Moments of truth

Moments of truth

Beazley Ireland Holdings plc ('the company') is a holding company within the Beazley plc group. These accounts are for Beazley Ireland Holdings plc and its subsidiaries ('the group') only.

When catastrophes hit, for us and our clients they are moments of truth

Insurance cannot make everything right. However, it can help people begin to rebuild their lives after devastating natural catastrophes. In 2017, one of the worst years on record for such events, the group's claims teams worked tirelessly to fulfil the promises that our underwriters had made.

Strategic report

Directors' statement and auditor's report

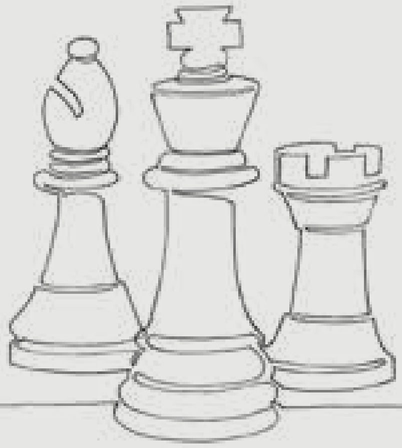
Financial statements

Our key differentiators

We create value through the implementation of three key differentiators – consistently applied and nurtured across our specialist insurance operations around the world

Entrepreneurial spirit

We look for individuals with a strong sense of ownership for the business they handle who are willing – indeed keen – to be accountable for their decisions



Strong partnerships

Strong long term relationships with brokers, reinsurers and clients have sustained our business over three decades

Diversified business

We target a diverse underwriting portfolio and actively manage the different insurance cycles to achieve consistent results year on year

Our key differentiators

Entrepreneurial spirit

We look for individuals with a strong sense of ownership for the business they handle who are willing – indeed keen – to be accountable for their decisions

"Beazley's successful track record for organic growth and innovation was something which was attractive to me. It generates an extremely strong and cohesive corporate culture."

Lorena Segovia
Financial lines regional manager for continental Europe

Beazley's success over more than three decades has been due, largely, to its ability to attract talented individuals and teams with an entrepreneurial mindset, and give them the resources and tools to build a profitable business.

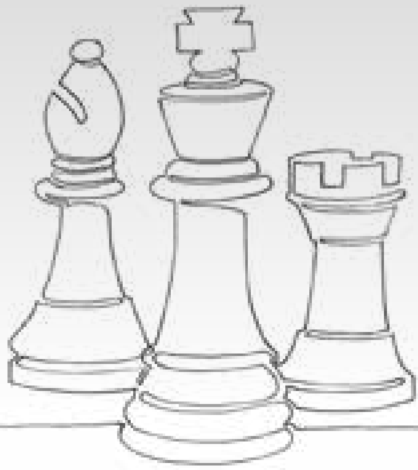
This process continued to take place in 2017. Plans to expand our specialty lines business internationally outside the US are the responsibility of a team led by Gerard Bloom, who joined Beazley in 2016, excited by this entrepreneurial challenge. The team plans to harness technology to maximise the productivity of underwriters and develop Beazley's products across a number of geographies outside the US. There is also a new focus within the team on providing coverage for financial institutions. Lorena Segovia, pictured left, joined the team in May 2017 to spearhead the growth of Beazley's financial lines business in continental Europe.

A little over a decade ago, Mike Donovan joined Beazley's then fledgling business in the US with similarly large ambitions. In 2009, his team launched Beazley Breach Response, now one of the leading cyber insurance products in a market that has seen explosive growth in demand in recent years.

Beazley is well regarded and is perceived as offering a congenial environment in which teams can come and build their business. These teams typically have a strong underwriting track record and excellent market relationships. The group's property and marine divisions have both grown and diversified their books successfully in this way in recent years.

Strong partnerships

Strong long term relationships with brokers, reinsurers and clients have sustained our business over three decades



Nearly all of the group's business is transacted through brokers and the quality of our broker relationships influences the business we see at Lloyd's and around the world. Maintaining those relationships is central to the role of our underwriters and to our growing broker relations team around the world, led by Dan Jones.

Each year, we conduct detailed research with our brokers to understand how they view the service that the group offers. Results naturally vary by team and geography, but the view of the group as a whole that emerged from the 2017 survey was very positive. Our net promoter score – a measure of brokers' willingness to recommend Beazley – was even higher among claims brokers than among the brokers who deal exclusively with our underwriters. Not all insurers see claims service as a source of differentiation: Beazley do.

Many of our client relationships are also long term, and all are underpinned by trust. Our treaty reinsurance team, in particular, has supported many of its cedents for more than two decades. In the summer of 2017, when three major hurricanes hit the Caribbean and south eastern coast of the US in quick succession, the affected insurers backed by Beazley knew that our support would be swift.

Moment of truth

Customer relationships can be strengthened – or damaged – in the aftermath of catastrophe events. The reaction from brokers to Beazley's claims performance was very positive. One observed: "Beazley have been very supportive and proactive pre/post the hurricanes. We are in regular communication on a number of accounts and they are already assisting many clients by advancing funds."

Our key differentiators *continued*

Diversified business

We target a diverse underwriting portfolio and actively manage the different insurance cycles to achieve consistent results year on year

The diversification of an insurer's portfolio shows its worth most clearly in years in which one or more lines of business incur heavy losses. This proved to be the case in 2017 with the treaty reinsurance division recording a combined ratio of 107% and the property division a combined ratio of 130%. Balancing this, our specialty lines division, the company's largest, delivered a combined ratio of 89%.

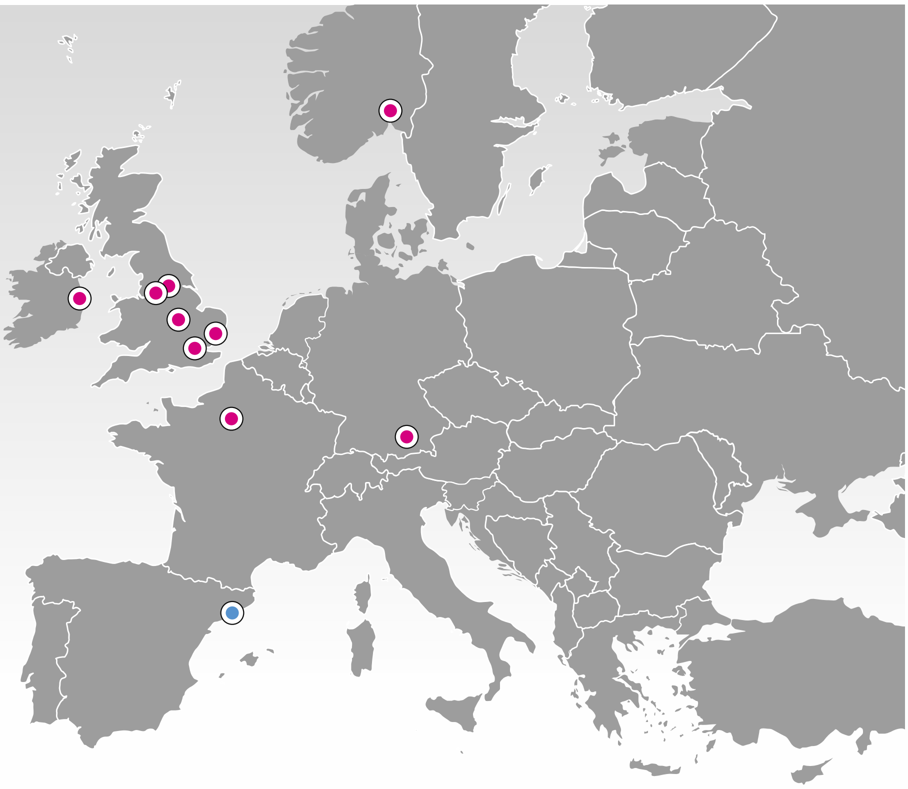
The outcome for the group as a whole was a modest underwriting profit in a year in which the Lloyd's market is expected to incur a material underwriting loss.

Geographic diversification also plays an important role in our business. Beazley's historical focus primarily on the US market is beginning to weaken due to the growth of our business in Europe, Asia and Latin America. Our specialty lines division, in particular, is driving forward plans for significant growth in these markets that will further reduce our net exposure to claims spikes or economic weakening in the US.

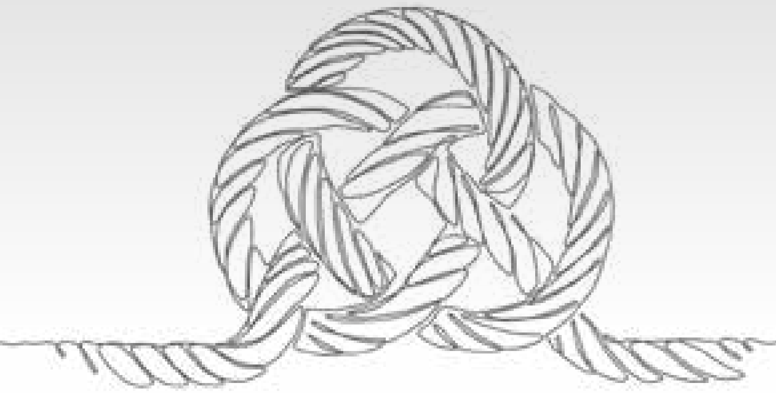
The principle of diversification also extends to the management of our cash and investments. Beazley's $4.9bn investment portfolio, which generated a return of 2.9% in 2017, includes a variety of uncorrelated asset classes to maximise risk-adjusted performance (see page 32).

Growing our network of Beazley offices

Barcelona
Birmingham
Dublin
Ipswich
Leeds
London
Manchester
Munich
Paris
Oslo



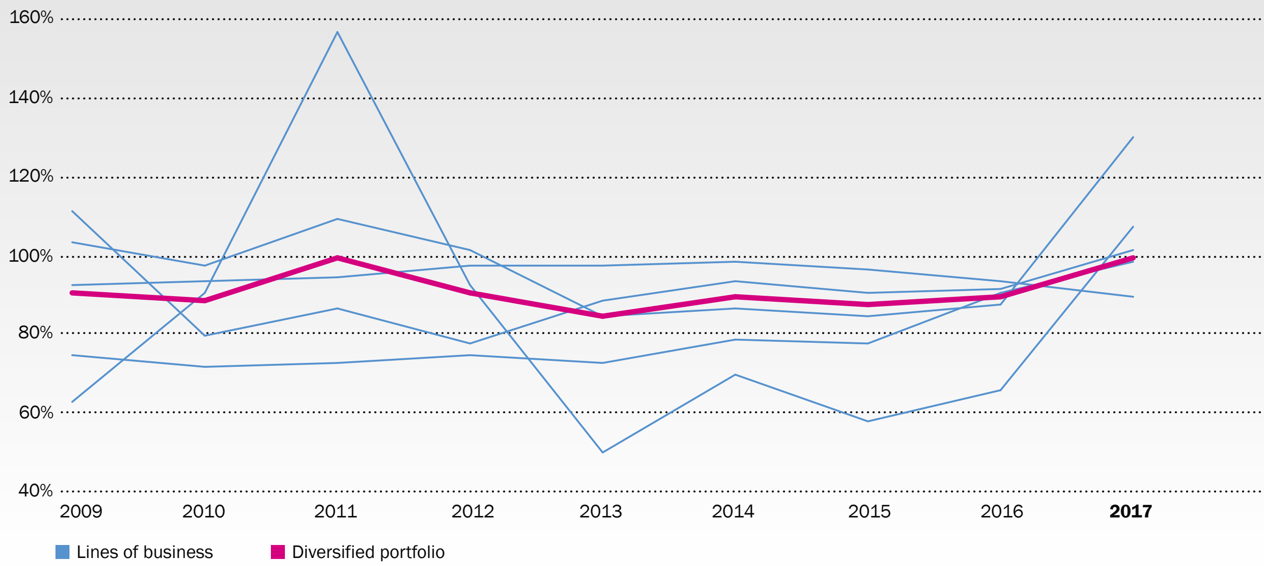
New office
Existing office



Diversified portfolio

The spread of our overall portfolio by division and the impact this diversification has had on our combined ratio over the past eight years can be seen in the chart below.

Diversified portfolio achieves consistent combined ratio through market cycles



Our key differentiators *continued*

Diversified business

Managed gross premiums growth by division $m

Marine

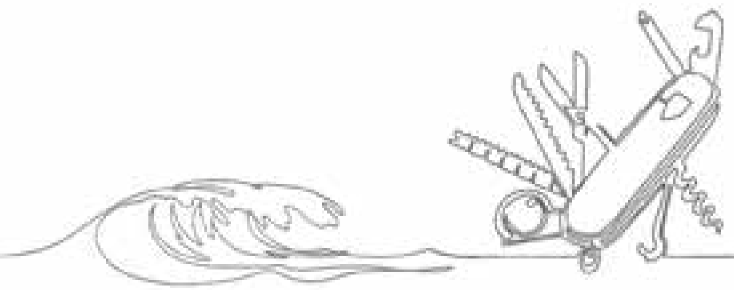
We help insure in excess of 20% of the world's ocean-going tonnage and are the pre-eminent leader of voyage and tow business in the London market. We insure 60% of the Forbes' List of the 25 Biggest Public Oil & Gas Companies. We have extensive experience insuring a wide variety of cargoes including project cargo, fine art and specie.

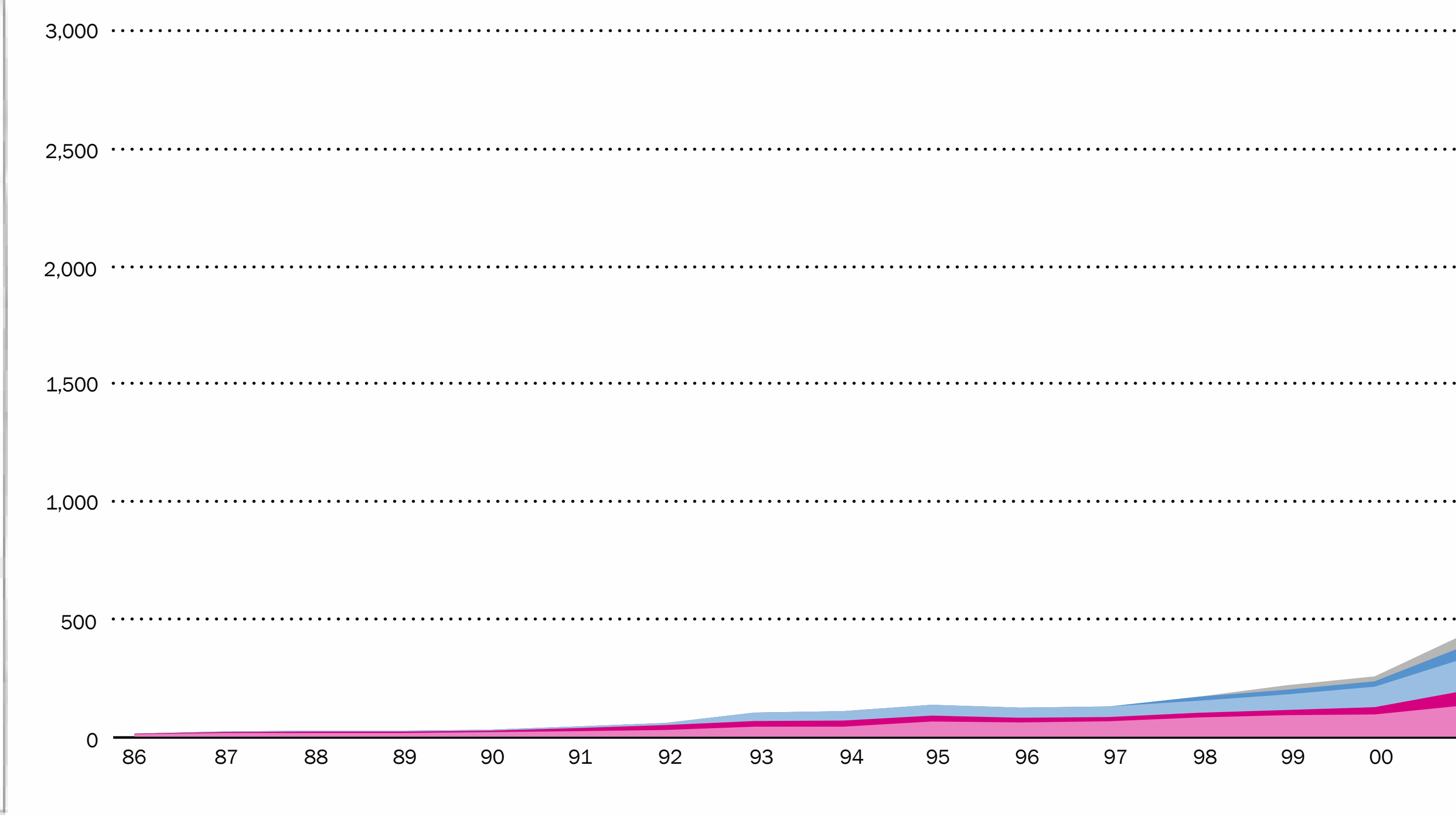
Find out more pages 18 to 19

Political, accident & contingency

In addition to traditional lines such as contract frustration, expropriation and credit, we insure a growing number of businesses against terrorism and political violence. Our personal accident product is written on both an insurance and reinsurance basis and covers a number of niche classes.

Find out more pages 20 to 21





Property

We've protected clients ranging from Fortune 1000 companies to homeowners through 25 years of natural and man-made catastrophes. We underwrite this business through three platforms: Lloyd's, the US and Singapore, with a business focus on commercial property, engineering and construction risks and select homeowners' business.

Find out more pages 22 to 23

Reinsurance

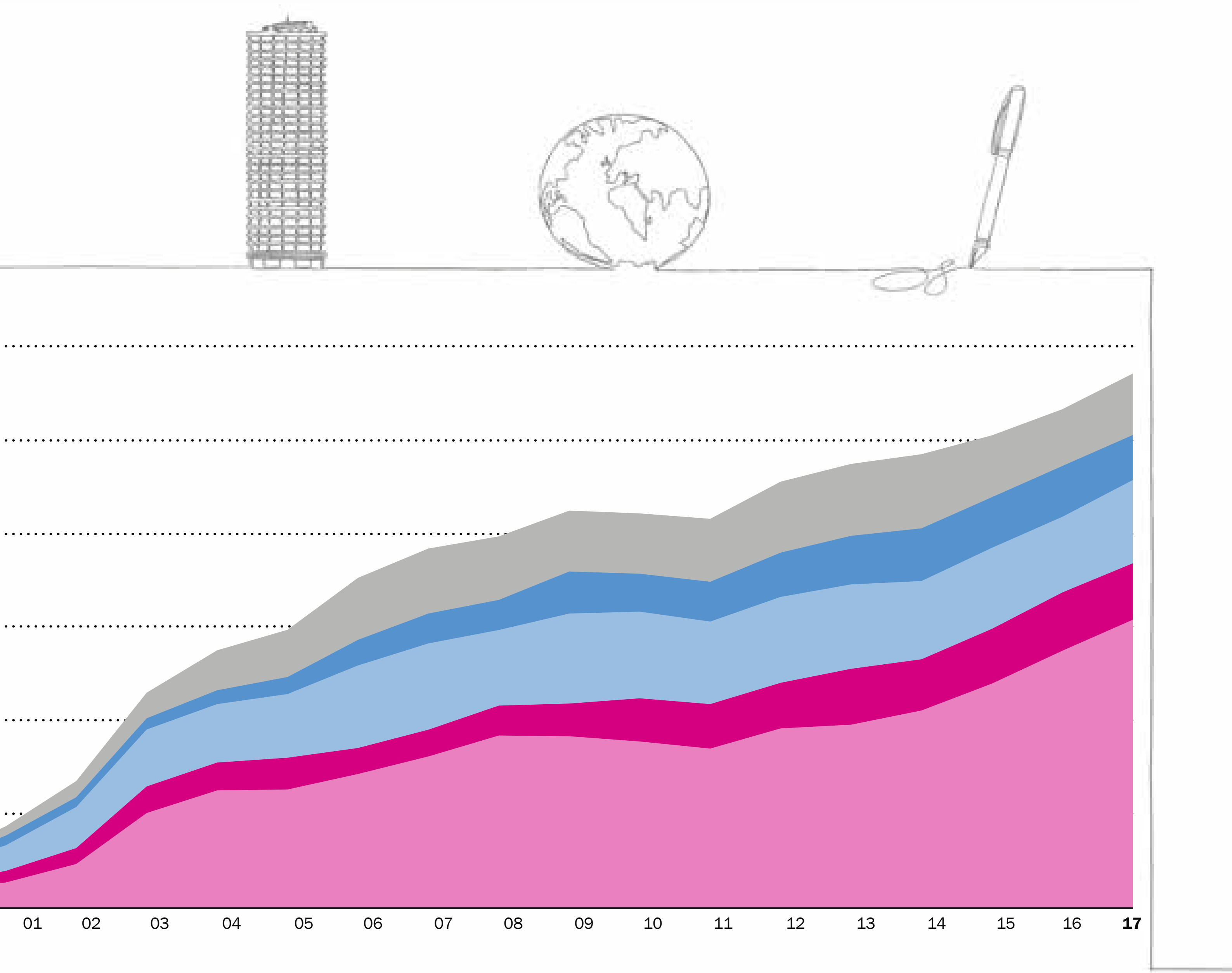
The reinsurance team specialises in writing worldwide property catastrophe, per risk, aggregate excess of loss and pro-rata business, and casualty clash. Approximately 80% of our top clients have reinsured with us for 20 years or more.

Find out more pages 24 to 25

Specialty lines

Specialty lines comprises management liability and professional liability risks, including cyber liability, underwritten for clients on both a primary and excess basis in North America, Europe and elsewhere. Our clients are served both by our underwriters at Lloyd's and by our local underwriters in hubs around the world.

Find out more pages 26 to 27



Our business model and strategy

Beazley's vision is to become, and be recognised as, the highest performing specialist insurer. The group's business model, strategy, and approach to risk management are geared to the achievement of this vision, as well as to creating value for our stakeholders

Our business model

Reconfirmed annually through the business planning process, our business model is as follows:

- We are a specialist insurer. We have a targeted product set, largely in commercial lines of business, and underwrite each risk on its own merits;
- We employ highly skilled, experienced and specialist underwriters and claims managers;
- We tend to write capped liabilities;
- We operate through specific insurance hubs rather than seeking a local presence in every country in which we do business; and
- We transact business through brokers and work with selected managing general agencies and managing general underwriters to improve distribution in specialist niches.

Our strategy

Our strategy is directed towards the achievement of our vision, which is to become, and be recognised as, the highest performing specialist insurer. To this end, our strategy comprises:

- Prudent capital allocation to achieve a well diversified portfolio that is resistant to shocks in any individual line of business;
- The creation of an environment in which talented individuals with entrepreneurial spirit can build successful businesses;
- The ability to scale our operations to ensure that client and broker service keeps pace and, wherever possible, improves as the company grows; and
- Consistent investment in product innovations to provide better products and services to improve our clients' risk transfer.

Risks

Given the nature of our business, the key risks that impact financial performance arise from insurance activities and fall into the following categories:

- Market cycle risk:
  The risk of systematic mispricing of the medium tailed specialty lines business which could arise due to a change in the US tort environment, changes to the supply and demand of capital, and companies using incomplete data to make decisions;
- Natural catastrophe risk:
  The risk of one large event caused by nature affecting a number of policies and therefore giving rise to multiple losses. Given Beazley's risk profile, this could be a hurricane, major windstorm or earthquake;
- Non natural catastrophe risk:
  This risk is similar to natural catastrophe risk except that multiple losses arise from one event caused by mankind. Given Beazley's risk profile, examples include a coordinated cyber attack, an act of terrorism, an act of war or a political event;
- Reserve risk:
  The risk that the reserves put aside for claims to be settled in the future turn out to be insufficient; and
- Market (asset) risk:
  The risk that the value of investments could be adversely impacted by movements in interest rates, exchange rates, default rates or external market forces.

Our approach to managing these and other risks is described in detail on page 40

How we measure value creation

For investors of Beazley plc

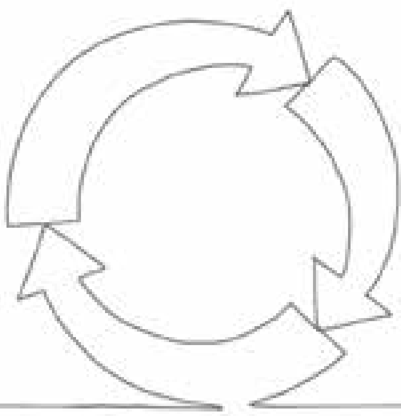
We measure value creation for Beazley plc investors through our underwriting performance, reflected in our combined ratio, and through our financial strength, which is demonstrated by our surplus in economic capital requirement (ECR) assessed on a Beazley plc group level. Our combined ratio in 2017, a year of exceptionally high natural catastrophes, was 99%. In the five years prior to 2017 it averaged 88%. Capital is measured at the ultimate parent company level. After Beazley plc has paid its second interim dividend, Beazley plc's capital surplus will total 35% of ECR compared to our target range of 15% to 25%.

For staff

Beazley employs talented people and we invest accordingly in expanding their skills and helping them build rewarding careers. We measure the impact of these investments on the perceptions of our people in two main ways: by monitoring staff retention levels and through a detailed employee engagement survey, which we conduct every two years. On both counts, the evidence is strongly positive. Our staff retention levels are very high and the most recent employee engagement survey, conducted in 2017, positioned Beazley in the top quartile of the 6,000 companies surveyed by Aon Hewitt.

For customers

Nearly all business at Beazley comes through brokers. We monitor broker and client perceptions of our service – particularly our claims service – in a variety of ways, including through a detailed annual broker survey. The 2017 survey, conducted with more than 4,000 brokers, showed a strong net promoter score (NPS) for our underwriters, reflecting a high willingness to recommend Beazley. Among brokers who had experienced our claims service the NPS was higher still.



2017 in review

Claims service is our product and our claims team moved swiftly in 2017 to redeem our promise to our policyholders

In a year that tested the mettle of many insurers, the group performed strongly, delivering a profit before income tax of $171.5m (2016: $298.9m) on gross premiums written that rose by 7% to $2,343.8m (2016: $2,195.6m). After absorbing the impact of an exceptional series of natural catastrophes, we achieved a modest underwriting profit, with a combined ratio of 99% (2016: 89%).

Claims service is our product and our claims teams moved swiftly in the wake of the hurricanes, earthquakes and wildfires to redeem our promise to our policyholders. By the end of the year we had disbursed more than $110m in cash advances and claims settlements to help our insureds in the Caribbean and US in the wake of Hurricanes Harvey, Irma and Maria, the two earthquakes that rocked central Mexico in September 2017 and the California wildfires in October and December 2017, the worst in that state's history.

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

The losses we paid in 2017 were well within the scenarios for which our underwriting teams routinely plan. A detailed claims plan is a major part of the annual business plan for divisions exposed to potential catastrophe losses. In 2017 our plans included a larger role for technology than in prior years, with sophisticated satellite imagery enabling claims adjusters to be dispatched rapidly to the Beazley clients located in the areas most severely affected by the storms.

These events were, in aggregate, by far the largest insurance industry losses since 2011, accounting for an estimated $100bn in claims. After five years of largely benign catastrophe experience (superstorm Sandy in 2012 being the only significant exception), it is not surprising that pricing for the affected lines of business had eroded significantly. In the property insurance and reinsurance markets, price declines were aggravated by a large influx of new capital from pension funds and other investors seeking profitable diversification from other asset classes. Across our portfolio as a whole, premium rates fell 1% in 2017.

Prudent risk selection and effective cycle management are disciplines that any insurer must get right if it is to prosper in the long term. The events of 2017 punished insurers that had succumbed to the lure of premium growth in short tail lines with inadequate pricing. Our relatively strong performance in such a challenging year speaks to the resilience of our business model.

The events of late 2017 have since spurred material price rises in the classes of business directly affected. We saw reinsurance renewal prices climb by 3% for non-US business and 8% for US business in January 2018. Our property division, which derives 71% of its business from the US, saw prices overall rise by 6% with the biggest increases focused on the large risk business that we underwrite predominantly in London. In the marine market, premium rates for cargo business – the class most affected by the Atlantic storms rose by between 2.5%-5.0% in the last quarter of 2017.

It is too early to say how sustainable these price increases will prove to be. Much will depend on the continuing appetite of non-traditional capital providers, who shouldered some of the largest reinsurance losses.
In other areas we expect to see a decline in a practice that frequently undermines pricing discipline in a soft market – the subsidisation of unprofitable lines of business by profitable lines. Prior to last year, this underpinned the willingness of many insurers to countenance combined ratios of over 100% on their marine books, whilst catastrophe-related claims were low or non-existent. Now that offsetting profits from other short tail lines have disappeared, some upward adjustment in marine rates can be expected.

The same may prove true for some of the large risk business underwritten by teams within our largest division, specialty lines. The specialty lines division, which focuses on professional liability, management liability and cyber risks, has accounted for much of Beazley's growth in recent years as margins on small and mid sized risks – much of it accessed by our underwriters in the US – have remained attractive. However aggressive competition from new entrants in areas such as large risk architects' and engineers' professional liability and medical malpractice for large US hospitals have held back our growth in these segments. This too may change as opportunities for cross-subsidisation diminish.

Across our five divisions, the balance of our underwriting portfolio continued to serve Beazley well in 2017. We were able to achieve growth of 11% in specialty lines on gross premiums written and, after a slow start to the year, our underwriters in the US delivered premium growth of 12% to write $778.0m (2016: $695.7m).

Specialty lines also significantly increased their contribution of prior year reserve releases by 77% to $121.4m (2016: $68.5m). Our consistent approach to reserving means that some distribution of prior year reserves for specialty lines business is often possible in excess of three years after the business was underwritten, by which time claims have largely been paid.

The scale of these reserve releases was reduced by the elevated claims that we saw – and had expected to see – in the wake of the 2008 financial crisis; but with this period now well behind us, the contribution specialty lines should make to overall reserve releases is on the increase.

Looking ahead, we are budgeting for growth in all of our divisions in 2018, the first time this has been the case for over 10 years. Overall, we expect to reach double digit growth in 2018.

Growth initiatives

Our approach to growth remains unchanged. We do not sacrifice profitability for growth. Instead we look for growth from three sources: increasing the flow of profitable business to our teams through brokers who know they can rely on Beazley for high quality service; designing new products to cater for our clients' changing needs; and expanding geographically into new markets.

We pursued all of these growth strategies in 2017. A team within specialty lines under the leadership of Gerard Bloom focused on geographic growth in markets where Beazley has historically had a modest presence, including continental Europe, Canada, Latin America and parts of Asia. To facilitate this growth and that of other teams, we took two important steps.

In February 2017 we acquired Creechurch Underwriters, a Canadian managing general agency specialising in small and mid sized specialty business. And in July 2017 we received authorisation from the Central Bank of Ireland to underwrite business through a new Dublin-based insurance company, Beazley Insurance dac, broadening our access to business from continental Europe.

Our longstanding preference is for organic growth, but our purchase of Creechurch Underwriters was an exception that was not difficult to justify. We had supported the company with underwriting capital since its creation in 1996 and we knew the team extremely well. Now that we have a local presence in Canada, we see significant growth opportunities and have already begun to supplement the existing team with new underwriters focusing on media liability, cyber and environmental liability business.

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

In Asia and Latin America, we continue to focus on the growth opportunities available through regional hubs. Singapore has been playing such a role in Asia and Miami continues to grow in importance as a hub for Latin American business: we expanded our specialty lines teams in both locations in 2017.

Other divisions also targeted growth in geographies that, while not new to Beazley, were new for the products in question. Our marine division, the last Beazley division to establish a local presence in the US, began underwriting hull and liability cover for the marine and marine construction industries from our New York office in December 2017, targeting business not normally seen by our underwriters in London. Earlier in 2017 we also began writing large scale property business locally in the US on the same basis – a move that should stand us in good stead in the changed market conditions now prevailing.

2017 in review *continued*

All measures to grow internationally come with risk and they do not always pay off. In 2017 we closed the office in Dubai that we had opened in 2014 and sold the renewal rights to our Australian accident and health portfolio. In both instances we did not see the profit potential as large enough to warrant further investment. Crispin Hodges, who set up our Dubai office, has a strong track record of business development for Beazley in Asia and Europe and upon his return has taken up the position of international business producer as a cross division resource for our marine, political, accident & contingency and property divisions. However, some members of our Australian accident and health team joined Blend Insurance Solutions, a Sydney-based Lloyd's service company, which took over our local portfolio.

Product innovation is another important source of growth in the specialist markets in which Beazley operates. Our track record in this area is strong and we continued to expand our product range in 2017. We have seen particularly strong demand in the US for our Virtual Care product, launched in July 2017, which addresses the wide range of risks affecting both healthcare and technology companies in the fast-growing telemedicine market.

Sometimes product adaptation can be as important as pure innovation. In November, we relaunched our market-leading cyber product for small and mid sized businesses, Beazley Breach Response (BBR). When the product was first launched in 2009, the strongest demand was for liability cover and breach response services following the loss or theft of large numbers of customer records. This need has not gone away, but recent cyber attacks have sensitised other organisations, such as manufacturers, to the operational risks they face. The new BBR offers far broader protection against first party risks such as business interruption.

Given the depth of our experience, the cyber market continues to afford strong growth opportunities for Beazley. This spring the European Union's General Data Protection Regulation will come into force, continuing a process through which data regulation outside the US has been catching up with – and in some respects exceeding – the stringency of US regulation. Beazley's product range is adapted to the needs of clients of all sizes and in all industries.

All of our business at Beazley is sourced through brokers and, even when we are not offering new products or expanding geographically, we can rely on brokers to show us attractive business in our specialist lines. Our brokers continue to rate our teams highly for service – both in underwriting and claims – and we strive to maintain their confidence and that of their clients. In most of the markets in which we do business, there remains significant headroom for growth, providing pricing levels are attractive – as in many cases they are now becoming.

We are also exploring writing a portfolio of facilities business through a newly created syndicate, syndicate 5623. This syndicate will be backed mainly by third party capital and is expected to deliver returns with lower volatility.

Investment performance

The group's profitability in 2017 was supported by a very strong investment performance. Our financial assets returned $138.3m, or 2.9% (2016: $93.1m, 2.0%). Signs of strength in the global economy helped equities and corporate credit exposures to rally strongly throughout much of the year, generating good returns on these elements of our portfolio. However, expectations of higher US interest rates led to rising yields later in the year, adversely impacting the value of our bond exposures.

Investment return

2.9%

We restructured our fixed income investments in 2016, adopting additional credit exposures, and this proved helpful in 2017 as declining credit spreads generated additional value. As a result, our core portfolio returned a respectable 1.6% (2016: 1.5%), despite rising yields in the final months of the year. Our capital growth investments produced a particularly strong return, at 11.0% (2016: 5.6%), driven by equities, to which we added during the year. We kept a focus on emerging markets, which performed particularly well in 2017.

Risk management

2017 was our second year of operating within the new Solvency II regime with the group's internal model approved by the Central Bank of Ireland. During this period we have seen the work undertaken by the capital modelling team in the pre-application stages pay off. As explained on page 41, we have in place a capital model which reflects the reality of the business and can be used across the group to support business processes and inform on how risk is changing. The group has continued to use an external consultancy to provide independent challenge and to support the production of a detailed validation report to the Beazley plc board.

Although risk appetite is established with reference to earnings volatility, there are a number of risks that do not necessarily have an immediate financial consequence but which are taken into account by our processes. Reputational risk is one example. The qualitative risk appetite statements first introduced in 2015 have helped business functions prioritise activity within their teams to ensure that all parts of the business operate as the board expects.

The latest report by the Beazley plc chief risk officer to the Beazley plc board confirmed that the control environment has not identified any significant failings or weaknesses in key processes and that the group is operating within risk appetite as at 31 December 2017.

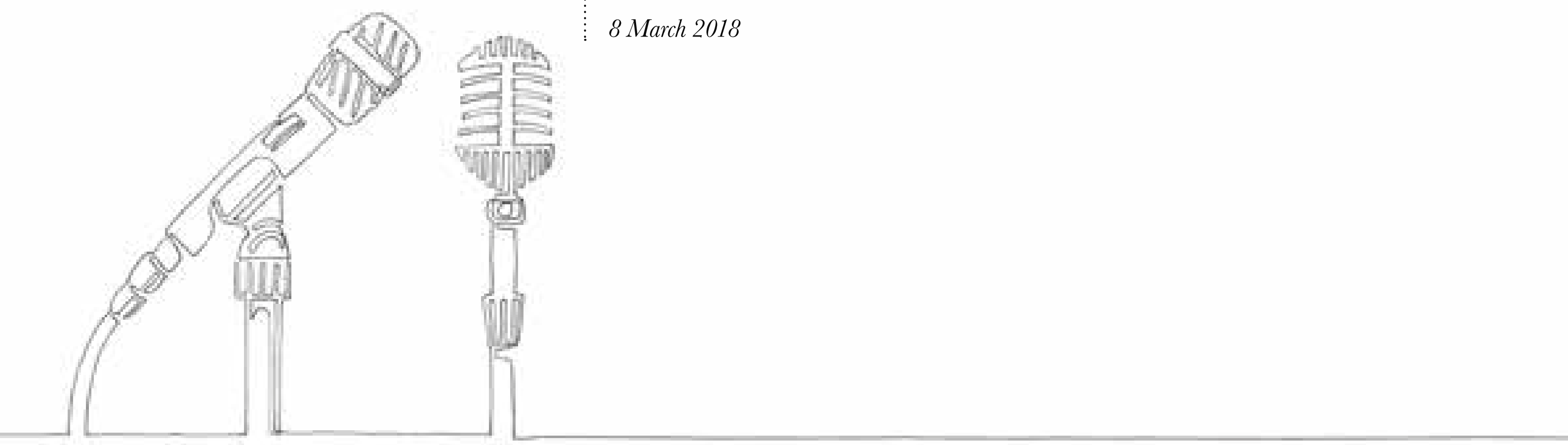
Outlook

Some variations in profitability, year on year, should be expected in a business such as ours that specialises in assuming the risks of others. However over the years we have built a portfolio that is expressly designed to cushion the shocks that will inevitably occur from time to time in individual lines of business. As such we were able to obtain an average combined ratio of 99% across all divisions.

Our business model should, equally, prove well adapted to the more favourable market conditions now prevailing. Our underwriters have shown patience and discipline through a difficult period during which the supply of capital in many parts of our market significantly outstripped demand, resulting in steadily falling prices. Through this period we have continued to invest in talent and today the group employs 117 more underwriters than in 2011, the last year in which premium rates were significantly affected by catastrophe losses.

Looking ahead, the expertise and dedication of our underwriters will be a necessary but not sufficient condition for profitable growth. We are also looking to our technology and operations teams to enhance our underwriters' productivity and ensure they have the data they need to make well informed decisions.

Also, as in 2017, we will continue to rely heavily on the preparedness of our claims teams to redeem the promises that our underwriters have made.



The breadth of our expertise in all these areas means that we can innovate in ways that benefit our clients and our brokers but without necessarily assuming more underwriting risk. Insurance is, for the most part, a complicated, jargon-laden business and anything we can do to make our clients' lives simpler and easier is likely to be rewarded with increased loyalty. This is particularly true of small business clients that do not employ professional risk managers. Last year we simplified and streamlined our data breach product, BBR, while expanding the cover offered. We are committed to providing 'beautifully designed insurance' across our product range and see considerable scope for further simplification of policies and processes.

A well established design precept is sometimes expressed as 'what you see is what you get', meaning that there should be no mismatch between the way in which a product or service is sold and the way in which it performs. It is a precept we have long sought to apply at Beazley in relation to all of our stakeholders. Today's world offers enough surprises: we have no desire to add to them.

In a catastrophe year such as that of 2017, a short term reduction in profits is inevitable. However, with appropriate cycle management and a balanced portfolio of business, the temporary reduction in profits can be minimised before deploying resources to take advantage of improving underwriting conditions.

N Lillis
Director

8 March 2018

2017 underwriting report

Diverse portfolio delivers underwriting profit

In a year defined by a high incidence of natural catastrophe events, the group delivered a creditable underwriting performance achieving a combined ratio of 99% (2016: 89%) on gross premiums written of $2,343.8m (2016: $2,195.6m).

The combined cost to the insurance industry of Hurricanes Harvey, Irma, Maria, the Mexican earthquakes and the California wildfires is estimated to be around $100bn. The loss to Beazley arising from these events, net of reinsurance, is expected to be between $200m to $300m, with the majority of the impact being felt in our property and reinsurance divisions. Our balanced portfolio, which has underpinned our consistent underwriting performance in recent years, meant we were able to weather the events of 2017, while continuing to support our insureds who have been affected.

Given the level of insured natural catastrophe losses during the year, we were pleased to report a positive underwriting result. This result was driven by a number of factors. In particular, we have benefited from the fact that our largest division, specialty lines, was largely unaffected by these natural disasters. We have also benefited from effective cycle management over the past few years, reducing our exposure to catastrophe business, with the group's risk budget decreasing from $574m in 2013 to $370m in 2017.

Rating environment

The rating environment in 2017 once again proved to be challenging, with an average decrease in rates of 1% (2016: decrease 2%). Most of our lines of business saw decreases in rates compared to 2016, with political, accident & contingency experiencing rate decreases of 4%, marine decreasing by 3% and reinsurance rates decreasing by 2%. Rates on renewals in the property and specialty lines divisions remained stable compared to 2016.

With the claims activity seen in the second half of the year, market rate increases across a number of lines of business are expected in 2018.

Premium retention rates

In 2017, we were able to maintain a strong retention of business from existing clients and brokers. We believe that being able to work with clients and brokers for a number of years has enabled Beazley to provide coverage which was sustainably priced while still covering the insureds' needs.

The table below shows our premium retention rates by division compared to 2016:

Retention rates[1]	2017	2016
Marine	88%	87%
Political, accident & contingency	79%	79%
Property	82%	81%
Reinsurance	85%	85%
Specialty lines	84%	84%
Overall	84%	83%

1 Based on premiums due for renewal in each calendar year.

We would generally expect to experience some level of volatility between individual divisions, however, we are pleased that our overall premium retention rate remains broadly in line with our five year average.

Divisional commentary

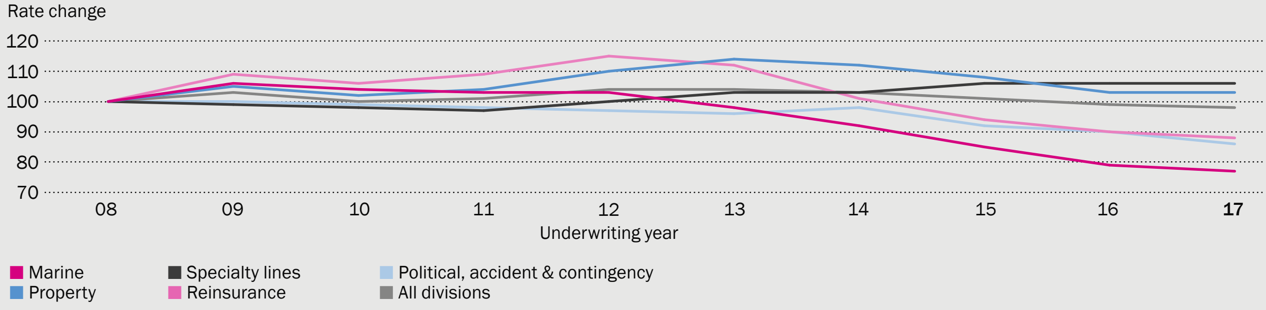
In 2017, specialty lines once again delivered strong growth, achieving an 11% increase on 2016 with premiums of $1,292.2m (2016: $1,159.8m). Profit increased to $228.7m (2016: $136.7m), partly driven by the prior year reserve releases which increased from $68.5m to $121.4m while the combined ratio improved to 89% (2016: 93%).

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

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

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

Cumulative renewal rate changes since 2008 (%)



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

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

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

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

The newly created division took the difficult decision to close its Australian operations in 2017 which, alongside an uptick in claims in the political and contingency teams, contributed to a reduction in profits to $8.2m (2016: $28.0m). Our plans for 2018 include growing our accident and health business in the US, under the leadership of Brian Thompson, and exploiting some of the cross selling opportunities between the division's various product lines.

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

Outlook

After a sustained period of low catastrophe activity, the insurance industry experienced one of the most costly years for natural disaster losses on record in 2017. Beazley's 2017 result benefited from our balanced business model and our active risk appetite management, leaving us well placed to benefit from any improvement in market conditions in 2018. We have already seen rate increases in the latter part of 2017 and early 2018 across our property and treaty books as the market recalibrates its pricing of catastrophe exposed risks.

We also see continued opportunities for profitable growth in specialty lines in 2018, with further development of our US platform and the first full year of operation for our international business.

While market conditions may improve across some of our product lines in 2018, Beazley's core underwriting philosophy remains stable. Our underwriting approach of exercising discipline across a diverse portfolio of specialist insurance products, particularly in lines of business where competitive pressures are strongest, will remain a key component of our underwriting strategy. This strategy has delivered an underwriting profit in difficult market conditions during 2017 and we are confident that we are well placed as we move into 2018.

E McGivney
Director

8 March 2018

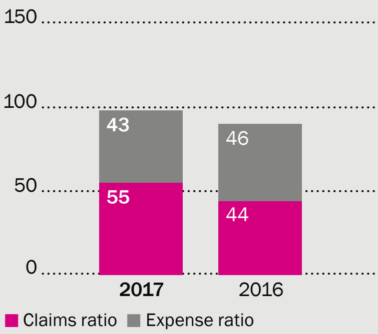
Performance by division

Balanced portfolio leads to overall underwriting profit in active catastrophe market

Marine

Clive Washbourn
Head of marine

Combined ratio %



	2017 $m	2016 $m
Gross premiums written	267.6	247.4
Net premiums written	233.2	220.7
Results from operating activities	19.6	35.3
Claims ratio	55%	44%
Expense ratio	43%	46%
Combined ratio	98%	90%
Rate change	(3%)	(7%)

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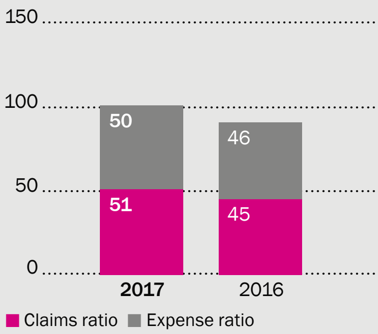
Political, accident & contingency

Christian Tolle
Head of political, accident & contingency

Combined ratio %



	2017 $m	2016 $m
Gross premiums written	214.3	245.3
Net premiums written	190.8	215.6
Results from operating activities	8.2	28.0
Claims ratio	51%	45%
Expense ratio	50%	46%
Combined ratio	101%	91%
Rate change	(4%)	(4%)

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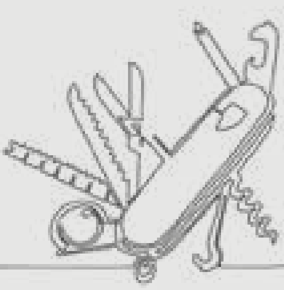
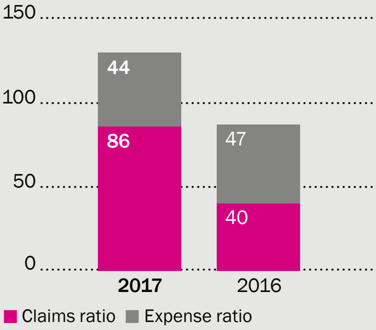


Property

Mark Bernacki
Head of property

Combined ratio %



	2017 $m	2016 $m
Gross premiums written	362.9	329.7
Net premiums written	300.0	277.1
Results from operating activities	(67.9)	52.1
Claims ratio	86%	40%
Expense ratio	44%	47%
Combined ratio	130%	87%
Rate change	–	(4%)

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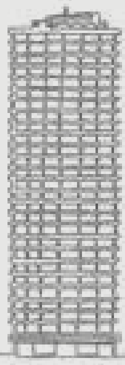
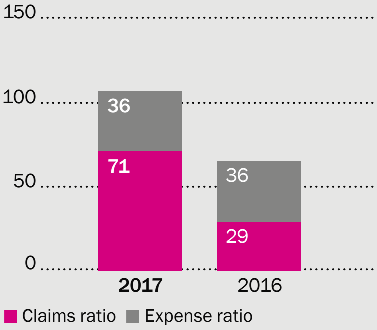


Reinsurance

Patrick Hartigan
Head of reinsurance

Combined ratio %



	2017 $m	2016 $m
Gross premiums written	206.8	213.4
Net premiums written	134.6	141.2
Results from operating activities	4.0	61.2
Claims ratio	71%	29%
Expense ratio	36%	36%
Combined ratio	107%	65%
Rate change	(2%)	(4%)

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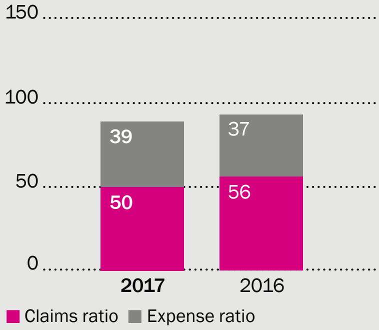
Specialty lines

Adrian Cox
Head of specialty lines

Combined ratio %



	2017 $m	2016 $m
Gross premiums written	1,292.2	1,159.8
Net premiums written	1,120.2	999.4
Results from operating activities	228.7	136.7
Claims ratio	50%	56%
Expense ratio	39%	37%
Combined ratio	89%	93%
Rate change	–	1%

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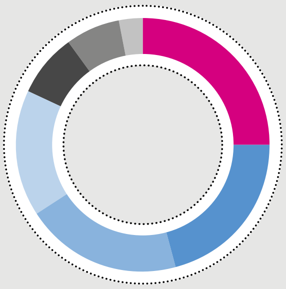
Marine

Clive Washbourn
Head of marine

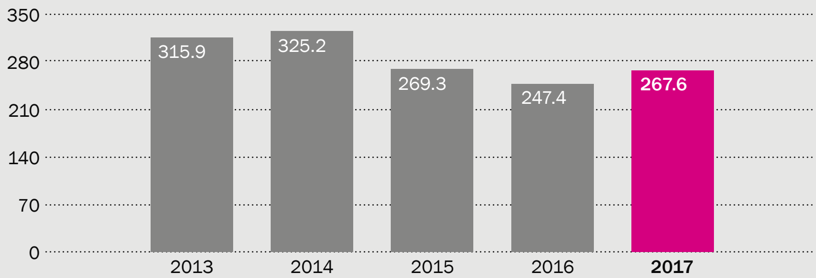
Competition in the lines of business transacted by the marine division intensified further in 2017, leading to a combined ratio of 98% (2016: 90%) on gross premiums written of $267.6m (2016: $247.4m).

Portfolio mix



Liability	25%
Cargo	21%
Hull & miscellaneous	20%
Energy	16%
War	8%
Aviation	7%
Satellite	3%

Gross premiums written ($m)



Gross premiums written

$267.6m

The exceptional string of storms that buffeted the Caribbean and south eastern coast of the US in August and September 2017 resulted in substantial cargo and pleasure craft losses, neither of which significantly affected Beazley. Despite this, net insurance claims still increased by 26% in 2017 to $124.7m (2016: $98.9m). For the marine market as a whole, the practice of subsidising underperforming marine lines with profits from other lines of business may now become less feasible in the wake of large industry-wide catastrophe losses.

Renewal rates for marine and energy risks at the beginning of 2018 suggest that a period of more disciplined underwriting may indeed be beginning.

A focus on disciplined underwriting is not new to our team. In recent years our strategy has also included diversifying our book into new lines of business and niches. This can continue to offer profitable opportunities when market conditions in our historical lines are severely depressed.

Pricing in the marine hull and machinery market remained exceptionally competitive throughout 2017 – an indication, as in previous years, of too much insurance capacity chasing too few ships. Rates in the war risks market also continued their downward trajectory. The waters off Yemen, Libya and Nigeria are now among the world's most dangerous but demand for cover is far lower than it was in the sea lanes off the horn of Africa in the earlier years of this century.

In the cargo market, we underwrite both a global account out of London and a UK account from the regional offices located in Ipswich, Manchester, Leeds and Birmingham. Premiums for our UK account have continued to build, rising 30% to $18.6m in 2017. For global business we have found the terms of many of the broker-led market facilities that have proliferated in recent years unattractive. Some of these were only marginally profitable prior to the recent catastrophes.

Our marine liability account performed well in 2017. The team, led by Phil Sandle, provides liability cover for shipowners and a wide variety of marine and other businesses. In the US, we write a substantial trucking account in Texas through a Lloyd's coverholder. We see some potential to expand our US liability and hull business through local underwriters accessing business that would not normally come to London.

Market conditions for our energy business remained very challenging in 2017. This business is naturally sensitive to the price of oil, which at recent levels has led to many rigs standing idle. However more efficient drilling techniques are changing the economics of the industry and may stimulate stronger demand for insurance. This would also benefit our team focusing on insuring sub-sea equipment, much of which is used for energy exploration and exploitation.

Our aviation team saw a spike in claims activity earlier in the year, which has now normalised. The aviation market remains exceptionally competitive, a tendency our team counteracts by focusing on smaller, hard to place risks that command higher premiums.

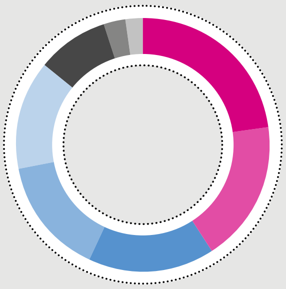
Our satellite book performed well in 2017, avoiding some substantial losses on risks that our underwriter, Denis Bensoussan, had seen but had declined to underwrite.

The quality of our underwriting and the strength of our claims service have long distinguished Beazley's marine team. We continued to hire highly experienced individuals with exceptional track records. In 2017 we welcomed Stephen Vivian and John Moy in New York to focus on the development of our US business and Richard Young in London, who joined our hull team.

Political, accident & contingency

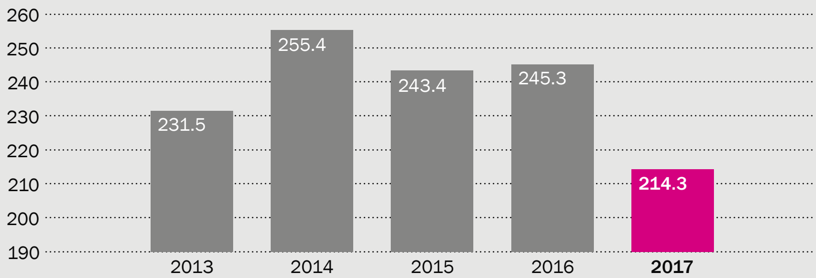
Christian Tolle
Head of political, accident & contingency

Portfolio mix



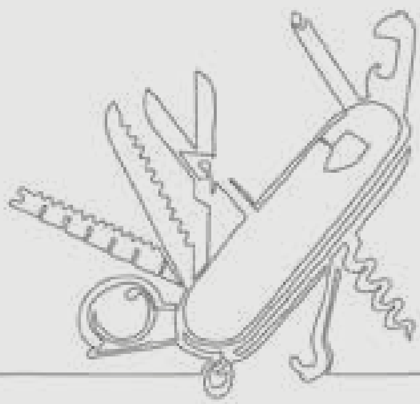
Political	23%
Contingency	18%
PA direct	16%
PA reinsurance	15%
Stand alone terrorism	14%
Life direct	9%
Sports	3%
Life reinsurance	2%

Gross premiums written ($m)



Gross premiums written

$214.3m



An upsurge in political risk, terrorism and contingency claims reduced profits for Beazley's political, accident & contingency (PAC) division in 2017. The division – created through the merger of the political risk & contingency division with the life, accident & health division – recorded a combined ratio of 101% (2016: 91%) on gross premiums written of $214.3m (2016: $245.3m).

The division writes political risks, terrorism and contingency business (the latter predominately event cancellation risks) from offices in London, New York, Paris and Singapore. London is currently the focus for all of our life business, through a dedicated Lloyd's life syndicate, and most of our current accident and health business. Nevertheless we see substantial growth opportunities for our accident and health team in the US.

Our political risks team, led by Roddy Barnett, saw its heaviest claims since 2008. Our political risk underwriters take large lines – typically up to $20m – on carefully evaluated risks which unfortunately did not generate the strong returns in 2017 that had been seen previously. This was due to negative developments on risks from prior years.

Claims for property damage following terrorist attacks have also been subdued in recent years, although the attacks on Brussels airport in March 2016 were an exception, with significant property damage alongside the unfortunate loss of life.

Contingency claims also rose in 2017 due to the cancellation of a number of events following the devastation wrought by Hurricanes Harvey, Irma and Maria in the US in August and September. Our business exists to pay claims and the events that impacted our results in 2017 were also an opportunity for our claims teams to reinforce the value of the Beazley policy. A survey of brokers specialising in contingency insurance conducted in the second half of the year showed that those brokers who had direct experience of our claims service rated us more highly than those that did not (both categories rated our service highly, however). This came as no surprise.

Market conditions for our life, accident & health team in London continued to prove challenging last year, with competition depressing premium rates. We saw rates on this business fall by 3% in the course of the year, following rate declines in 2016 and 2015.

In May we made the difficult decision to withdraw from the Australian market, selling the renewal rights to our local accident and health business to Blend Insurance Solutions, a Sydney-based Lloyd's service company. The team in Australia had worked hard to expand our group personal accident business, moving away from unprofitable superannuation fund accounts, but we did not see sufficient scope for growth in this market to warrant continued investment.

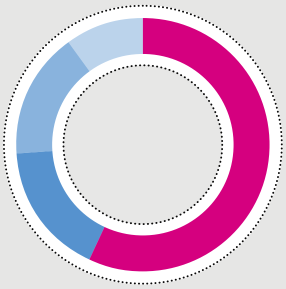
In May, we were delighted to welcome Brian Thompson to head our US accident and health team. Our focus in the US remains on the sale of supplemental medical products to help employees enhance the cover their employers provide under high deductible benefit plans. This market continues to grow in line with the growing burden of healthcare costs on American employers.

Property

Mark Bernacki
Head of property

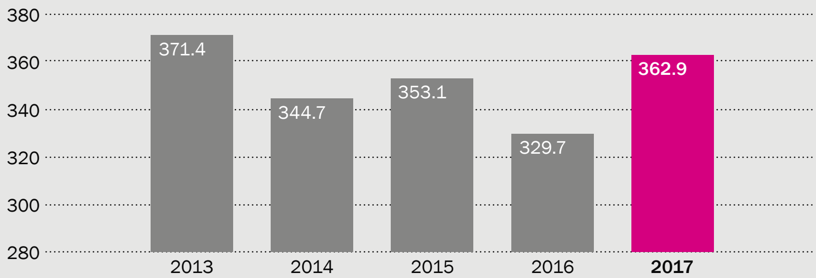
For Beazley's property division 2017 proved an eventful year, with hurricanes, earthquakes and wildfires affecting clients in the US, the Caribbean and Mexico, three of our largest territories. The most active year for property catastrophe losses since 2011 saw the division's combined ratio rise to 130% (2016: 87%) on gross premiums written of $362.9m (2016: $329.7m).

Portfolio mix



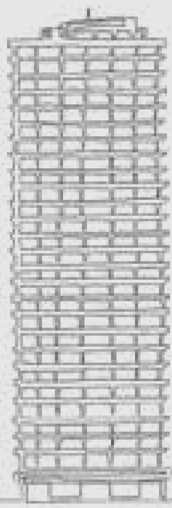
Commercial property	57%
Small property business	17%
Jewellers & homeowners	16%
Engineering	10%

Gross premiums written ($m)



Gross premiums written

$362.9m



For Beazley, the financial impact of the losses was within expectations. Crucially for our clients, our claims team had meticulously prepared for such scenarios. These preparations ensured we were able to provide the supportive claims service our policyholders have the right to expect, whether they be large or small businesses or homeowners. As at the end of the year the property division had already disbursed $41.2m in advance payments to help our clients begin repairs.

The impact of the events on pricing in the market has been material, partly because prices had fallen so low in the relatively benign catastrophe environment over the last decade. Renewal rates on our large risk property book underwritten at Lloyd's rose 6% at the beginning of 2018. We have seen similar rate rises on our smaller property book, written on a surplus lines basis locally in the US.

We are a specialist insurer with individual risk selection and pricing at the heart of our business. We will not therefore be applying blanket rate rises of equal size to all accounts and will continue to recognise and reward high quality clients.

Stronger prospective margins have prompted us to review our underwriting appetite for 2018. However for our open market large risk property team in London, 2017 was a challenging year with rates falling 2% at January 1 renewals, reflecting a continuation in the pricing declines we had seen in previous years. The profitability of our book was materially stronger than the Lloyd's market average, but to achieve this we had to turn down a growing volume of risks that did not meet our requirements.

In April, we extended our large risk property underwriting capabilities to the US in order to obtain access to business that we were not seeing in London. London will continue to be the main focus for our large risk property business with Simon Jackson retaining global responsibility for this segment. In the past, Beazley has found that the flow of US risks to our London underwriters has continued to grow in tandem with the development of our locally underwritten US business, and we expect that this will also prove the case for large property risks given the stronger demand now in evidence.

In the US, our commercial property team and our homeowners' team both performed well in 2017, achieving premium growth of 7% and 13% respectively in a challenging market. We were delighted to welcome Joe Morrello back to Beazley at the beginning of the year to lead both teams. We underwrite US business on a surplus lines basis, focusing on risks that are not normally attractive to the standard, or 'admitted' market. Our clients and brokers value speed of service, both in underwriting and claims, which we were able to demonstrate in 2017.

In London, we saw growth of 74% in 2017 in specialist property lines such as jewellers' block, fine art and specie under the leadership of Simon Aitchison. Our small business unit, led by Paul Bromley, grew 21% to $121m, supported by accounts that came to us through our acquisition of Creechurch Underwriters in Canada. Most of the business this team underwrites is sourced from Lloyd's coverholders, with whom we have strong long term relationships, but we avoided the US flood risks that made coverholder business a source of large losses to some Lloyd's syndicates in 2017.

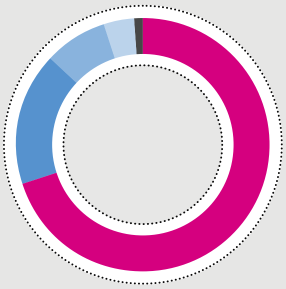
Our last major line of business – construction and engineering – saw a decline in demand in Singapore in 2017, where we underwrite risks through the Lloyd's construction consortium. However, the consortium, which is active in London as well as Singapore, expanded to six syndicates in the course of the year and is now a well recognised lead market for the largest construction risks. As tightening capacity brings rate rises for these large complex risks, our team, led by Colin Rose, should be well positioned.

Overall, we expect market conditions and margins to improve in 2018, which will positively impact most of our trading teams.

Reinsurance

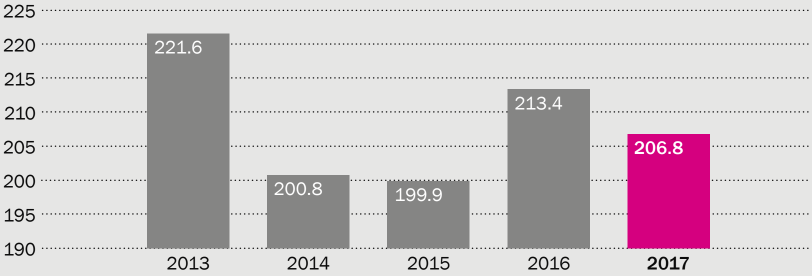
Patrick Hartigan
Head of reinsurance

Portfolio mix



Property catastrophe	70%
Property risk	17%
Korean Re	8%
Miscellaneous	4%
Casualty clash	1%

Gross premiums written ($m)



Gross premiums written

$206.8m

A tumultuous year for reinsurers resulted in a sharp increase in the combined ratio of Beazley's reinsurance division, to 107% (2016: 65%) on gross premiums written of $206.8m (2016: $213.4m). However, a combined ratio of 107% is still a good performance in such conditions and was possible because of the balance of the portfolio, which is actively managed.

The impact of catastrophe losses in the US and Mexico was mitigated by the steps we have taken in recent years to diversify our book geographically. A little over half of our business now derives from US cedents, down from 66% a decade ago. Outside the US, our European and Asian books performed well in 2017.

However, we remain committed to supporting our US cedents and to retaining a strong presence in the world's largest reinsurance market. In the weeks following Hurricanes Harvey, Irma and Maria, we advanced substantial funds to US insurers who were, themselves, under pressure to respond swiftly to clients' claims. We did the same in the wake of the wildfires in California in October.

All of these were material events for the reinsurance market. Current estimates of the total insured cost of the 2017 Atlantic hurricane season stand between $90bn and $95bn. The two Mexican earthquakes are expected to cost insurers between $2.5bn and $5bn, while the Californian wildfires, which destroyed or damaged more than 14,000 homes, are expected to add a further $10bn to the total insurance bill. These events contributed to an increase of $57.3m to the division's net insurance claims in 2017.

Losses from these events all fell within our expectations and provided an opportunity for the traditional reinsurance market to demonstrate its value and staying power.

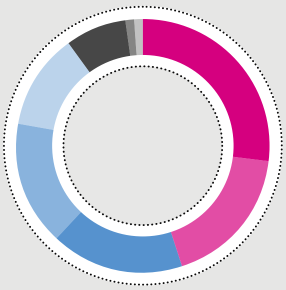
As a result, we saw rate rises of 5% on average on renewal business at the beginning of 2018. We plan to increase our underwriting by 3% for non-US business and 8% for US business in the course of 2018, reflecting the improved margins now available.

Looking ahead, it is possible that the events of 2017 will accelerate changes in the pattern of demand for reinsurance as well as supply. The impact of this year's storms has refocused attention in the US on the heavy public subsidies which are currently required to maintain the National Flood Insurance Program and the potential partnership role that private sector insurance and reinsurance could play in providing sustainable cover in the future.

Specialty lines

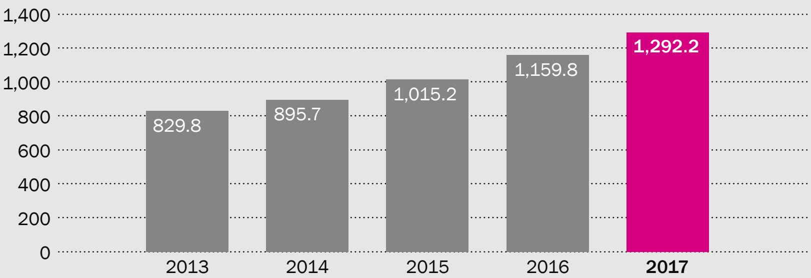
Adrian Cox
Head of specialty lines

Portfolio mix



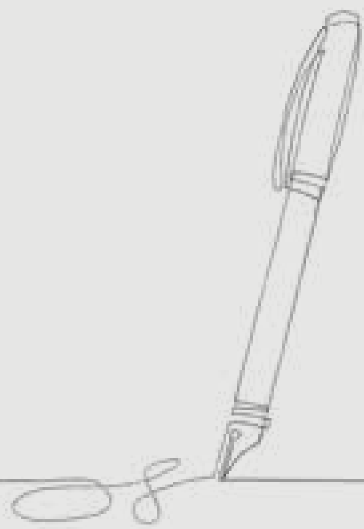
Technology, media & business services	27%
Management liability	18%
Small business	17%
Professions	16%
Healthcare	12%
Treaty	8%
Crime	1%
International financial lines	1%

Gross premiums written ($m)



Gross premiums written

$1,292.2m



Specialty lines, Beazley's largest division, delivered strong growth in 2017, writing gross premiums of $1,292.2m (2016: $1,159.8m). The division's most developed geographic market – the US – continued to perform well, while we moved to capitalise on the growing demand for our products in Canada, Europe, Asia and Latin America.

Specialty lines encompasses a diverse portfolio of management liability, professional liability and cyber insurance business, underwritten for companies and professional services firms of all sizes around the world. Our London underwriters tend to mainly focus on large risks, whereas underwriters elsewhere – and particularly in the US – focus more on small and mid sized risks.

We do not expect to see material spill over effects in specialty lines from the large scale catastrophe-related claims that other lines of business experienced in 2017. Nevertheless, the market may show less tolerance for underpricing in our lines, where competition for US business has been particularly acute and the claims environment has deteriorated. These include commercial directors' and officers' (D&O) insurance and some large professional liability business.

As has been the case for several years now, we saw better margins, and the most attractive growth opportunities, in smaller scale business in 2017. Our acquisition in February of Creechurch Underwriters, a Canadian managing general agency focusing on small business, expanded our access to this business in North America.

Beazley maintains a consistent approach to reserving, which means that prior year reserve releases from years with relatively benign claims experience can make a significant contribution to our profits. This proved to be the case in 2017, with reserve releases from recent underwriting years increasing to $121.4m (2016: $68.5m). The more difficult years, from a claims perspective, immediately following the 2008 credit crunch are now well behind us.

Demand for cyber insurance, both in the US and around the world, continued to grow in 2017 and Beazley benefited from the depth of our expertise and the quality of our products in this market. In November we relaunched our market-leading Beazley Breach Response (BBR) cyber product in the US to address growing demand for robust first party cyber cover from small and mid sized US businesses. In the years after BBR was first launched in 2009, the main driver of demand for cover was third party liability for data breaches and the onerous regulatory requirements governing how breaches must be handled. These factors still weigh heavily, but the risk of production stoppages from cyber attacks – particularly ransomware attacks – has recently grown. We relaunched BBR to provide 360° protection for the full array of cyber risks that now concern our clients.

For larger clients, we continue to offer robust cyber cover through our Beazley InfoSec product. And, for the world's largest enterprises, our Vector partnership with Munich Re affords fully customised cover for each organisation. Working closely with Munich Re, we have been instrumental in helping clients build some of the highest 'towers' of cyber coverage seen in today's market. Moving steadily closer to $1bn, these towers reflect the scale of cyber risk as perceived by multinational corporations.

Growing international demand for cyber cover is one of the trends that prompted us, early in 2016, to develop plans to accelerate the growth of our international business outside the US. In December that year we hired Gerard Bloom to lead a new team focusing on these international opportunities, including financial institutions risks. Financial institutions can in some respects be seen as 'regulated technology companies' and the relevance of our specialist products to their needs – not just cyber insurance but also D&O and professional indemnity cover – is high.

We made good progress in the implementation of our international growth strategy in 2017. In July we obtained authorisation from the Central Bank of Ireland for our new Dublin-based insurance company, Beazley Insurance dac, which will transact business in Europe from branches located in the UK, France, Germany and Spain. We began writing our first risks through the company in October. During the course of the year we also hired underwriters in Spain and Germany and – further afield – in our two hub offices in Singapore (serving Asian markets) and Miami (serving Latin American markets).

Our product range in all of these markets is geared to local needs but – in addition to cyber cover – we anticipate strong demand in the years to come for D&O cover, and for medical malpractice cover for healthcare providers. Healthcare markets around the world are highly regulated – often a driver of demand for insurance – and we see much of our US medical malpractice experience as relevant to the needs of healthcare clients in other countries.

In all of these markets, we have considerable headroom in which to grow. The same remains true of the US where, despite our strong recent growth, we are far from having exhausted profitable growth opportunities. However, the profitability of our growth will also depend on the efficiency of our operations. With this in mind, we have been investigating opportunities to reduce distribution costs for small business and to streamline and package our products.

One key measure of efficiency is the volume of business that an individual underwriter can transact. This is particularly relevant in the small business arena where a swift response to submissions also boosts the productivity of our brokers. Working closely with Beazley plc's chief operating officer, Ian Fantozzi, and his operations team, we are exploring the scope to apply robotics to many of the repetitive tasks that have historically constrained the productivity of underwriters.

Much talk in the insurance industry has focused on the impact of technology; some of it utopian, some apocalyptic. Beazley ended 2017 with 239 specialty lines underwriters – 69 more than we began the year with. We see technology as a supplementary tool for our underwriters and claims professionals, not a substitute for their skills.

Financial review
Group performance

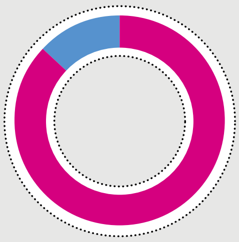
Strong investment return in a year of large natural catastrophes

Statement of profit or loss

	2017 $m	2016 $m	Movement %
Gross premiums written	2,343.8	2,195.6	7%
Net premiums written	1,978.8	1,854.0	7%
Net earned premiums	1,869.4	1,768.2	6%
Net investment income	138.3	93.1	49%
Other income	35.5	32.7	9%
Revenue	**2,043.2**	**1,894.0**	**8%**
Net insurance claims	1,075.7	855.6	26%
Acquisition and administrative expenses	773.1	719.2	7%
Foreign exchange loss	1.9	5.7	(67%)
Expenses	**1,850.7**	**1,580.5**	**17%**
Share of profit/(loss) of associates	0.1	(0.2)	(150%)
Finance costs	(21.1)	(14.4)	47%
Profit before tax	**171.5**	**298.9**	
Income tax expense	(38.8)	(42.9)	
Profit after tax	**132.7**	**256.0**	
Claims ratio	58%	48%	
Expense ratio	41%	41%	
Combined ratio	99%	89%	
Rate decrease	(1%)	(2%)	
Investment return	2.9%	2.0%	

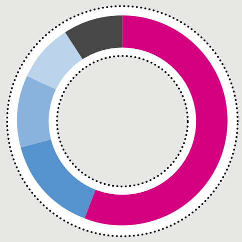
The group is of the view that some of the above metrics constitute alternative performance measures (APMs). Further information on our APMs can be found in the glossary on page 123.

Insurance type



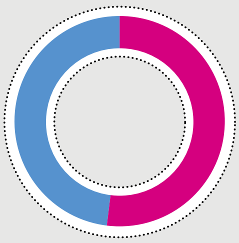
Insurance	87%
Reinsurance	13%

Gross premiums written by division



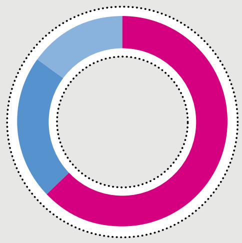
Specialty lines	56%
Property	15%
Marine	11%
Reinsurance	9%
Political, accident & contigency	9%

Premium written by claim settlement term



Short tail	52%
Medium tail	48%

Geographical distribution



USA	63%
Worldwide	22%
Europe	15%

Profit

Profit before tax in 2017 was $171.5m (2016: $298.9m). The group's combined ratio increased to 99% (2016: 89%) off the back of an active catastrophe environment. However, to achieve an underwriting profit in such conditions is testament to our underwriting and active cycle management. Our investment team contributed a strong investment return of 2.9% (2016: 2.0%) or $138.3m (2016: $93.1m).

Premiums

Gross premiums written have increased by 7% in 2017 to $2,343.8m (2016: $2,195.6m). Rates on renewal business on average decreased by 1% across the portfolio (2016: decrease 2%). We have continued to adjust our underwriting appetite in areas where competition is most intense.

Our portfolio by business division is broadly unchanged from 2016. We continue to operate a diversified portfolio by type of business and geographical location. However, we took the decision to merge our life, accident & health division and our political risk & contingency division to form political, accident & contingency.

The charts above highlight how we achieve diversification by product mix, geography and type of business.

Reinsurance purchased

Reinsurance is purchased for a number of reasons:
- to mitigate the impact of natural catastrophes such as hurricanes and non natural catastrophes such as cyber attacks;
- to enable the group to put down large lead lines on the risks we underwrite; and
- to manage capital to lower levels.

The amount the group spent on reinsurance in 2017 was $365.0m (2016: $341.6m). The increase in purchased reinsurance was in line with our growth in gross premiums written of 7%.

Combined ratio

The combined ratio of an insurance company is a measure of its operating performance and represents the ratio of its total costs (including claims and expenses) to total net earned premium. A combined ratio under 100% indicates an underwriting profit. Consistent delivery of operating performance across the market cycle is clearly a key objective for an insurer. Beazley's combined ratio increased in 2017 to 99% (2016: 89%) due to a high incidence of claims from natural catastrophes in the second half of 2017, which added circa 10% to the full year ratio.

Financial review *continued*
Group performance *continued*

Claims
2017 experienced a number of natural catastrophes with Hurricanes Harvey, Irma and Maria, the Mexican earthquakes and Californian wildfires, all of which were major contributors to an increase in net insurance claims of $220.1m, which brought the 2017 total net insurance claims to $1,075.7m (2016: $855.6m). These claims, while large, were not outside of our expectation for such types of natural catastrophes. The claims ratio increased to 58% (2016: 48%).

Reserve releases
Beazley has a consistent reserving philosophy, with initial reserves being set to include risk margins that may be released over time as and when any uncertainty reduces. Historically these margins have given rise to held reserves within the range of 5-10% above our actuarial estimates, which themselves include some margin for uncertainty. The margin held above the actuarial estimate was 5.0% at the end of 2017 (2016: 6.6%). This margin decreased in 2017 which was in part due to the catastrophe activity in the second half of the year, which resulted in much lower margins than usual in the affected areas. As the overall margin is at the lower end of the range that management target, reserve releases in 2018 may be slightly lower than those over the last three years. However, it is important to recognise that while there is strong correlation between the level of margin and future reserve releases, current year developments can also affect releases either positively or negatively.

Reserve monitoring is performed at a quarterly ‘peer review’, which involves a challenge process contrasting the claims reserves of underwriters and claim managers, who make detailed claim-by-claim assessments, and the actuarial team, who provide statistical analysis. This process allows early identification of areas where claims reserves may need adjustment.

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

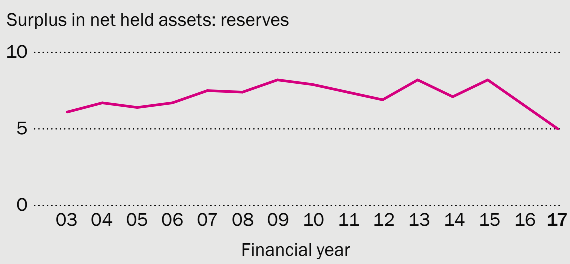
	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	5 year average $m
Marine	47.3	40.2	31.2	15.9	10.7	29.0
Political, accident & contingency[1]	34.8	24.5	23.7	27.2	3.9	22.8
Property	33.7	35.9	37.8	36.8	13.2	31.5
Reinsurance	55.6	27.8	44.9	32.3	54.7	43.1
Specialty lines	46.6	29.7	38.7	68.5	121.4	61.0
Total	**218.0**	**158.1**	**176.3**	**180.7**	**203.9**	**187.4**
Releases as a percentage of net earned premium	13.7%	9.5%	10.4%	10.2%	10.9%	10.9%

1 During 2017, the life, accident & health division and political risks & contingency division were combined to form the political, accident & contingency division.

The reserve releases in 2017 increased to $203.9m (2016: $180.7m). Our specialty lines division continued to increase its reserve releases as the post recession portfolio from 2012 onwards matures. This division’s releases also included meaningful amounts from the 2014/2015 cyber portfolio, an area that has more year on year variability than the balance of the specialty lines account. This counter-balanced lower releases on short tail classes, where the mechanical effect that reduced margins have on reserve releases, along with the effects of a large series of natural disasters, is now visible.

Please refer to the financial statements for information on reserve releases and loss development tables.

Whole account reserve strength within our 5-10% target range (%)



Acquisition costs and administrative expenses

Business acquisition costs and administrative expenses increased during 2017 to $773.1m from $719.2m in 2016. The breakdown of these costs is shown below:

	2017 $m	2016 $m
Brokerage costs	431.1	390.0
Other acquisition costs	88.6	82.5
Total acquisition costs	**519.7**	**472.5**
Administrative expenses	253.4	246.7
Total acquisition costs and administrative expenses	**773.1**	**719.2**

Brokerage costs are the premium commissions paid to insurance intermediaries for providing business. As a percentage of net earned premiums they have increased slightly to 23% in the current year (2016: 22%). Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with the group's accounting policy.

Other acquisition costs comprise costs that have been identified as being directly related to underwriting activity (e.g. underwriters' salaries and Lloyd's box rental). These costs are also deferred in line with premium earning patterns.

The group expense ratio remained unchanged compared to the previous year. Internal administrative expenses have increased less than premium due to a continued conscious drive to challenge costs. This was offset by the aforementioned small increase in acquisition costs versus our earned premium growth.

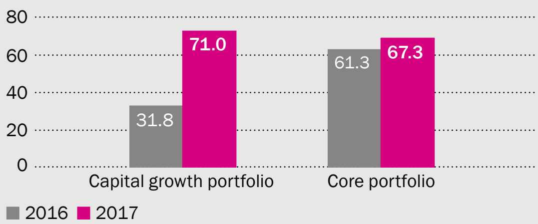
Foreign exchange

The majority of the group's business is transacted in US dollars, which is the currency the group has reported in since 2010 and the currency in which the group holds its net assets. Changes in the US dollar exchange rate with sterling, the Canadian dollar and the euro do have an impact as we receive premiums in those currencies and the majority of our staff still receive their salary in sterling. Beazley's foreign exchange loss taken through the statement of profit or loss in 2017 was $1.9m (2016: loss of $5.7m).

Investment performance

Geo-political headlines had limited overall impact on financial markets in 2017. Instead, more traditional macro-economic considerations provided direction: improving global growth, controlled inflation and easy monetary policy helped equities and corporate credit exposures to rally strongly whilst, later in the year, expectations of rising interest rates, particularly in the US, led risk-free yields to increase significantly. Our core portfolio of mainly fixed income assets, which constitute the majority of our investments, returned 1.6% overall in 2017 (2016: 1.5%) helped, as credit spreads declined, by the additional corporate bond exposures which we added in 2016. Our capital growth investments, which target higher returns whilst accepting some additional volatility, increased to 14.9% of assets in 2017 (2016: 12.0%), which was beneficial as these investments returned 11.0% in the period (2016: 5.6%), driven by strong performance from our equity and illiquid credit exposures. Our overall investment return for the year ended 31 December 2017 was 2.9%, or $138.3m (2016: 2.0%, $93.1m).

Comparison of returns – major asset classes ($m)



Financial review *continued*
Group performance *continued*

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

	31 Dec 2017 $m	31 Dec 2017 %	31 Dec 2016 $m	31 Dec 2016 %
Cash and cash equivalents	439.8	9.0	507.2	10.8
Fixed and floating rate debt securities				
– Government, quasi-government and supranational	1,390.6	28.4	1,261.5	26.8
– Corporate bonds				
– Investment grade	2,179.7	44.6	2,158.0	45.9
– High yield	58.8	1.2	97.1	2.1
– Senior secured loans	85.6	1.7	96.2	2.0
– Asset backed securities	–	–	4.6	0.1
Derivative financial instruments	8.8	0.2	12.2	0.3
Core portfolio	4,163.3	85.1	4,136.8	88.0
Equity funds	168.3	3.5	116.3	2.5
Hedge funds	377.4	7.7	317.1	6.7
Illiquid credit assets	180.4	3.7	132.4	2.8
Total capital growth assets	726.1	14.9	565.8	12.0
Total	**4,889.4**	**100.0**	**4,702.6**	**100.0**

Comparison of return by major asset class:

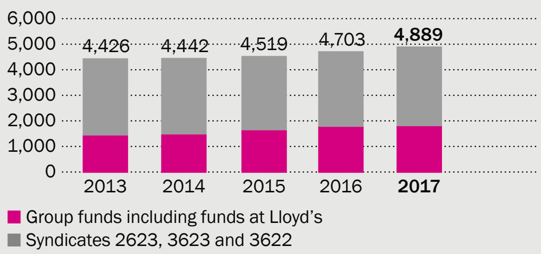
	31 Dec 2017 $m	31 Dec 2017 %	31 Dec 2016 $m	31 Dec 2016 %
Core portfolio	67.3	1.6	61.3	1.5
Capital growth assets	71.0	11.0	31.8	5.6
Overall return	**138.3**	**2.9**	**93.1**	**2.0**

In 2017, the funds managed by the Beazley group increased on the prior year, with financial assets at fair value and cash and cash equivalents of $4,889.4m at the end of the year (2016: $4,702.6m). The chart below shows the increase in our group funds since 2013.

Tax
Beazley Ireland Holdings plc and its subsidiaries are liable to corporation tax in a number of jurisdictions, notably the UK, the US and Ireland. Beazley's effective tax rate is thus a composite tax rate mainly driven by the Irish, UK and US tax rates. The weighted average of the statutory tax rates for the year was 18.7% (2016: 15.0%) and has increased over 2016 due to an increased level of US based profits which are taxed at 35%. We expect this rate to be around 16% to 17% in 2018 as the group benefits from a reduced US corporation tax rate and non-US profits hopefully revert to long term levels. Our effective tax rate for the year was 22.6% (2016: 14.4%). The increases compared to 2016 were due to the higher composite tax rate and a reduction of approximately $5m in the value of our US deferred tax asset following the reduction in the US corporation tax rate from 35% to 21%, which was enacted in 2017.

The application of the diverted profits tax legislation passed by the UK government early in 2015 still remains uncertain. We have considered the implication of this and retain the view that this tax should not apply to Beazley (see note 9 in the financial statements).

Beazley group funds ($m)



Financial review *continued*

Balance sheet management

Summary statement of financial position

	2017 $m	2016 $m	Movement %
Intangible assets	133.5	96.6	38%
Reinsurance assets	1,231.1	1,082.1	14%
Insurance receivables	918.0	795.0	15%
Other assets	385.4	331.8	16%
Financial assets at fair value and cash and cash equivalents	4,889.4	4,702.6	4%
Total assets	**7,557.4**	**7,008.1**	**8%**
Insurance liabilities	5,167.8	4,657.7	11%
Financial liabilities	367.3	363.8	1%
Other liabilities	545.2	516.0	6%
Total liabilities	**6,080.3**	**5,537.5**	**10%**
Net assets	**1,477.1**	**1,470.6**	**–**

Intangible assets

Intangible assets consist of goodwill on acquisitions of $62.0m (2016: $62.0m), purchased syndicate capacity of $10.7m (2016: $10.7m), US admitted licences of $9.3m (2016: $9.3m), renewal rights of $35.2m (2016: $7.0m) and capitalised expenditure on IT projects of $16.3m (2016: $7.6m).

Reinsurance assets

Reinsurance assets represent recoveries from reinsurers in respect of incurred claims of $993.2m (2016: $853.9m), and the unearned reinsurance premiums reserve of $237.9m (2016: $228.2m). The reinsurance receivables from reinsurers are split between recoveries on claims paid or notified of $219.4m (2016: $201.8m) and an actuarial estimate of recoveries on claims that have not yet been reported of $773.8m (2016: $652.1m). The group's exposure to reinsurers is managed through:

- minimising risk through selection of reinsurers who meet strict financial criteria (e.g. minimum net assets, minimum 'A' rating by S&P). These criteria vary by type of business (short vs medium tail). The chart on page 34 shows the profile of these assets (based on their S&P rating) at the end of 2017;
- timely calculation and issuance of reinsurance collection notes from our ceded reinsurance team; and
- regular monitoring of the outstanding debtor position by Beazley plc's reinsurance security committee and its credit control committee.

We continue to provide against impairment of reinsurance recoveries, and at the end of 2017 our provision in respect of reinsurance recoveries totalled $13.2m (2016: $12.6m).

Insurance receivables

Insurance receivables are amounts receivable from brokers in respect of premiums written. The balance at 31 December 2017 was $918.0m (2016: $795.0m).

Financial review *continued*
Balance sheet management *continued*

Other assets
Other assets are analysed separately in the notes to the financial statements. The largest items included comprise:
- deferred acquisition costs of $281.4m (2016: $242.8m);
- profit commissions of $10.1m (2016: $15.2m); and
- deferred tax assets available for use against future taxes payable of $6.9m (2016: $11.0m).

Judgement is required in determining the policy for deferring acquisition costs. Beazley's policy assumes that variable reward paid to underwriters relates to prior years' business and is not an acquisition cost. As a result, the quantum of costs classified as acquisition is towards the lower end of the possible range. Costs identified as related to acquisition are then deferred in line with premium earnings.

Insurance liabilities
Insurance liabilities of $5,167.8m (2016: $4,657.7m) consist of two main elements, being the unearned premium reserve (UPR) and gross insurance claims liabilities.

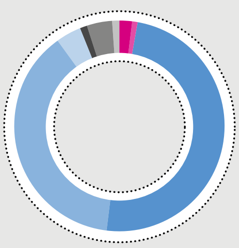
Our UPR has increased by 10% to $1,259.2m (2016: $1,140.8m). The majority of the UPR balance relates to current year premiums that have been deferred and will be earned in future periods. Current indicators are that this business is profitable.

Gross insurance claims reserves are made up of claims which have been notified to us but not yet paid of $1,056.3m (2016: $949.5m) and an estimate of claims incurred but not yet reported (IBNR) of $2,852.3m (2016: $2,567.4m). These are estimated as part of the quarterly reserving process involving the underwriters and group actuary. Gross insurance claims reserves have increased 11% from 2016 to $3,908.6m (2016: $3,516.9m).

Financial liabilities
Financial liabilities comprise borrowings and derivative financial liabilities. The group utilises three long term debt facilities:
- a US$18m subordinated debt facility was raised in 2004. This loan is also unsecured and interest is payable at the US$ London interbank offered rate (LIBOR) plus 3.65%. These subordinated notes are due in 2034 and have been callable at the group's option since 2009;
- during September 2012 we issued a sterling denominated 5.375% retail bond under a £250m euro medium term note programme which raised £75m for the group and is due in 2019. This diversified the source and maturity profile of the group's debt financing; and
- in November 2016, Beazley Insurance dac issued $250m of 5.875% subordinated tier 2 notes due in 2026.

A syndicated short term banking facility led by Lloyds Banking Group plc provides potential borrowings up to $225m. Under the facility $225m may be drawn as letters of credit by Beazley Ireland Holdings plc's parent company, Beazley plc, to support underwriting at Lloyd's. Of this, 100% may be advanced as cash under a revolving facility. The cost of the facility is based on a commitment fee of 0.385% per annum and borne by Beazley plc and any amounts drawn are charged at a margin of 1.10% per annum. The cash element of the facility will expire on 31 July 2019, whilst letters of credit issued under the facility can be used to provide support for the 2016, 2017 and 2018 underwriting years. The facility is currently unutilised.

Reinsurance debtor credit quality



AA+	2%
AA	1%
AA-	49%
A+	38%
A	4%
A-	1%
Collateralised	4%
Others	1%

Financial review *continued*

Capital structure

Capital structure

The group 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). The Beazley plc group is subject to the capital adequacy requirements of the European Union (EU) Solvency II regime ('SII'). We comply with all relevant SII requirements.

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

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

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

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

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

	2017 $m	2016 $m
Shareholders' funds	1,477.1	1,470.6
Tier 2 subordinated debt (2026)	248.5	248.3
Retail bond (2019)	99.5	94.7
Long term subordinated debt (2034)	18.0	18.0
	1,843.1	**1,831.6**

Our funding comes from a mixture of our own equity alongside $248.5m of tier 2 subordinated debt, $18.0m of subordinated long term debt and a $99.5m retail bond.

It was signalled at the Beazley plc interim results that it was expected that the Lloyd's economic capital requirement (ECR) would increase, reflecting the group's plans for growth. The final figure at year end 2017 is lower than this projection reflecting the improved profitability of the natural catastrophe underwriting expected in 2018. The guidance, that it is expected underwriting capital to grow in the mid to high single digits, remains.

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

	2017 $m	2016 $m
Lloyd's economic capital requirement (ECR)	1,517.2	1,489.2
Capital for US insurance company[1]	96.5	107.7
	1,613.7	**1,596.9**

1 The A.M. Best rating of our US insurance company Beazley Insurance Company Inc. (BICI) is now maintained via a group support mechanism rather than on a stand alone basis. As a result the capital requirement for BICI is now taken as a minimum realistic risk based capital (RBC) level as opposed to the capital level required to achieve a stand alone A.M. Best rating.

Surplus capital is assessed on a Beazley plc group level. At 31 December 2017, the Beazley plc group had surplus capital of 39% of ECR (on a Solvency II basis). Following payment of the second interim dividend of 7.4p by Beazley plc, this surplus reduces to 35% compared to Beazley plc's current target range of 15% to 25% of ECR. Should the capital surplus be assessed on a Beazley Ireland Holdings plc group level, the surplus would be 37% of ECR and 34% after paying out the second interim dividend of £40.0m to its parent, Beazley plc.

Solvency II

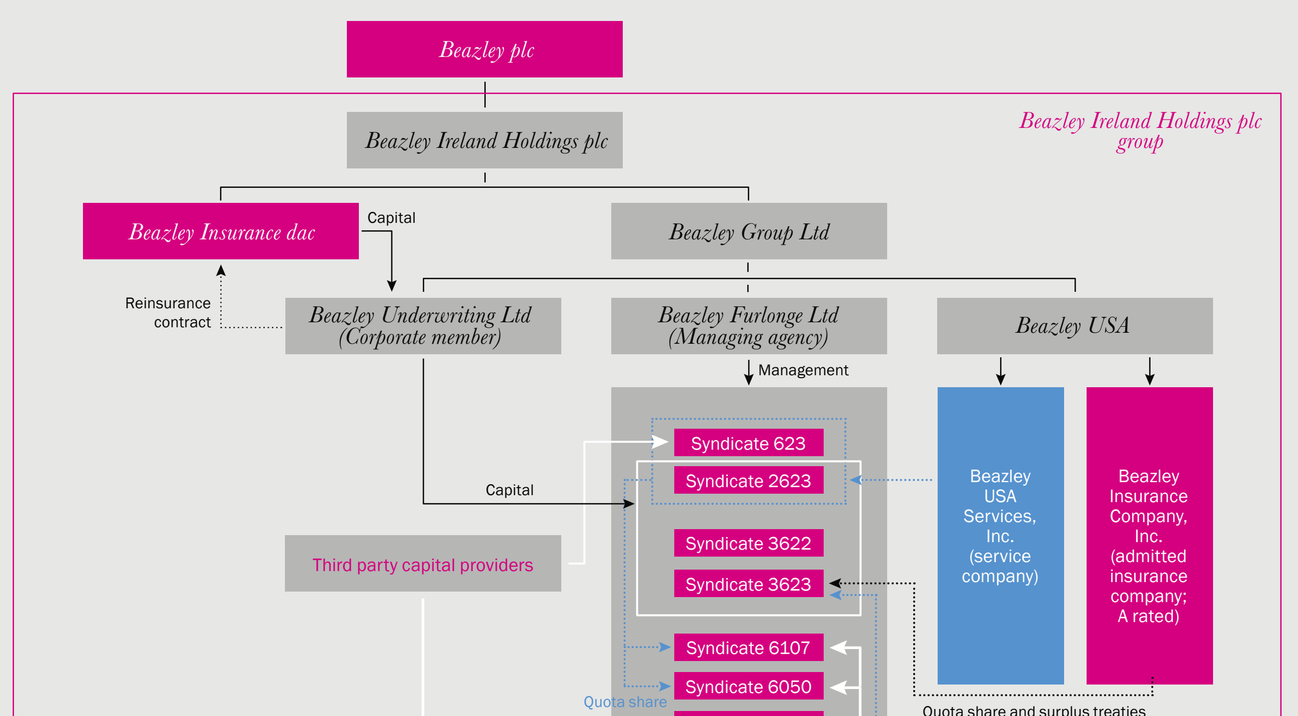
The Solvency II regime came into force on 1 January 2016. The group continue to provide quarterly Solvency II pillar 3 reporting to both Lloyd's for the Beazley managed syndicates and the Central Bank of Ireland for Beazley Insurance dac. In 2017 the first annual solvency financial condition report (SFCR) of Beazley Insurance dac was published.

Under Solvency II requirements, the syndicates and Beazley Insurance dac are required to produce a Solvency Capital Requirement (SCR) which sets out the amount of capital that is required to reflect the risks contained within the business. Lloyd's reviews the syndicates' SCRs to ensure that SCRs are consistent across the market. On 10 December 2015 internal model approval was received from the Central Bank of Ireland (the supervisor under Solvency II).

Financial review *continued*
Capital structure *continued*

The current SCR has been established using the Solvency II approved internal model which has been run within the regime as prescribed by Lloyd's. In order to perform the capital assessment, significant investments in both models and process have been made:
- sophisticated mathematical models that reflect the key risks in the business allowing for probability of occurrence, impact if they do occur, and interaction between risk types. A key focus of these models is to understand the risk posed to individual teams, and to the business as a whole, of a possible deterioration in the underwriting cycle; and
- the internal model process is embedded so that teams can see the direct and objective link between underwriting decisions and the capital allocated to that team. This gives a consistent and comprehensive picture of the risk/reward profile of the business and allows teams to focus on strategies that improve return on capital.

Group structure
The Beazley Ireland Holdings plc group operates across Lloyd's, Europe, Asia, Canada and the US through a variety of legal entities and structures. The company holds £75m sterling denominated notes. The main entities within the legal entity structure are as follows:
- Beazley Underwriting Limited – corporate member at Lloyd's writing business through syndicates 2623, 3622 and 3623;
- Beazley Furlonge Limited – managing agency for the seven syndicates managed by the group (623, 2623, 3622, 3623, 6107, 6050 and 5623);
- Beazley Insurance dac – Insurance and reinsurance company that accepts non-life reinsurance premiums ceded by the corporate member,
  Beazley Underwriting Limited and writes direct business in Europe;
- Syndicate 2623 – corporate body regulated by Lloyd's through which the group underwrites its general insurance business excluding accident & life. Business is written in parallel with syndicate 623;
- Syndicate 623 – corporate body regulated by Lloyd's which has its capital supplied by third party names;
- Syndicate 6107 – special purpose syndicate writing reinsurance business, and from 2017 cyber, on behalf of third party names;
- Syndicate 3622 – corporate body regulated by Lloyd's through which the group underwrites its life insurance and reinsurance business;
- Syndicate 3623 – corporate body regulated by Lloyd's through which the group underwrites its personal accident, BICI reinsurance business and, from 2018, facilities business;
- Syndicate 6050 – special purpose syndicate which has its capital provided by third party names and provides reinsurance to syndicates 623 and 2623 on the 2015, 2016 and 2017 years of account;
- Syndicate 5623 – special purpose syndicate writing facilities ceded from syndicate 3623;
- Beazley Insurance Company, Inc. (BICI) – insurance company regulated in the US. Licensed to write insurance business in all 50 states;
- Beazley USA Services, Inc. ('BUSA') – managing general agent based in Farmington, Connecticut. Underwrites business on behalf of Beazley syndicates and BICI; and
- Beazley plc – ultimate holding company (outside legal entity structure) and investment vehicle, quoted on the London Stock Exchange.



* Syndicate 5623 is supported by both Beazley capital and third party capital.

Operational update

Maintaining operations and preparing our business for high performance in an increasingly digital world

The group continues to demonstrate profitable growth, and we have developed a diversified portfolio of products that are distributed globally, through 29 locations. To support this growth, we have developed a scalable and efficient operating platform that, through focused investment, has become an important competitive advantage.

A high performing global operations function relies on us maintaining consistency in operational standards throughout the group, while simultaneously being prepared to try new things and leverage our depth of insurance operations expertise to give us a lead over the competition. In order to achieve this, we pursue our group operations strategy. This focuses on the areas below.

Supporting growth initiatives

In support of our strategic growth initiatives in areas such as the US, Europe, Asia Pacific, and small enterprise we have continued to enhance our infrastructure so that we can bring attractive new products to market as efficiently as possible. Virtual Care and Execuguard are examples of two new types of insurance that we launched in 2017.

In early 2017, we announced the establishment of our European based insurance company, Beazley Insurance dac. The operations team has worked hard to ensure all the necessary operations and technology infrastructure is in place to support this business. As well as supporting the launch of over 40 insurance product coverages as part of the rollout of our new financial institutions business, we have developed our back-office systems to be able to efficiently process both large co-insured business and smaller 100% Beazley written business. Key to growing the distribution of smaller risk business has been the ongoing expansion of our myBeazley.com e-trading platform. The latest e-trading product launches, in the US and in Europe for our German professional indemnity book will support the growth of our small enterprise package products.

In February, Beazley plc announced the acquisition of Creechurch Underwriters. The addition of this business to the group presents new opportunities to increase distribution of our specialist underwriting products in Canada. The acquisition brought three additional office locations in Toronto, Montreal and Vancouver – all of which have had their technology and processing infrastructure integrated with our wider business. There will be further opportunities for us to share operational capability as this integration develops in 2018, and for us to leverage our existing product delivery capability in this region.

Supporting business growth relies on effective processes and systems, but it is also important that we have a high quality working environment that is conducive to team working and thought leadership. In 2017, we opened a new office in Barcelona that will help to increase our access to continental European business, and expanded our Los Angeles office in support of our growing underwriting portfolio in the south west of the US.

Operational update *continued*

Cost efficiency

The group is organised to a large degree around global underwriting and claims teams. This model has served us well in ensuring that products that succeed in one market can be swiftly introduced in others. However, it is important that this does not result in back office systems and support resources becoming duplicative or the administration of insurance transactions impeding the business in any way.

In pursuit of greater efficiency and consistency of operational service, we have centralised operations support or outsourced it where this brings further value. We want to make sure that operations and processing are done by appropriately skilled people, at the most cost effective location, whilst providing the best service levels. To help achieve this, we have built operations service centres in the US in Connecticut and in Georgia. We also make use of global outsourcing agreements for business processing support and information technology support. These arrangements have been carefully planned and selected to ensure we can maximise a highly efficient and scalable operating platform to support our business growth.

In 2017, we commenced a project to build a new operational service centre in Birmingham (UK) to support our London and Rest of World platform growth. This location is proving to be a cost-effective alternative to London. It also benefits from excellent access to skills relevant to Beazley's future growth plans, for example in technology, data analytics and financial services support generally. This year we have built our capabilities in software development, robotics, project delivery, as well as multi-lingual underwriting support and credit control at this location. In early 2018, we will open a new Birmingham office to house the operational service teams, as well as underwriters from our UK regional teams.

Managing operational risk effectively

Effective risk management requires clear visibility of the level of operational risk we maintain. Critical to supporting an effective control environment is consistency of ownership for operations support and the provision of management information.

As we continue to make our operational support more efficient, we have defined clear ownership for processes, establishing clear accountability for process execution and planning. This simplifies operational control reporting and strengthens our ability to provide a coordinated rapid response to support business growth opportunities.

A widely discussed topic across our industry is preparation for the General Data Protection Regulation (GDPR), which comes into effect during 2018. We see the privacy of our customer data and the associated rights to the use of personal data as very important to preserve. In previous years, Beazley has made significant investment in this area and so our preparation for GDPR has been a continuation of this work. Similarly, we see the threat of cyber attack as an ever evolving threat, and over the years have developed a framework of preventative, detective and response controls to counter this threat. In 2017, we increased the size of our in-house information security and IT security teams in support of this framework.

Managing for performance

A market differentiator for Beazley is the considerable experience that we have amassed within our global operations team. Whether providing support services or delivering large projects, we know what works and what does not. The operations team and the underwriting teams have developed strong working relationships over the years, and collectively we have developed considerable expertise in bringing new products and distribution channels to fruition. As with all Beazley talent we recognise the importance of developing attractive career paths. We equip our operations team with the right skills for the job. We routinely review our talent for potential skills gaps and then provide the most relevant training to ensure a high standard of service provision.

Although Beazley receives plenty of interest when attracting new operations and technology talent, we recognise that our working environment needs to keep evolving to remain attractive, and to then retain and further motivate this talent. In 2017, after a successful pilot with our London based IT team, we commenced a project to develop our larger offices into activity based working (ABW) environments. Although a benefit of ABW is more efficient use of office space, it also creates an environment where our workforce has a physical space and technology environment that maximises the potential for them to carry out their daily activities. Our first ABW environment will be the new Birmingham office opening in 2018, followed by a new location in New York. We are also reviewing ABW options for our London based teams.

Looking ahead to a digital Beazley

In our industry, the word digital has become a catch-all term for the application of new technologies, data analytics and disruptive business models. It can be easy to get caught in the hype surrounding these, or worse to get distracted by opportunities that may not align with the future direction of our markets or customer needs. In 2017, our focus has been towards synthesising how best to leverage new technology to further strengthen the value that Beazley already brings to its customers, and to keep differentiating ourselves within the specialist insurance market. We do see this as requiring a digital transformation of our business, but the question has been how best to achieve this. This year, the Beazley plc board approved a new digital strategy for the group which takes a two-pronged approach towards answering this question:

1) Building the data and technology research capability

In late 2016, we created a new team called Beazley Labs, and dedicated resource to the research of new technology and data analytics solutions. Since its inception, the Beazley Labs team has run a series of hackathons to prototype new technologies responding to real business problems and opportunities. In 2017, we raised the profile of this work across the whole business – establishing a new group strategic initiative called the Data & Analytics Strategic Initiative (DASI). As well as providing regular updates to the Beazley plc board, this strategic initiative has further increased business engagement and awareness of how new data and technology ideas can be applied across our product lines.

Of course, the proof of these technologies goes beyond trials and prototypes. Ideas that were mentioned in last year's annual report are already in production. Some examples are robotics, for which we now have an in-house delivery team and 'live' robots now operating processes in Beazley day-to-day; natural language processing, which is being used to extract and process unstructured data from the thousands of risk submission emails we receive from our brokers; and the rollout of a new suite of data analytics tools to all Beazley users.

2) Organising our business to deliver, and leverage, the technology

This year we reorganised our operational capability so that equal attention is applied to both the day-to-day efficient support of the business, and to transforming our business for a digital future. This saw the creation of a new Digital Transformation team that will focus on changing our business in terms of product design, processes, workforce and physical infrastructure in order to maximise the value we get from new data and technology solutions.

We have also reorganised the way our IT systems fit together, moving from a model with a number of separate components towards a customer centric model. This means we have created a new global IT platform, which went into production in July 2017, that provides a single customer and broker record onto which we can attach all our business activity associated with them. Ultimately, this means we will be able to give our customers a more joined up digital service experience, and crucially it will enable us to optimise our response times.

As we proceed into 2018, we are well placed not only as a high performing specialist insurer, but we also have developed great strength in our operational capability. The changes we have made in 2017, will allow us to build on this operational strength and ensure we are a high performing specialist insurer in an increasingly digital world.

Risk management

Managing risk in an evolving business environment

Preparing for and responding to catastrophes

The group is exposed to three key insurance risks where one event can lead to multiple claims. These are, in order of potential impact to Beazley, 1) a specialty lines catastrophe, 2) a natural catastrophe and 3) a cyber catastrophe. The natural catastrophes of hurricanes, earthquakes and wildfires which occurred in the second half of 2017 demonstrate why careful aggregate management is important to avoid undue surprises. This starts with the Beazley plc board setting risk appetite which is managed to throughout the year as risks are underwritten. The monitoring is performed using catastrophe modelling tools which help to manage the aggregation of exposure in different geographical areas. The same catastrophe modelling tools are used to assist the underwriting teams with pricing the risk and to establish the amount of capital that must be held to support the underwriting given the risk being taken. Therefore, when natural catastrophes occur, it is important to test the models, particularly the methods and assumptions used, to ensure that they are still fit for purpose. This validation exercise has been completed and has confirmed that the catastrophe modelling tools remain reasonable in light of the events observed without the need for an immediate off cycle adjustment, and they remain a useful aid to the underwriting process.

The aggregation potential of multiple claims arising from a cyber event is managed using a similar process. However, given that there have been very few cyber events that have led to a notable aggregation of claims, the monitoring is based on a suite of realistic disaster scenarios – which is how the monitoring of natural catastrophes started. We have been undertaking a cyber risk review for the past four years, which has charted the evolution of the modelling approach and has evidenced improvements in sophistication each year. This year, Beazley has added new coverages to the cyber product to meet the needs of our clients. As a result, we have introduced a new realistic disaster scenario to monitor this additional exposure. We have also added a new realistic disaster scenario to monitor the increasing trend of ransomware attacks. We have supplemented the knowledge of Beazley's internal cyber experts with advice and analysis from external experts working in the cyber field to ensure that we have sight of emerging technical trends. Finally, we continue to monitor and support the development of third party catastrophe modelling tools as more analysis is being performed in this risk area. We expect, over time, that the modelling of cyber risks will be able to mirror the sophistication of the modelling of natural catastrophe risks.

Realistic disaster scenarios are also used to monitor the potential impact of a specialty lines catastrophe – for example the impact that a recession might have on the various professional indemnity risks underwritten. This approach was tested and validated following the 2008 global financial crisis and, whilst there has been less reserve release than usual from the underwriting years immediately following the crisis, they remained profitable.

The purpose of performing this modelling and monitoring is to ensure that in the event of a catastrophe occurring, such as those in the second half of 2017, claims can be paid promptly to our policyholders in their time of greatest need and a return can still be provided to the investors who support Beazley's ongoing business.

2017 in review

This year has included organisational changes which have impacted the risk and control environment. Firstly, we received approval of Beazley Insurance dac's licence from the Central Bank of Ireland to underwrite insurance business in Europe in addition to the reinsurance of syndicate 2623 and syndicate 3623. Secondly, the group purchased a managing general agent, Creechurch Underwriters, which is now called Beazley Canada Limited, in order to provide more of Beazley's products to our clients in Canada.

Each of these processes started with the production of an Own Risk and Solvency Assessment (ORSA) report which informed the Beazley plc board of the risk and capital considerations and subsequently has involved updating the risk register, controls and governance to reflect the new risk profile. This has included ensuring that the new underwriting and claims processes meet Beazley's group-wide consistent underwriting and claims standards.

The group has also established a new special purpose syndicate, syndicate 5623. We have supported the establishment of this syndicate including setting the processes and controls appropriate for the portfolio nature of the underwriting, which is different to the majority of underwriting performed at Beazley.

The group has also started a risk review of its US operations. Whilst there were already two risk managers based full time in the US, the chief risk officer of Beazley plc is spending nine months, spanning 2017 and 2018, in the US in order to provide assurance that the US operations are working appropriately following the recent growth – we now have over 500 staff, or around 40% of the total workforce, based in the US – and that we are ready for the continued growth planned over the next few years.

A contingency plan for the UK's exit from the European Union ('Brexit'), setting out a central plan and testing it against a range of potential outcomes was put into production. The main risk is the ability to offer insurance to European clients following Brexit and, for context, around 4% of Beazley's current European business is within scope. The central plan is to be able to offer policies, at the client's choice, either through Beazley's insurance company in Dublin or through the subsidiary that Lloyd's is in the process of establishing in Brussels. A Brexit working group, led by the chief risk officer of Beazley plc, was established to oversee Beazley's response to Brexit and this working group will remain in place until the conclusion of the Brexit process.

A discussion of Beazley's emerging and strategic risks was facilitated at the Beazley plc board strategy day in May. The discussions focused on five topics, namely; developments in the US which is our largest market, developments of broker facilities as a method of placement, preparing for the office of the future, insuring uninsured risks, and developments at Lloyd's. The analysis performed by Beazley plc board members and members of the Beazley plc executive committee provided an opportunity to test how Beazley's strategy may have to evolve if these risks were to crystallise.

2017 was the second year of operating within the new Solvency II regime, with our internal model approved by the Central Bank of Ireland. There have been no major changes to the model during the year and the output of the model continues to be used extensively to support business decisions. This year we changed the external consulting firm who support the independent validation process. The feedback of this review related mainly to capturing efficiencies rather than any recommendations to change the approach or assumptions. In particular, the feedback was particularly complimentary about the quality of the documentation (a key Solvency II standard) which helped the third party consultancy understand how the model operates and how it reflects the risks within the group. The capital modelling team continue to operate a programme of regular and tailored director briefings to ensure that the internal model is understood and provide an opportunity for directors to suggest enhancements to the internal model.

The latest Beazley plc chief risk officer report to the Beazley plc board has confirmed that the control environment has not identified any significant failings or weaknesses in key processes and that the group is operating within risk appetite as at 31 December 2017.

Risk management philosophy

Beazley's risk management philosophy is to balance the risks the business takes on with the associated cost of controlling these risks, whilst also operating within the risk appetite agreed by the Beazley plc board. In addition, Beazley's risk management processes are designed to continuously monitor our risk profile against risk appetite and to exploit opportunities as they arise.

Risk management strategy

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

Risk management *continued*

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 risk appetite is agreed 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.

Business risk management
Risk ownership

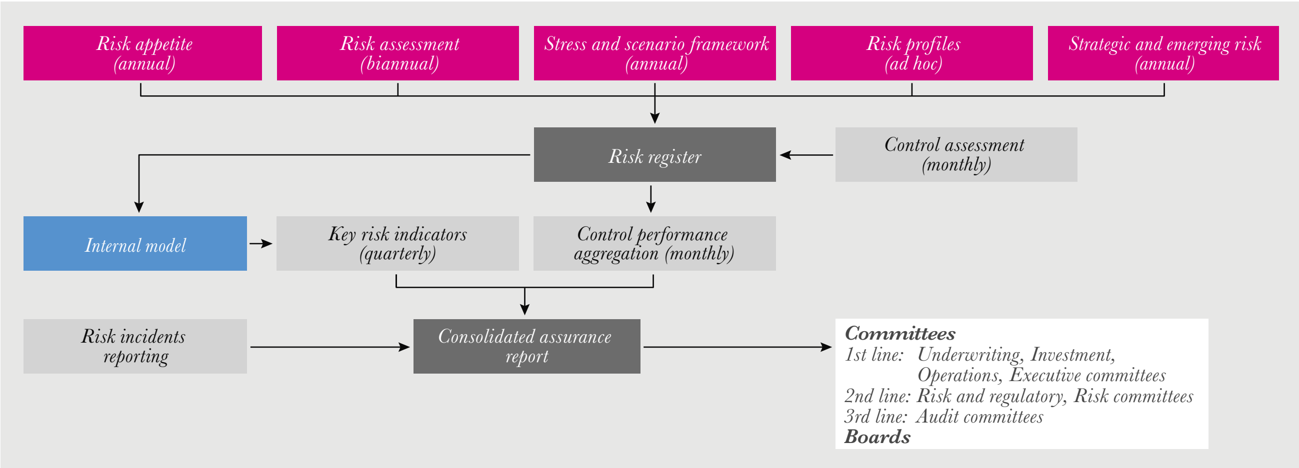
- *Identifies risk*
- *Assesses risk*
- *Mitigates risk*
- *Monitors risk*
- *Records status*
- *Remediates when required*

Risk management
Risk oversight

- *Are risks being identified?*
- *Are controls operating effectively?*
- *Are controls being signed off?*
- *Reports to committees and board*

Internal audit
Risk assurance

- *Independently tests control design*
- *Independently tests control operation*
- *Reports to committees and board*



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.

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 (53 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 above diagram illustrates the components of the risk management framework.

In summary, the Beazley plc 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 Beazley plc 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 we can learn from (risk incidents). Finally, the framework is continually evaluated and where appropriate 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 other boards (including Beazley Ireland Holdings plc board) 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 Beazley plc 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.

Risk management *continued*

The risks to financial performance

The Beazley plc board and committees monitor and manage risk on behalf of its subsidiaries, including Beazley Ireland Holdings plc. Papers disclosed to these committees and the board are shared with the directors of Beazley Ireland Holdings plc.

Risks are grouped into eight categories, which cover the universe of risk that could affect Beazley. There have been no new risk areas identified and no major shifts in existing risks. The the following two risk categories are deemed to be the most significant.

Insurance risk

Given the nature of the group's business, the key risks that impact financial performance arise from insurance activities. The main insurance risks can be summarised in the following categories:

- **Market cycle risk:** The risk of systematic mispricing of the medium tailed specialty lines business which could arise due to a change in the US tort environment, changes to the supply and demand of capital, and companies using incomplete data to make decisions. This risk would affect multiple classes within the specialty lines division across a number of underwriting years. The group uses a range of techniques to mitigate this risk including sophisticated pricing tools, analysis of macro trends, analysis of claim frequency and the expertise of our experienced underwriters and claims managers.

- **Natural catastrophe risk:** The risk of one or more large events caused by nature affecting a number of policies and therefore giving rise to multiple losses. Given the group's risk profile, such an event could be a hurricane, major windstorm or earthquake. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.

- **Non natural catastrophe risk:** This risk is similar to natural catastrophe risk except that multiple losses arise from one event caused by mankind. Given the group's risk profile, examples include a coordinated cyber attack, an act of terrorism, an act of war or a political event. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.

- **Reserve risk:** The group has a consistent reserving philosophy. However, there is a risk that the reserves put aside for expected losses turn out to be insufficient. This could be due to any of the three drivers of risk described above. The group uses a range of techniques to mitigate this risk including a detailed reserving process which compares, claim by claim, estimates established by the claims team with a top down statistical view developed by the actuarial team. A suite of metrics is also used to ensure consistency each year.

- **Single risk losses:** Given the size of policy limits offered on each risk, it is unlikely that the poor performance of one policy will have a material impact on the group's financial performance.

Strategic risk

Alongside these insurance risks, the success of the group depends on the execution of an appropriate strategy. The main strategic risks can be summarised as follows:

- **Strategic decisions:** The group's performance would be affected in the event of making strategic decisions that do not add value. The Beazley plc group mitigates this risk through the combination of recommendations and challenge from non-executive directors, debate at the executive committee and input from the strategy and performance group (a group of approximately 35 senior individuals from across different disciplines at Beazley).

- **Environment**: There is a risk that the chosen strategy cannot be executed because of the current environmental conditions within which the group operates, thereby delaying the timing of the strategy.

- **Communication:** Having the right strategy and environment is of little value if it is not communicated internally so that the whole group is heading in the same direction, or if key external stakeholders are not aware of Beazley's progress against its strategy.

- **Senior management performance:** There is a risk that senior management could be overstretched or could fail to perform, which would have a detrimental impact on the group's performance. The performance of the senior management team is monitored by the chief executive of Beazley plc and talent management team and overseen by the Beazley plc nomination committee.

- **Reputation:** Although reputational risk is a consequential risk, i.e. it emerges upon the occurrence of another risk manifesting, it has the potential to have a significant impact on an organisation. Beazley expects its staff to act honourably by doing the right thing.
- **Flight:** There is a risk that Beazley could be unable to deliver its strategy due to the loss of key personnel. Beazley has controls in place to identify and monitor this risk, for example, through succession planning.
- **Crisis management:** This is the risk caused by the destabilising effect of the group having to deal with a crisis and is mitigated by having a detailed crisis management plan.
- **Corporate transaction:** There is a risk that Beazley could undertake a corporate transaction which did not return the expected value to shareholders. This risk is mitigated through the due diligence performed, the financial structure of transactions and the implementation activity.

Under the environmental risk heading, the Beazley plc board identifies and analyses emerging and strategic risk on an annual basis for discussion at the Beazley plc board strategy day in May.

Other risks

The remaining six risk categories monitored by the board are:

- **Market (asset) risk:** This is the risk that the value of investments could be adversely impacted by movements in interest rates, exchange rates, default rates or external market forces. This risk is monitored by the Beazley plc investment committee.
- **Operational risk:** This risk is the failure of people, processes and systems or the impact of an external event on Beazley's operations, and is monitored by the Beazley plc operations committee. An example would be a cyber attack having a detrimental impact on our operations.
- **Credit risk:** Beazley has credit risk to its reinsurers, brokers and coverholders of which the reinsurance asset is the largest. The Beazley plc underwriting committee monitors this risk.
- **Regulatory and legal risk:** This is the risk that Beazley might fail to operate in line with the relevant regulatory framework in the territories where it does business. Of the eight risk categories, the board has the lowest tolerance for this risk. This risk is monitored by the Beazley plc risk and regulatory committee.
- **Liquidity risk:** This is the risk that the group might not have sufficient liquid funds following a catastrophic event. The Beazley plc investment committee monitors this risk which, given the nature of the asset portfolio, is currently small.
- **Group risk:** The structure of the Beazley group is not complex and so the main group risk is that one group entity might operate to the detriment of another group entity or entities. This includes, for example, changes in tax legislation such as the US Tax Cuts and Jobs Act enacted in late 2017 which affects which types of intra-group reinsurance it is efficient for Beazley to use. The risk is monitored on a Beazley plc board level through receiving reports from each entity.

Anti-bribery and corruption risk

The group also considered anti-bribery and corruption risk across all risk categories. We are committed to ensuring that all business is conducted in an ethical and honest manner, and that we are not involved in any illicit activity defined under the UK Bribery Act and US Foreign Corrupt Practices Act. This risk includes the risk of bribery and corruption we are exposed to and manifests itself in the susceptibility to unethical or dishonest influences whereby illicit payments and/or inducements are either made or received. Such activity has severe reputational, regulatory and legal consequences, including fines and penalties. Considerations relevant to this risk include the nature, size and type of transactions, the jurisdiction in which transactions occur, and the degree to which agents or third parties are used during such transactions. Every employee and individual acting on Beazley's behalf is responsible for maintaining our reputation. We have a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all aspects of our business. In doing so, we aim to recruit and retain high-calibre employees who carry out their responsibilities honestly, professionally and with integrity. We maintain a number of policies designed to prevent any risk of bribery and corruption, which are communicated to all employees and supplemented with appropriate training.

Directors' report

Principal activity
Beazley Ireland Holdings plc is the parent company of Beazley Group Limited, which is the intermediate holding company for the majority of the subsidiaries of the Beazley group.

Management report
The directors' report, together with the strategic report on pages 1 to 45, serves as the management report for the purpose of Disclosure and Transparency Rule 4.1.8R.

Directors' responsibilities
The statement of directors' responsibilities in respect of the annual report and financial statements is set out on page 48.

Review of business
A more detailed review of the business for the year and a summary of future developments are included in the 2017 in review, underwriting review and the financial review sections of this report.

Results and dividends
The consolidated profit before taxation for the year ended 31 December 2017 amounted to $171.5m (2016: $298.9m).

A 2017 first interim dividend of £20.0m (2016: £18.2m) was paid to the company's immediate parent company, Beazley plc, on 1 August 2017. On 8 March 2018 the directors declared a 2017 second interim dividend of £40.0m (2016: £90.0m) payable to Beazley plc.

Going concern
A review of the financial performance of the group is set out on pages 28 to 36. The financial position of the group, its cash flows and borrowing facilities are included therein.

After reviewing the group's budgets and medium term plans, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Directors
The directors of the company who served during 2017 and/or to the date of this report were as follows:

Christopher Carl Whitmore Jones	Director
Niall Peter Lillis	Director
Edward Joseph McGivney	Director
Christine Paula Oldridge	Director

Company secretary
The company secretary of the company who served during 2017 and/or to the date of this report was as follows:

Christine Paula Oldridge	Company secretary

Donations
No political donations were made by the group in either the current or prior reporting period.

The directors have pleasure in presenting their report and the audited financial statements of the group for the year ended 31 December 2017

Risk management
The group's approach to risk management is set out on pages 40 to 45 and further detail is contained in note 2 to the financial statements on pages 74 to 86.

Recent developments and post balance sheet events
Recent developments and post balance sheet events are given in note 33 to the financial statements on page 122.

Likely future developments
Information relating to likely future developments can be found in the strategic report.

Research and development
In the ordinary course of business the group develops new products and services in each of its business divisions and develops IT solutions to support the business requirements.

Share capital
The company has ordinary shares in issue. Ordinary shares therefore represent 100% of the total issued share capital as at 31 December 2017 and 8 March 2018. Details of the ordinary share capital during the year can be found in note 21 on page 103.

Auditor
KPMG LLP has indicated their willingness to continue in office.

Audit tender
As highlighted in the Beazley plc annual report and accounts, an audit tender for Beazley plc will be carried out in 2018 with a view to appointing a new external auditor for the 2019 accounting year. The board have been advised of these plans and deem them to be appropriate. As such the directors agree to hold an audit tender process at the same time.

Audit committee
Beazley plc, the ultimate controlling parent within the Beazley plc group, prepares consolidated financial statements which incorporate the interests of Beazley Ireland Holdings plc and has an audit committee. The directors are therefore of the opinion that an audit committee is not required for the company. This opinion will be reassessed on an ongoing basis.

Disclosure of information to auditor
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the board, covering the strategic report from pages 1 to 45 and the directors' report from pages 46 to 47.

N Lillis
Director
2 Northwood Avenue
Santry
Dublin
D09 X5N9
Ireland

8 March 2018

Statement of directors' responsibilities in respect of the annual report and financial statements

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards and applicable law .

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

In accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, each of the directors, whose names are set out on page 46 confirms that to the best of his/her knowledge:
- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report/directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

E McGivney
Director

N Lillis
Director

8 March 2018

Independent Auditors' Report to the Members of Beazley Ireland Holdings plc

Our opinion is unmodified

We have audited the consolidated financial statements (the "Consolidated Financial Statements") of Beazley Ireland Holdings plc (the "Company") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017 the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

- give a true and fair view of the financial position of the Company and Group as at 31 December 2017, and of the Group's financial performance and the Group's cash flows for the year then ended;
- the Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
- the parent Company financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and;
- have been properly prepared in accordance with the requirements of the Companies (Jersey) Law, 1991.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company and Group in accordance with, UK ethical requirements including FRC Ethical Standards as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate to basis for our opinion.

Key Audit Matters: our assessment of the risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the Financial Statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, were as follows:

	The risk	Our response

Valuation of insurance liabilities

($5,167.8m, gross, $3,936.7m, net, of which incurred but not reported ('IBNR') represented $2,852.3m, gross, $2,078.5m, net; 2016: $4,657.7m, gross, $3,575.6m, net, of which IBNR represented $2,564.7m, gross, $1,915.3m, net)

Refer to note 1 Statement of accounting policies and note 23 disclosures

Subjective valuation:

Insurance liabilities represent the single largest liability for the Group. Valuation of these liabilities is highly judgmental because it requires a number of assumptions to be made with high estimation uncertainty such as expected loss ratios, estimates of ultimate premium and of the frequency and severity of claims and, where appropriate, the discount rate for longer tail classes of business by territory and line of business. The determination and application of the methodology and performance of the calculations are also complex.

These judgmental and complex calculations for insurance liabilities are also used to derive the valuation of the related reinsurance assets.

A margin is added to the actuarial best estimate of insurance liabilities to make allowance for specific risks identified in assessment of the best estimate. The appropriate margin to recognise is a subjective judgement and estimate taken by the directors, based on the perceived uncertainty and potential for volatility in the underlying claims.

Completeness and accuracy of data:

The valuation of insurance liabilities depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating the insurance liabilities, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise.

We used our own actuarial specialists to assist us in performing our procedures in this area.

Our procedures included:

Sector experience and benchmarking: Performed benchmarking of Beazley's ultimate loss ratios, initial expected loss ratios, premium rate change, expectations of total losses on natural catastrophes, the rate at which IBNR has been utilised in the year and reserve releases in comparison to the rest of the market, in order to identify specific trends and outliers.

Re-projections: Used our projection of premiums and claims (on a gross and net basis) that we carried out as part of our overall actuarial audit testing and compared these with the Group's estimates.

Methodology assessment: Assessed the reserving assumptions and methodology (on a gross basis and net of outwards reinsurance) for reasonableness using our professional and sector experience and for consistency year on year, including inspecting the Group's margin paper.

Actual versus expected testing: Challenged the quality of Beazley's historical reserving estimates by monitoring progression of loss ratios against expectations.

In addition to the above, the audit team performed procedures to assess the completeness and accuracy of data:

Data reconciliations: Checked the completeness and accuracy of the data used within the reserving process by reconciling the actuarial source data to the financial systems. We have also checked the completeness and accuracy of the data flow from the claims and policy systems into the financial systems primarily through the testing of automated controls.

Our results

We found the resulting estimate of insurance liabilities to be acceptable (2016 result: acceptable).

	The risk	Our response
Recoverability of insurance receivables and reinsurance assets *(Insurance receivables $918.0m; 2016: $795.0m, Reinsurance assets: $1,231.1m; 2016: $1,082.1m)* *Refer to note 1 Statement of accounting policies and note 18 & 19 disclosures*	**Recoverability of debtors** **Insurance receivables:** The ability to identify, monitor and age insurance debtors relies on the timely availability of reliable data. The availability of this data is also impacted by the source, being either settled direct through intermediaries or through Xchanging. **Reinsurance assets:** Major catastrophes could impair the group's ability to recover incurred losses from its reinsurers, depending on the financial strength of the counterparties, which would then impact the recoverability of reinsurance assets. Reinsurance contracts are often complex. The calculations of recoveries includes a number of judgements, and an assessment of the risk transferred. In recent years, Beazley has adopted a consistent approach in determining the bad debt provisions to be booked in the financial statements. However, judgement is required in ensuring this approach remains relevant and that any aged balances are being given appropriate attention.	Our procedures included: **Data reconciliations:** Reperformed the Group's prepared reconciliations between Xchanging and the Group's financial systems. **Assessing future premium debtors:** Performed an analysis over the unsigned debtors within the insurance receivables balance in order to assess the valuation and recoverability of these debtors. **Provisioning analysis:** Critically assessed, based on our sector experience, the adequacy of the provisioning policy in place for Beazley by assessing and investigating any material movements in policy and the overall percentage of bad debt during the reporting period. **Recoverability assessment:** Considered potential indications of non-recovery for a sample of reinsurance assets, in light of the credit standing of the counterparty and age of the debt. **Our results** We found the resulting estimate of the recoverability of insurance and reinsurance debtors to be acceptable (2016 result: acceptable).

	The risk	Our response
Valuation of investments *($4,449.6m, of which hedge funds and illiquid credit assets comprised $557.8m; 2016: $4,195.4m, of which hedge funds and illiquid credit assets comprised $449.5m)* *Refer to note 1 Statement of accounting policies and note 16 disclosures*	**Subjective valuation:** A proportion of the Group's investment assets are comprised of either illiquid credit assets or investments in hedge funds. These assets are inherently harder to value due to the inability to obtain a market price of these assets as at the balance sheet date. As such there is judgement involved in the valuation of these assets. The valuation of the investments are based on third party valuation reports which are received at dates other than the year end date. The investments are subject to variations in value between the date of the valuation report and the period end date. These variations where applicable require judgement to assess whether adjustments are required to the valuation of the investments at the period end date.	Our procedures included: **Reconciliation controls:** Tested the design and operating effectiveness of the controls associated with the existence of the hedge funds and illiquid credit assets. **Comparing valuations:** For investments in hedge funds we inspected the financial statements of the underlying funds to confirm that the valuation approach was acceptable. **Historical accuracy:** For illiquid credit assets and investments in hedge funds the historical accuracy of the valuations was assessed by comparing interim valuation reports to the final year-end reports for prior periods. **Roll forward testing:** Assessed the quantum of change in the valuation of investments between the early close date and the period end date to consider whether there was a material movement post the early close date that required adjustment. **Our results** We found the resulting estimate of the valuation of hedge fund and illiquid credit assets to be acceptable (2016 result: acceptable).

	The risk	Our response
Valuation of gross premium written estimates *($2,343.8m; 2016: $2,195.6m)* *Refer to note 1 Statement of accounting policies and note 3 disclosures*	**Subjective valuation:** In determining gross premiums written, adjustments are made to gross premiums written to reflect adjustments to ultimate premium estimates, binding authority contract ('binders') adjustments, reinstatement premiums and other ad hoc adjustments to premium income. There is a large proportion of premium written through the group syndicates via binders. Such premiums are uncertain at inception and the model used in the recognition and earning of such premiums is subject to judgement and estimation. There is an increased risk of premium estimates being misstated as a result of the early close process which requires Beazley to estimate the premiums relating to the month of December and where necessary make adjustments at the period end.	Our procedures included: **Retrospective analysis:** Critically assessed the group's past expertise in making premium estimates through comparison of estimates and actuals for prior years for a sample of binders. We also compared the group's estimate of gross premiums written between the early close date and reporting date to actuals. **Methodology assessment:** Inspected the binder adjustment calculation and agreed that the methodology remains consistent and appropriate in the context of the timing of business written throughout the year. **Independent reperformance:** Recalculated, on a sample basis, the earning of premium and investigated any changes to earnings patterns. **Our results** We found the resulting estimate of the valuation of estimated premium to be acceptable (2016 result: acceptable).

	The risk	Our response
Parent: Recoverability of parent company's investment in subsidiaries *($747.2m; 2016: $747.2m)* *Refer to note 1 Statement of accounting policies and note 30 disclosures*	**Low risk, high value** The carrying amount of the parent company's investments in subsidiaries represents 99.4% (2016: 92.2%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: **Tests of detail:** Comparing the carrying amount of 100% of investments with the relevant subsidiaries' financial statements/draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. **Assessing subsidiary audits:** Assessing the findings of the audit work performed by the relevant component auditors and whether these findings provide any indicators that the value of the subsidiaries may be impaired. **Our results** We found the resulting estimate of the recoverability of the parent company's investment in subsidiaries to be acceptable (2016 result: acceptable).

Our application of materiality and an overview of the scope of our audit

Materiality for the group Financial Statements as a whole was set at $20.0m, determined with reference to a benchmark of group Gross premiums written of $2,348.8m, of which it represents 0.85% (2016: 0.91%).

We reported to the Directors any corrected or uncorrected identified misstatements exceeding $1m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Group was undertaken to the materiality level specified above, which has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality level set out above and covered 100% of total Group revenue, Group profit before tax, and total Group assets.

We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

We have nothing to report on the other Information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our Financial Statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

We have nothing to report on other matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the parent company; or
- the parent Financial Statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 48, the Directors are responsible for: the preparation of the Financial Statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of this report and restrictions on its use by persons other than the Company's members as a body

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Daniel Cazeaux
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL

8 March 2018

Financial statements

Consolidated statement of profit or loss

for the year ended 31 December 2017

	Notes	2017 $m	2016 $m
Gross premiums written	3	2,343.8	2,195.6
Written premiums ceded to reinsurers		(365.0)	(341.6)
Net premiums written	3	**1,978.8**	**1,854.0**
Change in gross provision for unearned premiums		(118.4)	(83.4)
Reinsurer's share of change in the provision for unearned premiums		9.0	(2.4)
Change in net provision for unearned premiums		**(109.4)**	**(85.8)**
Net earned premiums	3	**1,869.4**	**1,768.2**
Net investment income	4	138.3	93.1
Other income	5	35.5	32.7
		173.8	**125.8**
Revenue		**2,043.2**	**1,894.0**
Insurance claims		1,388.0	1,027.3
Insurance claims recoverable from reinsurers		(312.3)	(171.7)
Net insurance claims	3	**1,075.7**	**855.6**
Expenses for the acquisition of insurance contracts	3	519.7	472.5
Administrative expenses	3	253.4	246.7
Foreign exchange loss	3	1.9	5.7
Operating expenses		**775.0**	**724.9**
Expenses	3	**1,850.7**	**1,580.5**
Share of profit/(loss) in associates	14	0.1	(0.2)
Results of operating activities		**192.6**	**313.3**
Finance costs	8	(21.1)	(14.4)
Profit before income tax		**171.5**	**298.9**
Income tax expense	9	(38.8)	(42.9)
Profit for the year attributable to equity shareholders		**132.7**	**256.0**

Statement of comprehensive income

for the year ended 31 December 2017

	2017 $m	2016 $m
Group		
Profit for the year attributable to equity shareholders	132.7	256.0
Other comprehensive income		
Items that will never be reclassified to profit or loss:		
Loss on remeasurement of retirement benefit obligations	(0.6)	(6.1)
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange translation differences	2.9	(10.1)
Total other comprehensive income	2.3	(16.2)
Total comprehensive income recognised	**135.0**	**239.8**

Statement of comprehensive income

for the year ended 31 December 2017

	2017 $m	2016 $m
Company		
Profit for the year attributable to equity shareholders	73.6	41.2
Write-off of intercompany distribution due	–	(17.4)
Total comprehensive income recognised	**73.6**	**23.8**

Statement of changes in equity

for the year ended 31 December 2017

	Notes	Share capital $m	Share premium $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Group							
Balance at 1 January 2016		**41.6**	**12.0**	**(87.3)**	**(8.7)**	**1,483.8**	**1,441.4**
Total comprehensive income recognised		–	–	(10.1)	–	249.9	239.8
Dividends paid	11	–	–	–	–	(212.2)	(212.2)
Issue of shares		0.1	–	–	–	–	0.1
Acquisition of own shares in trust[1]	22	–	–	–	(5.0)	–	(5.0)
Equity settled share based payments[1]	22	–	–	–	3.5	–	3.5
Transfer of shares to employees[1]	22	–	–	–	(1.6)	2.5	0.9
Tax on share option vestings	9	–	–	–	–	2.1	2.1
Scheme of arrangement[2]	22	(4.5)	–	–	4.5	–	–
Reclassification of reserves[3]	22	–	–	–	(3.6)	3.6	–
Balance at 31 December 2016		**37.2**	**12.0**	**(97.4)**	**(10.9)**	**1,529.7**	**1,470.6**
Total comprehensive income recognised		–	–	2.9	–	132.1	135.0
Dividends paid	11	–	–	–	–	(136.8)	(136.8)
Tax on share option vestings	9	–	–	–	–	8.3	8.3
Balance at 31 December 2017		**37.2**	**12.0**	**(94.5)**	**(10.9)**	**1,533.3**	**1,477.1**

1 All movements shown in relation to share option reserves relate to the period before scheme of arrangement.

2 With effect from 13 April 2016, under the scheme of arrangement involving a share exchange with members of Beazley Ireland Holdings plc, Beazley plc became the new holding company for the Beazley group.

3 Following a scheme of arrangement, and when Beazley Ireland Holdings plc no longer acted as the ultimate parent company of the Beazley plc group, components of equity related to share reserves were incorporated into retained earnings.

Statement of changes in equity

for the year ended 31 December 2017

	Notes	Share capital $m	Share premium $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Company							
Balance at 1 January 2016		**41.6**	**12.0**	**(35.9)**	**(17.9)**	**902.8**	**902.6**
Total comprehensive income recognised		–	–	–	–	23.8	23.8
Dividends paid	11	–	–	–	–	(212.2)	(212.2)
Issue of shares		0.1	–	–	–	–	0.1
Acquisition of own shares in trust[1]	22	–	–	–	(5.0)	–	(5.0)
Equity settled share based payments[1]	22	–	–	–	3.5	–	3.5
Transfer of shares to employees[1]	22	–	–	–	(1.6)	2.5	0.9
Scheme of arrangement[2]	22	(4.5)	–	–	4.5	–	–
Reclassification of reserves[3]	22	–	–	–	(14.4)	14.4	–
Balance at 31 December 2016		**37.2**	**12.0**	**(35.9)**	**(30.9)**	**731.3**	**713.7**
Total comprehensive income recognised		–	–	–	–	73.6	73.6
Dividends paid	11	–	–	–	–	(136.8)	(136.8)
Balance at 31 December 2017		**37.2**	**12.0**	**(35.9)**	**(30.9)**	**668.1**	**650.5**

1 All movements shown in relation to share option reserves relate to the period before scheme of arrangement.

2 With effect from 13 April 2016, under the scheme of arrangement involving a share exchange with members of Beazley Ireland Holdings plc, Beazley plc became the new holding company for the Beazley group.

3 Following a scheme of arrangement, and when Beazley Ireland Holdings plc no longer acted as the ultimate parent company of the Beazley plc group, components of equity related to share reserves were incorporated into retained earnings.

Statements of financial position

as at 31 December 2017

		2017		2016	
	Notes	Group $m	Company $m	Group $m	Company $m
Assets					
Intangible assets	12	133.5	–	96.6	–
Plant and equipment	13	4.4	0.3	5.4	0.5
Deferred tax asset	27	6.9	–	11.0	–
Investment in subsidiaries	30	–	747.2	–	747.2
Investment in associates	14	7.0	–	9.9	–
Deferred acquisition costs	15	281.4	–	242.8	–
Reinsurance assets	19, 23	1,231.1	–	1,082.1	–
Financial assets at fair value	16, 17	4,449.6	–	4,195.4	–
Insurance receivables	18	918.0	–	795.0	–
Other receivables		68.5	4.1	46.4	61.6
Current income tax asset		17.2	–	16.3	–
Cash and cash equivalents	20	439.8	0.1	507.2	0.7
Total assets		**7,557.4**	**751.7**	**7,008.1**	**810.0**
Equity					
Share capital	21	37.2	37.2	37.2	37.2
Share premium		12.0	12.0	12.0	12.0
Foreign currency translation reserve		(94.5)	(35.9)	(97.4)	(35.9)
Other reserves	22	(10.9)	(30.9)	(10.9)	(30.9)
Retained earnings		1,533.3	668.1	1,529.7	731.3
Total equity		**1,477.1**	**650.5**	**1,470.6**	**713.7**
Liabilities					
Insurance liabilities	23	5,167.8	–	4,657.7	–
Financial liabilities	16, 17, 23	367.3	99.5	363.8	94.7
Retirement benefit liability	26	2.3	–	6.2	–
Deferred tax liability	27	9.9	–	12.8	–
Other payables	25	533.0	1.7	497.0	1.6
Total liabilities		**6,080.3**	**101.2**	**5,537.5**	**96.3**
Total equity and liabilities		**7,557.4**	**751.7**	**7,008.1**	**810.0**

The financial statements were approved by the board of directors on 8 March 2018 and were signed on its behalf by:

E McGivney
Director

N Lillis
Director

8 March 2018

Statements of cash flows

for the year ended 31 December 2017

	Notes	2017 Group $m	2017 Company $m	2016 Group $m	2016 Company $m
Cash flow from operating activities					
Profit before income tax		**171.5**	**73.6**	**298.9**	**23.8**
Adjustments for:					
Amortisation of intangibles	12	11.6	–	5.3	–
Equity settled share based compensation	22	–	–	3.1	3.1
Net fair value gain on financial assets		(69.6)	–	(28.9)	–
Share of (profit)/loss in associates	14	(0.1)	–	0.2	–
Depreciation of plant and equipment	13	2.7	0.2	1.8	0.2
Impairment of reinsurance assets recognised/(written back)	6	0.6	–	(1.1)	–
Increase/(decrease) in insurance and other payables		542.2	0.1	85.1	(17.3)
(Increase)/decrease in insurance, reinsurance and other receivables		(295.5)	57.5	(59.5)	188.3
Increase in deferred acquisition costs		(38.6)	–	(16.6)	–
Financial income	4	(76.6)	(80.9)	(71.5)	–
Financial expense	8	21.1	5.3	14.4	7.7
Income tax paid		(27.9)	–	(39.8)	–
Net cash generated from operating activities		**241.4**	**55.8**	**191.4**	**205.8**
Cash flow from investing activities					
Purchase of plant and equipment	13	(1.7)	–	(2.9)	–
Expenditure on software development	12	(9.3)	–	(4.7)	–
Purchase of investments		(3,299.3)	–	(5,985.4)	–
Proceeds from sale of investments		3,093.7	–	5,666.0	–
Investment in associate	14	–	–	(0.1)	–
Sale of associate	14	3.0	–	–	–
Sale of LAH renewal rights		0.8	–	–	–
Acquisition of subsidiaries (net of cash)	34	(31.8)	–	(8.0)	–
Interest and dividends received	4	74.5	80.9	71.5	–
Net cash (used in)/from investing activities		**(170.1)**	**80.9**	**(263.6)**	**–**
Cash flow from financing activities					
Acquisition of own shares in trust	22	–	–	(5.0)	(5.0)
Repayment of borrowings	24	–	–	(107.1)	–
Proceeds from debt issue	24	–	–	248.7	–
Finance costs		(20.7)	(5.1)	(14.4)	(7.7)
Foreign exchange of financial liabilities	24	4.6	4.6	–	–
Dividends paid		(136.8)	(136.8)	(212.2)	(212.2)
Net cash used in financing activities		**(152.9)**	**(137.3)**	**(90.0)**	**(224.9)**
Net (decrease)/increase in cash and cash equivalents		**(81.6)**	**(0.6)**	**(162.2)**	**(19.1)**
Cash and cash equivalents at beginning of year		507.2	0.7	676.9	18.4
Effect of exchange rate changes on cash and cash equivalents		14.2	–	(7.5)	1.4
Cash and cash equivalents at end of year	20	**439.8**	**0.1**	**507.2**	**0.7**

Notes to the financial statements

1 Statement of accounting policies

Beazley Ireland Holdings plc (registered number 102680) is a company incorporated in Jersey and domiciled in Ireland. The company's registered address is 2 Northwood Avenue, Santry, Dublin D09 X5N9, Ireland. The principal activity of the company and its subsidiaries ('the group') is to participate as a specialist insurer which transacts primarily in commercial lines of business through its subsidiaries and through Lloyd's syndicates. The group financial statements for the year ended 31 December 2017 comprise the parent company, its subsidiaries and the group's interest in associates.

The financial statements of the parent company, Beazley Ireland Holdings plc, and the group financial statements have been prepared and approved by the directors in accordance with IFRSs as adopted by the EU ('Adopted IFRSs'). On publishing the parent company financial statements together with the group financial statements, the company is taking advantage of the exemption in s105 of the Companies (Jersey) Law 1991 not to present its individual statement of profit or loss and related notes that form a part of these approved financial statements.

In the current year, the group has applied amendments to IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2017. The new effective requirements are:
- IAS 7: Amendment: Disclosure Initiative (EU effective date: 1 January 2017); and
- IAS 12: Amendment: Recognition of deferred tax assets for unrealised losses (EU effective date: 1 January 2017).

A number of new standards and interpretations adopted by the EU which are not mandatorily effective, as well as standards and interpretations issued by the IASB but not yet adopted by the EU, have not been applied in preparing these financial statements. The group does not plan to adopt these standards early; instead it will apply them from their effective dates as determined by their dates of EU endorsement. The group is still reviewing the upcoming standards to determine their impact:
- IFRS 2: Amendment: Classification and Measurement of Share-based Payment Transactions (IASB effective date: 1 January 2018);
- IFRS 9: Financial Instruments (EU effective date: 1 January 2018, deferred in line with implementation of IFRS 17);
- IFRS 15: Revenue from Contracts with Customers (EU effective date: 1 January 2018);
- IFRS 16: Leases (EU effective date: 1 January 2019);
- IFRS 17: Insurance Contracts (IASB effective date: 1 January 2021);[1]
- IAS 40: Amendment: Transfers of Investment Property (IASB effective date: 1 January 2018);[1]
- IFRS 9: Amendment: Prepayment Features with Negative Compensation (IASB effective date: 1 January 2019);[1]
- IAS 28: Amendment: Long-term Interests in Associates and Joint Ventures (IASB effective date: 1 January 2019);[1]
- Annual Improvements to IFRSs 2014-2016 Cycle (IASB effective date: 1 January 2018);[1]
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (IASB effective date: 1 January 2018);[1] and
- IFRIC 23 Uncertainty over Income Tax Treatments (IASB effective date: 1 January 2019).[1]

1 The amendments have not been endorsed by the EU.

Of the upcoming accounting standard changes that we are aware of, we anticipate that IFRS 17, IFRS 9 and IFRS 16 will have the most material impact on the financial statements' presentation and disclosures. The accounting developments and implementation timelines of these standards are being closely monitored and the impacts of the standards themselves are being assessed. Full impact analysis in respect of these standards is in the process of being completed. The impact of IFRS 15 has been assessed, and the impact is deemed to be immaterial. A brief overview of the standards is provided below:
- IFRS 17, effective from 1 January 2021, will fundamentally change the way insurance contracts are accounted for and reported. Revenue will no longer be equal to premiums written but instead reflect a change in the contract liability on which consideration is expected. On initial assessment the major change will be on the presentation of the statement of profit or loss with premium and claims figures being replaced with insurance contract revenue, insurance service expense and insurance finance income and expense. It is not currently known what impact the new requirements will have on the group's profit and financial position, but it is expected that profit recognition will be altered with expenses for onerous contracts being accelerated and recognised upfront rather than being spread over the term of the insurance contract. We are currently carrying out an impact assessment to identify the main areas within the group that the standard will affect, as well as assessing whether any synergies, potentially with Solvency II, can be achieved. A more detailed update will be provided after the assessment has been completed;

1 Statement of accounting policies *continued*

- IFRS 9 provides a reform of financial instruments accounting to supersede IAS 39: Financial Instruments: Recognition and Measurement. The standard contains the requirements for a) the classification and measurement of financial assets and liabilities; b) a new impairment methodology, and c) general hedge accounting. During 2016, the IASB stated that the effective date of IFRS 17 'Insurance Contracts' will be 1 January 2021. The IASB also amended IFRS 4 to permit certain entities/groups that issue insurance contracts within the scope of IFRS 4 to defer application of IFRS 9 (Financial instruments) until accounting periods beginning on or after 1 January 2021 (the deferral approach), in order to align with IFRS 17 implementation. The activities of the group are predominately related to insurance, and there are no further significant activities not related to that of insurance. Therefore the group will opt to apply the deferral approach for the implementation of IFRS 9 and will assess the impact of this standard closer to the implementation date. Beazley Ireland Holdings plc, as a standalone company, will adopt IFRS 9 from 1 January 2018. The company has a financial liabilities in the form of a retail bond with a carrying value as at 31 December 2017 of $99.5m. This retail bond is currently held at amortised cost which is consistent with IFRS 9 requirements. Therefore there will be no impact;
- IFRS 15, effective from 1 January 2018, establishes a single comprehensive model for entities to use in accounting for revenue from contracts with customers. Revenue from contracts accounted for under IFRS 4 'Insurance contracts' is outside the scope of IFRS 15, but the group will have to apply the new revenue recognition standard to non-insurance contracts, such as profit and service commission agreements with third party syndicates. In 2017 the revenue from such contracts was $32.9m (2016: $32.4m). The new standard's requirement for accounting for variable consideration could change the timing of revenue recognition for these contracts issued by the group. The group has assessed the impact of this new standard on its financial statements, and our conclusion is that new revenue standard does not have a material impact on the group's earned income and does not change the timing of recognition of revenue from the contracts outlined above, as our current recognition approach is consistent with the new requirements under IFRS 15. On transition to the new standard, the group opts to retain prior period figures as reported under the previous standards. No cumulative effect on the group's equity from applying IFRS 15 is expected in the period of initial application; and
- IFRS 16, effective from 1 January 2019, replaces existing leases standard, including IAS 17: Leases, and introduces a single, on-balance sheet accounting model for leases, where distinction between operating and finance leases is eliminated. The group is currently assessing the impact of the new standard on financial statements in the period of initial application and actual impact will depend on unknown factors such as lease portfolio at the date of application, borrowing rates and renewal plans for leases. The standard is expected to have a material impact on the group's statement of financial position as large assets and liabilities related to the recognition of a right-of-use asset and lease liability will now be included. As at 31 December 2017 the group's future minimum estimated payments under non-cancellable lease contracts amounted to $45.7m on an undiscounted basis. This represents the estimated value of the gross up of assets and liabilities on the statement of financial position. With regards to profit and loss impact, this new approach will have no long term impact. However, the group will have a different profit recognition pattern to the current process. On transition to the new standard the group will opt to retain prior period figures as reported under the previous standards. The cumulative effect of applying IFRS 16 will be shown as an adjustment to the opening balance of equity as at the date of initial application.

Basis of presentation

The group financial statements are prepared using the historical cost convention, with the exception of financial assets and derivative financial instruments which are stated at their fair value. All amounts presented are stated in US dollars and millions, unless stated otherwise.

The financial statements of Beazley Ireland Holdings plc have been prepared on a going concern basis. The directors of the company have a reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future. In accordance with the requirements of IAS 1 the financial statements' assets and liabilities have been presented based on order of liquidity which provides information that is more reliable and relevant for a financial institution.

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

a) Estimates

Estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most critical estimate included within the group's financial position is the estimate for insurance losses incurred but not reported, which is included within total insurance liabilities and reinsurance assets in the statement of financial position and note 23. This estimate is critical as it outlines the current liability for future expenses expected to be incurred in relation to claims. If this estimation was to prove inadequate then an exposure would arise in future years where a liability has not been provided for. The total estimate for insurance losses incurred but not reported gross of reinsurers' share as at 31 December 2017 is $2,852.3m (2016: $2,567.4m). The total estimate for insurance losses incurred but not reported net of reinsurers' share as at 31 December 2017 is $2,078.5m (2016: $1,915.3m) and is included within total insurance liabilities and reinsurance assets in the statement of financial position and note 23.

Another significant area of estimation is the group's financial assets and liabilities. Information about estimation uncertainty related to the group's financial assets and liabilities is described in this statement of accounting policies and note 16: financial assets and liabilities (valuations based on models and unobservable inputs).

Another key estimate contained within our close process is premium estimates.

b) Judgements

Information about significant areas of critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in this statement of accounting policies and specifically in the following notes:
- note 1a: accounting treatment for the group's interest in managed syndicates; and
- note 12: intangible assets including goodwill (assumptions underlying recoverable amounts).

Consolidation

a) Subsidiary undertakings

Subsidiary undertakings are entities controlled by the group. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The group has used the acquisition method of accounting for business combinations arising on the purchase of subsidiaries. Under this method, the cost of acquisition is measured as the fair value of assets given, shares issued or liabilities undertaken at the date of acquisition directly attributable to the acquisition. The excess of the cost of an acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired is recorded as goodwill. The accounting treatment of acquisition expenses per IFRS 3 (2008) has changed; however, as the group applied the revised standard prospectively to all business combinations from 1 January 2010 there is no impact on accounting for the acquisition of subsidiaries made in previous periods.

For all business combinations from 1 January 2010:
(i) Transaction costs, other than those associated with the issue of debt or equity securities, that the group incurs in connection with a business combination, are expensed as incurred;
(ii) In addition, any consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognised in profit or loss; and
(iii) Any contingent consideration is measured at fair value at the acquisition date.

Equity financial investments made by the parent company in subsidiary undertakings and associates are stated at cost in its separate financial statements and are reviewed for impairment when events or changes in circumstances indicate the carrying value may be impaired.

1 Statement of accounting policies *continued*

Certain group subsidiaries underwrite as corporate members of Lloyd's on syndicates managed by Beazley Furlonge Limited. In view of the several and direct liability of underwriting members at Lloyd's for the transactions of syndicates in which they participate, only attributable shares of transactions, assets and liabilities of those syndicates are included in the group financial statements. The group continues to conclude that it remains appropriate to consolidate its share of the result of these syndicates and accordingly, as the group is the sole provider of capacity on syndicates 2623, 3622 and 3623, these financial statements include 100% of the economic interest in these syndicates. For the other syndicates to which Beazley is appointed managing agent, being syndicates 623, 6107, and 6050, for which the capacity is provided entirely by third parties to the group, these financial statements reflect Beazley's economic interest in the form of agency fees and profit commission to which they are entitled. Syndicate 5623 commenced underwriting on 1 January 2018 and therefore has no balances consolidated in these financial statements.

b) Associates

Associates are those entities over which the group has power to exert significant influence but which it does not control. Significant influence is generally presumed if the group has between 20% and 50% of voting rights.

Investments in associates are accounted for using the equity method of accounting. Under this method the investments are initially measured at cost and the group's share of post-acquisition profits or losses is recognised in the statement of profit or loss. Therefore the cumulative post-acquisition movements in the associates' net assets are adjusted against the cost of the investment.

When the group's share of losses equals or exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition for the losses is discontinued except to the extent that the group has incurred obligations in respect of the associate. Equity accounting is discontinued when the group no longer has significant influence over the investment.

c) Intercompany balances and transactions

All intercompany transactions, balances and unrealised gains or losses on transactions between group companies are eliminated in the group financial statements. Transactions and balances between the group and associates are not eliminated.

Foreign currency translation

a) Functional and presentational currency

Items included in the financial statements of the parent and the subsidiaries are measured using the currency of the primary economic environment in which the relevant entity operates (the 'functional currency'). The group financial statements are presented in US dollars, being the functional and presentational currency of the parent and its main trading subsidiaries, as the majority of trading assets and insurance premiums are denominated in US dollars.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using average exchange rates applicable to the period in which the transactions take place and where the group considers these to be a reasonable approximation of the transaction rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at the period end of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss. Non-monetary items recorded at historical cost in foreign currencies are translated using the exchange rate on the date of the initial transaction.

c) Foreign operations

The results and financial position of the group companies that have a functional currency different from the group presentational currency are translated into the presentational currency as follows:

- assets and liabilities are translated at the closing rate ruling at the statement of financial position date;
- income and expenses for each statement of profit or loss are translated at average exchange rates for the reporting period where this is determined to be a reasonable approximation of the actual transaction rates; and
- all resulting exchange differences are recognised in other comprehensive income and as a separate component of equity.

On disposal of foreign operations, cumulative exchange differences previously recognised in other comprehensive income are recognised in the statement of profit or loss as part of the gain or loss on disposal.

Insurance contracts

Insurance contracts (including inwards reinsurance contracts) are defined as those containing significant insurance risk. Insurance risk is considered significant if, and only if, an insured event could cause Beazley to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

Net earned premiums

a) Premiums

Gross premiums written represent premiums on business commencing in the financial year together with adjustments to premiums written in previous accounting periods and estimates for premiums from contracts entered into during the course of the year. Gross premiums written are stated before deduction of brokerage, taxes, duties levied on premiums and other deductions.

b) Unearned premiums

A provision for unearned premiums (gross of reinsurance) represents that part of the gross premiums written that it is estimated will be earned in the following financial periods. It is calculated using the daily pro-rata method, under which the premium is apportioned over the period of risk.

Deferred acquisition costs (DAC)

Acquisition costs comprise brokerage, premium levy and staff-related costs (excluding performance related pay) of the underwriters acquiring new business and renewing existing contracts. The proportion of acquisition costs in respect of unearned premiums is deferred at the reporting date and recognised in later periods when the related premiums are earned.

Claims

These include the cost of claims and claims handling expenses paid during the period, together with the movements in provisions for outstanding claims, claims incurred but not reported (IBNR) and claims handling provisions. The provision for claims comprises amounts set aside for claims advised and IBNR, including claims handling expenses.

The IBNR amount is based on estimates calculated using widely accepted actuarial techniques which are reviewed quarterly by the group actuary and annually by Beazley's independent syndicate reporting actuary. The techniques generally use projections, based on past experience of the development of claims over time, to form a view on the likely ultimate claims to be experienced.

For more recent underwriting years, regard is given to the variations in the business portfolio accepted and the underlying terms and conditions. Thus, the critical assumptions used when estimating provisions are that past experience is a reasonable predictor of likely future claims development and that the rating and business portfolio assumptions are a fair reflection of the likely level of ultimate claims to be incurred for the more recent years.

Liability adequacy testing

At each reporting date, liability adequacy tests are performed by segment to ensure the adequacy of the claims liabilities net of DAC and unearned premium reserves. In performing these tests, current best estimates of future contractual cash flows, claims handling and administration expenses, and investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to the statement of profit or loss, initially by writing off DAC and subsequently by establishing a provision for losses arising from liability adequacy tests ('unexpired risk provision').

Ceded reinsurance

These are contracts entered into by the group with reinsurers under which the group is compensated for losses on contracts issued by the group that meet the definition of an insurance contract. Insurance contracts entered into by the group under which the contract holder is another insurer (inwards reinsurance) are included within insurance contracts.

Any benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers and include reinsurers' share of provisions for claims. These balances are based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the period and the current security rating of the reinsurer involved. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The group assesses its reinsurance assets for impairment. If there is objective evidence of impairment, then the carrying amount is reduced to its recoverable amount and the impairment loss is recognised in the statement of profit or loss.

Revenue

Revenue consists of net earned premiums, net investment income and other income (made up of commissions received from Beazley service companies, profit commissions, managing agent's fees and service fees). Profit commissions are recognised as profit is earned. Managing agent's fees are recognised as the services are provided.

Dividends paid

Dividend distributions to the shareholders of the group are recognised in the period in which the dividends are paid, as a first interim dividend and second interim dividend.

1 Statement of accounting policies *continued*

Plant and equipment

All plant and equipment is recorded at cost less accumulated depreciation and any impairment losses. Depreciation is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives as follows:

Fixtures and fittings	Three to ten years
Computer equipment	Three years

These assets' residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may be impaired. If any such condition exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment and the difference is charged to the statement of profit or loss.

Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses.

Goodwill has an indefinite life and is annually tested for impairment. Goodwill is allocated to each cash-generating unit (being the group's operating segments) for the purpose of impairment testing. Goodwill is impaired when the net carrying amount of the relevant cash-generating unit (CGU) exceeds its recoverable amount, being the higher of its value in use or fair value less costs to sell. Value in use is defined as the present value of the future cash flows expected to be derived from the CGU. On transition to IFRS at 1 January 2004, any goodwill previously amortised or written off was not reinstated.

In respect of equity accounted associates, the carrying amount of any goodwill is included in the carrying amount of the associate, and any impairment is allocated to the carrying amount of the associate as a whole.

b) Syndicate capacity

The syndicate capacity represents the cost of purchasing the group's participation in the combined syndicates. The capacity is capitalised at cost in the statement of financial position. It has an indefinite useful life and is carried at cost less accumulated impairment. It is annually tested for impairment by reference to the expected future profit streams to be earned by those syndicates in which the group participates, namely 2623, 3622 and 3623, and provision is made for any impairment.

c) Licences

Licences have an indefinite useful life and are initially recorded at fair value. Licences are annually tested for impairment and provision is made for any impairment when the recoverable amount, being the higher of its value in use and fair value, is less than the carrying value.

d) IT development costs

Costs that are directly associated with the development of identifiable and unique software products and that are anticipated to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include external consultants' fees, certain qualifying internal staff costs and other costs incurred to develop software programs. These costs are amortised over their estimated useful life (three years) on a straight-line basis and subject to impairment testing annually. Other non-qualifying costs are expensed as incurred.

e) Renewal rights

Renewal rights comprise future profits relating to insurance contracts acquired and the expected renewal of those contracts. The costs directly attributable to acquire the renewal rights are recognised as intangible assets where they can be measured reliably and it is probable that they will be recovered by directly related future profits. These costs are subject to impairment testing annually and are amortised on a straight-line basis, based on the estimated useful life of the assets, which is estimated to be between five and ten years.

Financial instruments

Financial instruments are recognised in the statement of financial position at such time as the group becomes a party to the contractual provisions of the financial instrument. Purchases and sales of financial assets are recognised on the trade date, which is the date the group commits to purchase or sell the asset. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the group's obligations specified in the contract expire, are discharged or are cancelled.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

a) Financial assets

On acquisition of a financial asset, the group is required to classify the asset into one of the following categories: financial assets at fair value through the statement of profit or loss, loans and receivables, assets held to maturity and assets available for sale. The group does not make use of the held to maturity and available for sale categories.

b) Financial assets at fair value through profit or loss

Except for derivative financial instruments and other financial assets listed in policies (f) and (g) below, all financial assets are designated as fair value through the statement of profit or loss upon initial recognition because they are managed and their performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the group's key management. The group's investment strategy is to invest and evaluate their performance with reference to their fair values.

c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortised cost less any impairment losses.

d) Fair value measurement

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.

When available, the group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available as well as representing actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the group establishes fair value using a valuation technique. Valuation techniques 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. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When the transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but before the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. These prices are monitored and deemed to approximate exit price. Where the group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the group entity and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the group believes a third-party market participant would take them into account in pricing a transaction.

Upon initial recognition, attributable transaction costs relating to financial instruments at fair value through profit or loss are recognised in the statement of profit or loss when incurred. Financial assets at fair value through profit or loss are continually measured at fair value, and changes therein are recognised in the statement of profit or loss. Net changes in the fair value of financial assets at fair value through profit or loss exclude interest and dividend income, as these items are accounted for separately as set out on the next page.

1 Statement of accounting policies *continued*

e) Hedge funds, equity funds and illiquid credit assets

The group invests in a number of hedge funds, equity funds and illiquid credit assets for which there are no available quoted market prices. The valuation of these assets is based on fair value techniques (as described above). The fair value of our hedge fund portfolio is calculated by reference to the underlying net asset values (NAVs) of each of the individual funds. Consideration is also given to adjusting such NAV valuations for any restriction applied to distributions, the existence of side pocket provisions and the timing of the latest available valuations. At certain times, we will have uncalled unfunded commitments in relation to our illiquid credit assets. These uncalled unfunded commitments are actively monitored by the group and are disclosed in the notes to the financial statements. The additional investment into our illiquid credit asset portfolio is recognised on the date that this funding is provided by the group.

f) Insurance receivables and payables

Insurance receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. Insurance receivables are classified as 'loans and receivables' as they are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Insurance receivables are measured at amortised cost less any impairment losses. Insurance payables are stated at amortised cost.

g) Other receivables

Other receivables categorised as loans and receivables are carried at amortised cost less any impairment losses.

h) Investment income

Investment income consists of dividends, interest, realised and unrealised gains and losses and foreign exchange gains and losses on financial assets at fair value through the statement of profit or loss. Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest is recognised on an effective rate basis for financial assets at fair value through the statement of profit or loss. The realised gains or losses on disposal of an investment are the difference between the proceeds and the original cost of the investment. Unrealised investment gains and losses represent the difference between the carrying value at the reporting date, and the carrying value at the previous period end or purchase value during the period.

i) Borrowings

Borrowings are initially recorded at fair value less transaction costs incurred. Subsequently borrowings are stated at amortised cost and interest is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

Finance costs comprise interest, fees paid for the arrangement of debt and letter of credit facilities, and commissions charged for the utilisation of letters of credit. These costs are recognised in the statement of profit or loss using the effective interest method.

In addition, finance costs include gains on the early redemption of the group's borrowings. These gains are recognised in the statement of profit or loss, being the difference between proceeds paid plus related costs and the carrying value of the borrowings redeemed.

j) Other payables

Other payables are stated at amortised cost determined according to the effective interest rate method.

k) Hedge accounting and derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The best evidence of fair value of a derivative at initial recognition is the transaction price. The method of recognising the resulting fair value gains or losses depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in active markets, recent market transactions, and valuation techniques which include discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivative assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the parties intend to settle on a net basis, or realise the assets and settle the liability simultaneously.

The group has not designated any derivatives as fair value hedges, cash flow hedges or net investment hedges and therefore all fair value movements are recorded through profit or loss.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

l) Impairment of financial assets

The group considers evidence of impairment for financial assets measured at amortised cost at both a specific asset and a collective level. The group assesses at each reporting date whether there is objective evidence that a specific financial asset measured at amortised cost is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the assets and that event has an impact on the estimated cash flows of the financial asset that can be reliably estimated. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

If there is objective evidence that impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount and the value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in the statement of profit or loss.

In assessing collective impairment, the group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

m) 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 measured at fair value through the profit and loss account.

n) Unfunded commitment capital

Unfunded committed capital arising in relation to certain financial asset investments is not shown on the statement of financial position as unfunded committed capital represents a loan commitment that is scoped out of IAS 39.

Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made by the group for operating leases are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

Employee benefits

a) Pension obligations

The group operates a defined benefit pension plan that is now closed to future service accruals. The scheme is generally funded by payments from the group, taking account of the recommendations of an independent qualified actuary. All employees now participate in defined contribution pension arrangements, to which the group contributes.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors like age, years of service and compensation. The pension costs are assessed using the projected unit credit method. Under this method the costs of providing pensions are charged to the statement of profit or loss so as to spread the regular costs over the service lives of employees in accordance with the advice of the qualified actuary, who values the plans annually. The net pension obligation is measured at the present value of the estimated future net cash flows and is stated net of plan assets.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income.

The group also determines the net interest expense/(income) for the period on the net defined benefit liability/(asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset) at the beginning of the annual period, taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the defined benefit liability/(asset) comprises:
- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect of the asset ceiling.

1 Statement of accounting policies *continued*

Net interest expense/(income) is recognised in the statement of profit or loss.

Past service costs are recognised as an expense at the earlier of the date when a plan amendment or curtailment occurs and the date when an entity recognises any termination benefits.

For the defined contribution plan, the group pays contributions to a privately administered pension plan. Once the contributions have been paid, the group has no further obligations. The group's contributions are charged to the statement of profit or loss in the period to which they relate.

b) Share based compensation

The Beazley plc group offers option plans over Beazley plc's ordinary shares to certain employees, including the SAYE scheme. Up until the scheme of arrangement, Beazley Ireland Holdings plc offered the same option plans over their ordinary shares. These pre scheme of arrangement charges are reflected in the 2016 financial statements to these accounts.

The grant date fair value of share based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share based payment awards with non-vesting conditions, the grant date fair value of the share based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

When the options are exercised and new shares are issued, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and retained earnings. When the options are exercised and the shares are granted from the employee share trust, the proceeds received, net of any transaction costs, are credited to retained earnings.

Income taxes

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised respectively in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the year end reporting date and any adjustments to tax payable in respect of prior periods.

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.

Deferred tax assets are recognised in the statement of financial position to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Provisions and contingencies

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources or economic benefits will be required to settle the obligation, and a reliable estimate of the obligation can be made. Where the group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Contingent liabilities are present obligations that are not recognised because it is not probable that an outflow of resources will be required to meet the liabilities or because the amount of the obligation cannot be measured with sufficient reliability.

Notes to the financial statements *continued*

2 Risk management

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

The symbol † by a heading indicates that the information in that section has not been audited.

2.1 Insurance 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.

We manage and model 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 Beazley plc board and monitored by the Beazley plc underwriting committee.

Our 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.

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 Beazley plc board may adjust these limits over time as conditions change. In 2017 the group operated to a catastrophe risk appetite for a probabilistic 1-in-250 years US event of $370.0m (2016: $412.0m) net of reinsurance. This represented a reduction in our catastrophe risk appetite of 10% compared to 2016.

2 Risk management *continued*

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

Unaudited

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

Unaudited

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

1 Probable market loss.

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

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

The group also has exposure to man-made claim aggregations, such as those arising from terrorism and data breach events. Beazley chooses to underwrite data breach insurance within the specialty lines division using our 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 Beazley plc 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 2017. However, the cost of these scenarios will increase as Beazley continues to grow its data breach product. The clash reinsurance programme that protects the specialty lines account would partially mitigate the cost of most, but not all, data breach catastrophes.

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's 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. In 2017, the maximum line that any one underwriter could commit the managed syndicates to was $100m. In most cases, maximum lines for classes of business were much lower than this.

Notes to the financial statements *continued*

2 Risk management *continued*

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.

Binding authority contracts

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

Operating divisions

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

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

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

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

b) Reinsurance risk

Reinsurance risk to the group arises where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated, result in coverage disputes or prove inadequate in terms of the vertical or horizontal limits purchased. Failure of a reinsurer to pay a valid claim is considered a credit risk which is detailed in the credit risk section on page 81.

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

2 Risk management *continued*

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.

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, our 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.

2.2 Strategic risk †

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

Senior management performance

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

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

2.3 Market risk

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

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

Notes to the financial statements *continued*

2 Risk management *continued*

a) Foreign exchange risk

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

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

In 2017, the group managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting to have net assets that are predominantly denominated in US dollar. As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure across the group. Details of foreign currency derivative contracts entered into with external parties are disclosed in note 17. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk.

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

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

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

31 December 2017	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	547.8	130.8	333.6	1,012.2	6,545.2	7,557.4
Total liabilities	(538.1)	(110.0)	(304.4)	(952.5)	(5,127.8)	(6,080.3)
Net assets	**9.7**	**20.8**	**29.2**	**59.7**	**1,417.4**	**1,477.1**

31 December 2016	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	538.6	156.2	283.2	978.0	6,030.1	7,008.1
Total liabilities	(526.2)	(166.2)	(304.3)	(996.7)	(4,540.8)	(5,537.5)
Net assets	**12.4**	**(10.0)**	**(21.1)**	**(18.7)**	**1,489.3**	**1,470.6**

Sensitivity analysis

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

	Impact on profit after tax for the year ended		Impact on net assets	
Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar	2017 $m	2016 $m	2017 $m	2016 $m
Dollar weakens 30% against other currencies	13.9	(4.8)	6.1	(13.1)
Dollar weakens 20% against other currencies	9.2	(3.2)	4.1	(8.7)
Dollar weakens 10% against other currencies	4.6	(1.6)	2.0	(4.4)
Dollar strengthens 10% against other currencies	(4.6)	1.6	(2.0)	4.4
Dollar strengthens 20% against other currencies	(9.2)	3.2	(4.1)	8.7
Dollar strengthens 30% against other currencies	(13.9)	4.8	(6.1)	13.1

2 Risk management *continued*

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 Beazley plc investment committee monitors the duration of these assets on a regular basis.

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

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

Duration 31 December 2017	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	1,447.4	851.7	571.1	366.3	382.0	96.2	–	3,714.7
Cash and cash equivalents	439.8	–	–	–	–	–	–	439.8
Derivative financial instruments	8.8	–	–	–	–	–	–	8.8
Borrowings	–	(99.5)	–	–	–	(248.5)	(18.0)	(366.0)
Total	**1,896.0**	**752.2**	**571.1**	**366.3**	**382.0**	**(152.3)**	**(18.0)**	**3,797.3**

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

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

Sensitivity analysis

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

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

Notes to the financial statements *continued*

2 Risk management *continued*

c) Price risk

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

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

Listed investments that are quoted in an active market are recognised in the statement of financial position at quoted bid price, which is deemed to be approximate exit price. If the market for the investment is not considered to be active, then the group establishes fair value using valuation techniques (refer to note 16). This includes comparison of orderly transactions between market participants, reference to current fair value of other investments that are substantially the same, discounted cash flow models and other valuation techniques that are commonly used by market participants.

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

d) Investment risk

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

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

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

2.4 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.

2 Risk management *continued*

The group also recognises that it is necessary for people, systems and infrastructure to be available to support our operations. Therefore we have 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. We operate 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.

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.

2.5 Credit risk

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

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

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

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 Beazley plc 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 Beazley plc reinsurance security committee (RSC), 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

Notes to the financial statements *continued*

2 Risk management *continued*

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

31 December 2017	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	2,840.0	874.7	–	–	–	3,714.7
– equity funds	–	–	–	–	168.3	168.3
– hedge funds	–	–	–	–	377.4	377.4
– illiquid credit assets	–	–	–	–	180.4	180.4
– derivative financial instruments	–	–	–	–	8.8	8.8
Insurance receivables	–	–	–	–	918.0	918.0
Reinsurance assets	1,231.1	–	–	–	–	1,231.1
Other receivables	68.5	–	–	–	–	68.5
Cash and cash equivalents	439.8	–	–	–	–	439.8
Total	**4,579.4**	**874.7**	**–**	**–**	**1,652.9**	**7,107.0**

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 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	–	–	–	–	795.0	795.0
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**	**–**	**1,373.0**	**6,626.1**

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

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

Insurance receivables and other receivables balances held by the group have not been impaired, based on all evidence available, and no impairment provision has been recognised in respect of these assets. Insurance receivables in respect of coverholder business are credit controlled by third-party managers. We monitor 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.

2 Risk management *continued*

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

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

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

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

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

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

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.

2.6 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.

2.7 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 (details of the group's exposure to realistic disaster scenarios (RDS) are provided on page 75). 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, details of which can be found in note 24. Further information on the group's capital resources is contained on pages 35 to 36.

Notes to the financial statements *continued*

2 Risk management *continued*

The following is an analysis by business segment of the estimated timing of the net cash flows based on the net claims liabilities[1] balance held at 31 December:

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

1 For a breakdown of net claims liabilities refer to note 23.

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

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

31 December 2017	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Net claims liabilities	911.2	1,016.2	447.0	541.0	2,915.4
Borrowings	–	99.5	–	266.5	366.0
Other payables	533.0	–	–	–	533.0

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	495.6	1.4	–	–	497.0

The group makes additional interest payments for borrowings. Further details are provided in notes 8 and 24.

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

Maturity 31 December 2017	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	926.5	967.1	653.0	511.9	454.3	201.9	–	3,714.7
Derivative financial instruments	8.8	–	–	–	–	–	–	8.8
Cash and cash equivalents	439.8	–	–	–	–	–	–	439.8
Insurance receivables	918.0	–	–	–	–	–	–	918.0
Other receivables	68.5	–	–	–	–	–	–	68.5
Other payables	(533.0)	–	–	–	–	–	–	(533.0)
Borrowings	–	(99.5)	–	–	–	(248.5)	(18.0)	(366.0)
Total	**1,828.6**	**867.6**	**653.0**	**511.9**	**454.3**	**(46.6)**	**(18.0)**	**4,250.8**

2 Risk management *continued*

31 December 2016	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	925.0	695.6	816.8	522.4	485.2	172.4	–	3,617.4
Derivative financial instruments	12.2	–	–	–	–	–	–	12.2
Cash and cash equivalents	507.2	–	–	–	–	–	–	507.2
Insurance receivables	795.0	–	–	–	–	–	–	795.0
Other receivables	46.4	–	–	–	–	–	–	46.4
Other payables	(495.6)	(1.4)	–	–	–	–	–	(497.0)
Borrowings	–	–	(94.7)	–	–	(248.3)	(18.0)	(361.0)
Total	**1,790.2**	**694.2**	**722.1**	**522.4**	**485.2**	**(75.9)**	**(18.0)**	**4,120.2**

Borrowings consist of three items as at 31 December 2017. 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. The second is $250m 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 funds are not included in the maturity profile because the basis of maturity profile can not be determined with any degree of certainty.

2.8 Group risk †

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

a) Contagion

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

b) Reputation

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

2.9 Capital management

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 Beazley plc board's risk appetite where necessary.

The group has several requirements for capital, including:

- to support underwriting at Lloyd's through the syndicates in which it participates, being 2623, 3623, 3622 and 5623. This is based on the group's own individual capital assessment. It may be provided in the form of either the group's cash and investments or debt facilities;
- to support underwriting in Beazley Insurance Company, Inc. in the US;
- to support underwriting in Beazley Insurance dac in Europe; and
- to make acquisitions of insurance companies or MGAs whose strategic goals are aligned with our own.

The Internal Model Solvency Capital Requirement is a dedicated quantitative review of syndicate models and it sets outs to be a key input to the Lloyd's Internal Model.

Notes to the financial statements *continued*

2 Risk management *continued*

The Beazley plc board's strategy is to grow the dividend (excluding special dividend) by between 5% and 10% per year. The capital management strategy is to carry some surplus capital to enable the group to take advantage of growth opportunities which may arise. At 31 December 2017, the Beazley plc group had surplus capital of 39% of ECR (on a Solvency II basis). Following payment of the second interim dividend of 7.4p by Beazley plc, this surplus reduces to 35% compared to our current target range of 15% to 25% of ECR. Should the capital surplus be assessed on a Beazley Ireland Holdings plc group level, the surplus would be 37% of ECR and 34% after paying out the second interim dividend of £40.0m to its parent, Beazley plc.

2.10 Company risk

The company is exposed to the same interest rate and liquidity risk exposure experienced on its mutual borrowings with the group. The group's exposure can be seen in sections 2.3b and 2.7. The company also experiences operational, regulatory and legal risks as defined in section 2.4 and 2.6.

3 Segmental analysis

a) Reporting segments

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

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

Marine

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

Political, accident & contingency

During 2017, the life, accident & health division and political risks & contingency division were combined to form the political, accident & contingency division. This segment underwrites terrorism, political violence, expropriation and credit risks as well as contingency and risks associated with contract frustration. In addition, this segment underwrites life, health, personal accident, sports and income protection risks.

Property

The property segment underwrites commercial, high-value homeowners' and construction and engineering property insurance on a worldwide basis.

Reinsurance

This segment specialises in writing property catastrophe, property per risk, casualty clash, aggregate excess of loss and pro-rata business.

Specialty lines

This segment underwrites professional liability, management liability and environmental liability, including architects and engineers, healthcare, cyber, lawyers, technology, media and business services, directors and officers and employment practices risks.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The reporting segments do not cross-sell business to each other. There are no individual policyholders who comprise greater than 10% of the group's total gross premiums written.

3 Segmental analysis *continued*
b) Segment information

2017	Marine $m	Political, accident & contingency[1] $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Segment results						
Gross premiums written	267.6	214.3	362.9	206.8	1,292.2	2,343.8
Net premiums written	233.2	190.8	300.0	134.6	1,120.2	1,978.8
Net earned premiums	227.9	188.7	293.8	136.9	1,022.1	1,869.4
Net investment income	12.7	6.7	14.1	9.4	95.4	138.3
Other income	3.2	3.6	7.3	3.7	17.7	35.5
Revenue	**243.8**	**199.0**	**315.2**	**150.0**	**1,135.2**	**2,043.2**
Net insurance claims	124.7	96.2	251.6	97.5	505.7	1,075.7
Expenses for the acquisition of insurance contracts	68.9	67.2	95.3	32.9	255.4	519.7
Administrative expenses	30.4	27.6	35.9	15.5	144.0	253.4
Foreign exchange loss	0.2	0.2	0.3	0.1	1.1	1.9
Expenses	**224.2**	**191.2**	**383.1**	**146.0**	**906.2**	**1,850.7**
Share of profit/(loss) of associates	–	0.4	–	–	(0.3)	0.1
Segment result	**19.6**	**8.2**	**(67.9)**	**4.0**	**228.7**	**192.6**
Finance costs						(21.1)
Profit before income tax						**171.5**
Income tax expense						(38.8)
Profit for the year attributable to equity shareholders						**132.7**
Claims ratio	55%	51%	86%	71%	50%	58%
Expense ratio	43%	50%	44%	36%	39%	41%
Combined ratio	98%	101%	130%	107%	89%	99%
Segment assets and liabilities						
Segment assets	694.0	448.8	841.6	665.2	4,907.8	7,557.4
Segment liabilities	(575.8)	(345.4)	(679.1)	(487.9)	(3,992.1)	(6,080.3)
Net assets	**118.2**	**103.4**	**162.5**	**177.3**	**915.7**	**1,477.1**
Additional information						
Investment in associates[2]	–	–	–	–	7.0	7.0
Impairment of non-financial assets	–	–	–	–	–	–
Capital expenditure	0.9	0.8	1.2	1.3	6.8	11.0
Increase in intangibles	–	–	–	–	34.4	34.4
Amortisation and depreciation	(2.1)	(0.4)	(0.7)	(0.7)	(10.4)	(14.3)
Net cash flow	(2.7)	(2.4)	(3.7)	(4.0)	(54.6)	(67.4)

1 During 2017, the life, accident & health division and political risks & contingency division were combined to form the political, accident & contingency division. Comparative figures for 31 December 2016 have been re-presented to reflect this change in structure and allow comparability.
2 In July 2017 the group sold its share in associate, Equinox Global Limited, to Nexus Underwriting Management Limited.

Notes to the financial statements *continued*

3 Segmental analysis *continued*

2016	Marine $m	Political, accident & contingency[1] $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Segment results						
Gross premiums written	247.4	245.3	329.7	213.4	1,159.8	2,195.6
Net premiums written	220.7	215.6	277.1	141.2	999.4	1,854.0
Net earned premiums	223.2	221.1	287.0	138.4	898.5	1,768.2
Net investment income	8.9	4.9	10.2	6.4	62.7	93.1
Other income	3.8	2.9	6.4	6.2	13.4	32.7
Revenue	**235.9**	**228.9**	**303.6**	**151.0**	**974.6**	**1,894.0**
Net insurance claims	98.9	99.7	115.3	40.2	501.5	855.6
Expenses for the acquisition of insurance contracts	65.9	67.1	88.8	34.7	216.0	472.5
Administrative expenses	35.1	33.4	46.6	14.5	117.1	246.7
Foreign exchange loss	0.7	0.7	0.8	0.4	3.1	5.7
Expenses	**200.6**	**200.9**	**251.5**	**89.8**	**837.7**	**1,580.5**
Share of loss of associates	–	–	–	–	(0.2)	(0.2)
Segment result	**35.3**	**28.0**	**52.1**	**61.2**	**136.7**	**313.3**
Finance costs						(14.4)
Profit before income tax						**298.9**
Income tax expense						(42.9)
Profit for the year attributable to equity shareholders						**256.0**
Claims ratio	44%	45%	40%	29%	56%	48%
Expense ratio	46%	46%	47%	36%	37%	41%
Combined ratio	90%	91%	87%	65%	93%	89%
Segment assets and liabilities						
Segment assets	600.8	434.5	735.6	566.4	4,670.8	7,008.1
Segment liabilities	(483.2)	(331.6)	(573.8)	(389.9)	(3,759.0)	(5,537.5)
Net assets	**117.6**	**102.9**	**161.8**	**176.5**	**911.8**	**1,470.6**
Additional information						
Investment in associates	–	2.6	–	–	7.3	9.9
Impairment of non-financial assets	–	–	–	–	–	–
Capital expenditure	1.2	0.7	1.3	0.8	3.2	7.2
Increase in intangibles	8.0	–	–	–	–	8.0
Amortisation and depreciation	(1.2)	(0.7)	(1.3)	(0.8)	(3.1)	(7.1)
Net cash flow	(46.3)	(20.6)	(25.5)	(18.9)	(58.4)	(169.7)

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

3 Segmental analysis *continued*

c) Information about geographical areas

The group's operating segments are also managed geographically by placement of risk. UK earned premium in the analysis below represents all risks placed at Lloyd's and US earned premium represents all risks placed at the group's US insurance company, Beazley Insurance Company, Inc. An analysis of gross premiums written split geographically by placement of risk and by reportable segment is provided in note 2 on page 76.

	2017 $m	2016 $m
Net earned premiums		
UK (Lloyd's)	1,807.8	1,697.5
US (Non-Lloyd's)	61.6	70.7
	1,869.4	**1,768.2**

	2017 $m	2016 $m
Segment assets		
UK (Lloyd's)	7,206.0	6,656.9
US (Non-Lloyd's)	351.4	351.2
	7,557.4	**7,008.1**

Segment assets are allocated based on where the assets are located.

	2017 $m	2016 $m
Capital expenditure		
Non-US	10.2	5.1
US	0.8	2.1
	11.0	**7.2**

4 Net investment income

	2017 $m	2016 $m
Interest and dividends on financial investments at fair value through profit or loss	76.1	70.9
Interest on cash and cash equivalents	0.5	0.6
Net realised gain/(losses) on financial investments at fair value through profit or loss	23.1	(4.9)
Net unrealised fair value gains on financial investments at fair value through profit or loss	46.5	33.8
Investment income from financial investments	**146.2**	**100.4**
Investment management expenses	(7.9)	(7.3)
	138.3	**93.1**

Notes to the financial statements *continued*

5 Other income

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

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

6 Operating expenses

	2017 $m	2016 $m
Operating expenses include:		
Amounts receivable by the auditor and associates in respect of:		
– audit services for the group and subsidiaries	0.8	0.7
– audit-related assurance services	0.5	0.3
– taxation compliance services	0.1	–
– other assurance services	–	0.5
– other non-audit services	0.6	0.4
	2.0	1.9
Impairment loss recognised/(written back) on reinsurance assets	0.6	(1.1)
Operating leases	9.3	9.5

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

7 Employee benefit expenses

	2017 $m	2016 $m
Wages and salaries	142.4	134.6
Short term incentive payments	70.2	77.8
Social security	18.2	18.3
Share based remuneration[1]	21.1	23.0
Pension costs[2]	10.9	9.2
	262.8	262.9
Recharged to syndicate 623	(39.4)	(38.5)
	223.4	**224.4**

1 Share based remuneration was borne by Beazley Management Limited, a company within the group, and includes payments in relation to share options held by Beazley plc, an immediate parent company of Beazley Ireland Holdings plc.

2 Pension costs refer to the contributions made under the defined contribution scheme. Further information on the defined benefit pension scheme can be found in note 26.

8 Finance costs

	2017 $m	2016 $m
Interest expense	21.1	14.4
	21.1	**14.4**

9 Income tax expense

	2017 $m	2016 $m
Current tax expense		
Current year	35.8	37.8
Prior year adjustments	(0.2)	2.1
	35.6	39.9
Deferred tax expense		
Origination and reversal of temporary differences	(3.6)	2.1
Impact of change in UK/US tax rates	5.3	(0.8)
Prior year adjustments	1.5	1.7
	3.2	3.0
Income tax expense	**38.8**	**42.9**

Reconciliation of tax expense

The weighted average of statutory tax rates applied to the profits earned in each country in which the group operates is 18.7% (2016: 15.0%), whereas the tax charged for the year 31 December 2017 as a percentage of profit before tax is 22.6% (2016: 14.4%). The increases compared to 2016 were due to a higher weighted average statutory tax rate and a reduction of approximately $5m in deferred tax assets (see below):

	2017 $m	2017 %	2016 $m	2016 %
Profit before tax	**171.5**		**298.9**	
Tax calculated at the weighted average of statutory tax rates	32.0	18.7	44.7	15.0
Effects of:				
– non-deductible expenses	0.7	0.4	1.4	0.5
– non-taxable gains on foreign exchange	(0.5)	(0.3)	(5.6)	(1.9)
– tax relief on share based payments – current and future years	–	–	(0.6)	(0.2)
– under provided in prior years	1.3	0.7	3.8	1.3
– change in UK/US tax rates[1]	5.3	3.1	(0.8)	(0.3)
Tax charge for the period	**38.8**	**22.6**	**42.9**	**14.4**

1 The Finance Act 2015, which provided for a reduction in the UK corporation tax rate to 19% effective from 1 April 2017 was substantively enacted on 26 October 2015. The Finance Act 2016, which provides for a reduction in the UK corporation tax rate to 17% effective from 1 April 2020 was substantively enacted on 6 September 2016. These rate reductions to 19% and 17% will reduce the group's future current tax charge and have been reflected in the calculation of the deferred tax balance as at 31 December 2017.

A change in the effective corporation tax in the US from 35% to 21% was substantively enacted in December 2017. This resulted in a $5m reduction to the carrying value of the group's US deferred tax asset at 31 December 2017.

As noted on page 32, the group has assessed the potential impact of the diverted profits tax (DPT) following the enactment of new legislation in April 2015 and is of the view that no liability arises. The ultimate outcome may differ and any profits that did fall within scope of DPT would potentially be taxed at a rate of 25% rather than 12.5% (the current rate of tax on corporate earnings in Ireland).

Notes to the financial statements *continued*

10 Directors and employees

None of the directors of the company, or employees of the group, received any remuneration in respect of services rendered to the company. Details of the remuneration paid to the Beazley plc group's directors and employees for their services to the Beazley plc group are shown in the ultimate parent undertaking's accounts, Beazley plc, which can be found at www.beazley.com.

11 Dividends per share

A 2017 first interim dividend of £20.0m (2016: £18.2m) was paid to the company's immediate parent company, Beazley plc, on 1 August 2017. A 2017 second interim dividend of £40.0m (2016: £90.0m) payable to Beazley plc was declared on 8 March 2018. These financial statements do not provide for the second interim dividend as a liability.

12 Intangible assets

	Goodwill $m	Syndicate capacity $m	Licences $m	IT development costs $m	Renewal rights $m	Total $m
Cost						
Balance at 1 January 2016	72.0	10.7	9.3	63.2	17.0	172.2
Other additions	–	–	–	4.7	8.0	12.7
Foreign exchange loss	–	–	–	(10.9)	(0.4)	(11.3)
Balance at 31 December 2016	**72.0**	**10.7**	**9.3**	**57.0**	**24.6**	**173.6**
Balance at 1 January 2017	72.0	10.7	9.3	57.0	24.6	173.6
Other additions	–	–	–	9.3	34.4	43.7
Foreign exchange gain	–	–	–	4.8	2.0	6.8
Balance at 31 December 2017	**72.0**	**10.7**	**9.3**	**71.1**	**61.0**	**224.1**
Amortisation and impairment						
Balance at 1 January 2016	(10.0)	–	–	(54.2)	(17.0)	(81.2)
Amortisation for the year	–	–	–	(4.6)	(0.7)	(5.3)
Foreign exchange gain	–	–	–	9.4	0.1	9.5
Balance at 31 December 2016	**(10.0)**	**–**	**–**	**(49.4)**	**(17.6)**	**(77.0)**
Balance at 1 January 2017	(10.0)	–	–	(49.4)	(17.6)	(77.0)
Amortisation for the year	–	–	–	(3.5)	(8.1)	(11.6)
Foreign exchange loss	–	–	–	(1.9)	(0.1)	(2.0)
Balance at 31 December 2017	**(10.0)**	**–**	**–**	**(54.8)**	**(25.8)**	**(90.6)**
Carrying amount						
31 December 2017	**62.0**	**10.7**	**9.3**	**16.3**	**35.2**	**133.5**
31 December 2016	62.0	10.7	9.3	7.6	7.0	96.6

12 Intangible assets *continued*

Impairment tests

Goodwill, syndicate capacity and US insurance authorisation licences are deemed to have indefinite life as they are expected to have value in use that does not erode or become obsolete over the course of time. Consequently, they are not amortised but annually tested for impairment. For the purpose of impairment testing, they are allocated to the group's cash-generating units (CGUs) as follows:

2017	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Goodwill	2.3	29.6	24.9	0.8	4.4	62.0
Capacity	1.6	1.0	2.5	0.8	4.8	10.7
Licences	–	–	1.9	–	7.4	9.3
Total	**3.9**	**30.6**	**29.3**	**1.6**	**16.6**	**82.0**

2016	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Goodwill	2.3	29.6	24.9	0.8	4.4	62.0
Capacity	1.6	1.0	2.5	0.8	4.8	10.7
Licences	–	–	1.9	–	7.4	9.3
Total	**3.9**	**30.6**	**29.3**	**1.6**	**16.6**	**82.0**

Value in use is defined as the present value of the future cash flows expected to be derived from the CGU and represents the recoverable amount for goodwill. It is estimated by discounting future cash flows sourced from financial budgets approved by management which cover specific estimates for a five year period. A terminal growth rate of 0% has been used to extrapolate projections beyond the covered five year period. The key assumptions used in the preparation of future cash flows are: premium growth rates, claims experience, retention rates and expected future market conditions.

A discount rate, based on Beazley plc's weighted average cost of capital (WACC) of 6% (2016: 7%) has been applied to projected future cash flows. This has been calculated using independent measures of the risk-free rate of return and is indicative of the Beazley plc group's risk profile relative to the market. As such, it is considered representative of the rate appropriate to the risk specific to the CGU. The impairment test of Goodwill confirms that no impairment is required.

Significant changes in the economic and regulatory environment, such as US legislation and Brexit, could impact the amount of premiums written and investment income per each CGU. This could potentially have an impact on the carrying value of the CGU.

To test the segment's sensitivity to variances from forecast profits, the discount rate has been flexed to 10% above and 5% below the central assumption. Within this range, the recovery of goodwill was stress tested and remains supportable across all CGUs. Headroom was calculated in respect of the value in use of all the group's other intangible assets.

The group's intangible asset relating to syndicate capacity is allocated across all CGUs. The fair value of syndicate capacity can be determined from the latest Lloyd's of London capacity auctions. Based upon the latest market prices, management concludes that the fair value exceeds the carrying amount and as such no impairment is necessary.

US insurance authorisation licences represent the privilege to write insurance business in particular states in the US. Licences are allocated to the relevant CGU. There is no active market for licences, therefore value in use is deemed to be fair value. As described above, a WACC rate is applied to projected future cash flows sourced from management approved budgets. Key assumptions are the same as those outline above. Based upon all available evidence the results of the test indicate that no impairment is required.

Notes to the financial statements *continued*

13 Plant and equipment

	Company	Group		
	Fixtures & fittings $m	Fixtures & fittings $m	Computer equipment $m	Total $m
Cost				
Balance at 1 January 2016	2.4	20.7	9.8	30.5
Additions	–	2.4	0.5	2.9
Write off	–	–	(0.4)	(0.4)
Foreign exchange loss	–	(1.6)	(0.7)	(2.3)
Balance at 31 December 2016	**2.4**	**21.5**	**9.2**	**30.7**
Balance at 1 January 2017	2.4	**21.5**	**9.2**	**30.7**
Additions	–	1.1	0.6	1.7
Write off	–	(0.1)	(2.2)	(2.3)
Foreign exchange gain	–	0.4	–	0.4
Balance at 31 December 2017	**2.4**	**22.9**	**7.6**	**30.5**
Accumulated depreciation				
Balance at 1 January 2016	(1.7)	(17.7)	(8.3)	(26.0)
Depreciation charge for the year	(0.2)	(1.0)	(0.8)	(1.8)
Write off	–	–	0.4	0.4
Foreign exchange gain	–	1.4	0.7	2.1
Balance at 31 December 2016	**(1.9)**	**(17.3)**	**(8.0)**	**(25.3)**
Balance at 1 January 2017	**(1.9)**	**(17.3)**	**(8.0)**	**(25.3)**
Depreciation charge for the year	(0.2)	(1.8)	(0.9)	(2.7)
Write off	–	0.1	2.2	2.3
Foreign exchange loss	–	(0.3)	(0.1)	(0.4)
Balance at 31 December 2017	**(2.1)**	**(19.3)**	**(6.8)**	**(26.1)**
Carrying amounts				
31 December 2017	**0.3**	**3.6**	**0.8**	**4.4**
31 December 2016	0.5	4.2	1.2	5.4

14 Investment in associates

Associates are those entities over which the group has power to exert significant influence but which it does not control. Significant influence is generally presumed if the group has between 20% and 50% of voting rights.

Group	2017 $m	2016 $m
As at 1 January	**9.9**	**10.0**
Investment in Equinox Global Limited	–	0.1
Sale of share in Equinox Global Limited	(3.0)	–
Share of profit/(loss) after tax	0.1	(0.2)
As at 31 December	**7.0**	**9.9**

14 Investment in associates *continued*

The group's investment in associates consists of:

	Country of incorporation	% interest held	Carrying value $m
2017			
Falcon Money Management Holdings Limited (and subsidiaries)	Malta[1]	25%	–
Capson Corp., Inc. (and subsidiary)	USA[2]	31%	7.0
			7.0

1 259 St. Paul Street, Valletta, Malta.

2 221 West 6th Street, Suite 301, Austin TX 78701, USA.

In July 2017 Beazley Investments Limited, part of the Beazley group, sold its share in Equinox Global Limited to Nexus Underwriting Management Limited. In return, Beazley Investments Limited received cash consideration of £2.1m. The sale included an additional consideration of £4.5m subject to meeting of earnings targets over the next four years. This £4.5m has not been recognised as management is of the opinion that reaching the earnings targets is not probable.

The aggregate financial information for all associates (100%) held as at 31 December 2017 is as follows:

	2017 $m	2016 $m
Assets	35.1	36.8
Liabilities	21.2	22.4
Equity	13.9	14.4
Revenue	17.1	32.7
Loss after tax	(1.0)	(0.7)
Share of other comprehensive income	–	–
Share of total comprehensive income	**(1.0)**	**(0.7)**

All of the investments in associates are unlisted and are equity accounted using available financial information as at 31 December 2017. Falcon Management Holdings Limited is an investment management company which also acts in an intermediary capacity.

15 Deferred acquisition costs

	2017 $m	2016 $m
Balance at 1 January	242.8	226.2
Additions	558.3	489.1
Amortisation charge	(519.7)	(472.5)
Balance at 31 December	**281.4**	**242.8**

Notes to the financial statements *continued*

16 Financial assets and liabilities

	2017 $m	2016 $m
Financial assets at fair value		
Fixed and floating rate debt securities:		
– Government issued	1,345.4	1,180.0
– Quasi-government	24.1	62.0
– Supranational	21.1	19.5
– Corporate bonds		
– Investment grade	2,179.7	2,158.0
– High yield	58.8	97.1
– Senior secured loans	85.6	96.2
– Asset backed securities	–	4.6
Total fixed and floating rate debt securities	**3,714.7**	**3,617.4**
Equity funds	168.3	116.3
Hedge funds	377.4	317.1
Illiquid credit assets	180.4	132.4
Total capital growth assets	726.1	565.8
Total financial investments at fair value through statement of profit or loss	**4,440.8**	**4,183.2**
Derivative financial assets	8.8	12.2
Total financial assets at fair value	**4,449.6**	**4,195.4**

Quasi-government securities include securities which are issued by government agencies or entities supported by government guarantees. Supranational securities are issued by institutions sponsored by more than one sovereign issuer. Investment grade credit assets are any corporate bonds rated as BBB-/Baa3 or higher by one or more major rating agency, while the remainder of our corporate bonds are rated as high yield. Asset-backed securities are backed by financial assets, including mortgage, credit card and auto loan receivables. Equity funds are investment vehicles which are predominantly exposed to equity securities and are intended to give diversified exposure to global equity markets. Our illiquid credit assets are described in further detail below. The fair value of these assets at 31 December 2017 excludes an unfunded commitment of $63.0m (2016: $85.5m).

The amounts expected to mature within and after one year are:	2017 $m	2016 $m
Within one year	935.3	937.2
After one year	2,788.2	2,692.4
Total	**3,723.5**	**3,629.6**

Our capital growth assets have no defined maturity dates and have thus been excluded from the above maturity table. However, $153.1m (2016: $105.0m) of equity funds could be liquidated within two weeks and the balance within six months, $299.5m (2016: $303.8m) of hedge fund assets within six months and the remaining $77.9m (2016: $13.3m) of hedge fund assets within 18 months. Illiquid credit assets are not readily realisable and principal will be returned over the life of these assets, which may be up to ten years.

As noted on page 69 consideration is also given when valuing the hedge funds to any restriction applied to distributions, the existence of side pocket provisions and the timing of the latest valuations. The adjustment to the underlying net asset value of the funds as a result of these considerations was $nil at 31 December 2017 (2016: $nil).

16 Financial assets and liabilities *continued*

Financial liabilities	2017 $m	2016 $m
Retail bond	99.5	94.7
Subordinated debt	18.0	18.0
Tier 2 subordinated debt (2026)	248.5	248.3
Derivative financial liabilities	1.3	2.8
Total financial liabilities	**367.3**	**363.8**

The amounts expected to mature before and after one year are:		
Within one year	1.3	2.8
After one year	366.0	361.0
	367.3	**363.8**

A breakdown of the group's investment portfolio is provided on page 32.
A breakdown of derivative financial instruments is disclosed in note 17.

The retail bond was issued in 2012. The subordinated debt was issued in 2004. Tier 2 subordinated debt was issued in 2016. Please refer to note 24 for further details of our borrowings and associated repayment terms.

The group has given a fixed and floating charge over certain of its investments and other assets to secure obligations to Lloyd's in respect of its corporate member subsidiary. Further details are provided in note 31.

Valuation hierarchy

The table below summarises financial assets carried at fair value using a valuation hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – Valuations based on quoted prices in active markets for identical instruments. An active market is a market in which transactions for the instrument occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Included within level 1 are bonds and treasury bills of government and government agencies which are measured based on quoted prices in active markets.

Level 2 – Valuations based on quoted prices in markets that are not active, or based on pricing models for which significant inputs can be corroborated by observable market data (e.g. interest rates, exchange rates). Included within level 2 are government bonds and treasury bills which are not actively traded, corporate bonds, asset backed securities and mortgage-backed securities.

Level 3 – Valuations based on inputs that are unobservable or for which there is limited market activity against which to measure fair value.

The availability of financial data can vary for different financial assets and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on models or inputs that are unobservable in the market, the determination of fair value requires more judgement. Accordingly the degree of judgement exercised by management in determining fair value is greatest for instruments classified in level 3. The group uses prices and inputs that are current as of the measurement date for valuation of these instruments.

If the inputs used to measure the fair value of an asset or a liability can be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The group has an established control framework and valuation policy with respect to the measurement of fair values.

Notes to the financial statements *continued*

16 Financial assets and liabilities *continued*

Level 2 investments

For the group's level 2 debt securities our fund administrator obtains the prices used in the valuation from independent pricing vendors such as Bloomberg, Standard and Poor's, Reuters, Markit and International Data Corporation. The independent pricing vendors derive an evaluated price from observable market inputs. The market inputs include trade data, two-sided markets, institutional bids, comparable trades, dealer quotes, and other relevant market data. These inputs are verified in their pricing engines and calibrated with the pricing models to calculate spread to benchmarks, as well as other pricing assumptions such as Weighted Average life (WAL), Discount Margins (DM), default rates, and recovery and prepayment assumptions for mortgage securities. While such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.

The group records the unadjusted price provided and validates the price through various tolerance checks such as comparison with the investment custodians and the investment managers to assess the reasonableness and accuracy of the price to be used to value the security. In the rare case that the price fails the tolerance test, it is escalated and discussed internally. We would not override the price on a retrospective basis, but we would work with the administrator and pricing vendor to investigate the difference. This generally results in the vendor updating their inputs. We also review the valuation policy on a regular basis to ensure it is fit for purpose. No adjustments have been made to the prices obtained from the administrator at the current year end.

For our hedge funds and equity funds, the pricing and valuation of each fund is undertaken by administrators in accordance with each underlying fund's valuation policy. For the equity funds, the individual fund prices are published on a daily, weekly or monthly basis via Bloomberg and other market data providers such as Reuters. For the hedge funds, the individual fund prices are communicated by the administrators to all investors via the monthly investor statements. The fair value of the hedge fund and equity fund portfolios are calculated by reference to the underlying net asset values of each of the individual funds.

Additional information is obtained from fund managers relating to the underlying assets within individual hedge funds. We identified that 67% (2016: 77%) of these underlying assets were level 1 and the remainder level 2. This enables us to categorise hedge funds as level 2.

Prior to any new hedge fund investment, extensive due diligence is undertaken on each fund to ensure that pricing and valuation are undertaken by the administrators and that each fund's valuation policy is appropriate for the financial instruments the manager will be employing to execute the investment strategy. Fund liquidity terms are reviewed prior to the execution of any investment to ensure that there is no mismatch between the liquidity of the underlying fund assets and the liquidity terms offered to fund investors. As part of the monitoring process, underlying fund subscriptions and redemptions are assessed by reconciling the increase or decrease in fund assets with the investment performance in any given period.

Level 3 investments

During 2017, the Beazley plc investment committee approved additional allocations to an illiquid asset portfolio comprising investments in funds managed by third party managers (generally closed end limited partnerships or open ended funds). While the funds provide full transparency on their underlying investments, the investments themselves are in many cases private and unquoted, and are therefore classified as level 3 investments.

These inputs can be subjective and may include a discount rate applied to the investment based on market factors and expectations of future cash flows, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance relative to benchmarks, financial condition, and financing transactions subsequent to the acquisition of the investment.

We take the following steps to ensure accurate valuation of these level 3 assets. A substantial part of the preinvestment due diligence process is dedicated to a comprehensive review of each fund's valuation policy and the internal controls of the manager. In addition to this, confirmation that the investment reaches a minimum set of standards relating to the independence of service providers, corporate governance, and transparency is sought prior to approval. Post investment, unaudited capital statements confirming the fair value of the limited partner interests are received and reviewed on a quarterly (or more frequent) basis. Audited financial statements are received on an annual basis, with the valuation of each transaction being confirmed.

16 Financial assets and liabilities *continued*

The following table shows the fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

2017	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets measured at fair value				
Fixed and floating rate debt securities				
– Government issued	1,345.4	–	–	1,345.4
– Quasi-government	24.1	–	–	24.1
– Supranational	21.1	–	–	21.1
– Corporate bonds				
– Investment grade	15.2	2,164.5	–	2,179.7
– High yield	–	58.8	–	58.8
– Senior secured loans	–	85.6	–	85.6
Equity funds	–	168.3	–	168.3
Hedge funds	–	377.4	–	377.4
Illiquid credit assets	–	–	180.4	180.4
Derivative financial assets	8.8	–	–	8.8
Total financial assets measured at fair value	**1,414.6**	**2,854.6**	**180.4**	**4,449.6**
Financial liabilities measured at fair value				
Derivative financial liabilities	1.3	–	–	1.3
Financial liabilities not measured at fair value				
Retail bond	–	104.1	–	104.1
Tier 2 subordinated debt (2026)	–	266.6	–	266.6
Total financial liabilities not measured at fair value	**–**	**370.7**	**–**	**370.7**

2016	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets measured at fair value				
Fixed and floating rate debt securities				
– Government issued	1,180.0	–	–	1,180.0
– Quasi-government	62.0	–	–	62.0
– Supranational	19.5	–	–	19.5
– Corporate bonds				
– Investment grade	45.0	2,113.0	–	2,158.0
– High yield	–	97.1	–	97.1
– Senior secured loans	–	96.2	–	96.2
– Asset backed securities	–	4.6	–	4.6
Equity funds	–	116.3	–	116.3
Hedge funds	–	317.1	–	317.1
Illiquid credit assets	–	6.3	126.1	132.4
Derivative financial assets	12.2	–	–	12.2
Total financial assets measured at fair value	**1,318.7**	**2,750.6**	**126.1**	**4,195.4**

Notes to the financial statements *continued*

16 Financial assets and liabilities *continued*

2016	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial liabilities measured at fair value				
Derivative financial liabilities	2.8	–	–	2.8
Financial liabilities not measured at fair value				
Retail bond	–	100.8	–	100.8
Tier 2 subordinated debt (2026)	–	253.3	–	253.3
Total financial liabilities not measured at fair value	**–**	**354.1**	**–**	**354.1**

The table above does not include financial assets and liabilities that are, in accordance with the group's accounting policies, recorded at amortised cost, if the carrying amount of these financial assets and liabilities approximates their fair values at the reporting date. Cash and cash equivalents have not been included in the table above, however, the full amount of cash and cash equivalents would be classified under level 1 in both the current and prior year.

Transfers and level 3 investment reconciliations

There were no transfers in either direction between level 1, level 2 and level 3 in either 2016 or 2017.

The table below shows a reconciliation from the opening balances to the closing balances of level 3 fair values.

	2017 $m	2016 $m
As at 1 January	126.1	89.7
Purchases	55.4	47.9
Sales	(21.1)	(21.6)
Total net gains recognised in profit or loss	20.0	10.1
As at 31 December	**180.4**	**126.1**

Unconsolidated structured entities

A structured entity is defined as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements.

As part of its standard investment activities the group holds fixed interest investments in high yield bond funds and asset backed securities, as well as capital growth investments in equity funds, hedge funds and illiquid credit assets which in accordance with IFRS 12 are classified as unconsolidated structured entities. The group does not sponsor any of the unconsolidated structured entities. The assets classified as unconsolidated structured entities are held at fair value on the statement of financial position.

As at 31 December the investments comprising the group's unconsolidated structured entities are as follows:

	2017 $m	2016 $m
High yield bond funds	58.8	97.1
Asset backed securities	–	4.6
Equity funds	168.3	116.3
Hedge funds	377.4	317.1
Illiquid credit assets	180.4	132.4
Investments through unconsolidated structured entities	**784.9**	**667.5**

Apart from a relatively small exposure to high yield bond funds and asset backed securities, our unconsolidated structured entity exposures fall within our capital growth assets. The capital growth assets are held in investee funds managed by asset managers who apply various investment strategies to accomplish their respective investment objectives. The group's investments in investee funds are subject to the terms and conditions of the respective investee fund's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investee funds. Investment decisions are made after extensive due diligence on the underlying fund, its strategy and the overall quality of the underlying fund's manager and assets.

16 Financial assets and liabilities *continued*

All the investee funds in the investment portfolio are managed by portfolio managers who are compensated by the respective investee funds for their services. Such compensation generally consists of an asset-based fee and a performance-based incentive fee and is reflected in the valuation of the fund's investment in each of the investee funds. The right to sell or request redemption of investments in high yield bond funds, asset backed securities, equity funds and hedge funds ranges in frequency from daily to semi-annually. The group did not sponsor any of the respective structured entities.

These investments are included in financial assets at fair value through profit or loss in the statement of financial position. The group's maximum exposure to loss from its interests in investee funds is equal to the total fair value of its investments in investee funds and unfunded commitments. Once the group has disposed of its shares in an investee fund, it ceases to be exposed to any risk from that investee fund.

As described in note 2 to the financial statements, the group monitors and manages its currency exposures to net assets and financial assets held at fair value.

Currency exposures

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

2017	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Financial assets at fair value						
Fixed and floating rate debt securities	12.4	161.1	–	173.5	3,541.2	3,714.7
Equity funds	–	–	39.9	39.9	128.4	168.3
Hedge funds	–	–	–	–	377.4	377.4
Illiquid credit assets	–	–	13.7	13.7	166.7	180.4
Derivative financial assets	–	–	–	–	8.8	8.8
Total	**12.4**	**161.1**	**53.6**	**227.1**	**4,222.5**	**4,449.6**

2016	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Financial assets at fair value						
Fixed and floating rate debt securities	140.1	169.2	–	309.3	3,308.1	3,617.4
Equity funds	–	–	29.7	29.7	86.6	116.3
Hedge funds	–	–	–	–	317.1	317.1
Illiquid credit assets	–	–	8.1	8.1	124.3	132.4
Derivative financial assets	–	–	–	–	12.2	12.2
Total	**140.1**	**169.2**	**37.8**	**347.1**	**3,848.3**	**4,195.4**

The above qualitative and quantitative disclosure along with the risk management discussions in note 2 enable more comprehensive evaluation of Beazley's exposure to risks arising from financial instruments.

Notes to the financial statements *continued*

17 Derivative financial instruments

In 2017 and 2016 the group entered into over-the-counter and exchange traded derivative contracts. The group had the right and the intention to settle each contract on a net basis.

The assets and liabilities of these contracts at 31 December are detailed below:

Derivative financial instrument assets	2017 Gross contract amount $m	2017 Market value of derivative position $m	2016 Gross contract amount $m	2016 Market value of derivative position $m
Foreign exchange forward contracts	446.7	7.2	144.0	6.9
Bond futures contract	(341.4)	1.6	(843.4)	5.3
	105.3	**8.8**	**(699.4)**	**12.2**

Derivative financial instrument liabilities	2017 Gross contract amount $m	2017 Market value of derivative position $m	2016 Gross contract amount $m	2016 Market value of derivative position $m
Foreign exchange forward contracts	361.7	1.3	278.6	2.8
Bond futures contract	–	–	–	–
	361.7	**1.3**	**278.6**	**2.8**

Foreign exchange forward contracts

The group entered into over-the-counter foreign exchange forward agreements in order to economically hedge the foreign currency exposure resulting from transactions and balances held in currencies that are different to the functional currency of the group.

Bond futures positions

The group entered in bond futures transactions for the purpose of efficiently managing the term structure of its interest rate exposures. A negative gross contract amount represents a notional short position that generates positive fair value as interest rates rise.

18 Insurance receivables

	2017 $m	2016 $m
Insurance receivables	918.0	795.0
	918.0	**795.0**

These are receivables within one year and relate to business transacted with brokers and intermediaries. All insurance receivables are classified as loans and receivables and their carrying values approximate fair value at the reporting date.

19 Reinsurance assets

	2017 $m	2016 $m
Reinsurers' share of claims	1,006.4	866.5
Impairment provision	(13.2)	(12.6)
	993.2	853.9
Reinsurers' share of unearned premium reserve	237.9	228.2
	1,231.1	**1,082.1**

Further analysis of the reinsurance assets is provided in note 23.

20 Cash and cash equivalents

Group	2017 $m	2016 $m
Cash at bank and in hand	375.5	374.6
Short term deposits and highly liquid investments	64.3	132.6
	439.8	**507.2**

Total cash and cash equivalents include $9.0m (2016: $44.5m) held in Lloyd's Singapore trust accounts. These funds are only available for use by the group to meet local claim and expense obligations.

Company	2017 $m	2016 $m
Cash at bank and in hand	0.1	0.7
	0.1	**0.7**

21 Share capital

	2017		2016	
	No. of shares (m)	$m	No. of shares (m)	$m
Ordinary shares of 5p each				
Authorised	700.0	55.8	700.0	55.8
Issued and fully paid	523.3	41.6	523.3	41.6
Balance at 1 January	**523.3**	**37.2**	**521.4**	**41.6**
Issue of shares	–	–	1.9	0.1
Creation of scheme of arrangement reserve	–	–	(523.3)	(41.7)
Issue of shares to parent company	–	–	523.3	37.2
Balance at 31 December	**523.3**	**37.2**	**523.3**	**37.2**

Notes to the financial statements *continued*

22 Other reserves

	Merger reserve $m	Scheme of arrangement reserve $m	Employee share option reserve $m	Employee share trust reserve $m	Total $m
Group					
Balance at 1 January 2016	**(15.4)**	**–**	**36.5**	**(29.8)**	**(8.7)**
Share based payments	–	–	3.5	–	3.5
Acquisition of own shares held in trust	–	–	–	(5.0)	(5.0)
Transfer of shares to employees	–	–	(14.8)	13.2	(1.6)
Scheme of arrangement[1]	–	4.5	–	–	4.5
Relassification of reserves[2]	–	–	(25.2)	21.6	(3.6)
Balance at 31 December 2016	**(15.4)**	**4.5**	**–**	**–**	**(10.9)**
Balance at 31 December 2017	**(15.4)**	**4.5**	**–**	**–**	**(10.9)**

1 With effect from 13 April 2016, under a scheme of arrangement involving a share exchange with the members of Beazley Ireland Holdings plc, Beazley plc became the new holding company for the Beazley group.

2 Following the scheme of arrangement, and when Beazley Ireland Holdings plc no longer acted as the ultimate parent company of the Beazley plc group, components of equity related to share and scheme of arrangement reserves were re-classified as retained earnings.

	Merger reserve $m	Scheme of arrangement reserve $m	Employee share option reserve $m	Employee share trust reserve $m	Total $m
Company					
Balance at 1 January 2016	**(35.4)**	**–**	**17.0**	**0.5**	**(17.9)**
Share based payments	–	–	3.5	–	3.5
Acquisition of own shares held in trust	–	–	–	(5.0)	(5.0)
Transfer of shares to employees	–	–	(14.8)	13.2	(1.6)
Scheme of arrangement[1]	–	4.5	–	–	4.5
Relassification of reserves[2]	–	–	(5.7)	(8.7)	(14.4)
Balance at 31 December 2016	**(35.4)**	**4.5**	**–**	**–**	**(30.9)**
Balance at 31 December 2017	**(35.4)**	**4.5**	**–**	**–**	**(30.9)**

1 With effect from 13 April 2016, under a scheme of arrangement involving a share exchange with the members of Beazley Ireland Holdings plc, Beazley plc became the new holding company for the Beazley group.

2 Following the scheme of arrangement, and when Beazley Ireland Holdings plc no longer acted as the ultimate parent company of the Beazley plc group, components of equity related to share and scheme of arrangement reserves were re-classified as retained earnings.

The merger reserve has arisen as a result of historical Beazley group restructuring. The most significant item is the reverse acquisition that occurred in 2009. The scheme of arrangement reserve rose as a result of the cancellation and reissuance of company share capital as part of the scheme of arrangement with Beazley plc in 2016.

23 Insurance liabilities and reinsurance assets

	2017 $m	2016 $m
Gross		
Claims reported and loss adjustment expenses	1,056.3	949.5
Claims incurred but not reported	2,852.3	2,567.4
Gross claims liabilities	3,908.6	3,516.9
Unearned premiums	1,259.2	1,140.8
Total insurance liabilities, gross	**5,167.8**	**4,657.7**
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	219.4	201.8
Claims incurred but not reported	773.8	652.1
Reinsurers' share of claims liabilities	993.2	853.9
Unearned premiums	237.9	228.2
Total reinsurers' share of insurance liabilities	**1,231.1**	**1,082.1**
Net		
Claims reported and loss adjustment expenses	836.9	747.7
Claims incurred but not reported	2,078.5	1,915.3
Net claims liabilities	2,915.4	2,663.0
Unearned premiums	1,021.3	912.6
Total insurance liabilities, net	**3,936.7**	**3,575.6**

The gross claims reported, the loss adjustment liabilities and the liabilities for claims incurred but not reported are net of recoveries from salvage and subrogation.

During the year the claims incurred but not reported (IBNR) estimate calculation was amended to bring our calculations in line with new guidance received from Lloyd's. This change in estimation has no impact to profit and loss and a movement on the statement of financial position of $45.9m between insurance receivables and technical provisions, and $5.0m between insurance liabilities and reinsurance assets.

23.1 Movements in insurance liabilities and reinsurance assets

a) Claims and loss adjustment expenses

	2017			2016		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
Claims reported and loss adjustment expenses	949.5	(201.8)	747.7	937.5	(210.3)	727.2
Claims incurred but not reported	2,567.4	(652.1)	1,915.3	2,588.4	(658.1)	1,930.3
Balance at 1 January	**3,516.9**	**(853.9)**	**2,663.0**	**3,525.9**	**(868.4)**	**2,657.5**
Claims paid	(1,028.2)	179.1	(849.1)	(989.5)	177.5	(812.0)
Increase in claims						
– Arising from current year claims	1,737.4	(457.8)	1,279.6	1,314.0	(277.7)	1,036.3
– Arising from prior year claims	(349.4)	145.5	(203.9)	(286.4)	105.7	(180.7)
Net exchange differences	31.9	(6.1)	25.8	(47.1)	9.0	(38.1)
Balance at 31 December	**3,908.6**	**(993.2)**	**2,915.4**	**3,516.9**	**(853.9)**	**2,663.0**
Claims reported and loss adjustment expenses	1,056.3	(219.4)	836.9	949.5	(201.8)	747.7
Claims incurred but not reported	2,852.3	(773.8)	2,078.5	2,567.4	(652.1)	1,915.3
Balance at 31 December	**3,908.6**	**(993.2)**	**2,915.4**	**3,516.9**	**(853.9)**	**2,663.0**

Notes to the financial statements *continued*

23 Insurance liabilities and reinsurance assets *continued*
b) Unearned premiums reserve

	2017			2016		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
Balance at 1 January	1,140.8	(228.2)	912.6	1,060.8	(231.3)	829.5
Increase in the year	2,343.8	(375.4)	1,968.4	2,195.6	(348.5)	1,847.1
Release in the year	(2,225.4)	365.7	(1,859.7)	(2,115.6)	351.6	(1,764.0)
Balance at 31 December	**1,259.2**	**(237.9)**	**1,021.3**	**1,140.8**	**(228.2)**	**912.6**

23.2 Assumptions, changes in assumptions and claims reserve strength analysis
a) Process used to decide on assumptions
The peer review reserving process

Beazley uses a quarterly dual track process to set its reserves:

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

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

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

Actuarial assumptions

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

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

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

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

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

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

23 Insurance liabilities and reinsurance assets *continued*

Where significant large losses impact an underwriting year (e.g. the events of 11 September 2001, the hurricanes in 2004, 2005, 2008, 2012 and 2017 or the earthquakes in 2010, 2011 and 2017), the development is usually very different from the attritional losses. In these situations, the large loss total is extracted from the remainder of the data and analysed separately by the respective claims managers using exposure analysis of the policies in force in the areas affected.

Further assumptions are required to convert gross of reinsurance estimates of ultimate claims cost to a net of reinsurance level and to establish reserves for unallocated claims handling expenses and reinsurance bad debt.

b) Major assumptions

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

Throughout, judgement is used to assess the extent to which past trends may or may not apply in the future; for example, to reflect changes in external or market factors such as economic conditions, public attitudes to claiming, levels of claims inflation, premium rate changes, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

c) Changes in assumptions

As already discussed, general insurance business requires many different assumptions. The diagram below illustrates the main categories of assumptions used for each underwriting year and class combination.

- *Marine*
- *Political, accident & contingency*
- *Property*
- *Reinsurance*
- *Specialty lines*

- *Premium rate change*
- *Claims inflation*
- *Mix of business*
- *Reporting patterns*
- *Settlement patterns*
- *Judicial decisions*
- *Professional judgement*

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

d) Claims reserve strength analysis

The estimation of IBNR reserves for future claim notifications is subject to a greater degree of uncertainty than the estimation of the outstanding claims already notified. This is particularly true for the specialty lines business, which will typically display greater variations between initial estimates and final outcomes as a result of the greater degree of difficulty in estimating these reserves. The estimation of IBNR reserves for other business written is generally subject to less variability as claims are generally reported and settled relatively quickly.

As such, our reserving assumptions contain a reasonable margin for prudence given the uncertainties inherent in the insurance business underwritten, particularly on the longer tailed specialty lines classes.

Since year end 2004, we have identified a range of possible outcomes for each class and underwriting year combination directly from our internal model (previously our individual capital assessment (ICA)) process. Comparing these with our pricing assumptions and reserving estimates gives our management team increased clarity into our perceived reserving strength and the relative uncertainties of the business written.

To illustrate the robustness of our reserves, the loss development tables below provide information about historical claims development by the five segments – marine, political, accident & contingency, property, reinsurance and specialty lines. The tables are by underwriting year which in our view provides the most transparent reserving basis. We have supplied tables for both ultimate gross claims and ultimate net claims.

Notes to the financial statements *continued*

23 Insurance liabilities and reinsurance assets *continued*

The top part of the table illustrates how the group's estimate of the claims ratio for each underwriting year has changed at successive year ends. The bottom half of the table reconciles the gross and net claims to the amount appearing in the statement of financial position.

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of these financial statements are cautioned against extrapolating past redundancies or deficiencies on current claims liabilities. The group believes that the estimate of total claims liabilities as at 31 December 2017 is adequate. However, due to inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Gross ultimate claims	2007 ae %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %
Marine											
12 months		69.3	54.5	50.5	54.7	55.9	56.6	57.6	56.7	59.5	68.0
24 months		65.5	51.0	49.7	47.4	46.3	52.0	46.9	54.0	70.2	
36 months		59.3	44.3	44.0	39.1	34.7	44.5	47.2	47.4		
48 months		63.2	40.7	42.3	33.8	32.1	42.8	46.7			
60 months		62.8	40.5	40.4	35.4	31.4	42.2				
72 months		59.1	48.8	40.2	31.8	30.6					
84 months		55.4	47.9	42.2	31.0						
96 months		54.7	49.2	40.8							
108 months		51.8	49.1								
120 months		58.5									
Political, accident & contingency											
12 months		57.4	58.3	57.7	57.5	60.0	59.2	59.3	59.8	61.3	58.0
24 months		71.1	43.4	44.8	44.4	54.4	49.7	51.2	58.8	54.3	
36 months		75.3	38.1	39.0	44.3	51.4	45.2	46.9	56.9		
48 months		88.9	33.9	32.6	39.5	49.1	44.3	50.2			
60 months		73.5	29.5	31.6	37.8	46.0	46.3				
72 months		62.3	25.1	30.4	35.7	45.3					
84 months		58.9	25.3	29.5	35.2						
96 months		59.6	25.3	29.7							
108 months		58.7	25.5								
120 months		57.9									
Property											
12 months		70.6	53.7	57.9	58.4	55.5	55.2	53.2	55.0	59.0	72.4
24 months		65.3	41.7	60.6	50.6	47.6	49.2	47.8	49.1	68.5	
36 months		64.3	36.5	58.6	48.1	39.9	45.8	41.4	46.0		
48 months		62.2	35.4	55.9	46.3	36.8	45.8	40.7			
60 months		60.6	34.3	53.2	45.4	36.2	45.7				
72 months		59.5	33.4	52.2	44.2	35.7					
84 months		58.4	32.8	51.3	43.7						
96 months		57.8	32.3	51.1							
108 months		57.5	32.2								
120 months		57.3									

23 Insurance liabilities and reinsurance assets *continued*

Gross ultimate claims	2007 ae %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	
Reinsurance												
12 months		59.8	60.8	68.1	78.8	62.9	59.4	61.4	65.8	67.9	123.1	
24 months		53.8	48.1	142.6	77.7	37.3	45.6	33.5	33.7	41.7		
36 months		44.3	40.1	129.6	69.9	31.9	43.0	30.9	25.7			
48 months		40.9	39.5	122.1	66.1	31.0	41.7	27.7				
60 months		40.5	35.3	125.7	63.3	31.0	38.7					
72 months		40.7	32.5	124.4	63.1	30.8						
84 months		39.9	31.9	124.5	58.3							
96 months		39.6	31.9	123.5								
108 months		39.5	31.7									
120 months		39.5										
Specialty lines												
12 months		72.1	72.5	73.8	75.5	73.9	73.4	68.5	67.4	65.4	63.3	
24 months		71.9	72.5	73.8	75.5	74.0	73.2	68.4	67.8	65.2		
36 months		71.8	71.6	72.9	76.5	72.1	72.9	65.0	64.7			
48 months		72.0	71.3	73.3	75.5	70.2	69.3	63.4				
60 months		71.5	71.6	69.5	74.2	67.4	65.4					
72 months		71.8	68.6	69.6	69.4	65.8						
84 months		70.1	69.7	69.3	68.2							
96 months		73.5	70.3	66.2								
108 months		72.9	69.1									
120 months		72.8										
Total												
12 months		69.1	62.9	64.5	67.2	64.6	63.9	62.2	62.7	63.4	70.5	
24 months		68.0	57.0	71.6	62.8	58.2	59.3	55.8	58.4	62.9		
36 months		66.4	53.2	67.6	60.5	53.2	56.5	52.5	54.5			
48 months		67.7	51.7	65.5	57.9	51.0	54.5	51.5				
60 months		65.7	50.8	63.3	57.0	49.2	52.5					
72 months		64.1	49.8	62.9	53.9	48.1						
84 months		62.1	50.0	62.8	52.6							
96 months		63.5	50.4	61.1								
108 months		62.6	49.8									
120 months		63.6										
Estimated total ultimate losses ($m)	5,464.6	1,201.0	1,053.9	1,277.4	1,015.2	943.5	1,142.6	1,197.0	1,371.5	1,597.5	2,011.1	18,275.3
Less paid claims ($m)	(5,230.6)	(1,036.6)	(864.7)	(1,158.2)	(881.1)	(783.1)	(844.6)	(768.4)	(586.7)	(421.7)	(154.1)	(12,729.8)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(29.4)	(853.6)	(883.0)
Gross claims liabilities (100% level) ($m)	**234.0**	**164.4**	**189.2**	**119.2**	**134.1**	**160.4**	**298.0**	**428.6**	**784.8**	**1,146.4**	**1,003.4**	**4,662.5**
Less non-group share ($m)	(45.1)	(23.5)	(29.0)	(22.9)	(26.5)	(35.6)	(49.9)	(67.1)	(120.9)	(173.1)	(160.3)	(753.9)
Gross claims liabilities, group share ($m)	**188.9**	**140.9**	**160.2**	**96.3**	**107.6**	**124.8**	**248.1**	**361.5**	**663.9**	**973.3**	**843.1**	**3,908.6**

Notes to the financial statements *continued*

23 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2007 ae %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %
Marine											
12 months		61.3	53.4	52.1	55.6	55.4	56.2	56.5	56.7	56.7	57.6
24 months		56.9	47.7	49.2	47.6	46.0	53.2	48.6	52.5	62.5	
36 months		50.6	38.9	44.7	38.7	37.4	47.6	46.6	47.2		
48 months		47.4	35.2	42.6	34.5	35.0	46.0	45.7			
60 months		46.9	34.9	41.1	35.6	33.9	45.4				
72 months		46.3	38.6	40.2	32.3	33.2					
84 months		45.1	37.9	42.4	31.4						
96 months		44.6	37.2	40.8							
108 months		45.0	37.0								
120 months		48.1									
Political, accident & contingency											
12 months		55.8	56.3	54.4	54.9	58.6	58.7	57.0	57.5	60.2	56.9
24 months		78.9	41.4	43.7	45.0	52.4	51.2	49.8	56.1	53.2	
36 months		78.1	36.6	39.6	45.5	49.9	47.7	44.9	55.1		
48 months		81.3	33.8	33.4	42.3	46.9	45.1	49.8			
60 months		70.5	29.8	32.5	40.3	43.8	45.6				
72 months		59.8	26.3	31.3	38.2	42.9					
84 months		56.2	26.4	29.8	37.7						
96 months		56.6	26.4	30.4							
108 months		56.2	26.6								
120 months		55.4									
Property											
12 months		67.0	53.4	58.8	60.3	58.6	56.7	54.5	55.0	57.7	76.3
24 months		66.8	47.5	65.2	57.7	53.0	56.3	51.2	50.3	69.6	
36 months		64.7	43.9	65.8	53.7	46.0	52.3	44.3	46.9		
48 months		63.6	41.7	59.8	50.4	41.3	50.2	42.9			
60 months		62.5	41.1	57.7	49.1	40.7	49.9				
72 months		61.1	39.8	56.7	48.0	40.2					
84 months		60.4	39.3	56.2	47.7						
96 months		59.4	39.0	55.9							
108 months		59.2	38.9								
120 months		59.0									

23 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2007 ae %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	
Reinsurance												
12 months		68.4	55.5	76.8	89.3	67.0	57.4	58.7	61.4	61.2	105.7	
24 months		60.6	52.7	126.8	87.9	45.1	52.2	37.2	34.1	38.9		
36 months		50.5	46.9	117.6	80.5	38.8	48.7	33.4	24.2			
48 months		48.3	46.1	111.7	74.9	37.4	47.4	30.6				
60 months		47.7	41.3	120.8	72.7	37.4	43.8					
72 months		48.0	38.0	115.9	72.6	37.0						
84 months		46.8	37.2	116.0	67.3							
96 months		46.5	37.2	115.4								
108 months		46.5	37.0									
120 months		46.5										
Specialty lines												
12 months		70.1	69.6	71.0	72.5	71.1	69.5	66.0	63.6	63.0	61.6	
24 months		70.0	69.4	71.1	72.5	70.6	69.0	66.0	63.9	62.8		
36 months		69.9	68.8	70.5	71.8	68.7	68.5	63.6	60.8			
48 months		68.6	65.8	69.5	69.6	65.8	63.6	60.3				
60 months		67.9	65.8	68.9	70.2	63.9	59.7					
72 months		67.8	64.9	69.0	68.9	63.2						
84 months		67.8	65.5	68.8	67.9							
96 months		70.0	65.5	66.4								
108 months		69.8	64.7									
120 months		69.1										
Total												
12 months		66.7	60.6	64.2	67.0	64.0	62.3	60.6	60.1	60.9	66.2	
24 months		67.0	56.5	68.6	63.6	58.3	60.2	56.0	56.5	61.0		
36 months		64.5	52.9	66.3	60.2	53.7	57.4	52.5	52.8			
48 months		63.4	50.4	63.2	57.1	50.7	54.3	50.9				
60 months		61.8	49.4	63.1	56.8	49.3	52.2					
72 months		60.6	48.7	62.1	55.2	48.6						
84 months		59.8	48.6	62.1	54.0							
96 months		60.6	48.4	60.8								
108 months		60.5	48.0									
120 months		60.6										
Estimated total ultimate losses ($m)	3,620.3	936.5	780.1	1,045.8	862.0	827.3	963.4	1,000.3	1,094.7	1,295.6	1,599.2	14,025.2
Less paid claims ($m)	(3,468.2)	(831.6)	(678.8)	(947.6)	(749.3)	(682.8)	(723.4)	(661.0)	(505.0)	(388.3)	(132.6)	(9,768.6)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(24.1)	(758.9)	(783.0)
Net claims liabilities (100% level) ($m)	**152.1**	**104.9**	**101.3**	**98.2**	**112.7**	**144.5**	**240.0**	**339.3**	**589.7**	**883.2**	**707.7**	**3,473.6**
Less non-group share ($m)	(28.7)	(16.0)	(16.8)	(18.7)	(20.8)	(27.5)	(39.9)	(53.8)	(91.5)	(132.5)	(112.0)	(558.2)
Net claims liabilities, group share ($m)	**123.4**	**88.9**	**84.5**	**79.5**	**91.9**	**117.0**	**200.1**	**285.5**	**498.2**	**750.7**	**595.7**	**2,915.4**

Notes to the financial statements *continued*

23 Insurance liabilities and reinsurance assets *continued*

Analysis of movements in loss development tables

We have updated our loss development tables to show the ultimate loss ratios as at 31 December 2017 for each underwriting year.

Marine

There was deterioration in the energy book in 2008 in respect of a specific claim. The 2009 to 2015 underwriting years have delivered releases, but at lower levels than in recent years due to an increase in claim activity. The recent catastrophe events have led to the deterioration of the 2016 underwriting year, and resulted in the 2017 underwriting year opening higher than previous years.

Political, accident & contingency

The increases on the 2013 and 2014 underwriting years follow deterioration on specific underlying claims within the political book. This has been offset by reductions on the 2015 and 2016 underwriting years, mainly from the terrorism account.

The 2017 underwriting year has opened lower than 2016, where the life, accident & health book has reduced exposure to underperforming accounts.

Property

The 2015 and prior years have delivered releases, but at lower levels than in recent years due to an increase in claim activity. There was deterioration in the property book in 2016, where claims experience was worse than anticipated. The 2017 underwriting year has opened higher than previous years reflecting the impact of the recent catastrophe events.

Reinsurance

The 2016 and prior underwriting years have seen material releases driven by reductions in reserves for catastrophe claims and the release of catastrophe margins. The 2017 underwriting year has opened higher than previous years reflecting the impact of the recent catastrophe events.

Specialty lines

Strong reserve releases on prior years from the traditional specialty lines business have been supplemented by releases from the 2014 and 2015 underwriting years of the cyber business, where the risk has expired.

The 2017 underwriting year has opened lower than previous years, reflecting the improved experience emerging within the more recent underwriting years, particularly on the cyber book.

23 Insurance liabilities and reinsurance assets *continued*

Claim releases

The table below analyses our net claims between current year claims and adjustments to prior year net claims reserves. These have been broken down by segment and underwriting year. Beazley's reserving policy is to maintain catastrophe reserve margins either until the end of the exposure period or until catastrophe events occur. Therefore margins have been released from prior year reserves where risks have expired during 2017.

The net of reinsurance estimates of ultimate claims costs on the 2016 and prior underwriting years have improved to $203.9m during 2017 (2016: $180.7m). This movement arose from a combination of better than expected claims experience coupled with small changes to the many assumptions resulting from the observed experience.

The movements shown on 2014 and earlier are absolute claim movements and are not impacted by any current year movements in premium on those underwriting years.

2017	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	135.4	100.1	264.8	152.2	627.1	1,279.6
Prior year						
– 2014 underwriting year and earlier	(5.8)	5.8	(6.3)	(16.1)	(91.1)	(113.5)
– 2015 underwriting year	(9.3)	(3.5)	(9.1)	(12.6)	(30.5)	(65.0)
– 2016 underwriting year	4.4	(6.2)	2.2	(26.0)	0.2	(25.4)
	(10.7)	(3.9)	(13.2)	(54.7)	(121.4)	(203.9)
Net insurance claims	**124.7**	**96.2**	**251.6**	**97.5**	**505.7**	**1,075.7**

2016	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	114.8	127.0	152.0	72.5	570.0	1,036.3
Prior year						
– 2013 underwriting year and earlier	(7.0)	(17.7)	(11.6)	–	(52.0)	(88.3)
– 2014 underwriting year	(4.1)	(9.0)	(18.4)	(4.2)	(17.0)	(52.7)
– 2015 underwriting year	(4.8)	(0.5)	(6.8)	(28.1)	0.5	(39.7)
	(15.9)	(27.2)	(36.8)	(32.3)	(68.5)	(180.7)
Net insurance claims	**98.9**	**99.8**	**115.2**	**40.2**	**501.5**	**855.6**

Notes to the financial statements *continued*

24 Borrowings

The carrying amount and fair values of the non-current borrowings are as follows:

Group **Carrying value**	Subordinated debt $m	Tier 2 subordinated debt $m	Retail bond $m	Total $m
Balance at 1 January 2017	**18.0**	**248.3**	**94.7**	**361.0**
Interest expensed	0.9	14.7	5.1	20.7
Interest paid	(0.9)	(14.7)	(5.1)	(20.7)
Amortisation of capitalised borrowing costs	–	0.2	0.2	0.4
Foreign exchange loss	–	–	4.6	4.6
Balance at 31 December 2017	**18.0**	**248.5**	**99.5**	**366.0**

Fair value	Subordinated debt $m	Tier 2 subordinated debt $m	Retail bond $m	Total $m
Balance at 1 January 2017	**18.0**	**253.3**	**100.8**	**372.1**
Change in fair value	–	13.3	3.3	16.6
Balance at 31 December 2017	**18.0**	**266.6**	**104.1**	**388.7**

Company **Carrying value**	Retail bond $m	Total $m
Balance at 1 January 2017	**94.7**	**94.7**
Interest expensed	5.1	5.1
Interest paid	(5.1)	(5.1)
Amortisation of capitalised borrowing costs	0.2	0.2
Foreign exchange loss	4.6	4.6
Balance at 31 December 2017	**99.5**	**99.5**

Fair value	Retail bond $m	Total $m
Balance at 1 January 2017	**100.8**	**100.8**
Change in fair value	3.3	3.3
Balance at 31 December 2017	**104.1**	**104.1**

The fair values of the subordinated debt, the tier 2 subordinated debt and the retail bond are based on quoted market prices.

In November 2004, the group issued subordinated debt of $18m to JPMorgan Chase Bank, N.A., JPMorgan. The loan is unsecured and interest is payable at the USD London interbank offered rate (LIBOR) plus a margin of 3.65% per annum. The subordinated notes are due in November 2034 and have been callable at the group's option since 2009.

In September 2012, the group issued £75m of sterling denominated 5.375% notes due 2019. Interest at a fixed rate of 5.375% is payable in March and September each year.

In November 2016, the group issued $250m of subordinated tier 2 notes due in 2026. Annual interest, at a fixed rate of 5.875%, is payable in May and November each year.

25 Other payables

Group	2017 $m	2016 $m
Reinsurance premiums payable	182.8	177.8
Accrued expenses including staff bonuses	165.3	147.4
Other payables	100.1	100.4
Deferred consideration payable on acquisition of MGAs	0.3	1.4
Due to syndicate 6107	52.2	47.0
Due to syndicate 6050	11.4	9.7
Due to Beazley plc	20.9	13.3
	533.0	**497.0**

Company	2017 $m	2016 $m
Other payables	1.7	1.6
	1.7	**1.6**

All other payables are payable within one year of the reporting date. The carrying value approximates fair values.

26 Retirement benefit obligations

	2017 $m	2016 $m
Present value of funded obligations	55.9	48.2
Fair value of plan assets	(53.6)	(42.0)
Retirement benefit liability in the statement of financial position	**2.3**	**6.2**

Amounts recognised in the statement of profit or loss		
Interest cost	1.4	1.4
Expected return on plan assets	(1.3)	(1.4)
	0.1	**–**

Beazley Furlonge Limited operates a defined benefit pension scheme ('the Beazley Furlonge Limited Pension Scheme'). The scheme provides the following benefits:

- an annual pension payable to the member from his or her normal pension age (60th birthday) of generally 1/60th of final pensionable salary for each year of pensionable service up to 31 March 2006;
- a spouse's pension of 2/3rds of the member's pension payable on the member's death after retirement;
- a lump sum of four times current pensionable salary for death in service at the date of death; and
- a pension of 2/3rds of the member's prospective pension at the date of death, payable to the spouse until their death. This pension is related to salary at the date of death.

Notes to the financial statements *continued*

26 Retirement benefit obligations *continued*

The scheme is administered by a trust that is legally separated from the group. The trustees consist of both employee and employer representatives and an independent chairman, all of whom are governed by the scheme rules.

The scheme exposes the group to additional actuarial, interest rate and market risk.

Contributions to the scheme are determined by a qualified actuary using the projected unit credit method as set out in the scheme rules and the most recent valuation was at 31 December 2017. According to the Schedule of Contributions, the group expects to contribute approximately $1.3m in each of the next two years.

	2017 $m	2016 $m
Movement in present value of funded obligations recognised in the statement of financial position		
Balance at 1 January	**48.2**	**43.1**
Interest cost	1.4	1.4
Actuarial gains	4.2	10.9
Benefits paid	(0.4)	(0.3)
Foreign exchange gain/(loss)	2.5	(6.9)
Balance at 31 December	**55.9**	**48.2**
Movement in fair value of plan assets recognised in the statement of financial position		
Balance at 1 January	**42.0**	**42.4**
Expected return on plan assets	1.3	1.4
Actuarial gains	4.2	3.7
Employer contributions	4.4	1.6
Benefits paid	(0.4)	(0.3)
Foreign exchange gain/(loss)	2.1	(6.8)
Balance at 31 December	**53.6**	**42.0**
Plan assets are comprised as follows:		
Equities	34.5	27.7
Bonds	8.6	8.0
Cash	3.4	–
UCITS funds	7.1	6.3
Total	**53.6**	**42.0**

The actual gain on plan assets was $5.5m (2016: $5.1m).

	2017 $m	2016 $m
Principal actuarial assumptions		
Discount rate	2.4%	2.8%
Inflation rate	3.4%	3.5%
Expected return on plan assets	2.4%	2.8%
Future salary increases	3.4%	3.5%
Future pensions increases	3.3%	3.0%
Life expectancy for members aged 60 at 31 December	90 years	90 years
Life expectancy for members aged 40 at 31 December	93 years	92 years

At 31 December 2017, the weighted-average duration of the defined benefit obligation was 9.7 years (2016: 10.7 years).

26 Retirement benefit obligations *continued*

Sensitivity analyses

Changes in the relevant actuarial assumptions would result in a change in the value of the funded obligation as shown below:

31 December 2017	Increase $m	Decrease $m
Discount rate (0.5% decrease)	7.7	–
Inflation rate (0.3% decrease)	–	(1.1)
Future salary changes (0.5% decrease)	–	(0.7)
Life expectancy (1 year increase)	2.0	–

31 December 2016	Increase $m	Decrease $m
Discount rate (0.5% decrease)	6.9	–
Inflation rate (0.3% decrease)	–	(3.9)
Future salary changes (0.5% decrease)	–	(0.3)
Life expectancy (1 year increase)	1.4	–

27 Deferred tax

	2017 $m	2016 $m
Deferred tax asset	6.9	11.0
Deferred tax liability	(9.9)	(12.8)
	(3.0)	**(1.8)**

The movement in the net deferred income tax is as follows:		
Balance at 1 January	(1.8)	1.1
Income tax charge	(3.2)	(3.0)
Amounts recorded through equity	2.2	1.5
Foreign exchange translation differences	(0.2)	(1.4)
Balance at 31 December	**(3.0)**	**(1.8)**

	Balance 1 Jan 17 $m	Recognised in income $m	Recognised in equity $m	FX translation differences $m	Balance 31 Dec 17 $m
Plant and equipment	0.3	–	–	–	0.3
Intangible assets	1.2	(0.1)	(2.2)	–	(1.1)
Underwriting profits	(23.0)	6.3	–	–	(16.7)
Deferred acquisition costs	10.9	(4.1)	–	–	6.8
Share based payments	6.6	(1.2)	4.4	(0.2)	9.6
Other	2.2	(4.1)	–	–	(1.9)
Net deferred income tax account	**(1.8)**	**(3.2)**	**2.2**	**(0.2)**	**(3.0)**

Notes to the financial statements *continued*

27 Deferred tax *continued*

	Balance 1 Jan 16 $m	Recognised in income $m	Recognised in equity $m	FX translation differences $m	Balance 31 Dec 16 $m
Plant and equipment	0.5	(0.2)	–	–	0.3
Intangible assets	1.2	–	–	–	1.2
Underwriting profits	(13.4)	(9.6)	–	–	(23.0)
Deferred acquisition costs	7.1	3.8	–	–	10.9
Share based payments	6.1	0.4	1.5	(1.4)	6.6
Other	(0.4)	2.6	–	–	2.2
Net deferred income tax account	**1.1**	**(3.0)**	**1.5**	**(1.4)**	**(1.8)**

A change in the effective corporation tax in the US from 35% to 21% was substantively enacted in December 2017. This resulted in a $5m reduction to the carrying value of the group's US deferred tax asset at 31 December 2017.

The group has tax adjusted losses carried forward giving rise to a deferred tax asset of $1.2m, measured at the UK corporation tax rate of 17%. The deferred tax asset has not been recognised on the group statement of financial position in the current year 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.

28 Operating lease commitments

The group leases land and buildings under non-cancellable operating lease agreements.

The future minimum lease payments under the non-cancellable operating leases are as follows:

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

29 Related party transactions

The group and company have related party relationships with syndicates 623, 6107, 6050, its subsidiaries, associates and its directors.

29.1 Syndicates 623, 6107 and 6050

The group received management fees and profit commissions for providing a range of management services to syndicates 623, 6107 and 6050, which are all managed by the group. In addition, the group ceded portions or all of a group of insurance policies to both syndicates 6107 and 6050. The participants on syndicates 623, 6107 and 6050 are solely third party capital.

Details of transactions entered into and the balances with these syndicates are as follows:

	2017 $m	2016 $m
Written premium ceded to syndicates	66.1	57.3
Other income received from syndicates	35.7	33.1
Services provided	38.6	38.6
Balances due:		
Due from syndicate 623	30.6	4.7
Due to syndicate 6107	(52.2)	(47.0)
Due to syndicate 6050	(11.4)	(9.7)

29.2 Key management compensation

	2017 $m	2016 $m
Salaries and other short term benefits	16.4	21.0
Post-employment benefits	0.6	0.6
Share based remuneration	9.8	12.7
	26.8	**34.3**

Key management include executive and non-executive directors of Beazley plc and other senior management. This compensation was borne by Beazley Management Limited, which is a part of Beazley Ireland Holdings plc group.

29.3 Other related party transactions

At 31 December 2017, the group had purchased services from the associate of $2.5m (2016: $2.5m) throughout the year. All transactions with the associate and subsidiaries are priced on an arm’s length basis. In 2017 the group sold its share in Equinox thus ceasing Equinox being a related party. Equinox repaid a loan of £1.5m and the interest accrued thereon up to the date of completion.

At 31 December 2017, the amount owed to Beazley plc by Beazley Ireland Holdings plc and its subsidiaries was $20.9m (2016: $13.3m).

Notes to the financial statements *continued*

30 Parent company and subsidiary undertakings

Beazley Ireland Holdings plc, a company incorporated in Jersey and resident for tax purposes in the Republic of Ireland, is the parent company of the group. Beazley plc is the ultimate parent of Beazley Ireland Holdings plc and the ultimate controlling party within the Beazley plc group.

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

	Country of incorporation	Ownership interest	Nature of business	Functional currency	Beazley Ireland Holdings plc direct investment in subsidiary ($m)
Beazley Group Limited	England	100%	Intermediate holding company	USD	–[1]
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[2]	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[3]	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.6) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Leviathan Limited	England	100%	Underwriting at Lloyd's	GBP	
Beazley Canada Limited	Canada	100%	Insurance services	CAD	
Beazley Insurance dac	Ireland	100%	Insurance and reinsurance company	USD	747.2
Beazley Underwriting Pty Ltd	Australia	100%	Insurance services	AUD	
Beazley USA Services, Inc.*	USA	100%	Insurance services	USD	
Beazley Holdings, Inc.*	USA	100%	Holding company	USD	
Beazley Group (USA) General Partnership**	USA	100%	General partnership	USD	
Beazley Insurance Company, Inc.***	USA	100%	Underwriting admitted lines	USD	
Lodestone Securities LLC****	USA	100%	Consultancy services	USD	
Beazley Limited	Hong Kong	100%	Insurance services	HKD	
Beazley Middle East Limited[4]	UAE	100%	Insurance services	USD	
Beazley Pte. Limited	Singapore	100%	Underwriting at Lloyd's	SGD	
					747.2

1 Beazley Ireland Holdings plc holds a direct investment in Beazley Group Limited of $2.

2 Beazley DAS Limited is in the process of liquidation.

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

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

* Please see page 121 for registered address.

30 Parent company and subsidiary undertakings *continued*

The following is a list of group registered office locations:

Address	City	Postcode	Country
United Kingdom and Continental Europe			
60 Great Tower Street	London	EC3R 5AD	England
2 Northwood Avenue	Dublin	D09 X5N9	Ireland
22 Grenville Street	Saint Helier	JE4 8PX	Jersey
North America			
1209 Orange Street*	Wilmington, Delaware	19801	USA
2711 Centerville Road Suite 400**	Wilmington, Delaware	19808	USA
30 Batterson Park Road***	Farmington, Connecticut	06032	USA
160 Greentree Drive, Suite 101****	Dover, Delaware	19904	USA
55 University Avenue, Suite 550	Toronto, Ontario	M5J 2HJ	Canada
Asia			
138 Market Street, 03-04 Capita Green	Singapore	048946	Singapore
36/F., Tower Two, Times Square, 1 Matheson Street	Causeway Bay	–	Hong Kong
Australia			
Level 20, 133 Castlereagh Street	Sydney	NSW 2000	Australia

31 Contingencies

Funds at Lloyd's

The following amounts are controlled by Lloyd's to secure underwriting commitments:

	Underwriting year 2018 £m	Underwriting year 2017 £m	Underwriting year 2016 £m
Debt securities and other fixed income securities	733.2	656.9	447.6

The funds are held in trust and can be used to meet claims liabilities should syndicates' members fail to meet their claims liabilities. The funds can only be used to meet claim liabilities of the relevant member.

These balances are included within financial assets at fair value on the statement of financial position.

32 Foreign exchange rates

The group used the following exchange rates to translate foreign currency assets, liabilities, income and expenses into US dollars, being the group's presentational currency:

	2017		2016	
	Average	Year end spot	Average	Year end spot
Pound sterling	0.78	0.75	0.73	0.79
Canadian dollar	1.30	1.29	1.34	1.31
Euro	0.89	0.85	0.91	0.94

Notes to the financial statements *continued*

33 Subsequent events
There are no other events that are material to the operations of the group that have occurred since the reporting date.

34 Business combinations
Acquisition of business portfolio
In January 2017 Beazley Furlonge Holdings Limited, an intermediate holding company within the group, set up a direct 100% subsidiary, 1104980 BC Limited, in Canada. The principal activity of 1104980 BC Limited was to act as an intermediate holding company within the group. This subsidiary acquired 100% of the share capital of a Canadian coverholder, Creechurch International Underwriters Limited (now Beazley Canada Limited), on 3 February 2017. In June 2017 1104980 BC Limited and Beazley Canada Limited amalgamated under the name of Beazley Canada Limited.

The acquisition secured a strategic platform for specialty lines and Beazley's expansion in Canada. It also allowed us to write more business through increased line size and launching new specialist products through the acquiree's distribution channels. The acquisition was achieved in one stage. The total amount of consideration paid was $33.8m. Total amount of consideration represents cash and no contingent consideration was offered. No material costs related to the acquisition were incurred by the group.

The acquisition had the following effect on the group's assets and liabilities:

Net assets acquired	Carrying value at acquisition $m	Fair value adjustment $m	Fair value on completion $m
Intangible assets – renewal rights	–	34.4	34.4
Fixed assets	0.1	–	0.1
Cash and cash equivalents	2.6	–	2.6
Other receivables	0.3	–	0.3
Other payables	(1.0)	–	(1.0)
Deferred tax liability	–	(2.6)	(2.6)
Value of net assets acquired	**2.0**	**31.8**	**33.8**
Intangible assets – goodwill			–
Consideration paid			**33.8**

As per the recognition principle, we have identified separate intangible assets. These intangibles meet the separability criterion and represent renewal rights which comprise future profits relating to insurance contracts acquired and the expected renewal of those contracts. The fair value of renewal rights of $31.8m was derived from the profits (net of tax) expected to be earned from these contracts over a five year period, discounted using a weighted average cost of capital of 10.4%. Renewal rights are being amortised over a five year period, starting from February 2017. A related deferred tax liability has been recognised. No further fair value adjustments were made in relation to other assets and liabilities acquired.

The effect of the acquisition on the group's revenue was $3.0m ($3.4m if the acquisition happened on 1 January 2017) and the effect on the group's consolidated statement of profit or loss in the current period was a profit of $2.4m ($2.6m if the acquisition happened on 1 January 2017).

Glossary

Aggregates/aggregations
Accumulations of insurance loss exposures which result from underwriting multiple risks that are exposed to common causes of loss.

Aggregate excess of loss
The reinsurer indemnifies an insurance company (the reinsured) for an aggregate (or cumulative) amount of losses in excess of a specified aggregate amount.

Alternative performance measures (APMs)
The group uses APMs to help explain its financial performance and position. These measures, such as combined ratio, expense ratio, claims ratio and investment return, are not defined under IFRS. The group is of the view that the use of these measures enhances the usefulness of the financial statements. Definitions of key APMs are included within the glossary.

A.M. Best
A.M. Best is a worldwide insurance-rating and information agency whose ratings are recognised as an ideal benchmark for assessing the financial strength of insurance related organisations, following a rigorous quantitative and qualitative analysis of a company's statement of financial position strength, operating performance and business profile.

Binding authority
A contracted agreement between a managing agent and a coverholder under which the coverholder is authorised to enter into contracts of insurance for the account of the members of the syndicate concerned, subject to specified terms and conditions.

Capacity
This is the maximum amount of premiums that can be accepted by a syndicate. Capacity also refers to the amount of insurance coverage allocated to a particular policyholder or in the marketplace in general.

Capital growth assets
These are assets that do not pay a regular income and target an increase in value over the long term. They will typically have a higher risk and volatility than that of the core portfolio. Currently these are the hedge funds, equity funds and illiquid credit assets.

Catastrophe reinsurance
A form of excess of loss reinsurance which, subject to a specified limit, indemnifies the reinsured company for the amount of loss in excess of a specified retention with respect to an accumulation of losses resulting from a catastrophic event or series of events.

Claims
Demand by an insured for indemnity under an insurance contract.

Claims ratio
Ratio, in percentage terms, of net insurance claims to net earned premiums. The calculation is performed excluding the impact of foreign exchange. In 2017, this ratio was 58% (2016: 48%). This represented total claims of $1,075.7m (2016: $855.6m) divided by net earned premiums of $1,869.4m (2016: $1,768.2m).

Combined ratio
Ratio, in percentage terms, of the sum of net insurance claims, expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. This is also the sum of the expense ratio and the claims ratio. The calculation is performed excluding the impact of foreign exchange. In 2017, this ratio was 99% (2016: 89%). This represents the sum of net insurance claims of $1,075.7m (2016: $855.6m), expenses for acquisition of insurance contracts of $519.7m (2016: $472.5m) and administrative expenses of $253.4m (2016: $246.7m) to net earned premiums of $1,869.4m (2016: $1,768.2m). This is also the sum of the expense ratio 41% (2016: 41%) and the claims ratio 58% (2016: 48%).

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

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

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

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

Expense ratio
Ratio, in percentage terms, of the sum of expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. The calculation is performed excluding the impact of foreign exchange on non-monetary items. In 2017, the expense ratio was 41% (2016: 41%). This represents the sum of expenses for acquisition of insurance contracts of $519.7m (2016: $472.5m) and administrative expenses of $253.4m (2016: $246.7m) to earned premiums of $1,869.4m (2016: $1,768.2m).

Glossary *continued*

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

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

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

Horizontal limits
Reinsurance coverage limits for multiple events.

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

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

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

Investment return
Ratio, in percentage terms, calculated by dividing the net investment income by the average financial assets at fair value, including cash. In 2017, this was calculated as net investment income of $138.3m (2016: $93.1m) divided by average financial assets at fair value, including cash, of $4,796.0m (2016: $4,610.9m).

Lead underwriter
The underwriter of a syndicate who is responsible for setting the terms of an insurance or reinsurance contract that is subscribed by more than one syndicate and who generally has primary responsibility for handling any claims arising under such a contract.

Line
The proportion of an insurance or reinsurance risk that is accepted by an underwriter or which an underwriter is willing to accept.

Managing agent
A company that is permitted by Lloyd's to manage the underwriting of a syndicate.

Managing general agent (MGA)
An insurance intermediary acting as an agent on behalf of an insurer.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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