REG - Beazley PLC -Beazley plc results for year ended 31st Dec 2019

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Press Release

Beazley achieves increased profit and premiums

London, 6 February 2020

Beazley plc results for year ended 31 December 2019

- Profit before tax of $267.7m (2018: $76.4m)
- Return on equity of 15% (2018: 5%)
- Gross premiums written increased by 15% to $3,003.9m (2018: $2,615.3m)
- Combined ratio of 100% (2018: 98%)
- Rate increase on renewal portfolio of 6% (2018: 3%)
- Prior year reserve releases of $9.5m (2018: $115.0m)
- Net investment income of $263.7m (2018: $41.1m)
- Second interim dividend of 8.2p (2018: 7.8p), taking full year dividends for the year to 12.3p (2018: full year 11.7p).

	Year ended 31 December 2019	Year ended 31 December 2018	% movement
Gross premiums written ($m)	**3,003.9**	2,615.3	15%
Net premiums written ($m)	**2,503.5**	2,248.5	11%
Profit before tax ($m)	**267.7**	76.4	250%
Earnings per share (pence)	**35.0**	9.7	261%
Net assets per share (pence)	**235.0**	219.6	7%

Net tangible assets per share (pence)	**217.3**	200.7	8%
Dividend per share (pence)	**12.3**	11.7	5%

Andrew Horton, Chief Executive Officer, said:

"Beazley achieved a profit before tax of $267.7m in 2019, driven by a very strong investment return of $263.7m. Overall gross premiums written increased by 15% to $3,003.9m, with three of our six divisions achieving double digit growth.

An adverse claims experience across several lines of business, leading to reduced prior year reserve releases, meant that our combined ratio rose to 100% for 2019. Despite this, we are optimistic that the remedial action that we have been taking across several lines of business in recent years, alongside the expected continued premium rate increase, will favour us as we move into 2020."

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Note to editors:
Beazley plc (BEZ.L), is the parent company of specialist insurance businesses with operations in Europe, North America, Latin America and Asia. Beazley manages six Lloyd's syndicates and, in 2019, underwrote gross premiums worldwide of $3,003.9 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's European insurance company, Beazley Insurance dac, is regulated by the Central Bank of Ireland and is A rated by A.M. Best and A+ by Fitch.

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

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

Statement of the chair

Beazley delivered strong growth in 2019, with premiums rising 15% to $3,003.9m (2018: $2,615.3m) in a market that saw rates respond sharply to heightened claims activity in many lines of business. Strong investment returns drove pre-tax profits up to $267.7m (2018: $76.4m) offsetting a combined ratio that deteriorated to 100% (2018: 98%). The company generated a return on average shareholders' equity of 15% (2018: 5%).

The board is pleased to announce a second interim dividend of 8.2p per ordinary share, in line with our strategy of delivering 5-10% dividend growth. Together with the first interim dividend of 4.1p this takes the total dividends declared for 2019 to 12.3p per ordinary share (2018: first interim dividend of 3.9p plus a second interim dividend of 7.8p, totalling 11.7p).

Beazley has a well-diversified portfolio of risks and we continue to take action to ensure we anticipate and respond to the challenges and opportunities arising from current market conditions.

Our deep experience in managing our portfolio of risks through differing market cycles tells us that preparation is critical for a turbulent market of the kind that we saw in 2019 and Beazley has been preparing for more than two years for such a market.

We withdrew from underwriting construction and engineering business in 2018 because it failed to meet our cross-cycle profitability requirements and took steps to strengthen our catastrophe reserves. In both 2018 and 2019 we opened our underwriting at historically high loss ratios to provide a strong reserve buffer against rising claims. We are now in a market in which rates are often adequate to achieve profitable growth but significant pockets of underpriced business remain. This plays to all of Beazley's traditional strengths as a company, in risk selection, reserving and claims management. Our diversified portfolio of business should also continue to stand us in good stead: only two of the liability classes we transact - management liability and healthcare liability - have been significantly exposed to social inflation, which has driven US jury awards up.

The role of the Beazley board is to challenge, support and advise Beazley's management as they navigate current market conditions and plan for profitable growth in the future. The board met for three days in the US in May to discuss the changes and disruptors that are reshaping our market and the company's readiness to adapt to these changes and prosper. We identified three main areas of focus: the impact of new technology and data-driven risk insights; Beazley's role in the changes taking place at Lloyd's; and the maintenance and development of the company's corporate culture, all of which aligns to our strategic initiatives.

Three strategic initiatives at Beazley are, in different ways, focused on operational efficiency and improving the client experience. Through our Closer to the Client initiative we are consulting closely with clients on their evolving needs. While our Faster, Smarter Underwriting and Beazley Digital initiatives are harnessing data and technology to provide an enhanced experience to our large risk clients and our small business clients respectively. The board considers all three initiatives to be well chosen given the winds of change that are blowing through our market.

These areas of focus are also priorities for the leadership of Lloyd's and are reflected in the Lloyd's Blueprint One published in September 2019. As a major participant in the Lloyd's market, writing 85% of our business on Lloyd's paper, Beazley has been actively involved in shaping the market's future plans. We are a strong supporter of the far-reaching reforms proposed in Lloyd's Blueprint One: our London Market strategic initiative is designed to ensure that Beazley can benefit to the fullest possible extent from the changes as they are implemented.

Finally, Beazley's transparent, supportive and collaborative culture has been one of the company's greatest assets since its earliest days: it has served as a magnet for talent in our market. The Lloyd's culture survey published last September revealed that high standards of behaviour have not been universally upheld across the market. The board strongly supports Beazley's management in its commitment to ensure no Beazley employee should ever hesitate to report unacceptable or inappropriate behaviour.

2018 UK Corporate Governance Code

The introduction of the 2018 UK Corporate Governance Code reporting requirements has brought the discussion around how the board and its committees ensure Beazley brings value to its various stakeholders into the spotlight.

We believe understanding and reporting the needs and views of our various stakeholders is extremely important and we are always trying to enhance these relationships.

The new code's reporting requirements reflect this commitment which Beazley maintains with its various stakeholders and provides transparency to our policies and procedures.

Board and management changes

To ensure the board remains able to challenge, support and advise Beazley's management, we constantly evaluate the mix of skills and experience the board possesses. In April 2019, we welcomed two new board members, Nicola Hodson and John Reizenstein, who added to the board's skillset in important ways.

Nicola has brought deep expertise in the areas of technology, data and operations to the board, developed in the course of a series of senior executive roles at Microsoft, including as chief operating officer of Microsoft UK. John was formerly chief financial officer of Direct Line Insurance Group, and the board has benefited from his extensive financial services experience across insurance, investment banking, and financial markets. He replaced Angela Crawford-Ingle as chair of Beazley's audit and risk committee following her retirement at the end of May 2019.

I am also delighted that so many of Beazley's recent senior executive appointments (six out of eight in the past two years) have been internal. This speaks well to the vibrancy of the company and its success in preparing talented individuals for senior roles.

Part of the board's role is to consider the interests of all stakeholders in the company. Beazley is a profit-making business that must meet, and if possible exceed, the expectations of investors. Nevertheless we also need to take a broader view of the role that insurance plays in society and in addressing the major challenges of our times.

Climate change is unquestionably one such challenge, and possibly the most important. Another is the vulnerability of our interconnected world to cyber attacks. At Beazley we are keen to ensure we are able to protect our insureds, and have developed products that address these cyber risks. We are also

investigating products that address the effect of climate change. In both cases we can amplify our impact by collaborating with others. The Lloyd's market offers a tried and tested model for such collaboration and we will continue to work with other syndicates at Lloyd's to push forward the boundaries of insurable risk.

Beazley's immediate focus is to deploy its traditional underwriting strengths to navigate what remains a turbulent market. However, we are well aware that market conditions in the not too distant future will present very different challenges and require new strengths. I am confident that Beazley has the means and the will to adapt and navigate these changes.

David Roberts
Chair

Chief executive's statement

Beazley achieved a second year of double digit premium growth in 2019, with gross premiums written increasing 15% to $3,003.9m (2018: $2,615.3m). Profit before income tax rose to $267.7m (2018: $76.4m), driven by
a very strong investment return. Our combined ratio of 100% (2018: 98%) was impacted by intensifying claims across several lines of business and reduced reserve releases from prior years.

Natural catastrophes took a smaller toll on our business than in 2018, but nevertheless had a material impact with our estimated costs of Typhoons Faxai and Hagibis and Hurricane Dorian totalling approximately $80m net of reinsurance and reinstatement premiums. A number of our liability lines were also impacted by US jury awards that have been increasing for some time now, particularly affecting our management liability book and our large risk professional liability business for hospitals.

We have been taking action to address underperforming classes of business for several years and we have seen rates rise steadily as the market has responded to elevated claims. The claims that we have seen in these classes, combined with the continuing high incidence of natural catastrophe claims in recent years, reduced the contribution to profits from prior year reserve releases in 2019 to $9.5m (2018: $115.0m).

The insurance market has continued to respond strongly to this unsettled claims environment and we saw renewal rates rise by 6% on average across our business during the course of 2019. In the lines of business most affected by severe claims, we have seen much larger rate rises, as described in our chief underwriting officer's report.

Beazley benefits from a well-diversified underwriting portfolio that we have carefully constructed over the years to spread our exposures across geographies, classes of business and size of risk. Our property division, which incurred heavy underwriting losses in 2017 and 2018, returned to profit in 2019 with a combined ratio of 97%, and our political, accident & contingency division delivered a strong performance with a combined ratio of 89%. These results helped to balance deteriorating results in our reinsurance division (where the bulk of the natural catastrophe losses fell) and marine division.

During 2019 we also split what had previously been by far our largest division - specialty lines - into two. Both of the new divisions, one of which continues to be called specialty lines and the other cyber & executive risk, underwrite classes of business that were negatively affected by increased jury awards and settlements in 2019. However, many lines of business were unaffected and continued to show strong growth and profitability.

Growth opportunities

Rising premium rates were by no means solely responsible for the strong premium growth we saw in 2019. We have continued to grow in newer lines of business in our traditional markets and in long established lines in newer markets. As an example of the former, our accident and health team in the US - now renamed Beazley Benefits - saw premiums rise 20% to $24.7m. As an example of the latter, our cyber business grew by 26% outside the US in 2019, outstripping our cyber growth in the US, where demand for this form of insurance originated.

As by far the world's largest insurance market, the US continues to present many attractive growth opportunities for Beazley, but we are also seeing strong demand for many of our specialist products in Canada, Europe and Asia.
In the course of 2019, we saw our European business grow by 17%, while the business we underwrote locally in the US grew by 13%.

Investing in innovation

Brokers around the world look to Beazley as a source of innovation in specialist insurance and we sought to build on this reputation in 2019. In the US our environmental team launched Beazley SLEAP (Site Lender Environment Asset Protection) to protect lenders from pollution risks that could impair

the value of property used as collateral for commercial loans. In London our marine underwriters unveiled a new marine cyber insurance product to meet the rapidly developing needs of vessel owners and operators. Also in London our cyber & executive risk team launched a reputational risk product to protect businesses against a peril that is of huge and growing concern to senior executives at our client companies.

Product innovation, although important, is not the only form of innovation that benefits brokers and clients in our markets. The insurance industry has seen heavy investments in technologies designed to make business processes more efficient. Substantial sums have also been invested in harnessing new data sources to improve the speed and accuracy with which risk can be priced.

At Beazley we have two strategic initiatives focused on these issues. The first, which we call Faster, Smarter Underwriting, addresses the large and complex risks that have been the historic mainstay of our business. Improved technology can make the transaction of this business far more efficient, and we have identified several opportunities for underwriting productivity improvements, complementing - but not supplanting - the underwriter's skill and judgement.

For smaller, simpler risks, the role of technology is even greater. Our Beazley Digital strategic initiative has identified significant scope for automation in this space, with the underwriter's day to day role limited to the pricing of unusual risks that fall outside the constraints programmed into our systems. In 2019, we launched our award-winning broker e-trading platform, myBeazley, in Spain and Germany. The platform, already in service for brokers in the UK and France, enables brokers to access Beazley's specialist insurance products online, including management liability, professional indemnity, and cyber cover.

Change at Lloyd's

The varying approaches that we are taking towards large complex risks on the one hand and smaller and simpler risks on the other are mirrored in Blueprint One, a programme of far-reaching reforms published by Lloyd's in September 2019. We strongly support the plan Lloyd's has put forward and, in particular, the goal of reducing the market's stubbornly high expense ratio. Beazley's expense ratio in 2019 was 38%, in line with the Lloyd's market average. We would like to see both come down materially.

In 2018, we launched a new Beazley managed syndicate, syndicate 5623, which focuses on writing market facilities business with the aim of reducing the cost of underwriting at Lloyd's. Underwriting for the account of third party investors, the syndicate aims to offer a low cost mechanism for placing follow business within the Lloyd's market. In 2019, we underwrote market facilities premiums of $36.0m through the syndicate, up 330% from the previous year.

Our participation in the Lloyd's market also gives our continental European clients a choice of options to access Beazley products. Business from continental Europe can be placed either with the Beazley Lloyd's syndicates through the Lloyd's platform in Brussels or with our European insurance company, Beazley Insurance dac, based in Dublin. We have continued to recruit underwriters across Europe, including in the UK regions, and saw our European business as a whole grow by 17% in 2019.

Climate change

As with any insurance company, climate change is going to be an area where we will expect to give greater focus to in the coming years. The perceived risks around climate change are great and should not be underestimated, but the opportunities around providing suitable cover, products and claims service to our insureds is something that aligns to Beazley's current service model. We have always prided ourselves on delivering on our promises to our insureds and these promises will become even more important as the potential severity of losses increases.

During 2019 our risk management team worked through a number of long term scenarios around the potential impact of climate change on Beazley. We have also continued to look at ways of acting more responsibly within our business, such as sourcing our office products locally. During 2019 our submission to Climatewise was benchmarked against the framework from the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) achieving a preliminary score of 39% (compared to the average score within the Lloyd's Market of 38%). It is clear from this score that we are at the same stage of our development on climate change as many others, but we know that more needs to be done. As such we are currently recruiting a sustainability officer who will oversee our strategy on climate change going forward while building on the progress made so far.

Executive changes

In 2019, we welcomed four new members to Beazley's executive committee. Two of these were individuals who have been with Beazley for more than a decade, and two were external hires. The internal promotions were Sally Lake, who succeeded Martin Bride as group finance director; and Jerry Sullivan, who heads our US management committee, both of which were mentioned in our 2018 annual report. We also announced in 2019 that Beth Diamond, who has recently succeeded Anthony Hobkinson as head of claims, will join the executive committee from 2020. We also announced to

employees in early 2020 that Mike Donovan has decided to retire at the end of June 2020 and we will announce his successor in due course.

From outside the company, we recruited Lou Ann Layton, who succeeded Dan Jones as head of broker relations and marketing, and Richard Montminy, who succeeded Mark Bernacki as head of our property division.

I paid tribute to Martin, Dan and Mark at the half year for their enormous contributions to Beazley's success over the years. Here I would like to express my gratitude to Anthony, who has guided our claims function skilfully since 2011. In insurance, we offer clients a simple promise to pay. As our business has grown around the world, Anthony and his team have ensured that we fulfil these promises consistently and in a way that increases the loyalty of our clients. I have every confidence that Beth, who was the head of our third party complex claims team prior to succeeding Anthony, will ensure that world class claims service remains a differentiator for Beazley.

Investment performance

Beazley's financial assets have continued to grow in recent years, from $4.9bn in December 2017 to $5.9bn by December 2019. As a result, the returns we achieve on these assets are important to our overall performance. After a challenging year in 2018, financial market conditions in 2019 proved much more supportive and Beazley's financial assets returned $263.7m, or 4.8% in this period (2018: $41.1m, or 0.8%). The 2019 return is the highest in recent years, supported by falling yields, declining credit spreads and strong equity markets.

Our fixed and floating rate debt securities are the mainstay of our investment portfolio and represented 82.3% of our investment assets as at December 2019 (2018: 81.1%). These investments (including cash and cash equivalents and derivatives) returned 4.3% in 2019, (2018: 1.1%) well above the level of yields at the beginning of the period, as declining yields and narrowing credit spreads generated capital gains on these assets. We were able to take advantage of the conditions by increasing the duration of our portfolio, which was maintained at close to two years for much of the year.

Our capital growth assets also performed strongly, helped by rallying equities; returning 8.6% overall (2018: a loss of 1.0%). We took advantage of the strong market conditions by adding to more volatile asset classes earlier in the year, utilising nearly all of our current appetite for investment risk. However, a more cautious approach later in the year, as risk assets became increasingly expensive, meant that we did not capture all of the available return, as markets continued to rally. Looking ahead, and despite our limited appetite for investment risk, the material difference between outcomes in 2018 and 2019 highlights the dangers of forecasting investment returns in the short term. Notwithstanding, yields and credit spreads are much less attractive than they were and this leads us to expect a lower return in 2020.

Risk management

With the recent arrival of new executive committee members, we took the opportunity in 2019 to re-examine the risks we run in different parts of the business and enhance the control environment. As a result of this reassessment, our chief risk officer Andrew Pryde has taken over as chair of the risk and regulatory committee, which is the executive level committee that oversees how the business is managing risk. This has helped the committee to operate as an effective second line of defence to monitor and challenge risk owners across the organisation. Senior risk managers now also attend the committee, alongside risk owners.

Our risk management team works closely with others across the business to identify and manage emerging and strategic risks. In 2019, this included preparations to enable Beazley to continue to serve continental European clients and write EU business in the event of a hard Brexit.

The team also stress-tested a variety of long term climate change scenarios that could affect Beazley's business as a whole, as well as conducting a detailed pilot assessment of the impact of climate change on the liability lines offered by our US architects and engineers professional liability team. We are currently expanding upon this pilot exercise to other classes of business and have estimated that around a third of the group's 2019 premium arises from classes that have material exposure to climate change effects.

Outlook

For a company with an exceptional track record of underwriting profitability, 2019 was a difficult year.

However, although history never repeats itself exactly, we have seen market conditions similar to this in our 33 year history and know that early remedial action is critical in lines of business where the market as a whole has failed to make adequate provision for rising claims. We have been taking such action for several years now across a number of areas.

These measures should result in an improved underwriting performance in 2020, with further improvement expected in 2021. We have been reserving conservatively against business underwritten

in 2018 and 2019 but it will take some time for claims against this business to crystallise. We therefore expect prior year reserve releases to be below average in 2020.

We are now part way through a broad-based turn in the market, with rates rising steeply across many lines of business. Over the past two years, we have seen premium rates on renewal business rise cumulatively by more than 10% for half of our book. We expect rates to continue to rise through 2020.

In this environment we will continue to grow our business prudently and anticipate achieving double digit premium growth once again in 2020. However, we continue to believe that some business remains underpriced, notably in the property and treaty reinsurance markets, and our underwriters will continue to walk away from business that does not meet our requirements.

The market conditions we witnessed in 2019 reaffirmed the importance of skilled underwriters capable of making prudent promises to our clients as well as resourceful claims professionals able to deliver swiftly on our promises. Technology will assist us, but these core skills should continue to underpin the profitable growth of our business in the years ahead.

Andrew Horton
Chief executive officer

Chief underwriting officer's report

Beazley's underwriters achieved strong premium growth of 15% to $3,003.9m (2018: $2,615.3m) in 2019 against a backdrop of increasingly severe claims in a number of lines of business. Although in absolute dollar terms we achieved an underwriting profit, our combined ratio rose to 100% (2018: 98%), due in large measure to a far smaller prior year reserve release than in 2018.

The underwriting losses sustained by many insurers in recent years have driven rates up significantly for many lines of business, and the momentum shows no sign of slowing. Rates across our portfolio rose by 6% in 2019, on top of rises averaging 3% in 2018. This masked far steeper rises in lines such as directors' & officers' (D&O) (31%); hospital professional liability (15%); aviation (27%); and large risk property (18%).

The drivers of rate change varied. In some markets, business had by the end of 2017 become significantly underpriced after a long period of rate erosion. Our marine division, which includes energy and aviation business, saw rates fall for five years in a row from 2012 through 2017. Our reinsurance division saw a similar decline while our property underwriters saw rates begin to fall in 2013 and continue to do so into 2017. The turn in property markets - both insurance and reinsurance - was initially spurred by the intense natural catastrophe experience of 2017 and sustained by further major events in the US and Japan during the course of the following two years.

In some but not all liability lines of business, we have been seeing a surge in US jury awards that has driven increased claims severity. The trend is particularly evident in claims from US hospitals. Between 2015 and 2018, the share of claims in excess of $5m within our total hospital claims rose by 68% compared to the years 2011 to 2014.

Various reasons have been proposed for the rise in large jury awards in the US. Evidence is certainly growing for a shift in sentiment against organisations that are perceived to have failed to protect customers or investors (or patients in the case of hospitals). At Beazley, we have seen the main impact of this trend in our healthcare and management liability books. Other lines of liability business, such as environmental and cyber, have been relatively unaffected.

Beazley has more than 30 years experience of underwriting large, complex risks and our underwriters are constantly scanning the horizon for opportunities and threats.

Equipped with one of the market's largest claims databases, our healthcare underwriters saw the rise in large hospital claims early and have adjusted their underwriting accordingly. We have a diversified book of US healthcare business and have been able to grow in segments less impacted by social inflation.

The strong premium growth we saw in 2019 was thus not merely the effect of rate rises, but also reflected our success in targeting profitable growth opportunities around the world. Since 2017 we have been investing heavily in the growth of our business - particularly our liability business - outside the US. In many cases, we have been able to adapt products that have been road tested in the US for other markets in Europe, Asia and the Americas. Beazley Breach Response (BBR), our flagship cyber product, is now available in six countries including the US.

Profitability also depends on the efficiency with which we transact business. One of our strategic initiatives - Faster, Smarter Underwriting - has been targeting efficiency gains in the transaction of large, complex risks, with a focus in 2019 on cyber, D&O, commercial property and marine risks. Another strategic initiative - Beazley Digital - has concentrated on the smaller, more standardised risks that can be more fully automated: here our main focus has been on the continuing roll-out of our myBeazley e-trading platform for brokers around the world.

Historically, the slow pace of change in insurance markets has meant that insurers have not funded significant research and development budgets to implement new and promising technologies. This is now changing and at Beazley we have, through our targeted strategic initiatives, been investing more heavily and widely in research and development.

Lines of business long seen as more traditional are now seeing benefits from new technology and data sources:
for example, in February we partnered with another Lloyd's insurer to establish a Lloyd's marine cargo consortium using technology from the Lloyd's Lab insurtech Parsyl to track cargo accumulation and collect data to assist in risk management and claims.

Cyber & executive risk

In its first year as a standalone division, Beazley's cyber & executive risk (CyEx) division, led by Mike Donovan, grew premiums by 15% and achieved a combined ratio of 93% (2018: 90%).

Market conditions affecting the division's two largest lines of business - cyber insurance and D&O liability insurance - were very different. The cyber market continues to grow and, although competition has been intensifying, claims have not been as heavy as in lines such as D&O that have borne the brunt of social inflation. We saw rates remain stable across our cyber book compared with rate rises for US D&O business of 30%.

The new division, which was formally launched in February 2019, has been very well received by brokers. Under the banner of 'protecting what matters most,' our cyber and management liability teams address major boardroom issues and purchasing patterns for their products overlap. We have made great strides in cross-selling products offered by the two teams.

Cyber insurance originated in the US in the years following the enactment of the first data breach regulation in California in 2002. Beazley's flagship cyber product, BBR, was launched in 2009 and, since then, most of the demand for cover has remained in the US. That began to change with the coming into force of the European Union's General Data Protection Regulation (GDPR) in May 2018 and with the passage of similar laws and regulations elsewhere in the world. In 2019, our international cyber business outside the US grew by 14% (albeit from a relatively low base) compared with growth of 9% for our more mature US business.

We still see considerable opportunities to grow our cyber business in the US where the increasingly sophisticated and frequent attacks, particularly on mid-sized companies, are still significantly underinsured. However, growth opportunities outside the US, where we have been investing for more than five years now, may well prove more significant in the years to come.

Our international cyber team, based in London, has bound risks in 55 countries and we have launched BBR in the UK, France, Italy, Spain and Canada.

The CyEx division offers a range of specialist products under the executive risk banner and many of these have been growing strongly. We saw rapid growth in transaction liability business, which protects the parties in mergers and acquisition deals, in 2019 and the team has also been growing, hiring underwriters in Germany and Singapore.

Marine

Most of the lines of business underwritten in our marine division, led by Tim Turner, have seen significant price erosion over a number of years and recent rate rises have not yet proved sufficient to reverse the damage. In 2019, the division recorded a combined ratio of 107% (2018: 94%) on premiums that increased by 8% to $306.4m (2018: $284.8m).

This increase in premium was due to the division increasing their indemnity appetite, notably in lines such as aviation and marine cargo.

The aviation market, which accounts for approximately 10% of the division's premiums, has seen the most dramatic rate rises over the past two years. Prices for the business Beazley writes have risen 39% since 2017 and we plan to increase our participation in this business significantly in 2020. Marine cargo rates also rose sharply - by 12% - in 2019, prompting us to re-forecast our underwriting for this class of business upwards during the course of the year.

The authorities at Lloyd's have been addressing the underperforming classes of business, with the marine classes of business being a particular area of focus. We have seen rates rise faster than would likely have been the case had Lloyd's not taken action, and the Lloyd's business planning process has allowed us to increase our underwriting appetite swiftly when market conditions warrant it.

Political, accident & contingency

Our political, accident & contingency (PAC) division under the leadership of Christian Tolle had a very good year with strong profitable growth generated by all major lines of business. The division's combined ratio was 89% (2018: 90%) on premiums that grew 14% to $272.7m (2018: $238.7m).

In a year in which some political risk underwriters sustained heavy credit losses, Beazley's business was largely unscathed and we made some recoveries from prior year claims.

In fact, both the political risk and contingency teams continued to successfully grow their portfolios in a controlled manner in competitive market conditions. Risk selection remains key in these markets and

the teams have a proven track record.

On terrorism business, the rate declines that we have seen over the years were less steep in 2019. Civil unrest in Hong Kong, Lebanon and Chile contributed to nervousness in the market and - in the case of more than 100 Walmart stores damaged by arson and looting in Chile - to actual losses. Although Beazley was not exposed to these losses, we did have some exposure to the terrorist attack on the Shangri-La hotel in the Sri Lankan city of Colombo in April.

Our accident and health business in the US, now rebranded Beazley Benefits, had a very good year with premiums growing 20% to $24.7m - the fruits of sustained investment in our team and the operational infrastructure needed to compete in this business.

Our main growth has come from group limited medical indemnity business, which provided supplemental medical insurance for company employees with defined and pre-agreed medical limits. These plans have proven particularly attractive in the retail and hospitality industries, which employ large numbers of part time workers.

The pressures on US employers faced with rising employee healthcare costs show no sign of abating. We therefore see significant growth opportunities for companies such as Beazley that can offer well designed supplemental cover at affordable prices.

In London our personal accident team, which underwrites a diverse portfolio of risks, saw growth in US disability business in 2019. Personal accident is one of the classes of business in which the retrenchment of a number of Lloyd's syndicates has opened up some growth opportunities for Beazley.

Property

The property division under the leadership of Richard Montminy saw a return to underwriting profitability in 2019, generating a combined ratio of 97% (2018: 125%) after two years of heavy losses. Premiums increased by 3% to $428.7m (2018: $415.4m).

Rates across the portfolio rose strongly in 2019, up 10% for the mid-sized excess & surplus lines risks written locally in the US and 18% for the large risks business written predominantly in London. We see rate rises as still having further to run.

Submission flow to our property teams remains very strong but we are being selective in the business we underwrite, as by no means all the risks we see meet our underwriting requirements. 2019 was a quiet year for catastrophe losses affecting our property division (although not our reinsurance division) but we still see scope for improvement in our attritional loss ratios.

Most of our large risk business, categorised at Lloyd's as open market property, continues to be underwritten in London, but we have seen a very positive response from brokers to our decision to underwrite large risk property business in the US, originally taken in 2017. We added two new underwriters to the New York team in 2019.

The small property business we underwrite under binding authorities granted to Lloyd's coverholders around the world saw continued remediation in 2019 after performing poorly in 2018. In 2018, we cancelled a number of binders that failed to satisfy our cross cycle profitability requirements and this process continued in 2019. Our preference is to lead covers and we have been withdrawing from a number of accounts for which we only provided following capacity. We took action relatively early to tackle poor performance in this part of the market and have since seen a number of other Lloyd's insurers follow suit.

Our jewellers', fine art and specie book performed well in 2019. The business is currently largely concentrated in the UK where we are by some distance the leading insurer of jewellers' business, but we have also been investing in international growth opportunities. We hired a fine arts underwriter in Paris in May and an underwriter to write jewellers' and fine arts business via the Lloyd's China platform in December 2019.

Reinsurance

Catastrophe losses affecting our reinsurance division, led by Patrick Hartigan, were once again severe in 2019, the third year marked by heavy losses across the market. Rates have risen, but in many cases not as far as they need to in our estimation. Our underwriting stance for 2020 is therefore very cautious.

The business of our reinsurance division, which is almost entirely property-focused, generated a combined ratio of 154% in 2019 (2018: 103%) on gross premiums written of $206.0m (2018: $207.4m).

The most significant catastrophe losses for Beazley stemmed from Typhoons Faxai and Hagibis that hit Japan in September and October 2019. Our Japanese treaties include cover for flood, which was a major source of claims in the wake of Hagibis.

Beazley's share of the Japanese treaty market remains small at approximately 1% - the same level as a decade ago. However, we maintain our very long term relationships in this market, which have proven profitable over time.

Other sources of risk continue to present concerns. We have reduced our exposures to US wildfires following the very severe losses of 2017 and 2018. Claims were less severe in 2019, but the longer term

weather patterns - with rising temperatures in California and other regions exposed to wildfires - are not encouraging.

Overall, reinsurance rates have yet to respond to recent catastrophe losses as strongly as rates in the primary property market or in the retrocession market. A good deal of reinsurance capital is now trapped following the Japanese catastrophe events and we may see a lower willingness to deploy surplus capital once these losses are fully realised, which will drive rates up further.

Specialty lines

Beazley's specialty lines division, led by James Eaton, saw stronger rate rises than anticipated in 2019, with the team renewing business at prices that were on average 6% higher than in 2018.

This reflected the increased severity of major losses that has affected parts of the market, feeding into a combined ratio of 99% (2018: 92%) on premiums that rose 28% to $967.1m (2018: $755.5m).

Specialty lines is one of the two new Beazley divisions created when we split the old specialty lines division at the start of 2019. It underwrites a mix of specialty liability insurance, including professional liability for hospitals, lawyers, and architects & engineers; environmental liability business; and management liability business outside the US. Beazley's private enterprise team, which offers a range of products including cyber insurance to small businesses, primarily in the US, also forms part of the division.

The strong premium growth that the division saw in 2019 was driven in large part by our non-US business, which has received steady investment in recent years. Since 2017, we have been building a diversified book of financial institutions business outside the US, particularly in continental Europe, as well as offering management liability and cyber cover to a broader clientele. In addition, the healthcare liability expertise that we have built over many years in the US has proved highly relevant to new markets outside the US: in 2019, we launched our virtual care product to meet the needs of telemedicine providers - a fast growing market - in the UK.

Parts of our specialty lines book have been affected by social inflation, most notably healthcare liability risks. In our hospitals professional liability (HPL) book we saw rates rise by 16% in 2019, spurred by a sharp increase in large claims over $5m referenced earlier. Even with these rate rises some hospital risks remain inadequately priced in our view and we have declined to underwrite them.

A significant growth area for Beazley in recent years has been environmental liability business, which we currently write in the US, London and Canada. In 2019, the team unveiled an innovative product, Beazley SLEAP (Site Lender Environmental Asset Protection), to cover lenders against their exposures to property assets that may subsequently be found to be contaminated.

Cumulative renewal rate changes since 2008 below:

	2015	2016	2017	2018	2019
Cyber & executive risk	100%	93%	90%	93%	103%
Marine	100%	96%	96%	106%	117%
Political, accident & contingency	100%	101%	102%	103%	110%
Property	100%	100%	100%	99%	104%
Reinsurance	100%	96%	94%	100%	105%
Specialty lines	100%	96%	92%	91%	91%
All divisions	100%	98%	97%	100%	106%

Adrian Cox
Chief underwriting officer

Q&A with the chief executive

Beazley's combined ratio has been close to 100% for three years now. When do you expect it to improve?
We ran combined ratios averaging below 90% from 2012 through 2016, during which time rates fell steadily in response to a generally benign claims environment and we saw a large influx of capital into parts of the market. We warned in 2016 that further declining rates and any rise in claims would make it harder for us to maintain these underwriting margins, and so it has proved.

With the sustained rate rises we have seen over the past two years, we expect to be able to achieve a combined ratio in the low 90s in the medium term (barring, of course, exceptional catastrophe losses). However, a combined ratio in the mid-90s is a more realistic expectation for 2020 subject to a more normalised claims environment.

How concerned are you about the increased jury awards and settlements that are pushing claims higher in many liability lines of business?

They are a source of concern and are one of the reasons we opened our underwriting at a higher reserve position in 2018 and sustained that approach in 2019. It is important to note, however, that there are many parts of our liability book that have not been affected by this phenomenon, including our cyber business, our environmental business and our small risks business.

Various reasons have been proposed for social inflation, which bears no relation to inflation levels in the wider economy. These are discussed in our chief underwriting officer's report. It is a phenomenon we have seen before - indeed Beazley was founded at a time of sharply increasing jury awards that generated a crisis of capacity for many liability risks in the US. The situation is not currently so extreme and the market has been responding in an orderly manner to the claims inflation we have seen.

To take one example, we saw rates on our US directors' & officers' book increase by 30% in 2019.

It is often a fine judgment for a company to decide whether to settle litigation or allow it to proceed to trial, and the stakes can be higher at times such as these. Our seasoned claims professionals are well equipped to help clients make these difficult decisions.

There have been several management changes at Beazley in the past two years. What principles have guided you in the new appointments you have made?
We put a lot of effort into succession planning. Twice a year I go through with the board plans for my successor and other senior executive roles. There has been a significant generational shift at Beazley over the past two years as a number of senior executives have retired.

We have as a result welcomed eight new members of the executive committee over the past two years. Of these, six were internal appointments and two were external. All but one of the individuals appointed internally have been with Beazley for more than 10 years.

Our overriding principle of course is to secure the best available person for the job. Where this criterion can clearly be met through an internal hire, it brings a number of advantages. The individuals are very familiar with our culture and their promotion opens opportunities for talented individuals further down the organisation. I am very pleased that Beazley has had the bench strength to make so many internal appointments at all levels within the company.

No matter whether they are internal or external appointments, I have found that our new executive members have brought valuable fresh perspectives to our discussions. I believe firmly that a diverse executive team can only contribute to the quality of our decisions and I am pleased that we now have four female executive committee members, up from one two years ago. Our appointments are always made on merit but we ensure that we have a diverse roster of candidates from whom to choose.

How will the reforms put forward by Lloyd's in its Blueprint One document affect Beazley?
Positively I believe. The costs of doing business at Lloyd's are too high and are denying attractive growth opportunities, for our market. We strongly support Lloyd's plans to lower expense ratios and this is something I have also championed in my time as chair of the London Market Group.

There is a remarkable degree of alignment between the four strategic initiatives that Beazley announced in 2018 and the six initiatives described in the Lloyd's Blueprint One last September. Like Lloyd's we have developed discrete approaches to our large, complex business and to our smaller and more standardised business. Also like Lloyd's we see more scope for automation - and thus cost reduction - for the smaller standardised business. However, we also see a significant role for technology and new data sources in pricing complex risks and in processing this business more efficiently.

Lloyd's has an unmatched record of settling valid claims stretching back more than three centuries. Nevertheless there is more that we can do to improve the speed and efficiency of claims settlement across the market. Colin Masson, from our claims team, was involved in the Lloyd's claims initiative up until October 2019, which also aligns closely with our own Closer to the Client strategic initiative to improve client service.

Do you believe that the natural catastrophe losses insurers have seen in recent years are due in part to climate change and, if so, how does this affect your underwriting strategy?
Yes I do, but the extent to which climate change has aggravated these losses is difficult to assess given the limited data sets available. We have certainly seen increasing severity of weather-related events and in some cases the impact of climate change is not hard to discern. For example, warm air can hold more moisture than colder air, contributing to the severity of floods accompanying storms.

At Beazley we have begun to explore these connections and their impacts on our business, including the opportunity to underwrite new forms of cover. I believe that, broadly speaking, the insurance market can accommodate climate change, given our ability to reprice policies annually, but the costs to the most vulnerable communities may ultimately become unsustainable.

More generally, is climate change something that you are worried about for Beazley?
The world is changing and Beazley has to be prepared to move with it. As described above we have taken action on our underwriting strategy in 2019, but we cannot be complacent as climate change has more far reaching impacts. In 2019, we continued our drive to increase recycling and reduce waste throughout the business. We also continue to look at the environmental impact of our suppliers and actively look to source our office products locally. However, climate change is not a short term problem and investment in long term solutions and policies are required. We are currently recruiting a

sustainability officer to join Beazley who will lead our efforts on climate change and sustainability across the group, aligning the work done to date, and constructing our policy going forward.

Are there any areas of technological development that hold particular promise for Beazley?
There are many, but one I would identify is the opportunity to connect our systems directly to those of our brokers via APIs or 'application programming interfaces'. We now have APIs in place in three markets - Canada, Spain and Australia - that enable brokers to enter risk submissions onto their own systems, which are then routed straight through into our systems.

We then automatically send back quotes and policy documentation in real time. We are working on several new opportunities with brokers to develop products that connect directly to Beazley via APIs. This approach brings many advantages - a low cost of submission processing, quicker service to clients, and greater Beazley product
distribution potential.

What do you see as the biggest drivers of premium growth for Beazley in the years ahead?
We expect to see further growth from rate rises in 2020. In addition, we still have a relatively small footprint in most of our target markets - both by product and geography - and therefore significant further scope to grow. We plan to grow as we always have done, by focusing on risks that we understand and in areas where we can attract high quality people.

I also believe strongly that we need to keep talking to our clients and designing new products to meet their changing needs. Not all products can cross borders unmodified, but where there is an underlying demand we can also look at adapting existing products for new markets. We have been doing this with our flagship cyber product, Beazley Breach Response, over the years and in 2019 we began to globalise our virtual care liability product for telemedicine providers.

Financial review

Statement of profit or loss

	2019 $m	2018 $m	Movement %
Gross premiums written	3,003.9	2,615.3	15%
Net premiums written	2,503.5	2,248.5	11%
Net earned premiums	2,347.0	2,084.6	13%
Net investment income	263.7	41.1	542%
Other income	25.8	33.7	(23%)
Revenue	**2,636.5**	**2,159.4**	**22%**
Net insurance claims	1,452.5	1,227.8	18%
Acquisition and administrative expenses	889.7	812.6	9%
Foreign exchange (gain)/loss	(1.1)	13.2	(108)%
Expenses	**2,341.1**	**2,053.6**	**14%**
Impairment of investment in associate	-	(7.0)	
Finance costs	(27.7)	(22.4)	
Profit before tax	**267.7**	**76.4**	
Income tax expense	(33.6)	(8.2)	
Profit after tax	**234.1**	**68.2**	
Claims ratio	62%	59%	
Expense ratio	38%	39%	
Combined ratio	100%	98%	
Rate increase	6%	3%	
Investment return	4.8%	0.8%	

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 2019 was $267.7m (2018: $76.4m). The group's combined ratio increased to 100% (2018: 98%) due to a lower reserve release being available, although a small underwriting profit was achieved in absolute dollar terms. Unfortunately, three years of heightened claims activity has taken its toll on the reserves of our catastrophe exposed lines leading to lower releases. Our investment team achieved a strong investment return of 4.8% (2018: 0.8%) or $263.7m (2018: $41.1m), which counteracted our reduced underwriting result.

Premiums
Gross premiums written have increased by 15% in 2019 to $3,003.9m (2018: $2,615.3m). We continue to monitor our underwriting portfolio and look for areas where we see good opportunities to achieve profitable growth. Rates on renewal business on average increased by 6% across the portfolio (2018: increased by 3%) with our property and marine classes seeing the largest movement.

We have seen strong growth in our international platform, especially in Europe, as we continue to expand the variety of our offerings to our insureds. The charts overleaf highlight how we achieve diversification by product mix.

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 2019 was $500.4m (2018: $366.8m). As a percentage of gross premiums written it increased to 17% from 14% in 2018. This was due to an increase in market facilities business written (which is 90% reinsured out of the group) as well as us reinsuring our trucking portfolio during 2019. These impact the net earned premiums in the specialty lines and marine divisions respectively.

Combined ratio
The combined ratio of an insurance company is a measure of its operating performance and represents the ratio of its total costs (including claims and expenses) to total net earned premium. A combined ratio under 100% indicates an underwriting profit. Consistent delivery of operating performance across the market cycle is clearly a key objective for an insurer. Beazley's combined ratio increased in 2019 to 100% (2018: 98%) due to lower reserve releases.

Claims
2019 was the third year in a row where material natural catastrophe losses were experienced. We estimate the cost of Hurricane Dorian and Typhoons Faxai and Hagibis at $80m net of reinsurance. We have also experienced an increase in attritional claims within our directors' & officers', employment practice liability and healthcare liability books driven by social inflation within the US. As a result of these our claims ratio for the year has increased to 62% (2018: 59%).

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 6.8% at the end of 2019 (2018: 5.6%). As we indicated in the 2018 annual report, our reserve releases for 2019 have been subdued compared to our long term average. We expect this to remain the case for 2020. 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.

The reserve releases in 2019 decreased to $9.5m (2018: $115.0m). Our specialty lines, cyber & executive risk and political, accident & contingency divisions all contributed releases within 2019. Both the specialty lines and cyber & executive risk divisions have been impacted over the past few years by the increased claims seen on their liability books. As such, specialty lines releases decreased to $36.9m (2018: $85.5m) while cyber & executive risk releases reduced to $9.4m (2018: $25.7m). Our political, accident & contingency division provided a release of $16.8m, $2.0m higher than the $14.8m released in 2018. These releases were offset by strengthening in our marine, property and reinsurance book. Our reinsurance division saw reserves strengthen by $30.1m (2018: release of $23.8m), driven by loss creep on Typhoon Jebi and the Woolsey Fires. Our marine and property business saw reserves increased, with marine strengthening by $6.4m (2018: release of $12.5m) and property strengthening by $17.1m (2018: $47.3m).

Both were in books of business where we have taken remedial action, with US trucking being the main driver of the marine division's increase, while construction and engineering drove the strengthening in property. We have since stopped underwriting both of these lines of business.

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

	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	5 year average $m
Cyber & executive risk	20.6	6.9	32.5	25.7	9.4	19.0
Marine	31.2	15.9	10.7	12.5	(6.4)	12.8
Political, accident & contingency	23.7	27.2	3.9	14.8	16.8	17.3
Property	37.8	36.8	13.2	(47.3)	(17.1)	4.7
Reinsurance	44.9	32.3	54.7	23.8	(30.1)	25.1
Specialty lines	18.1	61.6	88.9	85.5	36.9	58.2
Total	**176.3**	**180.7**	**203.9**	**115.0**	**9.5**	**137.1**
Releases as a percentage of net earned premium	10.4%	10.2%	10.9%	5.5%	0.4%	7.5%

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 2019 to $889.7m from $812.6m in 2018. The breakdown of these costs is shown below.

	2019 $m	2018 $m
Brokerage costs	533.8	461.1
Other acquisition costs	111.6	100.8
Total acquisition costs	**645.4**	**561.9**
Administrative expenses	244.3	250.7
Total acquisition costs and administrative expenses	**889.7**	**812.6**

Brokerage costs are the premium commissions paid to insurance intermediaries for providing business. As a percentage of net earned premiums they have increased slightly to 23% in the current year (2018: 22%). Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with the group's accounting policy. Other acquisition costs comprise costs that have been identified as being directly related to underwriting activity (e.g. underwriters' salaries and Lloyd's box rental). These costs are also deferred in line with premium earning patterns.

Beazley's overall expense ratio was down by one percent from 39% in 2018 to 38%. In actual terms administrative expenses also decreased to $244.3m (2018: $250.7m) driven primarily by favourable foreign exchange rates on our large sterling expense base. The company has always stressed that improving the expense ratio during the phases of stronger growth was a key objective. By actively managing our expenses we have been able to stop them growing as quickly as earned premium.

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 gain taken through the statement of profit or loss in 2019 was $1.1m (2018: loss of $13.2m).

Investment performance
During 2019, the funds managed by the Beazley group increased on the prior year, with financial assets at fair value and cash and cash equivalents of $5,851.3m at the end of the year (2018: $5,052.6m).

We have seen a much stronger investment performance in 2019, as financial market conditions proved more supportive of returns than many anticipated. Interest rates, particularly in the US, were generally expected to continue their upward path in 2019, but growing concerns about the sustainability of global growth instead resulted in an easing of monetary policy and the US Federal Reserve reduced interest rates three times between July and October.

These developments helped to stabilise economic growth later in the year and provided the catalyst for much improved investor sentiment across most asset classes. Geopolitical concerns persisted and generated intermittent market volatility, but the most adverse outcomes were avoided, or at least deferred, so that these considerations had limited ultimate impact on market levels. Many asset classes had seen significant weakness in the final part of 2018, making valuations look more attractive, and this was also a factor in the strong recovery in asset values during 2019. The level and direction of risk free yields is the most significant driver of our investment returns. US sovereign bond yields are most relevant to us, as nearly all of our investments are denominated in US dollars. At the start of 2019, US sovereign bonds of a two-year duration yielded more than they had for some years, at around 2.5%, but many feared that yields would continue to rise as interest rates increased further, generating capital losses and unattractive overall returns.

However, interest rates fell as global growth faltered and yields also declined throughout most of the year, generating capital gains and resulting in a return of 3.5% on two-year sovereign US securities in 2019: the highest return achieved by these assets for more than a decade.

We increased the duration of our fixed income portfolio in 2019, maintaining it at around two years for much of the period. This unusually high asset duration helped us to take good advantage of the falling yield environment.

Corporate credit spreads on our fixed income investments were also a major contributor to returns. Rising interest rates in 2018 led to a widening of spreads in the final part of that year and the extra yield available on our investment grade bonds had risen to around 0.8% at the start of 2019, before declining throughout the year to 0.4% as interest rates fell and economic sentiment improved. As a result, the credit element of our investment grade bonds returned 1.5% in this period and our more modest exposure to high yield bonds performed better still, as the credit element of these returned more than 9%. Approximately 65% of our fixed income investments include exposure to corporate credit spreads. The combination of strong contributions from both risk free yields and credit spreads is fairly unusual and resulted in an overall return of 4.3% (2018: 1.1%) for our core portfolio in 2019.

Our capital growth assets also performed well, returning 8.6% (2018: a loss of 1.0%), again helped by attractive valuations at the beginning of the year, following the market correction in the final quarter of 2018, as well as the easing of monetary policy during the year. We added to our equity investments early in 2019, utilising most of our maximum appetite for investment risk, and this proved beneficial to returns. However, we reduced exposures in the second half of the year, as equity valuations became more expensive and so missed out on some of the available return in this unusual year.

Other capital growth investments include our hedge fund and absolute return portfolios, which target alternative investment strategies, to provide risk diversification against our equity and credit exposures. Maintaining appropriate levels of cash in the business is a challenge, particularly as our financial assets continue to grow quickly: we need sufficient cash for liquidity purposes, but excess cash balances reduce our opportunity to generate investment returns. Our cash balance has reduced in recent years, to $278.5m, or 4.8% of our financial assets, at the end of 2019 (2018: $336.3m, or 6.7%).

Our total investment return was 4.8%, or $263.7m (2018: 0.8%, $41.1m). The 2019 investment return is the highest we have achieved in recent years. This reflects the current supportive financial market, but the changes we have made to the structure of our investment portfolio in recent years have helped us to take advantage of this environment, extracting the available return in the context of our investment risk appetite. Looking ahead, most investment assets look more expensive following their strong performance in 2019: sovereign yields are 1% lower than a year ago, and credit spreads 0.4% lower, while equity earnings yields are up to 1.5% lower, based on historic earnings. We are hopeful that macro conditions will remain supportive of investment returns, but these starting conditions lead us to expect a more modest contribution from investments in 2020, with our overall running yield at 2.1% as at 31 December 2019.

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

	31 Dec 2019		**31 Dec 2018**	
	$m	**%**	**$m**	**%**
Cash and cash equivalents	278.5	4.8	336.3	6.7
Fixed and floating rate debt securities				
- Government and quasi-government	1,870.9	32.0	1,410.1	27.9
- Corporate bonds				
- Investment grade	2,706.4	46.3	2,525.3	50.0
- High yield	235.8	4.0	32.7	0.6
- Senior secured loans	-	-	132.1	2.6
Derivative financial instruments	25.5	0.4	6.9	0.1
Core portfolio	5,117.1	87.5	4,443.4	87.9
Equity funds	163.6	2.8	85.4	1.7
Hedge funds	354.0	6.0	337.2	6.7
Illiquid credit assets	216.6	3.7	186.6	3.7
Total capital growth assets	734.2	12.5	609.2	12.1
Total	**5,851.3**	**100.0**	**5,052.6**	**100.0**

Comparison of return by major asset class:

	31 Dec 2019		**31 Dec 2018**	
	$m	**%**	**$m**	**%**
Core portfolio	205.8	4.3	47.8	1.1

Capital growth assets	58.0	8.6	(6.7)	(1.0)
Overall return	**263.7**	**4.8**	**41.1**	**0.8**

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 15.0% (2018: 18.6%). The effective tax rate has increased in 2019 to 12.6% (2018: 10.7%). The increase has been a result of lower favourable prior year tax adjustments in 2019 as compared to 2018. The application of the diverted profits tax legislation passed by the UK government early in 2015 still remains uncertain. We have considered the implication of this and retain the view that this tax should not apply to Beazley (see note 9 to the financial statements). Whilst the uncertainty around the legislation remains, the quantum of our earnings that could theoretically fall within its scope grows as the period since the legislation started to apply lengthens.

A new Tax Act (the Tax Cuts and Jobs Act) was signed into law in the US in December 2017. The Tax Act includes a base erosion anti-avoidance tax (the "BEAT") provisions. We have performed an assessment for a number of our intra-group transactions for BEAT purposes. Although the application of this new BEAT legislation is still not fully certain for some types of transactions we believe that the BEAT impact on the group is not significant. For the year 2019 the amount of $1.9m was provided for in the group financial statements for BEAT liabilities (for 2018 the group paid BEAT tax of $0.9m).

In addition, if BEAT encourages other governments to introduce similar legislation impacting cross-border transactions, Beazley's tax liability could consequently increase in those countries. We continue to assess the future impact of BEAT and other tax changes (including OECD's Pillar 1 and Pillar 2 proposals) on our business.

Balance sheet management

Summary statement of financial position

	2019 $m	2018 $m	Movement %
Intangible assets	122.2	126.5	(3%)
Reinsurance assets	1,338.2	1,192.8	12%
Insurance receivables	1,048.0	943.3	11%
Other assets	514.0	418.7	23%
Financial assets at fair value and cash and cash equivalents	5,851.3	5,052.6	16%
Total assets	**8,873.7**	**7,733.9**	**15%**
Insurance liabilities	6,059.0	5,456.2	11%
Financial liabilities	554.8	356.7	56%
Other liabilities	634.6	454.1	40%
Total liabilities	**7,248.4**	**6,267.0**	**16%**
Net assets	1,625.3	1,466.9	11%
Net assets per share (cents)	309.6c	280.4c	10%
Net tangible assets per share (cents)	286.3c	256.2c	12%
Net assets per share (pence)	235.0p	219.6p	7%
Net tangible assets per share (pence)	217.3p	200.7p	8%
Number of shares[1]	524.9m	523.1m	-

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

Intangible assets
Intangible assets consist of goodwill on acquisitions of $62.0m (2018: $62.0m), purchased syndicate capacity of $10.7m (2018: $10.7m), US admitted licences of $9.3m (2018: $9.3m), renewal rights of $17.3m (2018: $25.2m) and capitalised expenditure on IT projects of $22.9m (2018: $19.3m).

Reinsurance assets
Reinsurance assets represent recoveries from reinsurers in respect of incurred claims of $1,068.8m (2018: $951.7m), and the unearned reinsurance premiums reserve of $269.4m (2018: $241.1m). The reinsurance receivables from reinsurers are split between recoveries on claims paid or notified of $223.7m (2018: $231.9m) and an actuarial estimate of recoveries on claims that have not yet been reported of $845.1m (2018: $719.8m).

The group's exposure to reinsurers is managed through:

- minimising risk through selection of reinsurers who meet strict financial criteria (e.g. minimum net assets, minimum 'A' rating by S&P). These criteria vary by type of business (short vs medium tail). The chart below shows the profile of these assets (based on their S&P rating) at the end of 2019;
- 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 2019 our provision in respect of reinsurance recoveries totalled $13.7m (2018: $12.2m).

Insurance receivables
Insurance receivables are amounts receivable from brokers in respect of premiums written. The balance at
31 December 2019 was $1,048.0m (2018: $943.3m).

Insurance liabilities
Insurance liabilities of $6,059.0m (2018: $5,456.2m) consist of two main elements, being the unearned premium reserve (UPR) and gross insurance claims liabilities. Our UPR has increased by 13% to $1,598.7m (2018: $1,415.5m). 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 $1,263.7m (2018: $1,171.2m) and an estimate of claims incurred but not yet reported (IBNR) of $3,196.6m (2018: $2,869.5m). These are estimated as part of the quarterly reserving process involving the underwriters and group actuary. Gross insurance claims reserves have increased 10% from 2018 to $4,460.3m (2018: $4,040.7m).

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

- in November 2016, Beazley Insurance dac issued $250m of 5.875% subordinated tier 2 notes due in 2026; and
- in September 2019, Beazley Insurance dac issued $300m of 5.5% subordinated tier 2 notes due in 2029.

In September 2019, Beazley Ireland Holdings plc redeemed its £75m sterling denominated 5.375% notes as per the due date.

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 2021, whilst letters of credit issued under the facility can be used to provide support for the 2019, 2020 and 2021 underwriting years. The facility is currently unutilised.

Other assets

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

- deferred acquisition costs of $350.7m (2018: $307.4m);
- profit commissions of $nil (2018: $5.9m); and
- deferred tax assets available for use against future taxes payable of $41.0m (2018: $28.9m).

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.

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 (Prudential Regulation Authority, 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 tier 2 subordinated debt in 2016, Beazley Insurance dac was assigned an Insurer Financial Strength (IFS) rating of 'A+' by Fitch.

Beazley Insurance dac also issued tier 2 debt in September 2019 and maintained its 'A+' rating.

In 2019, Beazley acquired 2.0m of its own shares into the employee benefit trust. These were acquired at an average price of 530.1p and the cost to the group was £10.6m.

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

	2019 $m	**2018 $m**
Shareholders' funds	1,625.3	1,466.9
Tier 2 subordinated debt (2026)	248.9	248.7
Retail bond (2019)	-	95.6
Tier 2 subordinated debt (2029)	297.9	-
	2,172.1	**1,811.2**

Our funding comes from a mixture of our own equity alongside $546.8m ($550.0m gross of capitalised borrowing costs) of tier 2 subordinated debt, and an undrawn banking facility of $225.0m.

The final Lloyd's economic capital requirement (ECR) at year end 2019, as confirmed by Lloyd's, is consistent withour projection at the interim results and reflects our plans for growth. Overall we expect our capital requirement to grow broadly in line with the net written premiums in our business plan, which in the short-term should be low double digit growth.

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

	2019 $m	**2018 $m**
Lloyd's economic capital requirement (ECR)	1,828.4	1,594.5
Capital for US insurance company	203.9	173.4
	2,032.3	**1,767.9**

At 31 December 2019, we have surplus capital of 22% of ECR (on a Solvency II basis). Following payment of the second interim dividend of 8.2p, this surplus reduces to 19% 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 2019 the third 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 was proposed by the IASB in June 2019. 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 2019 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;
- 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, market 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 market facilities ceded from syndicate 3623;
- Beazley America Insurance Company, Inc. (BAIC) - insurance company regulated in the US. In the process of obtaining licenses to write insurance business in all 50 states;
- 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, 2623 and 623, BICI and BAIC.

Consolidated statement of profit or loss for the year ended 31 December 2019

	2019 $m	**2018 $m**
Gross premiums written	3,003.9	2,615.3
Written premiums ceded to reinsurers	(500.4)	(366.8)
Net premiums written	**2,503.5**	**2,248.5**
Change in gross provision for unearned premiums	(184.5)	(167.6)
Reinsurer's share of change in the provision for unearned premiums	28.0	3.7
Change in net provision for unearned premiums	**(156.5)**	**(163.9)**
Net earned premiums	**2,347.0**	**2,084.6**
Net investment income	263.7	41.1
Other income	25.8	33.7
	289.5	**74.8**
Revenue	**2,636.5**	**2,159.4**
Insurance claims	1,842.5	1,463.9
Insurance claims recoverable from reinsurers	(390.0)	(236.1)
Net insurance claims	**1,452.5**	**1,227.8**
Expenses for the acquisition of insurance contracts	645.4	561.9
Administrative expenses	244.3	250.7
Foreign exchange (gain)/loss	(1.1)	13.2

Operating expenses	**888.6**	**825.8**
Expenses	**2,341.1**	**2,053.6**
Impairment of investment in associate	-	(7.0)
Results of operating activities	**295.4**	**98.8**
Finance costs	(27.7)	(22.4)
Profit before income tax	**267.7**	**76.4**
Income tax expense	(33.6)	(8.2)
Profit for year attributable to equity shareholders	**234.1**	**68.2**
Earnings per share (cents per share):		
Basic	44.6	13.0
Diluted	44.0	12.8
Earnings per share (pence per share):		
Basic	35.0	9.7
Diluted	34.5	9.5

Statement of comprehensive income for the year ended 31 December 2019

	2019 $m	2018 $m
Group		
Profit for the year attributable to equity shareholders	234.1	68.2
Other comprehensive income		
Items that will never be reclassified to profit or loss:		
Gain/(loss) on remeasurement of retirement benefit obligations	6.6	(1.5)
Income tax on defined benefit obligation	(0.4)	-
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange translation differences	1.8	(2.1)
Total other comprehensive income	8.0	(3.6)
Total comprehensive income recognised	**242.1**	**64.6**

Statement of comprehensive income for the year ended 31 December 2019

	2019 $m	2018 $m
Company		
Profit for the year attributable to equity shareholders	75.7	81.7

Total comprehensive income recognised	**75.7**	**81.7**

Statement of changes in equity for the year ended 31 December 2019

	Share capital $m	Share premium $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Group						
Balance at 1 January 2018	**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**
Impact of adoption of IFRS 16	-	-	-	-	0.3	**0.3**
Balance at 1 January 2019	**38.0**	**1.6**	**(95.9)**	**16.5**	**1,507.0**	**1,467.2**
Total comprehensive income recognised	-	-	1.8	-	240.3	242.1
Dividends paid	-	-	-	-	(79.5)	(79.5)
Issue of shares	0.1	1.6	-	-	-	1.7
Equity settled share based payments	-	-	-	4.7	-	4.7
Acquisition of own shares in trust	-	-	-	(13.8)	-	(13.8)
Tax on share option vestings	-	-	-	1.0	2.6	3.6
Transfer of shares to employees	-	-	-	(4.8)	4.1	(0.7)
Balance at 31 December 2019	**38.1**	**3.2**	**(94.1)**	**3.6**	**1,674.5**	**1,625.3**

Statement of changes in equity for the year ended 31 December 2019

	Share capital $m	Share premium $m	Merger reserve[1] $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Company							
Balance at 1 January 2018	**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**
Total comprehensive income recognised	-	-	-	-	-	75.7	75.7
Dividends paid	-	-	-	-	-	(79.5)	(79.5)
Issue of shares	0.1	1.6	-	-	-	-	1.7
Equity settled share based payments	-	-	-	-	4.7	-	4.7
Acquisition of own shares in trust	-	-	-	-	(13.8)	-	(13.8)
Transfer of shares to employees	-	-	-	-	(4.8)	4.1	(0.7)
Balance at 31 December 2019	**38.1**	**3.2**	**55.4**	**0.7**	**(9.3)**	**621.3**	**709.4**

1 A merger reserve was created through a scheme of arrangement on 13 April 2016, in which Beazley plc became the parent company of the group.

Statements of financial position as at 31 December 2019

		2019		**2018**
	Group $m	**Company $m**	**Group $m**	**Company $m**
Assets				
Intangible assets	122.2	-	126.5	-
Plant and equipment	8.9	-	4.9	-
Right of use assets	35.9	-	-	-
Deferred tax asset	41.0	-	28.9	-
Investment in subsidiaries	-	724.6	-	724.6
Investment in associates	0.1	-	-	-
Deferred acquisition costs	350.7	-	307.4	-
Retirement benefit asset	5.4	-	-	-
Reinsurance assets	1,338.2	-	1,192.8	-
Financial assets at fair value	5,572.8	-	4,716.3	-
Insurance receivables	1,048.0	-	943.3	-
Other receivables	72.0	-	58.5	-
Current income tax asset	-	1.1	19.0	0.3
Cash and cash equivalents	278.5	-	336.3	2.4
Total assets	**8,873.7**	**725.7**	**7,733.9**	**727.3**
Equity				
Share capital	38.1	38.1	38.0	38.0
Share premium	3.2	3.2	1.6	1.6
Merger reserve	-	55.4	-	55.4
Foreign currency translation reserve	(94.1)	0.7	(95.9)	0.7
Other reserves	3.6	(9.3)	16.5	4.6

Retained earnings	1,674.5	621.3	1,506.7	621.0
Total equity	**1,625.3**	**709.4**	**1,466.9**	**721.3**
Liabilities				
Insurance liabilities	6,059.0	-	5,456.2	-
Financial liabilities	554.8	-	356.7	-
Lease liabilities	39.4	-	-	-
Deferred tax liabilities	19.5	-	9.1	-
Current income tax liability	9.3	-	-	-
Retirement benefit liability	-	-	2.4	-
Other payables	566.4	16.3	442.6	6.0
Total liabilities	**7,248.4**	**16.3**	**6,267.0**	**6.0**
Total equity and liabilities	**8,873.7**	**725.7**	**7,733.9**	**727.3**

No income statement is presented for the parent company as permitted by Section 408 of the Companies Act 2006. The profit after tax of the parent company for the period was $75.7m (2018: $81.7m).

Statements of cash flows for the year ended 31 December 2019

		2019		**2018**
	Group $m	**Company $m**	**Group $m**	**Company $m**
Cash flow from operating activities				
Profit before income tax	**267.7**	**74.7**	**76.4**	**81.2**
Adjustments for:				
Amortisation of intangibles	14.1	-	12.6	-
Equity settled share based compensation	4.7	4.7	18.7	18.7
Net fair value (gain)/loss on financial assets	(151.6)	-	53.7	-
Impairment of investment in associate	-	-	7.0	-
Depreciation of plant and equipment	2.4	-	2.1	-
Depreciation of right of use assets	10.1	-	-	-
Impairment of reinsurance assets recognised/(written back)	1.5	-	(1.0)	-
Increase in insurance and other payables[1]	722.8	0.1	216.7	5.6
(Increase)/decrease in insurance, reinsurance and other receivables	(265.0)	10.3	23.9	19.8
Increase in deferred acquisition costs	(43.3)	-	(26.0)	-
Financial income	(120.9)	(80.2)	(102.6)	(82.9)
Financial expense	27.7	1.9	22.4	0.9
Foreign exchange on financial liabilities	(3.2)	-	(4.1)	-
Income tax paid	(6.8)	-	(21.1)	-
Net cash generated from operating activities	**460.2**	**11.5**	**278.7**	**43.3**
Cash flow from investing activities				
Purchase of plant and equipment	(6.3)	-	(2.6)	-
Expenditure on software development	(12.3)	-	(7.2)	-
Purchase of investments	(4,824.5)	-	(2,686.2)	-
Proceeds from sale of investments	4,125.3	-	2,376.9	-
Interest and dividends received	112.0	80.2	102.6	82.9

Net cash (used in)/from investing activities	**(605.8)**	**80.2**	**(216.5)**	**82.9**
Cash flow from financing activities				
Acquisition of own shares in trust	(13.8)	(13.8)	(44.9)	(44.9)
Payment of lease liabilities	(10.8)	-	-	-
Repayment of borrowings	(92.6)	-	(18.0)	-
Issuance of debt	297.8	-	-	-
Finance costs	(25.8)	(1.9)	(22.0)	(0.9)
Issuance of shares	1.7	1.7	1.8	1.8
Dividends paid	(79.5)	(79.5)	(80.5)	(80.5)
Net cash from/(used in) financing activities	**77.0**	**(93.5)**	**(163.6)**	**(124.5)**
Net (decrease)/increase in cash and cash equivalents	(68.6)	(1.8)	(101.4)	1.7
Cash and cash equivalents at beginning of year	336.3	2.4	440.5	0.7
Effect of exchange rate changes on cash and cash equivalents	10.8	(0.6)	(2.8)	-
Cash and cash equivalents at end of year	**278.5**	**-**	**336.3**	**2.4**

[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 2019 comprise the parent company, its subsidiaries and the group's interest in associates. The principal activity of the company and its subsidiaries (the 'group') is to participate as a specialist insurer which transacts primarily in commercial lines of business through its subsidiaries and through Lloyd's syndicates.

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2019 or 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the registrar of companies, and those for 2019 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') and the Companies Act 2006. 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 2019. The new effective requirements are:

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

Apart from IFRS 16, these amendments did not result in a material impact on the financial statements of the group.

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 expects to 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 3: Amendment: Definition of a business (IASB effective date: 1 January 2020);[1]
- IAS 1 and IAS 8: Amendment: Definition of Material (IASB effective date: 1 January 2020);[1]
- IFRS 9, IFRS 7 and IAS 39: Amendment: Interest Rate Benchmark Reform (IASB effective date: 1 January 2020);
- IFRS 9: Amendment: Prepayment Features with Negative Compensation (EU effective date: 1 January 2019, deferred in line with implementation of IFRS 17);
- IFRS 17: Insurance Contracts (IASB effective date: 1 January 2022);[1]
- IFRS 10 and IAS 28: Amendment: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (IASB effective date: optional);[1] and
- Amendments to References to the Conceptual Framework in IFRS Standards (IASB effective date: 1 January 2020);[1]

1 Have not been endorsed by EU.

Of the upcoming accounting standard changes that we are aware of, we anticipate that IFRS 17 and IFRS 9 will have the most material impact on the financial statements' presentation and disclosures. 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 and prepared for. A brief overview of each of these standards is provided below:

- IFRS 17 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 the timing of profit recognition will be altered. During 2019, the group continued to undertake 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. As part of this process various decisions have also been made such as unit of account and the model to use for recognising insurance contracts. A more detailed update will be provided after the full assessment 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 because, as at 31 December 2015, $5,040.7m or 95% of its total liabilities were connected with insurance. There has been no material 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 an immaterial impact 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.

On 27 June 2019 the International Accounting Standards Board (IASB) published an exposure draft proposing limited amendments to IFRS 17, including an extension of the effective date of IFRS 17 and IFRS 9 to 1 January 2022.

	2019 $m	**2018 $m**
Financial assets managed and evaluated on a fair value basis		
Fixed and floating rate debt securities:		
- Government issued	1,870.9	1,384.2
- Quasi-government	-	25.9
- Corporate bonds		
- Investment grade	2,706.4	2,525.3
- High yield	235.8	32.7
- Senior secured loans	-	132.1
Equity funds	163.6	85.4
Hedge funds	354.0	337.2
Illiquid credit assets	216.6	186.6

Derivative financial assets	25.5	6.9
Total financial assets managed and evaluated on a fair value basis	**5,572.8**	**4,716.3**

Financial assets meeting the SPPI test		
Cash and cash equivalent	278.5	336.3
Insurance receivables	1,048.0	943.3
Other receivables	72.0	58.5
Total financial assets meeting the SPPI test	**1,398.5**	**1,338.1**

IFRS 16
The group has applied, for the first time, IFRS 16 Leases. As required by IAS 8, the nature and effect of these changes are disclosed below.

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

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

	$m
Assets	
Right of use assets	31.2
Total assets	**31.2**
Liabilities	
Other payables	(2.4)
Lease liabilities	33.2
Deferred tax liabilities	0.1
Total liabilities	**30.9**
Total adjustment on equity:	
Retained earnings	0.3

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

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

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

The group also applied the available practical expedients wherein it:

- Used a weighted average incremental borrowing rate as the discount rate to a portfolio of leases with similar characteristics;

- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the above, as at 1 January 2019:

- Right of use assets of $31.2m were recognised and presented separately in the statement of financial position;
- Lease liabilities of $33.2m were recognised and presented separately in the statement of financial position. This includes an adjustment of $6.3m for right of use assets, which were previously not included in property operating leases;
- Other payables of $2.4m related to previous operating leases were derecognised;
- Deferred tax liabilities increased by $0.1m due to the impact of changes in assets and liabilities; and
- The net effect of these adjustments was adjusted in retained earnings.

Leases not qualifying under IFRS 16 were included in short-term leases.

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

	$m
Property operating lease commitments reported as at 31 December 2018	**32.9**
Less:	
Commitments relating to assets not qualifying as leases under IFRS 16	(1.2)
Add:	
Adjustments on adoption of IFRS 16	6.3
Total lease commitments under IFRS 16 as at 31 December 2018	38.0
Weighted average incremental borrowing rate as at 1 January 2019	4.6%
Lease liabilities as at 1 January 2019	**33.2**

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. 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 2019 is $3,196.6m (2018: $2,869.5m). The total estimate for insurance losses incurred but not reported net of reinsurers' share as at 31 December 2019 is $2,351.5m (2018: $2,149.7m) and is included within total insurance liabilities and reinsurance assets in the statement of financial position and in note 24.

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).

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.

Another estimate used by Beazley is the assumptions underlying the recoverable amounts used in assessing the impairment of goodwill as per note 12.

b) Judgements
Information about significant areas of critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in this statement of accounting policies and also specifically in the following notes:
note 1a: accounting treatment for the group's interest in managed syndicates
note 1: Leases: determination of a lease term.

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:

Cyber & executive risk
This segment underwrites management liabilities such as employment practices risks and directors and officers, alongside cyber and technology, media and business services.

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 a wide portfolio of business, including architects and engineers, healthcare, lawyers and environmental liability, market facilities business and international financial institutions.

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

2019	**Cyber & executive risk $m**	**Marine $m**	**Political, accident & contingency $m**	**Property $m**	**Reinsurance $m**	**Specialty lines $m**	**Total $m**
Gross premiums written	823.0	306.4	272.7	428.7	206.0	967.1	3,003.9
Net premiums written	712.2	222.1	245.8	365.6	123.0	834.8	2,503.5
Net earned premiums	644.5	222.2	237.4	361.8	123.0	758.1	2,347.0
Net investment income	76.8	21.8	13.0	28.7	17.0	106.4	263.7

Other income	6.2	1.3	1.7	5.1	1.2	10.3	25.8
Revenue	**727.5**	**245.3**	**252.1**	**395.6**	**141.2**	**874.8**	**2,636.5**
Net insurance claims	395.7	126.8	110.5	207.3	144.6	467.6	1,452.5
Expenses for the acquisition of insurance contracts	143.2	82.4	76.4	110.3	30.6	202.5	645.4
Administrative expenses	62.2	27.8	24.1	34.9	14.3	81.0	244.3
Foreign exchange gain	(0.2)	(0.1)	(0.1)	(0.2)	(0.1)	(0.4)	(1.1)
Expenses	**600.9**	**236.9**	**210.9**	**352.3**	**189.4**	**750.7**	**2,341.1**
Segment result	**126.6**	**8.4**	**41.2**	**43.3**	**(48.2)**	**124.1**	**295.4**
Finance costs							(27.7)
Profit before income tax							**267.7**
Income tax expense							(33.6)
Profit for the year attributable to equity shareholders							**234.1**
Claims ratio	61%	57%	47%	57%	118%	62%	62%
Expense ratio	32%	50%	42%	40%	36%	37%	38%
Combined ratio	93%	107%	89%	97%	154%	99%	100%
Segment assets and liabilities							
Segment assets	2,481.2	633.3	479.0	976.5	767.5	3,536.2	8,873.7
Segment liabilities	(1,980.5)	(560.8)	(385.0)	(772.2)	(630.5)	(2,919.4)	(7,248.4)
Net assets	**500.7**	**72.5**	**94.0**	**204.3**	**137.0**	**616.8**	**1,625.3**
Additional information							
Capital expenditure	5.7	0.8	1.1	2.3	1.6	7.1	18.6
Amortisation and depreciation	(2.6)	(1.9)	(0.5)	(1.0)	(7.5)	(3.0)	(16.5)
Net cash flow	(17.8)	(2.6)	(3.3)	(7.3)	(4.9)	(21.9)	(57.8)

2018	**Cyber & executive risk[1] $m**	**Marine $m**	**Political, accident & contingency $m**	**Property $m**	**Reinsurance $m**	**Specialty lines $m**	**Total $m**
Gross premiums written	713.5	284.8	238.7	415.4	207.4	755.5	2,615.3
Net premiums written	615.3	255.0	212.7	360.2	137.3	668.0	2,248.5
Net earned premiums	545.8	249.5	194.3	344.1	139.5	611.4	2,084.6
Net investment income	12.7	3.3	2.3	3.1	1.8	17.9	41.1
Other income	5.6	2.9	3.8	6.4	1.7	13.3	33.7
Revenue	**564.1**	**255.7**	**200.4**	**353.6**	**143.0**	**642.6**	**2,159.4**
Net insurance claims	306.9	134.0	90.2	289.4	97.7	309.6	1,227.8
Expenses for the acquisition of insurance contracts	122.1	74.5	63.3	103.5	33.2	165.3	561.9

Administrative expenses	62.1	25.1	21.5	38.9	13.0	90.1	250.7
Foreign exchange loss	3.3	1.6	1.2	2.2	0.9	4.0	13.2
Expenses	**494.4**	**235.2**	**176.2**	**434.0**	**144.8**	**569.0**	**2,053.6**
Impairment of associates[2]	-	-	-	-	-	(7.0)	(7.0)
Segment result	**69.7**	**20.5**	**24.2**	**(80.4)**	**(1.8)**	**66.6**	**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	56%	54%	46%	84%	70%	50%	59%
Expense ratio	34%	40%	44%	41%	33%	42%	39%
Combined ratio	90%	94%	90%	125%	103%	92%	98%
Segment assets and liabilities							
Segment assets	2,177.4	689.7	445.4	882.1	666.4	2,872.9	7,733.9
Segment liabilities	(1,774.6)	(571.9)	(347.2)	(726.1)	(505.8)	(2,341.4)	(6,267.0)
Net assets	**402.8**	**117.8**	**98.2**	**156.0**	**160.6**	**531.5**	**1,466.9**
Additional information							
Impairment of associates[2]	-	-	-	-	-	(7.0)	(7.0)
Capital expenditure	2.7	0.8	0.7	1.0	1.1	3.5	9.8
Amortisation and depreciation	(1.8)	(2.1)	(0.4)	(0.6)	(0.6)	(9.2)	(14.7)
Net cash flow	(28.6)	(8.3)	(7.0)	(11.1)	(11.4)	(37.8)	(104.2)

1 From 1 January 2019, the speciality lines division has been split into two. The prior year comparative has been re-presented to allow comparison.

2 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.

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.

	2019 $m	**2018 $m**
Net earned premiums		
UK (Lloyd's)	1,974.3	1,821.8
US (Non-Lloyd's)[1]	346.3	260.2
Europe (Non-Lloyd's)	26.4	2.6
	2,347.0	**2,084.6**

	2019 $m	2018 $m
Segment assets		
UK (Lloyd's)	8,046.5	7,213.2
US (Non-Lloyd's)[1]	762.4	482.1
Europe (Non-Lloyd's)	64.8	38.6
	8,873.7	**7,733.9**

[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.

	2019 $m	2018 $m
Capital expenditure		
Non-US	13.7	9.5
US	4.9	0.3
	18.6	**9.8**

3 Net investment income

	2019 $m	2018 $m
Interest and dividends on financial investments at fair value through profit or loss	120.6	102.1
Interest on cash and cash equivalents	0.3	0.5
Net realised gains on financial investments at fair value through profit or loss	21.5	12.4
Net unrealised fair value gains/(losses) on financial investments at fair value through profit or loss	130.1	(66.1)
Investment income from financial investments	**272.5**	**48.9**
Investment management expenses	(8.8)	(7.8)
	263.7	**41.1**

4 Other income

	2019 $m	2018 $m
Commissions received by Beazley service companies	21.2	20.7
Profit commissions from syndicates 623	1.0	7.5
Agency fees from 623	2.5	2.5
Other income	1.1	3.0
	25.8	**33.7**

As at 31 December 2019 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 2018: nil). We have not experienced any deterioration to profits on these contracts recognised previously.

5 Operating expenses

	2019 $m	2018 $m
Operating expenses include:		
Amounts receivable by the auditor[1] and associates in respect of:		
- audit services for the group and subsidiaries	1.2	1.0
- audit-related assurance services	0.7	0.6
- taxation compliance services	-	0.1
- other non-audit services	0.5	0.8
	2.4	2.5

Impairment loss recognised/(written back) on reinsurance assets	1.5	(1.0)

[1] In 2018 the group's auditor was KPMG but for 2019 it is EY.

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

6 Employee benefit expenses

	2019 $m	2018 $m
Wages and salaries	165.2	156.0
Short term incentive payments	56.2	38.0
Social security	17.0	21.0
Share based remuneration	4.9	17.7
Pension costs[1]	11.5	11.7
	254.8	244.4
Recharged to syndicate 623	(36.0)	(35.6)
	218.8	**208.8**

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

The average number of employees for 2019 was 1,514.

7 Finance costs

	2019 $m	2018 $m
Interest expense on financial liabilities	25.8	22.4
Interest expense on lease liabilities	1.9	-
	27.7	**22.4**

During 2019, Beazley redeemed debt with a nominal value of £75m and a market value of £75m in the form of sterling denominated notes. 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 for further detail on subordinated debt.

8 Income tax expense

	2019 $m	2018 $m
Current tax expense		
Current year	38.8	32.3
Prior year adjustments	(4.0)	(5.3)
	34.8	27.0
Deferred tax expense		
Origination and reversal of temporary differences	2.3	(14.6)
Impact of change in UK/US tax rates	(0.5)	0.7
Prior year adjustments	(3.0)	(4.9)
	(1.2)	(18.8)
Income tax expense	**33.6**	**8.2**

Reconciliation of tax expense

The weighted average of statutory tax rates applied to the profits earned in each country in which the group operates is 15.0% (2018: 18.6%), whereas the tax charged for the year 31 December 2019 as a percentage of profit before tax is 12.6% (2018: 10.7%). The reasons for the difference are explained below:

	2019 $m	2019 %	2018 $m	2018 %

Profit before tax	**267.7**	**-**	**76.4**	**-**
Tax calculated at the weighted average statutory tax rates	40.3	15.0	14.2	18.6
Effects of:				
- non-deductible expenses	1.5	0.6	3.0	3.9
- non-taxable losses on foreign exchange	-	-	0.3	0.4
- tax relief on share based payments - current and future years	(0.7)	(0.3)	0.2	0.3
- over provided in prior years	(7.0)	(2.6)	(10.2)	(13.4)
- change in UK/US tax rates[1]	(0.5)	(0.1)	0.7	0.9
Tax charge for the period	**33.6**	**12.6**	**8.2**	**10.7**

[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 2019.

As noted previously, 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 2019. The relevant earnings are determined in relation to 75% of the profits and losses in Beazley's syndicates potentially starting with a proportion of the profits on the 2013, 2014 and 2015 years of account and 75% of all profits and losses in Beazley's syndicates on years of account from 2016 onwards.

A new Tax Act (the Tax Cuts and Jobs Act) was signed into law in the US in December 2017. The Tax Act includes base erosion anti-avoidance tax provisions (the "BEAT"). We have performed an assessment for our intra-group transactions potentially in scope of BEAT. The application of this new BEAT legislation is still uncertain for some types of transaction and we are keeping developments under review. With support from external advisors, we believe that the BEAT impact on the group is not significant. For the year 2019 $1.9m was provided in the group accounts for BEAT liabilities (for 2018 the group paid BEAT tax of $0.9m). The ultimate outcome may differ and if any additional amounts did fall within the scope of the BEAT, incremental tax at 10% might arise on some or all of those amounts.

Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profits or loss or other comprehensive income but directly debited or credited to equity:

	2019 $m	2018 $m
Current tax: share based payments	(2.6)	(6.1)
Deferred tax: share based payments	(1.0)	(4.1)
	(3.6)	**(10.2)**

In addition, the group recognised deferred tax amounts directly in retained earnings as a result of the changes in accounting policy in relation to leases.

9 Earnings per share

	2019	2018
Basic (cents)	44.6c	13.0c
Diluted (cents)	44.0c	12.8c
Basic (pence)	35.0p	9.7p
Diluted (pence)	34.5p	9.5p

Basic

Basic earnings per share are calculated by dividing profit after tax of $234.1m (2018: $68.2m) by the weighted average number of shares in issue during the year of 525.1m (2018: 523.2m). The shares held in the Employee Share Options Plan (ESOP) of 4.8m (2018: 4.7m) 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 $234.1m (2018: $68.2m) by the adjusted weighted average number of shares of 532.4m (2018: 533.1m). 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 4.8m (2018: 4.7m) 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 8.2p per ordinary share (2018: 7.8p) will be payable on 30 March 2020 to Beazley plc shareholders registered at 5.00pm on 1 March 2020 in respect of the six months ended 31 December 2019. No special dividend was declared in 2019 (2018: nil). The company expects the total amount to be paid in respect of the second interim dividend to be approximately £42.8m. These financial statements do not provide for the second interim dividend as a liability.

Together with the interim dividend of 4.1p (2018: 3.9p) this gives a total dividend for the year of 12.3p (2018: 11.7p).

11 Insurance liabilities and reinsurance assets

	2019 $m	**2018 $m**
Gross		
Claims reported and loss adjustment expenses	1,263.7	1,171.2
Claims incurred but not reported	3,196.6	2,869.5
Gross claims liabilities	4,460.3	4,040.7
Unearned premiums	1,598.7	1,415.5
Total insurance liabilities, gross	**6,059.0**	**5,456.2**
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	223.7	231.9
Claims incurred but not reported	845.1	719.8
Reinsurers' share of claims liabilities	1,068.8	951.7
Unearned premiums	269.4	241.1
Total reinsurers' share of insurance liabilities	**1,338.2**	**1,192.8**
Net		
Claims reported and loss adjustment expenses	1,040.0	939.3
Claims incurred but not reported	2,351.5	2,149.7
Net claims liabilities	3,391.5	3,089.0
Unearned premiums	1,329.3	1,174.4
Total insurance liabilities, net	**4,720.8**	**4,263.4**

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

	2019			**2018**		
	Gross $m	**Reinsurance $m**	**Net $m**	**Gross $m**	**Reinsurance $m**	**Net $m**
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 1 January	4,040.7	(951.7)	3,089.0	3,908.6	(993.2)	2,915.4
Claims paid	(1,439.5)	280.1	(1,159.4)	(1,301.1)	261.5	(1,039.6)

Increase in claims						
- Arising from current year claims	1,860.6	(398.6)	1,462.0	1,844.7	(501.9)	1,342.8
- Arising from prior year claims	(18.2)	8.7	(9.5)	(380.8)	265.8	(115.0)
Net exchange differences	16.7	(7.3)	9.4	(30.7)	16.1	(14.6)
Balance at 31 December	**4,460.3**	**(1,068.8)**	**3,391.5**	**4,040.7**	**(951.7)**	**3,089.0**

Claims reported and loss adjustment expenses	1,263.7	(223.7)	1,040.0	1,171.2	(231.9)	939.3
Claims incurred but not reported	3,196.6	(845.1)	2,351.5	2,869.5	(719.8)	2,149.7
Balance at 31 December	**4,460.3**	**(1,068.8)**	**3,391.5**	**4,040.7**	**(951.7)**	**3,089.0**

b) Unearned premiums reserve

	2019			**2018**		
	Gross $m	**Reinsurance $m**	**Net $m**	**Gross $m**	**Reinsurance $m**	**Net $m**
Balance at 1 January	1,415.5	(241.1)	1,174.4	1,259.2	(237.9)	1,021.3
Increase in the year	3,003.9	(508.0)	2,495.9	2,615.3	(375.6)	2,239.7
Release in the year	(2,820.7)	479.7	(2,341.0)	(2,459.0)	372.4	(2,086.6)
Balance at 31 December	**1,598.7**	**(269.4)**	**1,329.3**	**1,415.5**	**(241.1)**	**1,174.4**

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 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, 2018 and 2019, the typhoons in 2018 and 2019, 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 and executive risk 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 and executive risk 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 six segments - marine, political, accident & contingency, property, reinsurance, specialty lines and cyber & executive risk. 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 2019 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	**2009ae %**	**2010 %**	**2011 %**	**2012 %**	**2013 %**	**2014 %**	**2015 %**	**2016 %**	**2017 %**	**2018 %**	**2019 %**
Cyber & executive risk											
12 months		73.6	75.3	72.0	71.4	66.6	64.9	62.4	59.7	61.3	62.2
24 months		72.3	74.6	72.2	71.7	66.9	64.9	62.3	61.5	62.3	
36 months		72.1	79.6	69.4	71.4	63.7	59.6	58.9	56.9		
48 months		72.4	77.6	64.1	69.1	64.9	55.0	58.6			
60 months		65.5	78.6	62.0	66.8	69.5	56.8				
72 months		62.2	71.0	59.7	63.3	68.2					
84 months		61.0	74.4	59.0	63.4						
96 months		57.1	76.8	58.0							
108 months		54.7	78.9								
120 months		54.7									
Marine											
12 months		50.5	54.7	55.9	56.4	57.5	56.7	59.5	68.1	61.9	60.0
24 months		49.8	47.4	46.3	52.0	46.8	54.0	70.3	62.5	68.1	
36 months		44.1	39.0	34.8	44.3	47.1	47.4	65.4	61.7		
48 months		42.4	33.7	32.2	42.6	46.7	45.5	64.0			
60 months		40.4	35.4	31.5	42.0	55.6	43.3				
72 months		40.2	31.7	30.7	41.3	52.7					
84 months		42.3	30.9	30.0	40.1						
96 months		40.8	29.4	29.8							
108 months		41.2	29.4								
120 months		40.9									
Political, accident & contingency											
12 months		57.8	57.5	60.0	59.2	59.3	59.9	61.3	58.0	59.2	57.3
24 months		44.9	44.6	54.5	49.5	51.3	58.9	54.4	49.4	55.1	
36 months		39.1	44.4	51.4	45.0	47.1	57.2	49.4	46.1		
48 months		32.7	39.7	49.0	44.0	50.1	57.9	47.9			
60 months		31.7	37.9	46.0	46.1	51.4	53.9				
72 months		30.5	35.8	45.3	45.7	52.5					
84 months		29.5	35.3	44.3	45.5						
96 months		29.7	35.4	44.3							
108 months		27.7	35.4								
120 months		26.7									
Property											
12 months		57.9	58.3	55.5	55.2	53.2	54.9	59.0	72.5	63.4	53.1
24 months		60.5	50.5	47.5	49.2	47.7	49.0	68.4	88.6	63.2	
36 months		58.5	48.0	39.8	45.8	41.4	45.9	71.3	91.2		

48 months		55.8	46.2	36.7	45.8	40.7	44.9	71.8				
60 months		53.1	45.3	36.2	45.6	39.7	43.7					
72 months		52.1	44.1	35.6	47.3	40.2						
84 months		51.2	43.6	35.5	46.7							
96 months		51.0	43.3	36.8								
108 months		51.0	43.2									
120 months		51.0										
Reinsurance												
12 months		68.0	79.2	62.9	58.3	61.4	65.7	67.5	124.1	96.1	101.4	
24 months		142.6	77.7	37.4	44.6	33.4	33.6	41.6	117.1	124.8		
36 months		129.6	70.0	32.0	42.1	30.8	25.7	40.5	130.0			
48 months		122.2	66.3	31.1	40.8	27.7	25.5	41.3				
60 months		125.8	63.5	31.2	37.9	27.5	25.3					
72 months		124.5	63.3	30.9	37.6	27.0						
84 months		124.6	58.5	31.0	36.8							
96 months		123.6	58.5	30.6								
108 months		121.3	59.0									
120 months		121.5										
Specialty lines												
12 months		73.8	75.5	75.2	74.8	70.0	69.6	67.9	65.9	68.5	67.1	
24 months		74.2	76.1	75.2	74.3	69.7	70.1	67.8	65.9	68.9		
36 months		73.3	74.6	73.9	74.1	66.1	68.9	65.0	66.0			
48 months		73.8	74.3	74.2	69.5	62.1	68.1	63.3				
60 months		71.6	71.5	70.7	64.3	58.5	70.0					
72 months		73.5	68.5	69.6	62.2	56.1						
84 months		73.7	64.6	69.0	61.5							
96 months		71.0	62.6	71.5								
108 months		68.0	60.8									
120 months		66.7										
Total												
12 months		64.5	67.2	64.6	63.7	62.2	62.7	63.4	70.5	66.8	65.0	
24 months		71.6	62.8	58.2	59.2	55.8	58.4	62.9	71.5	69.6		
36 months		67.6	60.5	53.2	56.3	52.5	54.5	60.7	71.5			
48 months		65.6	57.9	51.0	54.3	51.5	52.5	60.0				
60 months		63.3	57.0	49.1	52.4	52.7	52.8					
72 months		62.9	53.9	48.1	51.5	51.8						
84 months		62.8	52.6	47.3	50.8							
96 months		61.1	52.3	48.2								
108 months		60.1	51.9									
120 months		59.1										
Estimated total ultimate	7,464.7	1,221.1	994.9	959.9	1,096.9	1,203.6	1,268.8	1,553.9	2,000.9	1,992.3	2,000.5	21,757.5

losses ($m)												
Less paid claims ($m)	(7,243.0)	(1,169.6)	(906.2)	(860.2)	(941.6)	(1,040.6)	(919.8)	(981.7)	(929.5)	(526.1)	(139.4)	(15,657.7
Less unearned portion of ultimate losses ($m)	-	-	-	-	-	-	-	-	-	(31.4)	(786.3)	(817.7
Gross claims liabilities (100% level) ($m)	**221.7**	**51.5**	**88.7**	**99.7**	**155.3**	**163.0**	**349.0**	**572.2**	**1,071.4**	**1,434.8**	**1,074.8**	**5,282.1**
Less non-group share ($m)	(41.8)	(10.0)	(16.0)	(18.3)	(26.2)	(26.4)	(58.2)	(84.2)	(161.7)	(217.8)	(161.2)	(821.8
Gross claims liabilities, group share ($m)	**179.9**	**41.5**	**72.7**	**81.4**	**129.1**	**136.6**	**290.8**	**488.0**	**909.7**	**1,217.0**	**913.6**	**4,460.3**

Net ultimate claims	**2009ae %**	**2010 %**	**2011 %**	**2012 %**	**2013 %**	**2014 %**	**2015 %**	**2016 %**	**2017 %**	**2018 %**	**2019 %**
Cyber & executive risk											
12 months		71.5	72.9	69.2	67.3	64.1	61.3	59.9	58.2	58.6	60.3
24 months		70.5	72.1	68.0	67.0	64.6	61.1	59.8	59.2	60.5	
36 months		72.2	72.9	65.1	65.8	62.4	57.0	56.5	55.6		
48 months		68.1	70.5	59.7	62.3	61.3	51.2	56.7			
60 months		62.9	71.4	58.6	60.0	65.7	52.5				
72 months		61.0	67.6	56.2	57.4	64.8					
84 months		59.9	70.0	55.6	57.2						
96 months		57.5	71.8	55.3							
108 months		55.1	74.7								
120 months		55.2									
Marine											
12 months		52.1	55.6	55.4	56.0	56.4	56.7	56.7	57.6	59.4	56.6
24 months		49.2	47.6	46.1	53.1	48.4	52.6	62.5	61.5	67.7	
36 months		44.7	38.6	37.4	47.3	46.6	47.2	61.6	61.9		
48 months		42.7	34.4	35.1	45.7	45.6	46.8	62.1			
60 months		41.1	35.5	34.0	45.2	46.8	45.5				
72 months		40.2	32.2	33.2	44.6	44.9					
84 months		42.5	31.3	32.9	42.5						
96 months		40.8	30.2	32.7							
108 months		41.3	30.1								
120 months		40.9									
Political, accident & contingency											
12 months		54.4	54.9	58.7	58.7	57.0	57.6	60.2	56.9	58.4	56.6
24 months		43.8	45.2	52.5	51.1	49.9	56.2	53.2	48.7	54.2	
36 months		39.7	45.7	49.9	47.5	45.0	55.3	49.7	45.2		
48 months		33.5	42.5	47.0	45.0	49.8	54.6	47.3			
60 months		32.5	40.5	43.8	45.4	50.3	51.7				
72 months		31.4	38.3	43.0	45.5	51.3					
84 months		29.9	37.8	42.5	45.6						
96 months		30.4	37.9	42.8							

108 months	28.5	38.0								
120 months	27.6									
Property										
12 months	58.8	60.2	58.6	56.7	54.5	55.0	57.7	76.4	64.5	56.5
24 months	65.2	57.6	53.0	56.3	51.2	50.3	69.6	93.8	66.8	
36 months	65.8	53.6	46.0	52.3	44.3	46.9	71.4	95.7		
48 months	59.9	50.4	41.3	50.2	42.9	44.8	70.8			
60 months	57.7	49.0	40.7	49.9	42.0	44.5				
72 months	56.7	47.9	40.2	51.6	43.0					
84 months	56.2	47.6	40.0	51.7						
96 months	55.9	47.4	41.5							
108 months	55.9	47.3								
120 months	55.9									
Reinsurance										
12 months	76.7	90.0	67.0	56.3	58.7	61.3	60.9	106.7	85.2	86.9
24 months	127.1	88.0	45.3	51.2	37.2	34.1	38.8	93.4	100.4	
36 months	117.6	80.8	39.0	47.8	33.4	24.2	38.2	105.4		
48 months	111.8	75.3	37.7	46.5	30.6	24.0	40.0			
60 months	121.2	73.0	37.7	43.0	30.4	24.3				
72 months	115.9	73.0	37.3	42.7	29.9					
84 months	116.0	67.7	37.4	41.8						
96 months	115.4	67.8	36.9							
108 months	112.2	68.5								
120 months	112.6									
Specialty lines										
12 months	70.9	72.4	72.0	70.9	67.4	65.7	65.5	63.8	66.1	64.7
24 months	71.2	72.6	72.0	70.3	67.0	66.2	65.5	63.7	67.1	
36 months	69.8	71.2	70.6	70.4	64.6	64.1	61.3	63.5		
48 months	70.1	69.1	69.0	64.5	59.7	59.3	56.6			
60 months	71.5	69.5	66.7	59.5	56.3	59.6				
72 months	72.4	69.4	67.0	58.1	55.1					
84 months	72.7	66.8	66.8	57.8						
96 months	70.3	65.4	67.6							
108 months	67.4	63.9								
120 months	66.8									
Total										
12 months	64.2	67.0	64.0	62.1	60.6	60.1	60.8	66.2	63.8	62.1
24 months	68.7	63.6	58.3	60.1	56.0	56.5	61.0	68.0	66.4	
36 months	66.3	60.2	53.7	57.3	52.5	52.8	58.8	68.0		
48 months	63.2	57.1	50.7	54.2	51.0	49.8	57.4			
60 months	63.1	56.8	49.3	52.1	51.0	49.6				

72 months		62.1	55.2	48.6	51.5	50.5						
84 months		62.1	54.0	48.3	50.9							
96 months		60.8	53.6	48.8								
108 months		59.2	53.6									
120 months		58.9										
Estimated total ultimate losses ($m)	5,217.4	1,004.2	858.0	830.9	920.8	980.5	1,019.8	1,224.1	1,619.1	1,639.8	1,587.1	16,901.7
Less paid claims ($m)	(5,060.2)	(956.2)	(787.8)	(745.6)	(811.2)	(850.9)	(768.0)	(804.8)	(801.7)	(476.2)	(151.8)	(12,214.4)
Less unearned portion of ultimate losses ($m)	-	-	-	-	-	-	-	-	-	(40.8)	(640.1)	(680.9)
Net claims liabilities (100% level) ($m)	**157.2**	**48.0**	**70.2**	**85.3**	**109.6**	**129.6**	**251.8**	**419.3**	**817.4**	**1,122.8**	**795.2**	**4,006.4**
Less non-group share ($m)	(26.4)	(8.4)	(12.7)	(14.3)	(20.6)	(22.1)	(41.5)	(62.7)	(120.6)	(167.4)	(118.2)	(614.9)
Net claims liabilities, group share ($m)	**130.8**	**39.6**	**57.5**	**71.0**	**89.0**	**107.5**	**210.3**	**356.6**	**696.8**	**955.4**	**677.0**	**3,391.5**

Analysis of movements in loss development tables
We have updated our loss development tables to show the ultimate loss ratios as at 31 December 2019 for each
underwriting year.

Cyber & executive risk
The employment practice liability book has seen deteriorations on the 2011 and 2015 underwriting years. The cyber book had positive claims experience on the 2017 underwriting year.

Marine
All underwriting years of the US trucking liability book are now reinsured, impacting the 2016 to 2018 underwriting years. The 2018 underwriting year has also been affected by poor experience in marine hull, UK marine and energy. Releases continue on older underwriting years as the risk expires.

Political, accident & contingency
Releases on the 2015 to 2018 underwriting years in terrorism, contingency and personal accident accounts were partially offset by deterioration on the 2014 underwriting year following a claim on the political book and poor experience on the life book.

Property
The reserves on the recent underwriting years have been strengthened, with increases to the 2018 catastrophe estimates and adverse claims development on the US coverholders book. Older underwriting years have seen strengthening following adverse experience on the construction and engineering book. The impact of catastrophes on the 2019 underwriting year was less than the two preceding years.

Reinsurance
The 2017 and 2018 underwriting years have experienced increases in the estimates for catastrophe, primarily in respect of Typhoon Jebi, as well as poor experience on risk and aggregate excess of loss business. The 2019 underwriting year has been impacted by Typhoon's Faxai and Hagibis as well as Storm Dorian.

Specialty lines
Older underwriting years continue to release as claims mature. Strengthening on the 2012 underwriting year is driven by a specific claim on the healthcare book and the deterioration seen on the 2018 underwriting year is driven by the US architects & engineers business. The difference between the opening position in 2019 compared to 2018 is driven by mix changes between the more traditional, cyber and market facilities businesses.

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 $9.5m (2018: $115.0m). The net of reinsurance estimates of ultimate claims costs on the 2016 and prior underwriting years have improved by $41.9m during 2019, while 2017 and 2018 underwriting year strengthened by $30.3m driven by the deterioration of

catastrophe losses in our reinsurance division and poor performance of US trucking and engineering within our marine and property divisions.

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.

2019	Cyber & executive risk $m	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	405.1	120.4	127.3	190.2	114.5	504.5	1,462.0
Prior year							
- 2016 underwriting year and earlier	4.3	(11.1)	(6.6)	9.3	(3.6)	(34.2)	(41.9)
- 2017 underwriting year	(13.2)	6.1	(7.8)	8.4	17.4	(3.4)	7.5
- 2018 underwriting year	(0.5)	11.4	(2.4)	(0.6)	16.3	0.7	24.9
	(9.4)	6.4	(16.8)	17.1	30.1	(36.9)	(9.5)
Net insurance claims	**395.7**	**126.8**	**110.5**	**207.3**	**144.6**	**467.6**	**1,452.5**

2018	Cyber & executive risk $m	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	329.5	146.5	105.0	242.1	121.5	398.2	1,342.8
Prior year							
- 2015 underwriting year and earlier	(14.3)	(11.6)	0.4	(2.9)	(5.2)	(74.1)	(107.7)
- 2016 underwriting year	(11.7)	(2.2)	(7.9)	7.4	(0.7)	(10.7)	(25.8)
- 2017 underwriting year	0.3	1.3	(7.3)	42.8	(17.9)	(0.7)	18.5
	(25.7)	(12.5)	(14.8)	47.3	(23.8)	(85.5)	(115.0)
Net insurance claims	**303.8**	**134.0**	**90.2**	**289.4**	**97.7**	**312.7**	**1,227.8**

12 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, investment return and underwriting profit, 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 2019, this ratio was 62% (2018: 59%). This represented total claims of $1,452.5m (2018: $1,227.8m) divided by net earned premiums of $2,347.0m (2018: $2,084.6m).

Combined ratio
Ratio, in percentage terms, of the sum of net insurance claims, expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. This is also the sum of the expense ratio and the claims ratio. The calculation is performed excluding the impact of foreign exchange. In 2019, this ratio was 100% (2018: 98%). This represents the sum of net insurance claims of $1,452.5m (2018: $1,227.8m), expenses for acquisition of insurance contracts of $645.4m (2018: $561.9m) and administrative expenses of $244.3m (2018: $250.7m) to net earned premiums of $2,347.0m (2018: $2,084.6m). This is also the sum of the expense ratio 38% (2018: 39%) and the claims ratio 62% (2018: 59%).

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

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

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 2019, the expense ratio was 38% (2018: 39%). This represents the sum of expenses for acquisition of insurance contracts of $645.4m (2018: $561.9m) and administrative expenses
of $244.3m (2018: $250.7m) to earned premiums of $2,347.0m (2018: $2,084.6m).

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

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

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

Horizontal limits
Reinsurance coverage limits for multiple events.

Incurred but not reported (IBNR)
These are anticipated or likely claims that may result from an insured event but which have not yet been reported.

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

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

Investment return
Ratio, in percentage terms, calculated by dividing the net investment income by the average financial assets at fair value, including cash. In 2019, this was calculated as net investment income of $263.7m (2018: $41.1m) divided by average financial assets at fair value, including cash, of $5,452.0m (2018: $4,791.4m).

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.

Managed premiums
Managed premium refers to all gross premiums written by Beazley's underwriters. In addition to gross premiums written on behalf of the group managed premium includes gross premiums written in syndicate 623 by Beazley's underwriters on behalf of third party capital providers.
Medium tail
A type of insurance where the claims may be made a few years after the period of insurance has expired.

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

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

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

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

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

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

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

Reinsurance to close (RITC)
A reinsurance which closes a year of account at Lloyd's 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 2019, this was calculated as profit after tax of $234.1m (2018: $68.2m) divided by average equity of $1,538.6m (2018: $1,444.8m).

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

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

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

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

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

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

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

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

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

Underwriting profit
This is calculated as net earned premiums, less net insurance claims, acquisition costs and administrative expenses.

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