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REG - Beazley PLC -Beazley plc results for year ended 31 Dec 2016

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Press Release

Beazley delivers a good performance across the board in 2016

London, 3 February 2017

Beazley plc results for year ended 31 December 2016

- Profit before tax of $293.2m (2015: $284.0m)
- Return on equity of 18% (2015: 19%)
- Gross premiums written increased by 6% to $2,195.6m (2015: $2,080.9m)
- Combined ratio of 89% (2015: 87%)
- Rate reduction on renewal portfolio of 2% (2015: reduction of 2%)
- Prior year reserve releases of $180.7m (2015: $176.3m)
- Net investment income of $93.1m (2015: $57.6m)
- Second interim dividend of 7.0p (2015: 6.6p), taking full year dividends for the year to 10.5p (2015: full year 9.9p). Special dividend of 10.0p (2015: 18.4p)

	Year ended 31 December 2016	Year ended 31 December 2015	% movement
Gross premiums written ($m)	**2,195.6**	2,080.9	6%
Net premiums written ($m)	**1,854.0**	1,713.1	8%
Profit before tax ($m)	**293.2**	284.0	3%
Earnings per share (pence)	**35.5**	31.9	11%
Net assets per share (pence)	**225.9**	186.5	21%

Net tangible assets per share (pence)	**211.2**	174.8	21%
Dividend per share (pence)	**10.5**	9.9	6%
Special dividend (pence)	**10.0**	18.4	

Andrew Horton, chief executive officer, said:

"Beazley's performance in 2016 was good across the board. Our increased profits were driven by a higher investment return, but the bedrock of our success remains our underwriting performance, which generated a combined ratio of 89% in 2016 despite highly competitive conditions in many of our markets. Overall premium growth doubled to 6% and we were able to develop a number of growth opportunities, particularly in the US, that enabled us to offset areas where market conditions dictated that we cut back."

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Note to editors:

Beazley plc (BEZ.L), is the parent company of specialist insurance businesses with operations in Europe, the US, Latin America, Asia, Middle East and Australia. Beazley manages six Lloyd's syndicates and, in 2016, underwrote gross premiums worldwide of $2,195.6 million. All Lloyd's syndicates are rated A by A.M. Best.

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

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

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

Chairman's statement

Against a background of continued sharply falling premium rates for most large risk business, Beazley delivered a very strong performance in 2016, generating a return on average shareholders' equity of 18% (2015: 19%) and premium growth of 6%.

Through skilled underwriting and careful rebalancing of our diversified risk portfolio, Beazley once again achieved a combined ratio below 90%, recording 89% in 2016 (2015: 87%). Earnings per share were 48.6c (2015: 48.8c) and net tangible assets per share grew to 268.2c (2015: 263.9c).

The board is pleased to announce a second interim dividend of 7.0p per ordinary share (plus a special dividend of 10.0p per ordinary share). Together with the first interim dividend of 3.5p this takes the total dividends declared for 2016 to 20.5p per ordinary share (2015: first interim dividend of 3.3p, second interim dividend of 6.6p plus a special dividend of 18.4p, totalling 28.3p).

Beazley targets dividend growth (excluding special dividends) of between 5% and 10%, a record which we have maintained since flotation. Additional capital is available to be returned to shareholders if cash flow further exceeds the opportunity to invest in profitable growth, plus a prudent buffer. As our specialty lines business continues to grow, and as we continue to reduce our peak natural catastrophe exposure, in part due to the competitive rating environment, we expect our capital requirements to increase. In 2016, our capital requirements grew by 11%, thus reducing the level of excess capital compared to 2014 and 2015.

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

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

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

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

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

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

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

An important focus for the Beazley board has always been to scrutinise the key diversification elements in the company's risk portfolio. Beazley's success over time has depended heavily on being able to flex the portfolio to capitalise on profitable growth opportunities in one geography or line of business while keeping our powder dry in another. In addition, the duration of risks matters: in recent years we have seen short tail catastrophe exposed business shed margin far faster than the medium tail casualty business that is the focus of our specialty lines division. In all these areas - product, geography and duration - the board continuously challenges the company's strategy and the assumptions that underpin it.

In this work we have benefited greatly from the diverse experience and skillset of board members, including Vincent Sheridan, who has been a Beazley plc non-executive director since 2009, and who resigned from the board and audit and risk committee at the end of the year. He will remain a director of Beazley Re dac, the group's Irish subsidiary. I am very grateful to Vincent for his valued contribution to the board during his seven year tenure.

We were delighted to welcome three new board members during the course of the year, each of whom brings experience relevant to particular opportunities and challenges the company faces.

John Sauerland joined us in May as a non-executive director and member of the remuneration committee. Based in Ohio, John is currently the chief financial officer of Progressive Insurance, having served in a number of roles across that organisation since 1991. As the US continues to be a strategic focus for the group, John's experience and skills will prove very valuable to us.

Further reinforcing the board's US experience, particularly in the broking arena, we welcomed Christine LaSala as a non-executive director and a member of the audit and risk committee in July. Based in New York, Christine recently retired as chair of Willis Towers Watson North America after a long and distinguished career in insurance broking that included leadership roles at Johnson & Higgins and Marsh.

Finally in August, the board appointed Bob Stuchbery as a non-executive director and member of the audit and risk committee. Bob had previously been appointed as a non-executive director to the board of Beazley Furlonge Ltd, the group's Lloyd's managing agency, where he chairs the risk committee. He brings extensive Lloyd's experience, having been CEO of Chaucer until 2015 and his deep knowledge of the Lloyd's market and distribution and operational strategies will be an asset to the board.

Dividend policy and capital requirements

Our capital management strategy is to carry some surplus capital to enable us to take advantage of growth opportunities that may arise; this is further supported by our fully undrawn banking facility. We continue to manage our capital actively, and to the extent that we have surplus capital outside of this range the board will consider means to return this capital to shareholders, as demonstrated once more through the announcement of a special dividend for 2016.

Outlook

Profitable growth proved a challenge for many insurers in 2016 and we do not expect it to be any easier to achieve in the coming year. For Beazley, however, there remain significant opportunities to grow in the US and, on a smaller scale, in other markets outside London. Demand for our specialist products, particularly among small and mid sized businesses, remains strong.

The London market faces a more challenging near term future. The influx of capital into this market in recent years, and the resulting rating pressure, has contributed to tighter margins across many lines of business. If the relatively benign claims environment we have grown used to in recent years were to deteriorate, the consequences of writing risk at these rates would become even clearer.

That is not Beazley's approach. Our vision is to become, and be recognised as, the highest performing specialist insurer. As long as we continue to generate good ideas to help clients address their most pressing risks while attracting skilled underwriters who can price their products sustainably, we will continue to make progress towards achieving our vision.

Dennis Holt
Chairman

2 February 2017

Chief executive's statement

Beazley prospered in 2016, generating a profit before income tax of $293.2m (2015: $284.0m) on gross premiums that rose by 6% to $2,195.6m (2015: $2,080.9m). At 89% our combined ratio was in line with our performance in recent years, despite more challenging underwriting conditions for many lines of business and rate declines that averaged 2% across our portfolio.

Our strong broker relationships and established position in a diverse range of business lines and geographies enable us to pivot toward more profitable opportunities as margins come under pressure in certain areas. The pattern we have seen in recent years continued in 2016: large risk, catastrophe exposed business, which we mainly underwrite out of London, saw further rate declines, whereas rates for smaller liability business held firm. Our locally underwritten US business - mainly comprising small professional liability, management liability and cyber risks - accordingly grew strongly, by 20% to $695.7m.

Prior year reserve releases amounted to $180.7m (2015: $176.3m).

At year end we had 495 full time employees in the US, including 138 underwriters, representing five of our six divisions (the exception being marine). We have good geographic coverage through 11 offices, including six 'hub offices' - New York, Chicago, San Francisco, Los Angeles, Atlanta and Dallas - where multiple underwriting teams are located. In major product markets, such as non-standard commercial property risks underwritten on a surplus lines basis or environmental liability business, we have ample room to grow. Our specialty lines underwriters have successfully targeted major growth industries such as technology and healthcare, offering clients - and the brokers who serve them - customised and often highly innovative insurance products.

Beazley has underwritten US business since the company's early years, when Andrew Beazley and Nick Furlonge built a strong reputation for the company as a market for large scale professional indemnity risks for US lawyers and for architects and engineers. We continued to build on these very strong foundations in the US during 2016 by opening or expanding offices in Houston, Miami and Atlanta. We also took important steps to increase our presence in other geographies.

In both Singapore and Paris we continued to hire experienced, locally knowledgeable underwriters, and in London in July we announced plans to expand our international (non-US) specialty lines business through the arrival of a team headed by Gerard Bloom.

Europe will be a major focus for the specialty lines international team, with business underwritten both at the Beazley box at Lloyd's and through local offices. The team, which is expected to grow in the months ahead, will also be targeting new business opportunities in Asia Pacific and Latin America.

We see London continuing to play a key role in the provision of tailored cover for large and complex risks, including in Europe, notwithstanding uncertainty caused by Britain's referendum decision to exit the European Union (EU) in June. We strongly support the negotiating position of Lloyd's, which has been seeking to ensure that passporting rights for UK-based insurers to transact business throughout Europe will survive Britain's exit from the union. However, we have also been pursuing plans to establish an insurance company within the EU. In November we filed an application with the Central Bank of Ireland to convert Beazley Re dac, our long established Irish reinsurance vehicle, to a direct insurance company for this purpose.

Although we expect London to remain the preeminent wholesale and reinsurance market for large risks, the profitability of this business will remain highly sensitive to the incidence of catastrophe claims, dipping when claims hit the market but rebounding thereafter. Since 2011, we have seen an unusually calm period in this regard. This has been accompanied by a major influx of capital, much of it from US pension funds, that has not historically been heavily deployed to support insurance and reinsurance business. The combined effect of these developments has been to drive rates down very significantly for many of the lines of business in which Beazley's London underwriters specialise. In 2016, we saw reinsurance rates fall by 4%, while large commercial property rates declined by 6% and energy rates by 13%.

In a low claims environment, the strong temptation for insurers is to chase premium rates down in the hope that profits can still be extracted from underpriced business. This bet may have paid off in 2016 (although an uptick in claims in the second half of the year dented the profitability of some insurers) but we do not see it as a sustainable approach. We have preferred instead to walk away from underpriced business. In this way, we have seen our energy account, written within our marine division, shrink by 65% from its peak of $125.2m in 2012 to $44.3m last year, while our reinsurance business also contracted - albeit to a smaller degree - down 4% from $221.6m in 2013 to $213.4m last year.

Claims activity
As noted, claims continued to be subdued by historic standards in 2016. The insurance market experienced what may be regarded as a near miss in early October when Hurricane Matthew progressed up the eastern seaboard as a category three storm but only made landfall, in South Carolina, as a category one storm with 75 mph winds. Earlier in its course, Matthew had been a highly destructive hurricane, causing massive loss of life in Haiti, the poorest country in the western hemisphere. Estimated insured market losses from Matthew currently stand at between $2.5bn and $8.0bn and we do not expect claims for Beazley to be material.

Investment performance
Our investment portfolio as a whole returned $93.1m, or 2.0% in 2016 (2015: $57.6m, 1.3%). This is an excellent result when considered against a background of low and volatile yields, particularly in the final months of the year. Our move to insource more decision taking to our CIO, Stuart Simpson, and his team is working well. Following the outcome of the US Presidential election in November, the team took action to reduce the duration risk of our fixed income investments and this helped protect our return as yields subsequently rose. Earlier in the year we added to our corporate debt investments, improving the yield of our portfolio whilst accepting a modest increase in credit risk. This change has improved our return in 2016. Our capital growth investments have also made a good contribution, with all asset classes recording positive returns: our illiquid credit investments, in particular, performed strongly in this period.

Risk management
As we help our clients manage and mitigate their risks, we are also mindful of the risks that have the potential to imperil Beazley's profitability or reputation. Our risk management team, led by our chief risk officer Andrew Pryde, helped us refine or develop prudent approaches to a number of such risks in 2016.

Prior to the referendum on Britain's participation in the EU, the team conducted a detailed analysis of the potential consequences flowing from a 'no' vote. In broad terms, we consider that Beazley's business is less at risk in the event of the now much-discussed 'hard Brexit' scenario than that of many of our competitors, due largely to our strong focus on the US market. However we are not immune to exchange rate and asset risk volatility as negotiations proceed.

In the cyber arena, we continue to monitor aggregation risk closely through the analysis of realistic disaster scenarios, with new scenarios being developed for this fast moving area. The risk management team is also working closely with Beazley's finance team to ensure that capital is available to support the growth opportunities that we see opening up for our specialty lines division in the international market.

Growth through partnerships
Another route to profitable growth which we began to explore more fully in 2016 was the establishment of partnerships with other insurers that have strong distribution capabilities and a powerful brand in markets that are attractive to us. Our first major initiative in this regard began in 2015, when we launched a partnership with Korean Re to provide that company with access to the Lloyd's market while expanding our distribution capabilities in South Korea and other Asian markets.

Many of the new partnerships we have negotiated in 2016 further the growth aspirations of our cyber underwriters. In April we announced a partnership with the Corporate Insurance Partner unit of Munich Re to offer tailored cyber protection to the world's largest companies. In September we launched an initiative with GNP Seguros, one of the largest insurers in Mexico, to offer data breach insurance to that company's clients. Also through similar ventures in the US we continue to broaden the reach of our market-leading data breach product, Beazley Breach Response.

We see partnerships of this kind playing an increasing role in helping us harness growth opportunities around the world. For many years now, we have offered other insurers the opportunity to embed Beazley specialty lines products in their own product ranges through reinsurance provided by our specialty treaty team. Late last year, we broadened this initiative, under the name Beazley Product Solutions, to make any Beazley product available to other insurers in this manner.

Investing in our business
In building the talent base of our company for the future, we aim to look beyond underwriting cycles. Recent market conditions have not favoured all of our competitors and, as a result, some have merged

while others have withdrawn from business lines that remain attractive to us. Underwriters with entrepreneurial ambitions in our target markets have meanwhile found Beazley an attractive, and welcoming, employer. We hired 63 underwriters across our six divisions in 2016, a record number.

Many of our hires have been individuals, but we have also acquired a number of teams with a strong track record of success in their markets. In March, in London, we welcomed a team focusing on small and mid sized (SME) medical malpractice business outside the US, a field in which the team has built a strong reputation.

Two months later, in May, we announced the acquisition of the Leviathan facility, a London-based managing general agency with two decades of experience underwriting subsea risks, including remotely operated vehicles, seismic streamers for surveying the sea-bed, submarines and diving equipment.

Our preference at Beazley is for organic growth, supplemented by small scale bolt-on acquisitions that are complementary to our existing business. Both the transactions we completed in 2016 fitted this mould.

Underwriting talent is clearly critical to the success of a specialist insurer such as Beazley that aspires to be an innovator and must therefore be able to price risks that often lack a long-established claims history. However, many other skills are also critical to our success and we continued in 2016 to invest heavily in the diverse talent we will need to grow profitably in the years ahead. This included the Beazley board, to which, we welcomed three new non-executive directors with extensive US and London market experience - John Sauerland, Christine LaSala and Bob Stuchbery - during the course of the year.

Talented individuals are a necessary but not sufficient condition for success in our markets and we continued to invest in 2016 in technologies that improve our efficiency and make it easier for brokers to do business with us. This is particularly important in the market for small and mid sized risks, where we see increasing demand for our specialist products, both in the US and Europe. Brokers can afford to spend very little time on individual risks that generate modest brokerage and our priority is to work closely with them to offer beautifully designed products that meet their clients' needs and are easy to understand and to explain.

As a leading participant in the London market, we at Beazley are also aware that gains in efficiency and improved ease of doing business can often only be achieved by the market working in concert. That is why we have been strong supporters of the London market's target operating model, designed to deliver more efficient processing supported by electronic data capture of all stages of the journey taken by a piece of business, from placement, through claims, to renewal. This large and complex initiative made encouraging progress in 2016.

Service
High quality service to brokers and clients has always been an important differentiator for Beazley and is something we monitor closely. We intensified these efforts in 2016 with a large scale survey, to which nearly 2,800 individual brokers around the world responded.

We were pleased to receive, overall, very high ratings from brokers for the responsiveness and expertise of our underwriting and claims teams. Willingness to recommend Beazley, for both underwriting and claims, was also very high.

Can we do better? I have no doubt that we can. One area we are investigating is the scope to simplify our policy wordings, particularly for small scale business where the recipient of the policy is not an insurance professional well versed in industry jargon.

Beautifully designed insurance
This desire to further improve our service was key to another new initiative in 2016. Our market-leading cyber products exemplify our focus on carefully designed products and services that are tailored to meet our clients' most pressing needs. We have sought to promote this focus through the launch of our new tagline: Beautifully designed insurance. And in an industry that sometimes obscures its true value through its use of impenetrable jargon and over-lengthy policy wordings, we are exploring ways to make our products more accessible.

Outlook
I noted in last year's report that the returns on equity we had seen in previous years would prove unsustainable if market conditions continued to deteriorate. That deterioration has occurred but, thanks to the composition of our risk portfolio and strong investment returns, we have been able to offset declining rates in some areas with continued profitable growth in others.

At the risk of being accused of crying wolf, I will once again predict margin declines when (and it is a matter of when, not if) claims return to more normal levels. The consolation for Beazley is that the underwriting discipline we have maintained for short tail, catastrophe exposed business should cushion the impact of major claims when they occur.

It is easy to talk about our business, and in particular the operation of the insurance cycle, in a somewhat mechanistic, impersonal way. However, Beazley's success derives from the energies of 1,144 dedicated and skilled employees, building on sound principles that have served the company well over three decades, as well as constantly seeking new ways to better address clients' needs. 'Beautiful' and 'insurance' are not words that are often used in the same sentence. We believe they can and should be.

Andrew Horton

Chief executive

2 February 2017

Chief underwriting officer's report

We are pleased to have achieved another strong underwriting result in 2016, delivering a combined ratio of 89% (2015: 87%) despite the competitive pressures experienced in recent years continuing in 2016. Our underwriting result again benefited from a relatively benign claims environment, while we were also able to grow our gross premiums written by 6% to $2,195.6m (2015: $2,080.9m).

Rating environment

Premium rates on renewal business across our portfolio as a whole fell by an average of 2% during 2016 (2015: a decrease of 2%). Specialty lines, our largest division, saw rates increase by 1% year on year. In all other divisions, rating pressure saw a decrease in rates charged on renewal business compared to 2015, with rates dropping by 2% in life, accident and health, 7% in marine, 6% in political risks & contingency, 4% in property and 4% in reinsurance.

Cumulative renewal rate changes since 2008 below:

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Life, accident & health		100%	100%	101%	101%	100%	109%	108%	106%
Marine	100%	106%	104%	103%	103%	98%	92%	85%	79%
Political risks & contingency	100%	99%	97%	95%	94%	92%	91%	85%	80%
Property	100%	105%	102%	104%	110%	114%	112%	108%	104%
Reinsurance	100%	109%	106%	109%	115%	112%	101%	94%	90%
Specialty lines	100%	99%	98%	97%	100%	103%	103%	105%	106%
All divisions	100%	103%	100%	101%	104%	104%	103%	101%	99%

Premium retention rates

Retention of business from existing brokers and clients continues to be a key feature of Beazley's strategy. It enables us to develop a deeper understanding of our clients' businesses and requirements, affording greater insight into the risks involved in each policy we write and enabling us to price risk sustainably. The table below shows our retention rates by division compared to 2015.

Retention rates*	2016	2015
Life, accident & health	79%	92%
Marine	87%	84%
Political risks & contingency	80%	72%
Property	81%	78%
Reinsurance	85%	85%
Specialty lines	84%	84%
Overall	83%	83%

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

We would generally expect some level of volatility at individual division level; however we are pleased that our overall premium retention rate remains broadly in line with our five year average.

Divisional commentary

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

We continue to see strong demand for our cyber products and in April, we were happy to start to offer large scale cyber risk solutions in partnership with Munich Re. We also focused on expanding our cyber offerings outside the US and we see good growth potential in other markets, particularly in Europe. Our healthcare team was another which performed well during 2016 and in March, we were delighted to welcome a new team focusing on small and mid-sized medical malpractice business outside the US. Looking forward, we are also excited by our plans for our non-US specialty lines offerings to include financial institution insurance, focusing initially on mainland Europe.

Our life, accident and health division recorded a loss of $3.9m in 2016 (2015: profit of $0.4m) driven by losses in our Australian business and a relatively high cost base in the US as we continue to work towards growing our business across the country. We have taken positive steps in 2016 to continue to re-shape our portfolio, particularly in Australia where one of our larger superannuation policies was not renewed, while increasing our focus on smaller scale personal accident risks. In the US, we are working to optimise our sales and distribution capabilities so that we can take better advantage of the demand for our products and grow across the country.

Our property division delivered another profitable underwriting result in 2016, achieving a combined ratio of 87% (2015: 84%) on gross premiums written of $329.7m (2015: $353.1m). Market conditions continue to be challenging, particularly in respect of large risks, with rates on renewal business falling by 4% year on year for the division as a whole (2015: reduction of 4%). Against the backdrop of this difficult trading environment, we are adapting our underwriting strategy to focus on segmenting our portfolio and giving increasing focus to small and mid-sized risks. We executed this strategy in 2016 by achieving growth in our high value homeowner portfolio in the US, and our fine arts and specie business in London. Our diverse portfolio helps us to offset some of the more competitive conditions we see in the large risk arena, particularly in the open market book written in London.

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

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

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

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

Outlook

The insurance market continues to be impacted by an oversupply of capital. This oversupply, particularly in short tail lines of business such as marine and reinsurance, has meant that 2016 has been another year where most trading divisions within Beazley have found competitive pressures to be strong. We anticipate that the trading environment currently encountered will remain broadly unchanged throughout 2017.

At Beazley we will continue to prioritise value creation for our shareholders and clients through our underwriting. As we move through 2017, we will continue to focus on the balanced underwriting approach which has aided us in delivering a strong performance over the past 12 months.

Our diverse portfolio gives us the ability to exercise discipline in areas where margins are under the most pressure, while simultaneously pushing forward in areas such as specialty lines where we see the best opportunities for profitable growth. This emphasis on disciplined underwriting across a wide range of products and locations will remain the cornerstone of our underwriting strategy throughout the next 12 months and beyond.

Neil Maidment
Chief underwriting officer

2 February 2017

Financial review

Statement of profit or loss

	2016 $m	2015 $m	Movement %

Gross premiums written	2,195.6	2,080.9	6%
Net premiums written	1,854.0	1,713.1	8%
Net earned premiums	1,768.2	1,698.7	4%
Net investment income	93.1	57.6	62%
Other income	32.7	30.9	6%
Revenue	**1,894.0**	**1,787.2**	**6%**
Net insurance claims	855.6	813.9	5%
Acquisition and administrative expenses	720.3	663.8	9%
Foreign exchange loss	9.5	9.7	(2%)
Expenses	**1,585.4**	**1,487.4**	**7%**
Share of loss of associates	(0.2)	(0.5)	(60%)
Finance costs	(15.2)	(15.3)	(1%)
Profit before tax	**293.2**	**284.0**	**3%**
Income tax expense	(42.2)	(35.0)	21%
Profit after tax	**251.0**	**249.0**	**1%**
Claims ratio	48%	48%	
Expense ratio	41%	39%	
Combined ratio	89%	87%	
Rate decrease	(2%)	(2%)	
Investment return	2.0%	1.3%	

Profit

Profit before tax was broadly unchanged in 2016 at $293.2m (2015: $284.0m). The group achieved a combined ratio in line with its long term target of 90% but slightly higher than the 87% seen in 2015. Profits on short tail classes were lower than in 2015 reflecting the reduced margins available following several years of price competition in these areas. Overall, reserve releases were at similar levels to 2015 but with a greater contribution from specialty lines where the prior year releases increased by 77% on 2015. The very strong investment return of 2.0% (2015: 1.3%) compensated for the reduced underwriting contribution.

Premiums

Gross premiums written have increased by 6% in 2016 to $2,195.6m. Rates on renewal business on average decreased by 2% across the portfolio. We have continued to adjust our underwriting appetite in areas where competition is most intense.

Our portfolio by business division has remained broadly unchanged from 2015. We continue to operate a diversified portfolio by type of business and geographical location, and have grown our business across three of the six divisions during 2016.

Reinsurance purchased

Reinsurance is purchased for a number of reasons:
- to mitigate the impact of catastrophes such as hurricanes;
- 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 2016 was $341.6m (2015: $367.8m). The reduced purchases in 2016 were driven by a reduction in our life, accident and health division's reinsurance purchase as a result of the non renewal of one large inward risk and a reduction in our specialty lines division due to business mix and amendments to some of our larger quota shares.

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 has increased in 2016 to 89% (2015: 87%), but it still maintains our five year historic average below 90%.

Claims

Claims have developed favourably during 2016, with overall claim notifications once again below normalised levels. In particular, there has been only moderate exposure to natural catastrophes throughout the year.

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 5-10% above our actuarial estimates, which themselves include some margin for uncertainty. The margin held above the actuarial estimate was 6.6% at the end of 2016 (2015: 8.2%). This margin has remained stable over time and is a lead indicator for the sustainability of reserve releases. However, it is important to recognise that claims reserve uncertainty is significant for Beazley and a positive lead indicator will not always equate to future releases.

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:

	2012 \$m	**2013 \$m**	**2014 \$m**	**2015 \$m**	**2016 \$m**	**5 year average \$m**
Life, accident & health	0.5	(4.6)	4.4	5.6	7.1	2.6
Marine	27.7	47.3	40.2	31.2	15.9	32.5
Political risks & contingency	33.1	39.4	20.1	18.1	20.1	26.2
Property	6.2	33.7	35.9	37.8	36.8	30.1
Reinsurance	7.0	55.6	27.8	44.9	32.3	33.5
Specialty lines	51.5	46.6	29.7	38.7	68.5	47.0
Total	**126.0**	**218.0**	**158.1**	**176.3**	**180.7**	**171.9**
Releases as a percentage of net earned premium	8.5%	13.7%	9.5%	10.4%	10.2%	10.5%

The reserve releases in 2016 totalled $180.7m and were broadly flat when compared to 2015. Our specialty lines division increased their reserve releases as the post recession portfolio from 2012 onwards matures; a trend which we expect to see continuing. This counter-balanced lower releases on short tail classes where the mechanical effect that reduced margins have on reserve releases is now visible.

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

Acquisition costs and administrative expenses
Business acquisition costs and administrative expenses increased during 2016 to $720.3m from $663.8m in 2015.

The breakdown of these costs is shown below:

	2016 \$m	**2015 \$m**
Brokerage costs	390.0	362.8
Other acquisition costs	82.5	85.8
Total acquisition costs	**472.5**	**448.6**
Administrative expenses	247.8	215.2
Total acquisition costs and administrative expenses	**720.3**	**663.8**

Brokerage costs are the premium commissions paid to insurance intermediaries for providing business. As a percentage of net earned premium they have increased slightly to 22% in the current year (2015: 21%). 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 has increased 2% over the last three years to 41%. Average brokerage rates have increased 1% and the other half of the increase is in our own internal expenses. On the internal aspects, we continue to invest in developing Beazley and to experience expense ratio pressure in areas of the portfolio where the top line is shrinking due to market conditions. Our careful expense management, together with sterling weakness, have enabled us to to contain the increase in expense ratio driven by internal costs to only 1%.

Foreign exchange

The majority of Beazley's business is transacted in US dollar, which is the currency we have reported in since 2010 and the currency in which we hold the company's net assets. Changes in the US dollar exchange rate with sterling, the Canadian dollar and the euro do have an impact as we receive premiums in those currencies and the majority of our staff still receive their salary in sterling. Beazley's FX loss taken through the statement of profit or loss in 2016 was $9.5m (2015: loss of $9.7m). The main component of this loss, generated by IFRS's treatment of the unearned premium reserve as a non-monetary item, is purely timing with FX profits and losses which unwind in the subsequent period.

Investment performance
Financial markets experienced another volatile year in 2016. Weak energy prices and concerns about fragile global growth led to significant declines in equity markets and wider credit spreads, particularly for high yield issuers, in January and February. Subsequently, these asset classes recovered their earlier losses and continued to improve throughout the year as easy global monetary policy, recovering energy prices and, latterly, hopes of a 'Trumpian' boost to economic growth, all helped investors regain confidence. Global equities returned 9.0%, in local currency terms, in 2016. High yield bonds also performed strongly as average credit spreads declined by more than 250 basis points over the year.

Returns on sovereign debt exposures have traced a very different path, with significant declines in yields in the first half amid pessimism about global growth, assisted by the result of the UK's EU referendum in June, leading to strong returns in the first part of the year. Subsequently, yields began to rise as the US approached full employment and US interest rates were expected to increase. This trend was quickly extended following the US election, as investors discounted higher growth and inflation in anticipation of President Trump's policies, causing the five-year US Treasury note yield to rise by more than 50 basis points in one week. As a result, US sovereign yields ended the year higher than they began, generating low, but positive, returns at most maturities.

Our fixed income portfolios, which constitute the majority of our investments, returned 1.5% overall in 2016, with returns on sovereign debt exposures augmented by the higher yields from our corporate credit investments and, in particular, strong returns from our high yield fixed income exposures. Our decision to reduce the duration of our fixed income investments immediately following the US election result has also helped performance. Our capital growth portfolios incorporate around 12% of our investments and utilise more volatile asset classes, aiming to generate additional returns in the longer term. In 2016 the capital growth portfolio returned 5.6%. Our overall investment return for the year ended 31 December 2016 was 2.0%, or $93.1m (2015: $57.6m; 1.3%). We believe this to be a good outcome in a volatile period for investments.

At 31 December 2016, the weighted average duration of our fixed income investments was unusually low, at 1.2 years (2015: 1.8 years). Looking ahead to 2017, the investment outlook is once again uncertain. Recent increases in bond yields provide some hope that available returns may improve, but further market volatility is likely and we are prepared to take action to reduce the volatility of our investment returns, if appropriate.

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

	31 Dec 2016		**31 Dec 2015**	
	$m	**%**	**$m**	**%**
Cash and cash equivalents	507.2	10.8	676.9	15.0
Fixed and floating rate debt securities				
- Government, quasi-government and supranational	1,261.5	26.8	1,857.1	41.1
- Corporate bonds				
- Investment grade	2,158.0	45.9	1,215.8	26.9
- High yield	97.1	2.1	68.3	1.5
- Senior secured loans	96.2	2.0	114.9	2.5
- Asset backed securities	4.6	0.1	12.7	0.3
Derivative financial instruments	12.2	0.3	4.6	0.1
Core portfolio	4,136.8	88.0	3,950.3	87.4
Equity linked funds	116.3	2.5	147.5	3.3
Hedge funds	317.1	6.7	329.0	7.3
Illiquid credit assets	132.4	2.8	92.3	2.0
Total capital growth assets	565.8	12.0	568.8	12.6
Total	**4,702.6**	**100.0**	**4,519.1**	**100.0**

Comparison of return by major asset class:

	31 Dec 2016		**31 Dec 2015**	
	$m	**%**	**$m**	**%**
Core portfolio	61.3	1.5	27.4	0.7

Capital growth assets	31.8	5.6	30.2	5.4
Overall return	**93.1**	**2.0**	**57.6**	**1.3**

In 2016, the funds managed by the Beazley group remained in line with the prior year, with financial assets at fair value and cash and cash equivalents of $4,702.6m at the end of the year (2015: $4,519.1m).

Tax
Beazley is liable to corporation tax in a number of jurisdictions, notably the UK and Ireland. Our effective tax rate is thus a composite tax rate driven by the Irish and UK tax rates. Our effective tax rate for the year was 14.4% (2015: 12.3%). The increase compared to 2015 was due to a number of favourable prior year tax adjustments in 2015 that did not recur in the current year.

In 2016, it was announced that the UK corporation tax rate will be reduced to 17% by 2020. This reduction in the UK tax rate will reduce the group's future current tax charge. The application of the diverted profits tax passed by the government early in 2015 remains uncertain. We have considered the implication of this and retain the view that this tax should not apply to Beazley (see note 8).

Summary statement of financial position

	2016 $m	2015 $m	Movement %
Intangible assets	96.6	91.0	6%
Reinsurance assets	1,082.1	1,099.7	(2%)
Insurance receivables	794.7	732.7	8%
Other assets	332.5	302.9	10%
Financial assets at fair value and cash and cash equivalents	4,702.6	4,519.1	4%
Total assets	**7,008.5**	**6,745.4**	**4%**
Insurance liabilities	4,657.7	4,586.7	2%
Financial liabilities	363.8	247.3	47%
Other liabilities	503.3	470.0	7%
Total liabilities	**5,524.8**	**5,304.0**	**4%**
Net assets	1,483.7	1,441.4	3%
Net assets per share (cents)	286.8c	281.7c	2%
Net tangible assets per share (cents)	268.2c	263.9c	2%
Net assets per share (pence)	225.9p	186.5p	21%
Net tangible assets per share (pence)	211.2p	174.8p	21%
Number of shares*	517.2m	511.7m	1%

* Excludes shares held in the employee share trust and treasury shares.

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

Reinsurance assets
Reinsurance assets represent recoveries from reinsurers in respect of incurred claims of $853.9m, and the unearned reinsurance premiums reserve of $228.2m. The reinsurance receivables from reinsurers are split between recoveries on claims paid or notified of $201.8m and an actuarial estimate of recoveries on claims that have not yet been reported of $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);
- timely calculation and issuance of reinsurance collection notes from our ceded reinsurance team; and
- regular monitoring of the outstanding debtor position by our reinsurance security committee and credit control committee.

We continue to provide against impairment of reinsurance recoveries, and at the end of 2016 our provision in respect of reinsurance recoveries totalled $12.6m (2015: $13.7m).

Insurance receivables

Insurance receivables are amounts receivable from brokers in respect of premiums written. The balance at 31 December 2016 was $794.7m (2015: $732.7m).

Other assets
The largest items included in other assets comprise:

- deferred acquisition costs of $242.8m;
- profit commissions of $15.2m; and
- deferred tax assets available for use against future taxes payable of $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 $4,657.7m consist of two main elements, being the unearned premium reserve (UPR) and gross insurance claims liabilities.

Our UPR has increased by 8% to $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 $949.5m and an estimate of claims incurred but not yet reported (IBNR) of $2,567.4m. These are estimated as part of the quarterly reserving process involving the underwriters and group actuary. Gross insurance claims reserves are broadly unchanged from 2015 at $3,516.9m.

Financial liabilities
Financial liabilities comprise borrowings and derivative financial liabilities. The group utilises three long term debt facilities and has increased the aggregate amount of debt during 2016 by $152.8m in anticipation of opportunities to grow the capital supporting group underwriting over the next few years. An overview of our financial liabilities is included below:

- in 2006 we raised £150m of lower tier 2 unsecured fixed rate debt that was payable in 2026 and callable in 2016. In 2012, we bought back a total of £47.3m in two tranches. In 2013 we bought back £26.2m of this debt. In October 2016, the group exercised its first call option and redeemed the remaining outstanding nominal amount of debt of £76.5m.
- 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 Re 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 to support underwriting at Lloyd's. Of this, 75% may be advanced as cash under a revolving facility. The cost of the facility is based on a commitment fee of 0.4375% per annum and any amounts drawn are charged at a margin of 1.25% per annum. The cash element of the facility will expire on 31 July 2017, whilst letters of credit issued under the facility can be used to provide support for the 2015, 2016 and 2017 underwriting years. The facility is currently unutilised.

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

Further capital requirements come from rating agencies who provide ratings for Beazley Insurance Company Inc and Beazley Re 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 and opportunities for organic or acquisitive growth and a desire to maximise returns for investors.

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

In 2016 Beazley Group Limited repaid £76.5m of existing tier 2 subordinated debt at the first call date and Beazley Re dac issued $250m of new tier 2 subordinated debt due 2026, the net proceeds of which will be used along with our retained earnings to support the future growth plans of the group. On issuance of the new tier 2 subordinated debt, Beazley Re dac was assigned an Insurer Financial Strength ('IFS') rating of 'A+' by Fitch.

In 2016, Beazley acquired 2.0m of its own shares into the employee benefit trust. These were acquired at an average price of 335p and the cost to the group was £6.7m.

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

	2016 $m	2015 $m
Shareholders' funds	1,483.7	1,441.4
Tier 2 subordinated debt (2026) - Recalled in 2016	-	116.9
Tier 2 subordinated debt (2026) - Issued in 2016	248.3	-
Retail bond (2019)	94.7	112.3
Long -term subordinated debt (2034)	18.0	18.0
	1,844.7	**1,688.6**

Our funding comes from a mixture of our own equity alongside $248.3m of tier 2 subordinated debt, $18.0m subordinated long term debt, a $94.7m retail bond and an undrawn banking facility of $225.0m.

We signalled at the interim results that we expected the Lloyd's ECR to increase, reflecting our plans for growth, and the final figure at year end 2016 is extremely close to our projection once FX movements are taken into account.

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

	2016 $m	2015 $m
Lloyd's economic capital requirement (ECR)	1,489.2	1,326.9
Capital for US insurance company	107.7	107.7
	1,596.9	**1,434.6**

At 31 December 2016, we have surplus capital of 44% of ECR (on a Solvency II basis). Following payment of the second interim dividend of 7.0p and special dividend of 10.0p, this surplus reduces to 36% compared to our current target range of 15% to 25% of ECR.

Solvency II
The Solvency II regime came into force on 1 January 2016. From Q1 2016 Beazley has provided quarterly Solvency II pillar 3 reporting to both Lloyd's for the Beazley managed syndicates and the Central Bank of Ireland for Beazley Re dac and Beazley plc. Our project to prepare for the pillar 3 reporting requirements is nearing completion and will remain in place until annual reporting for 31 December 2016 is complete. We believe we are well positioned to meet all the reporting requirements.

Solvency capital requirement
The group is required to produce a Solvency Capital Requirement (SCR) which sets out the amount of capital that is required to reflect the risks contained within the business. Lloyd's reviews this assessment to ensure that SCRs are consistent across the market. On 10 December 2015 Beazley received internal model approval from the Central Bank of Ireland (the group supervisor under Solvency II).

The current SCR has been established using our Solvency II approved internal model which has been run within the regime as prescribed by Lloyd's. In order to perform the capital assessment, we have made significant investments in both models and process:

- we use sophisticated mathematical models that reflect the key risks in the business allowing for probability of occurrence, impact if they do occur, and interaction between risk types. A key focus of these models is to understand the risk posed to individual teams, and to the business as a whole, of a possible deterioration in the underwriting cycle; and
- the internal model process is embedded so that teams can see the direct and objective link between underwriting decisions and the capital allocated to that team. This gives a consistent and comprehensive picture of the risk/reward profile of the business and allows teams to focus on strategies that improve return on capital.

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

- Beazley plc - group holding company and investment vehicle, quoted on the London Stock Exchange;
- Beazley Ireland Holdings plc - Intermediate holding company which holds £75m sterling denominated notes;
- Beazley Underwriting Limited - corporate member at Lloyd's writing business through syndicates 2623, 3622 and 3623;
- Beazley Furlonge Limited - managing agency for the six syndicates managed by the group (623, 2623, 3622, 3623, 6107 and 6050);
- Beazley Re dac - reinsurance company that accepts reinsurance premiums ceded by the corporate member,
  Beazley Underwriting Limited;
- Syndicate 2623 - corporate body regulated by Lloyd's through which the group underwrites its general insurance business excluding accident & life. Business is written in parallel with syndicate 623;

- Syndicate 623 - corporate body regulated by Lloyd's which has its capital supplied by third-party names;
- Syndicate 6107 - special purpose syndicate writing reinsurance business, and from 2017 cyber, on behalf of third-party names;
- Syndicate 3622 - corporate body regulated by Lloyd's through which the group underwrites its life insurance and reinsurance business;
- Syndicate 3623 - corporate body regulated by Lloyd's through which the group underwrites its personal accident and BICI reinsurance business;
- Syndicate 6050 - special purpose syndicate which has its capital provided by third-party names and provides reinsurance to syndicates 623 and 2623;
- Beazley Insurance Company, Inc. (BICI) - insurance company regulated in the US. Licensed to write insurance business in all 50 states; and
- Beazley USA Services, Inc. (BUSA) - managing general agent based in Farmington, Connecticut. Underwrites business on behalf of Beazley syndicates and BICI.

Consolidated statement of profit or loss for the year ended 31 December 2016

	2016 $m	**2015 $m**
Gross premiums written	2,195.6	2,080.9
Written premiums ceded to reinsurers	(341.6)	(367.8)
Net premiums written	**1,854.0**	**1,713.1**
Change in gross provision for unearned premiums	(83.4)	(57.4)
Reinsurer's share of change in the provision for unearned premiums	(2.4)	43.0
Change in net provision for unearned premiums	**(85.8)**	**(14.4)**
Net earned premiums	**1,768.2**	**1,698.7**
Net investment income	93.1	57.6
Other income	32.7	30.9
	125.8	**88.5**
Revenue	**1,894.0**	**1,787.2**
Insurance claims	1,027.3	974.1
Insurance claims recoverable from reinsurers	(171.7)	(160.2)
Net insurance claims	**855.6**	**813.9**
Expenses for the acquisition of insurance contracts	472.5	448.6
Administrative expenses	247.8	215.2
Foreign exchange loss	9.5	9.7
Operating expenses	**729.8**	**673.5**
Expenses	**1,585.4**	**1,487.4**
Share of loss in associates	(0.2)	(0.5)
Results of operating activities	**308.4**	**299.3**
Finance costs	(15.2)	(15.3)
Profit before income tax	**293.2**	**284.0**
Income tax expense	(42.2)	(35.0)

Profit for year attributable to equity shareholders	**251.0**	**249.0**
Earnings per share (cents per share):		
Basic	48.6	48.8
Diluted	47.3	47.2
Earnings per share (pence per share):		
Basic	35.5	31.9
Diluted	34.5	30.9

Statement of comprehensive income for the year ended 31 December 2016

	2016 $m	2015 $m
Group		
Profit for the year attributable to equity shareholders	251.0	249.0
Other comprehensive income		
Items that will never be reclassified to profit or loss:		
(Loss)/gain on remeasurement of retirement benefit obligations	(6.1)	0.3
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange translation differences	(10.1)	(1.6)
Total other comprehensive income	(16.2)	(1.3)
Total comprehensive income recognised	**234.8**	**247.7**

Statement of comprehensive income for the year ended 31 December 2016

	2016 $m	2015 $m
Company		
Profit for the year attributable to equity shareholders	18.2	-
Total comprehensive income recognised	**18.2**	**-**

Statement of changes in equity for the year ended 31 December 2016

	Share capital $m	Merger reserve $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Group						
Balance at 1 January 2015[1]	**666.7**	**(628.5)**	**(85.7)**	**(16.7)**	**1,406.9**	**1,342.7**
Total comprehensive income recognised	-	-	(1.6)	-	249.3	247.7
Dividends paid	-	-	-	-	(164.2)	(164.2)
Equity settled share based payments	-	-	-	17.5	-	17.5
Acquisition of own shares in trust	-	-	-	(3.9)	-	(3.9)
Transfer of shares to employees	-	-	-	9.8	(8.2)	1.6
Balance at 31 December 2015	**666.7**	**(628.5)**	**(87.3)**	**6.7**	**1,483.8**	**1,441.4**

Total comprehensive income recognised	-	-	(10.1)	-	244.9	234.8
Dividends paid	-	-	-	-	(212.2)	(212.2)
Issue of shares[2]	2.5	(2.3)	-	-	-	0.2
Capital reduction[3]	(631.5)	630.8	0.7	-	-	-
Equity settled share based payments	-	-	-	26.0	-	26.0
Acquisition of own shares in trust	-	-	-	(9.7)	-	(9.7)
Tax on share option vesting	-	-	-	-	2.1	2.1
Transfer of shares to employees	-	-	-	0.4	0.7	1.1
Balance at 31 December 2016	**37.7**	**-**	**(96.7)**	**23.4**	**1,519.3**	**1,483.7**

1 The share capital and merger reserve balances as at 1 January 2015 have been re-presented to reflect, on a continuation basis, the capital position of the new parent company after the scheme of arrangement, as explained in note 1.
2 During the first half of 2016, 1.9m new ordinary shares were issued, as well as 0.1m of preference shares prior to the scheme of arrangement. The preference shares were redeemed by the company during the year.
3 Subsequent to the scheme of arrangement, a capital reduction was executed in April 2016 which involved a reduction in the nominal value of the shares In the new parent from 90 pence per share to 5 pence per share. Please refer to note 1.

Statement of changes in equity for the year ended 31 December 2016

	Share capital $m	Merger reserve $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Company						
Balance at 4 September 2015[1]	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income recognised	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-
Equity settled share based payments	-	-	-	-	-	-
Acquisition of own shares in trust	-	-	-	-	-	-
Transfer of shares to employees	-	-	-	-	-	-
Balance at 31 December 2015	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income recognised	-	-	-	-	18.2	18.2
Dividends paid	-	-	-	-	(23.9)	(23.9)

Issue of shares[2]	669.2	55.4	-	-	-	724.6
Capital reduction[3]	(631.5)	-	0.7	-	630.8	-
Equity settled share based payments	-	-	-	22.5	-	22.5
Acquisition of own shares in trust	-	-	-	(4.6)	-	(4.6)
Transfer of shares to employees	-	-	-	2.0	(1.8)	0.2
Balance at 31 December 2016	**37.7**	**55.4**	**0.7**	**19.9**	**623.3**	**737.0**

1 Date of incorporation of Beazley plc (formerly Swift No.3 Limited).
2 On 13 April 2016, the company issued 523.4m ordinary shares at a nominal value of 90 pence per share.
3 Following the issuing of the shares, a capital reduction reduced the nominal value of the shares from 90 pence per share to 5 pence per share. Please refer to note 1.

Statements of financial position as at 31 December 2016

	2016		**2015**	
	Group $m	**Company $m**	**Group $m**	**Company $m**
Assets				
Intangible assets	96.6	-	91.0	-
Plant and equipment	5.4	-	4.5	-
Deferred tax asset	11.0	-	7.1	-
Investment in subsidiaries	-	724.6	-	-
Investment in associates	9.9	-	10.0	-
Deferred acquisition costs	242.8	-	226.2	-
Reinsurance assets	1,082.1	-	1,099.7	-
Financial assets at fair value	4,195.4	-	3,842.2	-
Insurance receivables	794.7	-	732.7	-
Other receivables	46.4	13.0	31.5	-
Current income tax asset	17.0	-	23.6	-
Cash and cash equivalents	507.2	-	676.9	-
Total assets	**7,008.5**	**737.6**	**6,745.4**	**-**
Equity				
Share capital	37.7	37.7	666.7	-
Merger reserve	-	55.4	(628.5)	-
Foreign currency translation reserve	(96.7)	0.7	(87.3)	-
Other reserves	23.4	19.9	6.7	-
Retained earnings	1,519.3	623.3	1,483.8	-
Total equity	**1,483.7**	**737.0**	**1,441.4**	**-**
Liabilities				
Insurance liabilities	4,657.7	-	4,586.7	-
Financial liabilities	363.8	-	247.3	-
Retirement benefit liability	6.2	-	0.7	-
Deferred tax liabilities	12.8	-	6.0	-
Other payables	484.3	0.6	463.3	-
Total liabilities	**5,524.8**	**0.6**	**5,304.0**	**-**
Total equity and liabilities	**7,008.5**	**737.6**	**6,745.4**	**-**

Statements of cash flows for the year ended 31 December 2016

	2016		2015	
	Group $m	Company $m	Group $m	Company $m
Cash flow from operating activities				
Profit before income tax	**293.2**	**18.2**	**284.0**	**-**
Adjustments for:				
Amortisation of intangibles	5.3	-	5.0	-
Equity settled share based compensation	23.0	22.5	17.5	-
Net fair value (gain)/loss on financial assets	(28.9)	-	3.0	-
Share of loss in associates	0.2	-	0.5	-
Depreciation of plant and equipment	1.8	-	2.1	-
Impairment of reinsurance assets written back	(1.1)	-	-	-
Increase in insurance and other liabilities	72.4	0.6	235.7	-
Increase in insurance, reinsurance and other receivables	(59.3)	(13.0)	(203.5)	-
Increase in deferred acquisition costs	(16.6)	-	(3.5)	-
Financial income	(71.5)	(23.9)	(70.8)	-
Financial expense	15.2	0.8	15.3	-
Income tax paid	(39.8)	-	(89.8)	-
Net cash from operating activities	**193.9**	**5.2**	**195.5**	**-**
Cash flow from investing activities				
Purchase of plant and equipment	(2.9)	-	(2.5)	-
Expenditure on software development	(4.7)	-	(5.0)	-
Purchase of investments	(5,985.4)	-	(3,659.7)	-
Proceeds from sale of investments	5,666.0	-	3,892.2	-
Investment in associate	(0.1)	-	-	-
Acquisition of renewal rights	(8.0)	-	-	-
Interest and dividends received	71.5	23.9	70.8	-
Net cash (used in)/from investing activities	**(263.6)**	**23.9**	**295.8**	**-**
Cash flow from financing activities				
Acquisition of own shares in trust	(9.7)	(4.6)	(3.9)	-
Repayment of borrowings	(107.1)	-	-	-
Proceeds from debt issue	248.7	-	-	-
Interest paid	(15.2)	(0.8)	(15.3)	-
Dividends paid	(212.2)	(23.9)	(164.2)	-
Net cash used in financing activities	**(95.5)**	**(29.3)**	**(183.4)**	**-**
Net (decrease)/ increase in cash and cash equivalents	(165.2)	(0.2)	307.9	-
Cash and cash equivalents at beginning of year	676.9	-	364.2	-
Effect of exchange rate changes on cash and cash equivalents	(4.5)	0.2	4.8	-
Cash and cash equivalents at end of year	**507.2**	**-**	**676.9**	**-**

1 Statement of accounting policies

Beazley plc (registered number 09763575) is a company incorporated in England and Wales and is resident for tax purposes in the United Kingdom. The company's registered address is Plantation Place South, 60 Great Tower Street, London EC3R 5AD, United Kingdom. The group financial statements for the year ended 31 December 2016 comprise the parent company, its subsidiaries and the group's interest in associates. The principal activity of the company and its subsidiaries ('the group') is to participate as a specialist insurer which transacts primarily in commercial lines of business through its subsidiaries and through Lloyd's syndicates.

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

In the current year, the group has applied amendments to IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2016. The new effective requirements are:

- IFRS 10, 12 and IAS 28: Amendment: Investment entities: Applying the consolidation exception (EU effective date: 1 January 2016);
- IFRS 11: Amendment: Accounting for acquisitions of interests in joint operations (EU effective date: 1 January 2016);
- IFRS 14: Regulatory deferral accounts (EU effective date: 1 January 2016);
- IAS 1: Amendment: Disclosure initiative (EU effective date: 1 January 2016);
- IAS 27: Amendment: Equity method in separate financial statements (EU effective date: 1 January 2016);
- IAS 16 and 38: Amendment: Clarification of acceptable methods of depreciation and amortisation (EU effective date: 1 January 2016); and
- IAS 16 and 41: Amendment: Bearer plants (EU effective date: 1 January 2016).

The group has also applied the amendments to IFRSs included in the annual improvements to IFRS: 2012-2014 cycle for the first time in the current year. The amendments include minor changes to the following standards:

- IFRS 5: Changes in methods of disposal;
- IFRS 7: Servicing contracts;
- IFRS 19: Regional market issue; and
- IAS 34: Disclosure of information 'elsewhere in the interim financial report'.

These amendments did not result in a material impact on the financial statements of the group.

A number of new standards and interpretations adopted by the EU which are not mandatorily effective, as well as standards and interpretations issued by the IASB but not yet adopted by the EU, have not been applied in preparing these financial statements. The group does not plan to adopt these standards early; instead it 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 (IASB effective date: 1 January 2018);
- IFRS 15: Revenue from contracts with customers (EU effective date: 1 January 2018);
- IFRS 16: Leases (IASB effective date: 1 January 2019);
- IAS 7: Amendment: Disclosure Initiative (IASB effective date: 1 January 2017);
- IAS 12: Amendment: Recognition of deferred tax assets for unrealised losses (IASB effective date: 1 January 2016);

Of the upcoming accounting standard changes that we are aware of, we anticipate that IFRS 9 and IFRS 15 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 monitored. Full impact analysis in respect of these standards is in the process of being completed. A brief overview of these standards is provided below:

- 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 confirmed 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. This option is subject to the entity/group meeting criteria relating to the predominance of insurance activity. Beazley expects to be eligible to apply this deferral approach and intends to do so, thus IFRS 9 is not expected to impact the group's financial statements until accounting periods beginning on or after 1 January 2021.
- IFRS 15 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. However, the group will have to apply the new revenue recognition standard to non-insurance contracts. Furthermore, the group may have to apply the new standard to non-insurance components of contracts traditionally considered to be insurance contracts. The new standard's requirement for accounting for variable consideration could change the timing of revenue recognition for non-insurance contracts issued by the group.

The group is also awaiting the issuance of IFRS 17 'Insurance contracts', the new accounting standard in respect of insurance contracts. Once issued, the group will assess the full impact of this standard. As mentioned above, the effective date of this standard will be 1 January 2021.

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

Throughout the period from incorporation to 13 April 2016, Beazley plc (formerly Swift No.3 Limited) was a shell company with no material revenues and assets and did not constitute a 'business' as defined by IFRS 3: Business combinations. As part of the scheme of arrangement, the shareholders of Beazley Ireland Holdings plc (formerly Beazley plc) acquired 100% of the share capital of Beazley plc on completion of the transaction.

A reduction in capital was approved by the shareholders of Beazley plc at the scheme general meeting on 24 March 2016. As Beazley plc is incorporated in the UK the reduction of capital also received confirmation from the Companies Court on 20 April 2016. Subsequent to these events, on 21 April 2016, the share capital of Beazley plc was reduced to create distributable reserves broadly similar to those in Beazley Ireland Holdings plc.

In order to appropriately reflect the substance of the transaction outlined above the insertion of a new holding company has been accounted for as a continuation of the previous group using the principles of reverse acquisition accounting, with the existing group being accounted for at its existing book values. 'New' Beazley plc has been incorporated into the group with its identifiable assets and liabilities incorporated at fair value.

In order to present the equity balances of the group on a continuation basis, the equity balances on the group statement of financial position as at 1 January 2015 have been re-presented as follows:

	Share capital $m	Share premium $m	Merger reserve $m	Foreign currency translation $m	Other reserves $m	Retained earnings $m	Total $m
1 January 2015 (as previously presented)	**41.6**	**12.0**	**-**	**(85.7)**	**(32.1)**	**1,406.9**	**1,342.7**
Re-presentation of previous merger reserve	-	-	(15.4)	-	15.4	-	-
Cancellation of shares in the former parent company (521.4m x 5 pence per share)	(41.6)	(12.0)	15.4	-	-	-	(38.2)
Issuance of shares in the new parent company (521.4m x 90 pence per share)	666.7	-	(628.5)	-	-	-	38.2
1 January 2015 (as currently reported)	**666.7**	**-**	**(628.5)**	**(85.7)**	**(16.7)**	**1,406.9**	**1,342.7**

The group's consolidated financial statements are issued in the name of the legal parent company, Beazley plc. The comparative figures for the financial year ended 31 December 2015 are the group financial statements of Beazley Ireland Holdings plc (formerly Beazley plc) for that financial year. Those financial statements have been reported on by the company's auditor and delivered to the Jersey Financial Services Commission. The report of the auditor was unqualified. The company comparative figures for 31 December 2015 are of Beazley plc (formerly Swift No.3 Limited).

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 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.

Estimates and underlying assumptions 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.

In particular, information about significant areas of estimation uncertainty and 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 group's interest in managed syndicates;
• note 12: intangible assets including goodwill (assumptions underlying recoverable amounts);
• note 16: financial assets and liabilities (valuations based on models and unobservable inputs);
• note 23: equity compensation plans (assumptions used to calculate fair value of share options granted);
• note 24: insurance liabilities and reinsurance assets (estimates for losses incurred but not reported); and
• note 27: retirement benefit obligations (actuarial assumptions).

The most critical estimate included within the group's financial position is the estimate for insurance losses incurred but not reported. The total estimate for insurance losses incurred but not reported gross of reinsurers' share as at 31 December 2016 is $2,567.4m (2015: $2,588.4m). The total estimate for insurance losses incurred but not reported net of reinsurers' share as at 31 December 2016 is $1,915.3m (2015: $1,930.3m) and is included within total insurance liabilities and reinsurance assets in the statement of financial position.

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

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

Life, accident & health
This segment underwrites life, health, personal accident, sports and income protection risks.

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

Political risks & contingency
This segment underwrites terrorism, political violence, expropriation and credit risks as well as contingency and risks associated with contract frustration.

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.

b) Segment information

2016	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Segment results							
Gross premiums written	126.6	247.4	118.7	329.7	213.4	1,159.8	2,195.6
Net premiums written	118.0	220.7	97.6	277.1	141.2	999.4	1,854.0
Net earned premiums	117.5	223.2	103.6	287.0	138.4	898.5	1,768.2

Net investment income	1.3	8.9	3.6	10.2	6.4	62.7	93.1
Other income	0.5	3.8	2.4	6.4	6.2	13.4	32.7
Revenue	**119.3**	**235.9**	**109.6**	**303.6**	**151.0**	**974.6**	**1,894.0**
Net insurance claims	70.0	98.9	29.7	115.3	40.2	501.5	855.6
Expenses for the acquisition of insurance contracts	36.9	65.9	30.2	88.8	34.7	216.0	472.5
Administrative expenses	15.7	35.5	17.7	46.6	14.5	117.8	247.8
Foreign exchange loss	0.6	1.1	0.5	1.4	0.7	5.2	9.5
Expenses	**123.2**	**201.4**	**78.1**	**252.1**	**90.1**	**840.5**	**1,585.4**
Share of loss of associates	-	-	-	-	-	(0.2)	(0.2)
Segment result	(3.9)	34.5	31.5	51.5	60.9	133.9	308.4
Finance costs							(15.2)
Profit before income tax							**293.2**
Income tax expense							(42.2)
Profit for the year attributable to equity shareholders							**251.0**
Claims ratio	59%	44%	29%	40%	29%	56%	48%
Expense ratio	45%	46%	46%	47%	36%	37%	41%
Combined ratio	104%	90%	75%	87%	65%	93%	89%
Segment assets and liabilities							
Segment assets	225.2	1,203.2	827.0	1,086.5	431.7	3,234.9	7,008.5
Segment liabilities	(207.8)	(840.2)	(672.3)	(859.3)	(245.4)	(2,699.8)	(5,524.8)
Net assets	**17.4**	**363.0**	**154.7**	**227.2**	**186.3**	**535.1**	**1,483.7**
Additional information							
Investment in associates	-	-	2.6	-	-	7.3	9.9
Impairment of non-financial assets	-	-	-	-	-	-	-
Capital expenditure	0.3	1.2	0.4	1.3	0.8	3.2	7.2
Increase in intangibles	-	8.0	-	-	-	-	8.0
Amortisation and depreciation	(0.3)	(1.2)	(0.4)	(1.3)	(0.8)	(3.1)	(7.1)
Net cash flow	(3.1)	(46.3)	(17.5)	(25.5)	(18.9)	(58.4)	(169.7)

2015	**Life, accident & health $m**	**Marine $m**	**Political risks & contingency $m**	**Property $m**	**Reinsurance $m**	**Specialty lines $m**	**Total $m**
Segment results							
Gross premiums written	119.8	269.3	123.6	353.1	199.9	1,015.2	2,080.9
Net premiums written	106.6	239.5	105.0	304.8	132.0	825.2	1,713.1
Net earned premiums	110.8	258.2	106.4	297.8	133.8	791.7	1,698.7
Net investment income	1.5	6.2	2.4	6.6	4.6	36.3	57.6
Other income	2.9	3.4	2.2	5.9	5.5	11.0	30.9

Revenue	**115.2**	**267.8**	**111.0**	**310.3**	**143.9**	**839.0**	**1,787.2**
Net insurance claims	64.3	97.8	30.6	117.1	29.4	474.7	813.9
Expenses for the acquisition of insurance contracts	35.0	68.9	32.1	91.0	32.8	188.8	448.6
Administrative expenses	15.2	32.7	18.5	40.9	13.9	94.0	215.2
Foreign exchange loss	0.3	1.5	0.4	1.6	1.5	4.4	9.7
Expenses	**114.8**	**200.9**	**81.6**	**250.6**	**77.6**	**761.9**	**1,487.4**
Share of loss of associates	-	-	(0.4)	-	-	(0.1)	(0.5)
Segment result	**0.4**	**66.9**	**29.0**	**59.7**	**66.3**	**77.0**	**299.3**
Finance costs							(15.3)
Profit before income tax							**284.0**
Income tax expense							(35.0)
Profit for the year attributable to equity shareholders							**249.0**
Claims ratio	58%	38%	29%	39%	22%	60%	48%
Expense ratio	45%	39%	47%	45%	35%	36%	39%
Combined ratio	103%	77%	76%	84%	57%	96%	87%
Segment assets and liabilities							
Segment assets	221.5	1,132.8	798.5	1,047.1	403.1	3,142.4	6,745.4
Segment liabilities	(195.1)	(739.6)	(650.1)	(830.7)	(242.4)	(2,646.1)	(5,304.0)
Net assets	**26.4**	**393.2**	**148.4**	**216.4**	**160.7**	**496.3**	**1,441.4**
Additional information							
Investment in associates	-	-	2.5	-	-	7.5	10.0
Impairment of non-financial assets	-	-	-	-	-	-	-
Capital expenditure	0.2	0.5	0.3	0.6	0.3	1.5	3.4
Amortisation and depreciation	(0.3)	(0.6)	(0.3)	(0.8)	(0.4)	(1.9)	(4.3)
Net cash flow	6.7	87.3	32.3	44.5	32.3	109.6	312.7

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.

	2016 $m	2015 $m
Net earned premiums		
UK (Lloyd's)	1,697.5	1,637.8
US (Non-Lloyd's)	70.7	60.9
	1,768.2	**1,698.7**

	2016 $m	2015 $m
Segment assets		

UK (Lloyd's)	6,657.3	6,409.3
US (Non-Lloyd's)	351.2	336.1
	7,008.5	**6,745.4**

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

	2016 $m	**2015 $m**
Capital expenditure		
Non-US	5.1	2.7
US	2.1	0.7
	7.2	**3.4**

3 Net investment income

	2016 $m	**2015 $m**
Interest and dividends on financial investments at fair value through profit or loss	70.9	70.3
Interest on cash and cash equivalents	0.6	0.5
Net realised losses on financial investments at fair value through profit or loss	(4.9)	(18.5)
Net unrealised fair value gains on financial investments at fair value through profit or loss	33.8	15.5
Investment income from financial investments	**100.4**	**67.8**
Investment management expenses	(7.3)	(10.2)
	93.1	**57.6**

4 Other income

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

5 Operating expenses

	2016 $m	**2015 $m**
Operating expenses include:		
Amounts receivable by the auditor and associates in respect of:		
- audit services for the group and subsidiaries	1.0	1.1
- audit-related assurance services	0.3	0.3
- taxation compliance services	-	0.1
- other assurance services	0.5	-
- other non-audit services	0.4	0.4
	2.2	1.9
Impairment loss written back on reinsurance assets	(1.1)	-
Operating leases	9.5	9.4

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

6 Employee benefit expenses

	2016 $m	2015 $m
Wages and salaries	134.6	123.6
Short-term incentive payments	77.8	75.6
Social security	18.3	17.7
Share-based remuneration	23.0	17.5
Pension costs*	9.2	10.4
	262.9	244.8
Recharged to syndicate 623	(38.5)	(36.1)
	224.4	**208.7**

* Pension costs refer to the contributions made under the defined contribution scheme.

7 Finance costs

	2016 $m	2015 $m
Interest expense	15.2	15.3
	15.2	**15.3**

During 2016, Beazley bought back debt with a remaining nominal amount of $107.1m at a market value of $107.1m in the form of fixed/floating rate subordinated notes using its first call right. No profit or loss was realised as there was no difference between carrying value and market value of the debt bought back.

8 Income tax expense

	2016 $m	2015 $m
Current tax expense		
Current year	37.1	44.6
Prior year adjustments	2.1	(8.8)
	39.2	35.8
Deferred tax expense		
Origination and reversal of temporary differences	2.1	(2.9)
Impact of change in UK tax rates	(0.8)	(0.2)
Prior year adjustments	1.7	2.3
	3.0	(0.8)
Income tax expense	**42.2**	**35.0**

Reconciliation of tax expense
The weighted average of statutory tax rates applied to the profits earned in each country in which the group operates is 14.9% (2015: 15.2%), whereas the tax charged for the year 31 December 2016 as a percentage of profit before tax is 14.4% (2015: 12.3%). The reasons for the difference are explained below:

	2016 $m	2016 %	2015 $m	2015 %
Profit before tax	**293.2**		**284.0**	
Tax calculated at the weighted average statutory tax rates	43.6	14.9	43.2	15.2
Effects of:				
- non-deductible expenses	1.8	0.6	0.8	0.3
- non-taxable gains on foreign exchange	(5.6)	(1.9)	-	-
- tax relief on share based payments - current and future years	(0.6)	(0.2)	(2.3)	(0.8)
- under/(over) provided in prior years	3.8	1.3	(6.5)	(2.3)
- change in UK tax rates[1]	(0.8)	(0.3)	(0.2)	(0.1)
Tax charge for the period	**42.2**	**14.4**	**35.0**	**12.3**

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 2016.

The group has assessed the potential impact of the diverted profits tax following the enactment of new legislation in April 2015 and is of the view that no liability arises. The ultimate outcome may differ and, should this tax be applicable to Beazley, we would expect an additional provision would need to be recognised. However, this provision would not have a material impact on the group's financial position.

9 Earnings per share

	2016	**2015**
Basic (cents)	48.6c	48.8c
Diluted (cents)	47.3c	47.2c
Basic (pence)	35.5p	31.9p
Diluted (pence)	34.5p	30.9p

Basic
Basic earnings per share are calculated by dividing profit after tax of $251.0m (2015: $249.0m) by the weighted average number of shares in issue during the year of 516.3m (2015: 510.4m). The shares held in the Employee Share Options Plan (ESOP) of 6.1m (2015: 9.7m) have been excluded from the calculation, until such time as they vest unconditionally with the employees.

Diluted
Diluted earnings per share are calculated by dividing profit after tax of $251.0m (2015: $249.0m) by the adjusted weighted average number of shares of 531.0m (2015: 527.3m). The adjusted weighted average number of shares assumes conversion of dilutive potential ordinary shares, being shares from the SAYE, retention and deferred share schemes. The shares held in the ESOP of 6.1m (2015: 9.7m) have been excluded from the calculation, until such time as they vest unconditionally with the employees.

As a result of the scheme of arrangement, the basic and diluted earnings per share metrics are calculated with reference to the share structure of the new parent company, as if it has been the parent for all periods presented. The number of shares in issue did not change as a result of the scheme of arrangement, as explained in note 1.

10 Dividends per share
A second interim dividend of 7.0p per ordinary share (2015: 6.6p) and a special dividend of 10.0p (2015: 18.4p) will be payable on 29 March 2017 to Beazley plc shareholders registered at 5.00pm on 3 March 2017 in respect of the six months ended 31 December 2016. The company expects the total amount to be paid in respect of the second interim and special dividend to be approximately £87.9m. These financial statements do not provide for the second interim dividend and the special dividend as a liability.

Together with the interim dividend of 3.5p (2015: 3.3p) this gives a total dividend for the year of 20.5p (2015: 28.3p).

The aforementioned interim and special dividends will be payable on 29 March 2017 to shareholders registered at 5.00pm on 3 March 2017.

11 Insurance liabilities and reinsurance assets

	2016 $m	**2015 $m**
Gross		
Claims reported and loss adjustment expenses	949.5	937.5
Claims incurred but not reported	2,567.4	2,588.4
Gross claims liabilities	3,516.9	3,525.9
Unearned premiums	1,140.8	1,060.8
Total insurance liabilities, gross	**4,657.7**	**4,586.7**
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	201.8	210.3
Claims incurred but not reported	652.1	658.1
Reinsurers' share of claims liabilities	853.9	868.4
Unearned premiums	228.2	231.3
Total reinsurers' share of insurance liabilities	**1,082.1**	**1,099.7**

Net		
Claims reported and loss adjustment expenses	747.7	727.2
Claims incurred but not reported	1,915.3	1,930.3
Net claims liabilities	2,663.0	2,657.5
Unearned premiums	912.6	829.5
Total insurance liabilities, net	**3,575.6**	**3,487.0**

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

11.1 Movements in insurance liabilities and reinsurance assets
a) Claims and loss adjustment expenses

	2016			2015		
	Gross $m	**Reinsurance $m**	**Net $m**	**Gross $m**	**Reinsurance $m**	**Net $m**
Claims reported and loss adjustment expenses	937.5	(210.3)	727.2	984.7	(195.0)	789.7
Claims incurred but not reported	2,588.4	(658.1)	1,930.3	2,540.2	(665.7)	1,874.5
Balance at 1 January	3,525.9	(868.4)	2,657.5	3,524.9	(860.7)	2,664.2
Claims paid	(989.5)	177.5	(812.0)	(916.1)	149.5	(766.6)
Increase in claims						
- Arising from current year claims	1,314.0	(277.7)	1,036.3	1,218.4	(228.3)	990.1
- Arising from prior year claims	(286.4)	105.7	(180.7)	(244.6)	68.3	(176.3)
Net exchange differences	(47.1)	9.0	(38.1)	(56.7)	2.8	(53.9)
Balance at 31 December	**3,516.9**	**(853.9)**	**2,663.0**	**3,525.9**	**(868.4)**	**2,657.5**
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 31 December	**3,516.9**	**(853.9)**	**2,663.0**	**3,525.9**	**(868.4)**	**2,657.5**

b) Unearned premiums reserve

	2016			2015		
	Gross $m	**Reinsurance $m**	**Net $m**	**Gross $m**	**Reinsurance $m**	**Net $m**
Balance at 1 January	1,060.8	(231.3)	829.5	1,022.5	(192.5)	830.0
Increase in the year	2,195.6	(348.5)	1,847.1	2,080.9	(371.5)	1,709.4
Release in the year	(2,115.6)	351.6	(1,764.0)	(2,042.6)	332.7	(1,709.9)
Balance at 31 December	**1,140.8**	**(228.2)**	**912.6**	**1,060.8**	**(231.3)**	**829.5**

11.2 Assumptions, changes in assumptions and sensitivity analysis
a) Process used to decide on assumptions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

d) Sensitivity 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 six segments - life, accident & health, marine, political risks & contingency, property, reinsurance and specialty lines. The tables are by underwriting year which in our view provides the most transparent reserving basis. We have supplied tables for both ultimate gross claims and ultimate net claims.

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

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of these financial statements are cautioned against extrapolating past redundancies or deficiencies on current claims liabilities. The group believes that the estimate of total claims liabilities as at 31 December 2016 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	**2006 ae %**	**2007 %**	**2008 %**	**2009 %**	**2010 %**	**2011 %**	**2012 %**	**2013 %**	**2014 %**	**2015 %**	**2016 %**
Life, accident & health											
12 months				53.0	52.2	56.1	56.9	63.2	64.0	67.0	68.3
24 months				53.1	52.1	52.5	67.8	64.2	66.4	69.4	
36 months				45.8	48.5	59.5	65.1	62.8	63.7		
48 months				43.4	47.0	56.3	61.9	60.9			
60 months				42.6	46.5	54.2	58.6				
72 months				41.5	45.5	52.9					
84 months				41.5	45.2						
96 months				41.5							
108 months											
120 months											
Marine											
12 months		58.9	69.4	54.4	50.5	54.6	55.9	56.3	57.5	56.7	59.5
24 months		60.0	65.5	50.9	49.8	47.4	46.4	52.0	46.7	54.1	
36 months		50.6	59.4	44.2	44.1	38.9	34.8	44.2	47.0		
48 months		48.2	63.3	40.7	42.4	33.6	32.3	42.5			
60 months		49.5	62.9	40.4	40.4	35.3	31.5				
72 months		49.8	59.2	48.7	40.2	31.5					
84 months		46.8	55.4	47.8	42.2						
96 months		44.0	54.8	49.2							
108 months		43.4	51.7								
120 months		43.4									
Political risks & contingency											

12 months	57.2	57.4	61.1	61.2	58.4	62.2	57.1	56.0	54.8	55.7
24 months	39.1	71.7	38.5	40.2	39.3	43.9	41.1	41.2	51.9	
36 months	56.4	76.3	33.8	33.1	33.8	39.8	34.6	35.8		
48 months	53.3	89.6	29.1	23.5	27.6	38.1	33.7			
60 months	53.4	74.0	23.0	22.2	25.9	35.5				
72 months	49.5	62.7	17.4	20.9	23.2					
84 months	46.9	59.5	17.6	19.5						
96 months	49.0	60.0	17.6							
108 months	44.9	59.1								
120 months	39.7									
Property										
12 months	57.7	70.5	53.6	57.7	58.1	55.4	55.1	53.2	54.9	58.9
24 months	55.6	65.1	41.4	60.3	50.3	47.4	49.2	47.7	49.0	
36 months	52.9	64.1	36.2	58.3	47.7	39.7	45.8	41.3		
48 months	53.5	62.0	35.1	55.6	45.9	36.7	45.8			
60 months	56.7	60.4	34.0	52.8	45.1	36.1				
72 months	66.3	59.3	33.0	51.9	43.9					
84 months	66.5	58.2	32.5	51.0						
96 months	65.7	57.6	32.0							
108 months	64.9	57.3								
120 months	64.7									
Reinsurance										
12 months	59.5	59.8	60.7	68.0	79.6	62.9	57.9	61.4	65.7	68.0
24 months	24.5	54.6	47.8	141.0	77.7	37.6	44.3	33.5	33.8	
36 months	20.3	44.9	39.7	127.8	69.8	32.2	41.7	30.9		
48 months	19.0	41.4	39.1	120.2	66.1	31.4	40.4			
60 months	18.1	41.1	35.0	123.6	63.3	31.4				
72 months	18.0	41.2	32.1	122.3	63.1					
84 months	16.3	40.5	31.5	122.3						
96 months	15.5	40.2	31.5							
108 months	15.2	40.1								
120 months	15.2									
Specialty lines										
12 months	72.7	72.0	72.5	73.7	75.4	73.9	73.4	68.5	67.4	65.3
24 months	72.2	71.8	72.4	73.8	75.5	74.0	73.1	68.4	67.7	
36 months	72.0	71.8	71.6	72.8	76.4	72.0	72.9	65.0		
48 months	71.9	71.9	71.3	73.3	75.4	70.1	69.3			
60 months	72.2	71.4	71.6	69.5	74.0	67.1				
72 months	71.9	71.7	68.5	69.7	69.3					
84 months	71.9	70.0	69.7	69.4						
96 months	71.2	73.5	70.2							
108 months	70.5	72.9								
120 months	71.3									
Total										
12 months	64.5	69.1	62.8	64.4	67.2	64.6	63.6	62.1	62.7	63.4
24 months	59.9	68.1	56.9	71.3	62.8	58.2	59.2	55.8	58.4	
36 months	58.7	66.5	53.0	67.4	60.4	53.2	56.3	52.5		
48 months	58.0	67.8	51.6	65.3	57.8	51.0	54.2			
60 months	59.1	65.7	50.7	63.0	56.9	49.1				
72 months	60.9	64.1	49.7	62.6	53.7					

84 months		60.0	62.1	49.9	62.5							
96 months		59.1	63.6	50.3								
108 months		58.2	62.6									
120 months		58.0										
Estimated total ultimate losses ($m)	4,405.2	1,017.5	1,183.4	1,058.0	1,306.5	1,025.9	948.6	1,167.4	1,230.5	1,410.6	1,580.8	16,334.4
Less paid claims ($m)	(4,232.7)	(917.6)	(1,021.7)	(834.0)	(1,123.5)	(808.9)	(727.1)	(681.7)	(565.0)	(337.6)	(63.7)	(11,313.5
Less unearned portion of ultimate losses ($m)	-	-	-	-	-	-	-	-	-	(17.5)	(804.5)	(822.0
Gross claims liabilities (100% level) ($m)	**172.5**	**99.9**	**161.7**	**224.0**	**183.0**	**217.0**	**221.5**	**485.7**	**665.5**	**1,055.5**	**712.6**	**4,198.9**
Less non-group share ($m)	(32.0)	(19.7)	(20.9)	(36.5)	(35.0)	(39.8)	(48.9)	(79.0)	(103.5)	(159.9)	(106.8)	(682.0
Gross claims liabilities, group share ($m)	**140.5**	**80.2**	**140.8**	**187.5**	**148.0**	**177.2**	**172.6**	**406.7**	**562.0**	**895.6**	**605.8**	**3,516.9**

Net ultimate claims	**2006 ae %**	**2007 %**	**2008 %**	**2009 %**	**2010 %**	**2011 %**	**2012 %**	**2013 %**	**2014 %**	**2015 %**	**2016 %**
Life, accident & health											
12 months				51.7	50.9	55.2	58.1	65.7	62.5	65.2	68.2
24 months				51.6	51.8	54.9	65.3	68.1	64.6	66.4	
36 months				44.4	52.2	63.3	63.2	66.4	61.5		
48 months				45.6	50.5	59.8	56.7	63.6			
60 months				44.9	49.9	57.5	54.4				
72 months				43.8	48.9	56.1					
84 months				43.7	48.5						
96 months				43.7							
108 months											
120 months											
Marine											
12 months		56.1	61.4	53.3	52.1	55.6	55.4	55.8	56.3	56.7	56.7
24 months		56.5	56.8	47.5	49.3	47.6	46.1	53.1	48.3	52.5	
36 months		49.4	50.4	38.8	44.8	38.5	37.5	47.2	46.4		
48 months		46.5	47.2	35.1	42.7	34.3	35.1	45.6			
60 months		47.2	46.7	34.8	41.1	35.4	34.0				
72 months		47.2	46.1	38.4	40.1	32.0					
84 months		44.8	44.9	37.7	42.3						
96 months		42.8	44.4	37.0							
108 months		42.4	44.8								
120 months		42.4									
Political risks & contingency											
12 months		55.3	55.8	59.6	57.2	54.6	59.0	54.6	52.9	51.9	52.7
24 months		40.5	79.6	35.2	37.8	38.0	42.5	40.3	39.3	48.9	
36 months		55.1	79.2	31.5	30.6	32.0	38.7	35.3	33.1		
48 months		54.9	81.7	26.9	21.3	29.0	38.5	32.9			
60 months		52.6	71.3	21.1	20.2	27.1	34.8				
72 months		49.2	60.4	16.5	18.9	24.4					
84 months		46.9	57.0	16.7	16.8						
96 months		48.7	57.1	16.6							
108 months		45.1	56.8								
120 months		40.4									

Property												
12 months		60.7	66.9	53.3	58.8	60.2	58.6	56.7	54.5	55.0	57.6	
24 months		58.6	66.7	47.2	65.0	57.6	52.9	56.3	51.2	50.2		
36 months		57.6	64.6	43.6	65.7	53.5	45.9	52.3	44.2			
48 months		57.8	63.5	41.4	59.7	50.2	41.2	50.2				
60 months		60.9	62.4	40.8	57.6	48.9	40.7					
72 months		61.6	61.0	39.5	56.5	47.8						
84 months		61.7	60.3	39.0	56.0							
96 months		61.3	59.3	38.7								
108 months		61.2	59.0									
120 months		60.9										
Reinsurance												
12 months		55.2	68.8	55.5	76.7	90.6	67.0	55.8	58.8	61.3	61.4	
24 months		28.8	61.9	52.4	125.3	88.0	45.7	50.9	37.4	34.3		
36 months		23.9	51.5	46.7	115.2	80.7	39.3	47.5	33.5			
48 months		22.2	49.1	45.9	109.2	75.2	38.0	46.1				
60 months		21.5	48.6	41.1	119.3	72.9	38.0					
72 months		21.3	49.0	37.8	113.2	72.9						
84 months		19.4	47.8	37.0	113.2							
96 months		18.4	47.5	37.0								
108 months		18.0	47.4									
120 months		18.0										
Specialty lines												
12 months		70.0	70.0	69.5	70.9	72.4	71.0	69.5	66.0	63.5	62.9	
24 months		68.8	69.9	69.3	71.0	72.4	70.5	69.0	65.9	63.9		
36 months		68.6	69.8	68.7	70.4	71.6	68.6	68.4	63.6			
48 months		67.3	68.5	65.8	69.5	69.5	65.7	63.5				
60 months		67.4	67.8	65.7	68.8	70.0	63.7					
72 months		67.3	67.7	64.8	68.9	68.7						
84 months		67.3	67.7	65.4	68.8							
96 months		67.1	69.9	65.4								
108 months		66.3	69.7									
120 months		65.2										
Total												
12 months		63.2	66.7	60.6	64.2	67.0	64.0	62.1	60.6	60.1	60.8	
24 months		59.2	67.1	56.4	68.4	63.6	58.4	60.0	56.1	56.6		
36 months		58.3	64.6	52.8	66.0	60.1	53.8	57.2	52.5			
48 months		57.3	63.4	50.3	62.9	57.0	50.8	54.1				
60 months		57.9	61.8	49.3	62.8	56.7	49.3					
72 months		57.7	60.6	48.6	61.8	55.1						
84 months		57.0	59.9	48.5	61.8							
96 months		56.5	60.6	48.3								
108 months		55.7	60.5									
120 months		54.8										
Estimated total ultimate losses ($m)	2,767.0	846.1	928.4	775.8	1,064.1	860.0	829.5	976.3	1,047.1	1,124.7	1,270.4	12,489.4
Less paid claims ($m)	(2,643.9)	(769.5)	(822.5)	(660.6)	(917.6)	(702.2)	(620.0)	(590.3)	(497.5)	(307.5)	(54.2)	(8,585.8)
Less unearned portion of ultimate losses ($m)	-	-	-	-	-	-	-	-	-	(23.9)	(700.4)	(724.3)
Net claims liabilities (100% level) ($m)	**123.1**	**76.6**	**105.9**	**115.2**	**146.5**	**157.8**	**209.5**	**386.0**	**549.6**	**793.3**	**515.8**	**3,179.3**

Less non-group share ($m)	(23.2)	(12.6)	(16.3)	(21.7)	(26.9)	(31.8)	(36.9)	(62.9)	(83.2)	(122.7)	(78.1)	(516.3)
Net claims liabilities, group share ($m)	**99.9**	**64.0**	**89.6**	**93.5**	**119.6**	**126.0**	**172.6**	**323.1**	**466.4**	**670.6**	**437.7**	**2,663.0**

Analysis of movements in loss development tables
We have updated our loss development tables to show the ultimate loss ratios as at 31 December 2016 for each underwriting year.

Life, accident & health
The 2014 and prior underwriting years have delivered releases resulting in a very similar overall release position as last year.

Marine
There was a gross deterioration in the energy book in 2009 as a liability claim settled, with no corresponding movement on a net basis. The 2015 and prior years have delivered releases but at lower levels than in recent years. This is due to an increase in claims activity and also reflects the fact that premium rates have reduced substantially in some areas in recent years.

Political risks & contingency
Prior year reserve releases were strong particularly in the 2007 to 2010 underwriting years, with continued recoveries within the political book. The 2015 underwriting year release was quite low as there have been more claims on the terrorism account than previously.

Property
Reductions have been observed across a number of years within property, driven by favourable settlements on underlying claims and the release of catastrophe margins. The 2016 underwriting year has opened higher than previous years to reflect the continuing challenging market conditions.

Reinsurance
Strong releases were made from the reinsurance book in 2016, where claims experience was better than anticipated within the reserves being held following another relatively benign period for catastrophe claims.

Specialty lines
There have been reserve releases across the 2011 to 2013 years, reflecting favourable experience within both the traditional specialty lines business and the cyber portfolio. Releases from cyber have also been made on the 2014 year as risk has expired. The increases in the gross position for the 2007 and 2009 underwriting years were driven by deteriorations in specific claims. These increases are not seen in the net loss ratios due to reinsurance.

For the 2016 underwriting year, the opening position of the traditional specialty lines business is now in line with pre-recession years, recognising the improved experience that is emerging within the more recent underwriting years.

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 2016.

The net of reinsurance estimates of ultimate claims costs on the 2015 and prior underwriting years have improved by $180.7m during 2016 (2015: $176.3m). 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 2013 and earlier are absolute claim movements and are not impacted by any current year movements in premium on those underwriting years.

2016	**Life, accident & health $m**	**Marine $m**	**Political risks & contingency $m**	**Property $m**	**Reinsurance $m**	**Specialty lines $m**	**Total $m**
Current year	77.1	114.8	49.9	152.0	72.5	570.0	1,036.3
Prior year							
- 2013 underwriting year and earlier	(4.3)	(7.0)	(13.4)	(11.6)	-	(52.0)	(88.3)
- 2014 underwriting year	(3.3)	(4.1)	(5.7)	(18.4)	(4.2)	(17.0)	(52.7)
- 2015 underwriting year	0.5	(4.8)	(1.0)	(6.8)	(28.1)	0.5	(39.7)
	(7.1)	(15.9)	(20.1)	(36.8)	(32.3)	(68.5)	(180.7)

Net insurance claims	**70.0**	**98.9**	**29.8**	**115.2**	**40.2**	**501.5**	**855.6**

2015	**Life, accident & health $m**	**Marine $m**	**Political risks & contingency $m**	**Property $m**	**Reinsurance $m**	**Specialty lines $m**	**Total $m**
Current year	69.9	129.0	48.8	154.9	74.2	513.4	990.2
Prior year							
- 2012 underwriting year and earlier	(5.5)	(7.3)	(5.4)	(25.5)	(14.8)	(32.9)	(91.4)
- 2013 underwriting year	(1.3)	(14.8)	(5.1)	(9.8)	(4.8)	(5.3)	(41.1)
- 2014 underwriting year	1.2	(9.1)	(7.6)	(2.5)	(25.3)	(0.5)	(43.8)
	(5.6)	(31.2)	(18.1)	(37.8)	(44.9)	(38.7)	(176.3)
Net insurance claims	**64.3**	**97.8**	**30.7**	**117.1**	**29.3**	**474.7**	**813.9**

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

13 Business combinations

Acquisition of business portfolio
On 27 July 2016, the group acquired all the shares in S.R.P. Edwards & Co. Limited, SRPE, for initial consideration of $8.0m in cash. Further consideration up to a maximum of $2.3m is payable in the future subject to certain performance criteria being achieved.

SRPE was subsequently renamed Beazley Leviathan Limited.

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

Fair value of the net assets on acquisition	**Total $m**
Intangible assets - renewal rights	8.0
Intangible assets - goodwill	-
Consideration paid[1]	**8.0**

1 The consideration paid of $8.0m represents amounts paid at the time of the transaction and an estimate of the most probable amount that is expected to be paid in respect of contingent consideration. Contingent consideration arises subject to the acquired business meeting specific performance criteria over a three-year period from the transaction date. Eighteen percent of the consideration paid will be recharged to members of our third party capital backed syndicate 623, as this syndicate is expected to receive commercial benefits from Beazley's acquisition of Leviathan.

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.

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 linked 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 2016, this ratio was 48% (2015: 48%). This represented total claims of $855.6m (2015: $813.9m) divided by net earned premiums of $1,768.2m (2015: $1,698.7m).

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 2016, this ratio was 89% (2015: 87%). This represents the sum of net insurance claims of $855.6m (2015: $813.9m), expenses for acquisition of insurance contracts of $472.5m (2015: $448.6m) and administrative expenses of $247.8m (2015: $215.2m) to net earned premiums of $1,768.2m (2015: $1,698.7m). This is also the sum of the expense ratio 41% (2015: 39%) and the claims ratio 48% (48%).

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

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

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

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

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

Expense ratio
Ratio, in percentage terms, of the sum of expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. The calculation is performed excluding the impact of foreign exchange on non-monetary items. In 2016, the expense ratio was 41% (2015: 39%). This represents the sum of expenses for acquisition of insurance contracts of $472.5m (2015: $448.6m) and administrative expenses of $247.8m (2015: $215.2m) to earned premiums of $1,768.2m (2015: $1,698.7m).

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).

Lead underwriter
The underwriter of a syndicate who is responsible for setting the terms of an insurance or reinsurance contract that is subscribed by more than one syndicate and who generally has primary responsibility for handling any claims arising
under such a contract.

Line
The proportion of an insurance or reinsurance risk that is accepted by an underwriter or which an underwriter is willing to accept.

Managing agent
A company that is permitted by Lloyd's to manage the underwriting of a syndicate.

Managing general agent (MGA)
An insurance intermediary acting as an agent on behalf of an insurer.

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

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

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

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

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

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

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

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

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

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

Return on equity (ROE)
Ratio, in percentage terms, calculated by dividing the consolidated profit after tax by the average daily total equity. In 2016, this was calculated as profit after tax of $251.0m (2015: $249.0m) divided by average equity of $1,381.6m (2015: $1,330.4m).

Risk
This term may refer to:

a)the possibility of some event occurring which causes injury
or loss;
b)the subject matter of an insurance or reinsurance contract; or
c)an insured peril.

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

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

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

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

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

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

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

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

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