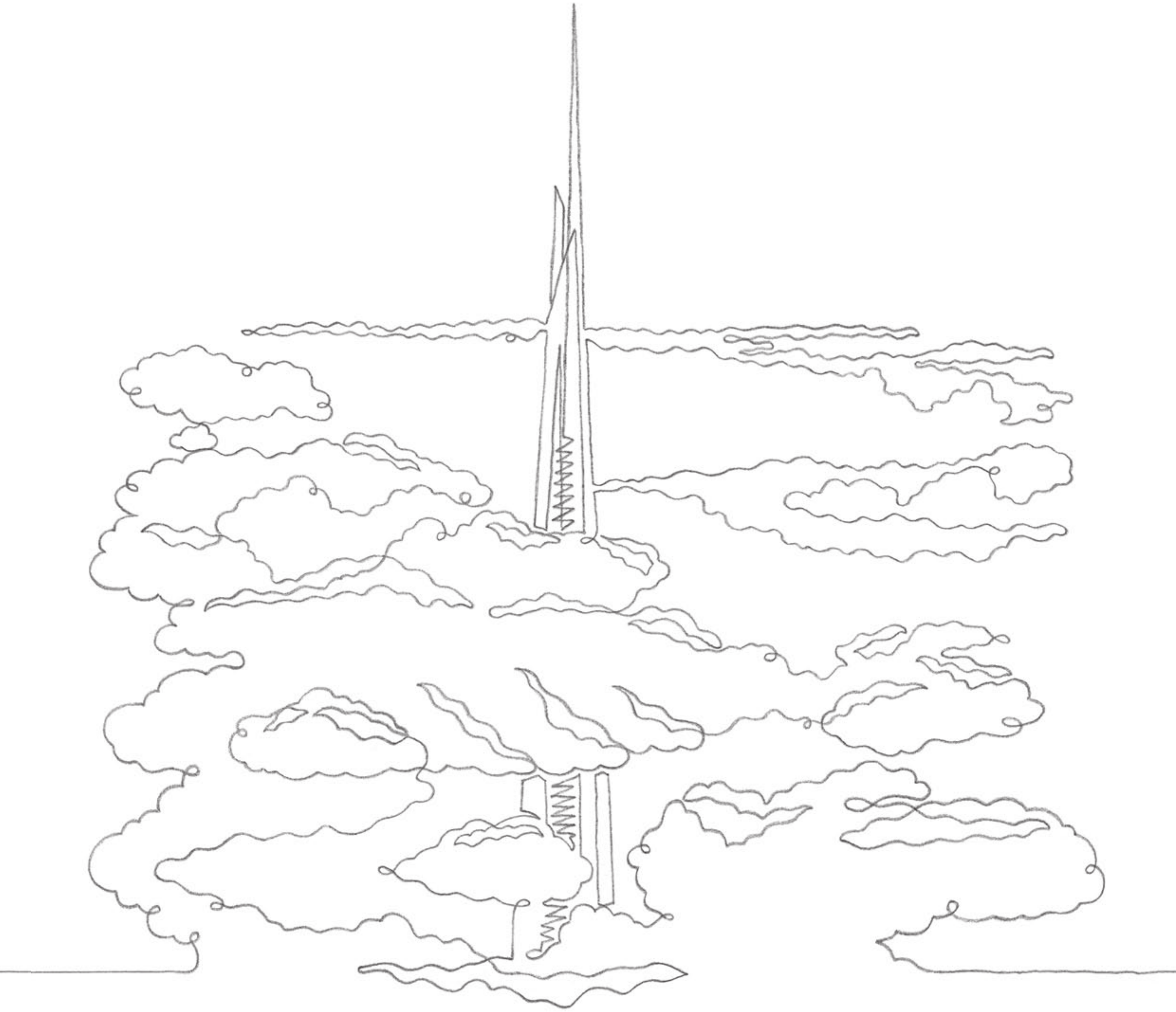


The new EU-wide regulatory regime for insurance and reinsurance companies, known as Solvency II, came into force with effect from 1 January 2016. The regime requires new reporting and public disclosure of information.

Contents

Summary

The new EU-wide regulatory regime for insurance and reinsurance companies, known as Solvency II, came into force with effect from 1 January 2016. The regime requires new reporting and public disclosure of information. This document is the first 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 a background of continued sharply falling premium rates for most large risk business, Beazley delivered a very strong performance in 2016, generating a return on average shareholders' equity of 18% (2015: 19%) and premium growth of 6%.

Moving through 2017, Beazley will continue to focus on the balanced underwriting approach which has aided us in delivering a strong performance over the past 12 months.

Beazley's diverse portfolio gives us the ability to exercise discipline in areas where margins are under the most pressure, while simultaneously pushing forward in areas such as specialty lines where Beazley sees the best opportunities for profitable growth. 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.

Beazley sees London continuing to play a key role in the provision of tailored cover for large and complex risks, including in Europe, notwithstanding uncertainty caused by Britain's referendum decision to exit the European Union (EU) in June. However, Beazley has also been pursuing plans to establish an insurance company within the EU. In November Beazley filed an application with the Central Bank of Ireland to convert Beazley Re dac, its long established Irish reinsurance vehicle, to a direct insurance company for this purpose.

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.

On 13 April 2016 the management of the group was re-located to the United Kingdom by means of a scheme of arrangement in order to simplify the management and decision making of the group. This put in place a new parent company for the Beazley group, which is incorporated in England and Wales and resident for tax purposes in the UK.

Under the scheme of arrangement Beazley shareholders received one New Beazley share for every ordinary share held by them at the scheme record date. These New Beazley shares were admitted to the premium segment of the Official List and began trading on the London Stock Exchange's main market on 13 April 2016. The reorganisation has had no material effect on the strategy of the group.

Beazley Re dac acts as an intra-group reinsurer and provides capital to support the underwriting activities of its sister company, Beazley Underwriting Limited. In Beazley Re dac's reporting under Solvency II, which is reflected in the group reporting prepared by Beazley plc, valuations of the balances relating to this intra-group reinsurance have been prepared on a look through basis to the underlying syndicate premium and claim transactions. The risk profile of the business is reflected in the underlying exposures included in the technical provisions. In addition the look through basis is based on the underlying cash flows of the group and this approach is being followed to allow better compliance with other requirements in the Directive.

Beazley holds a level of capital over and above its regulatory requirements. As at 31 December 2016, total own funds eligible to meet the group solvency capital requirement were $2,174.3m, compared to the group solvency capital requirement of $916.8m giving a solvency ratio of 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.

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

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

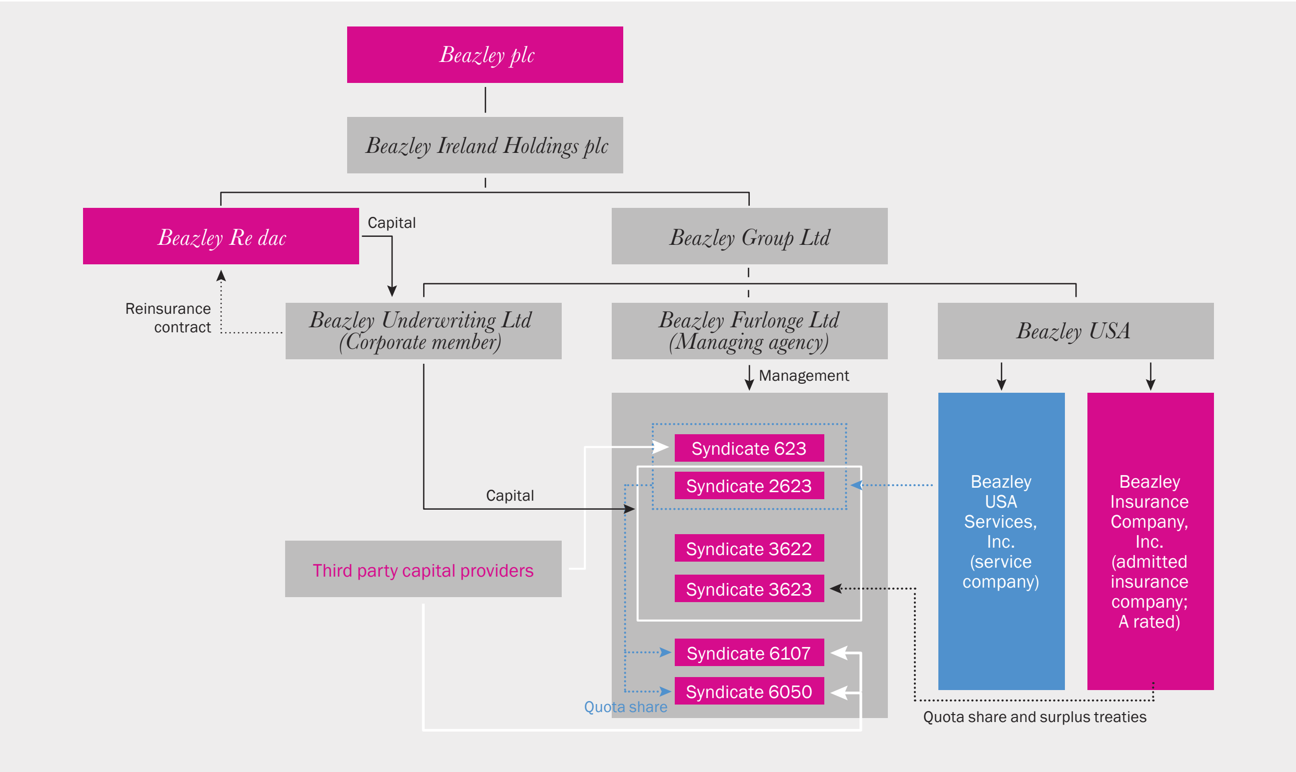
The solo and group supervisor of Beazley plc is the Central Bank of Ireland (CBI), and can be contacted at:
Central Bank of Ireland
PO Box 559
New Wapping Street,
North Wall Quay, Dublin 1
Ireland

The independent auditors of the group are:
KPMG LLP
15 Canada Square
London
E14 5GL
United Kingdom

As at 31 May 2017, the board had been notified of, or was otherwise aware of, the following shareholdings of 10% or more of the company's issued ordinary share capital:

Name	Number of ordinary share	% of overall holding
Invesco Perpetual	78,455,750	14.6
MFS Investment Management	61,329,378	11.7

The group operates across both Lloyd's and the US through a variety of legal entities and structures. The main entities within the legal entity structure are as follows:



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 – corporate member at Lloyd's writing business through syndicates 2623, 3622 and 3623;
- Beazley Furlonge Limited – managing agency for the six syndicates managed by the group (623, 2623, 3622, 3623, 6107 and 6050);
- Beazley Re dac – reinsurance company that accepts reinsurance premiums ceded by the corporate member, Beazley Underwriting Limited;
- 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 and BICI reinsurance business;
- Syndicate 6050 – special purpose syndicate which has its capital provided by third-party names and provides reinsurance to syndicates 623 and 2623;
- 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 2016:

	Country of incorporation	Ownership interest	Nature of business	Functional currency
Beazley Ireland Holdings plc[1]	Jersey	100%	Intermediate holding company	USD
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	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	England	100%	Underwriting at Lloyd's	USD
Beazley Corporate Member (No.5) Limited	England	100%	Underwriting at Lloyd's	USD
Beazley Corporate Member (No.6) Limited	England	100%	Underwriting at Lloyd's	USD
Beazley Leviathan Limited	England	100%	Insurance services	GBP
Beazley Re dac	Ireland	100%	Reinsurance of Lloyd's business	USD
Beazley Underwriting Pty Ltd	Australia	100%	Insurance services	AUD
Australian Income Protection 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	UAE	100%	Insurance services	USD
Beazley Pte. Limited	Singapore	100%	Insurance services	SGD

1 Up until 13 April 2016, Beazley Ireland Holdings plc (formerly Beazley plc) was the parent company of the Beazley group. As part of a scheme of arrangement, the shareholders of Beazley Ireland Holdings plc (formerly Beazley plc) acquired 100% of the share capital of Beazley plc on completion of the transaction.

A.1 Business *continued*

In 2016, the group's business consisted of six 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.

2016	UK (Lloyd's)	US (non-Lloyd's)	Total
Life, accident & health	5%	1%	6%
Marine	11%	–	11%
Political risks & contingency	5%	–	5%
Property	15%	–	15%
Reinsurance	10%	–	10%
Specialty lines	42%	11%	53%
Total	**88%**	**12%**	**100%**

The markets within which Beazley operates faced major economic and political uncertainties in 2016 – uncertainties that had not diminished by the year end. It is now clear that the hardship and psychological shocks caused by the 2008 financial crash and subsequent recession have, several years later, had major political repercussions that few expected. In both Britain and the US support for open markets and free trade is more challenged and the economic cost may ultimately be high. The direction of both monetary and fiscal policy in this volatile environment is hard to predict.

Reflecting this trend, Brexit has been a source of concern and considerable uncertainty to many businesses in the City of London. For Beazley the concern is less acute, in part because less than 5% of its business is generated within mainland Europe, but also because Beazley had already planned to develop its presence in Dublin to access more business in continental Europe. In November 2016, Beazley filed an application with the Central Bank of Ireland to obtain approval for Beazley Re dac to become a European insurance company, enabling the broadening of its underwriting platforms to European clients.

For many insurers, the ripple effects of political uncertainty and weak investment returns on performance have been masked by a low incidence of catastrophe claims that has continued largely unbroken since 2011. Premium rates have naturally fallen to reflect this, most sharply in the energy market. However, it is in the nature of large risk, catastrophe exposed business that rates can fall a long way and insurers can still make money if claims are subdued.

Beazley has weathered multiple underwriting cycles in three decades and, at this juncture, the focus is on maintaining underwriting discipline across the business classes that have seen rates continue to fall. Beazley has accordingly further trimmed its exposures to energy risks, large scale commercial property, and reinsurance.

Nevertheless, amid the challenges the industry faces, there are many areas of opportunity for Beazley. Specialty lines, the company's largest division, continues to grow strongly, generating gross premiums of $1,159.8m in 2016 (2015: $1,015.2m), 14% up on the previous year. This business was buoyed by the relatively attractive premium rates for small scale risks that the mature US operations are now well equipped to handle. Beazley has been building a strong platform in the US for more than a decade now and it has served the company well.

For a specialist insurer such as Beazley, one important measure of vitality is the flow of new product ideas and a commitment to invest in them – an area in which Beazley continues to excel. Another is a willingness to partner with other insurers or reinsurers to exploit attractive growth opportunities that might not be accessible to a single company. The partnership forged in 2016 with Munich Re to underwrite large scale cyber risks is an example of the latter.

The cyber market continues to grow and evolve rapidly, but in other areas patience can be a virtue. Beazley celebrated 10 year anniversaries in Paris and in Singapore in 2016, hard on the heels of the tenth anniversary as a local insurer in the United States. In each market, it has grown largely or exclusively organically, making only small scale acquisitions, if any. This is not the fastest way to grow, but in insurance it can prove a surer route to profitable growth.

Beazley's success over time has depended heavily on being able to flex the portfolio to capitalise on profitable growth opportunities in one geography or line of business while keeping its powder dry in another. In addition, the duration of risks matters: in recent years short tail catastrophe exposed business has shed margin far faster than the medium tail casualty business that is the focus of Beazley's specialty lines division.

Organisational Structure

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

During 2016, Beazley has opened a new office in Houston, opened larger offices in Atlanta, Miami and Paris and extended the office in Los Angeles. Atlanta will serve as a secondary support office in the US in addition to Farmington.

Beazley is also opening an office in Spain. In addition to being an underwriting hub for European business, over time this office is intended also to be the support office based onshore in continental European.

A.2 Underwriting performance

Beazley is pleased to have achieved another strong underwriting result in 2016, delivering a combined ratio of 89% (2015: 87%) despite the competitive pressures experienced in recent years continuing in 2016. The underwriting result again benefited from a relatively benign claims environment, while gross premiums written grew by 6% to $2,195.6m (2015: $2,080.9m).

2016	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Segment results							
Gross premiums written	126.6	247.4	118.7	329.7	213.4	1,159.8	2,195.6
Net premiums written	118.0	220.7	97.6	277.1	141.2	999.4	1,854.0
Net earned premiums	117.5	223.2	103.6	287.0	138.4	898.5	1,768.2
Net investment income	1.3	8.9	3.6	10.2	6.4	62.7	93.1
Other income	0.5	3.8	2.4	6.4	6.2	13.4	32.7
Revenue	**119.3**	**235.9**	**109.6**	**303.6**	**151.0**	**974.6**	**1,894.0**
Net insurance claims	70.0	98.9	29.7	115.3	40.2	501.5	855.6
Expenses for the acquisition of insurance contracts	36.9	65.9	30.2	88.8	34.7	216.0	472.5
Administrative expenses	15.7	35.5	17.7	46.6	14.5	117.8	247.8
Foreign exchange loss	0.6	1.1	0.5	1.4	0.7	5.2	9.5
Expenses	**123.2**	**201.4**	**78.1**	**252.1**	**90.1**	**840.5**	**1,585.4**
Share of loss of associates	–	–	–	–	–	(0.2)	(0.2)
Segment result	**(3.9)**	**34.5**	**31.5**	**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	59%	44%	29%	40%	29%	56%	48%
Expense ratio	45%	46%	46%	47%	36%	37%	41%
Combined ratio	104%	90%	75%	87%	65%	93%	89%

A.2 Underwriting performance *continued*

2015	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Segment results							
Gross premiums written	119.8	269.3	123.6	353.1	199.9	1,015.2	2,080.9
Net premiums written	106.6	239.5	105.0	304.8	132.0	825.2	1,713.1
Net earned premiums	110.8	258.2	106.4	297.8	133.8	791.7	1,698.7
Net investment income	1.5	6.2	2.4	6.6	4.6	36.3	57.6
Other income	2.9	3.4	2.2	5.9	5.5	11.0	30.9
Revenue	**115.2**	**267.8**	**111.0**	**310.3**	**143.9**	**839.0**	**1,787.2**
Net insurance claims	64.3	97.8	30.6	117.1	29.4	474.7	813.9
Expenses for the acquisition of insurance contracts	35.0	68.9	32.1	91.0	32.8	188.8	448.6
Administrative expenses	15.2	32.7	18.5	40.9	13.9	94.0	215.2
Foreign exchange loss	0.3	1.5	0.4	1.6	1.5	4.4	9.7
Expenses	**114.8**	**200.9**	**81.6**	**250.6**	**77.6**	**761.9**	**1,487.4**
Share of loss of associates	–	–	(0.4)	–	–	(0.1)	(0.5)
Segment result	**0.4**	**66.9**	**29.0**	**59.7**	**66.3**	**77.0**	**299.3**
Finance costs							(15.3)
Profit before income tax							**284.0**
Income tax expense							(35.0)
Profit for the year attributable to equity shareholders							**249.0**
Claims ratio	58%	38%	29%	39%	22%	60%	48%
Expense ratio	45%	39%	47%	45%	35%	36%	39%
Combined ratio	103%	77%	76%	84%	57%	96%	87%

Divisional performance

The **life, accident and health division** recorded a loss of $3.9m in 2016 (2015: profit of $0.4m) driven by losses in the Australian business and a relatively high cost base in the US as that business grows. In May 2017, Beazley accepted an offer from Blend Insurance Solutions Ltd (part of the Fairfax Group) to purchase the renewal rights of its accident and health business in Australia effective immediately. In the US, Beazley is working to optimise its sales and distribution capabilities to take better advantage of the demand for its products and grow across the country.

The **marine division** experienced challenging market conditions as rating pressure, particularly in the more traditional marine classes such as energy and war, drove a drop in gross premiums written of 8% to $247.4m (2015: $269.3m). Beazley is seeing some macro-economic drivers of lower demand and rates such as the relatively low price of oil, as well as geopolitical drivers such as reductions in the areas of the world's seas which are designated as war areas. Despite these challenges, Beazley demonstrated its commitment to profitable underwriting over premium growth by focusing on writing risks which it felt were appropriately priced. The strong performance in this area is best exemplified by the combined ratio of 90%, which although higher than 2015 represents a strong return in a highly competitive market environment.

A.2 Underwriting performance *continued*

While profitable growth was difficult to achieve for the marine team as a whole in 2016, it is working hard to ensure that it is well placed to grow in the future when the opportunity is right. It has expanded some of the smaller teams while pulling back in some of the larger risk areas where competition appears to be greatest, and has purchased Leviathan, a long-standing Lloyd's coverholder focusing on subsea risks.

In 2016, the **political risks and contingency division** delivered another pleasing result, delivering a combined ratio of 75% (2015: 76%). The division saw contrasting levels of competition throughout its book both in terms of products and, as it continues to expand its global offerings, location. While the terrorism book experienced significant rating pressure, other parts of the portfolio such as contingency were able to maintain relatively stable pricing. Beazley's underwriting approach in such circumstances includes constantly challenging that the composition and split of the overall portfolio is appropriate and ensuring that considerable time is spent on risk selection.

The **property division** delivered another profitable underwriting result in 2016, achieving a combined ratio of 87% (2015: 84%) on gross premiums written of $329.7m (2015: $353.1m). Market conditions continue to be challenging, particularly in respect of large risks, with rates on renewal business falling by 4% year on year for the division as a whole (2015: reduction of 4%).

Against the backdrop of this difficult trading environment, Beazley is adapting its underwriting strategy to focus on segmenting the portfolio and giving increasing focus to small and mid-sized risks. It executed this strategy in 2016 by achieving growth in the high value homeowner portfolio in the US, and the fine arts and specie business in London. Beazley's diverse portfolio helps to offset some of the more competitive conditions seen in the large risk arena, particularly in the open market book written in London.

The market conditions experienced by underwriters in the **reinsurance division** were predominantly the same as those faced by the property team. While rates fell by 4% year on year, the team was aided by lower than average catastrophe activity and achieved a combined ratio of 65% (2015: 57%). Beazley has seen indications that the severe rate decreases experienced since 2013 may be levelling out, however the trading environment is likely to remain difficult throughout 2017 due to the high level of capital having entered the market, attracted by the returns generated in the reinsurance sector in recent years.

The **specialty lines division** wrote gross premiums of $1,159.8m in 2016 (2015: $1,015.2m), representing an increase of 14% over the prior year. As in recent years, much of the growth has been achieved through underwriters located in the US and by focusing on small and mid-sized risks across many product lines such as cyber, healthcare, environmental and professional liability.

Beazley continues to see strong demand for its cyber products, and in April was happy to start to offer large scale cyber risk solutions in partnership with Munich Re.

Beazley also focused on expanding its cyber offerings outside the US and sees good growth potential in other markets, particularly in Europe. The healthcare team was another which performed well during 2016 and in March, a new team joined focusing on small and mid-sized medical malpractice business outside the US.

The table below shows the 2016 segmental analysis in the group IFRS accounts, which follows the six divisions through which the group is managed, re-classified into the eleven Solvency II classes of business.

Data in the table below is presented on a Solvency II basis.

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**

A.2 Underwriting performance *continued*

The main Solvency II classes of business representing more than 90% of net premiums written are as follows:

General liability mostly represents Beazley's specialty lines division and continues to grow and perform profitably with a combined ratio of 94%.

Fire and other damage to property and **property** classes of business represent Beazley's property and reinsurance divisions. Fire and other damage to property and property are also profitable with combined ratios of 85% and 64% respectively. The profitability of these classes has been helped by the relatively benign claims environment.

Marine, aviation and transport represents Beazley's marine division. Despite the challenging market conditions, there was a strong performance in this area with a combined ratio of 90% achieved.

The **Income protection** business was loss making driven by the losses in the Australian business.

Total net claims and expenses incurred as shown in the table above differ to total expenses in the IFRS table on page 5 due to investment expenses included separately within the net investment income line in the IFRS table and foreign exchange loss which is not included in the table above.

Geographical breakdown

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

Data in the table below is presented on a Solvency II basis.

	2016 $m	2016 %
United Kingdom	1,130	51%
United States of America	831	38%
Australia	47	2%
Other	187	9%
Total	**2,195**	**100%**

A.3 Investment performance

Summary of return of investment assets

Investment assets	2016 $m	2015 $m
Income	97.0	61.0
Fair value gain on derivatives	–	3.7
Investment expenses and charges	(7.3)	(10.3)
Total return on investment assets	**89.7**	**54.4**

Income and expenses by asset class ($m)

		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**

		Capital growth				
2015	Fixed interest	Equity	Hedge funds	Illiquid credit	Total	Total
Income	27.2	4.3	25.7	3.8	33.8	61.0
Expenses	(6.8)	(0.3)	(2.8)	(0.4)	(3.5)	(10.3)
Fair value gain on derivative	–	–	–	3.7	3.7	3.7
Total	20.4	4.0	22.9	7.1	34.0	**54.4**

The above expense allocations are estimates.

Overall investment performance

	2016 Total return		2015 Total return	
	%	$m	%	$m
Investment assets	2.2	89.7	1.4	54.4
Cash	0.6	3.4	0.6	3.2
Total	**2.0**	**93.1**	**1.3**	**57.6**

Assets produced a total return of 2.0% in 2016 against a return of 1.3% in 2015, representing a positive outcome in a volatile period for investments. Fixed income assets produced strong performance as credit spreads narrowed throughout the year, this generated a particularly good return from high yield exposures. Strong performance from hedge fund assets uplifted the return on capital growth assets and provided support to the 2016 total return.

There were no gains and losses recognised directly in equity. Exposure to investments in securitisations is deemed to be de minimis totalling approximately $3.9m. There are no plans to increase exposure during 2017.

Breakdown of 2016 total return (%)

		Capital growth				
Return %	Fixed interest	Equity	Hedge funds	Illiquid credit	Total	Total
Investment assets	2.1	3.8	6.1	8.7	5.8	2.2
Benchmark	1.9	9.0	0.4	6.0	5.2	2.4
Cash	–	–	–	–	–	0.6
Total						**2.0**

A.3 Investment performance *continued*

Performance commentary by asset class

	Portfolio %	Return %	Commentary on 2016 performance
Investment grade fixed income	80	1.6	Investment grade fixed income investments produced strong returns as credit spreads narrowed throughout the year. A pro-active approach to duration management added value during the second half of the year as yields rose following the US election.
High yield fixed income	5	10.8	The trend of narrowing credit spreads continued throughout the year, making high yield bonds the highest performing asset class in 2016.
Total fixed income	85	2.1	US Sovereign bonds at Beazley's benchmark duration returned just 0.9% in 2016. By making increasing use of corporate debt and actively managing duration, the bond portfolio returned more than double this amount.
Equities	3	3.8	The equity portfolio produced a respectable return in 2016, although poor performance of active managers in the first part of the year led to significant underperformance against benchmark.
Hedge funds	9	6.1	Successful commodity strategies led to a strong performance from hedge funds in December, allowing this portfolio to match its target return in 2016, significantly outperforming the hedge fund universe.
Illiquid credit	3	8.7	Returns from illiquid credit investments have exceeded their target in 2016. Performance has been further boosted in recent periods by the recovery in energy prices.
Total capital growth	15	5.6	Strong performance from capital growth assets in December has produced a satisfactory return for the full year, despite equity under performance and helped by good returns from hedge funds and illiquid credit.
Total	100	2.2	Capital growth investments ultimately delivered returns close to forecast, but it was the solid contribution from fixed income assets that drove the strong investment return in 2016.

A.4 Performance from other activities

Other income

Other income is analysed as follows in the financial statements.

	2016 $m	2015 $m
Commissions received from Beazley service companies	15.5	16.4
Profit commissions from syndicates 623/6107	14.9	12.4
Agency fees from 623	2.0	1.9
Other income	0.3	0.2
	32.7	**30.9**

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:

	2016 $m	2015 $m
No later than one year	9.4	8.3
Later than one year and no later than five years	27.0	31.1
Later than five years	6.8	3.2
	43.2	**42.6**

A.5 Any other information

The Solvency II regime, implemented through Statutory Instrument 485 of 2015, came into force. On 10 December 2015 the Central Bank of Ireland granted permission to Beazley plc to calculate its Solvency Capital Requirement at a group level and for Beazley Re dac using the Beazley internal model.

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 reinsurance company (that accepts reinsurance premiums ceded by the corporate member, Beazley Underwriting Limited) 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 2016 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 are 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

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

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

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
Catherine Woods
Christine LaSala
George Blunden
Robert Stuchbery
Vincent Sheridan[1]

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 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

Members
Sir Andrew Likierman
George Blunden

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

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 Vincent Sheridan resigned from the Beazley plc board and audit and risk committee with effect from 31 December 2016.

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

The board consists of a non-executive chairman, Dennis Holt, together with seven independent non-executive directors and five 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.

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.

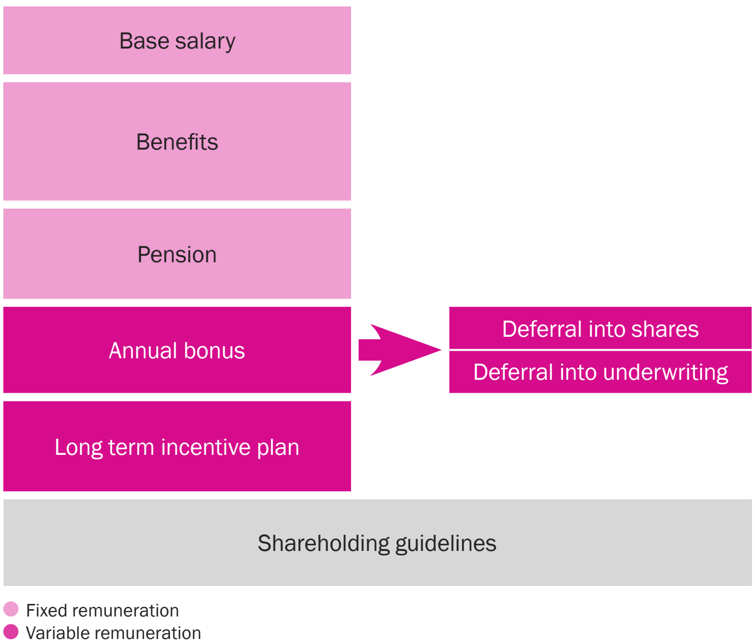
Remuneration policy and practices

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 but be dependent on the profitability of the group and 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.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 2016		
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

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.
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.

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

The group executed a scheme of arrangement in April 2016, the effect of which was the establishment of a new ultimate holding company of the Beazley group. As at 31 December 2016, the ultimate holding company, named Beazley plc, is a company incorporated in England and Wales. The previous holding company of the group is now owned 100% by Beazley plc and has changed its name to Beazley Ireland Holdings plc.

The remuneration of the board was as described above.

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 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 and Beazley Re dac, 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
- cinancial 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 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.

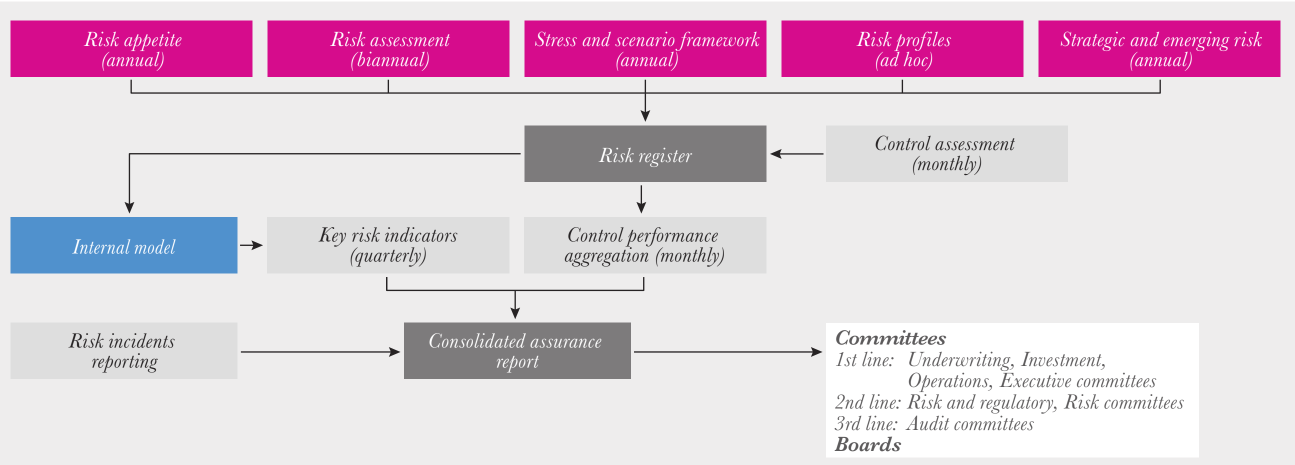
B.3 Risk management system including ORSA *continued*

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.3 Risk management system including ORSA *continued*

Own risk and solvency assessment

The Solvency II Directive indicates that the own risk and solvency assessment ('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, Beazley Re dac)

↑

Board risk committees (BICI, BFL, Beazley Re dac)

↑

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

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 Beazley Furlonge Limited (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 Beazley Re dac version of the ORSA is reviewed by the Beazley Re dac 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 Beazley Re dac ORSA is then presented to the Beazley Re dac 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 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 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.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.

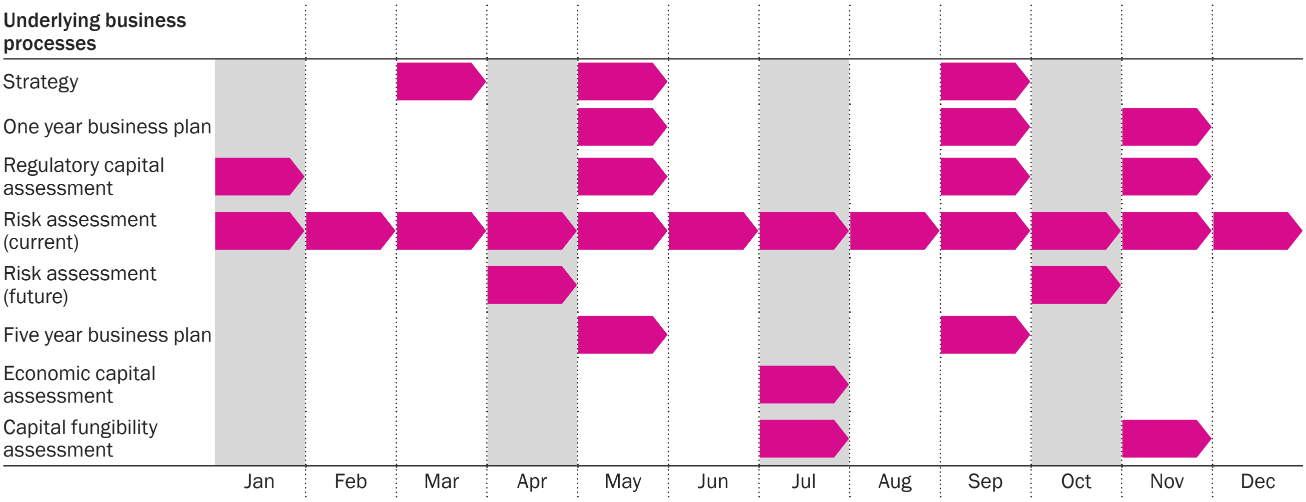
Process	Process owner/ oversight committee
Group strategy Bi annual strategy and performance group meetings Annual board strategy away day Monthly monitoring of the strategic initiatives by the executive committee	Chief Executive Executive committee
Risk appetite Approve risk appetite statements Approve annual risk appetite levels for BICI Approve annual risk appetite levels for BFL Approve annual risk appetite levels for Beazley Re dac	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 • Risk 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.

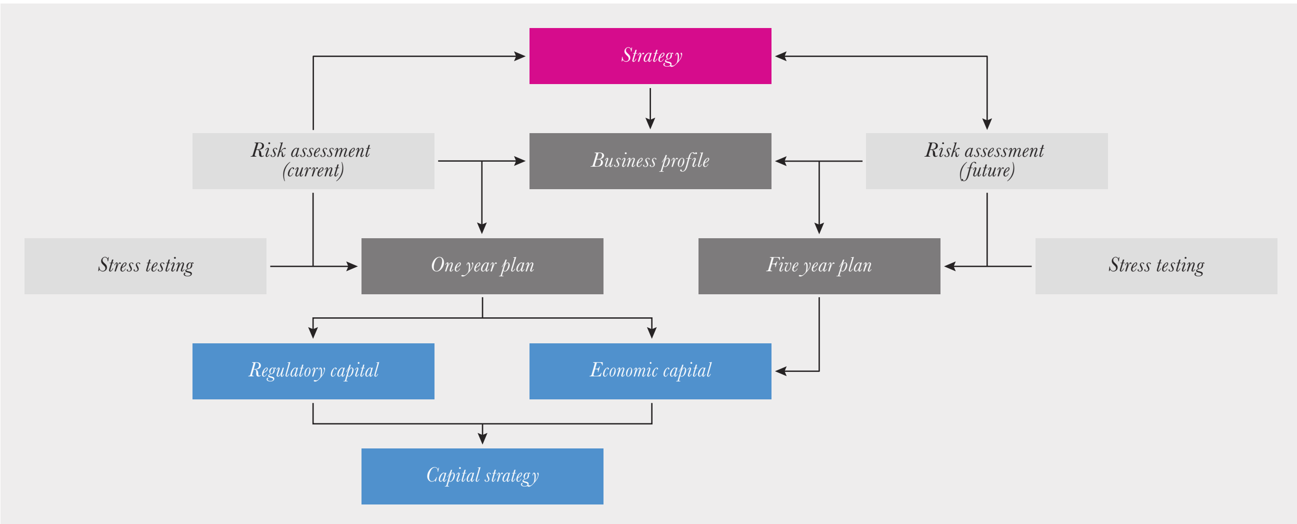
B.3 Risk management system including ORSA *continued*

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.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 Beazley Furlonge Ltd, the Lloyd's service companies and Beazley Insurance Company, Inc. 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.

Within the group's risk management framework, the compliance function's activities fall within both the first and second 'lines of defence' as follows:

- **advising the business** on the proper application of upcoming and existing regulatory requirements (first line of defence);
- **assessing the potential impact of changes in the legal & regulatory environment** to the group, amending policies and procedures accordingly and providing corresponding training where necessary (first line of defence). Training covers various subject matter and covers all staff including board members; and
- **monitoring** business activity to provide assurance that board mandated policies and procedures are being adhered to within risk appetite, which in turn ensures the business operates within established external regulatory requirements (second line of defence). This includes developing a risk-based annual plan of compliance activities that covers all areas of the group exposed to regulatory risk. The plan is approved by the relevant committees in the governance framework.

B.4 Internal control system *continued*

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.

Authorisations, licences and permissions: The function is responsible for obtaining the necessary authorisations, licences and permissions for the group.

Whistleblowing: The function supports the chair of the Beazley plc audit and risk committee in their overall ownership of the group's whistleblowing process.

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 Beazley's 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 UK/RoW and US heads of compliance are responsible for the complaints policy and complaints management in their respective territories. Their responsibilities are set out in the complaints handling policy.

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 9 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 three 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 20-30 individual internal audit reviews a year and cover topics which include: underwriting, operational, IT and finance operations; governance; risk management and compliance; and projects and programmes.

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.

Once management complete their actions they inform us that they are 'closed'. Internal audit's practice, generally, is to initially close actions without verifying them; internal audit then performs risk-based verification work at a later date (sometimes as part of the next audit of that area) and report any exceptions to the relevant committees. Rather than verifying every audit action internal audit used a risk-based approach which includes verifying all high-rated actions and using judgement to determine which medium and low actions to verify.

Verification work can include, for example: interviewing staff; reviewing documentation and examples of the action being undertaken; re-performing audit work. To date, where verification work has been undertaken it has been very rare for us to identify issues with the actions management have said they would implement.

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 audit committee approves an internal audit charter that sets out the roles and responsibilities of the head of internal audit committee and the internal audit function. The internal audit function is not mandated to undertake any form of business activity and its remit its restricted to assurance and consultation work;
- the internal audit plan is approved by the 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 and the Beazley Re dac 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;
- 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 and Beazley Re dac 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 CEO, CFO, CUO 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.
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. The group actuary is the business system owner for ResQ, the reserving software.
Underwriting and claims operations	Ensure the data in the source systems is of the required quality.

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.

B.7 Outsourcing *continued*

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	Bermuda
RMSIndia	Data cleansing	BFL	USA
Health Plan Services, Inc.,	Accident & health TPA	BICI	USA
Pro IS Global (US)	Underwriting claims support	BFL	USA
Endava	IT resources	BFL	UK

There are three intra group outsource arrangements:

- Beazley Management Ltd – a UK registered company which employs all UK staff and some staff in rest of world offices. A contract between Beazley Management Limited and all Beazley group companies (except Beazley Insurance Company Inc and Beazley Re dac 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;
- Beazley Re dac has a contract with Beazley Management Limited 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 Beazley Re dac has sufficient control over the services provided by Beazley Management Limited; and
- there is an agency agreement between Beazley USA Services Inc and Beazley Insurance Company, Inc. All staff in the US are employed by Beazley USA Services Inc, and therefore all of the activities of Beazley Insurance Company Inc are outsourced. Beazley USA Services Inc also outsources some of its shared services to Beazley Management Limited through the contract noted above.

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 the company (Beazley plc). The following areas are applicable to the company: market, operational, regulatory and legal, and liquidity. The following disclosures cover the company to the extent that these areas are applicable.

The 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 (eg 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 to become 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 four elements that apply to all insurance products offered by the group:

- Cycle risk – the risk that business is written without full knowledge as to the (in)adequacy of rates, terms and conditions;
- Event risk – the risk that individual risk losses or catastrophes lead to claims that are higher than anticipated in plans and pricing;
- Pricing risk – the risk that the level of expected loss is understated in the pricing process; and
- Expense risk – the risk that the allowance for expenses and inflation in pricing is inadequate.

The group manages and models these four elements in the following three categories; attritional claims, large claims and catastrophe events.

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

The annual business plans for each underwriting team reflect the group's underwriting strategy, and set out the classes of business, the territories and the industry sectors in which business is to be written. These plans are approved by the 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.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 group's high level catastrophe risk appetite is set by the board and the business plans of each team are determined within these parameters. The board may adjust these limits over time as conditions change. In 2016 the group operated to a catastrophe risk appetite for a probabilistic 1-in-250 years US event of $412.0m (2015: $462.0m) net of reinsurance. This represented a reduction in Beazley's catastrophe risk appetite of 11% compared to 2015.

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 2015 and 2016 are:

	2016	
Lloyd's prescribed natural catastrophe event (total insured 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

	2015	
Lloyd's prescribed natural catastrophe event (total incurred losses)	Modelled PML[1] (before) reinsurance) $m	Modelled PML[1] (after) reinsurance) $m
Los Angeles quake (2015: $78.0bn)	630.0	224.8
Gulf of Mexico windstorm (2015: $112.0bn)	563.7	222.7
US Northeast windstorm (2015: $78.0bn)	488.2	220.5

1 Probable market loss.

The net of reinsurance exposures to the above Lloyd's RDS events have reduced during 2016, mainly due to additional reinsurance being purchased in the reinsurance division. In the property division, there has been growth in exposure in some regions which has led to an increase in the gross losses for the Los Angeles quake and Gulf of Mexico windstorm scenarios.

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 nine realistic disaster scenarios that have been developed internally. These scenarios have been peer reviewed by an external technical expert and include the failure of a data aggregator, the failure of a shared hardware or software platform 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 realistic disaster scenario is currently lower than the exposure to the Lloyd's prescribed natural catastrophe events listed above for the group as at 31 December 2016. 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*

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

To manage underwriting exposures, the group has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry.

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 2016, the group's business consisted of six 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.

2016	UK (Lloyd's)	US (non-Lloyd's)	Total
Life, accident & health	5%	1%	6%
Marine	11%	–	11%
Political risks & contingency	5%	–	5%
Property	15%	–	15%
Reinsurance	10%	–	10%
Specialty lines	42%	11%	53%
Total	**88%**	**12%**	**100%**

2015	UK (Lloyd's)	US (non-Lloyd's)	Total
Life, accident & health	5%	1%	6%
Marine	13%	–	13%
Political risks & contingency	6%	–	6%
Property	17%	–	17%
Reinsurance	9%	–	9%
Specialty lines	39%	10%	49%
Total	**89%**	**11%**	**100%**

b) Reinsurance risk

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

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 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.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 2016, this permitted variance from the forecast investment return was set at $126.0m. For 2017, the permitted variance will be similar. Investment strategy is developed to be consistent with this limit and investment risk is monitored on an ongoing basis, using outputs from Beazley's 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 the US dollar and the presentational currency in which the group reports its consolidated results is the 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. Remaining foreign exchange risk is still actively managed as described below.

In 2016, the group managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting to have net assets that are predominantly denominated in US dollar. As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure across the group. 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 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, Singapore dollars and Australian dollars on translation to the group's presentational currency, although these exposures are minimal.

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 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**

31 December 2015	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	532.3	106.1	356.9	995.3	5,750.1	6,745.4
Total liabilities	(592.7)	(105.0)	(344.6)	(1,042.3)	(4,261.7)	(5,304.0)
Net assets	**(60.4)**	**1.1**	**12.3**	**(47.0)**	**1,488.4**	**1,441.4**

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 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	2016 $m	2015 $m	2016 $m	2015 $m
Dollar weakens 30% against other currencies	(1.2)	(12.3)	(9.5)	(25.7)
Dollar weakens 20% against other currencies	(0.8)	(8.2)	(6.3)	(17.1)
Dollar weakens 10% against other currencies	(0.4)	(4.1)	(3.2)	(8.6)
Dollar strengthens 10% against other currencies	0.4	4.1	3.2	8.6
Dollar strengthens 20% against other currencies	0.8	8.2	6.3	17.1
Dollar strengthens 30% against other currencies	1.2	12.3	9.5	25.7

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 interest rate futures contracts to manage the interest rate risk on bond portfolios. The following table shows the average duration at the reporting date of the financial instruments that are exposed to movements in market interest rates. Duration is a commonly used measure of volatility and which Beazley believes gives a better indication than maturity of the likely sensitivity of the portfolio to changes in interest rates.

Duration 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**

C.2 Market risk *continued*

31 December 2015	<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	1,246.5	600.7	465.3	422.0	322.6	211.7	–	3,268.8
Cash and cash equivalents	676.9	–	–	–	–	–	–	676.9
Derivative financial instruments	4.6	–	–	–	–	–	–	4.6
Borrowings	(116.9)	–	–	(112.3)	–	–	(18.0)	(247.2)
Total	**1,811.1**	**600.7**	**465.3**	**309.7**	**322.6**	**211.7**	**(18.0)**	**3,703.1**

As at 31 December 2015, borrowings included tier 2 subordinated debt that was due in October 2026 with a first call at the group's option in October 2016, which was exercised. As the debt was recalled in October 2016 it is not included within any of the categories in the 31 December 2016 table (2015: <1 yr category). Borrowings consist of three items as at 31 December 2016. 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. This debt was also present within borrowings as at 31 December 2015. 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 interest yields, with all other variables constant, would result in changes in the capital value of debt securities and borrowings 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	
	2016 $m	2015 $m	2016 $m	2015 $m
Shift in yield (basis points)				
150 basis point increase	(56.0)	(73.4)	(56.0)	(73.4)
100 basis point increase	(37.3)	(48.9)	(37.3)	(48.9)
50 basis point increase	(18.7)	(24.5)	(18.7)	(24.5)
50 basis point decrease	18.7	24.5	18.7	24.5
100 basis point decrease	37.3	48.9	37.3	48.9

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 linked funds and derivative financial assets depending on the group's appetite for risk. The fixed income securities are well diversified across high quality, liquid securities. The price risk associated with these securities is predominantly interest, foreign exchange and credit risk related. The sensitivity to price risk that relates to the group's hedge fund investments, illiquid credit assets and equity linked funds is presented below. The group's hedge funds and equity linked funds are limited to a small and manageable part of the total investment portfolio. The investment committee has established comprehensive guidelines in relation to this, with investment managers setting out maximum investment limits, requirements for diversification across industries and limits to concentrations in any one industry or company.

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.

C.2 Market risk *continued*

Change in fair value of hedge funds, equity linked funds and illiquid credit assets	Impact on profit after tax for the year 2016 $m	2015 $m	Impact on net assets 2016 $m	2015 $m
30% increase in fair value	145.3	149.5	145.3	149.5
20% increase in fair value	96.9	99.7	96.9	99.7
10% increase in fair value	48.4	49.8	48.4	49.8
10% decrease in fair value	(48.4)	(49.8)	(48.4)	(49.8)
20% decrease in fair value	(96.9)	(99.7)	(96.9)	(99.7)
30% decrease in fair value	(145.3)	(149.5)	(145.3)	(149.5)

d) Investment risk

Managing investment risk is central to the operation and development of Beazley's investment strategy. The internal model includes an asset risk module, which uses an Economic Scenario Generator (ESG) to simulate multiple simulations of financial conditions, to support stochastic analysis of investment risk. Beazley uses internal model 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', identifying a level of investment losses 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 net present value of insurance liabilities, to help us monitor and manage market risk across both sides of the balance sheet.

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 internal model is used to monitor compliance with the budget. In 2016, the investment risk budget was set at a level such that investment losses should not cause the group financial result to deviate from the planned level by more than $126.0m at the 1 in 10 confidence level. This compares to a planned investment result in the current low interest rate environment of 1.3% or $61.1m. The investment risk budget will be at a similar level in 2017. It is important to note that stochastic risk modelling is not a precise discipline. The 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, as well as selective historic and prospective scenario analysis.

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 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 and derivative financial instrument; and
- cash and cash equivalents.

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

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

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 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**

31 December 2015	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	3,008.5	251.2	9.1	–	–	3,268.8
– equity linked funds	–	–	–	–	147.5	147.5
– hedge funds	–	–	–	–	329.0	329.0
– illiquid credit assets	–	–	–	–	92.3	92.3
– derivative financial instruments	–	–	–	–	4.6	4.6
Insurance receivables	–	–	–	–	732.7	732.7
Reinsurance assets	1,099.7	–	–	–	–	1,099.7
Other receivables	31.5	–	–	–	–	31.5
Cash and cash equivalents	676.9	–	–	–	–	676.9
Total	**4,816.6**	**251.2**	**9.1**	**–**	**1,306.1**	**6,383.0**

The largest counterparty exposure within tier 1 is $788.4m of US Treasuries (2015: $568.6m).

C.3 Credit risk *continued*

Financial investments falling within the unrated category comprise hedge funds, equity linked 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 at 31 December 2016 was as follows:

	Individual impairment $m	Collective impairment $m	Total $m
Balance at 1 January 2015	3.5	10.6	14.1
Impairment loss recognised/(written back)	(0.6)	0.2	(0.4)
Balance at 31 December 2015	2.9	10.8	13.7
Impairment loss written back	(0.5)	(0.6)	(1.1)
Balance at 31 December 2016	**2.4**	**10.2**	**12.6**

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 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

31 December 2015	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	26.5	7.3	2.9	10.5	47.2
Reinsurance assets	2.8	2.9	0.2	19.6	25.5

The total impairment provision in the statement of financial position in respect of reinsurance assets past due by more than 30 days at 31 December 2016 was $3.2m (2015: $3.3m).

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.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 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)
Life, accident & health	40.9	16.1	0.7	–	57.7	0.9
Marine	97.6	79.6	22.6	16.9	216.7	1.9
Political risks & contingency	24.7	24.4	7.5	6.0	62.6	2.2
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**	

31 December 2015	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)
Life, accident & health	43.7	15.8	0.6	–	60.1	0.8
Marine	102.4	82.8	22.7	16.1	224.0	1.9
Political risks & contingency	32.8	32.7	9.4	7.4	82.3	2.0
Property	93.9	72.2	18.4	12.9	197.4	1.8
Reinsurance	66.4	57.0	18.4	16.5	158.3	2.2
Specialty lines	410.0	662.3	393.9	469.2	1,935.4	3.5
Net claims liabilities	**749.2**	**922.8**	**463.4**	**522.1**	**2,657.5**	

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

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

31 December 2015	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Net claims liabilities	749.2	922.8	463.4	522.1	2,657.5
Borrowings	116.9	–	112.3	18.0	247.2
Other payables	463.3	–	–	–	463.3

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

Maturity 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**

C.4 Liquidity risk *continued*

31 December 2015	<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	978.4	618.4	568.5	474.6	336.6	292.3	–	3,268.8
Derivative financial instruments	4.6	–	–	–	–	–	–	4.6
Cash and cash equivalents	676.9	–	–	–	–	–	–	676.9
Insurance receivables	732.7	–	–	–	–	–	–	732.7
Other receivables	31.5	–	–	–	–	–	–	31.5
Other payables	(462.6)	(0.7)	–	–	–	–	–	(463.3)
Borrowings	(116.9)	–	–	(112.3)	–	–	(18.0)	(247.2)
Total	**1,844.6**	**617.7**	**568.5**	**362.3**	**336.6**	**292.3**	**(18.0)**	**4,004.0**

As at 31 December 2015, borrowings included tier 2 subordinated debt that was due in October 2026 with a first call at the group's option in October 2016 which was exercised. As the debt was recalled in October 2016 it is not included within any of the categories in the 31 December 2016 table (2015: <1 yr category). Borrowings consist of three items as at 31 December 2016. The first is $18m 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. This debt was also present within borrowings as at 31 December 2015. 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.

Illiquid credit assets, hedge funds and equity linked 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 2016 was $75.0m.

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.5 Operational risk *continued*

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

Key components of the group's operational control environment include:

- modelling of operational risk exposure and scenario testing;
- management review of activities;
- documentation of policies and procedures;
- preventative and detective controls within key processes;
- contingency planning; and
- other systems controls.

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, the US, Europe, South America, Asia, Australia and the Middle East, 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 the US, Europe, Asia, South America, Asia, Australia and the Middle East. 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.

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

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.

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 (egg external events).

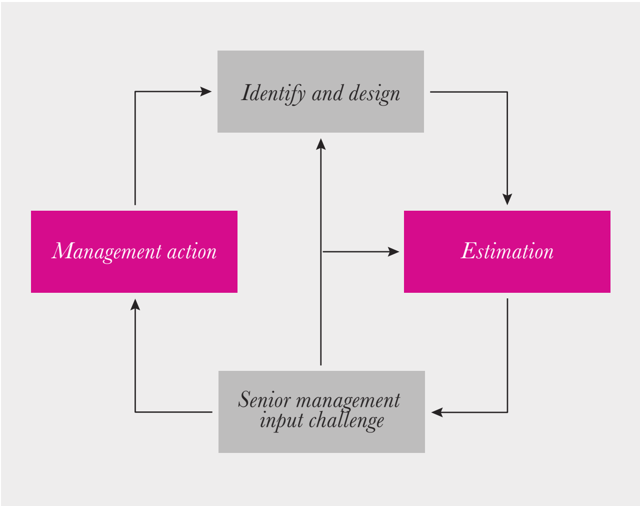
Scope

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
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;
- realistic disaster scenarios;
- asset portfolio;
- liquidity risk;
- disaster recovery and business continuity planning; and
- corporate transactions such as acquisitions.

C.7 Any other information *continued*

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 2, the risk management team then meet with the relevant executive and non executive directors (for example risk owners or as set out in the Knowledge Requirement for the Internal Model (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 2016 Group Solvency II Balance Sheet

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

Beazley Re dac meets the definition of an EU domiciled reinsurance 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 Beazley Underwriting Limited the Lloyd's corporate member which retains any profits from the group capitalised syndicates (syndicates 2623, 3623 and 3622) not reinsured to Beazley Re dac. Beazley Underwriting Limited does not meet the definition of an insurance undertaking under Solvency II regulations. It is defined as a non-regulated undertaking carrying out financial activities. The net assets of Beazley Underwriting Limited 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 Beazley Re dac's 2016 Solvency II Balance Sheet

Beazley Re dac reinsures Beazley Underwriting Limited, 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 Beazley Re dac 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, Beazley Re dac accounts for the results of the reinsurance contract on a look through basis recognising 75% of each component of the syndicate results. As such the Beazley Re dac accounts reflected 75% of the syndicate net premiums and 75% of the syndicate net claims and presented the underlying substance of the insurance activity that gave rise to the profit or loss on the aggregate excess of loss reinsurance.

The Solvency II technical provisions on the Beazley Re dac 2016 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. The application of the look through basis of preparation for Solvency II technical provisions represented an area where judgement was applied. It was determined that the adoption of this approach more wholly captured the insurance activities of the company. The technical provision valuations were based on the estimation of the ultimate claim cash flows in the underlying syndicates rather than the cash flows during the 3 year period of the Lloyd's year of account covered by Beazley Re dac's reinsurance contracts. This valuation assumption better reflected the profits that would ultimately transfer to Beazley Re dac given management's intention to continue the intra-group annual reinsurance arrangement. This basis of presentation was consistent with the GAAP look through methodology and provided information that was relevant, complete, comparable and reflective of substance and not merely legal form.

A further consideration in determining how the technical provisions were established at a Beazley Re dac level was to ensure meaningful presentation of the Beazley plc group returns. There was no scope for the re-inclusion in the group return of provisions not included in the solo return of Beazley Re dac, which is the only EU insurance or reinsurance undertaking in the group.

Differences between group IFRS and Solvency II Balance Sheets

The table shown in section D.1 overleaf lists the value of the assets on both the IFRS and Solvency II consolidated balance sheets of the Beazley group. There are three principal reasons why the total quantum of assets and the value of investments are so much lower on the group Solvency II balance sheet compared to the IFRS balance sheet.

- the outwards reinsurance of the syndicates is netted down on the group Solvency II balance sheet;
- the 25% of the syndicates' business not economically transferred to Beazley Re dac is equity accounted at net asset value on the group Solvency II balance sheet; and
- the syndicates' financial assets relating to the 75% of the business which has been economically transferred to Beazley Re dac are replaced by an intragroup receivable on the group Solvency II balance sheet shown in the any other assets line.

The details of the presentation and valuation differences between group IFRS and Solvency II balance sheets are set out section D.1.

D.1 Assets

Assets	2016 Statutory value $m	2016 Reclassification adjustment $m	2016 Solvency II valuation adjustment $m	2016 Solvency II value $m
Goodwill	62.0	–	(62.0)	–
Deferred acquisition costs	242.8	(70.3)	(172.5)	–
Intangible assets	34.6	(17.8)	(16.8)	–
Deferred tax assets	11.0	–	(9.7)	1.3
Property, plant & equipment held for own use	5.4	–	–	5.4
Investments (other than assets held for index-linked and unit-linked contracts):				
Holdings in related undertakings, including participations	9.9	59.3	206.7	275.9
Bonds	3,521.2	(2,122.2)	–	1,399.0
Collective Investments Undertakings	565.8	(481.1)	–	84.7
Derivatives	12.2	(11.0)	–	1.2
Deposits other than cash equivalents	–	88.6	–	88.6
Loans and mortgages	96.2	(91.7)	–	4.5
Reinsurance recoverables	1,082.1	(1,064.8)	(15.9)	1.4
Insurance and intermediaries receivables	794.7	(688.5)	(46.0)	60.2
Receivables (trade, not insurance)	19.1	6.9	–	26.0
Cash and cash equivalents	507.2	(357.9)	–	149.3
Any other assets, not elsewhere shown	44.3	2,573.8	(396.4)	2,221.7
Total assets	**7,008.5**	**(2,176.4)**	**(512.6)**	**4,319.2**

Investments
Investments other than participations comprise financial assets designated as fair value through profit and loss account (FVTPL), which are consistent with IFRS principles.

FVTPL assets are established using the following valuation hierarchy:
- level 1 valuations: based on quoted prices in active markets for identical instruments;
- level 2 valuations: uses quoted prices in active markets for similar instruments, prices for identical instruments in less active markets, or derived from directly observable market inputs such as yield curves and credit spreads; and
- level 3 valuations: where observable inputs are not available, the group establishes fair value using valuation techniques which include using recent orderly transactions between market participants (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

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.

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

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. Deferred acquisition costs are excluded from the valuation of assets for Solvency II purposes.

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 is held. The purchased syndicate capacity is held by Beazley Underwriting Limited and is therefore included within the value of the participations line.

D.1 Assets *continued*

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.

Insurance and intermediaries receivables

Insurance and intermediaries balances are valued at amortised cost in the IFRS balance sheet. 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.

Receivables (trade, not insurance)

Other receivables comprise mainly corporation tax recoverable which has been agreed with the tax authorities. 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

Cash and cash equivalents consist of cash held at bank, cash in hand, deposits held at call with banks, cash held in Lloyd's trust accounts and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

These investments have less than three months maturity from the date of acquisition. Cash and cash equivalents are considered to be held at fair value under Solvency II.

Deferred tax assets

The valuation basis for deferred tax is disclosed under the heading of deferred tax liabilities in section D.3.

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.

Holdings in related undertakings, including 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.

Any other assets, not elsewhere shown

Any other assets comprise principally a reclassification adjustment which relates to balances due from BUL to Beazley Re dac, in respect of the excess of loss reinsurance contract referred to above, and are measured at fair value. These balances have been eliminated in the IFRS balance sheet.

The $396.4m in the Solvency II valuation adjustment column relates to future premiums which are reclassified to technical provisions under Solvency II.

Lease arrangements

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

D.2 Technical provisions

All amounts $m Department	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
Political risks and contingency	3	3	6	3	3	6
Specialty lines	1,157	61	1,218	1,097	59	1,152
Treaty	67	7	74	65	7	72
Marine	131	9	140	126	8	134
Property	158	11	169	154	10	164
Life, accident & health	13	4	17	12	4	16
Total	**1,529**	**95**	**1,627**	**1,457**	**91**	**1,548**

The technical provisions for Beazley Group are calculated as 75% of the net technical provisions for 2623, 3623 and 3622 plus the net technical provisions for Beazley Insurance Company, Inc.

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

- technical provision valuations are based on a look through to the underlying syndicate cash flows;
- the best estimate reserves form the largest component of the technical provisions. These are calculated using standard actuarial reserving techniques. Standard actuarial reserving techniques assume that in the future, claims will emerge similarly to how claims have emerged in the past;
- 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. This is estimated by considering the business written in the month following the valuation date, during the previous year;
- 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;
  - the load for events not in data is calculated using the truncated lognormal approach, as per Lloyd's guidelines;
- a risk margin is calculated by taking the one year SCR in respect of the relevant risks, allocated to year of account. This is projected forward using payment patterns and discounted using yield curves prescribed by EIOPA. The discounted cost of capital is calculated by multiplying the discounted capital by the prescribed cost of capital rate of 6%. The total risk margin is calculated by summing up the cost of the discounted capital for each year of account; and
- future cashflows are calculated using payment patterns, allocated into the required currencies and discounted using the EIOPA yield curves for the relevant currencies.

At a macro level, the key areas of downside risk in the best estimates underpinning the Solvency II technical provisions 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; and
- catastrophe claims experience is materially worse than expected.

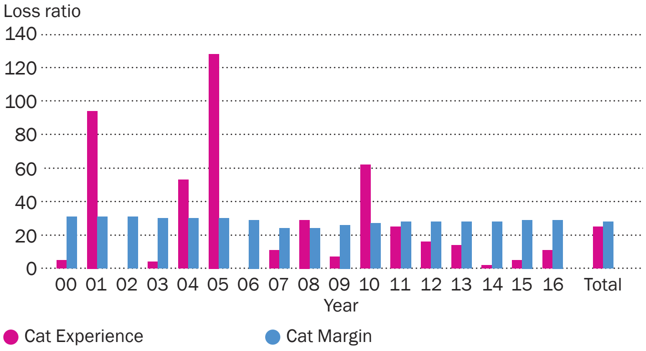
D.2 Technical provisions *continued*

Natural catastrophe

For natural catastrophe exposed classes the best estimate technical provisions include a catastrophe margin, which is set in line with the average expected catastrophe loss in a given year, as predicted by the licensed catastrophe model. The graph below shows how Beazley's historic catastrophe experience compares to the catastrophe margins held.

The graph shows the catastrophe margin by underwriting year (blue), representing the average expected catastrophe experience within the year in question. In reality, given the nature of catastrophes, they do not happen in line with average expectations, but less frequently and more severely. The catastrophes that Beazley has experienced are shown on the graph (red).

Comparison of Catastrophe Margin and Experience (%)



Note: the above graph is net of reinsurance. The premium used in the calculation of loss ratios has been adjusted to allow for historic rate change.

Comparing the total catastrophe losses that Beazley have experienced with the total amount of catastrophe margin that has been allowed for, suggests that, in total, Beazley's experience has been better than expected. The implied all years catastrophe loss ratio is 25%, compared to an all years catastrophe margin of 28%.

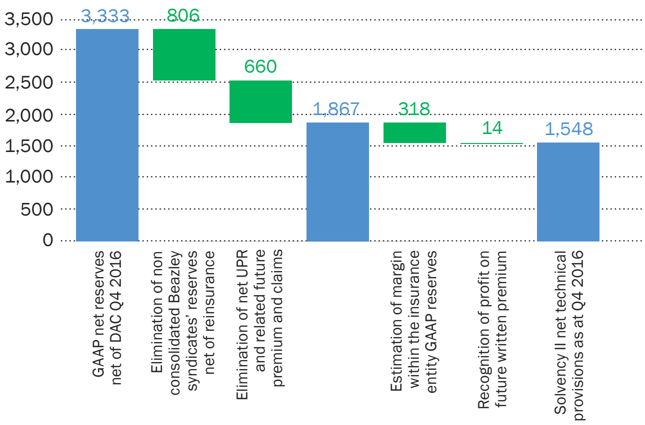
Attritional development

The absence or presence of catastrophes tends to drive the rating environment in catastrophe exposed classes, with rates reducing in the face of benign catastrophe experience, and increasing following large events. These classes are, however, also exposed to varying levels of attritional claims.

In a prolonged period of relatively benign catastrophe experience, the absence of catastrophes drives rates down. The reduced rates result in lower premiums for the same level of attritional exposure. As such, Beazley expects to see attritional loss ratios increase.

The reserves within the valuation for solvency purposes are produced by the actuaries using assumptions that target what might be termed an average or a true best estimate. The risk margin is an addition to the best estimate liabilities to ensure that the technical provisions are equivalent to the amount that insurance undertakings would be expected to require in order to take over and meet the insurance obligations.

GAAP reserves vs technical provisions for Beazley Group (US$m)



There are four elements to the difference between the GAAP and Solvency II technical provisions. First, technical provisions relating to Beazley Underwriting Limited, which is equity accounted under Solvency II, are eliminated. Secondly, items which are within GAAP technical provisions but not included under Solvency II are removed. This reduction includes both accelerating the recognition of profit with the unearned premium reserve and also a reclassification of premium debtors into Solvency II technical provisions to recognise future premium cash flows. Thirdly, as Solvency II technical provisions are calculated on a best estimate basis, the margin within the GAAP reserves is excluded. Finally, within Solvency II there is an explicit allowance for premiums and claims on bound but unincepted contracts that are not recognised under GAAP.

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

	2016 Statutory value $m	2016 Reclassification adjustments $m	2016 Solvency II valuation adjustments $m	2016 Solvency II value $m
Pension benefit obligations	6.2	–	–	6.2
Deferred tax liabilities	12.8	(21.3)	58.3	49.8
Derivatives	2.8	(2.8)	–	–
Financial liabilities other than debts owed to credit institutions	94.7	–	6.2	100.9
Reinsurance payables	177.8	(177.5)	–	0.3
Payables (trade, not insurance)	154.4	(93.1)	(17.7)	43.6
Subordinated liabilities in basic own funds	266.3	–	5.0	271.3
Any other liabilities, not elsewhere shown	152.1	61.5	67.7	281.3
Total other liabilities, excluding technical provisions	**867.1**	**(233.2)**	**119.5**	**753.4**

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

Adjustments are made to the IFRS balance to reflect the changes in net assets arising from total net Solvency II valuation adjustments. Deferred tax relating to group entities which are equity accounted under Solvency II are reclassified to the value of the Group's interest in the participations line.

Financial liabilities other than debts owed to credit insitutions
Financial liabilities comprise subordinated liabilities and retail debt which are listed on the London stock exchange. The liabilities are shown in the financial statements at fair value at date of issue less transaction costs. The liabilities are measured at fair value based on quoted market prices under Solvency II.

The subordinated liabilities of the group amount to $271m, $253m of which was 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.

Reinsurance payables
Reinsurance payables are measured at amounts due on the direct and 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.

Payables (trade, not insurance)
Payables comprises 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 of profit commissions payable and 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.

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:

	2016 $m	2015 $m
Equities	27.7	21.0
Bonds	8.0	16.3
UCITS funds	6.3	–
Cash	–	5.1
	42.0	**42.4**

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.

Beazley Underwriting Limited and the other group entities which are equity accounted under Solvency II are included in the participations line in the group Solvency II balance sheet at their net asset value. This net asset value is based on Solvency II valuations of the assets and liabilities of the individual entities measured at fair value.

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.

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, 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. and Beazley Re dac. 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	37.7	37.7	–
Reconciliation reserve	1,838.8	1,838.8	–
Subordinated liabilities	271.3	–	271.3
Total basic own funds after deductions	**2,147.8**	**1,876.5**	**271.3**
Ancillary own funds	26.5	–	26.5
Total available own funds to meet the consolidated group SCR	**2,174.3**	**1,876.5**	**297.8**
Total eligible own funds to meet the consolidated group SCR	2,174.3	1,876.5	297.8
Total eligible own funds to meet the consolidated group MCR	1,942.8	1,876.5	66.3[1]
Consolidated Group SCR	916.8		
Ratio of Eligible own funds to the consolidated Group SCR	237%		

1 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.

In the following analysis of own funds, the amounts as at 31 December 2015 are for Beazley Ireland Holdings plc, consistent with the Solvency II opening balances return submitted to the Central Bank of Ireland as at that date.

Tier 1 basic own funds

	2016 $m	2015 $m
Ordinary share capital	37.7	41.6
Share premium account	–	12.0
Reconciliation reserve	1,838.8	1,880.4
	1,876.5	**1,934.0**

At 31 December 2016 the company had issued and fully paid 523.3m shares at $37.7m. The share premium account was nil. The movements in the ordinary share capital and share premium account balances arose as a result of the scheme of arrangement which is referred to in section E.1 above.

E.1 Own funds *continued*

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:

	2016 $m
Reconciliation reserve	
Excess of assets over liabilities	2,016.0
Foreseeable dividends	(111.7)
Ordinary share capital and share premium	(37.7)
Deferred tax asset	(1.3)
Other non available own funds	(26.5)
	1,838.8

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

Tier 2 basic own funds

	2016 $m	2015 $m
Long term subordinated debt (2034)	18.0	18.0
Tier 2 subordinated debt (2026) – recalled in 2016	–	119.7
Tier 2 subordinated debt (2026) – issued in 2016	253.3	–
	271.3	**137.7**

In 2016 Beazley Group Limited repaid £76.5m of existing tier 2 subordinated debt at the first call date and Beazley Re dac issued $250m of new tier 2 subordinated debt due 2026, the net proceeds of which will 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 Facility). The Central Bank of Ireland has approved its inclusion as ancillary own funds and the method used to determine the eligible amount. This approval was received on 18 December 2015 and is valid until 31 July 2017.

The 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 on Syndicates 2623, 3622 and 3623 is provided by Beazley Re dac. These funds ($688.7m as at 31 December 2016) 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 Beazley Re dac to the group SCR.

As at 31 December 2016 the contribution of Beazley Re dac to the group SCR is $662.2m, which is lower than the value of the FAL ($688.7m) and as a result, the contribution of Beazley Re dac to basic own funds for the group was restricted by $26.5m but a corresponding $26.5m was allowable as ancillary own funds.

The value of ancillary own funds resulting from the Facility is calculated as follows:

FAL provided by Beazley Re dac – Contribution of Beazley Re dac to group SCR

Subject to the following limits:

1) Letter of credit outstandings shall not at any time exceed 35% of the value of FAL provided by Beazley Re dac through the loan agreement and the reinsurance agreement.
2) The limit of the Credit Facility of $225m.

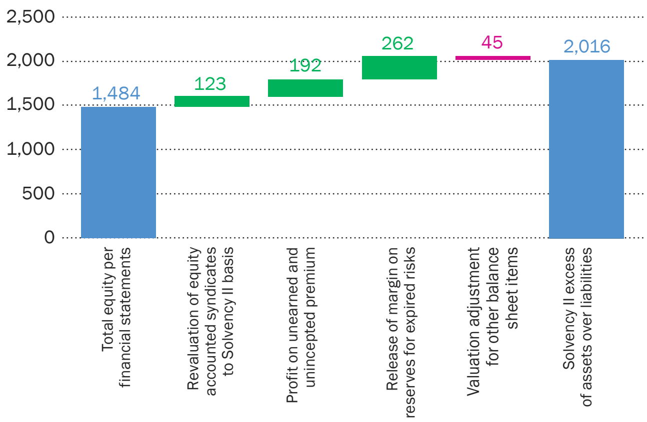
The Facility agreement is between Beazley companies and Commerzbank Aktiengesellschaft, Filiale Luxemburg, Lloyds Bank plc and The Royal Bank of Scotland plc as mandated lead arrangers of the Facility, Lloyds Bank plc as bookrunner and as agent for the Finance Parties and the following Financial Institutions; 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 2016, the basic and ancillary tier 2 own funds were eligible in full to meet the SCR. $66.3m was eligible to meet the MCR, being 20% of the MCR as at that date.

E.1 Own funds *continued*

Net asset reconciliation

(US$m)



The main difference between the GAAP and Solvency II equity relates to the differences between the two technical provisions valuations described in D.2 on page 42. These items are deemed to be taxable and a deferred tax charge is recognised on them. There are adjustments for other balance sheet items notably the write-off of goodwill and intangible assets and the revaluation of the purchased syndicate capacity. The increase in equity resulting from the elimination of margin in the GAAP reserves for expired risk for the consolidated entities is $262m or 13% of the relevant GAAP provisions

Restriction to the fungibility and transferability of own funds

Beazley Re dac's provision of 100% of the FAL and the restriction in relation to the FAL capital commitment relative to Beazley Re'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 Beazley Re dac'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, 3623 and 3622), all Beazley Re dac's capital is available to post as FAL for the purpose of supporting the underwriting activity of the group.

There are approximately $5.3m of assets held by Beazley Insurance Company, Inc 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:

	2016 $m	2015 $m
Solvency Capital Requirement	916.8	935.7
Minimum Capital Requirement	331.5	330.2

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 Central Bank of Ireland 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
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;
- 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.

E.2 SCR and MCR *continued*

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.

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 Beazley Re dac'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.4 Differences between the standard formula and any internal model

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:

- The IM uses a driver of risk approach to model diversification. The assumptions are based on the historic experience and this leads to more diversification between risk categories than is assumed in the standard formula;
- Premium and reserve risk assumptions are broadly consistent between IM and SF;
- Catastrophe risk assumptions are lower in the IM reflecting the greater diversification between natural and non-natural catastrophe risks;
- IM market risk is greater than the SF due to greater interest rate and credit spread risk assumptions as well as the explicit inclusion of inflation risk within the market risk in the IM;
- IM credit risk assumptions assume lower risk than that calculated by the SF relating to the intra-group credit risks;
- IM operational assumptions assume more risk than that calculated by the SF but then, in contrast to the standard formula, allows this to diversify with other risks; and
- IM explicitly includes profit offsetting the risk.

The undertakings in scope of the internal model used to calculate the SCR are the syndicates, Beazley Re dac, Beazley Insurance Company, Inc. and Beazley Group.

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	1,316
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	5,446
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**1,849,342**
Property (other than for own use)	R0080	0
Holdings in related undertakings, including participations	R0090	275,877
Equities	*R0100*	*0*
Equities – listed	R0110	0
Equities – unlisted	R0120	0
Bonds	*R0130*	*1,399,061*
Government Bonds	R0140	544,993
Corporate Bonds	R0150	849,499
Structured notes	R0160	0
Collateralised securities	R0170	4,569
Collective Investments Undertakings	R0180	84,657
Derivatives	R0190	1,108
Deposits other than cash equivalents	R0200	88,639
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**	**1,378**
Non-life and health similar to non-life	R0280	1,378
Non-life excluding health	R0290	1,378
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	60,269
Reinsurance receivables	R0370	0
Receivables (trade, not insurance)	R0380	26,035
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	149,356
Any other assets, not elsewhere shown	R0420	2,221,594
Total assets	**R0500**	**4,319,237**

S.02.01.02 – Balance sheet

		Solvency II value
		C0010
Liabilities		
Technical provisions – non-life	**R0510**	**1,546,122**
Technical provisions – non-life (excluding health)	**R0520**	**1,531,173**
TP calculated as a whole	R0530	0
Best estimate	R0540	1,444,433
Risk margin	R0550	86,740
Technical provisions – health (similar to non-life)	**R0560**	**14,949**
TP calculated as a whole	R0570	0
Best estimate	R0580	11,815
Risk margin	R0590	3,134
TP - life (excluding index-linked and unit-linked)	**R0600**	**3,692**
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**	**3,692**
TP calculated as a whole	R0660	0
Best estimate	R0670	2,991
Risk margin	R0680	702
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	6,214
Deposits from reinsurers	R0770	0
Deferred tax liabilities	R0780	49,811
Derivatives	R0790	8
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	100,861
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	100,861
Insurance & intermediaries payables	R0820	0
Reinsurance payables	R0830	291
Payables (trade, not insurance)	R0840	43,660
Subordinated liabilities	**R0850**	**271,272**
Subordinated liabilities not in BOF	R0860	0
Subordinated liabilities in BOF	R0870	271,272
Any other liabilities, not elsewhere shown	R0880	281,330
Total liabilities	**R0900**	**2,303,261**
Excess of assets over liabilities	**R1000**	**2,015,976**

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	75,811	247,378	362,962	976,517	50,880	36,160				**1,749,708**
Gross – Proportional reinsurance accepted	R0120	0	2,433	181,287	506	0	0				**184,226**
Gross – Non-proportional reinsurance accepted	R0130							27,504	16,313	194,572	**238,388**
Reinsurers' share	R0140	6,430	26,708	57,338	167,908	11,170	5,257	1,455	1,531	63,046	**340,844**
Net	**R0200**	**69,381**	**223,103**	**486,911**	**809,115**	**39,710**	**30,903**	**26,048**	**14,781**	**131,526**	**1,831,478**
Premiums earned											
Gross – Direct Business	R0210	77,205	251,114	376,793	882,410	53,255	36,415				**1,677,192**
Gross – Proportional reinsurance accepted	R0220	0	0	1,909	170,669	451	0				**173,030**
Gross – Non-proportional reinsurance accepted	R0230							28,094	18,346	190,843	**237,283**
Reinsurers' share	R0240	10,137	27,927	58,204	166,491	11,693	4,515	1,488	1,536	61,257	**343,248**
Net	**R0300**	**67,068**	**223,187**	**320,497**	**886,588**	**42,013**	**31,901**	**26,606**	**16,810**	**129,586**	**1,744,256**
Claims incurred											
Gross – Direct Business	R0310	51,136	120,098	146,828	470,246	21,495	15,868				**825,670**
Gross – Proportional reinsurance accepted	R0320	0	0	1,015	100,756	416	0				**102,186**
Gross – Non-proportional reinsurance accepted	R0330							9,502	-1,659	52,698	**60,541**
Reinsurers' share	R0340	9,861	22,292	26,336	87,241	7,023	1,778	-11	-896	16,537	**170,161**
Net	**R0400**	**41,275**	**97,805**	**121,507**	**483,761**	**14,888**	**14,090**	**9,513**	**-763**	**36,162**	**818,237**
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**	**34,635**	**101,910**	**150,472**	**348,783**	**17,555**	**15,917**	**10,238**	**12,241**	**46,812**	738,564
Other expenses	**R1200**										
Total expenses	**R1300**										738,564

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	21,147	2,164	**23,312**
Reinsurers' share	R1420	460	305	**764**
Net	**R1500**	**20,687**	**1,860**	**22,547**
Premiums earned				
Gross	R1510	22,056	2,616	**24,672**
Reinsurers' share	R1520	471	305	**775**
Net	**R1600**	**21,586**	**2,311**	**23,897**
Claims incurred				
Gross	R1610	17,534	-247	**17,287**
Reinsurers' share	R1620	-232	-145	**-377**
Net	**R1700**	**17,767**	**-102**	**17,665**
Changes in other technical provisions				
Gross	R1710	0	0	**0**
Reinsurers' share	R1720	0	0	**0**
Net	**R1800**	**0**	**0**	**0**
Expenses incurred	**R1900**	**7,249**	**1,415**	**8,664**
Other expenses	**R2500**	0	0	**0**
Total expenses	**R2600**			**8,664**

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.

S.05.02.01 – Premiums, claims and expenses by country

Home country – non-life obligations

		Total Top 5 and home country	Home country		
			United Kingdom	United States of America	Australia
R0010		C0140	C0080	C0100	C0110
Premium written					
Gross – Direct Business	R0110	1,602,090	834,471	720,619	47,000
Gross – Proportional reinsurance accepted	R0120	182,637	105,989	76,623	24
Gross – Non-proportional reinsurance accepted	R0130	200,300	166,157	34,143	0
Reinsurers' share	R0140	303,834	182,453	115,871	5,511
Net	**R0200**	**1,681,193**	**924,165**	**715,514**	**41,513**
Premium earned					
Gross – Direct Business	R0210	1,526,187	784,548	692,773	48,866
Gross – Proportional reinsurance accepted	R0220	171,529	99,468	72,034	27
Gross – Non-proportional reinsurance accepted	R0230	202,837	168,658	34,179	0
Reinsurers' share	R0240	308,911	183,112	115,342	10,457
Net	**R0300**	**1,591,643**	**869,562**	**683,643**	**38,437**
Claims incurred					
Gross – Direct Business	R0310	767,434	441,167	287,246	39,020
Gross – Proportional reinsurance accepted	R0320	101,465	69,698	31,760	7
Gross – Non-proportional reinsurance accepted	R0330	53,227	41,354	11,873	0
Reinsurers' share	R0340	154,797	96,420	49,731	8,646
Net	**R0400**	**767,329**	**455,799**	**281,149**	**30,381**
Changes in other technical provisions					
Gross – Direct Business	R0410	0	0	0	0
Gross – Proportional reinsurance accepted	R0420	0	0	0	0
Gross – Non-proportional reinsurance accepted	R0430	0	0	0	0
Reinsurers' share	R0440	0	0	0	0
Net	**R0500**	**0**	**0**	**0**	**0**
Expenses incurred	R0550	657,962	426,032	213,060	18,871
Other expenses	R1200	0			
Total expenses	**R1300**	**657,962**			

S.05.02.01 – Premiums, claims and expenses by country

Life obligations

		Total Top 5 and home country	Home Country
			United Kingdom
R1400		C0280	C0220
Premium written			
Gross	R1410	23,312	23,312
Reinsurers' share	R1420	764	764
Net	**R1500**	**22,547**	**22,547**
Premium earned			
Gross	R1510	24,672	24,672
Reinsurers' share	R1520	775	775
Net	**R1600**	**23,897**	**23,897**
Claims paid			
Gross	R1610	17,287	17,287
Reinsurers' share	R1620	-377	-377
Net	**R1700**	**17,665**	**17,665**
Changes in other technical provisions			
Gross	R1710	0	0
Reinsurers' share	R1720	0	0
Net	**R1800**	**0**	**0**
Expenses incurred	R1900	8,664	8,664
Other expenses	R2500	0	
Total expenses	**R2600**	**8,664**	

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	**37,684**	37,684	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	**1,838,778**	1,838,778	0	0
Subordinated liabilities	R0140	**271,272**	0	271,272	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	**1,316**	0	0	1,316
The amount equal to the value of net deferred tax assets not available at the group level	R0170	**1,316**	0	0	1,316
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 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
whereof 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	**1,316**	**0**	**0**	**1,316**
Total deductions	**R0280**	**1,316**	**0**	**0**	**1,316**
Total basic own funds after deductions	**R0290**	**2,147,735**	**1,876,463**	**271,272**	**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	**26,522**		**26,522**	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**	**26,522**		**26,522**	**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**	**2,174,257**	**1,876,463**	**297,794**	0
Total available own funds to meet the minimum consolidated group SCR	**R0530**	**2,147,735**	**1,876,463**	**271,272**	
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**	**2,174,257**	**1,876,463**	**297,794**	0
Total eligible own funds to meet the minimum consolidated group SCR	**R0570**	**1,942,772**	**1,876,463**	**66,309**	
Minimum consolidated Group SCR	**R0610**	**331,543**			
Ratio of Eligible own funds to Minimum Consolidated Group SCR	**R0650**	**585.98%**			
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**	**2,174,257**	1,876,463	297,794	0
Group SCR	**R0680**	**916,751**			
Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	**R0690**	**237.17%**			

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	**2,015,976**
Own shares (held directly and indirectly)	R0710	0
Foreseeable dividends, distributions and charges	R0720	111,674
Other basic own fund items	R0730	**39,001**
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	0
Other non available own funds	R0750	26,522
Reconciliation reserve	**R0760**	**1,838,778**
Expected profits		
Expected profits included in future premiums (EPIFP) – Life Business	R0770	406
Expected profits included in future premiums (EPIFP) – Non-life business	R0780	74,581
Total expected profits included in future premiums (EPIFP)	**R0790**	**74,987**

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

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	580,005
PRM01	Premium risk	401,095
MKT01	Market risk	367,968
OPL01	Operational risk	258,865
CRT01	Credit risk	87,187

Calculation of Solvency Capital Requirement		C0100
Total undiversified components	**R0110**	**1,695,120**
Diversification	R0060	-778,369
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	**R0200**	**916,751**
Capital add-ons already set	R0210	0
Solvency capital requirement	**R0220**	**916,751**
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	331,543
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 Irelands 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: Full consolidation
IE	213800VTOMUWD41GIT12	LEI	Beazley plc	5 – Insurance holding company	Public limited company	2 – Non-mutual	CBI	100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method: Full consolidation
IE	549300WWULDAFCPEU084	LEI	Beazley Re dac	3 – Reinsurance undertaking	Incorporated company limited by shares	2 – Non-mutual		100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method: Full consolidation
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: Full consolidation
US	213800OBLNEDLYDMHI69	LEI	Beazley Insurance Company, Inc.	2 – Non life insurance undertaking	Company limited by shares	2 – Non-mutual	Conneticut Ins. Dept.	100.00%	100.00%	100.00%	1 - Dominant	100.00%	1 - Inc. in scope	1 - Method: 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
GB	213800LTO9NXM1U44A43	LEI	Beazley Corporate Member (No.5) 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	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: 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: 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: 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: Full consolidation
AU	213800DDCCFO9XTJW492	LEI	Australian Income Protection 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: 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: 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: 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: 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: 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: 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: 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: 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: 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
GB	21380052V9LP6NH9W342GB11111	Specific code	Equinox Global Limited	10 – Ancillary services undertaking	Company limited by shares	2 – Non–mutual		36.00%	36.00%	36.00%	2 - Significant	36.00%	1 - Inc. in scope	3 - Method 1: Adjusted equity
US	21380052V9LP6NH9W342US11112	Specific code	Capson Corp., Inc.	10 – Ancillary services undertaking	Company limited by shares	2 – Non–mutual		32.00%	32.00%	32.00%	2 - Significant	32.00%	1 - Inc. in scope	3 - Method 1: Adjusted equity
MT	21380052V9LP6NH9W342MT11113	Specific code	Falcon Money Management Holdings Limited	8 – Credit institution, investment firm and financial institution	Company limited by shares	2 – Non–mutual	Malta Financial Services Authority	25.00%	25.00%	25.00%	2 - Significant	25.00%	1 - Inc. in scope	3 - Method 1: Adjusted equity
UK	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: 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	1 - Method: Full consolidation

Beazley plc

2 Northwood Avenue
Santry
Dublin
D09 X5N9
Ireland

Phone: +353 (0)1 854 4700
Email: info@beazley.ie

www.beazley.com