REG - Beazley PLC -Beazley plc results for year ended 31st Dec 2018

Released : 07 Feb 2019 07:00

RNS Number : 3157P
Beazley PLC
07 February 2019

Press Release

Beazley achieves strong premium growth

London, 7 February 2019

Beazley plc results for year ended 31st December 2018

- Profit before tax of $76.4m (2017: $168.0m)
- Return on equity of 5% (2017: 9%)
- Gross premiums written increased by 12% to $2,615.3m (2017: $2,343.8m)
- Combined ratio of 98% (2017: 99%)
- Rate increase on renewal portfolio of 3% (2017: reduction of 1%)
- Prior year reserve releases of $115.0m (2017: $203.9m)
- Net investment income of $41.1m (2017: $138.3m)
- Second interim dividend of 7.8p (2017: 7.4p), taking full year dividends for the year to 11.7p (2017: full year 11.1p).

	Year ended 31 December 2018	Year ended 31 December 2017	% movement
Gross premiums written ($m)	**2,615.3**	2,343.8	12%
Net premiums written ($m)	**2,248.5**	1,978.8	14%
Profit before tax ($m)	**76.4**	168.0	(55%)
Earnings per share (pence)	**9.7**	19.5	(50%)
Net assets per share (pence)	**219.6**	215.3	2%

Net tangible assets per share (pence)	**200.7**	196.2	2%
Dividend per share (pence)	**11.7**	11.1	5%

Andrew Horton, Chief Executive Officer, said:

"Beazley saw strong growth in 2018 with gross premiums written rising 12%. Our US business has been growing extremely well and we underwrote more than a billion dollars of premium locally for the first time in the US last year. Although market conditions were challenging, depressing our earnings, we entered 2019 with positive premium rate momentum and higher interest rates that should deliver stronger returns going forward."

For further information, please contact:

Beazley plc
Martin Bride
Tel: +44 (020) 7674 7291

Finsbury
Guy Lamming/Humza Vanderman
Tel: +44 (020) 7251 3801

Note to editors:
Beazley plc (BEZ.L), is the parent company of specialist insurance businesses with operations in Europe, United States, Canada, Latin America and Asia. Beazley manages seven Lloyd's syndicates and, in 2018, underwrote gross premiums worldwide of $2,615.3 million. All Lloyd's syndicates are rated A by A.M. Best.

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

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

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

Chairman's statement

Beazley delivered strong premium growth in 2018 against a backdrop of often challenging market conditions, with premiums rising 12% to $2,615.3m (2017: $2,343.8m). Profitability was impacted by underwriting losses in our property insurance and reinsurance business, which fed into a combined ratio for the group of 98% (2017: 99%), as well as a sharply lower investment return. The company generated a return on average shareholders' equity of 5% (2017: 9%).

After 2017's exceptional catastrophe experience, 2018 was only slightly less eventful. There were two hurricanes in the US, Florence and Michael, and two typhoons in Japan, Jebi and Trami, and in November, California experienced massively destructive wildfires for the second year in a row.

We are constantly mindful of the human cost of these traumatic events and the need to act swiftly to help communities and companies rebuild and recover. By year end we had disbursed $110m in funds to clients afflicted by 2018's natural catastrophes.

The board is pleased to announce a second interim dividend of 7.8p per ordinary share, in line with our strategy of delivering 5-10% dividend growth. Together with the first interim dividend of 3.9p this takes the total dividends declared for 2018 to 11.7p per ordinary share (2017: first interim dividend of 3.7p plus a second interim dividend of 7.4p, totalling 11.1p).

I took over as chairman from Dennis Holt in March 2018. In the six years of Dennis's tenure as chairman, Beazley grew premiums by 37% and generated annual shareholder returns of 31%, a quite remarkable track record. On behalf of the board I would like to thank Dennis for his leadership and wish him well for the future.

I see my role and that of the board as being to challenge, support and advise Beazley's management as they embark on the next phase of profitable growth. Two prerequisites for this growth are clearly present. In recent months, I have been greatly impressed with the talent of individuals at all levels of the organisation. Beazley also has significant headroom to grow in all its major markets and geographies.

This breadth of opportunity is significant. Cyber insurance is perhaps too often cited as a growth opportunity for Beazley - not because it is unimportant but because it can eclipse other promising

opportunities. The growth of the US business has been broad-based and our plans for growth outside of the US equally rely on a diverse product range.

Future growth will also increasingly depend on harnessing new technologies and data sources. Beazley took a number of measures to grasp these opportunities in 2018. In particular, our two new IT related strategic initiatives - Beazley Digital and Faster, Smarter Underwriting - should help capture the benefits of new technology and the availability of new data sources across our product range.

Board changes
The changes that Beazley and other insurers are grappling with are more than incremental and they are likely to accelerate. They will necessitate new ways of working, new skills and a new approach to the interaction between people and technology. Succession planning is a critical responsibility for a board, and therefore in the light of planned retirements we have been looking closely at the composition of the Beazley board, taking into account the skills required to compete successfully in this new environment, whilst ensuring we can continue to discharge our responsibility to challenge, support and advise management.

In March 2019, George Blunden will be stepping down from the board, having served for eight years as Beazley's senior independent director, as well as participating on the audit and risk committee, remuneration committee and nomination committee. He has been an outstanding servant of Beazley, helping to guide the company through a period of sustained growth. George will step down from the board at the conclusion of the annual general meeting, but we will continue to benefit from his counsel as a member of the board of our Lloyd's managing agency, Beazley Furlonge Limited.

I am delighted that Christine LaSala will assume the role of senior independent director upon George's retirement from the board. Christine has a long and distinguished career in the insurance industry and has already made a significant contribution to the board.

Following the conclusion of two three-year terms, Angela Crawford-Ingle, non-executive director and chairman of the audit and risk committee, will step down from the board at the conclusion of the 2018 accounting year and when the handover to her successor is complete. On behalf of the board I would like to extend our considerable gratitude to Angela. She has been an excellent chairman of the audit and risk committee and has made a significant contribution to Beazley.

Neil Maidment also retired from the board, and as our chief underwriting officer, at the end of 2018. Neil has made an inestimable contribution over his 28 years at Beazley, for which I am very grateful. We wish him every success and fulfilment in his future ventures.

We announced last March that Adrian Cox would succeed Neil as chief underwriting officer, a role for which he is exceptionally well qualified, having run our largest division, specialty lines, since 2008.

We also announced during 2018 that Martin Bride, our finance director, will retire during 2019 and we are delighted to announce that Sally Lake, currently our group actuary, will take over from Martin during 2019 following a hand over.

Management changes present a twofold opportunity: to bring people with new ideas and experiences into the company and to promote capable and ambitious individuals internally. It is particularly pleasing that the strength of Beazley's talent - for which the company has long been known - has enabled many of our recent senior appointments to be internal.

Beazley has thrived as a specialist insurer for more than three decades by offering brokers products that are well designed to meet their clients' most pressing needs. These skills will continue to be important in the years ahead. However Beazley will additionally need to show itself as a leader in redesigning insurance business processes in a market that is ripe for structural change. I am confident that Beazley possesses the skills and the vision to make this leap.

David Roberts
Chairman

Chief executive's statement
Beazley 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 $76.4m (2017: $168.0m) 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.

Beazley's 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 Beazley 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 - Beazley'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 Beazley 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 I was delighted to be invited to chair the London Market Group (LMG), a body that represents all of the market's businesses. At Beazley our London Market strategic initiative was launched 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.

Executive changes
Succession planning is something we take very seriously at Beazley at all levels in the organisation. Some of our plans are currently being executed: we welcomed four new members to the executive committee in 2018 and a further four will join during 2019. I am delighted that more than half of our 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).

It is difficult to do justice to the contribution that Neil has made to Beazley. He has overseen the development of one of the best performing underwriting portfolios in the market. He also helped us to shape our business model and brand, and to maintain an open and inclusive culture as the company has grown. We wish him well in all his future endeavours.

In November 2018, Tim Turner succeeded Clive Washbourn as head of Beazley'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'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 the 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, our 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
Beazley'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.

Beazley maintains a conservative investment strategy which has served us well over the years. Nevertheless with financial assets of more than $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 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, Beazley also revisited and amended its 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 chief risk officer report to the board confirmed that the control environment has not identified any significant failings or weaknesses in key processes and that Beazley is operating within risk appetite as at 31 December 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, Beazley's 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 us 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. Beazley 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.

Andrew Horton
Chief executive

Chief underwriting officer's report

Against the backdrop of an active claims environment, 2018 saw Beazley 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 $80.4m for 2018 (2017: loss of $68.3m). 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 below:

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Marine	100%	106%	104%	103%	103%	98%	92%	85%	79%	77%	79%
Political, accident & contingency	100%	100%	99%	98%	97%	96%	98%	92%	91%	87%	86%
Property	100%	105%	102%	104%	110%	114%	112%	108%	104%	104%	114%
Reinsurance	100%	109%	106%	109%	115%	112%	101%	94%	90%	88%	93%
Specialty lines	100%	99%	98%	97%	100%	103%	103%	105%	106%	106%	107%
All divisions	100%	103%	100%	101%	104%	104%	103%	101%	99%	98%	101%

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
Beazley 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.

Beazley'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 Beazley well as the company goes into 2019.

Adrian Cox
Chief underwriting officer

Financial review

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	812.6	774.4	5%
Foreign exchange loss	13.2	3.1	326%
Expenses	**2,053.6**	**1,853.2**	**11%**
Share of profit of associates	-	0.1	
Impairment of investment in associate	(7.0)	-	
Finance costs	(22.4)	(22.1)	
Profit before tax	**76.4**	**168.0**	
Income tax expense	(8.2)	(38.0)	
Profit after tax	**68.2**	**130.0**	
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.

Profit
Profit before tax in 2018 was $76.4m (2017: $168.0m). 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.

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. Beazley'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.

Acquisition costs and administrative expenses
Business acquisition costs and administrative expenses increased during 2018 to $812.6m from $774.4m 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	250.7	254.7
Total acquisition costs and administrative expenses	**812.6**	**774.4**

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 Beazley's business is transacted in US dollars, which is the currency we have reported in since 2010 and the currency in which we hold the company's net assets. Changes in the US dollar

exchange rate with sterling, the Canadian dollar and the euro do have an impact as we receive premiums in those currencies and 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 $13.2m (2017: loss of $3.1m).

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 14.8% 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 3.4% to 1.7% of assets, during the period. Our fixed income investments grew from 76.0% 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.

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

	31 Dec 2018		**31 Dec 2017**	
	$m	**%**	**$m**	**%**
Cash and cash equivalents	336.3	6.7	440.5	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	1.8
Derivative financial instruments	6.9	0.1	8.8	0.2
Core portfolio	4,443.4	87.9	4,164.0	85.2
Equity linked funds	85.4	1.7	168.3	3.4
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	14.8
Total	**5,052.6**	**100.0**	**4,890.1**	**100.0**

Comparison of return by major asset class:

	31 Dec 2018		**31 Dec 2017**	
	$m	**%**	**$m**	**%**
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 $5,052.6m at the end of the year (2017: $4,890.1m).

Tax
Beazley is liable to corporation tax in a number of jurisdictions, notably the UK, the US and Ireland. Beazley's effective tax rate is thus a composite tax rate mainly driven by the Irish, UK and US tax rates. The weighted average of the statutory tax rates for the year was 18.6% (2017: 18.7%). The effective tax rate has decreased in 2018 to 10.7% (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 8 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.

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	418.7	386.0	8%
Financial assets at fair value and cash and cash equivalents	5,052.6	4,890.1	3%
Total assets	**7,733.9**	**7,558.7**	**2%**
Insurance liabilities	5,456.2	5,167.8	6%
Financial liabilities	356.7	367.3	(3%)
Other liabilities	454.1	524.7	(13%)
Total liabilities	**6,267.0**	**6,059.8**	**3%**
Net assets	1,466.9	1,498.9	(2%)
Net assets per share (cents)	280.4c	287.1c	(2%)
Net tangible assets per share (cents)	256.2c	261.6c	(2%)
Net assets per share (pence)	219.6p	215.3p	2%
Net tangible assets per share (pence)	200.7p	196.2p	2%
Number of shares[1]	523.1m	522.0m	-

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

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);
- timely calculation and issuance of reinsurance collection notes from our ceded reinsurance team; and
- regular monitoring of the outstanding debtor position by our reinsurance security committee and credit control committee.

We continue to provide against impairment of reinsurance recoveries, and at the end of 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 to support underwriting at Lloyd's. Of this, 100% may be advanced as cash under a revolving facility. The cost of the facility is based on a commitment fee of 0.385% per annum and any amounts drawn are charged at a margin of 1.1% per annum. The cash element of the facility will expire on 31 July 2019, whilst letters of credit issued under the facility can be used to provide support for the 2017, 2018 and 2019 underwriting years. The facility is currently unutilised.

Capital structure

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

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

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

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

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

In 2018, Beazley acquired 6.0m of its own shares into the employee benefit trust. These were acquired at an average price of 547p and the cost to the group was £32.8m.

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

	2018 $m	**2017 $m**
Shareholders' funds	1,466.9	1,498.9
Tier 2 subordinated debt (2026)	248.7	248.5
Retail bond (2019)	95.6	99.5
Long term subordinated debt (2034)	-	18.0
	1,811.2	**1,864.9**

Our funding comes from a mixture of our own equity alongside $248.7m of tier 2 subordinated debt, a $95.6m retail bond and an undrawn banking facility of $225.0m.

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 Beazley'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 Beazley manages its operations. We expect that Beazley'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 grow in line with the net written premiums in our business plan, which in the short term should be high single digit.

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**

At 31 December 2018, we have surplus capital of 26% of ECR (on a Solvency II basis). Following payment of the second interim dividend of 7.8p, this surplus reduces to 23% compared to our current target range of 15% to 25% of ECR.

Solvency II

The Solvency II regime came into force on 1 January 2016. Beazley continue to provide quarterly Solvency II pillar 3 reporting to both Lloyd's for the Beazley managed syndicates and the Central Bank of Ireland for Beazley Insurance dac and Beazley plc. During 2018 the second annual solvency financial condition report (SFCR) of Beazley plc was published.

Under Solvency II requirements, the group is required to produce a Solvency Capital Requirement (SCR) which sets out the amount of capital that is required to reflect the risks contained within the business. Lloyd's reviews the syndicates' SCRs to ensure that SCRs are consistent across the market.

The current SCR has been established using our Solvency II approved internal model approved by Central Bank of Ireland (CBI) which has been run within the regime as prescribed by Lloyd's. 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 the company has established a multi-disciplinary project group to oversee this activity. The project has made good progress during 2018 and Beazley's preparations for IFRS 17 are on schedule.

Group structure

- The group operates across Lloyd's, Europe, Asia, Canada and the US through a variety of legal entities and structures. The main entities within the legal entity structure are as follows:
- Beazley plc - group holding company and investment vehicle, quoted on the London Stock Exchange;
- Beazley Ireland Holdings plc - intermediate holding company which holds £75m sterling denominated notes;
- Beazley Underwriting Limited - corporate member at Lloyd's writing business through syndicates 2623, 3622 and 3623;
- Beazley Furlonge Limited - managing agency for the seven syndicates managed by the group (623, 2623, 3622, 3623, 6107, 6050 and 5623);
- Beazley Insurance dac - 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.

Consolidated statement of profit or loss for the year ended 31 December 2018

	2018 $m	2017 $m
Gross premiums written	2,615.3	2,343.8
Written premiums ceded to reinsurers	(366.8)	(365.0)
Net premiums written	**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	**2,084.6**	**1,869.4**
Net investment income	41.1	138.3
Other income	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	**1,227.8**	**1,075.7**
Expenses for the acquisition of insurance contracts	561.9	519.7
Administrative expenses	250.7	254.7
Foreign exchange loss	13.2	3.1
Operating expenses	**825.8**	**777.5**
Expenses	**2,053.6**	**1,853.2**
Share of profit in associates	-	0.1
Impairment of investment in associate	(7.0)	-
Results of operating activities	**98.8**	**190.1**
Finance costs	(22.4)	(22.1)
Profit before income tax	**76.4**	**168.0**
Income tax expense	(8.2)	(38.0)
Profit for year attributable to equity shareholders	**68.2**	**130.0**
Earnings per share (cents per share):		
Basic	13.0	25.0
Diluted	12.8	24.4
Earnings per share (pence per share):		

Basic	9.7	19.5
Diluted	9.5	19.0

Statement of comprehensive income for the year ended 31 December 2018

	2018 $m	2017 $m
Group		
Profit for the year attributable to equity shareholders	68.2	130.0
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	**64.6**	**132.3**

Statement of comprehensive income for the year ended 31 December 2018

	2018 $m	2017 $m
Company		
Profit for the year attributable to equity shareholders	81.7	134.8
Total comprehensive income recognised	**81.7**	**134.8**

Statement of changes in equity for the year ended 31 December 2018

	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	**37.7**	**-**	**(96.7)**	**23.4**	**1,519.3**	**1,483.7**
Total comprehensive income recognised	-	-	2.9	-	129.4	132.3
Dividends paid	-	-	-	-	(135.9)	(135.9)
Issue of shares	0.1	-	-	-	-	0.1
Equity settled share based payments	-	-	-	24.5	-	24.5
Acquisition of own shares in trust	-	-	-	(16.2)	-	(16.2)
Tax on share option vestings	-	-	-	4.3	4.0	8.3
Transfer of shares to employees	-	-	-	(4.0)	6.1	2.1
Balance at 31 December 2017	**37.8**	**-**	**(93.8)**	**32.0**	**1,522.9**	**1,498.9**
Total comprehensive income recognised	-	-	(2.1)	-	66.7	64.6
Dividends paid	-	-	-	-	(80.5)	(80.5)
Issue of shares	0.2	1.6	-	-	-	1.8
Equity settled share based payments	-	-	-	18.7	-	18.7
Acquisition of own shares in trust	-	-	-	(44.9)	-	(44.9)

Tax on share option vestings	-	-	-	4.1	6.1	10.2
Transfer of shares to employees	-	-	-	6.6	(8.5)	(1.9)
Balance at 31 December 2018	**38.0**	**1.6**	**(95.9)**	**16.5**	**1,506.7**	**1,466.9**

Statement of changes in equity for the year ended 31 December 2018

	Share capital $m	Share premium $m	Merger reserve $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Company							
Balance at 1 January 2017	**37.7**	**-**	**55.4**	**0.7**	**19.9**	**623.3**	**737.0**
Total comprehensive income recognised	-	-	-	-	-	134.8	134.8
Dividends paid	-	-	-	-	-	(135.9)	(135.9)
Issue of shares	0.1	-	-	-	-	-	0.1
Equity settled share based payments	-	-	-	-	24.5	-	24.5
Acquisition of own shares in trust	-	-	-	-	(16.2)	-	(16.2)
Transfer of shares to employees	-	-	-	-	(4.0)	6.1	2.1
Balance at 31 December 2017	**37.8**	**-**	**55.4**	**0.7**	**24.2**	**628.3**	**746.4**
Total comprehensive income recognised	-	-	-	-	-	81.7	81.7
Dividends paid	-	-	-	-	-	(80.5)	(80.5)
Issue of shares	0.2	1.6	-	-	-	-	1.8
Equity settled share based payments	-	-	-	-	18.7	-	18.7
Acquisition of own shares in trust	-	-	-	-	(44.9)	-	(44.9)
Transfer of shares to employees	-	-	-	-	6.6	(8.5)	(1.9)
Balance at 31 December 2018	**38.0**	**1.6**	**55.4**	**0.7**	**4.6**	**621.0**	**721.3**

Statements of financial position as at 31 December 2018

	2018		2017	
	Group $m	Company $m	Group $m	Company $m
Assets				
Intangible assets	126.5	-	133.5	-
Plant and equipment	4.9	-	4.4	-
Deferred tax asset	28.9	-	6.9	-
Investment in subsidiaries	-	724.6	-	724.6
Investment in associates	-	-	7.0	-
Deferred acquisition costs	307.4	-	281.4	-
Reinsurance assets	1,192.8	-	1,231.1	-
Financial assets at fair value	4,716.3	-	4,449.6	-
Insurance receivables	943.3	-	918.0	-

Other receivables	58.5	-	68.6	21.0
Current income tax asset	19.0	0.3	17.7	0.5
Cash and cash equivalents	336.3	2.4	440.5	0.7
Total assets	**7,733.9**	**727.3**	**7,558.7**	**746.8**
Equity				
Share capital	38.0	38.0	37.8	37.8
Share premium	1.6	1.6	-	-
Merger reserve	-	55.4	-	55.4
Foreign currency translation reserve	(95.9)	0.7	(93.8)	0.7
Other reserves	16.5	4.6	32.0	24.2
Retained earnings	1,506.7	621.0	1,522.9	628.3
Total equity	**1,466.9**	**721.3**	**1,498.9**	**746.4**
Liabilities				
Insurance liabilities	5,456.2	-	5,167.8	-
Financial liabilities	356.7	-	367.3	-
Retirement benefit liability	2.4	-	2.3	-
Deferred tax liabilities	9.1	-	9.9	-
Other payables	442.6	6.0	512.5	0.4
Total liabilities	**6,267.0**	**6.0**	**6,059.8**	**0.4**
Total equity and liabilities	**7,733.9**	**727.3**	**7,558.7**	**746.8**

Statements of cash flows for the year ended 31 December 2018

		2018		**2017**
	Group $m	**Company $m**	**Group $m**	**Company $m**
Cash flow from operating activities				
Profit before income tax	**76.4**	**81.2**	**168.0**	**133.3**
Adjustments for:				
Amortisation of intangibles	12.6	-	11.6	-
Equity settled share based compensation	18.7	18.7	23.6	24.5
Net fair value loss/(gain) on financial assets	53.7	-	(69.6)	-
Share of profit in associates	-	-	(0.1)	-
Impairment of investment in associate	7.0	-	-	-
Depreciation of plant and equipment	2.1	-	2.7	-
Impairment of reinsurance assets (written back)/recognised	(1.0)	-	0.6	-
Increase/(decrease) in insurance and other payables[1]	216.7	5.6	534.4	(0.2)
Decrease/(increase) in insurance, reinsurance and other receivables	23.9	19.8	(295.9)	(7.0)
Increase in deferred acquisition costs	(26.0)	-	(38.6)	-
Financial income	(102.6)	(82.9)	(76.6)	(136.8)
Financial expense	22.4	0.9	22.1	0.9
Foreign exchange on financial liabilities	(4.1)	-	4.6	-
Income tax paid	(21.1)	-	(27.9)	-
Net cash generated from operating activities	**278.7**	**43.3**	**258.9**	**14.7**
Cash flow from investing activities				
Purchase of plant and equipment	(2.6)	-	(1.7)	-

Expenditure on software development	(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	-	-	3.0	-
Sale of LAH renewal rights	-	-	0.8	-
Acquisition of subsidiaries (net of cash)	-	-	(31.8)	-
Interest and dividends received	102.6	82.9	74.5	136.8
Issuance of shares	1.8	1.8	2.2	2.2
Net cash (used in)/from investing activities	**(214.7)**	**84.7**	**(167.9)**	**139.0**
Cash flow from financing activities				
Acquisition of own shares in trust	(44.9)	(44.9)	(16.2)	(16.2)
Repayment of borrowings	(18.0)	-	-	-
Finance costs	(22.0)	(0.9)	(20.7)	(0.9)
Dividends paid	(80.5)	(80.5)	(135.9)	(135.9)
Net cash used in financing activities	**(165.4)**	**(126.3)**	**(172.8)**	**(153.0)**
Net (decrease)/ increase in cash and cash equivalents	(101.4)	1.7	(81.8)	0.7
Cash and cash equivalents at beginning of year	440.5	0.7	507.2	-
Effect of exchange rate changes on cash and cash equivalents	(2.8)	-	15.1	-
Cash and cash equivalents at end of year	**336.3**	**2.4**	**440.5**	**0.7**

[1] 2018 increase in insurance and other payables is net of $1.9m of dividend accruals on share schemes settled through equity.

1 Statement of accounting policies

Beazley plc (registered number 09763575) is a company incorporated in England and Wales and is resident for tax purposes in the United Kingdom. The company's registered address is Plantation Place South, 60 Great Tower Street, London EC3R 5AD, United Kingdom. The group financial statements for the year ended 31 December 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 information set out above does not constitute the company's statutory accounts for the years ended 31 December 2018 or 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the registrar of companies, and those for 2018 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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

In the current year, the group has applied amendments to IFRSs issued by the IASB that are mandatorily effective for an accounting period that 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 4 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 (IASB effective date: 1 January 2019);[1]
- 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).

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. 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. Beazley plc as a standalone company adopted IFRS 9 from 1 January 2018. However, as the standalone company has no financial investments the adoption had no effect on its financial statements. 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.

	2018 $m	2017 $m
Financial assets managed and evaluated on a fair value basis		
Cash and cash equivalent	336.3	440.5
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	**5,052.6**	**4,890.1**

Financial assets meeting the SPPI test		
Insurance receivables	943.3	918.0
Other receivables	58.5	68.6
Total financial assets meeting the SPPI test	**1,001.8**	**986.6**

- 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 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 24 of the annual report and accounts. This estimate is critical as it outlines the current liability for future expenses expected to be incurred in relation to claims. If this estimation was to prove inadequate then an exposure would arise in future years where a liability has not been provided for. The total estimate for insurance losses incurred but not reported gross of reinsurers' share as at 31 December 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 24 of the annual report and accounts.

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) of the annual report and accounts.

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 in the annual report and accounts:

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

2 Segmental analysis

a) Reporting segments

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

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

Marine

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

Political, accident & contingency

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.

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	25.1	21.5	38.9	13.0	152.2	250.7
Foreign exchange loss	1.6	1.2	2.2	0.9	7.3	13.2
Expenses	**235.2**	**176.2**	**434.0**	**144.8**	**1,063.4**	**2,053.6**
Impairment of associate[1]	-	-	-	-	(7.0)	(7.0)
Segment result	**20.5**	**24.2**	**(80.4)**	**(1.8)**	**136.3**	**98.8**
Finance costs						(22.4)
Profit before income tax						**76.4**
Income tax expense						(8.2)
Profit for the year attributable to equity shareholders						**68.2**
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	689.7	445.4	882.1	666.4	5,050.3	7,733.9
Segment liabilities	(571.9)	(347.2)	(726.1)	(505.8)	(4,116.0)	(6,267.0)
Net assets	**117.8**	**98.2**	**156.0**	**160.6**	**934.3**	**1,466.9**
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	(8.3)	(7.0)	(11.1)	(11.4)	(66.4)	(104.2)

[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.

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	30.5	27.8	36.1	15.6	144.7	254.7
Foreign exchange loss	0.4	0.3	0.5	0.2	1.7	3.1
Expenses	**224.5**	**191.5**	**383.5**	**146.2**	**907.5**	**1,853.2**
Share of loss of associates	-	0.4	-	-	(0.3)	0.1
Segment result	**19.3**	**7.9**	**(68.3)**	**3.8**	**227.4**	**190.1**
Finance costs						(22.1)
Profit before income tax						**168.0**
Income tax expense						(38.0)
Profit for the year attributable to equity shareholders						**130.0**
Claims ratio	55%	51%	86%	71%	50%	58%
Expense ratio	43%	50%	44%	36%	39%	41%
Combined ratio	98%	101%	130%	107%	89%	99%
Segment assets and liabilities						
Segment assets	694.1	448.9	841.7	665.4	4,908.6	7,558.7
Segment liabilities	(574.2)	(344.0)	(676.8)	(485.5)	(3,979.3)	(6,059.8)
Net assets	**119.9**	**104.9**	**164.9**	**179.9**	**929.3**	**1,498.9**
Additional information						
Investment in associates[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	(2.6)	(2.3)	(3.6)	(3.9)	(54.3)	(66.7)

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

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.

	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)	7,213.2	7,207.3
US (Non-Lloyd's)[1]	482.1	351.4
Europe (Non-Lloyd's)	38.6	-
	7,733.9	**7,558.7**

[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**

3 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**

4 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.

5 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	1.0	0.9
- audit-related assurance services	0.6	0.7
- taxation compliance services	0.1	0.1
- other non-audit services	0.8	0.6
	2.5	2.3
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.

6 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	17.7	21.1
Pension costs[1]	11.7	10.9
	244.4	262.8
Recharged to syndicate 623	(35.6)	(39.4)
	208.8	**223.4**

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

7 Finance costs

	2018 $m	2017 $m
Interest expense	22.4	22.1
	22.4	**22.1**

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 25 of the annual report and accounts for further detail on subordinated debt.

8 Income tax expense

	2018 $m	2017 $m
Current tax expense		
Current year	32.3	35.4
Prior year adjustments	(5.3)	(0.6)
	27.0	34.8
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	**8.2**	**38.0**

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 10.7% (2017: 22.6%). The reasons for the difference are explained below:

	2018 $m	2018 %	2017 $m	2017 %
Profit before tax	**76.4**	**-**	**168.0**	**-**
Tax calculated at the weighted average statutory tax rates	14.2	18.6	31.4	18.7

Effects of:				
- non-deductible expenses	3.0	3.9	0.9	0.5
- 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	0.3	-	-
- (over)/under provided in prior years	(10.2)	(13.4)	0.9	0.5
- change in UK/US tax rates[1]	0.7	0.9	5.3	3.2
Tax charge for the period	**8.2**	**10.7**	**38.0**	**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.

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.

9 Earnings per share

	2018	2017
Basic (cents)	13.0c	25.0c
Diluted (cents)	12.8c	24.4c
Basic (pence)	9.7p	19.5p
Diluted (pence)	9.5p	19.0p

Basic
Basic earnings per share are calculated by dividing profit after tax of $68.2m (2017: $130.0m) by the weighted average number of shares in issue during the year of 523.2m (2017: 520.5m). The shares held in the Employee Share Options Plan (ESOP) of 4.7m (2017: 3.8m) have been excluded from the calculation, until such time as they vest unconditionally with the employees.

Diluted
Diluted earnings per share are calculated by dividing profit after tax of $68.2m (2017: $130.0m) by the adjusted weighted average number of shares of 533.1m (2017: 533.6m). The adjusted weighted average number of shares assumes conversion of dilutive potential ordinary shares, being shares from the SAYE, retention and deferred share schemes. The shares held in the ESOP of 4.7m (2017: 3.8m) have been excluded from the calculation, until such time as they vest unconditionally with the employees.

10 Dividends per share

A second interim dividend of 7.8p per ordinary share (2017: 7.4p) will be payable on 27 March 2019 to Beazley plc shareholders registered at 5.00pm on 1 March 2019 in respect of the six months ended 31 December 2018. No
special dividend was declared in 2018 (2017: nil). The company expects the total amount to be paid in respect of the second interim dividend to be approximately £40.6m. These financial statements do not provide for the second
interim dividend as a liability.

Together with the interim dividend of 3.9p (2017: 3.7p) this gives a total dividend for the year of 11.7p (2017: 11.1p).

11 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**
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.

11.1 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**

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

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

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

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

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

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

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

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

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

The choice of selected results for each underwriting year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual underwriting years or groups of underwriting years within the same class of business. As such, there are many assumptions used to estimate general insurance liabilities.

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

Where significant large losses impact an underwriting year (e.g. the events of 11 September 2001, the hurricanes in 2004, 2005, 2008, 2012, 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.

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

Throughout, judgement is used to assess the extent to which past trends may or may not apply in the future; for example, to reflect changes in external or market factors such as economic conditions, public

attitudes to claiming, levels of claims inflation, premium rate changes, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

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

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

Gross ultimate claims	**2008ae %**	**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									
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							

	2008ae	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
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**

Net ultimate claims	**2008ae %**	**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									
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**

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.

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**

12 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 $250.7m (2017: $254.7m) 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.

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

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

Excess per risk reinsurance

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

Expense ratio
Ratio, in percentage terms, of the sum of expenses for acquisition of insurance contracts and administrative
expenses to net earned premiums. The calculation is performed excluding the impact of foreign exchange on non-monetary items. In 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 $250.7m (2017: $254.7m) 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, including any brokerage and commission deducted by intermediaries.

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

Horizontal limits
Reinsurance coverage limits for multiple events.

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

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

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

Investment return
Ratio, in percentage terms, calculated by dividing the net investment income by the average financial assets at fair value, including cash. In 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 $4,971.4m (2017: $4,796.4m).

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.

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

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

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

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

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

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

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

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

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

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

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

Return on equity (ROE)
Ratio, in percentage terms, calculated by dividing the consolidated profit after tax by the average daily total equity.
In 2018, this was calculated as profit after tax of $68.2m (2017: $130.0m) divided by average equity of $1,444.8m (2017: $1,429.5m).

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

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

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

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

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

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

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

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

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

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact rns@lseg.com or visit www.rns.com.

END

FR EAFAXEDPNEEF