivative financial assets	3.0	11.6	6.9
Total financial assets at fair value	**4,897.9**	**4,434.6**	**4,716.3**

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 30 June 2019 excludes an unfunded commitment of $72.9m (30 June 2018: $107.0m).

The amount expected to mature before and after one year are:	**30 June 2019 $m**	**30 June 2018 $m**	**31 December 2018 $m**
Within one year	871.9	891.2	1,121.0
After one year	3,405.3	2,842.4	2,986.1
Total	**4,277.2**	**3,733.6**	**4,107.1**

Our capital growth assets have no defined maturity dates and have thus been excluded from the above maturity table. However, $115.1m (30 June 2018: $86.6m) of equity funds could be liquidated within two weeks, $213.8m (30 June 2018: $303.0m) of hedge fund assets within six months and the remaining $72.0m (30 June 2018: $117.9m) 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.

Financial liabilities	**30 June 2019 $m**	**30 June 2018 $m**	**31 December 2018 $m**
Retail bond	95.3	100.0	95.6
Subordinated debt	–	18.0	–
Tier 2 subordinated debt	248.8	248.6	248.7
Derivative financial liabilities	9.7	20.7	12.4
Total financial liabilities	**353.8**	**387.3**	**356.7**

The amount expected to mature before and after one year are:	**30 June 2019 $m**	**30 June 2018 $m**	**31 December 2018 $m**
Within one year	105.0	20.7	108.0
After one year	248.8	366.6	248.7
Total	**353.8**	**387.3**	**356.7**

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 market.

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 could 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.

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 & 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, news media, 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 (WM), Discount Margins (DM), Default rates, and recovery and prepayments 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 prices provided by investment custodians and investment managers, to assess the reasonableness and accuracy of the price to be used to value each security. In the rare case that a price fails the tolerance test, it is escalated and discussed internally. We would not normally override a price retrospectively, but we would work with the administrator and pricing vendor to investigate the difference. We also review our valuation policy on a regular basis to ensure it is fit for purpose. As at 30 June 2019, no adjustments have been made to the prices obtained from the independent administrator.

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% (30 June 2018: 81%, 31 December 2018: 83%) of these underlying assets were level 1 and the remainder level 2. This enables us to categorise our hedge fund as level 2.

Prior to any new hedge fund investment, extensive due diligence is undertaken on each fund to ensure that pricing and valuation is undertaken by an independent administrator 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 group's 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 of 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 pre-investment 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.

If an assumption is deemed unreasonable, based on the company's guidelines it is then reviewed by management and the fair value estimate provided by the vendor is then adjusted as deemed appropriate. These adjustments do not occur frequently and historically are not material to the fair value estimates in the condensed consolidated financial statements.

30 June 2019	**Level 1 $m**	**Level 2 $m**	**Level 3 $m**	**Total $m**
Financial assets measured at fair value				
Government issued	1,626.2	3.3	–	1,629.5
Quasi-government	9.2	8.0	–	17.2
Supranational	7.6	–	–	7.6
Senior secured loans	0.6	–	–	0.6
Corporate bonds				
– Investment grade	1,467.9	1,007.5	–	2,475.4
– High yield	4.5	139.4	–	143.9
Equity funds	–	115.1	–	115.1
Hedge funds	–	285.8	–	285.8
Illiquid credit assets	–	–	219.8	219.8
Derivative financial assets	3.0	–	–	3.0
Total financial assets measured at fair value	**3,119.0**	**1,559.1**	**219.8**	**4,897.9**
Financial liabilities measured at fair value				
Derivative financial liabilities	9.7	–	–	9.7
Financial liabilities not measured at fair value				
Retail bond	–	96.1	–	96.1
Tier 2 subordinated debt	–	249.9	–	249.9

Total financial liabilities not measured at fair value	**–**	**346.0**	**–**	**346.0**

30 June 2018	**Level 1 $m**	**Level 2 $m**	**Level 3 $m**	**Total $m**
Financial assets measured at fair value				
Government issued	1,318.0	–	–	1,318.0
Quasi-government	27.0	2.1	–	29.1
Supranational	4.5	0.5	–	5.0
Senior secured loans	–	135.4	–	135.4
Corporate bonds				
– Investment grade	13.5	2,162.0	–	2,175.5
– High yield	–	59.0	–	59.0
Equity funds	–	101.9	–	101.9
Hedge funds	–	420.9	–	420.9
Illiquid credit assets	–	–	178.2	178.2
Derivative financial assets	11.6	–	–	11.6
Total financial assets measured at fair value	**1,374.6**	**2,881.8**	**178.2**	**4,434.6**
Financial liabilities measured at fair value				
Derivative financial liabilities	20.7	–	–	20.7
Financial liabilities not measured at fair value				
Retail bond	–	104.8	–	104.8
Tier 2 subordinated debt	–	248.9	–	248.9
Total financial liabilities not measured at fair value	**–**	**353.7**	**–**	**353.7**

31 December 2018	**Level 1 $m**	**Level 2 $m**	**Level 3 $m**	**Total $m**
Financial assets measured at fair value				
Government issued	1,384.2	–	–	1,384.2
Quasi-government	25.9	–	–	25.9
Senior secured loans	–	132.1	–	132.1
Corporate bonds				
– Investment grade	–	2,525.3	–	2,525.3
– High yield	–	32.7	–	32.7
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	–	249.4	–	249.4

Total financial liabilities not measured at fair value	**–**	**347.6**	**–**	**347.6**

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

The group determines whether transfers have occurred between levels in the fair value hierarchy by assessing categorisation at the end of the reporting period.

For the period ended 30 June 2019, enhanced understanding of vendor pricing methodologies and the purchase of a new valuation tool have provided better quality data used in determining the fair value hierarchy classification, which has resulted in the following transfers between levels 1 & 2 for the period ended 30 June 2019:

30 June 2019 vs 30 June 2018 transfer from level 1 to level 2	**Level 1 $m**	**Level 2 $m**
Fixed and floating rate debt securities		
– Investment grade	(4.8)	4.8
– Non investment grade	–	–
– Sovereign, quasi-government and supranational	(11.3)	11.3

30 June 2019 vs 30 June 2018 transfer from level 2 to level 1	**Level 1 $m**	**Level 2 $m**
Fixed and floating rate debt securities		
– Investment grade	1,114.6	(1,114.6)
– Non investment grade	–	–
– Sovereign, quasi-government and supranational	–	–

30 June 2019 vs 31 December 2018 transfer from level 1 to level 2	**Level 1 $m**	**Level 2 $m**
Fixed and floating rate debt securities		
– Investment grade	–	–
– Non investment grade	–	–
– Sovereign, quasi-government and supranational	(11.3)	11.3

30 June 2019 vs 31 December 2018 transfer from level 2 to level 1	**Level 1 $m**	**Level 2 $m**
Fixed and floating rate debt securities		
– Investment grade	1,266.2	(1,266.2)
– Non investment grade	–	–
– Sovereign, quasi-government and supranational	1.5	(1.5)

There were no transfers in either direction between level 1, level 2 and level 3 in 2018.

Level 3 investment reconciliations

The table below shows a reconciliation from the opening balances to the closing balances of level 3 fair values. The total net unrealised gains recognised in the profit or loss of $4.9m (30 June 2018: $8.6m) is included in the net investment income number of $170.3m (30 June 2018: $8.0m) shown in the condensed consolidated statement of profit or loss.

	30 June 2019 $m	30 June 2018 $m	31 December 2018 $m
As at 1 January	186.6	180.4	180.4
Purchases	50.7	19.0	46.3
Sales	(22.4)	(29.8)	(52.4)
Total net unrealised gains recognised in profit or loss	4.9	8.6	12.3
As at period end	**219.8**	**178.2**	**186.6**

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 investments in high yield bond funds, asset backed securities, 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.

The investments comprising the group's unconsolidated structured entities are as follows:

	30 June 2019 $m	30 June 2018 $m	31 December 2018 $m
High yield bond funds	143.9	59.0	32.7
Equity funds	115.1	101.9	85.4
Hedge funds	285.8	420.9	337.2
Illiquid credit assets	219.8	178.2	186.6
Investments through unconsolidated structured entities	**764.6**	**760.0**	**641.9**

Currency exposures

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

30 June 2019	UK £ $m	CAD $ $m	EURO € $m	Subtotal $m	US $ $m	Total $m
Financial assets at fair value						
Fixed and floating rate debt securities	20.3	194.4	–	214.7	4,059.5	4,274.2
Equity funds	–	–	26.4	26.4	88.7	115.1
Hedge funds	–	–	–	–	285.8	285.8
Illiquid credit assets	0.6	–	21.7	22.3	197.5	219.8
Derivative financial assets	–	–	–	–	3.0	3.0
Total	**20.9**	**194.4**	**48.1**	**263.4**	**4,634.5**	**4,897.9**

30 June 2018	UK £ $m	CAD $ $m	EURO € $m	Subtotal $m	US $ $m	Total $m
Financial assets at fair value						
Fixed and floating rate debt securities	8.4	164.1	–	172.5	3,549.5	3,722.0
Equity funds	–	–	26.1	26.1	75.8	101.9
Hedge funds	–	–	–	–	420.9	420.9
Illiquid credit assets	–	–	15.4	15.4	162.8	178.2
Derivative financial assets	–	–	–	–	11.6	11.6
Total	**8.4**	**164.1**	**41.5**	**214.0**	**4,220.6**	**4,434.6**

31 December 2018	UK £ $m	CAD $ $m	EURO € $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**

The above qualitative and quantitative disclosures, along with the risk management disclosure included in note 2 of the annual report for the year ending 31 December 2018, enables more comprehensive evaluation of Beazley's exposure to risks arising from financial instruments.

10 Cash and cash equivalents

	30 June 2019 $m	30 June 2018 $m	31 December 2018 $m
Cash at bank and in hand	280.3	370.9	289.0
Short-term deposits and highly liquid investments	12.3	59.8	45.0
	292.6	**430.7**	**334.0**

Total cash and cash equivalents include $7.5m (31 December 2018: $10.4m) held in Lloyd's Singapore trust accounts. These funds are only available for use by the group to meet local claim and expense obligations.

11 Insurance claims

The loss development tables below provide information about historical claims development by the six segments – cyber and executive risk, marine, political, accident and 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 ratios and ultimate net claims ratios.

The top part of the table illustrates how the group's estimated claims ratio for each underwriting year has changed at successive year ends.

While the information in the tables provide 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 estimates of total claims liabilities as at 30 June 2019 are adequate. However, due to inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Gross ultimate claims	2009ae	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %	Total
Cyber and executive risk												
12 months		73.6	75.3	71.9	71.4	66.6	64.9	62.3	59.7	61.3		
24 months		72.3	74.5	72.1	71.7	66.9	64.9	62.2	61.4			
36 months		72.1	79.6	69.4	71.4	63.7	59.6	58.9				
48 months		72.3	77.5	64.1	69.0	64.9	55.0					
60 months		65.6	78.5	62.1	66.8	69.5						
72 months		62.3	70.9	59.7	63.3							
84 months		61.1	74.3	59.0								
96 months		57.2	76.8									
108 months		54.8										
Position at 30 June 2019		55.0	76.7	58.7	62.2	69.1	54.2	60.3	60.4	62.9		
Marine												
12 months		50.4	54.6	55.9	56.5	57.5	56.7	59.5	68.1	61.9		
24 months		49.7	47.3	46.3	52.0	46.8	54.0	70.3	62.6			
36 months		44.0	38.9	34.7	44.4	47.0	47.3	65.6				
48 months		42.3	33.6	32.2	42.7	46.6	45.4					
60 months		40.3	35.3	31.4	42.1	55.5						
72 months		40.1	31.6	30.6	41.4							
84 months		42.1	30.8	29.9								
96 months		40.6	29.3									
108 months		41.0										
Position at 30 June 2019		40.9	29.2	30.0	40.0	53.6	44.1	63.9	63.3	65.9		
Political, accident & contingency												
12 months		57.7	57.5	60.0	59.2	59.2	59.8	61.3	57.9	59.1		
24 months		44.7	44.5	54.4	49.4	51.2	58.8	54.3	49.3			
36 months		38.9	44.2	51.3	44.9	47.0	57.0	49.2				
48 months		32.4	39.3	48.9	43.9	50.1	57.7					
60 months		31.4	37.5	45.8	45.9	51.4						
72 months		30.2	35.4	45.1	45.7							
84 months		29.3	35.0	44.1								
96 months		29.5	35.1									
108 months		27.4										
Position at 30 June 2019		26.5	35.0	44.4	45.6	51.3	56.7	49.4	47.2	59.4		
Property												
12 months		57.7	58.1	55.4	55.1	53.2	55.0	58.9	72.5	63.4		
24 months		60.2	50.3	47.4	49.2	47.7	49.0	68.4	88.6			
36 months		58.3	47.7	39.7	45.8	41.3	45.9	71.3				
48 months		55.5	46.0	36.7	45.8	40.6	44.8					
60 months		52.8	45.1	36.1	45.6	39.7						

72 months		51.8	43.9	35.5	47.3							
84 months		51.0	43.4	35.5								
96 months		50.8	43.1									
108 months		50.7										
Position at 30 June 2019		50.7	43.0	36.4	46.8	40.1	43.5	70.1	89.2	62.2		
Reinsurance												
12 months		68.0	79.2	62.9	59.0	61.5	65.8	67.5	124.8	95.3		
24 months		140.6	77.7	37.6	45.2	33.6	33.8	41.6	117.4			
36 months		127.3	69.5	32.2	42.6	31.0	25.7	40.5				
48 months		119.5	65.8	31.2	41.2	27.8	25.5					
60 months		122.9	63.0	31.3	38.3	27.6						
72 months		121.6	62.8	31.0	38.0							
84 months		121.6	58.0	31.1								
96 months		120.7	58.0									
108 months		118.4										
Position at 30 June 2019		118.5	58.5	31.2	37.7	27.6	26.0	41.7	127.2	118.7		
Specialty lines												
12 months		73.8	75.5	75.1	74.8	70.0	69.6	67.8	65.9	68.5		
24 months		74.2	76.1	75.2	74.3	69.7	70.1	67.7	65.9			
36 months		73.2	74.7	73.9	74.1	66.1	68.9	65.0				
48 months		73.8	74.3	74.2	69.5	62.1	68.0					
60 months		71.6	71.6	70.7	64.3	58.5						
72 months		73.6	68.5	69.7	62.2							
84 months		73.8	64.7	69.1								
96 months		71.1	62.6									
108 months		68.0										
Position at 30 June 2019		67.9	61.2	71.5	62.0	57.8	67.7	63.7	65.5	68.9		
Total												
12 months		64.4	67.2	64.6	63.8	62.2	62.7	63.3	70.5	66.8		
24 months		71.3	62.7	58.2	59.3	55.8	58.4	62.9	71.5			
36 months		67.3	60.3	53.2	56.4	52.5	54.5	60.6				
48 months		65.2	57.8	51.0	54.4	51.5	52.4					
60 months		63.0	56.9	49.1	52.4	52.7						
72 months		62.5	53.7	48.1	51.5							
84 months		62.4	52.4	47.4								
96 months		60.7	52.2									
108 months		59.7										
Position at 30 June 2019		59.1	51.6	48.4	50.8	52.5	52.0	60.4	71.9	69.3		
Total ultimate losses ($m)	7,454.5	1,228.7	989.8	978.8	1,098.7	1,206.1	1,263.3	1,554.1	2,044.5	2,097.9	2,066.1	21,982.5
Less paid claims ($m)	(7,194.2)	(1,165.7)	(904.9)	(865.5)	(935.7)	(983.6)	(896.4)	(880.9)	(829.9)	(416.0)	(33.4)	(15,106.2)

Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	(13.1)	(280.9)	(1,771.5)	(2,065.5)
Gross claims liabilities (100% level) ($m)	**260.3**	**63.0**	**84.9**	**113.3**	**163.0**	**222.5**	**366.9**	**673.2**	**1,201.5**	**1,401.0**	**261.2**	**4,810.8**
Less unaligned share ($m)	(48.7)	(12.2)	(16.4)	(20.6)	(27.6)	(37.1)	(59.4)	(97.8)	(182.3)	(214.6)	(38.9)	(755.6)
Gross claims liabilities, group share ($m)	**211.6**	**50.8**	**68.5**	**92.7**	**135.4**	**185.4**	**307.5**	**575.4**	**1,019.2**	**1,186.4**	**222.3**	**4,055.2**

Net ultimate claims	**2009ae**	**2010 %**	**2011 %**	**2012 %**	**2013 %**	**2014 %**	**2015 %**	**2016 %**	**2017 %**	**2018 %**	**2019 %**	**Total**
Cyber and executive risk												
12 months		71.5	72.9	69.2	67.3	64.1	61.3	59.8	58.2	58.8		
24 months		70.4	72.0	67.9	67.0	64.6	61.1	59.8	59.2			
36 months		72.1	72.8	65.0	65.8	62.4	57.0	56.5				
48 months		68.1	70.5	59.6	62.2	61.3	51.2					
60 months		62.8	71.2	58.6	59.9	65.7						
72 months		61.0	67.5	56.2	57.4							
84 months		59.8	69.9	55.6								
96 months		57.5	71.7									
108 months		55.0										
Position at 30 June 2019		55.3	71.9	56.0	56.5	65.6	50.4	57.5	58.8	61.3		
Marine												
12 months		52.0	55.5	55.4	56.0	56.4	56.7	56.7	57.6	59.4		
24 months		49.2	47.5	46.1	53.2	48.4	52.5	62.5	61.7			
36 months		44.7	38.5	37.4	47.4	46.5	47.1	61.8				
48 months		42.6	34.3	35.0	45.8	45.5	46.7					
60 months		41.0	35.4	33.9	45.3	46.7						
72 months		40.1	32.1	33.2	44.7							
84 months		42.3	31.2	32.8								
96 months		40.6	30.0									
108 months		41.1										
Position at 30 June 2019		41.0	29.9	32.9	43.3	45.7	46.2	62.1	64.8	63.5		
Political, accident & contingency												
12 months		54.4	54.8	58.6	58.6	56.9	57.5	60.2	56.9	58.3		
24 months		43.6	45.1	52.5	50.9	49.8	56.1	53.2	48.6			
36 months		39.6	45.4	49.8	47.4	44.9	55.2	49.6				
48 months		33.2	42.1	46.9	44.8	49.9	54.5					
60 months		32.3	40.1	43.7	45.2	50.3						
72 months		31.1	38.0	42.9	45.4							
84 months		29.6	37.4	42.4								

96 months	30.2	37.5							
108 months	28.2								
Position at 30 June 2019	27.4	37.5	42.9	45.6	50.3	54.1	48.4	46.7	58.4
Property									
12 months	58.8	60.2	58.6	56.7	54.5	55.0	57.6	76.5	64.5
24 months	64.9	57.6	52.9	56.3	51.1	50.2	69.6	93.9	
36 months	65.6	53.5	45.9	52.3	44.2	46.8	71.4		
48 months	59.6	50.3	41.2	50.1	42.8	44.7			
60 months	57.5	48.9	40.7	49.9	41.9				
72 months	56.5	47.8	40.2	51.6					
84 months	56.0	47.5	39.9						
96 months	55.7	47.3							
108 months	55.7								
Position at 30 June 2019	55.6	47.2	40.7	51.2	42.2	43.7	68.9	94.6	64.8
Reinsurance									
12 months	76.7	90.1	67.0	56.9	58.9	61.4	60.9	107.2	84.6
24 months	124.5	87.9	45.6	51.9	37.5	34.2	38.9	93.8	
36 months	114.6	80.3	39.2	48.5	33.6	24.2	38.2		
48 months	108.5	74.7	37.8	47.0	30.7	24.1			
60 months	118.4	72.4	37.8	43.4	30.5				
72 months	112.4	72.4	37.5	43.1					
84 months	112.4	67.1	37.5						
96 months	111.9	67.1							
108 months	108.7								
Position at 30 June 2019	109.1	67.9	37.7	42.9	30.6	25.1	40.8	101.2	92.5
Specialty lines									
12 months	70.8	72.3	71.9	70.9	67.4	65.7	65.5	63.8	66.4
24 months	71.1	72.6	72.0	70.3	67.0	66.2	65.5	63.7	
36 months	69.7	71.2	70.6	70.4	64.5	64.0	61.3		
48 months	70.1	69.1	69.0	64.5	59.6	59.3			
60 months	71.5	69.5	66.8	59.5	56.3				
72 months	72.4	69.4	67.0	58.1					
84 months	72.7	66.8	66.8						
96 months	70.3	65.5							
108 months	67.4								
Position at 30 June 2019	67.4	64.3	67.9	58.3	56.7	58.5	57.8	63.5	67.3
Total									
12 months	64.2	67.0	64.0	62.2	60.7	60.1	60.8	66.2	63.9
24 months	68.3	63.6	58.3	60.2	56.1	56.5	61.0	68.1	
36 months	65.9	60.1	53.7	57.4	52.5	52.7	58.8		
48 months	62.8	57.0	50.7	54.2	50.9	49.7			

60 months		62.8	56.6	49.3	52.1	51.0						
72 months		61.7	55.1	48.6	51.5							
84 months		61.7	53.8	48.3								
96 months		60.3	53.4									
108 months		58.8										
Position at 30 June 2019		58.7	53.2	48.9	51.1	51.0	49.1	57.9	68.8	65.8		
Total ultimate losses ($m)	5,195.2	1,007.7	853.7	855.3	941.0	1,009.2	1,005.7	1,242.5	1,659.8	1,711.0	1,691.2	17,172.3
Less paid claims ($m)	(5,040.7)	(956.1)	(774.5)	(760.3)	(798.2)	(812.6)	(741.9)	(753.1)	(709.4)	(356.5)	(19.5)	(11,722.8)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	(8.5)	(262.2)	(1,472.9)	(1,743.6)
Net claims liabilities (100% level) ($m)	**154.5**	**51.6**	**79.2**	**95.0**	**142.8**	**196.6**	**263.8**	**489.4**	**941.9**	**1,092.3**	**198.8**	**3,705.9**
Less unaligned share ($m)	(29.4)	(9.7)	(13.0)	(16.5)	(23.2)	(30.1)	(43.7)	(75.2)	(141.2)	(165.6)	(29.4)	(577.0)
Net claims liabilities, group share ($m)	**125.1**	**41.9**	**66.2**	**78.5**	**119.6**	**166.5**	**220.1**	**414.2**	**800.7**	**926.7**	**169.4**	**3,128.9**

Analysis of movements in loss development tables
We have updated our loss development tables to show the interim ultimate loss ratios as at 30 June 2019 for each underwriting year. As such, care should be taken when comparing these half year movements to the full year movements shown within the body of the table.

Cyber & executive risk
Releases continue on prior underwriting years as they mature and claims crystallise, with the 2016 underwriting year increasing slightly due to a number of claims and the 2018 underwriting year affected by a cyber loss.

Marine
Deterioration in reserves, primarily on the trucking liability business, has led to increases in the 2017 and 2018 underwriting years. Older underwriting years have generally released as the risk expires.

Political, accident & contingency
Recoveries on the political risk book have led to improvements on the 2010 and 2015 underwriting years, with 2017 improving due to benign claims experience within the terrorism book.

Property
More mature underwriting years have generally improved as claims crystallise, with the strengthening on the 2012 underwriting year increasing for a specific claim on the construction and engineering book. The 2017 underwriting year has increased slightly due to increased claims activity on the covers account.

Reinsurance
The 2017 and 2018 underwriting years have experienced increases on estimates for typhoon Jebi and the Woolsey wildfire along with poor experience on the aggregate excess of loss business.

Specialty lines
The 2016 underwriting year continues to release margins as claims mature, along with releases on the 2011 and 2015 underwriting years from the healthcare and professions books. Strengthening on the 2012 underwriting year is driven by a specific claim on the healthcare book and the strengthening seen on the 2018 underwriting year is driven by the US architect & engineers

business.

Claims releases
The table below analyses our net insurance claims between current year claims and adjustments to prior year net claims reserves. These have been broken down by segment and period.

The net of reinsurance claims release on 2018 and prior underwriting years fell to $3.4m (2018: $48.1m). We saw significant strengthening in our reinsurance division as a result of the 2017 and 2018 natural catastrophes alongside a poor experience on our aggregate excess of loss policies. There were also small strengthenings on our marine book, due to attritional claims on the trucking portfolio. Our cyber and executive risk divisions, alongside our specialty lines division, contributed reserve releases of $1.1m and $23.9m respectively in the first half of 2019.

Historically our reserves have been within the range of 5-10% above our actuarial estimates, which themselves include some margin for uncertainty. The margin held above actuarial estimate was 5.2% at 30 June 2019 (30 June 2018: 5.0%).

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

6 months ended 30 June 2019	**Cyber & executive risk $m**	**Marine $m**	**Political, accident & contingency $m**	**Property $m**	**Reinsurance $m**	**Specialty lines $m**	**Total $m**
Current year	187.2	84.6	60.2	93.7	33.4	237.4	696.5
Prior year							
– 2016 and earlier	(2.9)	(5.4)	(1.4)	(3.7)	1.8	(23.4)	(35.0)
– 2017 underwriting year	(0.9)	8.2	(3.5)	3.3	10.4	(0.4)	17.1
– 2018 underwriting year	2.7	4.2	0.7	(2.7)	9.7	(0.1)	14.5
	(1.1)	7.0	(4.2)	(3.1)	21.9	(23.9)	(3.4)
Net insurance claims	**186.1**	**91.6**	**56.0**	**90.6**	**55.3**	**213.5**	**693.1**

6 months ended 30 June 2018	**Cyber & executive risk $m**	**Marine $m**	**Political, accident & contingency $m**	**Property $m**	**Reinsurance $m**	**Specialty lines $m**	**Total $m**
Current year	161.5	73.8	49.7	91.6	29.1	191.9	597.6
Prior year							
– 2015 and earlier	(19.5)	(1.4)	(1.3)	0.7	(1.4)	(34.4)	(57.3)
– 2016 underwriting year	(5.7)	1.6	(0.8)	0.5	(0.3)	(8.9)	(13.6)
– 2017 underwriting year	0.1	(0.1)	(0.1)	32.5	(9.7)	0.1	22.8
	(25.1)	0.1	(2.2)	33.7	(11.4)	(43.2)	(48.1)
Net insurance claims	**136.4**	**73.9**	**47.5**	**125.3**	**17.7**	**148.7**	**549.5**

Year ended 31 December 2018	**Cyber & executive risk $m**	**Marine $m**	**Political, accident & contingency $m**	**Property $m**	**Reinsurance $m**	**Specialty lines $m**	**Total $m**
Current year	329.5	146.5	105.0	242.1	121.5	398.2	1,342.8
Prior year							
– 2015 and earlier	(14.3)	(11.6)	0.4	(2.9)	(5.2)	(74.1)	(107.7)
– 2016 underwriting year	(11.7)	(2.2)	(7.9)	7.4	(0.7)	(10.7)	(25.8)

– 2017 underwriting year	0.3	1.3	(7.3)	42.8	(17.9)	(0.7)	18.5
	(25.7)	(12.5)	(14.8)	47.3	(23.8)	(85.5)	(115.0)
Net insurance claims	**303.8**	**134.0**	**90.2**	**289.4**	**97.7**	**312.7**	**1,227.8**

12 Related party transactions

The nature of the related party transactions of the group are consistent in nature and scope with those disclosed in note 30 of the group's consolidated financial statements for the year ended 31 December 2018.

13 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 presentation currency:

	6 months ended 30 June 2019	6 months ended 30 June 2018	Year to 31 December 2018
Average			
Pound sterling	0.77	0.73	0.75
Canadian dollar	1.34	1.27	1.29
Euro	0.88	0.82	0.84
Spot			
Pound sterling	0.79	0.75	0.78
Canadian dollar	1.33	1.30	1.36
Euro	0.88	0.85	0.87

14 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 linked 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. As at 30 June 2019, this ratio was 62% (30 June 2018: 56%; 31 December 2018: 59%). This represented total claims of $693.1m (30 June 2018: $549.5m; 31 December 2018: $1,227.8m) divided by net earned premiums of $1,118.0m (30 June 2018: $990.2m; 31 December 2018: $2,084.6m).

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. At 30 June 2019, this ratio was 100% (30 June 2018: 95%; 31 December 2018: 98%). This represents the sum of net insurance claims of $693.1m (30 June 2018: $549.5m; 31 December 2018: $1,227.8m), expenses for acquisition of insurance contracts of $298.4m (30 June 2018: $258.6m; 31 December 2018: $561.9m) and administrative expenses of $129.1m (30 June 2018: $131.1m; 31 December 2018: $249.4m) to net earned premiums of $1,118.0m (30 June 2018: $990.2m; 31 December 2018: $2,084.6m). This is also the sum of the expense ratio 38% (30 June 2018: 39%; 31 December 2018: 39%) and the claims ratio 62% (30 June 2018: 56%; 31 December 2018: 59%).

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. At 30 June 2019, the expense ratio was 38% (30 June 2018: 39%; 31 December 2018: 39%). This represents the sum of expenses for acquisition of insurance contracts of $298.4m (30 June 2018: $258.6m; 31 December 2018: $561.9m) and administrative expenses of $129.1m (30 June 2018: $131.1m; 31 December 2018: $249.4m) to earned premiums of $1,118.0m (30 June 2018: $990.2m; 31 December 2018: $2,084.6m).

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

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

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

Horizontal limits
Reinsurance coverage limits for multiple events.

Incurred but not reported (IBNR)
These are anticipated or likely claims that may result from an insured event 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. As at 30 June 2019, this was calculated as net investment income of $170.3m (30 June 2018: $8.0m; 31 December 2018: $41.1m) divided by average financial assets at fair value, including cash, of $5,122.1m (30 June 2018: $4,878.8m; 31 December 2018: $4,971.4m).

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.

Market facilities

Market facilities come in many forms and have existed in the Lloyd's market for decades. They involve the broker seeking capacity to underwrite a portfolio of risks often from a specific class or geography, though multi class facilities also exist. They have similarities with lines slips, quota shares and binders.

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

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

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

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

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

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

Rate change
The percentage change in premium income 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.

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

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

Sidecar special purpose syndicate
Specialty reinsurance company designed to provide additional capacity to a specific insurance company. It operates by purchasing a portion or all of a group of insurance policies, typically cat

exposures. These companies have become quite prominent in the aftermath of Hurricane Katrina as a vehicle to add risk-bearing capacity, and for investors to participate in the potential profits resulting from sharp price increases.

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

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

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

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

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