Beazley plc is the ultimate holding company for the Beazley group, a global specialist risk insurance and reinsurance business operating through: its managed syndicates at Lloyd's in the UK; Beazley Insurance Company, Inc., a US admitted carrier in the US; and Beazley Insurance dac, a European insurance company, in Ireland

Contents

Summary

The EU-wide regulatory regime for insurance and reinsurance companies, known as Solvency II, came into force with effect from 1 January 2016, requiring new reporting and public disclosure of information. This document is the second version of the Solvency and Financial Condition Report (SFCR) that is required to be published annually by Beazley plc.

The report covers the business and performance of the company, its system of governance, risk profile, valuation for solvency purposes and capital management and has been approved by the board of directors.

Against the background of an active claims environment, Beazley performed strongly in 2017, achieving premium growth of 7% and a combined ratio of 99%.

By the end of the year Beazley had disbursed more than $110m in cash advances and claims settlements to help its insureds in the Caribbean and US in the wake of Hurricanes Harvey, Irma and Maria, the two earthquakes that rocked central Mexico in September 2017, and the California wildfires in October and December 2017, the worst in that state's history.

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

2017 also saw Beazley pursue a number of growth initiatives. A team within specialty lines focused on geographic growth in markets where Beazley has historically had a modest presence, including continental Europe, Canada, Latin America and parts of Asia. To facilitate this growth and that of other teams, we took two important steps.

In February 2017 Beazley acquired Creechurch Underwriters, a Canadian managing general agency specialising in small and mid sized specialty business. And in July 2017 we received authorisation from the Central Bank of Ireland (CBI) to convert Beazley Re dac from a reinsurance company into Beazley Insurance dac (BIdac), a non-life insurance company permitted to transact direct business throughout the European Union.

BIdac also continues to act as an intra-group reinsurer and provides capital to support the underwriting activities of its sister company, Beazley Underwriting Limited (BUL). BUL is a Lloyd's of London corporate member. It participates in the Lloyd's insurance market on a limited liability basis through syndicates 2623, 3622 and 3623. BIdac has an aggregate excess of loss reinsurance agreement with BUL. Under the terms of this agreement BIdac reinsures and indemnifies BUL in respect of all losses up to 75% of the declared result of BUL's participation in syndicates 2623 and 3623. In the event that the declared result is a loss, the extent of the reinsurance is limited to the loss not exceeding 75% of the Funds at Lloyd's less an excess of £2m.

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

Beazley's diverse portfolio and disciplined underwriting allows us to weather such high frequency catastrophe years as 2017. This emphasis on disciplined underwriting across a wide range of products and locations will remain the cornerstone of the underwriting strategy throughout the next 12 months and beyond.

The company continues to be committed to the highest standards of corporate governance and the group's robust system of governance has been designed to establish, implement and maintain effective controls, internal reporting and communication of information across all levels within the group. Beazley believes these to be fundamental to the long term success of the company.

The Beazley plc Solvency II balance sheet comprises the consolidated assets and liabilities of the insurance entities and ancillary service companies included in the group. The Solvency II technical provisions of BIdac are consolidated with those of Beazley Insurance Company, Inc. (BICI), the group's other insurance entity.

In 2016, the Solvency II technical provisions for BIdac were prepared on a basis consistent with the GAAP look through methodology however, in 2017 and going forwards the Solvency II technical provisions are now being calculated in line with a literal interpretation of the Solvency II regulation that considers the contract cash flows, particularly in relation to the aggregate excess of loss reinsurance agreement between BIdac and BUL. The cash flows represent the premium (provided the declared result of BUL is a profit) or claim (in the case of a loss) paid in respect of BUL's declared result and the fees for providing capital to support BUL's reinsured underwriting at Lloyd's. Refer to section D for further details.

Beazley holds a level of capital over and above its regulatory requirements. As at 31 December 2017, total own funds eligible to meet the group solvency capital requirement were $1,992.8m (2016: $2,174.3m), compared to the group solvency capital requirement of $892.6m (2016: $916.8m) giving a solvency ratio of 223% (2016: 237%). The amount of surplus capital held is considered on an ongoing basis in light of the current regulatory framework and opportunities for organic or acquisitive growth and a desire to maximise returns for investors.

A. Business and performance

All financial data in this section is presented on an IFRS basis, consistent with the financial statements of Beazley plc unless otherwise stated.

A.1 Business

Beazley plc, a company incorporated in England and Wales and resident for tax purposes in the United Kingdom, is the ultimate parent and the ultimate controlling party within the group.

The address of the registered office is:

Plantation Place South
60 Great Tower Street
London
EC3R 5AD
United Kingdom

The solo and group supervisor of Beazley plc is the Central Bank of Ireland (CBI), and can be contacted at:

Central Bank of Ireland
PO Box 559
New Wapping Street,
North Wall Quay, Dublin 1
Ireland

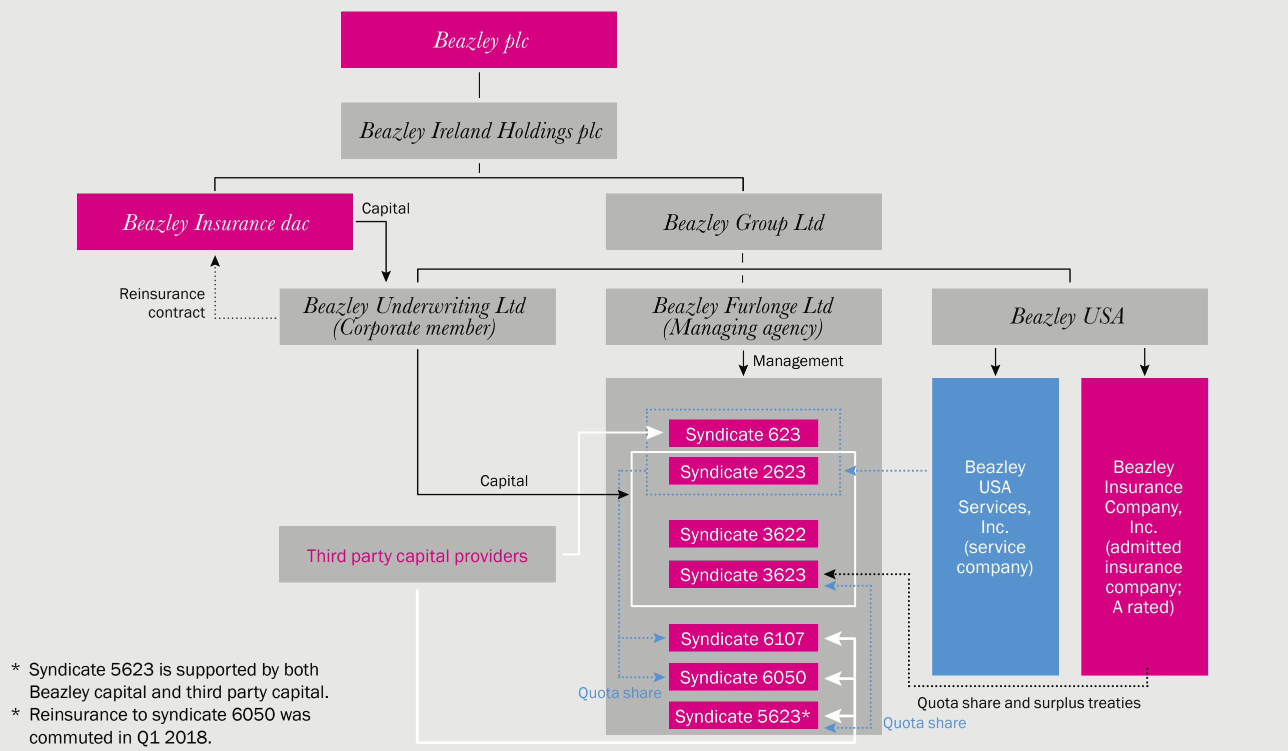
The independent auditors of the group are:

KPMG LLP
15 Canada Square
London
E14 5GL
United Kingdom

As at 31 May 2018, the board had been notified of, or was otherwise aware of, the following shareholdings of 3% or more of the company's issued ordinary share capital:

Name	Number of ordinary shares	% of overall holding
Invesco Perpetual	59,240,174	11.2
MFS Investment Management	56,323,966	10.7
BlackRock	21,214,576	4.0
Dimensional Fund Advisors	20,850,329	4.0
SKAGEN Fondene	18,803,177	3.6
Aberdeen Standard Investments	18,216,607	3.5
NBIM	16,552,315	3.1
Vanguard Group	15,858,888	3.0

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:



* Syndicate 5623 is supported by both Beazley capital and third party capital.
* Reinsurance to syndicate 6050 was commuted in Q1 2018.

A.1 Business *continued*

- Beazley plc – group holding company and investment vehicle, quoted on the London Stock Exchange;
- Beazley Ireland Holdings plc – intermediate holding company which holds £75m sterling denominated notes;
- Beazley Underwriting Limited (BUL) – corporate member at Lloyd's writing business through syndicates 2623, 3622 and 3623;
- Beazley Furlonge Limited (BFL) – managing agency for the seven syndicates managed by the group (623, 2623, 3622, 3623, 6107, 6050 and 5623);
- Beazley Insurance dac (BIdac) – insurance company that accepts non-life reinsurance premiums ceded by the corporate member, BUL and writes direct business in Europe;
- Syndicate 2623 – corporate body regulated by Lloyd's through which the group underwrites its general insurance business excluding accident & life. Business is written in parallel with syndicate 623;
- Syndicate 623 – corporate body regulated by Lloyd's which has its capital supplied by third-party names;
- Syndicate 6107 – special purpose syndicate writing reinsurance business, and from 2017 cyber, on behalf of third-party names;
- Syndicate 3622 – corporate body regulated by Lloyd's through which the group underwrites its life insurance and reinsurance business;
- Syndicate 3623 – corporate body regulated by Lloyd's through which the group underwrites its personal accident, BICI reinsurance business and from 2018 facilities business;
- Syndicate 6050 – special purpose syndicate which has its capital provided by third-party names and provided reinsurance to syndicates 623 and 2623 on the 2015, 2016 and 2017 years of account. All the reinsurance contracts were commuted effective 31 December 2017;
- Syndicate 5623 – special purpose syndicate writing facilities ceded from syndicate 3623;
- Beazley Insurance Company, Inc. (BICI) – insurance company regulated in the US. Licensed to write insurance business in all 50 states; and
- Beazley USA Services, Inc. (BUSA) – managing general agent based in Farmington, Connecticut. Underwrites business on behalf of Beazley syndicates and BICI.

The following is a list of all the subsidiaries in the group as at 31 December 2017:

	Country of incorporation	Ownership interest	Nature of business	Functional currency	Beazley plc direct investment in subsidiary ($m)
Beazley Ireland Holdings plc	Jersey	100%	Intermediate holding company	USD	724.6
Beazley Group Limited	England	100%	Intermediate holding company	USD	
Beazley Furlonge Holdings Limited	England	100%	Intermediate holding company	USD	
Beazley Furlonge Limited	England	100%	Lloyd's underwriting agents	GBP	
Beazley Investments Limited	England	100%	Investment company	USD	
Beazley Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Management Limited	England	100%	Intermediate management company	GBP	
Beazley Staff Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Solutions Limited	England	100%	Insurance services	GBP	
Beazley Underwriting Services Limited	England	100%	Insurance services	GBP	
Beazley DAS Limited[1]	England	100%	Dividend access scheme	GBP	
Beazley Corporate Member (No.2) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.3) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.4) Limited[2]	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.6) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Leviathan Limited	England	100%	Underwriting at Lloyd's	GBP	
Beazley Canada Limited	Canada	100%	Insurance services	CAD	
Beazley Insurance dac	Ireland	100%	Insurance and reinsurance company	USD	
Beazley Underwriting Pty Ltd	Australia	100%	Insurance services	AUD	
Beazley USA Services, Inc.	USA	100%	Insurance services	USD	
Beazley Holdings, Inc.	USA	100%	Holding company	USD	
Beazley Group (USA) General Partnership	USA	100%	General partnership	USD	
Beazley Insurance Company, Inc.	USA	100%	Underwriting admitted lines	USD	
Lodestone Securities LLC	USA	100%	Consultancy services	USD	
Beazley Limited	Hong Kong	100%	Insurance services	HKD	
Beazley Middle East Limited[3]	UAE	100%	Insurance services	USD	
Beazley Pte. Limited	Singapore	100%	Underwriting at Lloyd's	SGD	

1 Beazley DAS Limited is in the process of liquidation.

2 Beazley Corporate Member (No.4) Limited was sold in January 2018.

3 Beazley Middle East Limited was formally liquidated on 3 January 2018.

A. Business and performance *continued*

A.1 Business *continued*

In 2017, the group's business consisted of five operating divisions. The following table provides a breakdown of gross premiums written by division, and also provides a geographical split based on placement of risk.

2017	UK (Lloyd's)	US (non-Lloyd's)	Total
Marine	11%	–	11%
Political, accident & contingency[1]	9%	–	9%
Property	15%	–	15%
Reinsurance	9%	–	9%
Specialty lines	44%	12%	56%
Total	**88%**	**12%**	**100%**

2016	UK (Lloyd's)	US (non-Lloyd's)	Total
Marine	11%	–	11%
Political, accident & contingency[1]	10%	1%	11%
Property	15%	–	15%
Reinsurance	10%	–	10%
Specialty lines	42%	11%	53%
Total	88%	12%	100%

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

In a year in which many insurers and reinsurers are expected to post underwriting losses, Beazley recorded a combined ratio of 99% (2016: 89%) and a strong investment return of 2.9% (2016: 2.0%).

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

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

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

Most of the growth resulting from this strategy is likely to be organic, but small scale acquisitions where there is an excellent strategic fit can also contribute. Our acquisition of Creechurch Underwriters, a managing general agency in Canada that we have supported for many years, fell into this category. Beazley now has an underwriting platform for growth in Canada which would have taken far longer to establish organically. Another building block for future growth was put in place in July, when we received authorisation from the CBI to convert our long established Dublin-based reinsurance company (Beazley Re dac) into an insurance company (Beazley Insurance dac) permitted to transact business throughout the European Union. Planning for this predated the British referendum vote to withdraw from the European Union in June 2016. We can now offer prospective clients in continental Europe a choice of cover, backed by either the Dublin-based insurance company or by our Lloyd's syndicates.

Investments in technology have also underpinned Beazley's growth and these have increased significantly in recent years. 2017 saw the establishment of a data and analytics strategic initiative, the performance of which will be followed closely by the board. Money has continued to pour into so-called insurtech ventures in recent months, but the distinction that is sometimes drawn in the media between disruptive startups and stodgy incumbents oversimplifies and distorts the changes that are taking place. The most successful businesses are likely to be those that combine the expertise of established insurers with new tools and data sources that the insurtech ventures are developing. A priority for Beazley is to increase the volume of business that underwriters can handle without diminishing the focus they can bring to bear on the more complex risks. Advances in areas such as robotics can play an important role here.

Organisational Structure

The group has operations in Europe, the US, Canada and Asia. The operations in Australia were closed during 2017. Beazley plc's country of domicile is the UK.

During 2017, Beazley has opened a new office in Barcelona, as well as moving our Birmingham employees into a new premises.

A.2 Underwriting performance

Beazley is pleased to have achieved another strong underwriting result in 2017, delivering a combined ratio of 99% (2016: 89%) despite an active catastrophe environment in 2017. Gross premiums written grew by 7% to $2,343.8m (2016: $2,195.6m).

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

A. Business and performance *continued*

A.2 Underwriting performance *continued*

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

A.2 Underwriting performance *continued*

Divisional performance

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

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

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

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

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

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

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

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

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

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

A. Business and performance *continued*

A.2 Underwriting performance *continued*

The table below shows the 2017 segmental analysis in the group IFRS accounts, which follows the five divisions through which the group is managed, re-classified into the eleven Solvency II classes of business.

Data in the table below is presented using Solvency II lines of business.

2017	Income protection $m	Marine, aviation and transport $m	Fire and other damage to property $m	General liability $m	Credit and suretyship $m	Miscellaneous financial loss $m	Health $m	Casualty $m	Property $m	Other life insurance $m	Life reinsurance $m	Total $m
Net premiums written	41.5	233.1	324.8	1,094.0	48.3	37.0	29.9	24.7	123.2	17.9	4.4	**1,978.8**
Net earned premiums	48.8	227.9	320.3	999.8	37.4	36.4	28.5	24.7	125.4	16.4	3.8	**1,869.4**
Net claims incurred	(28.7)	(122.8)	(245.8)	(490.6)	(37.8)	(15.2)	(14.7)	2.6	(91.1)	(9.4)	(2.0)	**(1,055.5)**
Expenses incurred	(34.7)	(101.9)	(147.1)	(408.7)	(18.4)	(16.8)	(10.4)	(11.8)	(46.2)	(5.4)	(1.2)	**(802.6)**
Underwriting performance	**(14.6)**	**3.2**	**(72.6)**	**100.5**	**(18.8)**	**4.4**	**3.4**	**15.5**	**(11.9)**	**1.6**	**0.6**	**11.3**

2016	Income protection $m	Marine, aviation and transport $m	Fire and other damage to property $m	General liability $m	Credit and suretyship $m	Miscellaneous financial loss $m	Health $m	Casualty $m	Property $m	Other life insurance $m	Life reinsurance $m	Total $m
Net premiums written	69.4	223.1	486.9	809.1	39.7	30.9	26.0	14.8	131.5	20.7	1.9	**1,854.0**
Net earned premiums	67.1	223.2	320.5	886.6	42.0	31.9	26.6	16.8	129.6	21.6	2.3	**1,768.2**
Net claims incurred	(41.3)	(97.8)	(121.5)	(483.8)	(14.9)	(14.1)	(9.5)	0.8	(36.2)	(17.8)	0.1	**(836.0)**
Expenses incurred	(34.6)	(101.9)	(150.5)	(348.8)	(17.6)	(15.9)	(10.2)	(12.2)	(46.8)	(7.2)	(1.4)	**(747.1)**
Underwriting performance	**(8.8)**	**23.5**	**48.5**	**54.0**	**9.5**	**1.9**	**6.9**	**5.4**	**46.6**	**(3.4)**	**1.0**	**185.1**

Geographical breakdown

The below table provides an analysis of the geographical breakdown of gross written premiums.

Data in the table below is presented using Solvency II criteria for activity by geographic location.

	2017 $m	2017 %
United Kingdom	1,175.1	50%
United States of America	954.4	41%
Australia	22.4	1%
Other	191.8	8%
Total	**2,343.8**	**100%**

	2016 $m	2016 %
United Kingdom	1,129.9	51%
United States of America	831.4	38%
Australia	47.0	2%
Other	187.3	9%
Total	**2,195.6**	**100%**

A.3 Investment performance

Summary of return of investment assets

Investment assets	2017 $m	2016 $m
Income	143.6	97.0
Investment expenses and charges	(7.9)	(7.3)
Total return on investment assets	**135.7**	**89.7**

Income and expenses by asset class ($m)

		Capital growth				
2017	Fixed interest	Equity	Hedge funds	Illiquid credit	Total	Total
Income	71.0	34.5	20.1	18.0	72.6	143.6
Expenses	(5.3)	(0.3)	(1.6)	(0.7)	(2.6)	(7.9)
Total	65.7	34.2	18.5	17.3	70.0	**135.7**

		Capital growth				
2016	Fixed interest	Equity	Hedge funds	Illiquid credit	Total	Total
Income	64.3	2.3	19.7	10.7	32.7	97.0
Expenses	(4.9)	(0.2)	(1.6)	(0.6)	(2.4)	(7.3)
Total	59.4	2.1	18.1	10.1	30.3	**89.7**

Expense allocations by asset class are estimates.

Overall investment performance

	2017 Total return		2016 Total return	
	%	$m	%	$m
Investment assets	3.1	135.7	2.2	89.7
Cash	0.5	2.5	0.6	3.4
Total	**2.9**	**138.2**	**2.0**	**93.1**

Assets produced a total return of 2.9% in 2017 compared to a return of 2.0% in 2016. The higher return was driven by the strong performance of the capital growth assets, with equities and illiquid credit generating particularly strong returns. Fixed income assets performed well as credit spreads narrowed throughout the year. A pro-active approach to duration management limited the impact of rising yields.

There were no gains and losses recognised directly in equity (2016: nil). There is no direct exposure to investments in securitisations and indirect exposure via co-mingled funds is deemed to be de minimis. No significant change to securitisation exposure is planned during 2018.

A.4 Performance from other activities

Other income

Other income is analysed as follows in the financial statements.

	2017 $m	2016 $m
Commissions received from Beazley service companies	22.7	15.5
Profit commissions from syndicates 623/6107	8.0	14.9
Agency fees from 623	2.2	2.0
Other income[1]	2.6	0.3
	35.5	**32.7**

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

Lease arrangements

The group leases land and buildings under non-cancellable operating lease agreements. The future minimum lease payments under non-cancellable operating leases are as follows:

	2017 $m	2016 $m
No later than one year	10.3	9.4
Later than one year and no later than five years	26.9	27.0
Later than five years	8.5	6.8
	45.7	**43.2**

A.5 Any other information

There is no other material information to report.

B. System of governance

B.1 General information on the system of governance

Governance framework

The company operates through the main board, the managing agent board, the board of the insurance company (that accepts reinsurance premiums ceded by the corporate member, Beazley Underwriting Limited (BUL)) and their board committees. The group has established properly constituted audit and risk, remuneration and nomination committees of the board. There are terms of reference for each committee and details of their main responsibilities and activities in 2017 are set out below. The board has also appointed an executive committee that is chaired by Andrew Horton and acts under delegated authority from the board. The executive committee meets on a monthly basis and is responsible for managing all activities of the operational group. The governance framework of the main board and its committees is shown in the diagram below.

Company secretary Christine Oldridge

Key responsibilities
The company secretary's responsibilities include ensuring good information flows within the board and its committees and between senior management and non-executive directors, as well as advising the board through the Chairman on all governance matters.

Shareholders

Chairman Dennis Holt[3]

Key responsibilities
The chairman leads the board, managing constructive dialogue between executive and non-executive directors. He is responsible for ensuring that the board discharges its duties effectively.

The board

Key responsibilities
Leadership, strategic aims, risks, values and standards.

Chairman
Dennis Holt[3]

Members
George Blunden
Martin Bride
Adrian Cox
Angela Crawford-Ingle
Andrew Horton
Christine LaSala
Sir Andrew Likierman
Neil Maidment
David Roberts[1]
John Sauerland
Robert Stuchbery
Clive Washbourn[2]
Catherine Woods

Chief executive Andrew Horton

Key responsibilities
The chief executive is responsible for the implementation and delivery of the strategy agreed by the board and the day to day management of the business.

Audit and risk committee

Chairman
Angela Crawford-Ingle

Members
George Blunden
Christine LaSala
Robert Stuchbery
Catherine Woods

Key responsibilities
The audit and risk committee assists the board of directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process and the company's process for monitoring compliance with laws and regulations and the Beazley code of conduct. It also ensures that an effective risk management process exists in the major regulated subsidiaries and that the Beazley group has an effective framework and process for managing its risks.

Nomination committee

Chairman
Dennis Holt[3]

Members
George Blunden
Sir Andrew Likierman

Key responsibilities
The nomination committee is focused on evaluating the board of directors, ensuring an appropriate balance of skills, considering and recommending board and committee candidates and considering board succession.

Remuneration committee

Chairman
Sir Andrew Likierman

Members
George Blunden
John Sauerland

Key responsibilities
The remuneration committee ensures that remuneration arrangements support the strategic aims of the business and enable the recruitment, motivation and retention of senior executives while complying with the requirements of regulatory and governance bodies, satisfying the expectations of shareholders and remaining consistent with the expectations of the wider employee population.

Executive committee

Chairman
Andrew Horton

Members
Mark Bernacki
Martin Bride
Adrian Cox
Mike Donovan
Ian Fantozzi
Patrick Hartigan
Anthony Hobkinson
Dan Jones
Neil Maidment
Penny Malik
Andrew Pryde
Christian Tolle
Clive Washbourn

Key responsibilities
The executive committee manages all operational activities of the group and acts under the powers delegated by the board. It has responsibility for proposing strategic initiatives and group/syndicate business plans to the board as well as for reviewing the risk management framework and oversight of the group's sub-committees and business functions.

1 David Roberts was appointed to the Beazley plc board with effect from 1 November 2017.
2 Clive Washbourn resigned from the Beazley plc board with effect from 20 July 2017.
3 David Roberts was appointed as Chairman, taking over from Dennis Holt, with effect from the AGM which took place on 22 March 2018.

B.1 General information on the system of governance *continued*

The roles of the chairman and chief executive are separate with each having clearly defined responsibilities. They maintain a close working relationship to ensure the integrity of the board's decision making process and the successful delivery of the group's strategy. The board evaluates the membership of its individual board committees on an annual basis and the board committees are governed by terms of reference which detail the matters delegated to each committee and for which they have authority to make decisions.

The board

In 2017 the board consisted of a non-executive chairman, Dennis Holt, together with eight independent non-executive directors and four executive directors, of whom Andrew Horton is chief executive. The non-executive directors, who have been appointed for specified terms, are considered by the board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement.

The board has a schedule of matters reserved for its decision. This includes: inter alia, strategic matters; statutory matters intended to generate and preserve value over the longer term; approval of financial statements and dividends; appointments and terminations of directors, officers and auditors; and appointments of committees and setting of their terms of reference. It is responsible for: the review of group performance against budgets; approving material contracts; determining authority levels within which management is required to operate; reviewing the group's annual forecasts; and approval of the group's corporate business plans, including capital adequacy and the own risk and solvency assessment (ORSA).

The board is responsible for determining the nature and extent of the principal risks it is willing to take in pursuing its strategic objectives. To this end, the board is responsible for the capital strategy, including the group's Solvency II internal model.

A well defined operational and management structure is in place and the roles and responsibilities of senior executives and key members of staff are clearly defined.

A review of the systems of governance is carried out annually and the 2016 review concluded that no further actions were required. There have been no material changes in the system of governance over the reporting period.

Remuneration policy and practices

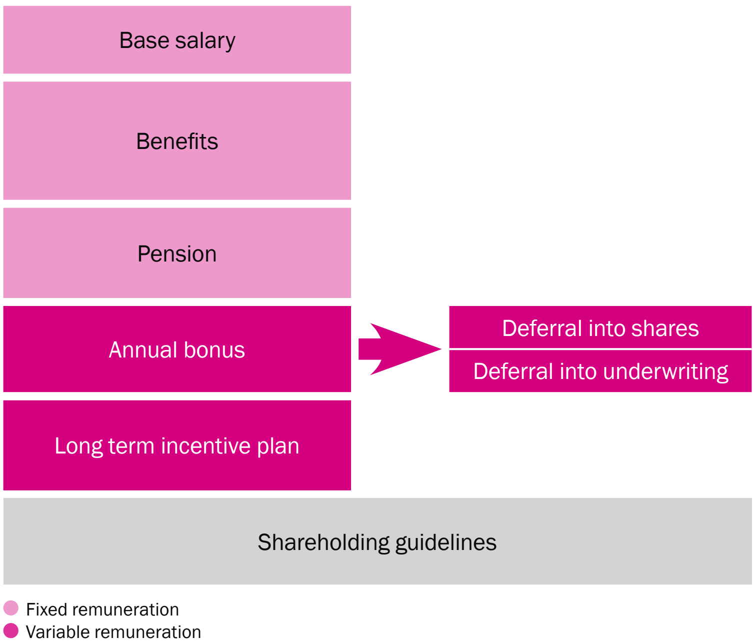
The board has adopted a remuneration policy which is overseen and reviewed by the Beazley plc remuneration committee. The main aim of the policy is to ensure that management and staff are remunerated fairly and in such a manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel.

Beazley believes that:

- performance-related remuneration is an essential motivation to management and staff and should be structured to ensure that executives' interests are aligned with those of shareholders;
- individual rewards should reflect the group objectives and be dependent on the profitability of the group but should be appropriately balanced against risk considerations;
- the structure of packages should support meritocracy, an important part of Beazley's culture;
- reward potentials should be market-competitive; and
- executives' pay should include an element of downside risk.

Beazley's policy is to maintain a suitable balance between fixed and variable remuneration which will vary depending on individual's role and seniority.

Elements of remuneration



- Benefits may include private medical insurance, travel insurance, and company car or monthly car allowance
- Defined contribution pension plan or cash equivalent
- Discretionary annual bonus from an incentive pool generated by reference to ROE and awarded based on individual performance
- Three and five year LTIP time horizons
- Performance against long term NAVps targets
- LTIP awards may be forfeited if shareholding guidelines are not met

B. System of governance *continued*

B.1 General information on the system of governance *continued*

The following table illustrates the relative importance of the fixed and variable elements of remuneration for executive directors of Beazley plc.

Element		'Minimum'	'On-plan'	'Maximum'
Fixed remuneration	Base salary	Annual base salary		
	Pension	15% of base salary		
	Benefits	Taxable value of annual benefits provided in 2017		
Annual variable remuneration (cash and deferred shares)		0% of salary	150% of salary	400% of salary
Long term remuneration (LTIP)		0% vesting	25% vesting	100% vesting
Legacy plan: Marine share incentive plan (MSIP)	This is a legacy award made in 2013. No further awards will be made under MSIP.	0% vesting	20% vesting	100% vesting
Clawback and malus provisions	For deferred share awards and LTIP awards (from 2012) malus provisions were introduced. For executive directors for LTIP awards from 2015 and annual bonus in respect of 2015 and onwards, clawback provisions also apply.			

Independent non-executive directors' fees comprise payment of an annual basic fee and additional fees to reflect specific responsibilities, where applicable. No independent non-executive director participates in the group's incentive arrangements or pension plan.

The following tables set out the additional incentive arrangements for staff other than executive directors of Beazley plc.

Element	Objective	Summary
Profit related pay plan	To align underwriters' reward with the profitability of their account.	Profit on the relevant underwriting account as measured at three years and later.
Support bonus plan	To align staff bonuses with individual performance and achievement of objectives.	Participation is limited to staff members not on the executive or in receipt of profit related pay bonus. The support bonus pool may be enhanced by a contribution from the enterprise bonus pool.
Retention shares	To retain key staff.	Used in certain circumstances. Full vesting dependent on continued employment over six years.

The remuneration committee regularly reviews developing remuneration governance in the context of Solvency II remuneration guidance, other corporate governance developments and institutional shareholders' guidance. The group chief risk officer reports annually to the remuneration committee on risk and remuneration as part of the regular agenda. The committee believes the group is adopting an approach which is consistent with, and takes account of, the risk profile of the group.

B.1 General information on the system of governance *continued*

The performance criteria on which variable components of remuneration are based are as follows:

Incentive plan	Performance measures	Why performances measures were chosen and target is set
Annual bonus plan	Profit and ROE, risk adjustment, individual performance.	• The committee believes the approach to the determination of bonuses creates alignment to shareholders' interests and ensures that bonuses are affordable, while the ROE targets increase the performance gearing and the risk adjustment is consistent with and promotes effective risk management. • The committee reviews the bonus pool framework each year to ensure that it remains appropriate and targets are set taking into account the prevailing environment, interest rates and expected investment returns, headcount and any other relevant factors. • A key principle of the process is that the committee exercises its judgement in determining individual awards taking into account the individual's contribution and performance.
Long term incentive plan	Growth in net asset value per share (NAVps) over three years and five years.	• Creates alignment to one of Beazley's key performance indicators. • The committee reviews the NAVps targets periodically to ensure they remain appropriate with reference to the internal business plan, the external environment and market practice. • In the event that NAVps were to become unsuitable as a performance measure in the opinion of the committee (for example due to a change in accounting standards) the committee would substitute a measure which followed broadly similar principles.
Legacy plan: Marine share incentive plan (MSIP)	Pre-tax divisional return on equity performance over 3 and 5 years. Performance measured over 3 and 5 years to ensure sustainability of performance over an extended multi-year period.	• To align the head of the marine division with the sustained outstanding performance of the marine division. • The second and final tranche vests in 2018 subject to pre-tax divisional ROE performance over the five years ended 31 December 2017.
Investment in underwriting	The plan mirrors investment in an underwriting syndicate.	• The Beazley staff underwriting plan provides for participants to contribute personal capital to Beazley syndicates. Selected staff are invited to participate through bonus deferral with an element of cash incentives 'at risk' as capital commitments.
Malus	To include provisions that would enable the company to recover sums paid or withhold payment of any sum in circumstances when it would be appropriate to do so.	• Malus provisions apply to the LTIP and deferred shares whereby the committee has the discretion to reduce or withhold an award in certain circumstances.

Pension benefits for executive directors and staff are provided by way of a defined contribution scheme.

Prior to 31 March 2006 the company provided pension entitlements to directors that are defined benefit in nature, based on its legacy policy under the Beazley Furlonge Limited Final Salary Pension Scheme. Future service accruals ceased on 31 March 2006. Under the Beazley Furlonge Limited Final Salary Pension Scheme, on early retirement the director receives a pension which is reduced to reflect early payment in accordance with the rules of the scheme. No other pension provisions are made.

Material transactions with shareholders, with persons who exercise a significant influence on Beazley, and with members of the board

Not applicable.

The remuneration of the board was as described above.

B. System of governance *continued*

B.2 Fit and proper requirements

Beazley's approach is to ensure that all key functions of the firm are identified with prescribed responsibilities allocated and that persons who effectively run the undertaking or have other key functions, and are important to the sound and prudential management of the undertaking, fulfil the following requirements:

- their professional qualifications, knowledge and experience are adequate to enable sound and prudent management (fit);
- they are of good repute and integrity (proper); and
- they meet the PRA and FCA Conduct Standards.

Beazley group's policy is that board members, PRA senior insurance management functions (SIMFs), FCA significant influence functions (SIFs) and FCA key function holders (KFHs), and Central Bank of Ireland (CBI) pre-approved controlled functions (PCFs) and controlled functions (CFs) for these entities must meet the fit and proper criteria and Conduct Standards as set out by the PRA and FCA and the fitness and probity standards as required by the CBI, and in that regard Beazley will ensure compliance with the provisions of Solvency II, to which the SIMR and the CBI regime are aligned. The high level requirements are:

- honesty, integrity and reputation;
- competence and capability; and
- financial soundness.

Beazley seeks to ensure that members of the supervisory bodies of Beazley Furlonge Ltd (BFL) and Beazley Insurance dac (BIdac), all SIMFs, SIFs, KFHs, PCFS and CFs (collectively – 'approved persons') possess sufficient professional qualifications, knowledge and experience in the relevant areas of the business to give adequate assurance that they are collectively able to provide a sound and prudent management of the entities. Beazley also applies this approach to the directors of Beazley plc in addition to the regulated entity boards. The assessment of whether a person is 'fit' shall take account of the respective duties allocated to that person and, where relevant, the insurance, financial, accounting, actuarial and management skills of the person. In the case of members of the relevant boards, the assessment shall take account of the respective duties allocated to individual members to ensure appropriate diversity of qualification, knowledge and relevant experience to ensure that the business is managed and overseen in a professional manner.

Additionally Beazley's policy is to assess the fitness of approved persons against the key competencies required by the CBI, namely:

- conduct to be competent and capable – a person shall have the qualifications, experience, competence and capacity to the relevant function;
- conduct to be honest, ethical and to act with integrity – a person must be able to demonstrate that his or her ability to perform the relevant function is not adversely affected to a material degree; and
- financial soundness – a person shall manage his or her affairs in a sound and prudent manner.

Beazley's policy is to apply this approach to both external and internal appointments. Beazley then tailors individual development plans, including mentoring as appropriate, for the appointee to ensure that they are able to fulfil their obligations in their approved person roles.

B.3 Risk management system including ORSA

Risk management strategy

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

Clear roles, responsibilities and accountabilities are in place for the management of risks and controls, and all employees and Beazley Management Limited (BML) staff working on behalf of the company are aware of the role they play in all aspects of the risk management process, from identifying sources of risk to their part in the control environment. The impact of each risk is recorded in the risk register on a 1:10 likelihood of that risk manifesting in the next 12 months. A risk owner has been assigned responsibility for each risk, and it is the responsibility of that individual to periodically assess the impact of the risk and to ensure appropriate risk mitigation procedures are in place. External factors facing the business and the internal controls in place are routinely reassessed and changes are made when necessary. On an annual basis, the board agrees the risk appetite for each risk event and this is documented in the risk management framework document. The residual financial impact is managed in a number of ways, including:

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

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

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

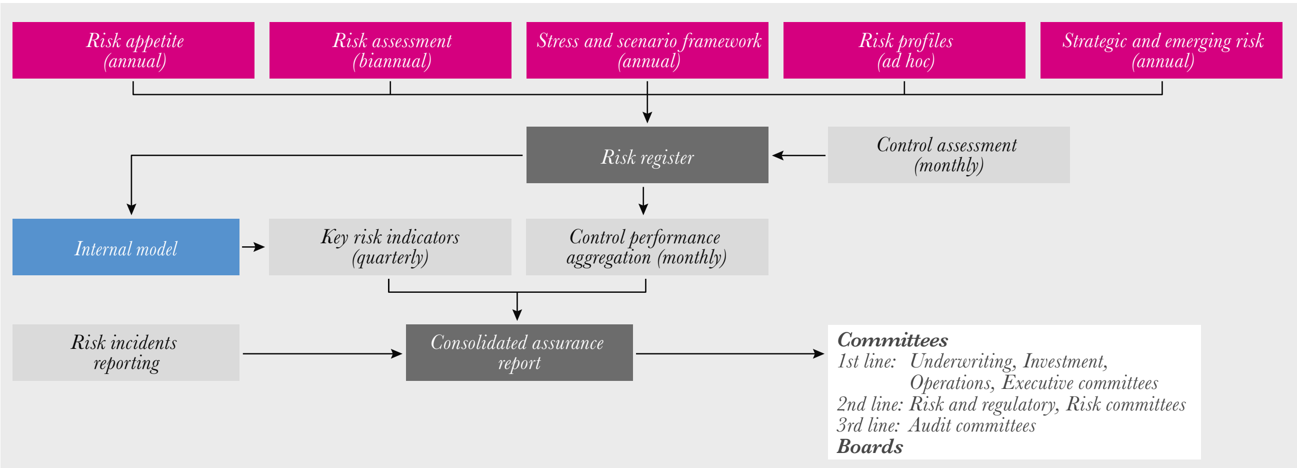
B.3 Risk management system including ORSA *continued*

Risk management framework

Beazley has adopted the 'three lines of defence' framework: namely business risk management, the risk management function and the internal audit function. Within business risk management, there are two defined risk and control roles: risk owner and control reporter. Each risk event is owned by the risk owner who is a senior member of staff. Risk owners, supported by the risk management team, formally perform a risk assessment twice a year, including an assessment of heightened and emerging risks.

Business risk management *Risk ownership*	*Risk management* *Risk oversight*	*Internal audit* *Risk assurance*
– *Identifies risk* – *Assesses risk* – *Mitigates risk* – *Monitors risk* – *Records status* – *Remediates when required*	– *Are risks being identified?* – *Are controls operating effectively?* – *Are controls being signed off?* – *Reports to committees and board*	– *Independently tests control design* – *Independently tests control operation* – *Reports to committees and board*

The risk management framework comprises a number of risk management components, which when added together describe how risk is managed on a day to day basis. The framework includes a risk register that captures the risk universe (55 risk events grouped into eight risk categories: insurance, market, credit, liquidity, operational, regulatory and legal, group and strategic), the risk appetite set by the Beazley plc board, and the control environment that is operated by the business to remain within the risk appetite. The following diagram illustrates the components of the risk management framework.



In summary, the board identifies risk, assesses risk and sets risk appetite. The business then implements a control environment which describes how the business should operate to stay within risk appetite. Risk management then reports to the board on how well the business is operating using a consolidated assurance report. For each risk, the consolidated assurance report brings together a view of how successfully the business is managing risk, qualitative commentary from the assurance functions and whether there have been any events that Beazley can learn from (risk incidents). Finally, the framework is continually improved, through the consideration of stress and scenario testing, themed reviews using risk profiles and an assessment of strategic and emerging risks.

A suite of risk management reports are provided to the boards and committees to assist senior management and board members to discharge their oversight and decision making responsibilities. The risk reports include the risk appetite statement, the consolidated assurance report, risk profiles, stress and scenario testing, reverse stress testing, an emerging and strategic report, a report to the remuneration committee and the ORSA report.

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

B. System of governance *continued*

B.3 Risk management system including ORSA *continued*

Own risk and solvency assessment

The Solvency II Directive indicates that the ORSA is 'the entirety of the processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks a company faces or may face and to determine the own funds necessary to ensure that the undertaking's overall solvency needs are met at all times'.

In other words, the ORSA is the consolidation of a collection of processes resulting in the production of a quarterly report to provide risk committees and boards with sufficient information to enable an assessment of the short term and long term risks faced by the entity and the capital required to support these risks.

The majority of these underlying processes have existed at Beazley for some time and so an important role of the ORSA is to ensure that the timing of these processes are coordinated in order to provide the appropriate management information in a timely manner.

Beazley's interpretation is that there are three parts to the ORSA deliverables:
- ORSA governance;
- ORSA processes: coordination of a number of underlying processes; and
- ORSA reports: summary of the findings from these processes.

ORSA Governance

The overarching governance structure for Solvency II is illustrated below. Within this context, each board has ultimate responsibility for the ORSA for their respective entity.

Solvency II governance structure

Beazley PLC Board

↑

Subsidiary Boards (BICI, BFL, BIdac)

↑

Board risk committees (BICI, BFL, BIdac)

↑

	Pillar I	Pillar II	Pillar III
Oversight Committee		Risk and Regulatory committee	Audit Committee
Working Group	Internal Model Group (IMG)	N/A	Regulatory review committee

The risk management function is responsible for the coordination of the ORSA process and the production of the ORSA report.

The ORSA process is run regularly on a quarterly basis (unless the risk profile significantly changes, see below). As the underlying processes are not all updated on a quarterly basis, Beazley will use the latest version of each. The timeframes and interactions between the underlying processes over a typical year are set out below.

An executive committee member is responsible for the delivery of the underlying processes to ensure senior management involvement and challenge exists at the most granular level of the ORSA.

The risk and regulatory committee will oversee an ad hoc ORSA outside this regular reporting period when there has been a material change to the risk profile or the environment within which Beazley is operating. The triggers for such an ad hoc ORSA are:
- major internal model changes as per the model change policy;
- new business plan is submitted to Lloyd's;
- prior to the completion of a board sponsored acquisition; and
- or any other changes deemed by the Beazley plc board to be significant.

B.3 Risk management system including ORSA *continued*

Committee and board oversight

An ORSA report is produced after the completion of each ORSA process for review and is reviewed by the risk and regulatory committee. In addition to providing challenge from an executive perspective, this review forms part of the quality assurance process to ensure the quality of risk information being presented to the board.

A Beazley Insurance Company, Inc (BICI) version of the ORSA is reviewed by the BICI audit and risk committee and the BICI board annually before it is submitted to the Connecticut department of insurance.

A BFL version of the ORSA is reviewed by the BFL risk committee on a quarterly basis. In addition to providing challenge from a non executive perspective, this review also forms part of the quality assurance process. The BFL ORSA is then presented to the BFL board for consideration and approval before it is submitted to Lloyd's and the PRA.

A BIdac version of the ORSA is reviewed by the BIdac risk and compliance committee on a quarterly basis. In addition to providing challenge from a non executive perspective, this review also forms part of the quality assurance process. The BIdac ORSA is then presented to the BIdac board for consideration and approval before it is submitted to the CBI.

A Beazley plc version of the ORSA is reviewed by the Beazley plc board on a quarterly basis. The Beazley plc ORSA is an aggregation of the subsidiary ORSAs and goes straight to board as it will have already received significant challenge and Quality Assurance (QA) review by the subsidiary committees and boards.

On an annual basis, a more detailed year end ORSA is produced for submission to the respective regulators. This regulatory ORSA combines the contents of the quarterly ORSAs reviewed by the board of the entity. In addition, it contains other supporting information requested by regulators such as policies and supplementary evidence. An assessment is made against the regulatory guidance prior to submission to regulators to ensure that the ORSA meets the relevant regulatory requirements.

The committees and boards will evidence the consideration of the ORSA by way of minutes to demonstrate the discussion, decision making and actions taken as a result of the ORSA.

The ORSA is subject to an independent review by internal audit as part of their risk based audit.

Relationship between the internal model and the ORSA

The internal model is an important input into the ORSA. The ORSA uses the same internal model and basis as that used to estimate the Solvency Capital Requirement (SCR) and so there is no difference in the recognition and valuation bases. Any limitations of the internal model relevant to the ORSA will be discussed in the regulatory ORSA.

B. System of governance *continued*

B.3 Risk management system including ORSA *continued*

ORSA process

The underlying processes that make up Beazley's ORSA process are summarised in the table below.

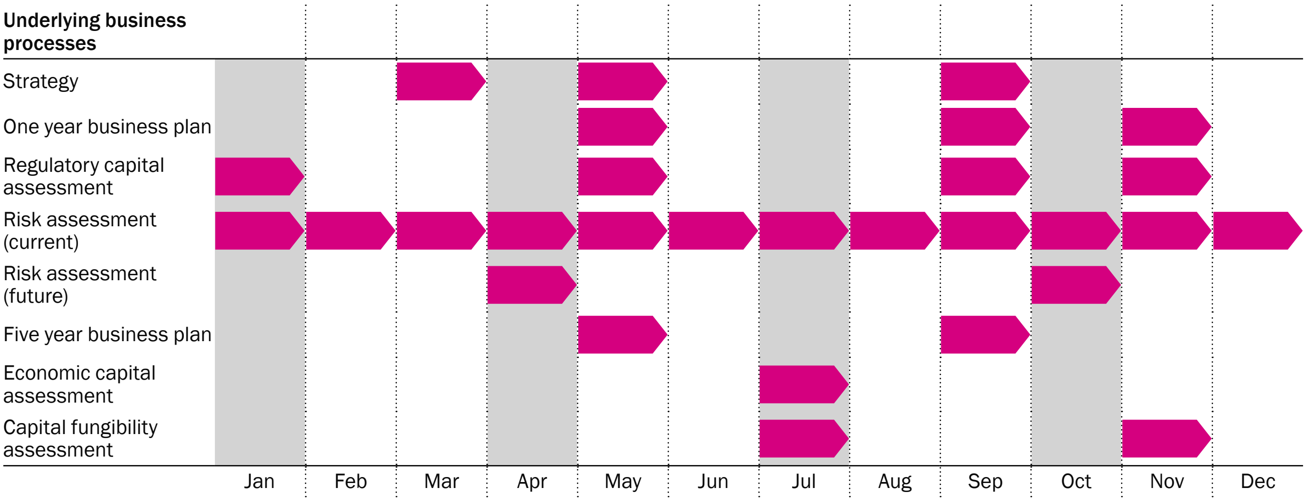
Process	Process owner/ oversight committee
Group strategy Bi annual strategy and performance group meetings Annual board strategy away day Monthly monitoring of the strategic initiatives by the executive committee	Chief executive Executive committee
Risk appetite Approve risk appetite statements Approve annual risk appetite levels for BICI Approve annual risk appetite levels for BFL Approve annual risk appetite levels for BIdac	Chief risk officer Boards
Risk assessment – current Risk profile Consolidated Assurance Report • control performance and comments from assurance function • comparison of residual risk score with risk appetite • cisk incident log entries Assessment of key risk indicators Exposure management Changes to risk profile	Chief risk officer Risk and regulatory committee
Risk assessment – future Bi annual risk assessment with risk owners Annual review of strategic and emerging risks Risk profiles	Chief risk officer Risk and regulatory committee
Stress and scenario testing Stress testing Scenario testing Reverse stress testing	Chief risk officer Risk and regulatory committee
One year business plan Challenge process overseen by underwriting committee Formal report produced by underwriting committee	Chief underwriting officer Underwriting committee
Regulatory capital assessment Parameterised from one year business plan Analysis of change and capital requirement agreed with regulators	Chief risk officer Risk and regulatory committee
Economic capital assessment Capital required to achieve and maintain rating agency ratings Capital fungibility Establish dividends in line with dividend strategy	Finance director Executive committee
Five year business plan Bi annual update of the five year plan Consideration of a number of scenarios based on macro economic trends Assessment of capital requirements under each scenario Identification of capital and dividend stress points	Chief underwriting officer Executive committee

The current timetabling of the underlying processes throughout a typical year is illustrated below. The shaded months indicate when the ORSA process occurs and the report is provided to the risk and regulatory committee for onwards reporting to committee and boards.

Each of the four regular ORSA processes has been aligned with the timing of the cascade of reporting to the risk committees, subsidiary boards and the Beazley plc board. An ORSA report will be produced after the completion of each ORSA process to address the required confirmation statements, set out the key themes arising from the underlying processes and summarise any action being proposed.

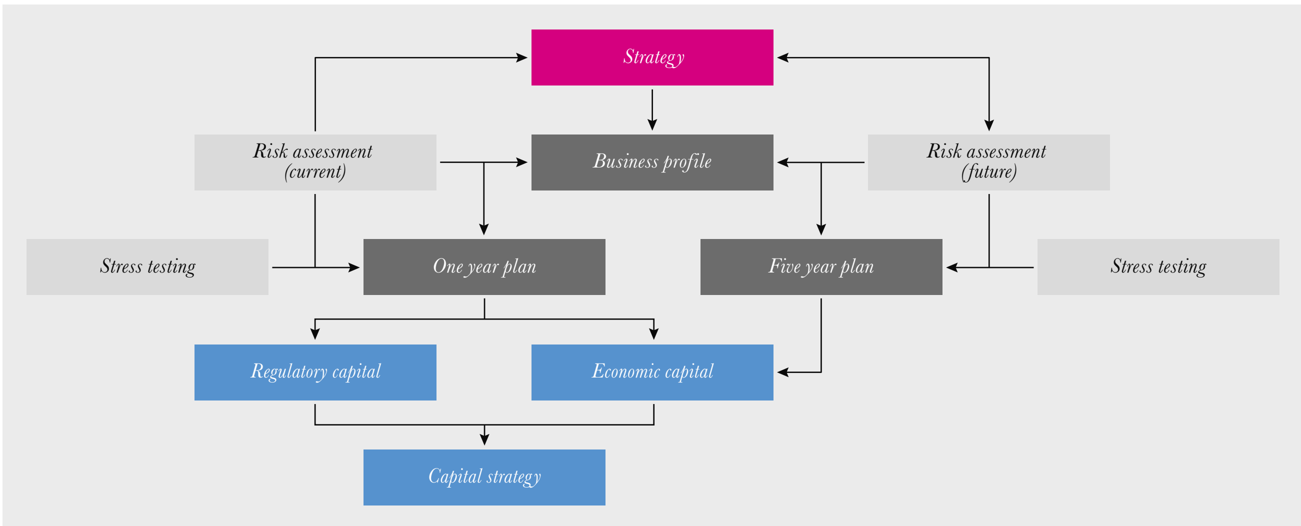
B.3 Risk management system including ORSA *continued*

Timetabling during a typical year



The linkages between the underlying processes are illustrated below. Each process will take the most up to date information from other processes.

Linkages between underlying processes



B. System of governance *continued*

B.4 Internal control system

Beazley's internal control system includes administrative and accounting procedures, an internal control framework, appropriate reporting arrangements at all levels of the business and a compliance function. It is designed to:

- secure compliance with applicable laws, regulations and administrative processes, the effectiveness and efficiency of operations in view of the business objectives and the availability and reliability of financial and non-financial information;
- ensure that adequate and orderly records of the business and internal organisation are maintained; and
- create a strong control environment with control activities that are adequately aligned to the risks of the business and the group's processes.

The effectiveness of the internal control system is monitored regularly to ensure that it remains relevant, effective and appropriate.

Beazley operates a three lines of defence framework and the actuarial function and the three assurance functions of compliance, risk management and internal audit are defined as 'required' functions under the Solvency II framework. Each function is structured so that it is free from influences which may compromise its ability to undertake its duties in an objective, fair and independent manner and in the case of the internal audit function in a fully independent manner.

The board receives assurance that the business is operating how it expects from the following required functions:

- the actuarial function provides assurance that the reserves held on the balance sheet are appropriate;
- the compliance function provides assurance that Beazley is operating within the relevant legal and regulatory framework;
- the risk management function provides assurance that the business is operating within risk appetite; and
- the internal audit function provides assurance that the whole internal control framework (including the activities of the other functions set out above) is designed and operating effectively.

Compliance function

The Beazley plc board has set a residual minimal risk appetite for regulatory breaches and sanctions. The boards of the group entities and the service companies are committed to ensuring that the group adopts a compliant culture that is cascaded throughout the organisation. Directors, senior management and staff are all expected to comply with these high standards of ethical business conduct.

Whilst ultimately the boards of the various regulated entities are responsible for ensuring compliance with the relevant regulations, Beazley's governance framework includes a number of board and executive committees with delegated authority to consider matters within their remit. The executive committee has been delegated a number of activities by Beazley plc such as the receipt of reports and updates relating to matters associated with BFL, the Lloyd's service companies and BICI. To assist with this responsibility, the executive committee has set up a risk and regulatory committee to maintain direct oversight of the compliance function and to matters pertaining to regulatory risk. It escalates matters to the executive committee, boards and board committees as appropriate.

The global head of compliance is a member of the risk and regulatory committee and attends by invitation the BFL board, BFL risk, Beazley plc audit & risk and underwriting committees. The function provides regular updates to these fora and also to the executive committee.

The Compliance Function's two overarching activities, advisory and monitoring, fit within the three lines of defence as follows:

- **Advisory** (first line of defence) – assessing the potential impact of changes in the legal and regulatory environment to the group. Advising the business on the proper application of upcoming and existing regulatory requirements in relation to both, business as usual, and project activities. Amending policies and procedures accordingly and providing corresponding training where necessary
- **Monitoring** (second line of defence) – monitoring provides assurance that the group's regulatory policies and procedures are being adhered to, which in turn ensures the business operates within established external regulatory requirements.

The function's other key activities are summarised below.

Regulatory relationships: the group seeks to maintain positive and transparent relationships with each of its regulators. The function coordinates the group's relationships with its regulators.

B.4 Internal control system *continued*

Authorisations, licences and permissions: the function is responsible for obtaining the necessary authorisations, licences and permissions for the group. This is to ensure that syndicates, legal entities, products and employees in the group have the appropriate authorities throughout each country for their business activities.

Group policies: the function supports certain group policies as follows:

- **Whistleblowing:** the function supports the chair of the plc audit and risk committee in their overall ownership of the group's whistleblowing process. Details of the process and compliance's responsibilities can be found in the whistleblowing policy;
- **Financial crime:** this policy is owned by the compliance function, which is responsible for setting and disseminating the policy and its control framework. Compliance also conducts second line of defence activities as enumerated in the policy;
- **Sanctions** this policy is owned by the group head of compliance and the function is primarily responsible for: 1) advising on appropriate preventative controls, 2) monitoring that the controls are being implemented by the proper business functions, and 3) to perform enhanced due diligence when required by the policy; and
- **Anti-Fraud:** this policy is owned by the group head of compliance and the function is primarily responsible for 1) maintaining and communicating this policy, 2) delivering mandatory anti-fraud training, and 3) monitoring the application of the policy when alerted to a potential fraud.

Reporting: the function provides regular reports to: various boards and board committees; the executive committee and other committees in the executive governance framework. The reports typically either facilitate oversight of the function's activities or provide updates on internal and external regulatory matters.

Regulatory returns: there are numerous regulatory returns that have to be submitted for various regulators across the group. The function plays a key role to support the business and ensure that such reports and returns are filed with regulators in a timely fashion.

Regulatory breaches: the function is responsible for reporting regulatory breaches both within the internal governance framework and externally as required.

Product development: the function provides regulatory and legal assistance during the launching of new products or expansion of current products. Assistance is usually through researching relevant laws and regulations and providing advice to ensure products are developed in line with the group's regulatory risk appetite.

Complaints: the responsibility for ensuring that complaints are handled appropriately and in accordance with Beazley's complaints handling policy ultimately rests with the relevant regulated board. The complaints team which is part of the operations function is responsible for the complaints policy. The compliance function assists with complaints activity for example by reviewing responses to complaints in the US and by monitoring the effectiveness of the complaints handling process

B.5 Internal audit function

Beazley has established an internal audit function, the purpose of which is to provide independent and objective assessments of the design and operating effectiveness of the system of internal controls covering the integrity of financial statements and reports, compliance with laws, regulations, and corporate policies and the effective management of risks faced by Beazley in executing its strategic and tactical operating plans.

The internal audit team

The internal audit function has a head count of nine full time staff including the head of internal audit. The majority of the team, including the head of internal audit, is based in Beazley's London office. Three members of staff are based in the group's Farmington office in Connecticut, USA. In addition to its headcount the internal audit function has a sizeable budget which it uses to supplement its team with subject-matter expertise.

Co-sourcing

The internal audit function is supported by a co-sourcing arrangement with PwC and Deloitte to supplement the audit team with expertise where required to complete the internal audit plan.

Internal audit universe and plan

The internal audit function has developed an audit 'universe'. This universe represents the potential range of business areas and topics – known as 'audit entities' – that internal audit reviews. The remit of the internal audit function extends to any business activity undertaken by the group. Using a risk based methodology, these audit entities are prioritised with a view to ensuring that the most material or highest risk audit entities are audited most frequently. The frequency with which audit entities are reviewed is also considered in light of regulatory or other external requirements. The group's internal audit strategy is to review all of the audit entities at least once on a rolling four year basis.

The audit universe – and the resulting annual audit plan – is reviewed and approved annually by the Beazley plc audit and risk committee. Any potential changes to the audit plan are first proposed and agreed with that committee. Typically audit plans consist of between 15-25 reviews a year and cover topics which include: underwriting, operational, IT and finance operations; governance; risk management and compliance; and projects and programmes.

B. System of governance *continued*

B.5 Internal audit function *continued*

Management actions and verification work

An established part of the internal audit process includes undertaking work to verify that management have adequately completed their audit actions. Internal audit performs verification work on a risk-based approach. To date, where verification work has been undertaken it has been rare for us to identify issues with the actions management have said they would implement. Verification work can include, for example: interviewing staff; reviewing documentation and re-performing the control. Any overdue audit actions are reported to the various committees as part of ongoing reporting.

Independence and objectivity

The internal audit function's independence and objectivity is maintained in a number of ways:
- the head of internal audit reports to a non-executive director (the chair of the plc audit and risk committee), and for operational matters to the chief executive officer;
- the plc audit and risk committee annually reviews and approves an internal audit charter that sets out the roles and responsibilities of the head of internal audit and the internal audit function. The internal audit function is not mandated to undertake any form of business activity and its remit is restricted to assurance and consultation work;
- the internal audit plan is approved by the plc audit and risk committee (a non-executive committee);
- the head of internal audit rotates staff between audit assignments to ensure objectivity and independence; and
- the head of internal audit must provide annual representations to the committee on the ongoing independence and objectivity of the internal audit function.

B.6 Actuarial function

The actuarial function is primarily responsible for reserving and pricing at Beazley. The principles specific to the discharge of the duties of the actuarial function under Solvency II are:
- to have appropriately skilled staff; and
- to have an objective, independent and supportable position based on high quality technical work.

The actuaries that comprise the actuarial function are fellows/ students of the Institute of Actuaries (or equivalent) and operate under the standards set out by the Institute of Actuaries and the Board for Actuarial Standards (or equivalent).

Actuarial advice provided on a formal basis, for example to a committee or for external publication, is subject to peer-review.

The actuarial function can express actuarial/professional opinions free from undue influence from the business.

The members of the actuarial function are required to be objective and take reasonable steps to ensure they are free from bias or from conflicts of interest that could suggest bias.

The group actuary does not perform any other function at Beazley that could give rise to a conflict of interest.

Board and committee interaction

The group actuary and the actuarial function have a number of interactions with the board and its various committees. Examples of this include (but are not limited to):
- the peer review committee, delegated from the underwriting committee, carries out detailed review of reserves. Here, the members of the actuarial function present details of their reserving output as well as that from the underwriting teams;
- the group actuary is a member of the underwriting committee, the BIdac reinsurance underwriting working group and presents to those committees on a number of areas including pricing, rate change and reserving (including a summary output from the peer review committee);
- the group actuary (or members of the actuarial function) presents summary output from the peer review committee to the BFL audit committee, BIdac audit committee and Beazley plc audit and risk committee;
- the group actuary (or members of the actuarial function) presents the BFL audit committee with results of the technical provision valuation;
- the group actuary (or members of the actuarial function) presents the BFL, BIdac and Beazley plc audit committees with the actuarial function report;
- the group actuary has Knowledge Requirements of An internal Model, (KRAM) meeting with both executive and non-executive directors. These are one to one meetings, used to discuss various outputs from the actuarial function. This is in addition to committee presentation, and enables greater detailing and questioning. These meetings occur with a number of relevant directors, and are scheduled once or twice a year;
- the group actuary has regular one on one catch ups with the chief executive officer, chief financial officer, chief underwriting officer and chair of the audit committee when required; and
- the group actuary is a member of the strategy and performance group which includes all members of the executive committee as well as certain other senior management.

B.6 Actuarial function *continued*

Interaction with other key functions

The actuarial function at Beazley interacts with key functions as summarised below:

Function	Relationship
Underwriting teams	The actuarial function provides support and challenge during the business planning process, support on pricing of risks and development of pricing tools and analyses in support of reinsurance purchase and optimisation.
Claims teams	The actuarial function interacts with claims managers throughout the quarterly claims reserving process and particularly during the pre peer reviews where individual assessments are reviewed.
Risk management	The actuarial function reviews the initial reserve risk ranges from the internal model and adjusts the range in specific cases where it is not deemed appropriate.
	The risk function provides the actuarial function with internal model output and assumptions for use in the calculation of the bad debt and risk margin components of the technical provisions.
	The actuarial function provides the chief risk officer with reserve surplus and reserve strength metrics for reference in the ORSA and is involved in a number of other areas of the ORSA.
Talent management	Support the training and development needs of the actuarial function such that a professional staff can be maintained with sufficient skills, experience and professional qualifications to meet the requirements of the actuarial function.
Data management	The actuarial function is a key consumer of data at Beazley and that data is managed by the data management team. The data management team and various business system owners ensure that the actuarial function has the internal data necessary to discharge its responsibilities. The key data inputs for the actuarial function are the gross and net triangles produced on a monthly basis. The head of actuarial function is the business system owner for ResQ, the reserving software.
Finance	The actuarial function and finance function work closely together, particularly during the valuation of insurance liabilities on an underwriting year, GAAP or Solvency II basis. The finance function provides the expense provision valuation for technical provisions.
IT	The actuarial function relies on IT for the maintenance of its hardware and software to agreed service levels, and for the delivery of agreed projects.
Underwriting and claims operations	Ensure the data in the source systems is of the required quality.

B. System of governance *continued*

B.7 Outsourcing
Although the activities may be transferred to an outsourced provider, the responsibility, including regulatory responsibility is not. Each relevant Beazley company remains fully responsible for meeting all of their obligations when they outsource functions or any insurance or reinsurance activities.

Outsourcing of critical or important functions or activities shall not be undertaken in such a way as to lead to any of the following:
- materially impairing the quality of the system of governance of the undertaking concerned;
- unduly increasing the operational risk;
- impairing the ability of the supervisory authorities, including Lloyd's to monitor the compliance of the undertaking with its obligations; and
- undermining continuous and satisfactory service to policy holders.

The boards of the relevant regulated entities outsourcing activities are responsible for ensuring that the outsourcing policy and the outsourcing arrangements themselves comply with the relevant regulatory regime(s) for ensuring that the due skill, care and diligence is exercised when entering into, managing or terminating any arrangement for the outsourcing to a service provider of critical, important or material functions or activities.

Beazley requires service providers to cooperate with the relevant supervisory authorities in connection with the outsourced function or activity. Beazley staff, auditors and the relevant supervisory authorities have effective access to data related to the outsourced functions or activities and, where appropriate, the supervisory authorities have effective access to the business premises of the service provider and must be able to exercise those rights of access.

Critical or important outsourced functions

Contract name	Description of service	Regulated entity	Legal domicile of service provider
Capita	Risk capture – syndicate underwriting	BFL	UK
Xchanging Insure Services (LPSO)	Policy and claims processing	BFL	USA
Xchanging Claims Services	Xchanging claims office	BFL	USA
JMD	Credit control and broker monitoring	BFL	UK
RMSIndia	Data cleansing	BFL	USA
Health Plan Services, Inc.,	Accident & health TPA	BICI	USA
Pro IS Global (US)	Underwriting claims support	BUSA	USA
Pro IS Global (UK)	Bordereux processing	BFL	UK
Endava	IT resources	BFL	UK

There are three intra group outsource arrangements:
- BML – a UK registered company which employs all UK staff and some staff in rest of world offices. A contract between BML and all Beazley group companies (except BICI and BIdac which are covered below), sets out the services provided and these include business premises and facilities, IT, other operational arrangements, actuarial, finance, internal audit, compliance, risk management. These may be supplemented by locally based staff as well;
- BIdac has a contract with BML for the provision of services. This is a separate arrangement from the one above and ensures that, given the relative size of the entities, the board of BIdac has sufficient control over the services provided by BML; and
- there is an agency agreement between Beazley USA Services Inc (BUSA) and BICI. All staff in the US are employed by BUSA, and therefore all of the activities of BICI are outsourced. BUSA also outsources some of its shared services to BML through the contract noted above.

B.8 Any other information
There is no other material information to report.

C. Risk profile

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

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

The risk management framework described in section B.3 includes the ongoing assessment of these risks and of the continued effectiveness of risk mitigation techniques. The stress and scenario framework is an important element of the risk management framework. The stress and scenario framework is applied to a range of business processes to assist senior management understand the vulnerabilities within the business model. This approach encourages management's involvement in risk oversight by using real life scenarios to provide qualitative and quantitative information on what risks might look like under stressed conditions and encourages a forward looking view of risk.

In addition, as a validation tool the stress and scenario framework tests:
- assumptions, particularly where data is sparse;
- assumed correlations between assumptions;
- the availability of resources and what action might be required under stressed situations;
- whether controls perform as expected under stressed situations; and
- the effect of changes in the operating environment (e.g. external events).

There are three elements to the framework:

Stress testing involves looking at the impact on the business model of changing a single factor.

Scenario testing involves the impact on the business model of simulating or changing a series of factors within the operating environment.

Reverse stress testing involves considering scenarios that are most likely to render the current business model unviable.

C.1 Underwriting risk

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

a) Underwriting risk

Underwriting risk comprises three categories; attritional claims, large claims and catastrophe events. In addition, all classes of business are impacted by a key driver of risk, market cycle risk, which is the risk that business is written without full knowledge as to the adequacy of rates, terms and conditions.

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

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

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

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

C. Risk profile *continued*

C.1 Underwriting risk *continued*

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

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

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

The catastrophe risk appetite is set by the board and the business plans of each team are determined within these parameters. The board may adjust these limits over time as conditions change. In 2017 the group operated to a catastrophe risk appetite for a probabilistic 1-in-250 years US event of $370.0m (2016: $412.0m) net of reinsurance.

Lloyd's has also defined its own specific set of RDS events for which all syndicates with relevant exposures must report. Of these the three largest, net of reinsurance, events which could have impacted Beazley in 2016 and 2017 are:

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

	2016	
Lloyd's prescribed natural catastrophe event (total incurred losses)	Modelled PML[1] (before reinsurance) $m	Modelled PML[1] (after reinsurance) $m
San Francisco quake (2016: $78.0bn)	647.1	219.0
Gulf of Mexico windstorm (2016: $112.0bn)	622.8	215.3
Los Angeles quake (2016: $78.0bn)	674.6	213.9

1 Probable market loss.

The net of reinsurance exposures for the San Francisco and Los Angeles quake scenarios have increased less than 5% during 2017. The Gulf of Mexico windstorm scenario net of reinsurance exposure has reduced by 24% due to less business being written in the Gulf of Mexico off-shore energy portfolio and additional reinsurance being purchased in the reinsurance division.

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

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

To manage the potential exposure, the board has established a risk budget for the aggregation of data breach related claims which is monitored by reference to the largest of the RDSs that have been developed internally. These scenarios have been peer reviewed by an external technical expert and include the failure of a data aggregator, the failure of a shared hardware or software platform and the failure of a cloud provider. Whilst it is not possible to be precise, as there is sparse data on actual aggregated events, these severe scenarios are expected to be very infrequent. The largest RDS is currently lower than the exposure to the Lloyd's prescribed natural catastrophe events listed above for the group as at 31 December 2017. However, the cost of these scenarios will increase as Beazley continues to grow its data breach product. The clash reinsurance programme that protects the specialty lines account would partially mitigate the cost of most, but not all, data breach catastrophes.

C.1 Underwriting risk *continued*

The RDSs monitor both data breach and property damage related cyber exposure. Given Beazley risk profile, the quantum from the data breach scenarios is larger than any of the cyber property damage related scenarios.

To manage underwriting exposures, the group has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry. In 2017, the maximum line that any one underwriter could commit the managed syndicates to was $100m. In most cases, the maximum lines for classes of business were much lower than this.

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

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

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

Operating divisions

In 2017, the group's business consisted of five operating divisions. The following table provides a breakdown of gross premiums written by division, and also provides a geographical split based on placement of risk.

2017	UK (Lloyd's)	US (non-Lloyd's)	Total
Marine	11%	–	11%
Political, accident & contingency[1]	9%	–	9%
Property	15%	–	15%
Reinsurance	9%	–	9%
Specialty lines	44%	12%	56%
Total	**88%**	**12%**	**100%**

2016	UK (Lloyd's)	US (non-Lloyd's)	Total
Marine	11%	–	11%
Political, accident & contingency[1]	10%	1%	11%
Property	15%	–	15%
Reinsurance	10%	–	10%
Specialty lines	42%	11%	53%
Total	**88%**	**12%**	**100%**

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

b) Reinsurance risk

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

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

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

c) Claims management risk

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

C. Risk profile *continued*

C.1 Underwriting risk *continued*

d) Reserving and ultimate reserves risk

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

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

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

C.2 Market risk

Market risk arises where the value of assets and liabilities or future cash flows changes as a result of movements in foreign exchange rates, interest rates and market prices. Efficient management of market risk is key to the investment of group assets. Appropriate levels of investment risk are determined by limiting the proportion of forecast group earnings which could be at risk from lower than expected investment returns, using a 1 in 10 confidence level as a practical measure of such risk. In 2017, this permitted variance from the forecast investment return was set at $126.0m. For 2018, the permitted variance is likely to be moderately higher following the adoption of a new economic scenario generator (ESG) that currently calibrates the risk of any given portfolio at a higher level than the previous ESG primarily because it uses longer periods of historic data. Investment strategy is developed to be consistent with this limit and investment risk is monitored on an ongoing basis, using outputs from our internal model.

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

a) Foreign exchange risk

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

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

In 2017, the group managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting to have net assets that are predominantly denominated in US dollars. As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure across the group. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk.

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

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

C.2 Market risk *continued*

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

31 December 2017	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	549.0	130.8	333.6	1,013.4	6,545.3	7,558.7
Total liabilities	(514.4)	(110.0)	(304.6)	(929.0)	(5,130.8)	(6,059.8)
Net assets	**34.6**	**20.8**	**29.0**	**84.4**	**1,414.5**	**1,498.9**

31 December 2016	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	539.2	156.2	283.2	978.6	6,029.9	7,008.5
Total liabilities	(512.7)	(166.2)	(304.4)	(983.3)	(4,541.5)	(5,524.8)
Net assets	**26.5**	**(10.0)**	**(21.2)**	**(4.7)**	**1,488.4**	**1,483.7**

Sensitivity analysis

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

	Impact on profit after tax for the year ended		Impact on net assets	
Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar	2017 $m	2016 $m	2017 $m	2016 $m
Dollar weakens 30% against other currencies	19.6	(1.2)	11.8	(9.5)
Dollar weakens 20% against other currencies	13.0	(0.8)	7.9	(6.3)
Dollar weakens 10% against other currencies	6.5	(0.4)	3.9	(3.2)
Dollar strengthens 10% against other currencies	(6.5)	0.4	(3.9)	3.2
Dollar strengthens 20% against other currencies	(13.0)	0.8	(7.9)	6.3
Dollar strengthens 30% against other currencies	(19.6)	1.2	(11.8)	9.5

b) Interest rate risk

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

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

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

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

Duration 31 December 2017	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	1,447.4	851.7	571.1	366.3	382.0	96.2	–	3,714.7
Cash and cash equivalents	440.5	–	–	–	–	–	–	440.5
Derivative financial instruments	8.8	–	–	–	–	–	–	8.8
Borrowings	–	(99.5)	–	–	–	(248.5)	(18.0)	(366.0)
Total	**1,896.7**	**752.2**	**571.1**	**366.3**	**382.0**	**(152.3)**	**(18.0)**	**3,798.0**

C. Risk profile *continued*

C.2 Market risk *continued*

31 December 2016	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	1,505.2	562.5	688.0	467.5	286.2	108.0	–	3,617.4
Cash and cash equivalents	507.2	–	–	–	–	–	–	507.2
Derivative financial instruments	12.2	–	–	–	–	–	–	12.2
Borrowings	–	–	(94.7)	–	–	(248.3)	(18.0)	(361.0)
Total	**2,024.6**	**562.5**	**593.3**	**467.5**	**286.2**	**(140.3)**	**(18.0)**	**3,775.8**

Borrowings consist of three items as at 31 December 2017. The first is $18.0m of a subordinated debt facility raised in 2004 which is unsecured. The subordinated notes are due in 2034 and have been callable at the group's option since 2009. The second is $250.0m of subordinated tier 2 debt raised in November 2016. This debt is due in 2026 and has annual interest of 5.875% payable in May and November of each year. The third is a £75m sterling denominated 5.375% notes due in 2019 with interest payable in March and September each year.

Sensitivity analysis

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

	Impact on profit after tax for the year		Impact on net assets	
	2017 $m	2016 $m	2017 $m	2016 $m
Shift in yield (basis points)				
150 basis point increase	(50.9)	(56.0)	(50.9)	(56.0)
100 basis point increase	(33.9)	(37.3)	(33.9)	(37.3)
50 basis point increase	(17.0)	(18.7)	(17.0)	(18.7)
50 basis point decrease	17.0	18.7	17.0	18.7
100 basis point decrease	33.9	37.3	33.9	37.3

c) Price risk

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

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

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

	Impact on profit after tax for the year		Impact on net assets	
Change in fair value of hedge funds, equity linked funds and illiquid credit assets	2017 $m	2016 $m	2017 $m	2016 $m
30% increase in fair value	168.6	145.3	168.6	145.3
20% increase in fair value	112.4	96.9	112.4	96.9
10% increase in fair value	56.2	48.4	56.2	48.4
10% decrease in fair value	(56.2)	(48.4)	(56.2)	(48.4)
20% decrease in fair value	(112.4)	(96.9)	(112.4)	(96.9)
30% decrease in fair value	(168.6)	(145.3)	(168.6)	(145.3)

C.2 Market risk *continued*

d) Investment risk

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

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

Beazley's investment strategy is developed by reference to an investment risk budget, set annually by the board as part of the overall risk budgeting framework of the business. The Solvency II internal model is used to monitor compliance with the budget, which limits the amount by which our report annual investment return may deviate from a predetermined target, at the 1 in 10 confidence level. In 2017, the permitted deviation was $126m. Additionally, a limit is specified for the net interest rate sensitivity of assets and liabilities combined and investments are managed to ensure that this limit is not exceeded.

Beazley's investment risk controls combine to ensure that Beazley 'only invest in assets and instruments the risks of which it can properly identify, measure, monitor, manage and control and appropriately take into account in the assessment of its overall solvency needs' as required by the Solvency II Prudent Person Principle. In particular:
- some investment activities are outsourced to expert managers and advisors, as appropriate, but the Beazley Investments team retains responsibility for, oversees, monitors and assesses all investments of the group;
- investment parameters specify detailed quantitative restrictions for all mandates;
- the governance structure ensures that all material changes to strategy are reviewed and approved at board level;
- unusual or complex investments have separate requirements for valuation, risk modelling and governance review;
- the Beazley internal model provides a comprehensive view of asset risk for the purpose of managing Beazley's investments;
- derivatives use is strictly limited and monitored;
- investment key risk indicators (KRIs) are independently monitored and reported;
- combined financial risks of assets and liabilities are a key element of Beazley's risk management; and
- liquidity risk is actively monitored and managed.

C.3 Credit risk

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

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

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

C. Risk profile *continued*

C.3 Credit risk *continued*

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

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

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

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

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

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

31 December 2017	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	2,840.0	874.7	–	–	–	3,714.7
– equity linked funds	–	–	–	–	168.3	168.3
– hedge funds	–	–	–	–	377.4	377.4
– illiquid credit assets	–	–	–	–	180.4	180.4
– derivative financial instruments	–	–	–	–	8.8	8.8
Insurance receivables	–	–	–	–	918.0	918.0
Reinsurance assets	1,231.1	–	–	–	–	1,231.1
Other receivables	68.6	–	–	–	–	68.6
Cash and cash equivalents	440.5	–	–	–	–	440.5
Total	**4,580.2**	**874.7**	**–**	**–**	**1,652.9**	**7,107.8**

31 December 2016	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	2,687.3	928.2	1.9	–	–	3,617.4
– equity linked funds	–	–	–	–	116.3	116.3
– hedge funds	–	–	–	–	317.1	317.1
– illiquid credit assets	–	–	–	–	132.4	132.4
– derivative financial instruments	–	–	–	–	12.2	12.2
Insurance receivables	–	–	–	–	794.7	794.7
Reinsurance assets	1,082.1	–	–	–	–	1,082.1
Other receivables	46.4	–	–	–	–	46.4
Cash and cash equivalents	507.2	–	–	–	–	507.2
Total	**4,323.0**	**928.2**	**1.9**	**–**	**1,372.7**	**6,625.8**

The largest counterparty exposure within tier 1 is $936.7m of US Treasuries (2016: $788.4m).

C.3 Credit risk *continued*

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

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

An analysis of the overall credit risk exposure indicates that the group has reinsurance assets that are impaired at the reporting date. The total impairment in respect of the reinsurance assets, including reinsurer's share of outstanding claims, at 31 December 2017 was as follows:

	Individual impairment $m	Collective impairment $m	Total $m
Balance at 1 January 2016	2.9	10.8	13.7
Impairment loss recognised/(written back)	(0.5)	(0.6)	(1.1)
Balance at 31 December 2015	2.4	10.2	12.6
Impairment loss recognised	0.5	0.1	0.6
Balance at 31 December 2017	**2.9**	**10.3**	**13.2**

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

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

31 December 2016	Up to 30 days past due $m	30-60 days past due $m	60-90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance receivables	31.9	7.9	2.3	11.2	53.3
Reinsurance assets	0.1	3.9	0.1	4.2	8.3

The total impairment provision in the statement of financial position in respect of reinsurance assets past due (being reinsurance recoverables due on paid claims) by more than 30 days at 31 December 2017 was $3.1m (2016: $3.2m). This $3.1m provision in respect of overdue reinsurance recoverables is included within the total provision of $13.2m.

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

C.4 Liquidity risk

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

The group's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event. This means that the group maintains sufficient liquid assets, or assets that can be converted into liquid assets at short notice and without any significant capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return. The group also makes use of loan facilities and borrowings.

C. Risk profile *continued*

C.4 Liquidity risk *continued*

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

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

31 December 2016	Within 1 year $m	1-3 years $m	3-5 years $m	Greater than 5 years $m	Total $m	Weighted average term to settlement (years)
Marine	97.6	79.6	22.6	16.9	216.7	1.9
Political, accident & contingency	65.6	40.5	8.2	6.0	120.3	1.7
Property	99.0	75.9	19.3	13.4	207.6	1.8
Reinsurance	61.2	53.5	17.1	15.4	147.2	2.2
Specialty lines	412.1	675.2	403.2	480.7	1,971.2	3.5
Net claims liabilities	**735.5**	**924.7**	**470.4**	**532.4**	**2,663.0**	

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

31 December 2017	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Net claims liabilities	911.2	1,016.2	447.0	541.0	2,915.4
Borrowings	–	99.5	–	266.5	366.0
Other payables	512.5	–	–	–	512.5

31 December 2016	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Net claims liabilities	735.5	924.7	470.4	532.4	2,663.0
Borrowings	–	94.7	–	266.3	361.0
Other payables	482.9	1.4	–	–	484.3

The group makes additional interest payments for borrowings.

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

Maturity 31 December 2017	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	926.5	967.1	653.0	511.9	454.3	201.9	–	3,714.7
Derivative financial instruments	8.8	–	–	–	–	–	–	8.8
Cash and cash equivalents	440.5	–	–	–	–	–	–	440.5
Insurance receivables	918.0	–	–	–	–	–	–	918.0
Other receivables	68.6	–	–	–	–	–	–	68.6
Other payables	(512.5)	–	–	–	–	–	–	(512.5)
Borrowings	–	(99.5)	–	–	–	(248.5)	(18.0)	(366.0)
Total	**1,849.9**	**867.6**	**653.0**	**511.9**	**454.3**	**(46.6)**	**(18.0)**	**4,272.1**

C.4 Liquidity risk *continued*

31 December 2016	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	925.0	695.6	816.8	522.4	485.2	172.4	–	3,617.4
Derivative financial instruments	12.2	–	–	–	–	–	–	12.2
Cash and cash equivalents	507.2	–	–	–	–	–	–	507.2
Insurance receivables	794.7	–	–	–	–	–	–	794.7
Other receivables	46.4	–	–	–	–	–	–	46.4
Other payables	(482.9)	(1.4)	–	–	–	–	–	(484.3)
Borrowings	–	–	(94.7)	–	–	(248.3)	(18.0)	(361.0)
Total	**1,802.6**	**694.2**	**722.1**	**522.4**	**485.2**	**(75.9)**	**(18.0)**	**4,132.6**

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

Expected profit in future premiums

The total expected profit in future premiums as at 31 December 2017 was $529.1m.

The expected profit included in future premiums is calculated using the relevant components of the technical provisions.

For incepted business the future premium relating to this is taken as the incepted technical provisions premium, excluding risk margin. From this the anticipated net claims and expenses, related to this future premium only, are subtracted. The anticipated net claims and expenses are estimated by applying the net best estimate loss ratio and the net expense ratio respectively. It is assumed that these ratios are an appropriate measure of claims and expenses relating to the future premium.

For unincepted business, the unincepted net claims and expenses within the technical provisions premium provisions are subtracted from the unincepted premium within premium provision. It is assumed that no premiums have been received for unincepted business.

For each class of business and syndicate the total expected profit from incepted and unincepted future business is calculated. A floor is applied to only include those class/syndicate combinations where there is a profit.

C.5 Operational risk

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

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

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

C. Risk profile *continued*

C.5 Operational risk *continued*

The following scenarios have been reviewed as part of the business continuity testing:

Scenario	Commentary
US, UK, RoW office weather event, supply/utility issue, or short term denial of access	Standing scenarios that are mitigated through health and safety and office closure procedures and technology to support remote working. Regularly tested through invoking plan.
Business continuity exercise	Major weather event on US north east that closed Farmington, Boston, New York, and Philadelphia offices. The scenario was facilitated by an external BCM specialist. In the exercise the BCMT had to: • assess impact and priorities • manage office closures and communications to affected and non-affected staff • coordinate with US and UK management • monitor provision of IT / remote working platform
Cyber attack exercise	Cyber attack against Beazley resulting in some personal data (e.g. claims) being stolen. The scenario was facilitated by Beazley's breach response specialists with support from one of Beazley's external experts. In the exercise the participants had to: • respond to the immediate incident, coordinate resource, and secure the network • assess extent, impact, requirements, and obligations around compromised data • help to coordinate and support Beazley's follow up with customers and regulators The exercise also included a cyber threat and breach response workshop to educate the participants of current cyber threats and trends and best practice response.

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

As a member of the operational risk consortium (ORIC), the group has access to a library of operational risk events that have occurred across the industry. We review how Beazley's control environment might respond to these operational risk events and use these scenario tests to update the control environment as appropriate.

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

C.6 Other material risks

Strategic risk

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

Senior management performance

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

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

Regulatory and legal risk

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

Group risk

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

a) Contagion

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

b) Reputation

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

Company risk

The company is exposed to the same interest rate and liquidity risk exposure experienced on its mutual borrowings with the group. The company also experiences operational, regulatory and legal risks as defined above.

There have been no material changes to the measures used to assess the risk exposure or the material risks over the reporting period.

C. Risk profile *continued*

C.7 Any other information

Internal model governance

Beazley operates a three lines of defence process throughout the business. As with any other process in Beazley this approach is applied to the internal model. An overview of the three lines of defence for the internal model is set out below.

- First Line of defence: capital modelling team with controls including;
  - formal governance through committees.
  - Governance through the 'knowledge requirements of an internal model' (KRAM) process.
  - In team testing process.
- Second line of defence: risk management with controls including;
  - control monitoring and reporting.
- Third line of defence: internal audit with controls including;
  - conducting annual reviews of the validation framework and process.

The in-team testing includes the following tests:

Type	Model area	Test
Stress testing	Overall	Reverse stress testing; analysis of the average level and variability of the contributions from the major risk types to the set of capital-exhausting scenarios followed by comparison to events or combinations of events that could threaten the viability of the business.
	Overall	Stress test alternative incurred pattern assumptions for validation of 1-year SCR calculation.
	Reserve risk	Specialty Lines reserve deterioration. This investigates whether a plausible reserve deterioration over several YOA simultaneously is within the model output, including the 1-year recognition of this risk.
	Catastrophe risk	Comparison of net RDS PMLs to modelled losses.
	Catastrophe risk	Checks that outwards reinsurance is modelled correctly for extreme scenarios.
	Asset risk	Past crises; tests for coverage of extreme market events in model.
	Credit risk	Future crises; considers reinsurer failure after large cat or SL reserve deterioration and compare recoveries to those modelled.
	Liquidity risk	Scenario test to investigate effect on composition of asset portfolio following large natural catastrophe and subsequent partial liquidation of fixed income portfolio.
Scenario testing	Overall	List of scenarios proposed with accompanying return periods as viewed by Beazley (review every year, pre-test). Comparison made with return periods implied by the internal model for such events.
	Catastrophe risk	Multi-catastrophe scenario. This test checks that the total losses resulting from a multi-catastrophe scenario lies within the overall (all divisions, all perils, all regions) 1-in-200.

Further to the three lines of defence, the fourth element to the internal model governance framework is the independent validation (out of team testing) of the internal model that is performed annually.

Features of Beazley's governance include:

- incorporation into the existing governance structure with clear accountability;
- overlap of members on the various committees;
- the KRAM process i.e. executive and non-executive director training programme for the internal model;
- transparency of internal model limitations;
- internal model control mechanisms; and
- use of external review.

Stress and scenario testing

Purpose

The stress and scenario framework is performed as part of business processes to assist senior management understand the vulnerabilities within the business model. This approach encourages management's involvement in risk oversight by using real life scenarios to provide qualitative and quantitative information on what risks might look like under stressed conditions and encourages a forward looking view of risk.

In addition, as a validation tool the stress and scenario framework:

- tests assumptions, particularly where data is sparse;
- test assumed correlations between assumptions;
- tests the availability of resources and what action might be required under stressed situations;
- tests whether controls perform as expected under stressed situations; and
- considers the effect of changes in the operating environment (e.g. external events).

C.7 Any other information *continued*

Scope

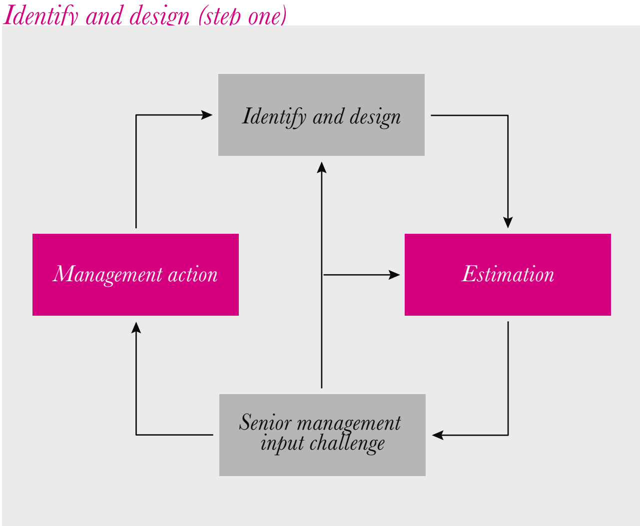
Beazley's stress and scenario framework covers the following three tests:

- stress testing involves looking at the impact on the business model of changing a single factor;
- scenario testing involves the impact on the business model of simulating or changing a series of factors within the operating environment; and
- reverse stress testing involves considering scenarios that are most likely to render the current business model to become unviable.

The framework is outlined in the figure below and consists of a four step process, namely

1. identify and design;
2. estimation;
3. senior management input and challenge; and
4. management action and feedback loop.

Identify and design (step one)



The risk management team identifies potential assumptions and scenarios for testing within each of the following business processes:

- one year business planning;
- five year business planning;
- risk assessment and risk appetite;
- emerging and strategic risk;
- capital assessment;
- RDSs;
- asset portfolio;
- liquidity risk;
- disaster recovery and business continuity planning; and
- corporate transactions such as acquisitions.

Estimation (step two)

Once scenarios are defined, the risk management team facilitate the estimation of the stress test or scenario. In summary, the following steps are performed:

- identify data and where necessary cleanse or adjust data onto a consistent basis;
- validate data;
- where there is insufficient data apply expert judgement and document this in line with the expert judgement policy;
- run the stress test or scenario test and quantify impact;
- review results for reasonableness and validate against available data; and
- iterate this process as required.

Senior management input and challenge (step three)

Following the completion of step two, the risk management team then meet with the relevant executive and non executive directors (for example risk owners or as set out in the KRAM) and present the analysis performed and associated results for further discussion. This is an important step in the stress and scenario testing process as it:

- helps inform the senior management team at a detailed level of the key sensitivities and vulnerabilities for Beazley; and
- makes uses of the directors' experience to sense test the analysis and results.

It is expected that further iteration is required following discussion which in turn is summarised.

Management action and feedback loop (step four)

The results of the stress test and scenario planning exercises are reported to the relevant first line of defence committees (the underwriting, investment, operations and executive committees) as part of the business process and the second line of defence committee (the risk and regulatory committee) within the ORSA. The ORSA is then reported to the relevant subsidiary board and the Beazley plc board, usually through their risk committees. It is expected that the discussion at these forums will facilitate further management input and challenge and will give rise to management actions which are captured by the minutes and actioned by the relevant individual. Where relevant, this may include informing other business processes of the results of certain tests.

D. Valuation for solvency purposes

Basis of presentation

Beazley plc uses method 1 (as referred to in Article 230 of Directive 2009/138/EC) to calculate group solvency meaning that the solvency returns are based on consolidated data for the group.

Basis of presentation of Beazley plc's 2017 Group Solvency II Balance Sheet

There are three entities in the group structure that retain the profits of the group's underwriting – Beazley Insurance dac (BIdac), Beazley Insurance Company, Inc (BICI) and Beazley Underwriting Limited (BUL) (refer to page 2 of section A.1).

BIdac meets the definition of an EU domiciled insurance undertaking under the Solvency II regulation which requires full consolidation of its Solvency II balance sheet (see below for the basis of preparation) in the group Solvency II balance sheet. BICI is a non-EEA insurance undertaking and so its Solvency II balance sheet is also consolidated in full in the group Solvency II balance sheet.

The third entity is the group's Lloyd's corporate member BUL which retains any profits from the group capitalised syndicates (syndicates 2623, 3623 and 3622) not reinsured to BIdac. BUL does not meet the definition of an insurance undertaking under Solvency II regulations. The net assets of BUL on a Solvency II basis have therefore been accounted for using the adjusted equity method in the group Solvency II balance sheet and included in the participations line.

Basis of presentation of BIdac's 2017 Solvency II Balance Sheet

BIdac reinsures BUL, providing aggregate excess of loss cover for the syndicates within scope of the contract. The premium payable under the contract is defined relative to the profit/loss of those syndicates, with BIdac taking a 75% economic interest in the syndicate results subject to relevant profit commissions, a £2m deductible for any loss and a loss limit defined in relation to the syndicate funds at Lloyd's (FAL).

In its Irish GAAP financial statements, BIdac has accounted for the results of the reinsurance contract on a look through basis recognising 75% of each component of the syndicate results. As such the BIdac accounts have reflected 75% of the syndicate net premiums and 75% of the syndicate net claims as well as 75% of the expenses and investment income that together gave rise to the profit or loss on the aggregate excess of loss reinsurance contract.

In 2016, the Solvency II technical provisions on the BIdac Solvency II balance sheet were presented on a basis consistent with the GAAP look through methodology, recognising 75% of the syndicate net technical provisions which are based on the syndicate cash flows. This application of the look through basis of preparation for Solvency II technical provisions represented an area where judgement had been applied. It had been determined that the adoption of this approach more wholly captured the insurance activities of the company. This basis of presentation was consistent with the GAAP look through methodology and provided information that was suitably comparable.

In 2017 and going forwards the Solvency II technical provisions of BIdac, resulting from the aggregate excess of loss reinsurance contract, will be calculated in accordance with a literal interpretation of the relevant Solvency II regulations. The regulations require the valuation of the contracted cash flows, which in relation to the aggregate member level excess of loss reinsurance agreement with syndicates 2623 and 3623 is usually a premium representing the net profit of the underlying business (a single claim cash flow occurs if the outcome of the underlying business is a loss). The impact of this interpretation is a significant decrease in the company's (and therefore the group's) technical provisions, resulting from the reinsurance contract, as these now include the projected result of the syndicates within scope rather than the best estimate of the underlying claims cash flows of the syndicates (see D.2 Technical provisions section for further details). This reduction in the technical provisions is broadly matched by a decrease in assets in the form of insurance receivables as the underlying premium cash flows received by the syndicates to meet the underlying claims are not recognised either. The solvency position of BIdac is largely unaffected as this is essentially a different representation of the same economic activity.

Differences between group IFRS and Solvency II Balance Sheets

The table below presents the value of the assets and liabilities on both the IFRS and Solvency II consolidated balance sheets of the Beazley group. The adjustments between the IFRS and Solvency II value are split between reclassification adjustments (presenting the adjustments made to reflect the difference between the IFRS and Solvency II consolidation basis) and Solvency II valuation adjustments (presenting adjustments made to reflect the difference between IFRS and Solvency II valuation methodology). There are three principal reasons why the total quantum of assets, the value of investments and the quantum of liabilities are so much lower on the group Solvency II balance sheet compared to the IFRS balance sheet:

- the gross and reinsurance IFRS technical provisions under the reinsurance agreement between BUL and BIdac are replaced with a valuation of the contracted cashflows under the reinsurance agreement;
- the syndicates' financial assets relating to the 75% of the business which has been economically transferred to BIdac are replaced by an intragroup receivable as part of the reclassification adjustments on the any other assets line. As this receivable relates to the amounts due from BUL to BIdac under the reinsurance arrangement, it is subsequently reclassified into technical provisions in conjunction with the Solvency II valuation adjustments to technical provisions described above; and
- the 25% of the syndicates' business not economically transferred to BIdac is equity accounted at net asset value on the group Solvency II balance sheet.

The details of the presentation and valuation differences between the group IFRS and Solvency II balance sheets are set out below and further discussed in D.1, D.2 and D.3.

Assets	2017 Statutory value $m	2017 Reclassification adjustment $m	2017 Solvency II valuation adjustment $m	2017 Solvency II value $m
Goodwill	62.1	–	(62.1)	–
Deferred acquisition costs	281.4	(78.3)	(203.1)	–
Intangible assets	71.5	(16.4)	(55.1)	–
Deferred tax assets	6.9	–	(3.3)	3.6
Property, plant & equipment held for own use	4.4	–	(0.2)	4.2
Investments (other than assets held for index-linked and unit-linked contracts):				
Holdings in related undertakings, including participations	7.0	(11.3)	163.1	158.8
Bonds	3,629.1	(2,307.3)	–	1,321.8
Collective Investments Undertakings	726.1	(596.3)	–	129.8
Derivatives	8.8	(3.8)	–	5.0
Deposits other than cash equivalents	–	–	–	–
Loans and mortgages	85.6	(81.1)	–	4.5
Reinsurance recoverables	1,231.1	(1,215.2)	194.4	210.3
Insurance and intermediaries receivables	918.0	(838.7)	(50.8)	28.5
Receivables (trade, not insurance)	46.3	22.5	15.2	84.0
Cash and cash equivalents	440.5	(166.5)	–	274.0
Any other assets, not elsewhere shown	40.0	2,724.8	(2,726.5)	38.3
Total assets	**7,558.8**	**(2,567.6)**	**(2,728.4)**	**2,262.8**
Technical provisions				
Technical provisions – non-life (excluding health)	5,055.7	(2,135.1)	(2,920.6)	–
Best estimate	–	–	(245.8)	(245.8)
Risk margin	–	–	92.8	92.8
Technical provisions – health (similar to non-life)	83.8	(26.9)	(56.9)	–
Best estimate	–	–	1.7	1.7
Risk margin	–	–	0.1	0.1
Technical Provisions – life (excluding health and index-linked and unit-linked)	28.3	(28.3)	–	–
Best estimate	–	–	–	–
Risk margin	–	–	–	–
Total technical provisions	**5,167.8**	**(2,190.3)**	**(3,128.7)**	**(151.2)**
Liabilities				
Pension benefit obligations	2.3	–	–	2.3
Deferred tax liabilities	10.0	(17.6)	38.4	30.8
Derivatives	1.3	(0.9)	–	0.4
Financial liabilities other than debts owed to credit institutions	99.5	–	4.2	103.7
Subordinated liabilities	266.5	–	16.8	283.3
Reinsurance payables	182.8	(182.2)	1.1	1.7
Payables (trade, not insurance)	160.7	(149.0)	–	11.7
Any other liabilities, not elsewhere shown	169.0	(27.6)	–	141.4
Total other liabilities, excluding technical provisions	**892.1**	**(377.3)**	**60.5**	**575.3**
Excess assets over liabilities	**1,498.9**	**–**	**339.8**	**1,838.7**

D. Valuation for solvency purposes *continued*

D.1 Assets

Goodwill and intangible assets

All goodwill and intangible assets as shown on the financial statements are valued at nil for Solvency II purposes, with the exception of purchased syndicate capacity which is valued using auction prices over the last 10 years for capacity of the syndicate for which capacity has been purchased. The purchased syndicate capacity is held by BUL and is therefore included within the value of the participations line.

Deferred acquisition costs

Deferred acquisition costs comprise brokerage, premium levy and staff-related costs of the underwriters acquiring new business and renewing existing contracts. For IFRS, the proportion of acquisition costs in respect of unearned premiums is deferred at the reporting date and recognised in a later period when the related premiums are earned. The reclassification adjustment reallocates the proportion of the group IFRS consolidated deferred acquisition costs relating to the Solvency II equity accounted entities into the participations line. The remaining deferred acquisition costs are excluded from the valuation of assets for Solvency II purposes. However, as the future technical provision cashfows from BUL into BIDac are based on GAAP results, there is an underlying economic value attached to deferred acquisition cost arising within the equity accounted entities that contribute to the future distributions.

Deferred tax assets

Solvency II recognition and valuation with respect to deferred taxes is consistent with the GAAP balance sheet (IAS 12).

The group has $7.3m of unused tax losses for which a deferred tax asset has not been recognised as losses are not expected to be utilised in the foreseeable future based on the current taxable profit estimates and forecasts of the underlying entity in question.

Property, plant & equipment held for own use

Property, plant and equipment comprise computer equipment and furniture and fitting for own use and are recorded at costs less accumulated depreciation and impaired losses in the IFRS balance sheet, which are considered not to be materially different from fair value.

Investments

On the GAAP balance sheet, financial assets (other than participations) are valued using a valuation hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- level 1 – valuations based on quoted prices in active markets for identical instruments. An active market is a market in which transactions for the instrument occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Included within level 1 are bonds and treasury bills of government and government agencies which are measured based on quoted prices in active markets. Assets are valued using the bid price;
- level 2 – valuations based on quoted prices in markets that are not active, or based on pricing models for which significant inputs can be corroborated by observable market data (e.g. interest rates, exchange rates). Included within level 2 are government bonds and treasury bills which are not actively traded, corporate bonds, asset backed securities and mortgage-backed securities; and
- level 3 – valuations based on inputs that are unobservable or for which there is limited market activity against which to measure fair value.

An active market is a market in which transactions for the instrument occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date.

The reclassification adjustment reallocates the proportion of the group IFRS consolidated investments relating to the Solvency II equity accounted entities into the participations line.

D.1 Assets *continued*

Holdings in related undertakings, including participations

Whilst under IFRS, all group entities are consolidated, the solvency II group balance sheet consolidates only the insurance companies and ancillary service companies, with other entities presented as equity accounted participations. Holdings in related undertakings are valued using the adjusted equity method. In particular participations are valued based on the Beazley plc share of the excess of assets over liabilities of the participations, calculated using a Solvency II valuation of assets and liabilities.

The reclassification adjustment column reallocates the proportion of each balance that relates to the equity accounted entities into the participations line.

Loans and mortgages

Loans and mortgages comprise mainly senior secured loans measured at fair value, which form part of the investment assets of BUL and have therefore been reclassified to the participations line of the group Solvency II balance sheet.

Reinsurance recoverables

The IFRS balance sheet presents the reinsurer's share of unearned technical provisions and claims outstanding relating to reinsurance of gross business. Syndicate reinsurance assets consolidated for IFRS are included in the valuation of participations (BUL). These are part of the profit cashflows embedded within the BIdac technical provisions. On a Solvency II basis, this balance presents the net of cash inflows with respect to recoveries on business bound at the reporting date and cash outflows with respect to premiums payable on outwards reinsurance arrangements, and reflects the reinsurance of BICI which is eliminated on consolidation of the IFRS balance sheet.

Insurance and intermediaries receivables

Insurance and intermediaries balances are valued at amortised cost in the IFRS balance sheet. For BICI, amounts which are not past their due date are reclassified to technical provisions under Solvency II. Amounts which are past their due date are valued at fair value, which is considered not to differ materially from amortised cost. Other insurance receivables are reclassified into the participations line or form part of the BIdac profit valuation.

Receivables (trade, not insurance)

Other receivables comprise mainly of corporation tax recoverable which has been agreed with the tax authorities and balances due from syndicate 623 to the group. The balances are due and are expected to be paid within the next 12 months and are therefore considered to be measured at fair value.

Cash and cash equivalents

On the GAAP balance sheet, cash and cash equivalents consist of cash held at bank, cash in hand, deposits held at call with banks, and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These investments have less than three months maturity from the date of acquisition. The Solvency II valuation and recognition of cash and cash equivalents is consistent with that used for the GAAP balance sheet except for short term highly liquid investments which are classified within investments. However, cash held in the syndicates and other entities not consolidated under Solvency II are included as part of the valuation of participations.

Any other assets, not elsewhere shown

The reclassification adjustment is a result of the different scope of consolidation. The change in scope of consolidation largely results from syndicates not being insurance entities under Solvency II. Consequently, syndicate net assets are shown as a participation rather than recognised in each component of the balance sheet. Within the assets reclassification the main impact is a reduction in investments and the recognition of a large intercompany balance receivable from the syndicates in BIdac included within other assets relating to the reinsurance arrangement.

The SII valuation adjustment to other assets reflects the inclusion of the BIdac balance due from the syndicates as part of the SII technical provision valuation.

D. Valuation for solvency purposes *continued*

D.2 Technical provisions

All amounts $m Solvency II line of business	Undiscounted Net technical provisions ex risk margin	Risk margin	Net technical provisions inc risk margin	Discounted Net technical provisions ex risk margin	Risk margin	Net technical provisions inc risk margin
Credit and suretyship insurance	0.4	–	0.4	0.3	–	0.3
General liability insurance	54.6	5.4	60.0	51.0	5.0	56.0
Income protection insurance	1.7	0.2	1.9	1.7	0.1	1.8
MAT insurance	(0.4)	0.1	(0.3)	(0.5)	0.1	(0.4)
Property insurance	0.4	–	0.4	0.4	–	0.4
Non proportional casualty reinsurance	(512.9)	89.4	(423.5)	(507.3)	87.7	(419.6)
Total	**(456.2)**	**95.1**	**(361.1)**	**(454.4)**	**92.9**	**(361.5)**

The technical provisions for Beazley group comprise of:
- the BIdac aggregate excess of loss reinsurance protection of BUL (within non proportional casualty reinsurance)
- the direct insurance business which BIdac commenced writing in 2017 (within general liability insurance)
- the net technical provisions for Beazley Insurance Company, Inc (BICI) (within all Solvency II lines of business except non proportional casualty reinsurance in the table above).

Given the nature of the underlying business, the approach used to estimate the technical provisions for the non proportional casualty reinsurance business differs from that used for the general liability insurance and the BICI business.

Non proportional casualty reinsurance

Overview of reinsurance contract

The approach used to estimate the technical provisions is based on the structure and expected cashflows under the reinsurance contracts. BIdac enters into a reinsurance contract with BUL covering a year of account for syndicates 2623 and 3623. The potential cashflows in summary are as follows:
- premium – 75% of any profit distributed by the syndicates reinsured;
- liability – 75% of any loss made by the syndicates reinsured (subject to a maximum of 75% of the FAL and £2m excess);
- fees – BUL pays BIdac a fee as BIdac provides 75% of FAL for the syndicates covered under the reinsurance contract. The fee payable is 1% of the first £200m of FAL and 3% of the remainder of FAL; and
- profit commission – 15% and is payable by BIdac to BUL on any premiums received under the contract.

Bases, methods and main assumptions used for valuation for solvency purposes

The bases, methods and main assumptions used for valuation for solvency purposes are as follows:
The expected profit/loss of the underlying BUL business reinsured forms the largest component of the technical provisions. The expected profit/loss is the total of the following:
- the current view of the profit/loss of each year of account based on held loss ratios and incurred expenses;
- the reserve releases expected between the current view of profitability and when the final syndicate result is declared;
- expected investment income attributable to each year of account; and
- expenses expected to be incurred until the year of account closes.

Whilst the initial view of profitability is assessed at the end of the first calendar year for the business that has been reinsured, the reserve releases and expected future investment income are derived from the assumptions used in the Beazley long term business plan.

The provisions for profit commissions and fees have been calculated in line with the terms of the reinsurance contract.

Allowance has also been made for events not in data and a risk margin:
- the events not in data allowance is based on the load included in the underlying syndicates reinsured and this is calculated using the truncated lognormal distribution, as per Lloyd's guidelines; and
- the risk margin is based on the Solvency Capital Requirements (SCR) output from the BIdac internal model – this is projected forward and discounted using yield curves prescribed by EIOPA, with the discounted cost of capital being calculated by multiplying the discounted SCR figures by the prescribed cost of capital rate of 6% and then summing up the resulting discounted cost of capital amounts.

Unincepted business is defined as policies that have not yet incepted, but to which Beazley's insurance entities are legally obliged at the valuation date. The 2018 reinsurance contract between BIdac and BUL which incepts on 1 January 2018 has been included within the technical provisions as it was signed in December 2017.

The technical provisions estimated have been split between the claims and premium provisions based on whether or not the profit/loss for each reinsurance contract is known at the valuation date – the technical provisions arising for those contracts for which the actual profit is as yet unknown have been allocated to the premium provision, with the provisions for those contracts where the profit/loss has been finalised being included within the claims provision.

Future cash flows are projected using payment patterns, allocated into the required currencies and discounted using the latest available EIOPA yield curves for the relevant currencies.

D.2 Technical provisions *continued*

Key uncertainties

At a macro level, the key areas of downside risk in the estimated profit/loss figures of the underlying BUL business being reinsured are that:

- claims experience in the specialty lines division could be worse than expected because of adverse claim frequency and/or severity or the systemic inadequacy of premium rates; or that
- catastrophe claims experience is materially worse than expected; and
- investment returns may be materially different to the returns estimated.

Changes in methodology/assumptions since the previous reporting period (BIdac reinsurance of BUL)

At the previous valuation, the approach used to estimate technical provisions was based on a substance over form and look through to the underlying syndicate cash flows.

The approach has since been revised to reflect the aggregate excess of loss nature of the reinsurance contract written by BIdac, together with the cash flows expected on this contract, rather than the underlying cash flows.

GAAP reserves vs technical provisions

The main differences between the GAAP and Solvency II technical provisions for the non proportional casualty reinsurance business written in BIdac are as follows:

- the GAAP reserves have been estimated based on substance over form using a look through approach i.e. they are 75% of the net technical provisions for syndicates 2623 and 3623 whereas the Solvency II technical provisions consider the overall net cashflows expected under the reinsurance contract;
- the GAAP reserves only consider the performance of business earned up to and including the valuation date whereas the Solvency II technical provisions allow for both the earned and unearned portions of the business written;
- within Solvency II technical provisions, there is an explicit allowance for premiums and claims on bound but unincepted contracts which are not recognised within the GAAP reserves. As a result, the 2018 reinsurance contract between BIdac and BUL which incepts on 1 January 2018 has been included within the Solvency II technical provisions as it was signed in December 2017;
- the Solvency II technical provisions include an allowance for the expected future investment income on the underlying business being reinsured whereas the GAAP reserves do not; and
- the Solvency II technical provisions recognise expected future reserve releases on the underlying business reinsured up to and including the finalisation of the 2018 reinsurance contract whereas the GAAP reserves only recognise reserve releases known as at the valuation date.

The total BIdac GAAP reserves are $2,860.3m on a net of reinsurance basis, and $2,859.9m of these reserves are for the non proportional casualty reinsurance business. The Solvency II net technical provisions (including the risk margin) for the non proportional casualty reinsurance business amount to $(419.6)m on a discounted basis.

The difference in the reserving approach also impacts the receivables shown on the balance sheet. The $2,728m insurance receivables due from BUL to BIdac on a GAAP basis is eliminated when preparing the Solvency II basis balance sheet on a cash-flow basis. This is described in more detail in section D.1.

BIdac general liability insurance and BICI business

BIdac began writing non-life insurance business during 2017 and all the policies written in this period were general liability insurance coverages.

BICI began writing commercial insurance in 2005 and at year-end 2017, the majority of the business written was casualty business (including but not limited to directors & officers, errors & omissions and employment practices liability coverages).

Bases, methods and main assumptions used for valuation for solvency purposes

The bases, methods and main assumptions used for valuation for solvency purposes are as follows:

The best estimate reserves form the largest component of the technical provisions. The reserves have been set at a level equivalent to that of other similar business written within the group, but given this is new business written by BIdac a temporary loading has also been applied. This will continue to be applied until such time as the book reaches an appropriate level of maturity. If the actual experience is unable to support this loading it will be reviewed and updated as necessary.

An assumption is made as to what amount of the total premiums to which Beazley is legally obliged at the balance sheet date have already been written – as only the portion associated with already written business is included within the technical provisions. Earning assumptions are used to allocate between the premium and claims provision. The methodology used to derive earnings patterns assumes that premium is earned uniformly throughout the policy period.

Unincepted business is defined as policies that have not yet incepted, but to which Beazley is legally obliged at the valuation date. As this is the first year in which this business has been written by BIdac, the volume of unincepted business is estimated by considering the business written in the month following the valuation date during the previous year for similar business written within the group. For BICI, the volume of unincepted business is estimated by considering the business written in the month following the valuation date during the previous year.

D. Valuation for solvency purposes *continued*

D.2 Technical provisions *continued*

Provisions for bad debts, future expenses and events not in data are added to the best estimate technical provisions:

- the bad debt component uses reinsurer default probabilities and loss given default percentages from the internal model. The expected reinsurer bad debt is calculated as probability of default x loss given default x exposure x average duration;
- the expense provision includes the future expenses required to run off the legally obliged business as at the valuation date. This is calculated using the historical calendar year expenses and budgeted expenses, provided by the finance team; and
- the load for events not in data is calculated using the truncated lognormal approach.

A risk margin is also calculated, though a simplified approach has been used for BIdac. The simplified approach utilises the risk margin estimated for syndicates and then applies the ratio of the BIdac net premium to the syndicates net premium to this risk margin figure. For BICI, the risk margin is based on the SCR output from the BICI internal model - this is projected forward and discounted using yield curves prescribed by EIOPA, with the discounted cost of capital being calculated by multiplying the discounted SCR figures by the prescribed cost of capital rate of 6% and then summing up the resulting discounted cost of capital amounts.

Future cashflows are projected using payment patterns, allocated into the required currencies and discounted using the latest available EIOPA yield curves for the relevant currencies.

Key uncertainties

At a macro level, the key area of downside risk is in the reserving assumptions used to derive the best estimate reserves. Claims experience may be worse than expected because of adverse claim frequency and/or severity or the systemic inadequacy of premium rates.

GAAP reserves vs technical provisions

The main differences between the GAAP and Solvency II technical provisions are as follows:

There are items within the GAAP reserves that are not included under Solvency II and thus lead to a reduction in the Solvency II technical provisions. This reduction includes:

- accelerating the recognition of profit with the unearned premium reserve; and
- a reclassification of premium debtors to Solvency II technical provisions to recognise future premium cashflows.

Solvency II technical provisions are calculated on a best estimate basis and so the margin included in the GAAP reserves is excluded; and

Within Solvency II technical provisions, there is an explicit allowance for premiums and claims on bound but unincepted contracts which are not recognised within the GAAP reserves.

The total BIdac GAAP reserves are $2,860.3m on a net of reinsurance basis, and $0.4m of these reserves are for the general liability Insurance business. The Solvency II net technical provisions (including the risk margin) for the general liability Insurance business amount to $2.0m on a discounted basis. The main reason for the increase in the reserves on a Solvency II basis relative to a GAAP basis is driven by the treatment of outwards reinsurance. On a Solvency II basis, the technical provisions make allowance for the outwards reinsurance premiums payable that cover the full subsequent period but only allow for the expected recoveries arising from the business written to date together with the bound but not incepted business.

The total BICI GAAP reserves are $92.6m on a net of reinsurance basis. The Solvency II net technical provisions (including the risk margin) amount $56.2m on a discounted basis.

Other items

The matching adjustment referred to in Article 77b of Directive 2009/138/EC is not applied.

The volatility adjustment referred to in Article 77d of Directive 2009/138/EC is not used.

The transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC is not applied.

The transitional deduction referred to in Article 308d of Directive 2009/138/EC is not applied.

D.3 Other liabilities

Pension obligations

The group operates a defined benefit pension plan for its employees that is now closed to future service accruals. The net pension obligation is measured at the present value of the estimated future net cash flows and is stated net of plan assets in accordance with IAS 19. The same valuation basis has been applied to both the Statutory and Solvency II balance sheet.

The assets of the scheme are held separately from those of the group, being invested with external investment managers to meet the long term pension liabilities of past and present members.

Plan assets are comprised as follows:

	2017 $m	2016 $m
Equities	34.5	27.7
Bonds	8.6	8.0
UCITS funds	7.1	6.3
Cash	3.4	–
	53.6	**42.0**

Deferred tax liabilities

Solvency II recognition and valuation with respect to deferred taxes is consistent with the GAAP balance sheet (IAS 12). As a result of the adjustments from GAAP to Solvency II, an increase in Solvency II net assets is generated for the group and hence a deferred tax liability is recognised on a Solvency II basis. This deferred tax liability is not offset against the deferred tax asset as they relate to entities subject to different tax jurisdiction within the group.

Derivatives

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, recent market transactions, and valuation techniques which include discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Financial liabilities other than debts owed to credit insitutions

This balance presents financial liabilities other than subordinated liabilities (see below). This comprises of retail debt which is listed on the London stock exchange. The difference in Solvency II valuation is because the retail bond is measured in the financial statements at fair value at date of issue less transaction costs whereas the retail bond is measured at fair value based on quoted market prices under Solvency II.

Subordinated liabilities

The subordinated liabilities of the group amount to $283m, $265m of which relates to notes issued in November 2016 at a fixed rate of 5.875% and repayable in 2026. The remaining $18m was raised in 2004 at US$ LIBOR plus 3.65% which is repayable in 2034 and has been callable at the group's option since 2009. The difference in Solvency II valuation is because the subordinated liabilities are measured in the financial statements at fair value at date of issue less transaction costs whereas they are measured at fair value based on quoted market prices under Solvency II.

Reinsurance payables

Reinsurance payables are measured at amounts due on the outwards reinsurance operations of the group, which are due within one year. The amounts as shown on the IFRS balance sheet are therefore considered to be fair value.

Adjustments have been made to reclass not past due amounts to Solvency II technical provisions for BICI and as part of future profit for BIdac.

Payables (trade, not insurance)

Payables comprise mainly amounts payable to related group entities and external bodies. The amounts are due and are expected to be paid within the next 12 months and are considered to be held at fair value under Solvency II.

Any other liabilities, not elsewhere shown

Any other liabilities comprise mainly accrued expenses including staff bonuses. The amounts are due and are expected to be paid within the next 12 months and are considered to be held at fair value under Solvency II.

D.4 Alternative methods for valuation

The valuation hierarchy for investments is discussed in section D.1 above. An alternative method of valuation has been adopted for the level 3 financial assets where observable inputs are not available. Refer to note 16 (financial assets and liabilities) of the Beazley 2017 annual report for further details.

D.5 Any other information

There are no material differences in the valuation bases, methods and assumptions between the group Solvency II balance sheet and the solo Solvency II balance sheet.

Lease arrangements

The operating lease arrangements relate to land and buildings. Further information is provided in section A.4.

E. Capital management

E.1 Own funds

Beazley has a number of requirements for capital at a group and subsidiary level. Capital is primarily required to support underwriting at Lloyd's and in the US and is subject to prudential regulation by local regulators (PRA, Lloyd's, Central Bank of Ireland (CBI), and the US state level supervisors). Beazley is subject to the capital adequacy requirements of the European Union Solvency II regime (SII). Beazley has maintained sufficient own funds to meet its solo and group Solvency Capital Requirements throughout the year.

Further capital requirements come from rating agencies who provide ratings for Beazley Insurance Company, Inc. (BICI) and Beazley Insurance dac (BIdac). Beazley aims to manage its capital levels to obtain the ratings necessary to trade with its preferred client base.

The amount of surplus capital held is considered on an ongoing basis in light of the current regulatory framework and opportunities for organic or acquisitive growth and a desire to maximise returns for investors. The board's strategy is to grow the dividend by between 5% and 10% per year.

Beazley has a five year plan, the purpose of which is to review long term profitability, return on capital and capital adequacy thereby helping to plan its management of underwriting, claims, capital & expenses. The group follows a risk-based approach to determine the amount of capital required to support its activities. Recognised stochastic modelling techniques are used to measure risk exposures, and capital to support business activities is allocated according to risk profile. Stress and scenario analysis is regularly performed and the results are documented and reconciled to the board's risk appetite where necessary.

The group actively seeks to manage its capital structure. The 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.

The following table sets out the group's sources of funds on a Solvency II basis:

	Total $m	Tier 1 $m	Tier 2 $m
Basic own funds			
Ordinary share capital	37.8	37.8	–
Reconciliation reserve	1,508.7	1,508.7	–
Subordinated liabilities	283.4	–	283.4
Total basic own fund after deductions[1]	**1,829.9**	**1,546.5**	**283.4**
Ancillary own funds	222.0	–	222.0
Total available own funds to meet the group SCR	**2,051.9**	**1,546.5**	**505.4**
Total eligible own funds to meet the consolidated group SCR	1,992.8	1,546.5	446.3[2]
Total eligible own funds to meet the consolidated group MCR	1,591.1	1,546.5	44.6[3]
Consolidated Group SCR	892.6		
Ratio of Eligible own funds to the consolidated Group SCR	223%		

1 Deductions are presented in the reconciliation reserve below.

2 Tier 2 eligible own funds to meet the consolidated group SCR are capped at 50% of the SCR.

3 Tier 2 eligible own funds to meet the consolidated group MCR are capped at 20% of the MCR.

Note that group own funds have been calculated net of any intra-group transactions.

Swift No. 3 Limited was incorporated in the United Kingdom on 4 September 2015 under the Companies Act 2006 as a private company limited by shares and with registered number 09763575. The company reregistered from a private company to a public company on 12 February 2016 and changed its name to Beazley plc. With effect from 13 April 2016, under a scheme of arrangement involving a share exchange with the members of Beazley Ireland Holdings plc (formerly Beazley plc), the company became the new holding company for the Beazley group.

E.1 Own funds *continued*

Tier 1 basic own funds

	2017 $m	2016 Pro-forma* $m	2016 As reported $m
Ordinary share capital	37.8	37.7	37.7
Reconciliation reserve	1,508.7	1,837.1	1,838.8
	1,546.5	**1,874.8**	**1,876.5**

Tier 1 own funds are eligible in full to meet both the Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR).

The reconciliation reserve is calculated as follows:

	2017 $m	2016 Pro-forma* $m	2016 As reported $m
Reconciliation reserve			
Excess of assets over liabilities	1,838.7	2,014.3	2,016.0
Foreseeable dividends	(53.7)	(111.7)	(111.7)
Ordinary share capital and share premium	(37.8)	(37.7)	(37.7)
Deferred tax asset	(3.6)	(1.3)	(1.3)
Other non available own funds	(234.9)	(26.5)	(26.5)
	1,508.7	**1,837.1**	**1,838.8**

Other non available own funds are explained under the Tier 2 ancillary own funds section below.

Tier 2 basic own funds

	2017 $m	2016 Pro-forma* $m	2016 As reported $m
Long term subordinated debt (2034)	18.0	18.0	18.0
Tier 2 subordinated debt (2026) – issued in 2016	265.4	253.3	253.3
	283.4	**271.3**	**271.3**

* The prior year amounts have been represented to reflect the impact of the change to the contracted cashflows basis in BIdac. This information is disclosed to aid comparability against the 2017 amounts. The represented amounts are outside of the scope of external audit. Please refer to 'Changes in methodology/assumptions since the previous reporting period (BIdac reinsurance of BUL)' in D.2. for further details.

In 2016 Beazley Group Limited repaid £76.5m of existing tier 2 subordinated debt at the first call date and BIdac issued $250m of new tier 2 subordinated debt due 2026, the net proceeds of which are to be used along with retained earnings to support the future growth plans of the group.

The $18m long term subordinated debt (2034) is included as tier 2 in accordance with the transitional arrangements referred to in Articles 308b(9) and 308b(10) of Directive 2009/138/EC. These transitional arrangements allow items which would otherwise not be eligible funds under Solvency II to be treated as such for up to ten years, if they were eligible under previous solvency rules. These subordinated notes are due in 2034 and have been callable at the group's option since 2009.

Tier 2 ancillary own funds

Beazley has a $225m Multicurrency Standby Letter of Credit and Revolving Credit Facility Agreement (the credit facility). The CBI has approved its inclusion as ancillary own funds and the method used to determine the eligible amount. This approval was received on 21 December 2017 and is valid until 25 July 2019.

The credit facility allows letters of credit to be issued in favour of the Society of Lloyd's. Such a letter of credit is permissible as an asset supporting funds at Lloyd's (FAL) requirements for Lloyd's Corporate Members.

The FAL to support the underwriting of Beazley Underwriting Limited (BUL) on Syndicates 2623 and 3623 is provided by BIdac. These funds are subject to a deed of charge in favour of Lloyd's.

The deed of charge restricts the transferability of these assets. For this reason, the FAL may only be included in the calculation of group solvency up to the contribution of BIdac to the group SCR.

If the BIdac contribution to group SCR exceeds the FAL, no restriction is applicable. However, if the BIdac contribution to group SCR is lower than the FAL, then a restriction is applied to the excess FAL to the basic own funds for group. In order to compensate for this restriction, the ancillary own funds is recognised subject to the following limits of the credit facility:

1. Letter of credit outstandings shall not at any time exceed 35% of the value of FAL.
2. The limit of the credit facility of $225m.

The table below presents the FAL, BIdac contribution to group SCR, the restriction to FAL and the corresponding FAL recognised.

	2017 $m	2016 Pro-forma* $m	2016 As reported $m
FAL provided by BIdac	856.1	688.7	688.7
BIdac contribution to group SCR	621.2	662.2	662.2
Excess FAL restriction	234.9	26.5	26.5
Ancillary Own Funds recognised	**222.0[1]**	**26.5**	**26.5**

1 Letter of credit outstandings shall not at any time exceed 35% of the value of FAL provided by BIdac. This means that for a fixed FAL requirement, where amounts are being relied upon for the credit facility, the amount being provided by BIdac correspondingly decreases. Therefore, the amount of FAL that can be provided by the credit facility decreases. The calculation to get to the final answer of this iterative process is to multiply FAL by 35/135 to get the maximum proportion that can be met by the letter of credit without breaching the limit governed by the amount of FAL provided by BIdac.

E. Capital management *continued*

E.1 Own funds *continued*

The FAL required to be provided has increased due to the natural catastrophes experienced in the second half of the year. This has led to an increase in the excess FAL restriction and, as a result, the ancillary own funds recognised have increased.

The credit facility agreement is between Beazley companies and Commerzbank Aktiengesellschaft, Filiale Luxemburg, Lloyds Bank plc and The Royal Bank of Scotland plc as mandated lead arrangers of the credit facility, Lloyds Bank plc as bookrunner and as agent for the Finance Parties and the following Financial Institutions; Lloyds Bank plc, Commerzbank Aktiengesellschaft, Filiale Luxemburg, National Westminster Bank Plc, National Australia Bank Limited and The Bank of Nova Scotia London Branch.

As at 31 December 2017, the basic and ancillary tier 2 own funds were eligible in full to meet the SCR. $44.6m (2016: $66.3m) was eligible to meet the MCR, being 20% of the MCR as at that date.

Reconciliation of GAAP net assets to Solvency II net assets

The table below presents the changes in net assets from the GAAP balance sheet to the Solvency II balance sheet.

	$m
GAAP net assets	**1,498.9**
Elimination of Goodwill, DAC and Intangible Assets	(320.3)
Elimination of leasehold improvements	(0.2)
Revaluation of subordinated debt and other financial liabilities to market value	(21.0)
Elimination of GAAP technical provisions (net of reinsurance and deferred acquisition costs)	2,961.6
Elimination of inter-group debtors relating to future technical cashflows	(2,726.5)
Replacement of Solvency II technical provisions	309.6
Revaluation of Participation balances	163.1
Recognition of Profit Commission on Solvency II adjustments arising	15.2
Recognition of net deferred tax on Solvency II adjustments arising	(41.7)
Solvency II net assets	**1,838.7**

Restriction to the fungibility and transferability of own funds

BIdac's provision of 100% of the FAL and the restriction in relation to the FAL capital commitment relative to BIdac's contribution to the group SCR has been described within the tier 2 ancillary own funds section above.

There is no further restriction applied to the fungibility of group own funds in light of the Lloyd's ECR being greater than BIdac's contribution to the group SCR. In the current group structure, with Beazley's business being written in or reinsured almost entirely to the syndicates (2623 and 3623), BIdac's capital is available to post as FAL for the purpose of supporting the underwriting activity of the group.

There are approximately $5.2m (2016: $5.3m) of assets held by BICI that are pledged to 10 different states as statutory security deposits. Given that this amount is lower than the contribution of the US business to the group SCR, no deduction for non-available own funds at group level is required.

E.2 SCR and MCR

The SCR and MCR for Beazley group are as follows:

	2017 $m	2016 $m
Solvency Capital Requirement	892.6	916.8
Minimum Capital Requirement	223.2	331.5

The SCR is subject to CBI review.

The MCR is calculated based on net of reinsurance technical provisions at the year end and written premiums in the twelve months to that date.

Beazley uses an internal model to calculate its SCR. Beazley's application to use an internal model was approved by the CBI on 10 December 2015. The model is designed to produce output on the required basis, namely the capital required to meet a 1 in 200 adverse loss on the Solvency II balance sheet over a one-year time horizon.

The table below shows the SCR split by risk category.

Model	Insurance risk	Market risk	Operational risk	Credit risk
2018 SCR	**77%**	**13%**	**8%**	**2%**
2017 SCR	77%	13%	8%	2%

Use of the internal model

Beazley's internal model is regularly used in a number of management processes as well as to input into a range of ad-hoc analysis that is presented to the business to support decision making e.g. reinsurance analysis.

Regular uses include:

- capital setting: the internal model is used to calculate the capital for each entity quarterly. The calculated capital is split by major risk i.e. insurance, market, credit, liquidity, operational and group risk;
- business planning including capital allocation: the internal model is used in the business planning process to allocate capital between divisions. This when combined with the plan profit allows management to compare the performance of the different business lines on a risk adjusted basis;

E.2 SCR and MCR *continued*

- business planning – catastrophe loss ratios: The internal model is used to calculate catastrophe loss ratios and reinsurance recoveries included in the plan;
- business planning – investment income: The internal model is used to calculate the investment income assumptions in the plan;
- business planning – portfolio optimisation;
- business planning – reinsurance review;
- long term plan: the capital projections and stress scenarios in the long term plan are developed using internal model output;
- reserving: the internal model is used to allow the actuarial team to develop the reserve strength indicators which are used to communicate the level of prudence in the reserves;
- exposure management: the catastrophe model component of the internal model is used to monitor the team's catastrophe risk against appetite and natural catastrophe risk model output for capital modelling;
- investment management: the asset risk component of the internal model is used to monitor investment risk and investment risk output for capital modelling;
- reinsurance credit risk: credit risk output for capital modelling;
- ORSA: 1-in-10 output to calculate KRI's to determine whether the syndicates are operating within risk appetite; and
- remuneration: the internal model is used to test the consistency of underwriters' profit related pay targets.

Scope of the internal model

The scope of the internal model includes all material risks faced by the Beazley plc group. A single internal model is used to calculate the SCR for all entities. No important risks are excluded from the internal model. The material risks currently included in the internal model are:

- premium risk;
- catastrophe risk (both natural and man-made);
- reserving risk;
- market (or asset) risk;
- operational risk (including regulatory and legal risk);
- credit risk;
- group risk; and
- liquidity risk.

The internal model generating the Beazley plc SCR includes business written and reinsured by BIdac and BICI, as well as the syndicate exposure supported by BUL.

Methods used in the internal model

The internal model estimates the probability distribution forecast using a structured quantitative process that makes use of methods that are: in line with good actuarial and statistical practice; subject to regular independent challenge; and appropriate to the analysis and risk profile in question. These methods use parameters that are estimated using all relevant internally available data; appropriate externally sourced industry data; data embedded in external models that have been prepared by experts; judgements based on appropriately qualified and challenged experts, and distributions which are statistically consistent with the historic data relating to the frequency and severity of loss.

Beazley uses a full internal model to calculate the SCR. The SCR is calculated by the internal model in accordance with the specifications of Article 101 of Directive 2009/138/EC; specifically that it is taken from the 99.5th percentile value at risk over a 1-year time horizon, taken directly from the probability distribution output generated by the calculation kernel and covers insurance (underwriting and reserving), asset (market), credit, and operational and group risk.

Data used in the internal model

Model inputs are made up of two key components:

- inputs to model stand-alone risk which requires:
  - exposure data. For example the number of policies of a given size and type.
  - risk assumptions. For example setting out the range of claim sizes for a given policy. These assumptions are based on relevant historic experience.
- input to aggregate the risk:
  - risk is aggregated using a 'risk drivers' approach where the assumptions are set based on historic experience for each driver.

On-going appropriateness is ensured through the capital teams in-team testing process which includes:

- quarterly internal model data input testing which includes a reconciliation of key data items; and
- annual data quality testing which includes testing of data quality standards (materiality, accuracy, completeness and appropriateness) for the internal model inputs.

Diversification

Diversification effects are allowed for in the internal model. The dependency and risk driver framework ensures that all possible drivers of risk for inclusion in the internal model are considered during the annual risk driver and dependency review to ensure completeness and which considers:

- the key variables driving dependencies;
- evidence for the existence of diversification effects;
- the relevant assumptions underlying the modelling of dependencies;
- extreme scenarios and tail dependence; and
- the core model produces management information that shows diversification benefits between major risk category (e.g. premium risk, reserve risk, market risk, credit risk etc) as well as between business units. Because of the proportional nature of BIdac's economic interest in syndicates 2623, 3622 and 3623, there are no material additional sources of diversification at a group level.

E.3 Use of the duration-based equity risk-submodule in the calculation of the Solvency Capital Requirement

Not applicable.

E. Capital management *continued*

E.4 Differences between the standard formula and any internal model

The internal model uses a modular structure comprising a number of free-standing modules each addressing a risk category within scope of the internal model (see section E.2 –scope). A distribution is generated from each module. The modules are aggregated using a 'risk drivers' approach in an overall module that calculates model output. Given the risk profile of Beazley (roughly an equal split of medium-tailed and short-tailed exposures) the most important risk driver is the market cycle which impacts all classes of business and all underwriting years. Driver variables for some risk modules are based upon the output results from other modules. For example, in the credit risk module, the probability of default for reinsurers is increased when the size of the modelled catastrophe exceeds a defined level.

The main differences in the methodologies and underlying assumptions used in the standard formula (SF) and in the internal model (IM) by risk module are as follows:

- greater premium and reserve risk is assumed for the IM reflecting the underlying economic risks while the SF assumptions are applied to the technical provisions;
- catastrophe risk assumptions are lower in the IM reflecting the detailed modelling of the portfolio;
- IM market risk is greater than the SF due to greater interest rate and credit spread risk assumptions as well as making allowance for the full economic risk within the underlying asset portfolio;
- greater credit and operational risk is assumed for the IM than for the SF;
- the IM includes less dependency between risk categories than that assumed in the standard formula with the driver of risk assumptions reflecting the risk profile; and
- IM explicitly includes profit offsetting the risk.

The risks covered in the internal model are in line with those covered in the SF; however some risks, for example court inflation, are explicitly rather than implicitly modelled.

The internal model used to calculate the Beazley plc SCR is the same as the internal model used to calculate the BIdac SCR. Where balance sheet items are only included in the Beazley plc balance sheet, null exposure is included in the BIdac SCR. Similarly items on the BIdac balance sheet that consolidate at the group level are also included in the Beazley plc internal model with null exposure.

E.5 Non-compliance with the MCR and non-compliance with the SCR

There have been no material changes or instances of non-compliance with the SCR or MCR over the reporting period, nor is there a foreseeable risk of non-compliance which is considered in the ORSA report where a confirmation statement of continued compliance (for regulatory capital requirements and regulatory requirements for technical provisions) is made.

E.6 Any other information

There is no other material information to report.

Appendix: Quantitative reporting

The following quantitative reporting templates are appended to this report.

S.02.01.02 – Balance sheet
S.05.01.02 – Premiums, claims and expenses by line of business
S.05.02.01 – Premiums, claims and expenses by country
S.23.01.22 – Own funds
S.25.03.22 – Solvency Capital Requirement calculated using a full internal model
S.32.01.22 – Undertakings in the scope of the group

All monetary amounts are in thousands of US dollars. Please note that totals may differ from the sum of component parts due to rounding. For improved presentation, blank columns in some of the quantitative reporting templates have been omitted. All items disclosed are consistent with the quantitative reporting submitted privately to the Central Bank of Ireland.

S.02.01.02 – Balance sheet

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	0
Deferred tax assets	R0040	3,587
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	4,225
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**1,615,435**
Property (other than for own use)	R0080	0
Holdings in related undertakings, including participations	R0090	158,795
Equities	*R0100*	*0*
Equities – listed	R0110	0
Equities – unlisted	R0120	0
Bonds	*R0130*	*1,321,813*
Government Bonds	R0140	417,543
Corporate Bonds	R0150	904,270
Structured notes	R0160	0
Collateralised securities	R0170	0
Collective Investments Undertakings	R0180	129,796
Derivatives	R0190	5,030
Deposits other than cash equivalents	R0200	0
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	**R0230**	**4,500**
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	4,500
Reinsurance recoverables from:	**R0270**	**210,259**
Non-life and health similar to non-life	R0280	210,259
Non-life excluding health	R0290	210,259
Health similar to non-life	R0300	(1)
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	0
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	0
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	0
Insurance and intermediaries receivables	R0360	28,479
Reinsurance receivables	R0370	0
Receivables (trade, not insurance)	R0380	84,058
Own shares (held directly)	R0390	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	0
Cash and cash equivalents	R0410	273,966
Any other assets, not elsewhere shown	R0420	38,254
Total assets	**R0500**	**2,262,762**

S.02.01.02 – Balance sheet

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	**R0510**	**(151,232)**
Technical provisions – non-life (excluding health)	**R0520**	**(153,024)**
TP calculated as a whole	R0530	0
Best estimate	R0540	(245,782)
Risk margin	R0550	92,758
Technical provisions – health (similar to non-life)	**R0560**	**1,793**
TP calculated as a whole	R0570	0
Best estimate	R0580	1,652
Risk margin	R0590	140
TP – life (excluding index-linked and unit-linked)	**R0600**	**0**
Technical provisions – health (similar to life)	**R0610**	**0**
TP calculated as a whole	R0620	0
Best estimate	R0630	0
Risk margin	R0640	0
TP – life (excluding health and index-linked and unit-linked)	**R0650**	**0**
TP calculated as a whole	R0660	0
Best estimate	R0670	0
Risk margin	R0680	0
TP – index-linked and unit-linked	**R0690**	**0**
TP calculated as a whole	R0700	0
Best estimate	R0710	0
Risk margin	R0720	0
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	0
Pension benefit obligations	R0760	2,265
Deposits from reinsurers	R0770	0
Deferred tax liabilities	R0780	30,805
Derivatives	R0790	411
Debts owed to credit institutions	R0800	0
Debts owed to credit institutions resident domestically	ER0801	0
Debts owed to credit institutions resident in the euro area other than domestic	ER0802	0
Debts owed to credit institutions resident in rest of the world	ER0803	0
Financial liabilities other than debts owed to credit institutions	R0810	103,667
Debts owed to non-credit institutions	ER0811	0
Debts owed to non-credit institutions resident domestically	ER0812	0
Debts owed to non-credit institutions resident in the euro area other than domestic	ER0813	0
Debts owed to non-credit institutions resident in rest of the world	ER0814	0
Other financial liabilities (debt securities issued)	ER0815	0
Insurance & intermediaries payables	R0820	0
Reinsurance payables	R0830	1,719
Payables (trade, not insurance)	R0840	11,693
Subordinated liabilities	**R0850**	**283,412**
Subordinated liabilities not in BOF	R0860	0
Subordinated liabilities in BOF	R0870	283,412
Any other liabilities, not elsewhere shown	R0880	141,356
Total liabilities	**R0900**	**424,096**
Excess of assets over liabilities	**R1000**	**1,838,666**

Appendix: Quantitative reporting *continued*

S.05.01.02 – Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)						Line of Business for: accepted non-proportional reinsurance			
		Income protection insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Miscellaneous financial loss	Health	Casualty	Property	Total
		C0020	C0060	C0070	C0080	C0090	C0120	C0130	C0140	C0160	C0200
Premiums written											
Gross – Direct Business	R0110	41,533	267,556	392,539	1,194,219	49,888	39,122				**1,984,857**
Gross – Proportional reinsurance accepted	R0120	0	0	0	78,950	13,016	0				**91,966**
Gross – Non-proportional reinsurance accepted	R0130							31,507	24,655	188,140	**244,303**
Reinsurers' share	R0140	83	34,382	67,673	179,170	14,611	2,128	1,558	(9)	64,911	**364,508**
Net	**R0200**	**41,450**	**233,174**	**324,865**	**1,093,999**	**48,293**	**36,994**	**29,949**	**24,664**	**123,229**	**1,956,617**
Premiums earned											
Gross – Direct Business	R0210	48,608	260,983	387,151	1,105,094	40,592	40,030				**1,882,458**
Gross – Proportional reinsurance accepted	R0220	0	0	0	68,865	9,024	0				**77,890**
Gross – Non-proportional reinsurance accepted	R0230							29,979	24,793	189,474	**244,246**
Reinsurers' share	R0240	(220)	33,082	66,986	174,153	12,261	3,605	1,477	44	64,071	**355,457**
Net	**R0300**	**48,828**	**227,902**	**320,165**	**999,806**	**37,355**	**36,425**	**28,502**	**24,750**	**125,403**	**1,849,136**
Claims incurred											
Gross – Direct Business	R0310	28,565	196,010	277,491	559,675	35,513	17,010				**1,114,264**
Gross – Proportional reinsurance accepted	R0320	0	0	0	37,276	9,558	0				**46,833**
Gross – Non-proportional reinsurance accepted	R0330							15,142	(698)	180,743	**195,187**
Reinsurers' share	R0340	(177)	73,220	31,763	106,324	7,287	1,835	395	1,950	89,611	**312,207**
Net	**R0400**	**28,742**	**122,791**	**245,728**	**490,626**	**37,784**	**15,175**	**14,747**	**(2,648)**	**91,132**	**1,044,077**
Changes in other technical provisions											
Gross – Direct Business	R0410	0	0	0	0	0	0				0
Gross – Proportional reinsurance accepted	R0420	0	0	0	0	0	0				0
Gross – Non-proportional reinsurance accepted	R0430							0	0	0	0
Reinsurers' share	R0440	0	0	0	0	0	0	0	0	0	0
Net	**R0500**	0	0	0	0	0	0	0	0	0	0
Expenses incurred	**R0550**	**34,746**	**101,936**	**147,155**	**408,744**	**18,384**	**16,798**	**10,386**	**11,751**	**46,151**	**796,052**
Other expenses	**R1200**										
Total expenses	**R1300**										**796,052**

The following columns, which are blank, have been omitted for improved presentation: C0010 Medical expense insurance; C0030 Workers' compensation insurance; C0040 Motor vehicle liability insurance; C0050 Other motor insurance; C0100 Legal expenses insurance; C0110 Assistance; and C0150 Marine, aviation, transport.

S.05.01.02 – Premiums, claims and expenses by line of business

		Line of Business for: life insurance obligations	Life reinsurance obligations	Total
		Other life insurance	Life reinsurance	
		C0240	C0280	C0300
Premiums written				
Gross	R1410	18,215	4,499	**22,714**
Reinsurers' share	R1420	328	148	**476**
Net	**R1500**	**17,887**	**4,351**	**22,238**
Premiums earned				
Gross	R1510	16,790	3,979	**20,769**
Reinsurers' share	R1520	354	148	**502**
Net	**R1600**	**16,436**	**3,831**	**20,267**
Claims incurred				
Gross	R1610	9,393	1,968	**11,361**
Reinsurers' share	R1620	3	(5)	**(1)**
Net	**R1700**	**9,390**	**1,972**	**11,362**
Changes in other technical provisions				
Gross	R1710	0	0	**0**
Reinsurers' share	R1720	0	0	**0**
Net	**R1800**	**0**	**0**	**0**
Expenses incurred	**R1900**	**5,382**	**1,151**	**6,533**
Other expenses	**R2500**	0	0	**0**
Total expenses	**R2600**			**6,533**

The following columns, which are blank, have been omitted for improved presentation: C0210 Health insurance; C0220 Insurance with profit participation; C0230 Index-linked and unit-linked insurance; C0250 Annuities stemming from non-life insurance contracts and relating to health insurance obligations; C0260 Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations; and C0270 Health reinsurance.

Appendix: Quantitative reporting *continued*

S.05.02.01 – Premiums, claims and expenses by country

Home country – non-life obligations

R0010		Home country United Kingdom C0080	United States of America C0090	Total Top 5 and home country C0140
Premium written				
Gross – Direct Business	R0110	952,130	848,806	1,800,936
Gross – Proportional reinsurance accepted	R0120	22,857	69,108	91,965
Gross – Non-proportional reinsurance accepted	R0130	177,416	36,533	213,950
Reinsurers' share	R0140	189,026	134,911	323,937
Net	**R0200**	**963,377**	**819,537**	**1,782,914**
Premium earned				
Gross – Direct Business	R0210	916,514	790,267	1,706,782
Gross – Proportional reinsurance accepted	R0220	18,690	59,200	77,890
Gross – Non-proportional reinsurance accepted	R0230	180,099	34,661	214,760
Reinsurers' share	R0240	188,613	131,051	319,665
Net	**R0300**	**926,690**	**753,076**	**1,679,766**
Claims incurred				
Gross – Direct Business	R0310	597,192	375,689	972,881
Gross – Proportional reinsurance accepted	R0320	16,193	30,640	46,833
Gross – Non-proportional reinsurance accepted	R0330	169,344	18,494	187,838
Reinsurers' share	R0340	232,922	57,132	290,054
Net	**R0400**	**549,807**	**367,691**	**917,498**
Changes in other technical provisions				
Gross – Direct Business	R0410	0	0	0
Gross – Proportional reinsurance accepted	R0420	0	0	0
Gross – Non-proportional reinsurance accepted	R0430	0	0	0
Reinsurers' share	R0440	0	0	0
Net	**R0500**	**0**	**0**	**0**
Expenses incurred	R0550	455,033	243,383	698,416
Other expenses	R1200			0
Total expenses	**R1300**			**698,416**

S.05.02.01 – Premiums, claims and expenses by country

Life obligations

		Home Country	Total Top 5 and home country
		United Kingdom	
R1400		C0220	C0280
Premium written			
Gross	R1410	22,714	22,714
Reinsurers' share	R1420	476	476
Net	**R1500**	**22,238**	**22,238**
Premium earned		0	0
Gross	R1510	20,769	20,769
Reinsurers' share	R1520	502	502
Net	**R1600**	**20,267**	**20,267**
Claims paid		0	0
Gross	R1610	11,361	11,361
Reinsurers' share	R1620	(1)	(1)
Net	**R1700**	**11,362**	**11,362**
Changes in other technical provisions		**0**	**0**
Gross	R1710	0	0
Reinsurers' share	R1720	0	0
Net	**R1800**	**0**	**0**
Expenses incurred	R1900	6,533	6,533
Other expenses	R2500		0
Total expenses	**R2600**		**6,533**

Appendix: Quantitative reporting *continued*

S.23.01.22 – Own funds

		Total	Tier 1 – unrestricted	Tier 2	Tier 3
		C0010	C0020	C0040	C0050
Basic own funds before deduction for participations in other financial sector					
Ordinary share capital (gross of own shares)	R0010	**37,836**	37,836	0	
Non-available called but not paid in ordinary share capital at group level	R0020	**0**	0	0	
Share premium account related to ordinary share capital	R0030	**1**	1	0	
Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	R0040	0	0	0	
Subordinated mutual member accounts	R0050	0		0	0
Non-available subordinated mutual member accounts at group level	R0060	0		0	0
Surplus funds	R0070	0	0		
Non-available surplus funds at group level	R0080	0	0		
Preference shares	R0090	0		0	0
Non-available preference shares at group level	R0100	0		0	0
Share premium account related to preference shares	R0110	0			0
Non-available share premium account related to preference shares at group level	R0120	0			0
Reconciliation reserve	R0130	**1,508,621**	1,508,621	0	0
Subordinated liabilities	R0140	**283,412**	0	283,412	0
Non-available subordinated liabilities at group level	R0150	**0**	0	0	0
An amount equal to the value of net deferred tax assets	R0160	**3,587**	0	0	3,587
The amount equal to the value of net deferred tax assets not available at the group level	R0170	**3,587**	0	0	3,587
Other items approved by supervisory authority as basic own funds not specified above	R0180	**0**	0	0	0
Non available own funds related to other own funds items approved by supervisory authority	R0190	**0**	0	0	0
Minority interests (if not reported as part of a specific own fund item)	R0200	**0**	0	0	0
Non-available minority interests at group level	R0210	**0**	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220	**0**			
Deductions					
Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial act.	R0230	**0**	0	0	0
Where of deducted according to art 228 of the Directive 2009/138/EC	R0240	**0**	0	0	
Deductions for participations where there is non-availability of information (Article 229)	R0250	**0**	0	0	0
Deduction for participations included by using D&A when a combination of methods is used	R0260	**0**	0	0	0
Total of non-available own fund items	R0270	**3,587**	0	0	3,587
Total deductions	**R0280**	**3,587**	0	0	3,587
Total basic own funds after deductions	**R0290**	**1,829,870**	**1,546,458**	**283,412**	**0**
Ancillary own funds					
Unpaid and uncalled ordinary share capital callable on demand	R0300	0		0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual type	R0310	0		0	
Unpaid and uncalled preference shares callable on demand	R0320	0		0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0		0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	0		0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	**221,962**		**221,962**	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	0		0	
Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	0		0	0
Non available ancillary own funds at group level	R0380	0		0	0
Other ancillary own funds	R0390	0		0	0

S.23.01.22 – Own funds

		Total	Tier 1 – unrestricted	Tier 2	Tier 3
		C0010	C0020	C0040	C0050
Total ancillary own funds	**R0400**	**221,962**		**221,962**	**0**
Own funds of other financial sectors					
Credit institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies	R0410	0	0	0	
Institutions for occupational retirement provision	R0420	0	0	0	0
Non regulated entities carrying out financial activities	R0430	0	0	0	
Total own funds of other financial sectors	R0440	0	0	0	0
Own funds when using the D&A, exclusively or in combination of method 1					
Own funds aggregated when using the D&A and combination of method	R0450	0	0	0	0
Own funds aggregated when using the D&A and a combination of method net of IGT	R0460	0	0	0	0
Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**R0520**	**2,051,832**	**1,546,458**	**505,374**	0
Total available own funds to meet the minimum consolidated group SCR	**R0530**	**1,829,870**	**1,546,458**	**283,412**	
Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	**R0560**	**1,992,776**	**1,546,458**	**446,318**	0
Total eligible own funds to meet the minimum consolidated group SCR	**R0570**	**1,591,090**	**1,546,458**	**44,632**	
Minimum consolidated Group SCR	**R0610**	**223,159**			
Ratio of Eligible own funds to Minimum Consolidated Group SCR	**R0650**	**712.99%**			
Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	**R0660**	**1,992,776**	1,546,458	446,318	0
Group SCR	**R0680**	**892,636**			
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	**R0690**	**223.25%**			

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	**1,838,666**
Own shares (held directly and indirectly)	R0710	0
Foreseeable dividends, distributions and charges	R0720	53,741
Other basic own fund items	R0730	**41,424**
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	0
Other non available own funds	R0750	234,879
Reconciliation reserve	**R0760**	**1,508,621**
Expected profits		
Expected profits included in future premiums (EPIFP) – Life Business	R0770	0
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	529,117
Total expected profits included in future premiums (EPIFP)	**R0790**	**529,117**

The following column, which is blank, has been omitted for improved presentation: C0030 Tier 1 restricted.

Appendix: Quantitative reporting *continued*

S.25.03.22 - Solvency Capital Requirement calculated using a full internal model

Unique number of component	Components description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
RES01	Reserve risk	628,365
PRM01	Premium risk	416,166
MKT01	Market risk	422,034
OPL01	Operational risk	283,607
CRT01	Credit risk	89,462

Calculation of Solvency Capital Requirement		C0100
Total undiversified components	**R0110**	**1,839,633**
Diversification	R0060	(946,998)
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	**R0200**	**892,636**
Capital add-ons already set	R0210	
Solvency capital requirement	**R0220**	**892,636**
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	0
Amount/estimate of the overall loss-absorbing capacity of deferred taxes	R0310	0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))	R0420	0
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0
Minimum consolidated group solvency capital requirement	R0470	223,159
Information on other entities		
Capital requirement for other financial sectors (Non-insurance capital requirements)	R0500	0
Capital requirement for other financial sectors (Non-insurance capital requirements) – Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	R0510	0
Capital requirement for other financial sectors (Non-insurance capital requirements) – Institutions for occupational retirement provisions	R0520	0
Capital requirement for other financial sectors (Non-insurance capital requirements) – Capital requirement for non- regulated entities carrying out financial activities	R0530	0
Capital requirement for non-controlled participation requirements	R0540	0
Capital requirement for residual undertakings	R0550	0

S.32.01.22 – Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/ non mutual)	Supervisory Authority	% capital share	% Used for the establish-ment	% voting rights	Level of influence	Group SCR	Yes/No	Method of calculation
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0220	C0230	C0240	C0260
IE	21380052V9LP6NH9W342	LEI	Beazley Ireland Holdings plc	5 - Insurance holding company	Public limited company	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method 1: Full consolidation
US	21380052V9LP6NH9W342US11111	Specific code	Capson Corp., Inc.	5 - Insurance holding company	Company limited by shares	2 - Non-mutual		31.00%	31.00%	31.00%	2 - Significant	31.00%	1 - Inc. in scope	3 - Method 1: Adjusted equity
MT	213800DWGDOMU52RW804	LEI	Falcon Money Management Holdings Limited	99 - Other	Company limited by shares	2 - Non-mutual		25.00%	25.00%	25.00%	2 - Significant	25.00%	1 - Inc. in scope	3 - Method 1: Adjusted equity
GB	549300FAQP1YKTIM1S87	LEI	Beazley Furlonge Limited	10 - Ancillary services undertaking	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method 1: Full consolidation
US	213800OBLNEDLYDMHI69	LEI	Beazley Insurance Company, Inc.	2 - Non life insurance undertaking	Company limited by shares	2 - Non-mutual	Connecticut Insurance	100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method 1: Full consolidation
GB	213800VBCFZ1LXWVAH47	LEI	Beazley Underwriting Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	3 - Method 1: Adjusted equity
GB	213800AVDAS3WCGM9K47	LEI	Beazley Staff Underwriting Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	3 - Method 1: Adjusted equity
GB	213800XLBHOUAOEK4C56	LEI	Beazley Corporate Member (No.2) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	3 - Method 1: Adjusted equity
GB	2138008PYM4U3JVY5O29	LEI	Beazley Corporate Member (No.3) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	3 - Method 1: Adjusted equity
GB	213800SH4PD2EANZEG09	LEI	Beazley Corporate Member (No.4) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	3 - Method 1: Adjusted equity
IE	213800VTOMUWD41GIT12	LEI	Beazley plc	5 - Insurance holding company	Public limited company	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method 1: Full consolidation
GB	213800VE5OALBYXHTL82	LEI	Beazley Corporate Member (No.6) Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	3 - Method 1: Adjusted equity
GB	213800AQFXRGDD861306	LEI	Beazley Solutions Limited	10 - Ancillary services undertaking	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method 1: Full consolidation
US	2138003E3J3TT2VVA730	LEI	Beazley USA Services, Inc.	10 - Ancillary services undertaking	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method 1: Full consolidation
GB	213800ESHJJFAEPH8T43	LEI	Beazley Underwriting Services Limited	10 - Ancillary services undertaking	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method 1: Full consolidation
AU	213800PYTRLNNDFNFV77	LEI	Beazley Underwriting Pty Ltd	10 - Ancillary services undertaking	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method 1: Full consolidation
SG	213800DJFLUB3XE1WM21	LEI	Beazley Pte. Limited	10 - Ancillary services undertaking	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method 1: Full consolidation
HK	213800X2DOFUTRXM1O81	LEI	Beazley Limited	10 - Ancillary services undertaking	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method 1: Full consolidation
AE	213800MRQ1K9VFMJJI74	LEI	Beazley Middle East Limited	10 - Ancillary services undertaking	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method 1: Full consolidation
GB	213800LRL5PQQ1BNTJ43	LEI	Beazley Furlonge Holdings Limited	6 - Mixed-activity insurance holding company	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method 1: Full consolidation
GB	549300V3F4ZHETMM6P72	LEI	Beazley Group Limited	6 - Mixed-activity insurance holding company	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method 1: Full consolidation
GB	213800ZFFB8FZNACJ862	LEI	Beazley Investments Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	3 - Method 1: Adjusted equity
US	213800VHYDYMDVQ7PK36	LEI	Beazley Holdings, Inc.	6 - Mixed-activity insurance holding company	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method 1: Full consolidation
US	2138007DO9SL7TQBVH27	LEI	Beazley Group (USA) General Partnership	6 - Mixed-activity insurance holding company	Delaware general partnership	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method 1: Full consolidation
GB	21380022FM3LXUN3HR40	LEI	Beazley Management Limited	10 - Ancillary services undertaking	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method 1: Full consolidation
GB	213800GV8YJPJSJTTQ29	LEI	Beazley DAS Limited	99 - Other	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	3 - Method 1: Adjusted equity
IE	549300WWULDAFCPEU084	LEI	Beazley Insurance dac	2 - Non life insurance undertaking	Incorporated company limited by shares	2 - Non-mutual	Central Bank of Ireland	100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method 1: Full consolidation
GB	213800CUN3D4NUYAT124	LEI	Beazley Leviathan Limited	10 - Ancillary services undertaking	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method 1: Full consolidation
CA	2138006PPOOELDD88116	LEI	Beazley Canada Limited	10 - Ancillary services undertaking	Company limited by shares	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method 1: Full consolidation
US	2138002FMQZV2ESD2P39	LEI	Lodestone Securities LLC	99 - Other	Limited liability company	2 - Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	3 - Method 1: Adjusted equity

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