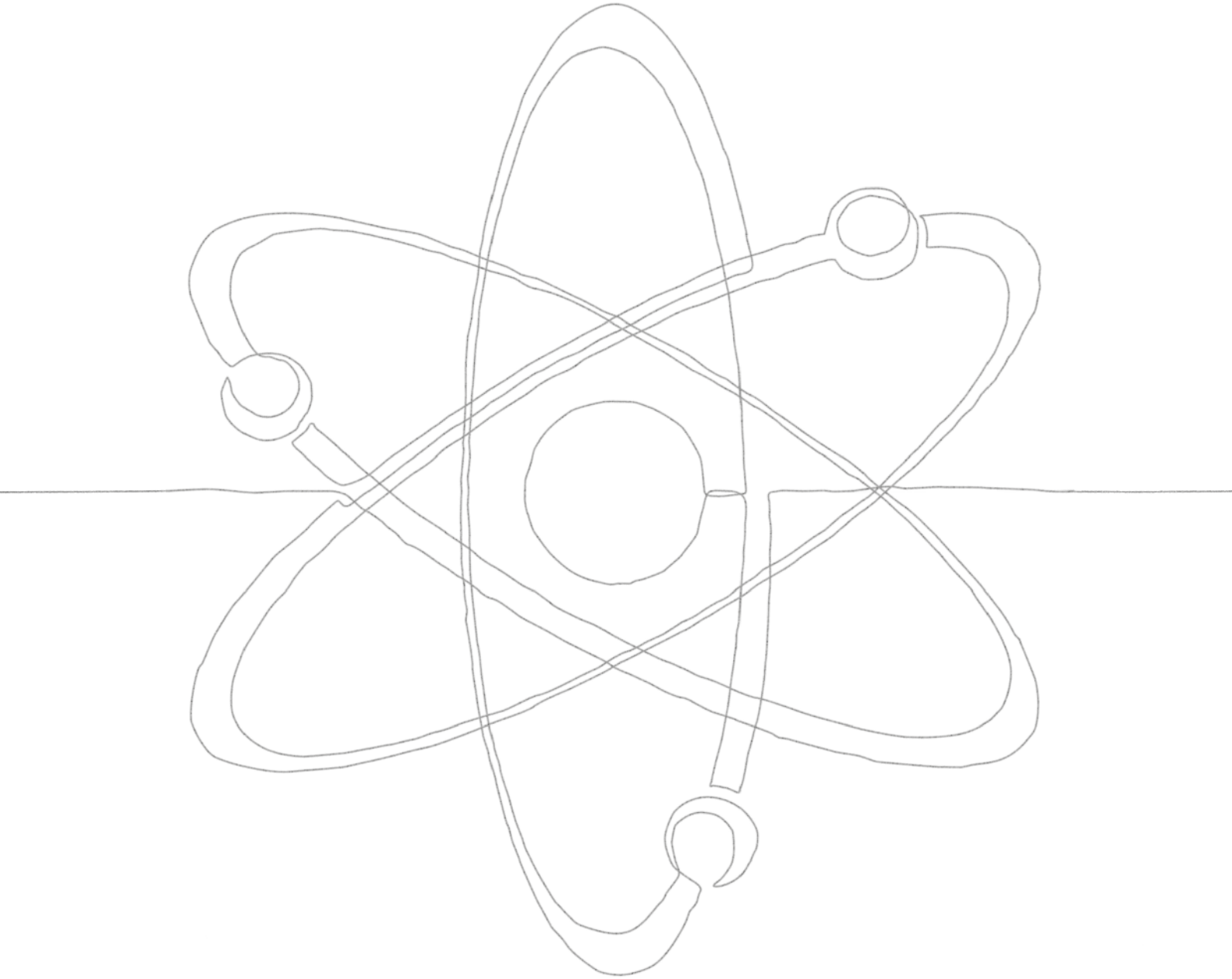
At our core...



...resilience, consistency and responsibility

Through the turmoil of 2020, our core elements of resilience, consistency, and responsibility have enabled us to keep our promises to our people, partners and customers – flexing and moving quickly to deliver products and services in a volatile climate, while offering the security and peace of mind to focus on the future and not dwell on the past.

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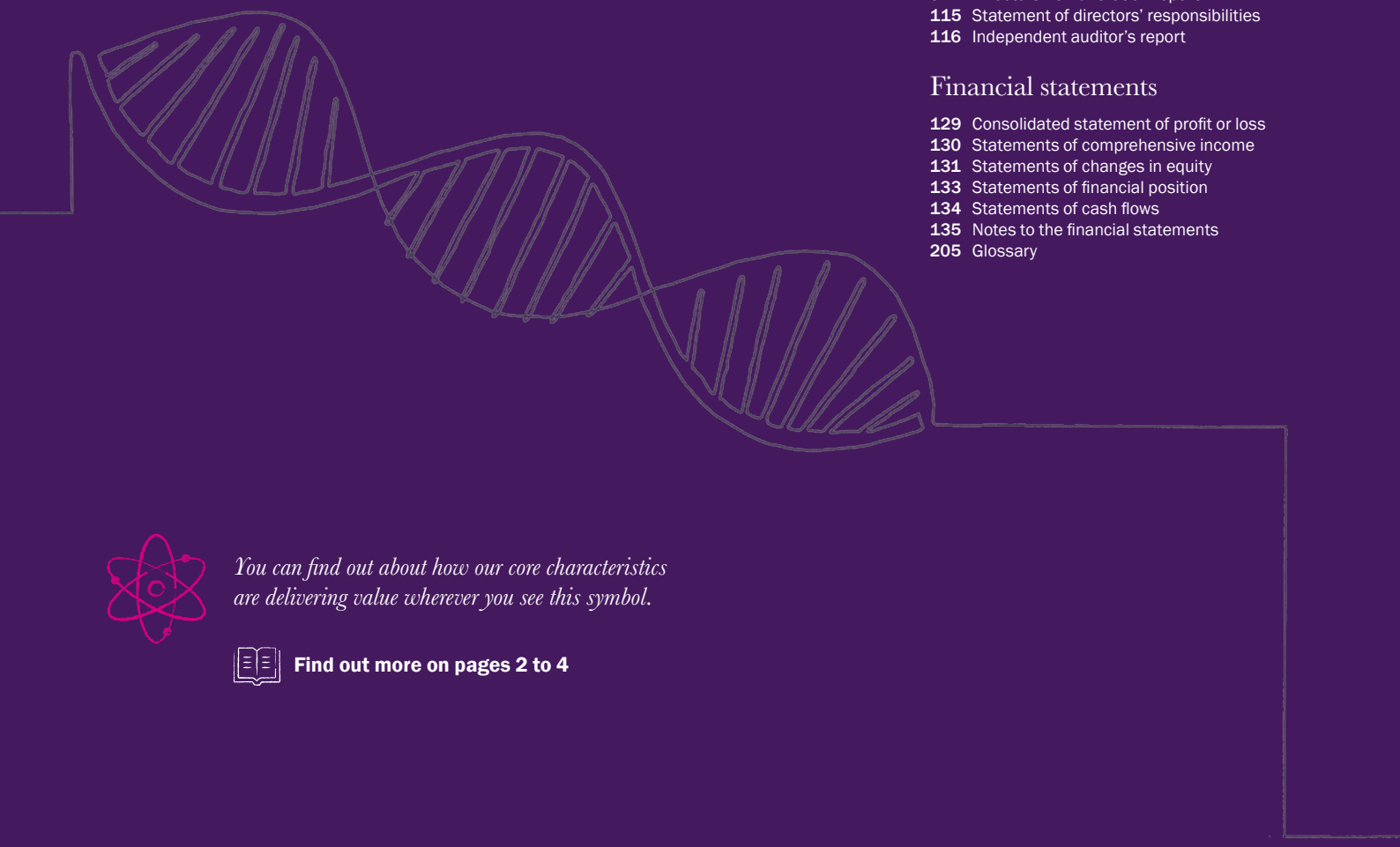


You can find out about how our core characteristics are delivering value wherever you see this symbol.

Find out more on pages 2 to 4

Highlights

Gross premiums written

$3,563.8m

(2019: $3,003.9m)

Net premiums written

$2,917.0m

(2019: $2,503.5m)

Net earned premiums

$2,693.4m

(2019: $2,347.0m)

Net investment income

$188.1m

(2019: $263.7m)

Cash and investments

$6,671.5m

(2019: $5,851.3m)

Investment return

3.0%

(2019: 4.8%)

Rate increase on renewals

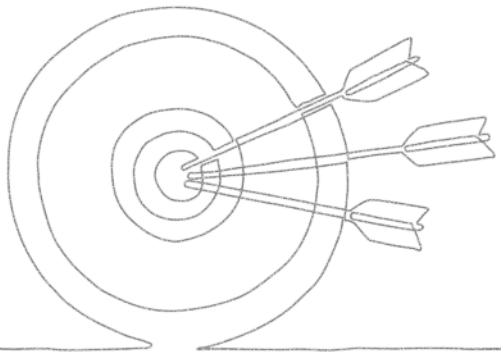
15%

(2019: 6%)

Loss before tax for the financial year

$50.4m

(2019: Profit $267.7m)



At our core...

In a most challenging year, our resilience as individuals, communities and organisations has been thoroughly tested. Issues no less fundamental than our health, the economy and jobs, social injustice and our planet have consumed daily life.

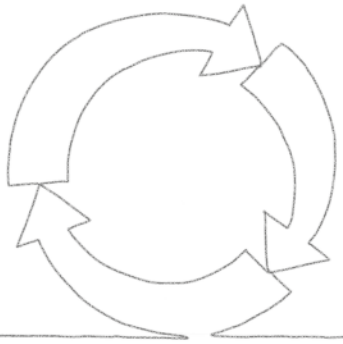
Life has become simultaneously more complex and simple as restrictions on where we can go and who we can see have made us think more carefully about our every action. Enforced isolation from loved ones as part of a collective effort not seen before has highlighted our individual responsibilities within a global response.

As organisations, how we tackle global issues whether collectively or unilaterally has never mattered more. The health crisis has highlighted the need for greater responsiveness and responsibility by those with power to make some difference, ahead of the pursuit of short-term advantage.

As an insurer, we play a vital role in anticipating change and managing its consequences on behalf of our customers. Our value is in delivering risk management and risk transfer solutions that help customers to thrive even in adversity. In helping customers to manage risks that threaten to derail at both a global and local level, insurance plays a valuable role in society, enriching the lives of all. We need to be strong at our core to play our part.

Through the turmoil of 2020, Beazley's core elements of resilience, consistency and responsibility have enabled us to keep our promises to our people, partners and customers – flexing and moving quickly to deliver products and services in a volatile climate, while offering the security and peace of mind to focus on the future and not dwell on the past.

There is much to be proud of in our teams' efforts to improve our performance and service, such as the following examples of our core elements in practice.



Claims

Our focus on our customers remains a constant. From the beginning of the pandemic when we were all getting used to living under restrictions, our claims team took the proactive approach of working with our clients to settle open claims with the objective of helping clients to focus on the future and freeing up balance sheets, all while managing unprecedented levels of contingency claims due to COVID-19.

With courts temporarily closed due to lockdown resulting in a significant slowdown in legal action activity, we focused our time and resource on working proactively with clients to resolve open claims through negotiation, with the explicit aim of reaching settlements as swiftly and efficiently as possible, to the mutual satisfaction of all involved. By doing this we were able to free up a combination of time, resource and money – reducing the overall cost for clients – whilst freeing up our claims specialists to concentrate on servicing the high levels of pandemic-related claims as they came in.

We are always looking for ways to deliver a better and faster service by harnessing technology to support our highly experienced team. In this very challenging year, making sure our team had the resources to maintain, even improve, service delivery for customers while operating remotely has been a priority. Clear communication has been key to providing reassurance and to understanding with regards to the often unique situations customers find themselves in, as well as to the swift resolution of claims. Our claims specialists have been quick to explain clearly the basis of a decision and to engage with customers with open minds where the picture is less clear.

Our focus on evaluating claims fairly and paying promptly has been a consistent differentiator.

Beth Diamond

Head of Claims

Executive sponsor of the Closer to the Client Strategic Initiative

Even throughout 2020, our global claims team has delivered against an ambitious multi-year strategy to digitise our claims processes, with the aim of providing consistent end-to-end claims service for brokers and customers, harnessing data to improve claims outcomes, and leveraging artificial intelligence and machine learning technologies to speed up decisions and payments. Our team's efforts in evaluating claims fairly and paying promptly throughout this crisis and the resolve to continue improving on our delivery are what consistently differentiate our claims service in the market.

Innovation

Beazley has striven to deliver products and services that respond to the changing risk environment and challenge accepted norms, enabling us to deliver the protection and peace of mind our clients need.

From product development to our increasingly flexible working practices, it's not just what we deliver, but how, that has a uniquely Beazley approach. Innovation is in our DNA and everyone has a role to play in driving us to do things differently and better. This plays to the natural inquisitiveness of the people we hire and is why innovation is not the domain of one team.

The disruption of the last 12 months has further demonstrated the importance of investing in innovation. For this reason, we launched our Incubation Underwriting team, which looks to nurture new concepts and identify opportunities to help close the protection gap. The team's role involves discovering and developing breakthrough products and underwriting them post launch to de-risk and accelerate their development before they are picked up and run with by the right team of underwriters.

By working in concert with Beazley underwriters, the team also supports the efforts of the wider business in evolving existing products, launching new services, reviewing elements of cover and redesigning them to appeal to a new market. The team takes a data-led approach to assessing market opportunities and shaping Beazley's response. It works with peers across the industry to push forward sustainable industry responses to the challenges of the day.

Among the team's projects this year has been building out our reputational risk solution, offered through the Custodian Consortium at Lloyd's. This offers crisis management expertise for companies facing reputational damage and covers a pre-agreed figure for loss of profit and support for reputational remediation.

It's not just what we deliver, but how we deliver it, that has a uniquely Beazley approach.

George Beattie

Head of Incubation Underwriting

At our core...

Digital

Behind the products and services we provide to our customers are consistently high operational standards; expert, driven people; and a willingness to do things differently.

Ian Fantozzi
Chief Operating Officer

As a company, we have always tried out new technology and processes in an agile, controlled way to challenge ourselves to do better for brokers and customers.

This ongoing curiosity around the potential for digital technology has stepped up in recent years, and particularly in 2020. These activities are managed and coordinated through Beazley's Digital Business Management Committee (DBMC) and Faster, Smarter Underwriting strategic initiative (SI). In recognition of the fact that different technology solutions are required for risks of different size or complexity, these groups oversee our approach to tackling smaller, higher volume underwriting, and larger, complex risk underwriting, respectively.

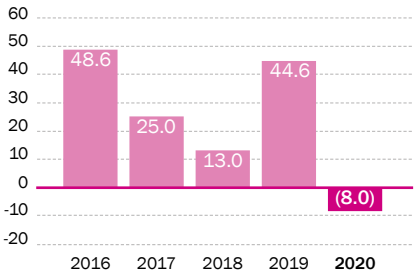
In recent years we have applied robotics to improve efficiency in claims workflow and underwriting portfolio management for small risks by automating cumbersome processes so colleagues can focus on more complex tasks. In the London market we have been fast adopters and supporters of electronic placement of risks and the efficiency it brings, and we now place 80% of all of our risks in London in this way. We are using digital technology to capture and analyse data within portfolios to improve exposure management, partnering with insurtechs and the Lloyd's Lab as well as developing solutions entirely in-house. To develop and apply digital solutions to improve customer outcomes requires a variety of skills and experience. This is reflected in the recruitment of data scientists and technology specialists into our teams and in providing digital upskilling opportunities to colleagues across the business.

While we deeply value the interactions we have with brokers and clients and look forward to the opportunity to meet again face to face, what has been achieved remotely through robust digital channels has been game-changing. We have been making the transition to a more flexible working model through investment in IT equipment and systems to enable our people to work effectively and securely, anywhere, over the past two years. Faced with no choice but to work remotely, our model has been well tested and more digital platforms have been made available, supported by highly skilled IT and security teams, to ensure a seamless transition to home working and to support colleagues as much as possible.

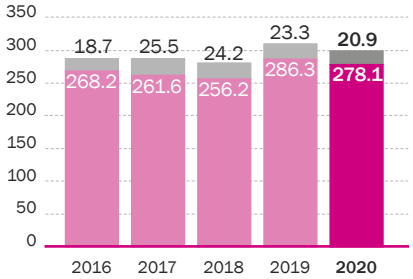
The current health crisis has been a reminder that disruption can come at any time and also has been a catalyst for change. Although the role of digital technology in the insurance market has not always been obvious from the outside, the reality has been more nuanced and evolution has been significant even if not always smooth. Changes brought about in 2020 to how the insurance industry operates, as for so many other sectors, have accelerated the application of data and technology to better deliver for customers.

Key performance indicators

Earnings per share (c)

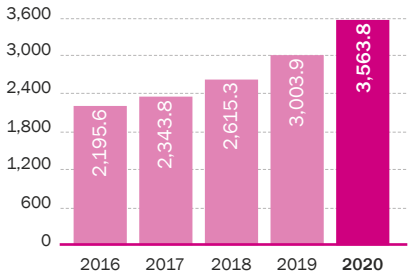


Net assets per share (c)

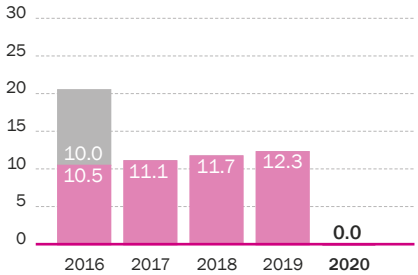


■ Tangible ■ Intangible

Gross premiums written ($m)

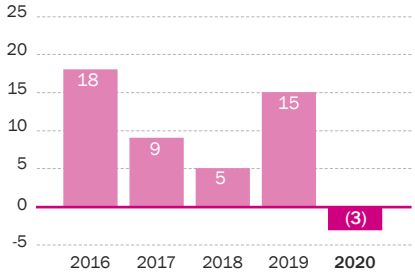


Dividends per share (p)



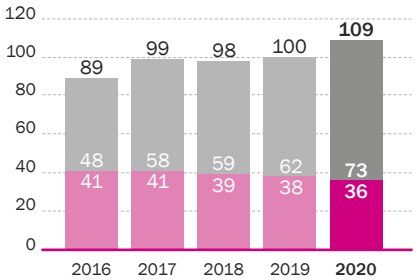
■ Interim and second interim ■ Special

Return on equity (%)



Average five-year return on equity of 9%.

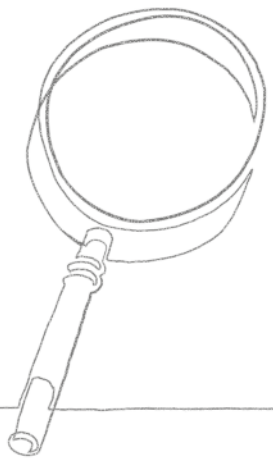
Combined ratio (%)



■ Expense ratio ■ Claims ratio

Our combined ratio has averaged 99% over five years.

The group is of the view that some of the above metrics constitute alternative performance measures (APMs). Further information on our APMs can be found in the financial review on page 44 and in the glossary on page 205.



Our business model

Resources and inputs

The Beazley brand

Our distinctive brand, and the perceptions it generates, helps us to grow our business, sustain relationships and attract and retain talented people.

Our people, culture and values

Beazley's success is based on the talent and commitment of our people, our entrepreneurial culture and the values that enable us to maintain growth.

Financial strength

Our financial strength enables us to support long-term strategies for navigating change and keeping ahead of the curve in our markets.

How we create value

Our approach

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

Find out more on pages 18 to 27

Our platforms

We operate through three principal platforms – Beazley Insurance Company, Inc., Beazley Insurance dac and Beazley Underwriting Limited – which gives us global reach. Each platform is focused on a different market and offers different opportunities. Our US and European insurance companies complement our Lloyd's business and ensure we can offer coverage across a wider distribution network.

Beazley Insurance Company, Inc.
Writes business in the US admitted insurance market.

Beazley Insurance dac
Writes business in Europe and provides reinsurance to Beazley Underwriting Limited.

Beazley Underwriting Limited
Provides capacity to our three Lloyd's syndicates to write business through the Lloyd's platform globally.

Underpinned by a robust, consistent strategy

Our strategy is designed to achieve our vision to become, and be recognised as, the highest performing specialist insurer.

- Prudent capital allocation to achieve a well diversified portfolio resilient to shocks in any individual line of business
- The creation of an environment in which talented individuals with entrepreneurial spirit can build a successful business

Our business model is reviewed and reconfirmed annually as part of our business planning process, with a focus on ensuring that we continue to create value across our entire stakeholder base.

Beazley: how we are different...

Being bold

We enjoy the freedom and encouragement to confidently question the status quo and push the edges. We dare to be different and explore bold possibilities to create more innovative, fair and satisfying outcomes for everyone.

Striving for better

Good is a start, but we go all-out for better. We actively champion and support each other to be the best we can be. A driven community of individuals relentlessly pushing the needle and creating value. We pride ourselves on always going above and beyond.

Doing the right thing

Acting with integrity in a straightforward, decent way is instinctive. Open and honest with others, we show respect and empathy however challenging the situation. Doing the right thing makes for a fair-minded, rewarding environment and makes work and life better for all.

- The ability to scale our operations to ensure that client and broker service keeps pace and, wherever possible, improves as the company grows
- Consistent investment in product innovation to provide better products and services to improve our clients' risk transfer

Find out more in the Chief Executive's statement on pages 10 to 14

How we measure value creation

For shareholders

Earnings per share

(8.0)c

Net assets per share

299.0c

TSR since 1 January 2011

18.7% pa

Underpinning our results as evidenced by all of these metrics has been our consistent underwriting performance, reflected in our five year combined ratio:

- 2020, a year of severe COVID-19 claims: 109%
- Five year average: 99%

For staff

We employ talented people and invest accordingly in expanding their skills and helping them build rewarding careers. We regularly measure the impact by asking for feedback on working at Beazley and leadership across the business.

- Employee engagement increased this year, from 70% to 86%
- Leadership survey scored the highest it has been to date, moving to 5.35 out of a possible 6

For customers

Nearly all business at Beazley comes through brokers. We monitor broker and client perceptions of our service in a variety of ways, including through detailed broker surveys. The number of brokers participating continues to increase, reflecting strong engagement.

Over 5,000 brokers provided feedback on our underwriting and claims service in our most recent survey.

5,000+

Statement of the Chair

As challenging as this year has been, the events have been the catalyst for improvements to how we work and trade.

David Roberts
Chair

Beazley delivered strong premium growth in 2020, with premiums rising 19% to $3,563.8m (2019: $3,003.9m) in a market that saw rates respond sharply to heightened claims activity in many lines of business. However, the pre-tax loss of $50.4m (2019: Profit $267.7m), driven by a combined ratio that deteriorated to 109% (2019: 100%), is disappointing.

On behalf of the board, I express our heartfelt thanks to our shareholders, clients and employees for their support over the past year. The resilience of colleagues throughout 2020 has been a tower of strength, helping Beazley to overcome many challenges and operate seamlessly and without interruption.

Shareholders' support for our growth strategy and the benefit of the capital raised in May means we are well placed to capture the opportunities ahead of us. Beazley enters 2021 on a firm footing to deliver long-term growth across a diversified portfolio and your board is determined to resume delivery of consistent, market-leading returns.

The spread of COVID-19 has triggered a deep global recession and widened existing wealth and health divisions, having a more extensive effect on society than one could have imagined. It has tested the insurance industry and our role in protecting society against risk and unforeseen events. It has also demonstrated the need for collaboration across the industry and government to deliver solutions that protect populations from the biggest threats of our time, from pandemics to natural catastrophe, and from climate change to cyber-attack and terrorism.

The global pandemic impacted a number of lines of business, most notably our contingency book where we quickly settled claims arising from cancelled or postponed events. The global events and hospitality sector has been a very

successful area for Beazley for many years and we are working closely with clients to provide financial support and flexibility around coverage ahead of its return to full strength in more normal times. In total our booked first-party losses related to COVID-19 have reached $340m. We took action when we saw that COVID-19 was likely to impact the economy, and this strategy, allied with our underwriting action over the previous year in anticipation of a future recession, will mitigate the impact in our longer tail liability classes, where claims are expected to materialise from 2021 onwards.

As an insurer we must manage our exposure to multiple, interconnected risks, including the actual and future effects of climate change. Beazley actively manages its carbon footprint and participates with industry to reduce our impact and support a lower carbon economy. In 2020 the board increased its focus on both the risks and opportunities arising from climate change and worked with management to refine and develop our Environmental, Social and Governance (ESG) strategy. Further details are contained later in this report.

The challenging events of the past 12 months have been the catalyst for improvements to how we work and trade. The pandemic has brought about lasting and positive change. As a board, our responsibility lies in protecting the financial health of our business and ensuring we have the right people, investment, and risk appetite to deliver on our promises. We depend on our motivated and engaged people supported by Beazley's strong culture, to continue growing and developing as a business. In the last 12 months we have focused extensively on the physical and mental wellbeing of our people. The resilience of colleagues and the positive attitude of management to understanding people's unique circumstances has shown the company at its best. We have made further progress in broadening the diversity of our workforce, with good progress against our current targets. However, we all recognise we have more to do and as such the board has agreed a set of new stretching targets for the business.

Throughout this year the board and management have adapted well to working together in this virtual environment. I thank my fellow board members for their deep commitment to the business and our stakeholders. We have benefitted from the expertise of John Sauerland and Sir Andrew Likierman over the past five and six years respectively. As they retire from the board, we wish them very well for the future and we thank them for their valued contribution.

In line with our board composition strategy we have sought to bolster the diversity of our board as well as seeking to ensure the board has access to the relevant skills and experience to support and challenge management as they execute our growth strategy. We are pleased to have appointed Pierre-Olivier Desaulle to the board, and are seeking to appoint an additional director with experience of US markets.

We have come through a very hard year for everyone and we look forward to the prospect of a return to some form of normality, while harnessing the best of the innovation and fresh thinking that has come out of this period. The insurance market has responded to the heightened risk and claims environment by increasing rate, and tightening conditions across most of the lines we participate in. These market movements, combined with Beazley's strong underwriting discipline and rigorous focus on capital allocation and returns, mean the company is well placed to take advantage of the market opportunities ahead. Given the financial result combined with the continued uncertainty surrounding COVID-19, the board decided not to declare a dividend at the end of 2020. The board remain fully committed to a progressive dividend strategy, and are focused on profitability and returning to paying dividends in 2021. 2021 begins on a trajectory of further strong sustainable growth and we are well placed to deliver the financial returns that have been synonymous with Beazley over the years.

David Roberts
Chair

Company purpose

The board has established the company's purpose as follows:
To provide innovative risk transfer solutions and deliver excellent claims service to our clients by creating a sustainable business for the benefit of all our stakeholders.

Some of the ways in which we achieved our purpose in 2020 were through the launch of several new products, one of them being a Virtual Care product, as COVID-19 accelerated the shift to digital health and wellness provision.

A further example was the launch of a new Transmission Failure product to cover the organisers of virtual events, as these are becoming increasingly prevalent. When we saw an increase in the frequency and severity of malicious ransomware attacks we started to scan our clients who have cyber coverage for vulnerabilities in order to reduce the threats to our clients and the potential for losses to them and the company.

There are further details of what we did to deliver an excellent claims service for our clients in the claims section on pages 28 and 29 of the report. In terms of being a sustainable business, our focus has been on optimising our portfolio and concentrating our efforts on growth in good areas, where the claims and expense ratios would provide sufficient return on capital to drive value for all of our stakeholders.

At the forefront of our purpose is creating a sustainable business for employees, who are key stakeholders. The company has taken a number of steps to support them throughout this challenging year and they have successfully continued to keep the business growing.

Chief Executive's statement

The resilience of our business is a testament to the expertise of our people and a long-term strategic underwriting approach.

Andrew Horton
Chief Executive Officer

Beazley achieved a third year of double-digit premium growth in 2020, with rate rises driving gross premiums written up 19% to $3,563.8m (2019: $3,003.9m). Loss before income tax of $50.4m (2019: Profit $267.7m) was softened by a strong investment return. Our combined ratio of 109% (2019: 100%) was heavily impacted by the volume of COVID-19 related claims in this unprecedented year.

As insurers our role is to be ready for unforeseen events and to expect and manage change.

We are accustomed to a pace that continues to accelerate – reflective of a more technologically driven joined-up world – designing insurance solutions that flex and respond to evolving risk.

Yet despite the volume of information, data and predictive analytics at our fingertips, we didn't foresee the events of this year. As individuals and organisations, we have all been hit hard by the global pandemic, which has disrupted normal ways of life and doing business. In responding to this crisis, insurance has been one of the levers to help with economic and social recovery alongside government, community action and individual acts of care. We have paid claims quickly and efficiently and adapted to deliver insurance solutions that protect customers as they navigate the challenges of operating between the virtual and real worlds.

However we are still in the midst of the pandemic and its full impact will not be felt for some time. The unprecedented challenge has taught us valuable lessons, from how we operate to the need to review the stress testing of our realistic disaster scenarios.

Business performance

At Beazley we felt the impact of pandemic-related losses, reporting an estimated $340m in first-party claims net of reinsurance in 2020, largely driven by our exposure to cancelled events, and to have ultimately yielded a financial loss has been disappointing.

Yet this masks some real success and I am proud of the strength of the company and of the resilience of our people and their unwavering commitment to serve clients and support our business.

We entered 2020 on a strong foundation having taken action on underperforming areas of the book and invested in infrastructure. These measures to build a more efficient and agile organisation strengthened our core resilience and enabled us to make significant progress throughout the year. We continued to attract talented individuals, launch new products, expand our global footprint and make significant changes to how we work as a business. In March, we acted quickly to ensure we were well resourced to respond to the impact of the pandemic and we continued paying claims well and efficiently whilst finding new ways to support partners through these troubled times. Our commitment to delivering on our promise to customers and to acting as a responsible, consistent partner has not wavered and we look forward to returning to profit in 2021 and delivering our most ambitious growth plan in more than a decade.

Reflecting on 2020

We began the year on a strong footing prepped to respond to the improved rating environment and having remediated underperforming areas of our book. We took further rating and underwriting action in March to respond to the economic effects of the pandemic, particularly in recession-exposed lines, as rates began to increase more sharply in almost every class of business.

Throughout the year we have achieved strong targeted growth and taken responsible action to manage our exposure in lines where COVID-19 and recession-related claims have led to capacity withdrawal elsewhere.

Our strategic initiatives

Data: Continuing to enhance our existing data-led approach by improving the quality of our data and then ensuring its consistent application in our decision making. An all-employee data academy launching in 2021 will deliver online and in-person training to develop skills, build confidence and drive cultural change. The team leading this initiative will continue to oversee ongoing investment in data & analytics and actuarial modelling tools to improve efficiency and insight across the business.

Faster, Smarter Underwriting: Using new technology and data & analytics to improve the efficiency and the quality of our complex risk underwriting and claims settlement continues. In 2020 we focused on 'smarter' underwriting and deploying enhanced analytics tools to inform pricing decisions and manage loss ratios. Going forward we will further harness data & analytics including triage tools, to improve workflow efficiency whilst continuing to leverage new and improved data sources, data science & analytics, augmentation & machine learning and automation to drive a better result.

Closer to the Client: Through a more client-centric approach we aim to improve customer experience. Client relationship officers have been appointed to liaise with key clients to share insights whilst providing a clear point of contact and open channels to decision makers. Investment continues in our customer relationship management system to enhance data capture and we continue to develop risk management services to assist clients in building greater organisational resilience.

London market: Overseen by the London market committee, it aims to obtain value for partners and to enhance ways the London market can generate access to business and capital more efficiently. In addition, the group continues to support our Global Skills for the Future programme whilst participating in and supporting the shared objectives of the Future At Lloyd's programme to ensure we continue to identify and nurture the skills we need for the future.

Chief Executive's statement continued

To support renewed growth opportunities, and in response to COVID-19 losses we strengthened our capital position by raising $292.6m of new equity from shareholders in May and extended our debt facility from $225m to $450m. We also added additional reinsurance during the year to support our position in terms of growth opportunities and managing COVID-19 losses. Throughout the year we continued to optimise our capital position and our surplus capital remains within our target range at year end. In December, we set up a captive insurance company to more efficiently manage our capital requirements and support the growth of our US operation.

Our investment strategy has remained cautious, in response to renewed market weakness and elevated economic uncertainty. After actively reducing investment risk as markets fell during the first quarter, we added risk as markets recovered, achieving a return of 3%, exceeding our original expectations, notwithstanding the volatile conditions.

Another major issue for the insurance industry this year has been the rise of ransomware to become the biggest cyber risk currently facing organisations. In over a decade of managing tens of thousands of incidents on behalf of clients, we have consistently combined risk transfer and risk prevention to reduce the likelihood of an attack and to manage down the impact. As the forms of attack become more severe and complex, we need the clearest possible view of the routes that bad actors take and where the weaknesses are that they can target. We have therefore increased our investment in data and analytics to help build a clearer picture of clients' cyber security vulnerabilities and to improve their risk rating, enabling us to make more informed decisions on our exposure and rates, whilst offering clients the ability to identify their vulnerabilities and mitigate their risks.

Growth and opportunity

The return of rating discipline has been welcome after a prolonged soft rating environment, enabling us to continue strong growth in core markets and deliver against our long-term strategy to grow in a targeted way across Asia, Europe and Latin America.

In the US, premium growth was 23%, getting us closer to our US near-term target of $2bn. Growth was strongest across our Specialty Lines, Cyber & Executive Risk (CyEx) and Property books. We continued to launch new products including standalone liability cover for social media influencers and online publishers. We welcomed a Product Recall underwriting team mid-year who demonstrated the art of the possible by launching our new offering entirely remotely.

The improved ratings, responsive underwriting and rollout of innovative products has driven significant growth outside the US, particularly in financial lines, healthcare and cyber. In Asia Pacific we launched our etrading broker portal myBeazley, providing access to specialist digital products for smaller businesses through an efficient digital platform. In France we launched fine art and jewellers' block to support our strategy of growing in mainland Europe, where we see opportunities for our specialist insurance offering to add value to clients.

Beazley Virtual Care, a pioneering product that insures a multitude of risks facing organisations in the digital health space, came into its own in 2020 as many more healthcare providers moved to treat patients remotely. Already available in the US and UK, Virtual Care was launched in Singapore, Hong Kong, Canada, Spain, Chile and Colombia in 2020 and we also continued to expand our healthcare footprint by rolling out our more established medical malpractice and life sciences cover to more territories.

London market

We underwrite the majority of our Marine and Reinsurance risks as well as a significant portion of our Property business in London. Whilst we continue to build our footprint globally we continue to play a very active role in ensuring Lloyd's remains a competitive and thriving insurance hub. Progress comes more quickly where we work cohesively and we continue to support the Future at Lloyd's programme and particularly the strides made in driving efficiency in claims and electronic trading. London's ability to implement necessary change depends on the market's willingness to adapt and a healthy culture that fosters dynamism and a shared purpose. Along with Lloyd's, we are looking at how we can harness the best of both the remote and the real-world trading environments, building on the advances towards greater digital trading and slicker processes achieved during lockdown.

Our people

Maintaining a culture of openness and transparency as we grow does not happen on its own. We are fortunate we have many people across the company dedicated to keeping us connected with one another. The challenges of this year meant we focused many more resources on supporting the health and wellbeing of our employees. Additional wellbeing days were introduced, mental health first aiders were trained to provide confidential support, and a free app was made available that provides access to support and counselling when needed. Like most organisations we have further to go in building a more diverse workplace. Good data holds the key to driving meaningful change. Having met our original target of 36% female representation in our senior team by 2020, we have set a new target of at least 45% female representation by 2023. We are building a similar strategy to improve ethnic diversity within teams and aim to announce our targets in regards to this during the course of 2021.

Our people are what drives us forward and we continued to promote and hire talented individuals to our global teams. Bethany Greenwood, head of our Cyber & Executive Risk division joined the group's executive committee in June 2020 taking over from Mike Donovan. We have also created new roles that are key to our growth as a company. Among them, Chris Illman joined us as Sustainability Officer to work with the wider leadership team on developing our Environmental, Social and Governance (ESG) strategy. Further information can be found within the responsible business section of this report, as well as our standalone responsible business report. Our new underwriting incubation hub, led by George Beattie, is collaborating across the business to turn our fledgling ideas into our successful products and solutions of tomorrow.

There are now 168 people at Beazley who never stepped foot inside our offices in 2020 due to COVID-19 restrictions. Meeting up in person will be the real incentive to getting back in the office when circumstances allow it. However, we will not be returning to pre-pandemic 'business as usual'. Rather, we are looking forward to seeing how our new blended approach to working will evolve over time and how the wider market adapts. The new working practices we introduced in September make us a more flexible, productive and attractive place to work. The incredible resilience of our people during 2020, supported by prior years of investment in our IT systems and tools, has shown we are entirely capable of delivering consistently high service remotely to our brokers and clients.

Claims

One of the clearest demonstrations of collaboration and resilience in 2020 has been in the work of our claims team, led by Beth Diamond, to maintain service levels throughout the peak of the crisis. In the moment of truth for our clients, colleagues adopted an all-hands-on-deck approach to support claims service delivery. People across the business who had spare capacity volunteered to support claims in administrative or support roles to ease pressure on our claims specialists. The slowdown of the court system due to social distancing allowed some opportunity to settle a number of outstanding claims.

Lessons learnt

There have been many opportunities to learn lessons in how to prepare for and respond to a significant crisis in the future. Even in the midst of a fast-moving situation, we are reminded of the critical importance of maintaining strong internal and external communication to manage both expectations and the clarity of our response. A review of our realistic disaster scenarios is also underway, looking at their ongoing efficacy and ability to respond to new information or to an event that escalates beyond the initial assumptions built into the stress test.

Outlook

The year demonstrated the importance of flexibility and the need for a clear and consistent strategy. The strength of our diversified business and significant growth in many classes in 2020 is a testament to the expertise of our people and a long-term strategic underwriting approach. We anticipate the favourable rating environment will continue throughout 2021 and we will continue to pursue growth in areas where we can deliver consistent value for brokers and clients while managing our claims and expenses.

Despite the harsh effects of the pandemic and a deep global recession, we are optimistic that the positive market change of the last 12 months and the resilience that we have demonstrated puts us on a strong financial and operational footing to support our clients and to grow profitably in 2021. We expect to deliver a low-90s combined ratio for 2021 assuming average claims experience.

Andrew Horton
Chief Executive Officer

Q&A with the Chief Executive

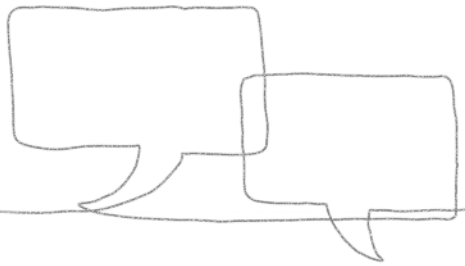
Andrew answers key questions around performance and outlook.

Do you have sufficient capital to take advantage of the opportunities that deliver greater shareholder value while ensuring you still pay claims?

The short answer is yes. Our surplus capital is currently $476.3m, which at 23% is well within the range of the 15%-25% surplus we want to hold in excess of our Lloyd's capital requirements. Our capital is in place to support the growth in our Lloyd's, US and European businesses and we have enough capital for our planned 15%-20% growth this year in gross written premiums. We will be buying a bit more reinsurance in 2021 to take out the volatility in the areas of greatest growth, such as Directors' & Officers' liability and Financial Institutions. Regarding our claims-paying ability, this has never been in question. We have a thorough process in place that ensures that we sufficiently reserve for claims; and a strong, resilient review structure that ensures the amounts we set aside are fair given existing market conditions, yet robust enough to withstand any headwinds.

Why did you get your initial COVID-19 estimate of loss so wrong? Based on the fact you had to revise your loss estimate, how confident are you that it won't deteriorate further?

Our initial loss estimate was based on the assumption shared by many that lockdown would come to an end in late summer meaning that both conferences and sporting events would start again in September. We estimated our event cancellation loss on this basis, assuming around six months of events being cancelled or postponed. By the end of August we could see the situation was deteriorating in most countries, with most events being cancelled for the foreseeable future. It was clear the uncertainty would continue until at least the spring of 2021 and, therefore, we took action and doubled our loss estimate. This estimate will only be revised again if events continue to be cancelled in the second half of 2021. We estimated this potential deterioration to be a further $50m net of reinsurance. After the end of 2021 we have very little exposure for further deterioration.



Given ongoing uncertainty due to COVID-19 and the recession, how certain are you of returning to profit in 2021?

Beazley's strong track record of profitability has been achieved over the years through hard work, business acumen and a consistent underwriting approach. This year, the world was caught off guard – no one foresaw the global pandemic or envisaged the impact it would have. We are in the risk-taking business, which means we can end up with unexpected losses at times, and this is one of those times. Even through the turmoil of this year many of our business classes performed well, and in 2021 we expect to see the third year of rate increases across many lines of business. While we haven't seen an escalation in social inflation over the past year, this is still something we are keeping a keen eye on. The growth in 2020 should give us good earnings potential in 2021 and beyond. I personally am looking forward to a return to profitability.

Which geographic areas present the strongest opportunities for growth?

Our expectations are high and we expect to see growth across the majority of our geographies. Rates continue to rise at Lloyd's, offering us the opportunity to capitalise on a hardening market. In the US, market conditions are favourable and given the size of the specialty market within which we operate there is plenty of room for growth. Over the past five years we have been growing at an average rate of around 17% per annum. Our near-term target is to increase the premiums in that business to $2bn, a 56% increase on where we stand today. Our Canadian and European businesses continued to grow at around 30% and 40% respectively per annum and we expect further good growth in those businesses. Our smaller businesses writing into Latin America from Miami, and Singapore, are also anticipating good growth opportunities.

This does not mean that all lines of businesses will grow in all geographies because we continue to be cautious about more recession-prone businesses. Across many of our lines we have seen capacity withdraw and related rate increases, and in many places we are a relatively small player in a large market. The outlook however is positive.

Are you concerned that action on climate change has been side-lined due to the health and economic crises?

One of the things the pandemic did was really shine a light on the positive impact we can make on the climate crisis as individuals, communities, industries and nations. Very quickly after the initial lockdown, photos were posted around the world of the improvement a lack of travel was having on the natural world. I think the demonstration of such marked recovery from all across the globe kept climate change very much on the agenda in 2020 and provided much-needed impetus for action. Within the insurance industry climate change has never been so topical or in the spotlight, and across the market discussions and debates are had in every boardroom and meeting space about the impact, society's response, and immediate plans to contribute to a better world. Beazley's ability to move forward at pace will be shaped by the appointment of our Sustainability Officer, Chris Illman. Chris is working across the business to ensure a sharp focus on the challenges of climate change including threats – in terms of determining increased losses and the impact on our business, and opportunities for the development of new products and services that protect against the potential impact of climate change. Naturally we are also interested in our own direct impact as a company on the world around us, which is why we as a management team are committed to harnessing the positive effects of the last year to drive real, sustained change for the future, including a commitment to maintaining significantly lower levels of travel going forward. We also support Lloyd's recently published ESG strategy, and we look forward to working with them to deliver their sustainability targets.

What actions has Beazley taken to improve inclusion and diversity outcomes?

We made great progress on our inclusion & diversity (I&D) initiatives in 2020. With regard to gender, currently 36% of our executive committee and our board members are women. Whilst the make-up of the company is gender-balanced (48% women, 52% men) our objective is to ensure that balance is achieved across all levels and, importantly, across all areas. We've also been talking about the need for greater focus on race and ethnicity for a while. Now that we have made great strides forward on gender and are comfortable that we have the right processes in place to maintain our trajectory, we are keen to shift our focus and resources to achieve the same levels of success in ethnic diversity too. Our longest-standing network, PROUD@ Beazley, continues to go from strength to strength, extending its reach across the business – the latest virtual global pride event attracted strong attendance with over 400 employees showing support for the network. In the midst of the pandemic we also launched our mental well being network, with the dual objective of encouraging colleagues to actively manage their mental health and supporting more open and honest conversations on the topic. By partnering with Thrive, the mental wellbeing app, we can now offer 24/7 support to our employee population and give them direct access to effective tools and support at the touch of a button. We will continue to use data and insight to drive our I&D agenda, and I look forward to updating you on our continued progress in next year's report.

At our core... consistent growth for 34 years

Beazley's vision is to become, and be recognised as, the highest performing specialist insurer.

Beazley began life in 1986

Since then we have grown steadily in terms of the risks we cover, the clients we serve and our geographic reach, and today Beazley is a mature insurance business with a well-diversified portfolio. We have weathered some of the toughest times the Lloyd's market has seen in more than three centuries.

Trading began 1986

1986 → 2001

Began trading at the 'old' 1958 Lloyd's building in 1986 with a capacity of £8.3m

Beazley, Furlonge & Hiscox established and takes over managing syndicate 623

Specialty Lines and Treaty accounts started

Management buyout of Hiscox share

Commercial Property account started

Corporate capital introduced at Lloyd's followed by Lloyd's Reconstruction and Renewal

APUA, based in Hong Kong, forms a strategic partnership with Beazley Furlonge

Recall, Contingency and Political Risks accounts started

Marine account started

UK windstorms $3.5bn

European storms $10bn

US Hurricane Andrew $17bn

UK Bishopsgate explosion $750m

US Northridge earthquake $12.5bn

European storms $12bn

Flotation 2002

2001 → 2008

Management buyout of minority shareholders

EPL and UK PI accounts started

Flotation raised £150m to set up Beazley Group plc

D&O, Healthcare, Energy, Cargo and Specie accounts started

Local representation established in the US

Beazley MGA started in the US

Beazley acquires Omaha P&C and renames it Beazley Insurance Company, Inc. (BICI)

Beazley opens new office in Munich

Political Risks & Contingency group formed as new division

Acquisition of Momentum Underwriting Management

Accident & Life formed as new division

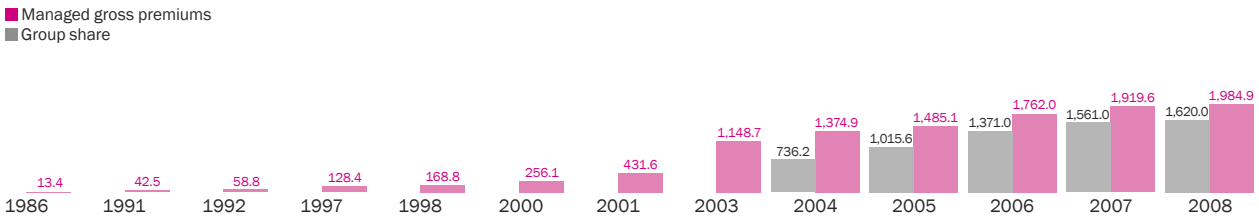
US 9/11 terrorist attack $20.3bn

SARS outbreak in Asia $3.5bn

US Hurricanes Katrina, Rita and Wilma $101bn

US Hurricane Ike $20bn

Managed gross premiums and group share
$m



2009

Raised £150m through rights issue to develop our business at Lloyd's and in the US

Acquisition of First State Management Group, Inc., a US underwriting manager focusing on surplus lines commercial property business

Beazley plc becomes the new holding company for the group, incorporated in Jersey and tax-resident in Ireland

2010

Andrew Beazley, co-founder of Beazley Group and chief executive until September 2008, dies at the age of 57

Beazley changes functional and presentational currency to US dollar

Beazley opens new office in Oslo

Special purpose syndicate 6107 formed to grow reinsurance business

Chile and NZ earthquakes $14bn

Deepwater Horizon explosion triggers biggest oil spill in history

2011

Expansion of Australian accident & health business through acquisition of two MGAs

Launch of the Andrew Beazley Broker Academy

Nick Furlonge, co-founder, retires as an executive member but becomes a non-executive of Beazley Furlonge Limited

Beazley remains profitable in worst year ever for insured natural catastrophe losses

Tohoku earthquake in Japan $37bn

Floods in Thailand $16bn

US tornadoes $15bn

NZ earthquake $16bn

2012

Expansion into aviation and kidnap & ransom markets

Reinsurance division broadens access to South East Asia, China and South Korea business with local presence in Singapore

Political Risks & Contingency expands into French market

Superstorm Sandy $25-30bn

2013

Construction Consortium launched at Lloyd's

Miami office opened to access Latin American reinsurance business

Beazley Flight – comprehensive emergency evacuation cover – launched

Beazley data breach cover extended in Europe. 1,000th breach managed

Local representation added in Rio to develop Latin American insurance business

2014

Construction Consortium extended to Lloyd's Asia

Middle East office opened to access local political risk and violence, terrorism, trade credit and contingency business

Space and Satellite insurance account started

D&O Consortium launched at Lloyd's

Locally underwritten US business grows 19% to $537m

2015

Entered into a reinsurance agreement with Korean Re

US underwritten premium grows by 21%

Cyber Consortium launched at Lloyd's

Beazley welcomes its 1,000th employee globally

2016

Beazley celebrates its 30th anniversary

10th anniversary of operations in Singapore and Paris

Beazley plc becomes the new holding company for the group, incorporated in England & Wales and tax-resident in the United Kingdom

Partnership established with Munich Re to broaden and enhance the cyber cover available to the world's largest companies

2017

Beazley Insurance dac acquires licence to write business within the EU

Beazley opens a new office in Barcelona and acquires Creechurch Underwriters in Canada

Beazley closes Middle East office and sells Australian renewal rights

Hurricanes Harvey, Irma and Maria $90-95bn

Californian wildfires $10bn

Mexican earthquakes $2-5bn

2018

US local written premium reaches $1bn; overall gross premiums written grow 12% during 2018

Adrian Cox succeeds Neil Maidment as Chief Underwriting Officer

Beazley closes Oslo office

Hurricanes Florence and Michael $11-14bn

Typhoons Jebi and Trami $10-12bn

Californian wildfires $9-15bn

2019

Sally Lake succeeds Martin Bride as Group Finance Director

Gross premiums written passes $3bn

Hurricane Dorian $4.5bn

Typhoons Faxai and Hagibis $15-25bn

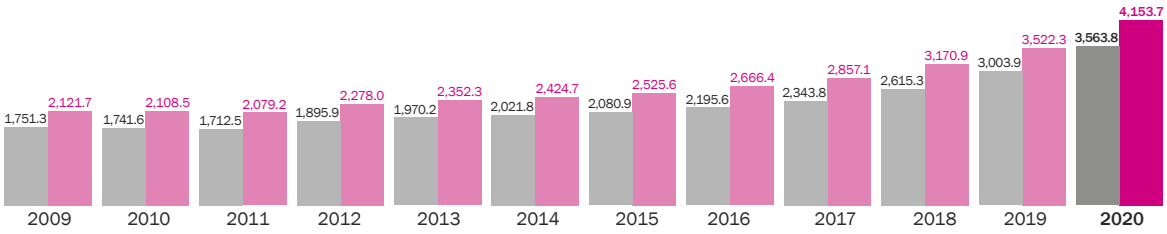
2020

Flexible working practices for global workforce introduced

Beazley Virtual Care rolled out to new territories

10th anniversary of managing special purpose syndicate 6107

COVID-19 >$100bn



Chief Underwriting Officer's report

Beazley achieved premium growth of 19% against a challenging claims environment driven by COVID-19 losses which hit our contingency book particularly hard. The combined ratio was 109%.

Never before has our role in society been so tested. How we responded as a market, as companies and indeed individuals was firmly under the spotlight and rightly scrutinised. As an organisation we have weathered this crisis well. We adapted to the new environment and, above all, our people and culture have ensured that we remained true to our core: taking responsibility for the needs of clients and partners, building resilience and delivering a consistent strategy in the face of adversity. Whilst we did not foresee a global pandemic, the optimisation of our portfolios that started in 2018 and 2019 in preparation for harsher economic conditions gave us a solid head start in responding to this crisis. Our swift action and core culture have enabled us to flex and adapt quickly to the new environment and continue to support our partners with confidence and consistency.

Our underwriting approach

Beazley has a history of building long-term partnerships with brokers and customers founded on mutual respect and trust. Throughout this period of upheaval our teams have demonstrated commitment to working with partners and doing the right thing through our consistent underwriting strategy and transparent, timely communication over cover and claims. Feedback over the past 12 months suggests that our partners and clients have appreciated how we have handled the crisis. We incurred $1,958.3m in claims in 2020, of which 17% was driven by COVID-19 and the impact on the economy, leading us to make an underwriting loss of $239.3m. Whilst our overall result was disappointing, our premium growth in the year has exceeded plan to reach $3,563.8m, giving us a strong platform for growth in the future.

Our premium growth exceeded plan to reach $3,563.8m, giving us a strong platform for growth in the future.

Adrian Cox
Chief Underwriting Officer
Executive sponsor of PROUD@Beazley

Cancelled events were the main driver of our COVID-related losses, when the hospitality and events industries were shut by the enforced lockdown. Since March we have worked closely with clients and brokers to manage through the uncertainty by offering flexibility in our coverage, premium pauses and/or returns where rescheduled events have had to be cancelled or postponed, in order to support the viability of their businesses.

Recession exposure

We took swift action in March to re-underwrite certain parts of the business that would be exposed to COVID-19 and its subsequent impacts. Although liability claims are yet to manifest across the industry, our central assumption is that they will, and we have made provisions for them on our balance sheet. Where we were previously deliberately underweight in Directors' & Officers' (D&O) and Property we have been able to execute our growth plan to take a larger market share. In a period of elevated corporate risk, we are able to underwrite and appropriately price for it, allowing us to actively grow scale and relevance in this space.

Data focus

While the crisis has in many ways made trading more complex, and we have missed the ease of face-to-face interactions, it has also been a driver of innovation. In the last 12 months there has been a revolution in the adoption of digital technologies to transact business. Our underwriters increasingly incorporate data and analytics and modelling information into building a clearer overview of risk exposure. It is our responsibility to keep in step with this transformation to ensure we offer relevant risk mitigation and transfer solutions.

This year, despite the uncertainty, we were able to launch innovative products including Transmission Failure for virtual events. We rolled out our healthcare product for digital health providers, Virtual Care, to a further six countries – both examples of products designed to respond to the changing needs of clients that came into their own under lockdown. Increasingly we are meeting customers' appetite for solutions that offer more than risk transfer by designing products that incorporate service propositions to mitigate and manage risk as well.

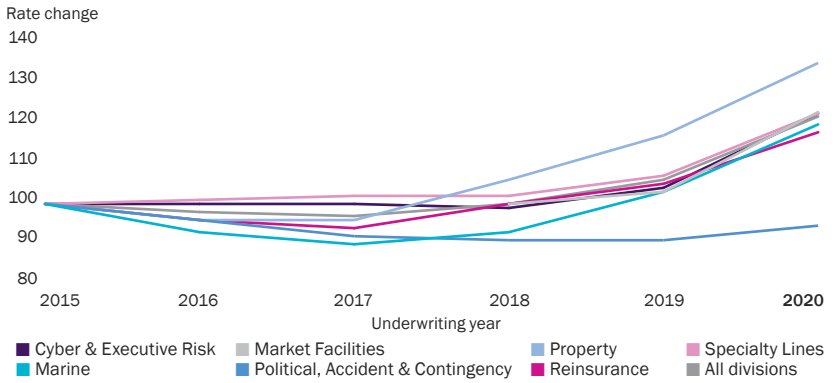
In support of ongoing innovation, we formed a new incubation underwriting team specifically focused on developing ideas to manage new and emerging risks. This team both supports underwriters in evolving existing products and nurtures entirely new concepts, including underwriting new products in their infancy in order to drive focus and de-risk main business lines.

This uncertain climate is no time to shy away from investing in innovative ways to improve on what we deliver and how; hence the ongoing development of our digital strategy. Our Faster, Smarter Underwriting strategic initiative is driving teams across the business to apply data and analytics to risk selection and management. The aims of our strategic initiative are four-fold: to maximise underwriting performance by providing additional sources of data and management information dashboards; to extract more value from our existing data; to better leverage our investments in technology to help in areas such as workflow; and to transform our underwriting of complex risks. We have seen the benefits of this within our cyber book by using tools to scan client cyber security for weaknesses, in gaining clearer behavioural insights about individuals and boards to manage our D&O exposures, and through more advanced modelling of secondary perils such as wildfire or hail within our Property book.

For smaller risks we are rolling out our etrading platform to more territories, while ensuring these platforms are robust and intuitive for brokers to use without losing the specialist underwriting advantage that Beazley is known for. At the larger end, our Smart Tracker business has achieved growth to $133.4m gross written premium. Designed to reduce underwriting costs in the Lloyd's market by making the follow-market work more efficiently, the tracker is now working with 30 facilities alongside some newer similarly styled syndicates within the market.

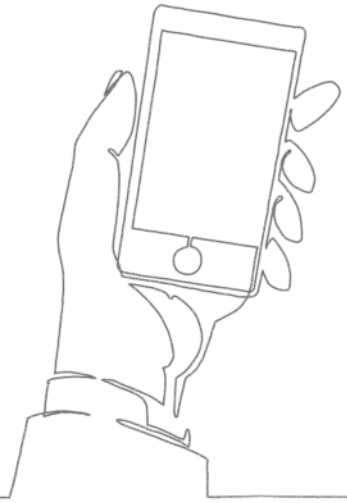
Within the Lloyd's market we are keen participants in the Product Innovation Facility (PIF), an initiative designed to speed up (re)insurance product development for new and emerging risks. Lloyd's commitment to accelerating the market has accelerated during lockdown, which has been a positive development in tandem with the much improved growth prospects. Lockdown has also reminded us that our resilience as a market depends on continued collaboration and an openness to disrupt how we do things to deliver greater value for clients and thus society. This will be achieved through more efficient and effective products and services coupled with enhanced standards that improve business resilience.

Cumulative renewal rate changes since 2015 (%)



Chief Underwriting Officer's report continued

Few could have predicted the first pandemic in a century and its cataclysmic effect on the global economy. However, the economic downturn was exacerbated, not created, by the pandemic. Our recession planning began in 2018 and hence we have achieved targeted growth in lines of business where higher losses and changes in appetite among more exposed carriers contributed to a return to a more fair and favourable rating environment. The pandemic accelerated the hardening market across recession-prone lines. However, it has been more than a decade since the last hard market and therefore, for many underwriters, this is a new experience requiring a different skill set and approach. We have been investing in building our underwriting talent, in training, and in the products and platforms that enable us to trade more effectively with brokers and better serve clients. Feedback from brokers has been overwhelmingly positive regarding the service and clarity that our underwriters have been delivering. This is hugely important to us as we strive to demonstrate our commitment to building long-term partnerships and to deliver a consistent, sustainable strategy. We wish to be able to capitalise fully on the opportunities that a strong market presents, one of which is to grow the business at a faster pace than usual and for that accelerated growth to provide the base for Beazley for the next 5-10 years. In this situation, it is useful to have a number of capital levers available and we have therefore bought a contingent quota share reinsurance of our Specialty Lines and CyEx divisions which allows us to trigger unilaterally up to $200m of ceded premium.



Cyber & Executive Risk

Cyber & Executive Risk (CyEx) under a new leadership structure led by Bethany Greenwood, grew premiums by 24% to $1,020.1m, amid the long-awaited hard market. Profitability was impacted by losses in employment practices liability (EPL) and the rise in ransomware, producing a combined ratio of 101%.

Now in its second full year as a standalone division, CyEx brings together Beazley's executive risks (US D&O, EPL, and Crime insurance) with global M&A and Cyber and Technology underwriting. In a year of contrasts across the division, Executive Risk experienced its sharpest rate rises to date even as competition remained steady, with rates expected to hold strong into 2021. This came after more than a decade of market inertia in which premiums failed to keep pace with higher litigation costs, settlement amounts, jury payouts and increased claims aligned to high-profile social justice movements. Following several years in planning for the D&O market turn, rates grew by 53%, enabling us to grow while remaining highly selective and diversified in our appetite.

Crime, to a much lower extent, followed the D&O market up while M&A also saw rates rise following a slow start to the year when acquisition deals dried up in the first lockdown. Our EPL book has been the most heavily remediated area, where exposure to ongoing social inflation has meant increased frequency and higher claims costs.

By contrast cyber rates began to harden in the second half of the year with over 20% rate increases in the fourth quarter. The past year has seen significant changes to the cyber market landscape, with reductions in capacity, underwriting restrictions, tightening of terms and conditions, and rate change. The biggest influence has been a significant rise in frequency and severity of ransomware claims, which our team had been anticipating and adjusting for in our underwriting. We continue to focus on a tailored approach for each client, which reduces loss frequency and improves profitability. Our approach includes scanning clients during the policy lifecycle for vulnerabilities to help identify risks and threats; offering advice to help proactively correct vulnerabilities; and increasing rate to fully reflect the risk. Our goal remains to improve overall risk management of our clients by raising the standards to better detect, prevent and respond to these events. As a leading insurer, we have access to data, expertise and insight that we are applying to support clients and brokers as best we can.

Marine

Following several years of careful cycle management amid soft pricing and market losses, the Marine division achieved premiums of $337.4m and a combined ratio of 90%, as market conditions improved across most of the portfolio.

Hardening rates in Marine have been a longtime coming and have been assisted by Lloyd's action to correct underperforming classes and a subsequent contraction of the market.

As most of the book is placed through Lloyd's, Marine has seen some benefit from the improved trading environment. Action has also been taken to remediate selected areas of the account, resulting in Beazley exiting the UK Marine portfolio in January 2020.

Rate hardening has been particularly strong across the aviation and cargo portfolios, with average rate rises of 30% and 18% respectively. Both had previously activated strong cycle management plans and have weathered turbulence over the past two years, which has seen a number of peers reducing capacity or withdrawing from the market altogether.

The marine war account also saw considerable growth in 2020, largely due to increased claims activity in and around the Persian Gulf driving additional premium payments.

The exception to the growth across the portfolio has been in the energy book where reduced global oil prices and a benign claims environment in the upstream account meant rate increases were subdued.

The marine division continues to explore opportunities to embed data and analytics tools to derive more insight into the drivers of loss and how to mitigate them, working with third parties and enhancing proprietary data while looking ahead to more consistent growth opportunities in 2021.

Market Facilities

In its first year as a standalone division outside Specialty Lines, Market Facilities, led by Will Roscoe, has reported gross premiums written of $133.4m, more than doubling over 2019.

The Beazley Smart Tracker launched in 2018 as the London market's first follow-only special purpose syndicate. It tracks the market with the same underwriting, reserving and pricing approach as one would find within the main Beazley syndicates. Backed by Beazley and third-party capital, the model has shown resilience in the hardening market environment, with investors over-subscribing to back the syndicate during this year's round of funding. This inspires confidence in the model as a diversification opportunity in the new trading environment as well as the old, attracting a range of investors from Lloyd's Names and hedge funds through to larger pension funds and traditional reinsurers.

Beazley Smart Tracker aims to deliver lower acquisition costs and fees, and greater efficiency for the follow market. Its future success hinges on ongoing appetite for market facilities and consortia to follow in the market, which have both grown in number in 2020. We anticipate and hope the influx of third-party capital will continue to fuel more similarly styled follow-only syndicates, which will only help to drive greater efficiency within the London market.

As the net premium increased by more than 60% compared to last year, the division reduced it claims ratio to 30% (2019: 36%) and its expense ratio to 76% (2019: 78%). Lloyd's has approved growth for Beazley Smart Tracker to $200m in 2021, and the expense ratio is expected to reduce further through scale.

Political, Accident & Contingency

Political, Accident & Contingency (PAC) had a challenging year as the division hardest hit by COVID-19, due to the high number of cancelled events insured within the Contingency book. However other parts of the business performed well, benefiting from positive prior year movements. PAC reported premium of $273.0m and a combined ratio of 212%.

Following controlled growth in recent years, Beazley writes a sizeable contingency book that has absorbed a sharp increase in claims due to the severe impact of the pandemic on the events and hospitality industries. COVID-19-related contingency loss estimates of $70m net of reinsurance were reported in the first half of the year. In September, Beazley's overall loss estimate for first-party claims increased by a further $170m net of reinsurance, which was largely attributable to the ongoing cancellation of events into 2021.

Our underwriting and claims teams have been working tirelessly with clients and brokers to pay claims quickly and to ensure coverage meets the needs of policyholders in the new hybrid world we are entering. The development of our Transmission Failure product for virtual events is an excellent example of our team acting to respond to the changing environment to create solutions that address future risks.

Growth in our Political Risk product was also dampened due to COVID-19, reflecting a slowdown in activities within the financial services industry as major projects ground to a halt. While this book and its performance are correlated with global economic cycles, there were no significant losses in a relatively benign claims environment, while rates strengthened in response to more competitive market conditions.

Premium grew across the terrorism portfolio, where there were a number of new underwriting opportunities globally. Growth was in part driven by more property exclusions put in place, contributing to an increase in appetite for standalone cover. Rates remained flat following a number of years of declining rates. Our Deadly Weapons Protection (DWP) product continued to grow in the US and also internationally. In the second half we developed a new joint US distribution strategy for DWP and Safeguard, a specialist product that provides cover and prevention services to reduce incidents of abuse, given insureds are typically in similar sectors.

Growth in Accident & Health was positive throughout the year with the main growth coming from the insurance portfolio. Life business, which largely sells group life policies through employers, had an increase in claims due to COVID-19, which were managed promptly and paid quickly.

Chief Underwriting Officer's report continued

Property

The Property division reported a combined ratio of 120%, reflecting claims due to COVID-19, which masked corrective actions taken throughout 2019 and early 2020 to improve performance, while premiums grew by 10% to $470.5m.

The overall property market has continued to see a second year of rate increases in 2020, following soft market conditions going back at least five years. During this time the global Property team has been diligently remediating the book through tighter risk selection to better diversify the portfolio and reduce loss frequency.

The division began the year on a strong footing, having significantly improved the management of attritional losses and catastrophe-exposed areas of the book. It remained focused on delivering profit over top-line growth through consistent underwriting, supported by improved rating tools and data capture across the portfolio as well as a sharp focus on reviewing wordings to ensure policies provide clarity and certainty to clients. We continue to invest in tools to better understand and underwrite our risk exposures, while also continuing to optimise our natural catastrophe perils using a data-led analytical approach to managing these exposures. We were pleased to continue to welcome new talent to the team over the course of the year, including additional underwriting expertise and one of the sector's most highly regarded wordings specialists.

Continued enhancements and diligence in our risk analysis and selection have addressed and reduced exposure to attritional loss, including water losses, which remain a growing issue across the industry. In addition an innovative approach to mitigating risk in the small property book through wind and earthquake buy-down products has helped us continue to grow in a highly competitive technology-driven market segment.

The Jewellery, Fine Art & Specie (JFAS) sector remains fairly competitive, with rate increases lagging the overall property market. While largely a London market book for Beazley, in 2020 we began underwriting in Asia via the Lloyd's China platform and in November launched a new Fine Art & Jewellers' block offering in France targeting mainland Europe.

The actions taken throughout 2020 let us head into 2021 with confidence in achieving targeted growth opportunities and highly selective underwriting.

Reinsurance

High frequency of medium-range natural catastrophe activity impacted profitability in the Reinsurance division; however, the portfolio benefited from more substantial rate rises during the mid-year renewals contributing to premiums of $194.5m on a combined ratio of 105%.

A new dynamic in the market saw the Reinsurance division refocus on core property catastrophe business and reduce exposure to niche areas including miscellaneous treaty and also crop, which is the area of the portfolio most exposed to climate change risk.

Reinsurance was slower to experience increased premium than the primary market, but low-level rate increases materialised at the start of the year in areas of the property treaty book directly impacted by natural catastrophes in prior years. Market hardening across the book began in earnest at the mid-year point in response to concern around under-pricing and the potential impact of COVID-19 overlaying a number of years of significant weather-related losses, notably Hurricane Irma in 2017 and Typhoon Jebi in 2018. Although wildfires continued to burn in 2020, the division was less impacted having re-underwritten exposed areas of the book using improved modelling around secondary perils. Wind continued to prove the greater driver of claims, this year, in the form of Hurricane Laura and Mid-west Derecho.

We are reserved prudently to manage the effects of COVID-19 on the secondary property market and we continue to observe legal decisions regarding the primary market to ensure we respond quickly to the impact on the reinsurance market.

Specialty Lines

This is the second full year of reporting since the launch of CyEx as a separate division and the first in which Market Facilities has been a standalone business line, both having started life within Specialty Lines.

The division wrote $1,134.9m of premiums and reported a profit of $151.6m achieving a combined ratio of 94%, in a year of much-needed rate hardening following several years of soft market conditions and heightened claims volatility.

Specialty Lines began the year in a relatively flat market, having prepared a portfolio and pricing strategy to grow the book in a disciplined manner with an active recession plan in place. As the economic impact of COVID-19 became more apparent from March, the division took rapid steps to manage exposure and re-underwrite exposed lines where necessary. Faced with a pandemic combined with ongoing social inflation, poor historical results and the prospect of a deeper than anticipated recession, the markets almost unanimously reacted by adjusting pricing, triggering a market reset that is expected to continue throughout 2021.

This market turn has also coincided with the significant planned expansion of our book in Europe, Asia, Canada and Latin America across international financial lines, management liability and healthcare, as well as small digital business via our myBeazley platform. Throughout the year the division launched more than 50 international products in over ten countries and in many different languages, as part of a long-term strategy of hiring regionally based underwriters and building a diversified footprint, to complement our Lloyd's operation.

We were also delighted to welcome a team of product recall specialists who launched our US offering virtually, providing strong cross-sell and growth opportunities in 2021.

Overall rates increased in the year by 15% on average with the sharpest premium growth across international financial lines and management liability, and particularly in those territories with traditionally higher litigation costs, including Australia, and risks exposed in the US. International D&O increased by more than 120% on top of rate hardening in 2018 and 2019.

Specialty Lines has continued to pursue consistent underwriting and careful risk selection in lines of heightened risk, mindful of the long development nature of both COVID-19 and recession-related losses. To date, we have seen few claims arising from either event; however, we have strengthened reserves in exposed classes in anticipation of such claims starting to materialise in the future. The performance of the lawyers professional liability book continues to improve with increased pricing and limit management, while the economic downturn has slowed growth in Environmental Liability although this remains one of our most profitable areas.

Most areas of healthcare have seen steady growth and we have substantially increased the footprint of our pioneering Virtual Care product, which insures a multitude of risks facing digital health providers. We have rolled out the offering in six countries, at a time when remote health consultations have become commonplace under social distancing rules.

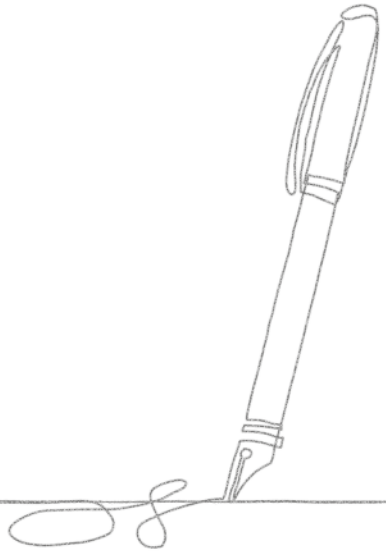
Rate adjustment in both Healthcare Management Liability and Hospital Medical Malpractice Liability came later in the year; although we anticipate that these will continue to strengthen in 2021.

The Architects & Engineers, professional liability book remains very competitive in a crowded marketplace; however, we are hopeful of change in the future as this sector begins to feel the impact of recession-related claims.

Specialty Treaty, which tends to reinsure other specialist insurers, has grown profitably in a steadily improving rating environment. The rollout and expansion of the myBeazley platform has also proved successful in digitally delivering our specialist products to SME clients across a large global footprint, with this business proving profitable and less volatile despite the harsh economic conditions facing many smaller businesses.

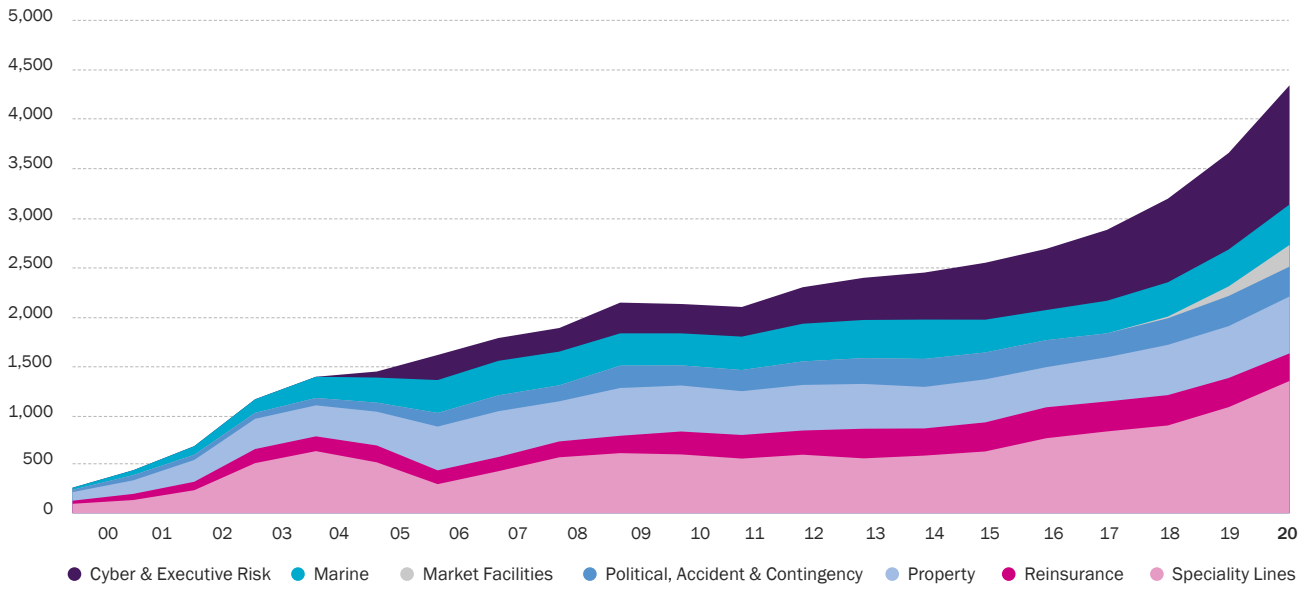
Looking into 2021 we expect consistent growth against our plan and we anticipate further product expansion internationally as well as the continued roll-out of our Global Programmes capabilities.

Adrian Cox
Chief Underwriting Officer



Performance by division

Growth of managed gross premiums by division $m



Cyber & Executive Risk

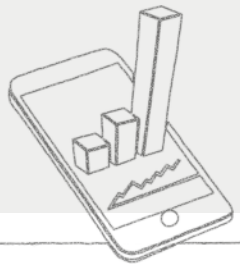
Bethany Greenwood

Head of Cyber & Executive Risk

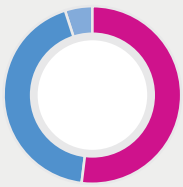
Executive sponsor of the Race at Work Charter

Find out more on page 20

Our Cyber & Executive risk division provides cyber and management liability cover for our clients. Products range from our flagship cyber product, Beazley Breach Response (BBR), through to crime insurance, public directors' and officers' (D&O) insurance and mergers and acquisitions (M&A) insurance.



Portfolio mix



Cyber and Technology	52%
Executive Risk	43%
Fidelity and Crime	5%

	2020 $m	2019 $m
Gross premiums written	1,020.1	823.0
Net premiums written	864.6	712.2
Results from operating activities	54.8	126.6
Claims ratio	71%	61%
Expense ratio	30%	32%
Combined ratio	101%	93%
Rate change	18%	5%

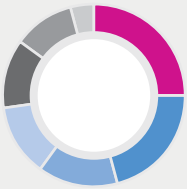
Strong growth across majority of divisions, with five divisions achieving growth in double digits.

Marine

Tim Turner
Head of Marine

We help insure over 20% of the world's ocean-going tonnage and are the pre-eminent leader of voyage and tow business in the London market. The Aviation team provides cover for airlines and general aviation clients globally, ranging from start-up operations through to large commercial fleets. We have extensive experience insuring a wide variety of cargoes including project cargo, fine art and specie.

Portfolio mix



Hull & Miscellaneous	25%
Cargo	21%
Energy	14%
War	13%
Aviation	12%
Liability	11%
Satellite	4%

	2020 $m	2019 $m
Gross premiums written	337.4	306.4
Net premiums written	309.4	222.1
Results from operating activities	45.0	8.4
Claims ratio	54%	57%
Expense ratio	36%	50%
Combined ratio	90%	107%
Rate change	16%	11%

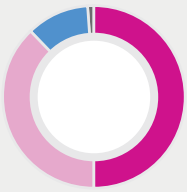
Find out more on page 20

Market Facilities

Will Roscoe
Head of Market Facilities

Market Facilities was split out of the Specialty Lines division to form a separate division from 1 January 2020. It underwrites entire portfolios of business with the aim of offering a low-cost mechanism for placing follow business within the Lloyd's market. The expense ratio for this business is expected to reduce as we grow and gain economies of scale.

Portfolio mix



Tracker Speciality Lines	50%
Tracker Property	38%
Tracker Marine	11%
Tracker SAT	1%

	2020 $m	2019 $m
Gross premiums written	133.4	60.5
Net premiums written	37.3	22.3
Results from operating activities	(0.9)	(1.2)
Claims ratio	30%	36%
Expense ratio	76%	78%
Combined ratio	106%	114%
Rate change	19%	3%

Find out more on page 21

Performance by division continued

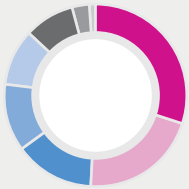
Political, Accident & Contingency

Christian Tolle

Head of Political, Accident & Contingency
Chair of the European Management Committee

In addition to traditional lines such as contract frustration, expropriation and credit, we insure a growing number of businesses against terrorism and political violence. Our Personal Accident product covers a number of niche classes and we have a growing account of US supplemental health business providing tailored benefit solutions to a wide range of employers.

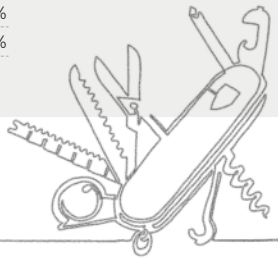
Portfolio mix



PA Direct	30%
Political	21%
Stand Alone Terrorism	14%
Contingency	12%
Life Direct	10%
PA Reinsurance	9%
Sports	3%
Life Reinsurance	1%

	2020 $m	2019 $m
Gross premiums written	273.0	272.7
Net premiums written	227.1	245.8
Results from operating activities	(223.7)	41.2
Claims ratio	166%	47%
Expense ratio	46%	42%
Combined ratio	212%	89%
Rate change	4%	–

Find out more on page 21



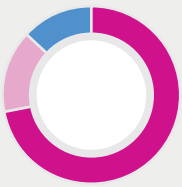
Property

Richard Montminy

Head of Property
Executive sponsor of the Responsible Business Committee

We have protected clients ranging from Fortune 1000 companies to homeowners through 27 years of natural and man-made catastrophes. We underwrite this business through five platforms: London, the US, Canada, Latin America and Singapore, with a business focus on commercial property risks, valuable assets and select homeowners' business.

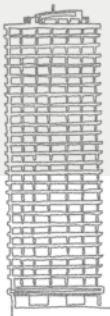
Portfolio mix



Commercial Property	72%
Jewellers & Homeowners	15%
Small Property Business	13%

	2020 $m	2019 $m
Gross premiums written	470.5	428.7
Net premiums written	389.9	365.6
Results from operating activities	(44.4)	43.3
Claims ratio	81%	57%
Expense ratio	39%	40%
Combined ratio	120%	97%
Rate change	15%	11%

Find out more on page 22



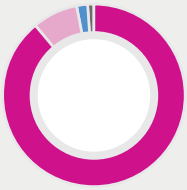
Reinsurance

Patrick Hartigan

Head of Reinsurance
Chair of the Asia Pacific Management Committee

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

Portfolio mix



Property Catastrophe	89%
Property Risk	8%
Casualty Class	2%
Miscellaneous	1%

	2020 $m	2019 $m
Gross premiums written	194.5	206.0
Net premiums written	126.9	123.0
Results from operating activities	7.4	(48.2)
Claims ratio	70%	118%
Expense ratio	35%	36%
Combined ratio	105%	154%
Rate change	13%	5%

Find out more on page 22

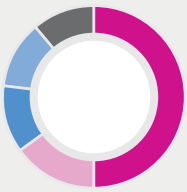
Specialty Lines

James Eaton

Head of Specialty Lines
Executive sponsor for Canada

The Specialty Lines division writes a diverse book of specialty liability business including professional liability, healthcare, life sciences, environmental liability and international financial lines. Included in the team is our casualty reinsurance business, which focuses on reinsuring other specialists in classes such as surety and professional liability and also distributing Beazley products via our reinsured partners.

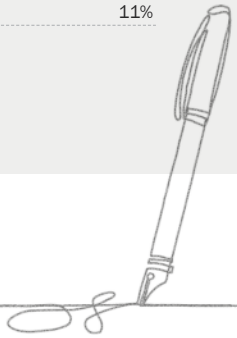
Portfolio mix



Small Business	50%
Healthcare	15%
International Specialties	12%
Market Facilities	12%
Treaty	11%

	2020 $m	2019 $m
Gross premiums written	1.134.9	906.6
Net premiums written	961.8	812.5
Results from operating activities	151.6	125.3
Claims ratio	57%	62%
Expense ratio	37%	37%
Combined ratio	94%	99%
Rate change	15%	6%

Find out more on page 22



Claims

Beth Diamond
Head of Claims

How we respond to clients in their hour of need has never been more important.

It is a long-held view within the industry that insurance is a people-based business, where strong partnerships and a keen understanding of the human impact of losses are at the heart of decision-making.

Yet in today's digital environment where data is increasingly central to how we manage and predict risk, this commitment to the importance of the human touch has come to be seen by some as holding back the tide of much-needed transformation.

But nowhere more than in the area of claims delivery does the potent combination of a highly skilled workforce supported by transformative technology and data demonstrate how both talent and technology are critical to our industry's ability to manage uncertainty and serve clients into the future.

Our claims service remains a key differentiator for Beazley and, as a team, we strive to ensure clients and brokers know we will go above and beyond to deliver fast, efficient outcomes and work in partnership to support clients when they need us most. To continue to innovate and deliver exceptional service we continue to invest in our processes and to seek innovative ways to keep pace with the evolving trading environment and expectations of our partners.

The events of 2020 will come to define how our market and individual organisations perform over the next few years. We will continue to be judged on our performance, not least on how we handled claims and treated customers in this toughest of years, and how responsibly we have played our part in the economic recovery.

All hands on deck

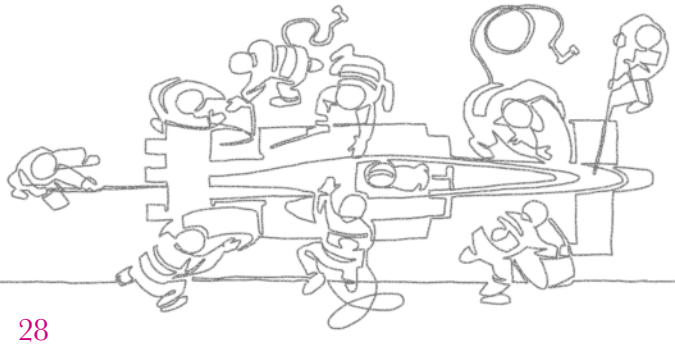
From March 2020 when COVID-19 became a truly global event Beazley experienced a volume of claims not seen before. Our claims team across the globe shares a wide range of specialist skills and industry knowledge and are accustomed to handling highly complex claims, from weather-related events to medical malpractice claims to environmental damage. The pandemic is one of the rare events to touch almost every line of insurable risk and therefore required an all-encompassing crisis response.

We pivoted to work cross-team in a way we have not done before, so that the more experienced claims managers could be deployed to handle complex issues while others could focus on speed of processing of more straightforward claims. Through a voluntary initiative termed Beazley Citizen colleagues from other departments dedicated their extra capacity to supporting our claims team by undertaking support or administrative tasks, which helped our specialists focus on the policyholders and ensured our service did not suffer under pressure.

This also supported claims' ability to manage additional requirements around the production of data and regulatory reports, to support the COVID-19 response at a Lloyd's market level, and the vital ongoing work being undertaken as part of the Future at Lloyd's programme.

The main event

The pandemic has led to claims across all short-tail businesses. Our largest volume of claims by some distance came from the cancellation of many of the largest sporting, festival and conference events in the world, insured within our Political, Accident & Contingency portfolio. From March to November, we received well over 1,000 notifications for cancelled events, compared to a yearly average of 350.



Beazley has long been a major insurer within the hospitality and events industry and therefore our claims specialists could offer significant extra support to policyholders beyond ensuring claims were paid well and without unnecessary delay.

We engaged policyholders in early, practical discussions – often before the event had been cancelled – to help reduce the financial impact by managing commitments to the many suppliers involved in large-scale events – from transportation companies to performers. Strong relationships with clients and specialist brokers helped us work collectively to identify alternative options to cancellations, such as holding events behind closed doors, as was the case with some sports tournaments, or virtually. The claims team was also able to use this experience to collaborate with contingency underwriters on the launch of a new Transmission Failure product covering the organisers of virtual events, which we envisage will become a more prominent element of the events calendar post pandemic.

Working closely with underwriters means we have more direct communication with clients on claims than ever before. By establishing relationships with both clients and brokers beyond the point of claim we are better positioned to manage and work collaboratively when something does happen.

Social inflation

In the midst of this pandemic, the cost of claims has continued to come under intense pressure from the impact of social inflation fuelled by rising jury awards and settlements, particularly in the US. Most of these claims arise in professional liability classes impacting healthcare, architects and engineers (A&E), and legal clients, where $10m+ verdicts are becoming more commonplace. Throughout the year, our teams have continued to work closely with clients and defence counsels to minimise excessive settlements and resolve claims on favourable terms early.

In some US states, the pause in jury trials during lockdown has enabled defence teams to try to resolve cases more efficiently and to reach more reasonable settlements with claimants. We are increasingly using virtual mediations and direct negotiations to settle claims and, where a reasonable settlement is not achievable, we look to ensure the time made available by pandemic court delays is used strategically to control claims costs.

Technology

We are mindful in claims of the importance of moving at pace and with consideration of the particular circumstances that clients are grappling with, which are often far more complex than the financial impact of a loss. This has become more important than ever in 2020, emphasising the need for claims specialists to be supported by robust and flexible platforms that enable them to go further.

Several projects to enable this have been underway over the last 12 months, including a critical multi-year digital transformation programme to digitise our claims processes. The primary objective is to provide a straightforward end-to-end claims engagement with our insureds and brokers, by harnessing claims data to improve outcomes and leveraging artificial intelligence (AI) and machine learning technologies to improve our speed in making claims decisions and payments.

The team is currently developing an AI proof of concept to model claims and quickly match them with the right claims specialist from receipt of notice, identifying claims for heightened conversations, and focusing our claims experts on the most volatile matters. We have also implemented a new system to improve efficiency in managing legal costs, as well as new technology to establish efficient and quick processing of defence costs, eliminating multiple manual and repetitive approval steps.

Striving towards a digital claims experience in the speciality market is not a simple task, and requires a cross-functional team of claims, data science, and technology experts to build on our evolving capabilities. Although 2020 has been a very challenging year, we have laid a great foundation by strengthening our data integrity and extending our access to data with the inclusion of Lloyd's Electronic Claims File (ECF) writeback. This has helped us improve our response times to the market and enrich our data warehouse by capturing market data and documents.

As the past 12 months have clearly demonstrated high demand and uncertainty only emphasises the importance of delivering a standout service through targeted investment in the right technology that enables us to provide empathetic, expert human responses for our clients.

Where the industry has excelled in this crisis is when we have challenged ourselves to go beyond what we thought possible in supporting our clients and partners to navigate through this crisis with flexible, innovative approaches that help them to steer towards a more certain future.

Nowhere is this more important within our industry than in how we respond to clients in their hour of need and how we perform in a true crisis. We look forward to supporting our clients as we look towards a more stable future, and to working with the industry to drive positive change.

Responsible business

Environmental, Social and Governance (ESG) matters are important to Beazley and add value to our business. Our interactions with charities, the community, our environment, the wider market place and our colleagues all play an important part of acting as a responsible business.

Emma Whiteacre
Chair of the responsible business committee
Country Risk Analyst

Introduction

At Beazley, we want to use our expertise, influence and passion as a force for good in our local communities and the wider world. We believe it is both good business sense and the right thing to do.

The global pandemic this year, and our resultant move to virtual working, has had a big impact on the way that we have been able to deliver on our ambitions. However it has also served to underline the importance to us all as individuals of the societies and communities in which we live, the public services on which we rely, and the natural world that gives us so much in terms of resources and wellbeing.

Responsible business at Beazley has six focus areas:

Charity

Our global partnership, fundraising and match funding.

Community

How we interact with the people and places in our local area.

Environment

Taking responsibility for our own use of resources as we conduct our business, to minimise our environmental footprint.

Marketplace

Our awareness of the social and environmental impact of the business that we conduct, and how we can support global sustainability efforts through the provision of insurance.

Inclusion & diversity

We commit to recruiting, retaining and developing people with diverse backgrounds and experiences to thrive at all levels of our business, in a truly inclusive environment that fully supports and celebrates differences.

Responsible underwriting compliance

We are committed to ensuring our business is conducted in an ethical and honest manner. This ensures we do the right thing for our stakeholders.

Responsible business committee

Our responsible business committee is chaired by Emma Whiteacre and sponsored by executive member Richard Montminy. It reports into the executive committee and board. Our inclusion & diversity (I&D) committee leads on I&D within Beazley, and is led by Sarah Booth.

Charity

Our charity efforts go beyond simply making a donation – we focus on making a difference, both in our local communities and around the globe.

Renewable World

During 2019 Beazley employees voted for our next corporate charity partner to have an environment-related connection. In January 2020 we launched our two-year global partnership with Renewable World.

Renewable World is a charity which tackles poverty using renewable energy. They support the provision of affordable renewable energy services to improve incomes, health and education in the developing world. Their mission is to lead in devolving and deploying effective ways of bringing renewable energy at scale to poor communities, as well as educating and empowering them to achieve sustainable and resilient livelihoods.

We chose them as a Global Charity Partner because they:

- Have both an environmental and a humanitarian aspect – helping those in extremely low-income communities by providing them with lasting renewable energy and resources.
- Have a global footprint, helping nearly 40,000 people living in off-grid communities in East Africa, South Asia and Central America.
- Are a relatively young organisation (established in 2007), and therefore, our donations and efforts will make a real difference to them. This means we can directly see the impact we are making in communities around the world.

We always aim to support our charity partners by doing more than making financial donations. We want to ensure we have a long-lasting positive impact on our communities around the world. We achieve this in two ways: by charity committee-led activities and by employee led activities. Our global contribution in 2020 was over $89,000.

Some of our highlights include:

2.6 Challenge

In April, colleagues participated by picking an activity of choice based on the numbers 2.6 or 26 – this could be anything from running for 2.6 miles to juggling for 26 minutes. We saw incredible engagement from teams and individuals across the business: from running 2.6 miles or spinning around in a circle 26 times to cycling 26 miles, our colleagues undertook a variety of fun and unique activities. This event raised over $14,000.

Global Charity and Community Week

In our first virtual charity week we ran a number of events including:

- Global Baking Challenge – colleagues were asked to submit photos of their best bakes.
- Reuse for Renewable World Challenge – colleagues were encouraged to craft using items at home.
- Double your Donation Challenge – as COVID-19 had disrupted funds for our charity partner, we pledged to double donations.

We raised over $17,000 from this event.

Ready Steady Cook

Our final charity initiative of the year was titled 'Ready Steady Cook'. Colleagues all over the world were encouraged to submit dishes and drinks for a chance to win prizes. We partnered with Renewable World to judge the entries and narrowed 40 dishes down to four winners. All of the entries have been incorporated into a Beazley cookbook to help raise further funds.

Renewable World installed solar panels to help improve living standards in Achham, West Nepal

Responsible business *continued*

Charity
continued

Supporting our colleagues

Supporting our charity partner Renewable World is important to us. However it is equally important for us to support our colleagues. We want to enable our employees to support charities close to their own hearts, which is why we offer to match funding up to $750 for individual and $5,000 for group fundraising, as well as charity leave. This year a number of colleagues achieved the following:

- Adam Parr swam across the Solent for Aspire, a charity which supports people with spinal injuries.
- Rob Holmes ran the virtual London Marathon to raise funds for Saint Francis Hospice.
- Our Philadelphia office organised a series of events including a virtual scavenger hunt for the Leukaemia & Lymphoma Society.
- Samantha Coffin ran over 50km in 10 days to raise funds for Macmillan Cancer Support.
- Helen Kemp and Linda Anderson walked 20 miles to raise funds for the Alzheimer's Society.
- Our Birmingham office wore pink for Breast Cancer Support and hosted a virtual coffee morning for Macmillan Cancer Support.
- David Broughton ran the virtual London Marathon to raise funds for Boudicca Breast Cancer Appeal.
- The US account services team held a pumpkin carving contest and raffle to raise funds for Feeding America.
- Andrew Horton walked 10,000 steps every day for 30 days to raise funds for Alzheimer's Society.

These events help to increase employee engagement as well as raising funds and awareness for our partners.

We also recognise COVID-19 has had a big impact on the charity sector with billions lost in potential donations. As a result, we also launched a one-off opportunity where colleagues could apply for $1,000 donation to a charity close to their hearts.

Beazley's response to large-scale disasters

In addition to our charity partnerships, in 2020, we donated $12,500 to the relief efforts of large-scale disasters including the Beirut explosion, the Mauritius oil spill and the communities impacted by Hurricane Laura. We also donated $30,000 to the Red Cross to support COVID-19 programs.

David Broughton running a marathon as part of the 2.6 Challenge

Community

Our vision is to use our expertise, influence and passion as a force for good in our local and global communities all over the world. We work with local organisations, near and far, to deliver support to our communities where they need it the most.

COVID-19 has had a huge impact on our communities including both socially and economically and manifesting in many ways. We focused on ways to support our communities as they needed our help more than ever. Colleagues volunteered their time to support their local communities from shopping for vulnerable neighbours, to calling the elderly, dropping off medical supplies to hospitals and sewing face masks. We also encouraged colleagues to use their charity leave and get involved.

Our formal community partnerships

London

In London, we continued our partnership with the East London Business Alliance (ELBA) and Tower Hamlets Education Business Partnership (THEBP), working with them on various community projects, particularly through our Make a Difference (MAD) campaign. Due to lockdown, our traditional long-term activities were halted. Instead we worked with THEBP to trial virtual opportunities such as the Writing Partners programme (a professional pen-pal scheme) and virtual mentoring.

Birmingham

Our Birmingham colleagues have focused on community organisations local to them, on an individual basis and through virtual events.

Farmington

Our Farmington office has continued their partnership with Camp Courant. They had over 27 participants in the Camp Courant 5k race and participated in the backpack programme. They also raised funds for a local food shelter with a pumpkin carving contest.

New York

In New York, we partnered with Reading Partners NYC, and our colleagues have spent the past year tutoring students in small groups, making a big impact. Due to the pandemic, Reading Partners pivoted to remote tutoring and developed an online curriculum, in which our New York tutors have now been trained and are awaiting pairing with students to pilot this programme. We will also be making a small donation to Reading Partners, as they have lost significant funding this year due to being forced to cancel all of their in-person fundraisers.

Chicago

Our Chicago office has partnered with 826CHI, a non-profit organisation in Chicago dedicated to supporting students ages 6 to 18 with their creative and expository writing skills and to helping teachers inspire their students to write. In 2020, we sponsored their annual fundraising gala, Eat Your Words.

Jerry Sullivan completing the 2.6 Challenge

Tanya Devereux collecting rubbish in her community during Make a Difference week

Brian Chadwick taking part in the 2.6 Challenge on roller blades

Philadelphia

The Philadelphia office did a scavenger hunt, a trivia night and sweepstakes to raise funds and awareness for the Leukaemia and Lymphoma Society. Through this they are working on bringing the Leukaemia and Lymphoma Society on board as their community partner.

Make a Difference

This year we had an all-virtual Make a Difference campaign. By working with our local community partners and conducting our own research, we sourced a number of online opportunities for all employees. We encouraged colleagues to volunteer a minimum of an hour of their time on activities varying from phone calls with the elderly, to transcribing historical documents and tracking wildlife in South Sudan. From our feedback survey, Beazley colleagues volunteered over 350 hours, the equivalent of 50 working days.

Our community internships

Due to lockdown, our community internship programme was postponed for this year. Instead we worked with our community partner The Brokerage and launched the Generation 2020 Academy. Through the academy, we supported our interns through a series of workshops and mentoring opportunities. These were designed to equip them with professional skills and prepare them for their future careers.

Responsible business *continued*

Environment

The Environmental Working Group was created in 2019 to lead environmental initiatives across our offices and increase environmental awareness.

The environmental impact of our people, our places of work and our business processes is important to us. Through the commercial management team and Environmental Working Group (EWG) we are influencing corporate decision-making, increasing the environmental awareness of employees and helping them to make more environmentally-conscious choices. This includes:

- Providing information to develop company knowledge and to influence decision-making;
- Providing information to increase individuals' knowledge and influence their choices;
- Finding ways to make environmental initiatives feel relevant to individuals via facts, comparisons and peer comparisons; and
- Assist people in developing eco-friendly habits.

Office operations

The impact of COVID-19 on our operations can be seen in the reduction across all offices in running costs due to COVID-19. We have decreased deliveries, general rubbish, air travel, hotel stays and paper usage. Air travel is our highest source of emissions.

At the beginning of 2020, the focus within our offices was on removing single-use plastics where we can, such as shifting to glass milk bottles, as well as improving our recycling facilities. We also worked with our supply chain to reduce emissions and pollutants by providing locally sourced products in our offices. This has included sourcing alternative energy providers in our Paris office and providing biscuits and tea bags that are produced without palm oil and are environmentally friendly.

Lockdown did cause a halt to some planned initiatives in 2020. Instead, the EWG launched a virtual information campaign to engage with employees and encourage them to reduce their carbon footprint at home. This was done in a series of intranet and Weekly News articles supplemented a session on sustainability within the 'How We are Doing Live week'.

During Charity and Community Week, the group supported the Reuse for Renewable World Challenge. This was a competition where employees were encouraged to create something useful using everyday items at home. The winning entries included a door made from an old table and handcrafted soaps made from food ingredients.

Carbon emissions

Scope 1

9.22 tCO_2e

Scope 2

870.16 tCO_2e

Scope 1 & 2 emissions decreased in 2020 due to our offices being closed as a result of COVID-19 restrictions.

Scope 3

3,337.84 tCO_2e

Scope 3 emissions in 2020 reduced due to a reduction in business travel as a result of COVID-19 restrictions.

tCO_2e/employee/year

2.91 tCO_2e/FTE

When normalised per Full Time Equivalent (FTE) of staff, a 70% reduction in overall emissions occurred in 2020, when compared to 2019, reflecting the impact of the pandemic on business travel.

Energy consumption initiatives

The large reduction in emissions in 2020 has been a result of the travel restrictions caused by COVID-19. The energy savings as a result of the delivery of new IT equipment to colleagues in 2020 is not reflected in the overall energy consumption data. It is expected the benefit of this roll out will be reflected in our emissions in 2021, as well as other energy initiatives we have planned.

22 Bishopsgate

There was a delay in the completion of our new London office at 22 Bishopsgate. This office space was selected due to its sustainable design, and achieves two recognised standards. Firstly it has been awarded a BREEAM 'Excellent' rating for its sustainable construction and operation. Secondly it is the largest development in London to be certified against the leading international WELL methodology, which promotes improving the health and wellbeing of its occupants. The office move will also help us further reduce carbon emissions associated with our office space.

In preparation, our 2020 focus was on ensuring we used sustainable products in our fit-outs and furniture choices, partnered with local suppliers to minimise our carbon footprint.

Wellbeing

We have ensured the provision of home equipment for all staff whilst working at home during COVID-19, and have provided advice and guidance for homeworking through our intranet, personal contact and messaging platforms.

Marketplace

Our Marketplace workstream is all about using insurance as a force for good, giving our clients and insureds good reasons to do the right thing, and improving their risk and business profiles by helping them to manage risks and adapt to sustainability challenges.

Climate change impacts on insurers may be three-fold: physical – the disruptive impacts of more frequent or severe extreme weather events; transitional – the business impact of the decarbonisation process, which may entail extensive policy, legal, technology and market changes; and litigational – the risks that parties who have suffered loss or damage from climate change seek to recover losses from those they believe responsible. Climate change, therefore, is not only a source of risk, but also of great opportunity for Beazley.

Beazley wishes to encourage and support the transition to a decarbonised economy, and a key early step will be the development and publication of our first sustainability strategy. This strategy will be released in spring 2021 and will set out our aims and ambitions across a number of ESG-related issues, and will support the ESG strategy published by Lloyds in December 2020.

Task Force on Climate-related Financial Disclosures

In 2020, we continued our alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and will further develop these in 2021 and beyond. Leadership shown by both the board and executive committee towards climate change is central to our approach, with a number of detailed discussions on the subject held across the year. One example of this is that in 2020, the board approved an enhancement to the underwriting process requiring that it should include a specific environmental assessment, to ensure that Beazley is providing insurance to customers who are mindful of their climate responsibilities.

The Senior Management Function regulatory responsibility is split between executive committee members: Beazley's Chief Underwriting Officer, Adrian Cox, and Chief Risk Officer, Andrew Pryde. The board and executive committee are supported by various roles and committees across the business. The creation of a dedicated sustainability role within the business has also helped support to the business, and will ensure that sustainability and climate change thinking become embedded in our, business as usual, approach.

Our planning process is key to embedding this in our business. Sustainability initiatives will be incorporated in the development of some our products and services in 2021. As a foundation, we started a project in autumn 2020 to map potential climate-related risks and their potential impact on our business. The outputs of both a combination of data analysis and scenario analysis will further inform business strategy, as well as develop our risk management approach as outlined later in this report. The workstream is expected to be completed by autumn 2021, with our first dedicated TCFD report published by the end of the year. The project also provides an opportunity for our underwriters to develop their knowledge and understanding of climate-change-related risks so they can be best placed to support our clients.

Increased focus on environmental, social and governance metrics

In 2020 we also began to see an increased focus on environmental, social and governance metrics (ESG) metrics by our stakeholders, with many using the outputs from ESG indices to inform decision-making. We believe an increased focus on ESG metrics is an important part of being a responsible business and we have worked hard to improve our ESG ratings across a number of different ESG data providers. This led to an increased number of submissions to indices in 2020, which in turn has provided valuable insight to help us develop our sustainability strategy. This approach will continue in 2021.

Likewise, we are starting to develop our understanding of ESG metrics from an underwriting perspective, in order to determine the value they bring to informing underwriting decisions.

Responsible business *continued*

Inclusion & diversity

Sarah Booth
Head of Investor Relations
Chair of inclusion & diversity steering group

Despite the uncertainty of the early months of the pandemic, we have continued to maintain momentum in our inclusion and diversity efforts.

Our strategy has not changed since the pandemic began, however we have naturally changed our approach to engaging employees as we continued to work remotely. Our steering group meetings have gone virtual, we have focused on creating online communities, and rather than in-person events we have continued to raise awareness through internal articles and webinars.

Inclusion

We are very proud of our inclusive culture, where people can be themselves. Nothing demonstrates this more than the fact that we have four active and well-supported diversity-related employee networks:

- Beazley SHE, supporting women both at Beazley and within the wider industry;
- The mental wellbeing network, including our mental health first aiders, working to ensure employees have the tools and support available to optimise mental health;
- RACE@Beazley focusing on race, ethnicity and cultural inclusion; and
- PROUD@Beazley for LGBT+ colleagues and their allies.

All networks played a pivotal role in supporting their members and the wider organisation during 2020, the most challenging of years.

Beazley SHE hosted virtual yoga throughout the first lockdown as well as a session on resilience.

Our mental health wellbeing network was in its infancy earlier in the year, but grew in importance hugely as a result of the challenges that 2020 brought. Throughout the year, a number of our employees volunteered to be mental health first aiders and we now have 32 individuals trained globally who are available to colleagues in need of support. Additionally, the network launched Thrive, a mental wellbeing app for our people, designed to help them proactively manage their mental health.

RACE@Beazley was unable to proceed with the office-based events that were planned to launch the network in March, as everyone moved to remote working. Instead the network has engaged our global employee population online by bringing people together in intimate 'getting to know each other' sessions.

The senseless death of George Floyd rightly brought matters of racial inequality to the front of everyone's mind. It became more important than ever that, as an organisation, we provided a welcoming environment where everyone can feel safe and respected. PROUD@Beazley, our LGBT+ employee network, took the decision to use the annual Pride celebration in June to support RACE@Beazley and highlight human rights and racism. More than 300 employees joined this virtual event to offer support and hear from a speaking line-up of Beazley people and external guests.

Diversity targets

Women made up 28% of our senior management population in 2017. That proportion is now 36%. However, we have further to go and have re-set our target to have at least 45% female employees in our senior leadership team by the end of 2023. Our ultimate aim is a 50/50 gender split overall however, we have committed to at least 45% female representation, recognising that there may be a small swing in either direction at any one time.

While our gender diversity focus continues, we recognised that the momentum in this area was such that we could expand our focus to other areas of diversity. During 2020 a significant piece of work was undertaken to ensure we had data in place relating to the ethnicity and racial background of our employees. This was the first time we had been able to review and analyse such data with a view to determining an appropriate target. Aligned with our gender target timeframe, we will be announcing our target to increase the representation of people of colour at Beazley during 2021. We will be aiming to ensure Beazley's employee population is representative of the areas within which we operate.

Employee diversity

Beazley plc board

Male

7

Female

4

Total 2020 – 11

Senior management

Male

74

Female

42

Total 2020 – 116

All employees

Male

793

Female

757

Total 2020 – 1,550

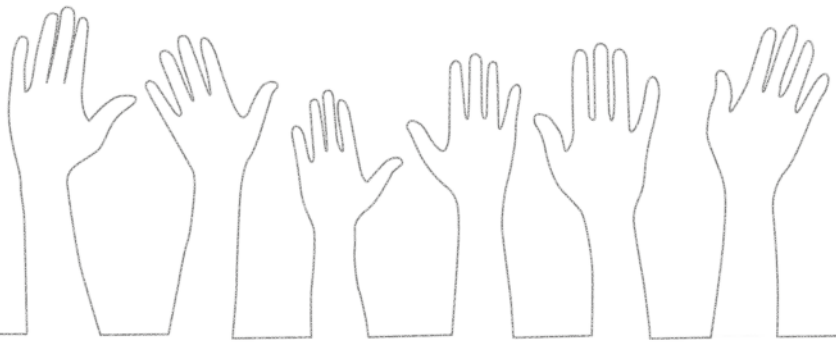
We know a number of people sometimes worry about saying the wrong thing, particularly when it comes to race and ethnicity. To overcome this, we have focused on raising people's comfort in discussing inclusion and diversity through 'race fluency' workshops with our senior management as a starting point. We will continue to do more on this in 2021.

We have also been supporting each department individually, analysing their diversity data and agreeing bespoke, measurable actions as a result. We recognise that each department has unique considerations when it comes to inclusion and diversity.

For example, our information technology team are aiming to increasing gender representation and have signed the Tech Talent Charter to publicly state their commitment. Our underwriting and claims operations teams in the UK are focusing on increasing the ethnic diversity of their entry-level future hires as this acts as a talent pool for our underwriting departments. Training will shortly begin for the hiring managers.

We have new partnerships in place to enable us to reach our targets. This includes an alliance with ICAN, the Insurance Cultural Awareness Network, aimed at raising awareness within the industry. In terms of entry and mid-level recruitment, we aim to attract a wider diversity of applicants through our partnerships, advertising and thought-leadership work with Bright Networks and with the Black Young Professionals Network.

Through continued training, data analysis and reporting, we are confident we have a strong foundation in place to enable us to reach our goals.



Responsible business continued

Responsible Underwriting – Compliance

Rob Anarfi
Group Head of Compliance
Senior sponsor of RACE@Beazley

Responsible underwriting guides our behaviours, informs our decisions, and enables us to do the right thing.

We believe in doing business in a manner that observes applicable law and regulation and pays due regard to the interests of our stakeholders. To ensure that we consistently meet this standard we operate a group-wide compliance framework designed to measure risk exposure, govern decision-making and monitor performance.

Our framework consists of systems and controls, including:

- Risk assessments;
- Policies to ensure we comply with regulations;
- Staff training and awareness;
- Compliance monitoring; and
- Compliance reporting.

Senior management oversight

Beazley's executive management has ultimate responsibility for the success of our compliance framework and there is top-down commitment to ensuring good conduct and regulatory compliance across the group. Effective oversight of the framework is achieved by analysing our transactional data and monitoring business operations.

Compliance monitoring reviews provide assurance as to how well we are doing and enable us to identify areas that need improvement. By regularly reporting the output of our monitoring activities we also ensure that senior management maintain oversight of compliance risk across the group.

Staff training

The compliance framework is supported by an annual staff training programme covering topics such as our approach to financial crime, underwriting due diligence, conduct risk and data security. We provide training to staff when they join Beazley and frequently throughout the course of their employment to ensure that we continue to operate in a responsible manner.

Knowing our customers

Knowing our clients and business partners is central to doing business responsibly. It is key to managing risk and ensuring we transact only with reputable intermediaries, agents and suppliers. We maintain various policies, procedures and controls to ensure compliance considerations are embedded in our business processes.

Sanctions

As a responsible business, we adhere to all applicable financial and trade sanctions. We closely monitor sanctions developments and are primed to respond when changes occur. To ensure compliance with applicable regimes, we have embedded sanctions due diligence procedures into our underwriting and claims processes and ensure continued understanding of sanctions developments through staff training.

We work closely with our business partners to ensure our approach to financial and trade sanctions is reflected in our business relationships, achieved through extensive due diligence and communication of our expectations.

Anti-bribery and corruption

A strong belief in ethical business practices underpins our relationships with our customers and business partners. To keep us connected to this core value, we operate within strict guidelines that govern the payment of commissions, the exchange of gifts and entertainment, and all circumstances capable of leading to a conflict of interest. In particular, we maintain the following policies and procedures which ensure compliance with anti-bribery laws in the jurisdictions in which we operate:

- anti-bribery policy;
- gifts and hospitality record and approval process;
- conflicts of interest policy;
- customer conduct protocol;
- broker services protocol;
- acquisition cost protocol; and
- anti-fraud policy.

The exchange of gifts and hospitality is closely monitored to ensure that business decisions are free from improper influence. Where there is a risk of potential impropriety staff are able to make use of various avenues for reporting instances of attempted bribery, corruption or conflicts of interest.

In addition to our policies, our approach to anti-bribery and corruption includes staff training and an annual risk assessment. This assessment analyses our business for exposure to high-risk jurisdictions, our distribution channels and the classes of business we write.

We conduct compulsory annual anti-bribery and corruption training for all staff, our new starters also receive classroom-based training.

Anti-money laundering

We have no appetite for Beazley being used as a vehicle for financial crime. Our controls include monitoring transactions and ascertaining the identity of our counterparties. Instances of suspicious activity are acted on in accordance with

the Beazley financial crime policy, which reflects the requirements of money laundering and tax legislation in the jurisdictions in which we operate. Staff are trained to refrain from entering into suspicious transactions and to report all such activity to the compliance team so that any necessary notifications can be made to external agencies.

Conduct

We pride ourselves on how well we can meet the needs of our customers; conduct is therefore a core aspect of our business. It permeates our culture and informs how we design, market and service our products. We ensure the application of good conduct principles by:

- promoting a top-down culture that places the customer centre stage;
- ensuring rigorous assessment, design and review of our products;
- clearly and fairly marketing all products and services;
- insisting on transparent commission and remuneration structures;
- maintaining oversight of delegated authorities and other distribution channels;
- operating a fair and responsive claims and complaints handling process; and
- safeguarding our customer data.

The standards we require of our staff are set out in the Beazley Customer Conduct Protocol. The protocol is supplemented with periodic conduct-related training.

Data security

We have a robust approach to information security and privacy comprising organisational, human and technical controls designed to safeguard data and the rights of data subjects.

The following policies govern our management of data:

- information security strategy;
- information security policy;
- information security risk assessment and management policy; and
- global privacy policy and privacy notice.

These policies are well embedded in our business processes and staff are trained annually to apply principles of information security in their day-to-day work. To ensure consistent compliance with data requirements, we undertake frequent security testing and annual data security/privacy audits. Our governance structure enables the information security and privacy function to escalate and report data-related matters without restraint, thereby ensuring senior management oversight of data risk management at all times.

We are committed to upholding the rights of data subjects, informing them of the information we collect and process, and ensuring that we only collect what is required to deliver our services.

We observe the legal and regulatory requirements of the various jurisdictions within which we operate and have a global privacy policy aligned to European, North American, Canadian and Singaporean privacy requirements.

In all, our information security and privacy programme is built around a framework of prepare, protect, detect, respond and recover. This enables us to take precautions, act decisively and protect the interests of our data subjects. There have been no cases of a data breach that has had a material impact on our clients or our business, nor one that has necessitated any need to report the matter to our clients or any of our regulators.

Whistleblowing

In line with our values, we actively promote a culture that encourages staff to speak up and escalate concerns. In support of this, we operate a whistleblowing policy and process that allows for anonymous reporting of concerns.

Such reports are treated with the utmost confidentiality and in accordance with all applicable legal and regulatory requirements. Annual reports are made to relevant Beazley boards on the effectiveness and operation of our whistleblowing procedures. Over the past 12 months there have been no whistleblowing cases.

Non-financial information statement

Beazley presents its non-financial information (NFI) statement in compliance with sections 414CA & 414CB of the Companies Act 2006. The content required for this statement can be found throughout the report as per the table below:

	Chapter	Page reference
Environmental matters	Responsible business; Risk management; Directors' report	30-39; 56-68
The company's employees	At our core; Our business model; Statement from the Chair; Chief Executive's statement; Q&A with the Chief Executive; Responsible business; Section 172 statement; Operational update; Risk management; Directors' report; Letter from our Chair; Board of directors; Statement of corporate governance; Letter from the Chair of our remuneration committee; Directors' remuneration report	01-15; 30-43; 53-75; 72-114
Social matters	Statement from the Chair; Chief Executive's statement; Responsible business	08-13; 30-39
Respect for human rights	Responsible business	30-39
Anti-corruption and anti-bribery matters	Responsible business; Risk management	30-39; 56-62

Section 172 statement

The directors confirm that they have discharged their duty under s172 of the Companies Act 2006 by acting in a way that they considered, in good faith, to be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so had regard, amongst other matters, to the matters set out in s172 (1) (a) to (f) of the Companies Act 2006.

The board has identified that its key stakeholders are: our workforce, shareholders, customers, brokers and regulators. The information below summarises how the directors have engaged with the company's key stakeholder groups.

How we engage with our people

We recognise that our people are fundamental to the long-term success of the company and we have various engagement mechanisms in place. We believe it is imperative to attract, engage and develop a diverse, high performing workforce to enable Beazley to achieve its strategic objectives. Open dialogue with our employees has been at the core of Beazley's culture since the company was formed. We hold regular all-employee meetings which sometimes include Q&A with senior management.

Historically we have conducted all-employee surveys every other year that measure employee engagement. We conducted the survey in 2019 and had an overall employee engagement score of 70%. During 2020, we conducted an all-employee survey on ways of working and included the questions on engagement and the overall employment engagement score increased to 86%. Employee insights are also gathered through a number of employee networks which all have sponsorship from the company's senior leadership team. In addition to this, we have conducted monthly 'employee pulse surveys' since April 2020.

During the year, non-executive directors and senior management have conducted 'virtual tours' of Beazley's offices around the globe to meet with and understand the views of our colleagues.

Bob Stuchbery is the Non-Executive Director nominated by the board to bring the views of the workforce to the boardroom. During 2020, he continued to chair the 'Sounding Board', which was established in 2019 as part of enhancements made to employee engagement mechanisms.

The COVID-19 case study explains how we have specifically engaged with our employees throughout the pandemic and responded to their feedback.

How we engage with our investors

The support and engagement of our shareholders and investors is essential to the future success of our business. To further strengthen our engagement with investors, Beazley appointed its first head of investor relations in 2020. We are in touch with all of our shareholders at least five times per annum with information about shareholder meetings, dividend payments and the company's financial results and trading statements. We have regular meetings with institutional investors and analysts to understand their views and address any concerns. During 2020, we also engaged with our shareholders through calls with our top 15-20% investors regarding the equity placing in May and the trading update issued in September. Conference calls were hosted following the announcement of trading updates issued in September and November 2020, which were open to all. Where requested, other meetings with shareholders were facilitated during the year and the board received updates on these discussions.

How we engage with our customers

Throughout the COVID-19 pandemic, there has been a strong focus on pro-actively supporting clients during these times of ongoing uncertainty, including increased efforts to settle outstanding claims quickly. Our claims service has one of the most visible interactions with our customers, when they have experienced a loss and we aim to pay valid claims without any unnecessary delay. We responded to our clients' needs through the launch of several new products including a virtual care product to meet the new demands following a shift to digital health and wellness provision and a transmission failure product to cover the organisers of virtual events. When we saw an increase in the frequency and severity of malicious ransomware attacks we began to scan our clients who have cyber coverage for vulnerabilities in order to reduce the threats to our clients and the potential for losses to them and the company. Through our Closer to the Client core strategic initiative, we continue to focus on better understanding the needs of our clients: one of the key goals of the initiative being to ensure that Beazley focusses even more on client needs. Work has been done to collate and share insights from client interactions. Client relationship officers have been appointed to liaise with key clients, providing a clear point of contact and open channels to decision makers within Beazley. The board receives regular reports on the progress of the workstreams underpinning the strategic initiative.

How we engage with our broker partners

There is regular, coordinated engagement with our key broker partners facilitated through our broker relations team. Even throughout the period of remote working in 2020, the company's senior management has continued to engage with senior leaders of the broking firms and the board received regular updates on our key broker relationships.

We recognise that our people are fundamental to the long-term success of the company and we have various engagement mechanisms in place. We believe it is imperative to attract, engage and develop a diverse, high performing workforce to enable Beazley to achieve its strategic objectives.

How we engage with our regulators

We continue to have transparent dialogue with our key regulators supported by our compliance team. We recognise the importance of preserving these regulatory relationships and we seek to maintain the highest possible regulatory standards. Our senior management and the non-executive directors of our regulated entities have ongoing engagement with our regulators on an ad hoc basis, including when requested to discuss specific matters. Any significant regulatory engagements are reported to the board.

How we engage with other stakeholders:

Suppliers

We recognise the role that our suppliers play in helping us run our business. The company complies with the Prompt Payment Code reporting requirements and publishes its average payment times for supplier invoices. Where a supplier proposes payment terms that differ from our standard terms, the company uses its best endeavours to accommodate the supplier's terms. The board annually reviews and approves the company's Modern Slavery and Human Trafficking Statement which sets out the company's efforts to eliminate modern slavery in its supply chain.

Communities

The responsible business committee coordinates the company's activities to support both our local and global communities, some of which are done through formal community partnerships. Further information on the company's responsible business strategy and how the company aims to provide support for our communities and the environment is set out in the responsible business report on page 30.

Section 172 statement *continued*

Engagement in action

The board considers the outcome of relevant stakeholder engagement and recognises the long term consequences of its decisions. The following case studies provide some examples of key decisions taken by the board and explain how stakeholder interests have been taken into account.

Impact of the ongoing COVID-19 pandemic on the company's workforce

The board recognised that the company must play its part in stopping the spread of the coronavirus and in mid-March 2020, the company successfully transitioned to remote working for all employees across the globe. Over the past few years, Beazley has been moving toward a flexible working model for its employees, which placed the company in good stead to transition seamlessly to remote working with less than 24 hours' notice. From an operational perspective, there has been no material disruption to the company's business. No employees were furloughed as a result of the pandemic. The board knows that it is the talented workforce that is the core contributor to the long-term success of the company. Roles and responsibilities vary across the company and the Beazley Citizen initiative was launched early on in the pandemic as a 'call to action' to support our claims team, who at the time were experiencing high claims volumes due to COVID-19 losses. This avoided the requirement to hire additional temporary resources. The idea was to seek volunteers from other parts of the business who might have some spare capacity and could offer their time to support others. This initiative proved to be such a success that it will be part of the company's business as usual processes going forward.

Keeping connected

To ensure the Beazley workforce remained connected in the remote working environment, weekly communications from the CEO and the executive management team were introduced in March 2020. These communications alternated between written and live virtual web-enabled updates to keep employees apprised of what was going on within the company and connected to their colleagues. The executive committee members and non-executive directors have hosted several virtual question and answer sessions as part of the weekly communications programme. The board asked for explanations and to have sight of the employee communications about the capital raise and the COVID-19 losses, recognising that many of our employees are also shareholders of the company.

Employee morale

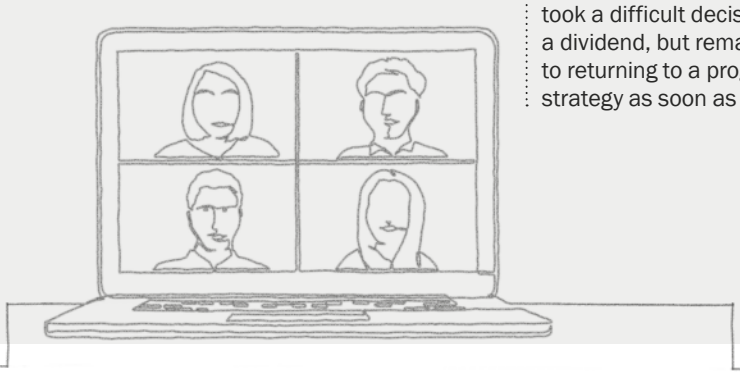
To keep employee morale high, our internal communications, culture and employee engagement team stepped up and introduced innovative ways to keep our employees connected. Some of these included a 'We're all in this together' scrap book, which featured employees sharing their families, pets, staycations, talents and more with their colleagues; a 'summer camp' programme; a celebrating Beazley day; and a virtual 24 hour global 'How are we doing?' live event which provided insights and information about different aspects of our business and the broader context in which Beazley operates.

Responding to employee feedback

Since April 2020, the company launched frequent pulse surveys, to provide a picture of how the workforce was feeling and to learn how the company could provide additional support. Several examples of the company acting on employee feedback received in these surveys are: allowing greater flexibility on working hours, the introduction of wellbeing days for all employees during the pandemic, and carry-over of annual leave entitlement. An all employee virtual session was held to explain how the year-end compensation processes would be impacted by the company's results.

Health and well-being

24/7 support for anyone regarding their mental wellbeing and medical support has been adjusted for employees to provide additional remote access to doctors/other healthcare professionals.



Capital

Throughout the year the board has taken various decisions in support of the company's long term strategy, such as securing the extension of the multicurrency standby letter of credit and revolving credit facility and raising equity of $292.6m to support ongoing organic growth. The multicurrency standby letter of credit and revolving credit facility was extended in order to maintain a similar contingency buffer of standby funds available under the facility following a drawdown of funds earlier in the year. In May 2020, the board considered the optimal capital structure for the group and concluded it was an appropriate time for the company to raise equity. The board believed the decision would position the business for future growth opportunities (during a time of positive rate momentum across the company's core markets) and provide further strength to the balance sheet in light of the continued uncertainty from the COVID-19 pandemic.

In taking the decision to raise capital, the board carefully considered the quantum and the timing, in light of the dilutive impact for shareholders and the deterioration in the company's share price at the time. The board was keen to explore how a retail offering could be made in order that all shareholders could participate in the placing and agreed that a concerted effort would be made. The board sought the most expeditious means of conducting the placing given the uncertainty and volatility in the equity markets at the time and established that this solution would not allow for a pro-rata offering. The placing was successful and the board thanks our investors for their continued support. Given the financial result and the continued uncertainty, the board also took a difficult decision to not pay a dividend, but remains committed to returning to a progressive dividend strategy as soon as possible.

The board is resolute in its duty to drive value for its shareholders with the money that was raised and very much positioned its decision-making and approval of the 2021 business plan around fixing underlying business trends and ensuring 'good growth'.

The board considers that they have acted in good faith and in a way most likely to promote the success of the company for the benefit of its stakeholders as a whole.

Financial review
Group performance

Beazley delivered increased premium and a robust investment return to achieve a modest loss against a backdrop of severe claims activity fuelled by COVID-19.

Beazley's resilience is derived from its diverse portfolio.

Result

Loss before tax in 2020 was $50.4m (2019: $267.7m profit). The group's combined ratio deteriorated to 109% (2019: 100%) primarily due to high volumes of claims arising on COVID-19 impacted lines of business. Our investment team achieved an investment return of 3.0% (2019: 4.8%).

Premiums

Gross premiums written have increased by 19% in 2020 to $3,563.8m (2019: $3,003.9m). Rates on renewal business on average increased by 15% across the portfolio (2019: increased by 6%) with our Market Facilities and Cyber & Executive Risk divisions seeing the largest movement. During the year, we have been adding exposure in a number of areas and taking underwriting remediation action on certain areas of business. The charts overleaf highlight how we achieve diversification by product mix.

Beazley's resilience is derived from its diverse portfolio.

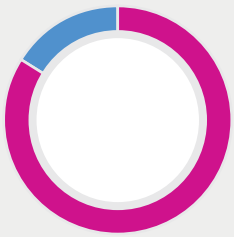
Sally Lake
Group Finance Director
Executive sponsor of the Women in Finance Charter

Statement of profit or loss

	2020 $m	2019 $m	Movement %
Gross premiums written	3,563.8	3,003.9	19%
Net premiums written	2,917.0	2,503.5	17%
Net earned premiums	2,693.4	2,347.0	15%
Net investment income	188.1	263.7	(29%)
Other income	29.8	25.8	16%
Revenue	**2,911.3**	**2,636.5**	**10%**
Net insurance claims	1,958.3	1,452.5	35%
Acquisition and administrative expenses	974.4	889.7	10%
Foreign exchange gain	(11.2)	(1.1)	918%
Expenses	**2,921.5**	**2,341.1**	**25%**
Finance costs	(40.2)	(27.7)	
(Loss)/profit before tax	**(50.4)**	**267.7**	
Income tax credit/(expense)	4.3	(33.6)	
(Loss)/profit after tax	**(46.1)**	**234.1**	
Claims ratio	73%	62%	
Expense ratio	36%	38%	
Combined ratio	109%	100%	
Rate increase	15%	6%	
Investment return	3.0%	4.8%	

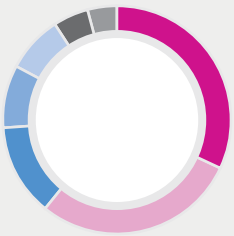
The group is of the view that some of the above metrics constitute alternative performance measures (APMs). Further information on our APMs can be found in the key performance indicators on page 5 and in the glossary on page 205.

Insurance type



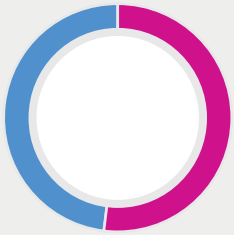
Insurance	84%
Reinsurance	16%

Business by division



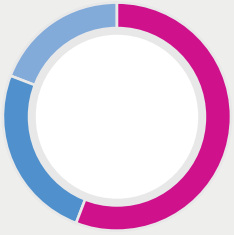
Specialty Lines	32%
Cyber & Executive Risk	29%
Property	13%
Marine	9%
Political, Accident & Contingency	8%
Reinsurance	5%
Market Facilities	4%

Premium written by claim settlement term



Short tail	52%
Medium tail	48%

Geographical distribution



USA	56%
Other	25%
Europe	19%

Financial review

Group performance continued

Reinsurance purchased

Reinsurance is purchased for a number of reasons:

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

The amount the group spent on reinsurance in 2020 was $646.8m (2019: $500.4m). As a percentage of gross premiums written it increased to 18% from 17% in 2019.

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 deteriorated in 2020 to 109% (2019: 100%) due to the impact of first-party COVID-19 losses and increases in ransomware reserves.

Claims

After a series of years with material natural catastrophes, COVID-19 brought a wave of event cancellation and business interruption claims that have particularly hit our contingency and property books. Our first-party COVID-19 claims estimate remains at $340m net of reinsurance (of which $82.5m has been treated as an unexpired risk reserve in respect of events dated after 31 December 2020). This figure assumes a resumption to some form of normality in the second half of 2021. Were this not to be the case, we estimate that there is potential for a further $50m of claims net of reinsurance to the end of 2021. We continue to see increases in attritional claims due to ransomware and social inflation. As a result of these trends as well as the COVID-19 related costs, our claims ratio for the year deteriorated to 73% (2019: 62%).

Reserve releases

Beazley has a consistent reserving philosophy, with initial reserves being set to include risk margins that may be released over time as and when any uncertainty reduces. Historically these margins have given rise to held reserves within the range of 5-10% above our actuarial estimates, which themselves include some margin for uncertainty. The margin held above the actuarial estimate was 6.3% at the end of 2020 (2019: 6.8%). 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. During years where we experience large losses we tend to see the margin we monitor being lowered as often we hold the same estimates within both the actuarial and held reserve estimates. This year, there are a number of drivers which cause this effect. Firstly, the significant first-party losses resulting from COVID-19 are held at a similar level in both the held loss reserves and the actuarial estimates. This is also the case for the number of natural catastrophes that occurred in the second half of 2020. Finally, as the aggregate reinsurance is operating on a number of years with Specialty Lines and Cyber & Executive Risk, this also has the effect of the two measures being similar net of reinsurance. Allowing for these effects would move the surplus around the middle of the target range.

The reserve releases in 2020 increased to $93.1m (2019: $9.5m) with all divisions contributing releases except Cyber & Executive Risk where an uptick of cyber ransomware activity resulted in a strengthening of $4.4m this year (2019: $9.4m release). Our Specialty Lines division has seen an increase in releases to $58.0m (2019: $36.9m). Our newly separated division Market Facilities, which was previously within Specialty Lines, is also contributing a $0.9m release (2019: nil). Our Political, Accident & Contingency division provided $4.6m of releases (2019: $16.8m) and our Marine, Property and Reinsurance divisions have all seen a return to releases this year, with Marine contributing $8.9m (2019: $6.4m strengthening), Property contributing $4.4m (2019: $17.1m strengthening) and Reinsurance contributing $20.7m (2019: $30.1m strengthening).

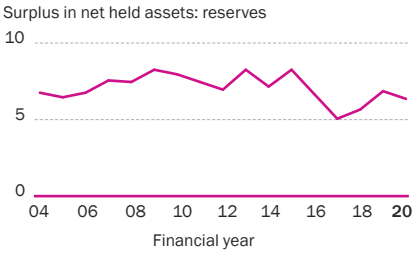
Prior year reserve adjustments

	2016 $m	2017 $m	2018 $m	2019 $m	2020 $m	5 year average $m
Cyber & Executive Risk	6.9	32.5	25.7	9.4	(4.4)	14.0
Marine	15.9	10.7	12.5	(6.4)	8.9	8.3
Market Facilities	n/a	n/a	n/a	–	0.9	0.3
Political, Accident & Contingency	27.2	3.9	14.8	16.8	4.6	13.5
Property	36.8	13.2	(47.3)	(17.1)	4.4	(2.0)
Reinsurance	32.3	54.7	23.8	(30.1)	20.7	20.3
Specialty Lines	61.6	88.9	85.5	36.9	58.0	66.2
Total	**180.7**	**203.9**	**115.0**	**9.5**	**93.1**	**120.6**
Releases as a percentage of net earned premium	10.2%	10.9%	5.5%	0.4%	3.5%	6.1%

Prior year reserve adjustments across all divisions over the last five years are shown on the previous page.

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

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

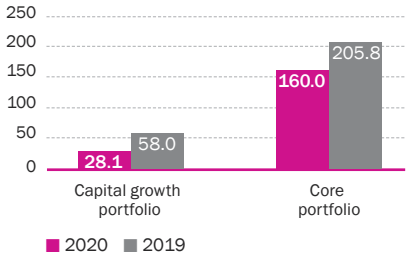


Acquisition costs and administrative expenses

Business acquisition costs and administrative expenses increased during 2020 to $974.4m from $889.7m in 2019. The breakdown of these costs is shown to the right.

Brokerage costs are the premium commissions paid to insurance intermediaries for providing business. As a percentage of net earned premiums they have remained a steady 23% in the current year (2019: 23%). 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.

Comparison of returns – major asset classes ($m)



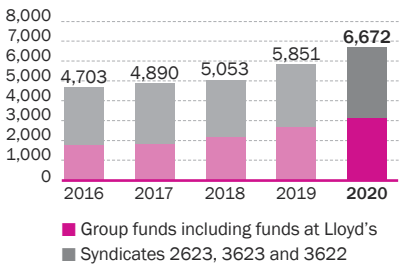
	2020 $m	2019 $m
Brokerage costs	628.4	533.8
Other acquisition costs	110.5	111.6
Total acquisition costs	738.9	645.4
Administrative expenses	235.5	244.3
Total acquisition costs and administrative expenses	974.4	889.7

Beazley focuses on improving our expense ratio during times of strong growth. In addition, reduced travel during recent times have dampened expenses during 2020 compared to previous years. Finally, due to the overall financial result this year, there have been further reductions as a result of lower discretionary remuneration. These three effects have led to the overall expense ratio improving from 38% in 2019 to 36%, with actual administrative expenses decreasing to $235.5m (2019: $244.3m).

Foreign exchange

The majority of Beazley's business is transacted in US dollars, which is the currency we have reported in since 2010 and the currency in which we hold the company's net assets. Changes in the US dollar exchange rate with sterling, the Canadian dollar and the euro do have an impact as we receive premiums in those currencies and a material number of our staff receive their salary in sterling. Beazley's foreign exchange gain taken through the statement of profit or loss in 2020 was $11.2m (2019: $1.1m).

Beazley group funds ($m)



Investment performance

Our financial assets continued to grow in 2020: the total value of our investments, cash and cash equivalents reached $6,671.5m by the year end (2019: $5,851.3m). These generated an investment return of 3.0%, or $188.1m, in 2020 (2019: 4.8%, $263.7m). This outcome is ahead of our expectations at the beginning of the year, but belies the significant volatility which our investments have experienced during the period, reflecting the unprecedented global background.

Most of our fixed income securities, which form the majority of our investments, are exposed to movements in US risk-free yields. The value of these investments rose as risk-free yields declined to near zero in the first quarter, driven by expectations that COVID-19 would impair economic activity, requiring very low interest rates for an extended period. However, these gains were more than offset by losses on our other investments in the first quarter. Global equity markets declined by more than 20% in this period, but more significant for Beazley was a widening of credit spreads on our US corporate debt investments: even short-dated securities with investment grade credit ratings saw spreads increase by more than 200 basis points in Q1, generating significant losses in these securities. We acted quickly to reduce our exposures to the most volatile asset classes as losses developed, limiting the impact on our portfolio, but our investments still lost 1.0% in the first three months.

Financial review

Group performance continued

Notwithstanding the dramatic financial market volatility as COVID-19 emerged in the first part of the year, the subsequent recovery in investment performance has arguably been more remarkable. Fiscal intervention from governments, monetary support from central banks and the promise of an extended period of low interest rates have combined to generate strong positive sentiment from investors through the last three quarters of the year, despite the continuing impact of COVID-19 on the global economy. Global equities rallied by more than 45% in this period, while credit spreads on investment grade securities reversed all of their earlier widening and ended the year lower than they began.

Our core portfolio exposures returned 2.9% in 2020 overall (2019: 4.3%), ultimately driven by the decline in risk-free yields in the first quarter, while our more volatile capital growth investments returned 3.5% (2019: 8.6%), helped by the robust recovery in equities, as well as a strong performance from our hedge fund portfolio.

We added to our equity and credit exposures as these asset classes recovered from March and this has helped our investment return. However, our exposures to risk assets in 2020 have generally been below the levels we would normally maintain, reflecting our view that investment risk has remained elevated throughout this unusual year. As a result, our 2020 investment return is lower than could have been achieved by a more aggressive strategy, but the volatility of our return during the year has also been reduced.

Looking ahead, available yields on the high credit quality debt securities in which we primarily invest are now very low (two-year US Treasury notes yield less than 0.2%), highlighting the modest level of returns we expect to be achievable in the near term. More volatile asset classes may offer better returns, but uncertainty about the global economic outlook remains elevated, increasing the risk of further volatility in these securities. We continue to develop our investment strategy to balance the search for return against the need to effectively control risk.

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

	31 Dec 2020		31 Dec 2019	
	$m	%	$m	%
Cash and cash equivalents	309.5	4.6	278.5	4.8
Fixed and floating rate debt securities				
– Government issued	2,723.7	40.8	1,862.9	31.9
– Corporate bonds				
– Investment grade	2,444.9	36.7	2,706.4	46.3
– High yield	251.1	3.8	235.8	4.0
Syndicate loans	40.6	0.7	8.0	0.1
Derivative financial instruments	28.5	0.4	25.5	0.4
Core portfolio	5,798.3	87.0	5,117.1	87.5
Equity funds	203.2	3.0	163.6	2.8
Hedge funds	442.1	6.6	354.0	6.0
Illiquid credit assets	227.9	3.4	216.6	3.7
Total capital growth assets	873.2	13.0	734.2	12.5
Total	**6,671.5**	**100.0**	**5,851.3**	**100.0**

Comparison of return by major asset class:

	31 Dec 2020		31 Dec 2019	
	$m	%	$m	%
Core portfolio	160.0	2.9	205.7	4.3
Capital growth assets	28.1	3.5	58.0	8.6
Overall return	**188.1**	**3.0**	**263.7**	**4.8**

Tax

Beazley is liable to corporation tax in a number of jurisdictions, notably the UK, the US and Ireland. Beazley's effective tax rate is thus a composite tax rate mainly driven by the Irish, UK and US tax rates. The weighted average of the statutory tax rates for the year was (2.0%) (2019: 15.0%). The tax rate of (2.0%) is significantly lower than previous years due to this year's composition of profits and losses across the group. Notwithstanding the overall loss before tax, some jurisdictions, notably with higher tax rates, were profitable. The effective tax rate has decreased in 2020 to 8.5% (2019: 12.6%). The decrease has been a result of, in addition to the lower weighted average of the statutory tax rates, lower favourable prior year tax adjustments in 2020 as compared to 2019.

The group has been monitoring the potential impact of the diverted profits tax (DPT) following the enactment of new legislation in April 2015 and has been of the view that no liability arises. Since 2015 the group has been exchanging correspondence with the UK's tax authority (HMRC) in relation to DPT applicability with respect to the intra-group transactions. These correspondence exchanges with HMRC have now reached a conclusion with no assessment to DPT being raised.

A Tax Act (the Tax Cuts and Jobs Act) was signed into law in the US in December 2017. The Tax Act includes base erosion anti-avoidance tax (the 'BEAT') provisions. We have performed an assessment for a number of our intra-group transactions for BEAT purposes. Although the application of this BEAT legislation is still not fully certain for some types of transactions we believe that the BEAT impact on the group is not significant. For the year 2020 the amount of $1.1m was provided for in the group financial statements for BEAT liabilities (for 2019 the group paid BEAT tax of $3.2m).

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

Financial review
Balance sheet management

Summary statement of financial position

	2020 $m	2019 $m	Movement %
Intangible assets	126.3	122.2	3%
Reinsurance assets	1,684.7	1,338.2	26%
Insurance receivables	1,467.9	1,048.0	40%
Other assets	637.3	514.0	24%
Financial assets at fair value and cash and cash equivalents	6,671.5	5,851.3	14%
Total assets	**10,587.7**	**8,873.7**	**19%**
Insurance liabilities	7,378.4	6,059.0	22%
Financial liabilities	558.5	554.8	1%
Other liabilities	841.3	634.6	33%
Total liabilities	**8,778.2**	**7,248.4**	**21%**
Net assets	**1,809.5**	**1,625.3**	**11%**
Net assets per share (cents)	**299.0c**	**309.6c**	**(3%)**
Net tangible assets per share (cents)	**278.0c**	**286.3c**	**(3%)**
Net assets per share (pence)	**219.1p**	**235.0p**	**(7%)**
Net tangible assets per share (pence)	**203.8p**	**217.3p**	**(6%)**
Number of shares[1]	**605.2m**	**524.9m**	**15%**

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

Intangible assets

Intangible assets consist of goodwill on acquisitions of $62.0m (2019: $62.0m), purchased syndicate capacity of $10.7m (2019: $10.7m), US admitted licences of $9.3m (2019: $9.3m), renewal rights of $8.7m (2019: $17.3m) and capitalised expenditure on IT projects of $35.6m (2019: $22.9m).

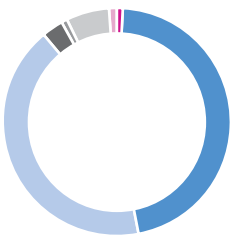
Reinsurance assets

Reinsurance assets represent recoveries from reinsurers in respect of incurred claims of $1,305.6m (2019: $1,068.8m), and the unearned reinsurance premiums reserve of $379.1m (2019: $269.4m). The reinsurance receivables from reinsurers are split between recoveries on claims paid or notified of $262.2m (2019: $223.7m), an actuarial estimate of recoveries on claims that have not yet been reported of $1,034.4m (2019: $845.1m), and unexpired risk reserve of $9.0m (2019: nil).

The group's exposure to reinsurers is managed through:

- minimising risk through selection of reinsurers who meet strict financial criteria (e.g. minimum net assets, minimum 'A' rating by S&P). These criteria vary by type of business (short vs medium tail). The chart below shows the profile of these assets (based on their S&P rating) at the end of 2020;
- 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 2020 our provision in respect of reinsurance recoveries totalled $14.8m (2019: $13.7m).

Reinsurance debtor credit quality



AA+	1%
AA-	46%
A+	42%
A	3%
A-	1%
Collateralised	6%
Others	1%

Insurance receivables

Insurance receivables are amounts receivable from brokers in respect of premiums written. The balance at 31 December 2020 was $1,467.9m (2019: $1,048.0m). The amount of estimated future premium that remains in insurance receivables relating to years of account that are more than three years developed at 31 December 2020 is $13.7m (2019: $11.5m).

Financial review

Balance sheet management continued

Insurance liabilities

Insurance liabilities of $7,378.4m (2019: $6,059.0m) consist of two main elements, being the unearned premium reserve (UPR) and gross insurance claims liabilities. Our UPR has increased by 20% to $1,924.3m (2019: $1,598.7m). 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 apart from the specific provisions made in respect of the unexpired risk reserves detailed in note 24, the business is profitable. Gross insurance claims reserves are made up of claims which have been notified to us but not yet paid of $1,507.3m (2019: $1,263.7m), an estimate of claims incurred but not yet reported (IBNR) of $3,855.3m (2019: $3,196.6m), and an unexpired risk reserve of $91.5m (2019: nil). These are estimated as part of the quarterly reserving process involving the underwriters and group actuary. Gross insurance claims reserves have increased 22% from 2019 to $5,454.1m (2019: $4,460.3m). Part of the first-party claims estimate of $340m has been treated as an unexpired risk reserve, in respect of those losses which were booked during 2020 in respect of events that were planned to happen during 2021.

Financial liabilities

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

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

A syndicated short term banking facility led by Lloyds Banking Group plc provides potential borrowings up to $450m, up from $225m at the start of the year. Under the facility $393.8m may be drawn as letters of credit to support underwriting at Lloyd's, and up to $225m may be advanced as cash under a revolving facility. The cost of the facility is based on a commitment fee of 0.4725% per annum and any amounts drawn are charged at a margin of 1.35% per annum.

The cash element of the facility will expire on 23 July 2022, whilst letters of credit issued under the facility can be used to provide support for the 2019, 2020 and 2021 underwriting years. In 2020 $225m has been drawn down under the facility and placed as a letter of credit as Funds at Lloyd's (FAL).

Other assets

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

- deferred acquisition costs of $384.9m (2019: $350.7m); and
- deferred tax assets available for use against future taxes payable of $26.8m (2019: $41.0m).

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 seen across the insurance market. Costs identified as related to acquisition are then deferred in line with premium earnings.

Financial review
Capital structure

Capital structure

Beazley aims to hold capital in excess of regulatory requirements in order to be best placed to swiftly take advantage of growth opportunities arising outside of our business plan, as well as to provide additional protection against downside events.

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.

During 2020 there were significant growth opportunities as many markets in which we operate saw conditions improving. The combination of this, along with the increased claims arising during the year from COVID-19 led to Beazley proceeding with an equity raise in May 2020. We successfully raised $292.6m of new capital through a non-pre-emptive share issuance, in part, to aid our growth ambitions.

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

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

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

	2020 $m	2019 $m
Shareholders' funds	1,809.5	1,625.3
Tier 2 subordinated debt (2026)	249.0	248.9
Tier 2 subordinated debt (2029)	298.1	297.9
Drawdown of letter of credit	225.0	–
	2,581.6	**2,172.1**

Our funding comes from a mixture of our own equity alongside $547.1m ($550.0m gross of capitalised borrowing costs) of tier 2 subordinated debt. We also have a banking facility of $450m (31 December 2019: $225m) of which, $225m has been drawn down and placed as a letter of credit at Lloyd's to support our Funds at Lloyd's (FAL).

The following table sets out the group's capital requirement selected for our internal measure of the group's capital surplus position:

	2020 $m	2019 $m
Lloyd's economic capital requirement (ECR)	2,116.5	1,828.4
Capital for US insurance companies	246.3	203.9
	2,362.8	**2,032.3**

The final Lloyd's economic capital requirement (ECR) at year end 2020, as confirmed by Lloyd's, reflects the business we expect to write through to the end of 2021 as per our business plan. Furthermore, rather than taking a one year view of this business, it assumes that all risks run to ultimate. Finally, Lloyds apply a 35% uplift to this number. These three factors make the ECR requirement considerably more onerous than the standard Solvency II measure which considers a one year time horizon and contains no uplift.

Overall we expect our capital requirement to grow broadly in line with the net written premiums in our business plan, which in the short-term should be mid double digit growth.

At Beazley we aim to hold excess capital over the Lloyd's ECR and US capital requirement, expressed as a % of Lloyd's ECR, and have a preferred range of 15-25%. At 31 December 2020, we have surplus capital (on a solvency II basis) of 23% of ECR, within our current target range of 15% to 25% of ECR. Given the stringent nature of the Lloyd's ECR as noted above, our group surplus capital ratio is not directly comparable to the standard Solvency II capital ratio which is based on a one year time horizon.

In addition to the surplus above, we have two further capital levers which may be called upon. Firstly, the remaining undrawn banking facility of $225m may be utilised and is not included within the capital stack used in the capital surplus calculation. We have also purchased additional contingent reinsurance of our Specialty Lines and CyEx lines of business.

Following changes to intragroup reinsurance during 2017 with the introduction of the US BEAT tax, and the continued successful growth of the US operations, we have seen a significant growth in capital requirements within Beazley Insurance Company, Inc (BICI) in recent years. During 2020 we set up a US captive insurer to continue to ensure capital efficiency is maintained within the group.

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

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

In 2020, Beazley acquired two million of its own shares into the employee benefit trust. These were acquired at an average price of 528.7p and the cost to the group was $13.6m.

Solvency II

The Solvency II regime came into force on 1 January 2016. Beazley continue to provide quarterly Solvency II pillar 3 reporting to both Lloyd's for the Beazley managed syndicates and the Central

Financial review

Capital structure continued

Bank of Ireland for Beazley Insurance dac and Beazley plc. During 2020 the fourth annual solvency financial condition report (SFCR) of Beazley plc was published.

Under Solvency II requirements, the group is required to produce a Solvency Capital Requirement (SCR) which sets out the amount of capital that is required to reflect the risks contained within the business. Lloyd's reviews the syndicates' SCRs to ensure that SCRs are consistent across the market.

The current SCR has been established using our Solvency II approved internal model approved by Central Bank of Ireland (CBI) which has been run within the regime as prescribed by Lloyd's. In order to perform the capital assessment:

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

IFRS 17

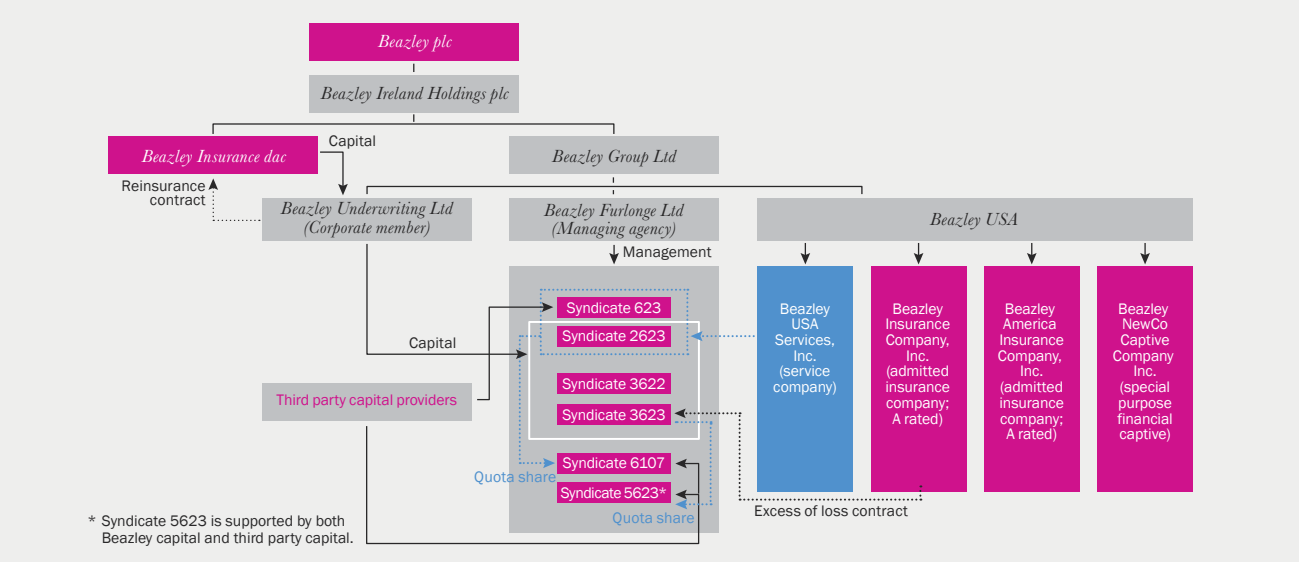
The implementation of IFRS 17: Insurance contracts is currently scheduled for accounting periods commencing on or after 1 January 2023. Applying this standard is a major undertaking and so the company has established a multi-disciplinary project group to oversee this activity.

The project has made good progress during 2020 and Beazley's preparations for IFRS 17 are on schedule.

Group structure

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

- Beazley plc – group holding company and investment vehicle, quoted on the London Stock Exchange;
- Beazley Ireland Holdings plc – intermediate holding company;
- Beazley Underwriting Limited – corporate member at Lloyd's writing business through syndicates 2623, 3622 and 3623;
- Beazley Furlonge Limited – managing agency for the six syndicates managed by the group (623, 2623, 3622, 3623, 6107, and 5623);
- Beazley Insurance dac – insurance company based in Ireland that accepts non-life reinsurance premiums ceded by the corporate member Beazley Underwriting Limited, and also writes business directly from Europe;
- Syndicate 2623 – corporate body regulated by Lloyd's through which the group underwrites its general insurance business excluding accident, life and facilities. Business is written in parallel with syndicate 623;
- Syndicate 623 – corporate body regulated by Lloyd's which has its capital supplied by third party names;
- Syndicate 6107 – special purpose syndicate writing reinsurance business, and from 2017 cyber, on behalf of third party names;
- Syndicate 3622 – corporate body regulated by Lloyd's through which the group underwrites its life insurance and reinsurance business;
- Syndicate 3623 – corporate body regulated by Lloyd's through which the group underwrites its personal accident, BICI reinsurance business and, from 2018, Market Facilities business;
- Syndicate 5623 – special purpose syndicate writing Market Facilities ceded from syndicate 3623;
- Beazley America Insurance Company, Inc. (BAIC) – insurance company regulated in the US. In the process of obtaining licenses to write insurance business in all 50 states;
- Beazley Insurance Company, Inc. (BICI) – insurance company regulated in the US. Licensed to write insurance business in all 50 states;
- Beazley USA Services, Inc. (BUSA) – managing general agent based in Farmington, Connecticut. Underwrites business on behalf of Beazley syndicates, 2623 and 623, BICI and BAIC; and
- Beazley NewCo Captive Company, Inc – provides internal reinsurance to BICI for adverse development on older accident years.



Operational update

Ian Fantozzi
Chief Operating Officer

Operationally, the events of this year have tested us - but it's important that we don't lose sight of the positive changes that have taken place and use the opportunity to move our business forward.

How businesses operate has been evolving incredibly quickly in recent years as technology and data have reshaped society, changing the way organisations interact and how markets function.

However, over the past 12 months the speed of that change accelerated dramatically as COVID-19 forced all of us to adapt overnight to living and working with a degree of uncertainty and ambiguity never before seen.

Faced with this global crisis, and an increasingly volatile and unpredictable environment, we experienced first-hand how the targeted investment in our operating platform paid dividends by ensuring we were equipped and able to continue delivering for our staff, customers and shareholders. We made a strategic decision five years ago to embrace and even experiment with the possibilities that data and digital technology have presented to us. As a result, the rich combination of our people's expertise, and the insight and analytics we derive from digital sources, has put us in the advantageous position of being able to operate seamlessly during lockdown and continue progressing our agenda of becoming a more data-led organisation.

Working flexibly

Part of ensuring that Beazley remains forward-looking and able to attract and retain talent is challenging ourselves to offer a differentiated working experience. We are not just competing with our insurance peers for talent, but with employers that appeal more naturally to those with the digital and data-focused skills we need as we develop our tech-friendly workforce. One of the ways we have sought to differentiate ourselves has been in transforming our offices into more flexible, collaborative working spaces based on the principle of activity-based working (ABW). We started this project three years ago and colleagues in Birmingham, Toronto, Barcelona and New York have been the forerunners in moving into these new-look offices. In 2019 and early 2020, we rolled out new equipment and offered training to our global workforce to give them the tools and option to work more flexibly, either in the office or remotely. This investment in equipment and software, including collaboration tools we are all now so familiar with, has enabled us all to trade and communicate with our partners and colleagues with scarcely an interruption throughout 2020.

Whilst the pandemic will have a lasting effect on how and where we work, we believe office space plays an integral role in our future. We postponed our move in London to 22 Bishopsgate due to lockdown and are now looking forward to moving in during the summer of 2021. We signed this lease in 2018, taking the decision at the time to reduce capacity, based on research into how work spaces were being used by colleagues and in anticipation of employees choosing to work remotely for more of the time in the future. This data-led approach has served us well; the only significant change we have made to our plans for the new office is to shift the balance between high-focus and collaboration areas in favour of collaboration. Our internal feedback and research suggest this rebalancing better reflects how people will choose to split their working time between the office and home post lockdown.

Operational update continued

By leveraging the skills of our in-house teams, we were quickly able to develop and launch an app for our London-based employees to pre-book time in the office when lockdown eased. This app ensured we could adhere to social distancing requirements, use the data to understand more about colleagues' choices in relation to working in the office, and support the government's Track and Trace programme to reduce COVID-19 transmissions. It was interesting to note that at the peak point of people returning to the office in September some 10% of our employees chose to come in to work on any one day.

We have carefully observed the impact of this pandemic on our business and fully intend to preserve the positive elements. Productivity in terms of submissions, quotes and new policies increased year on year and we will continue to operate a hybrid model of remote and office working for the future, secure in the knowledge that it works from the perspective of both our business and our people.

Our focus on connectivity extended to our development of Beazley Booking, an online system enabling London market brokers to share documents and make virtual appointments with underwriters. The aim was to improve accessibility and efficiency for our brokers during remote working, and we have seen high take-up as well as a similar model being adopted by Lloyd's.

This period of remote working has served as a reminder of just how important it is that brokers can easily and intuitively interact with us. Therefore our focus this year has somewhat shifted from roll-out of new technologies or platforms to ensuring increasing adoption. We have been developing different platforms and means to interact with partners most effectively and, to better understand their usage and customer journey, our technology team now meets with brokers alongside underwriters to capture real-time data that is then fed back to the infrastructure team, who use it to make ongoing refinements and enhancements to our systems. This process has proved successful and adoption and usage of our trading platforms has significantly increased. With the myBeazley broker e-trading platform now active on three continents, continuing to provide an easy way for brokers to access specialist cover for their SME clients is essential and evolution of our systems is important to keep pace with the change around us.

Market developments

The Future at Lloyd's programme has continued to push the market towards greater operational efficiency, better processes and solutions for easier clients. We remain heavily engaged across multiple levels as well as taking an active role in Lloyd's innovation platforms. For Beazley we have substantially increased our usage of the Lloyds Placing Platform Limited (PPL) and 85% of our risks are now placed electronically in London. In pursuit of greater efficiency in terms of less re-keying, we have installed robotics to manage data flow in PPL and to free up underwriters from time spent on administrative tasks.

Digital future-proofing

We continue to review our processes and systems to build a more digitally enabled data-led organisation in the future. We do not just focus on how we use technology but how we apply it to improve overall business practices.

The Digital Business Management Committee established in June 2020, has become the governing body to drive forward Beazley's e-trade initiatives to improve customer, product and service outcomes against a five-year plan from 2021. The committee is considering the complexity of products and their digital viability to determine the scope of the plan, as well as the suitability of Beazley's structures and systems and any skills gaps to drive it forward.

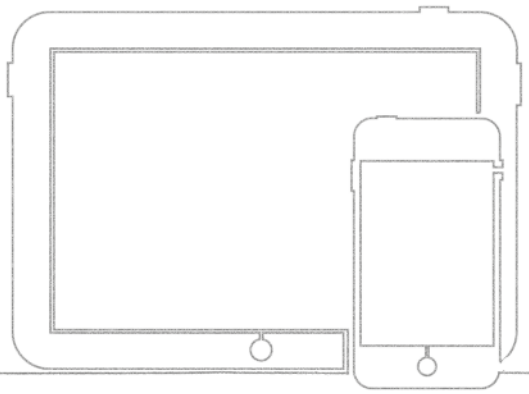
Workflow automation has continued at pace through the standardisation of underwriting systems, processes and resources where we have identified commonality. To improve this we have been promoting cross-team reuse of data, data-sharing and collaboration. This has worked effectively for our US-based private enterprise team and in rationalising endorsement data.

Through the faster, smarter underwriting (FSU) strategic initiative we continue to use data and analytics to: help underwriters to better monitor their portfolio performance; to standardise systems and processes where there is commonality; and to drive more efficiency and standardisation into complex underwriting. To do this we need to capture and apply the data we already have more effectively and work with specialist partners where they bring value. We have been applying these strategies across the business.

In one instance, our highly experienced internal information and security (InfoSec) team identified potential software vulnerabilities that could have affected many of our clients' networked systems. They then worked with one of our recently appointed cyber security partners to proactively scan our existing policyholders for these vulnerabilities so we could actively bring the issue to their attention and ensure they install the required patch. We have been able to alert thousands of clients to potential weaknesses in their cyber security and share the patch, thus avoiding potentially millions of dollars in claims and disruption to their businesses. This approach has proved so successful in protecting our operations, improving loss ratios and providing clients with added value services that we can now extend it globally through a new partnership for non-US operations.

We continue to invest in building out application programming interfaces (APIs) so brokers can directly link into our systems to transact business without excessive re-keying, making it quicker and simpler for brokers to retrieve multiple quotes. The use of APIs means improved data transmission and scope for analytics, and have the added advantage to us of being scalable and simple to adapt. We now actively integrate with three brokers in this way and believe it will become the norm for interfacing between brokers and carriers in the commercial insurance space over this decade.

This year has gone far from how it was planned for all of us, with much suffering and economic hardship as a result of the pandemic. However, the 12 months have shown how important it is that our core operating platform is resilient and responsive to the changing environment to ensure we can consistently deliver for our clients. This means having deep expertise, data and technology to give us a clear view of our operational risk, and a platform that enables our people to deliver the best they can. We come out of 2020 as a smarter, more data-led organisation and we continue to invest in and develop this approach to ensure we are a resilient partner ready for what 2021 and beyond may have in store.



Risk management

Andrew Pryde
Chief Risk Officer
Executive sponsor of Mental Wellbeing

Enduring change transition... resilience... learning...

This is now the third year that change has been the key theme of my report; however, what has shifted is the sheer scale of change that this year has brought. COVID-19 has had a profound impact on society, industry and us as individuals.

This year we have been put through our paces, with the pandemic proving to be a robust test of the design and operation of our risk management framework – which has responded well, helping us navigate the many challenges thrown our way. In particular, the framework remains effective despite the fundamental change to our ways of working – a transformation in practices not seen for generations.

Transition

Responding to change starts with transition. Like many companies around the globe, all Beazley employees moved to remote working in March 2020, in an operational shift the size and scale of which had never been imagined. During this time of uncertainty, and whilst managing this shift, our employees retained focus and momentum and the company continued to function seamlessly. Behind this transition were a number of operational risk management drivers. Our investment in IT hardware and training meant staff had the tools needed to work effectively anywhere, and also the requisite knowledge to use them effectively. Additionally, processes and controls were in place and clearly understood so they could continue to work efficiently and effectively despite the physical distancing of the workforce.

Colleagues understood their roles and responsibilities and, importantly, knew how their roles dovetailed together. This enabled us to take full advantage of our suite of collaboration tools to deliver tangible value for our customers and broker partners through clear communication and a commercial mindset.

As a result of this preparation, Beazley remained very much open for business.

Resilience

As lockdown extended and weeks turned to months, the risk management framework shifted gear and began focusing on monitoring staff resilience and looking for ways to offer greater support to all, not just those in most need. Our mental wellbeing network, founded in 2019, continues to not only educate all Beazley staff on mental wellbeing issues and provide a support network for those who are suffering but also to extend its reach and impact through the introduction of the Thrive app. The app helps with the early identification of and assistance with anxiety and depression, two of the most prevalent mental health illnesses in the workplace. This is in addition to the 30 volunteer trained mental health first aiders who offer support and guidance to our staff across the globe. The resilience of Beazley's workforce has been particularly impressive given the challenges this year has thrown at us from a professional and personal perspective and there is much we should all be proud of.

Beazley has also been developing its operational resilience capabilities more broadly to ensure its business services can endure both high stress and significant change. The operational resilience committee has facilitated the ability for all areas of the business to withstand emerging challenges, including those created by the COVID-19 pandemic. Specific to COVID-19, the business continuity management team continues to work tirelessly to oversee Beazley's response, from the initial transition to remote working through to the reopening of Beazley's offices in accordance with local guidelines.

The team's crucial work underpins our ability to deliver for our customers. In addition, there has been an increased focus on information and cyber security, protecting ourselves and our clients against data breaches and operational disruptions, given the move to widespread remote working and the general increase in external cyber incidents.

At its heart, operational risk is about people, processes and systems. Monitoring provided by the risk management framework has provided assurance to the board that these three elements continued to work effectively during 2020.

Learning

Although the pandemic is not yet behind us, Beazley has begun to review what lessons we can take away from the experience to date. This activity highlighted a weakness in the assumptions underpinning our pandemic realistic disaster scenario. As such, the Chief Underwriting Officer, with support and challenge from risk management, has reviewed the complete suite of realistic disaster scenarios to check that the base cases remain appropriate and to stress test the key assumptions of each scenario to understand vulnerabilities in the assumptions. Whilst there are no fundamental changes required, it has created an opportunity for enhanced fine-tuning of the insurance portfolio within the 2021 business plan.

The current risk management framework was implemented in 2010. In 2020, Beazley commissioned an external review of the risk management framework to ensure applicability in today's world. Whilst the review highlighted a number of strengths in the framework, it also provided opportunities for enhancement. These changes will be implemented over the course of 2021 to ensure the risk management framework drives value through enhanced resilience whilst continuing to support Beazley in navigating the next 10 years.

Brexit

The UK and EU signed a trade agreement prior to the end of the Brexit transition period. Whilst this removes some key economic uncertainties, the practical challanges for financial services in general and Beazley specifically are unchanged and so the preparations previously put in place mean that Beazley could continue to operate despite the loss of passporting rights. As such, no changes to the structures and processes put in place by Beazley are necessary following the trade deal. Furthermore, on 30 December 2020, Lloyd's policies covering EU based insureds were transferred from members to Lloyd's Insurance company S.A. under a Part VII transfer.

Climate change

During 2020, Beazley recruited a Sustainability Officer to support Beazley with the assessment of the financial impact of climate change and to undertake risk assessments on our products. These assessments identify how products need to evolve as we transition to a lower carbon environment. A review of 13 products has been completed and the remainder will be performed in 2021, in accordance with the requirements of the Task Force on Climate-Related Financial Disclosures (TCFD).

To assess the risk within our insurance and investment portfolios, we have updated the following three stress tests, first reported in the 2019 report and accounts:

- Scenario A – A sudden transition (a Minsky moment), ensuing from rapid global action and policies, and materialising over the medium-term business planning horizon, that results in temperature increase being kept below 2 degrees Celsius (relative to pre-industrial levels) but only following a disorderly transition.
- Scenario B – A long-term orderly transition scenario that is broadly in line with the Paris Agreement. This involves maximum temperature increase being kept well below 2 degrees Celsius (relative to pre-industrial levels) with the economy transitioning in the next three decades to achieve carbon neutrality by 2050 and greenhouse-gas neutrality in the decades thereafter.
- Scenario C – A scenario with failed future improvements in climate policy, resulting in a temperature increase in excess of 4 degrees Celsius (relative to pre-industrial levels) by 2100 and assuming no transition and a continuation of current policy trends.
- From an insurance portfolio perspective, the increased claims costs of a US hurricane under the three climatic scenarios are:

Insurance portfolio	Scenario A %	Scenario B %	Scenario C %
Average loss	13%	36%	86%
1:100 loss	6%	21%	60%

From an investment portfolio perspective, the potential impact on the valuations of our portfolio under the three climatic scenarios are:

Investment portfolio	Scenario A %	Scenario B %	Scenario C %
Transition risk	-0.17%	-0.42%	n/a
Physical risk	-0.00%	-0.38%	-0.48%

To illustrate, whilst the average insurance claims costs of a US hurricane would increase 13% under scenario A, the cost of a 1:100 event would only increase 6%. This is because some of the policies will have been exhausted in the more extreme 1:100 event and so the additional effect of climate change will not increase the claims costs by as much.

The underwriting percentages have reduced slightly since the 31 December 2019 assessment, as a result of changes in the Treaty portfolio which mean that more of the policies are already exhausted, thereby reducing the scope for further deterioration under the three scenarios. The investment percentages have generally increased since the 31 December 2019 assessment as a result of holding a higher proportion of sovereign bonds. It is worth noting that the investment portfolio is not significantly affected with all scenarios generating a loss that would be less than 0.5% of the total portfolio.

Conclusion

My latest report to the board has confirmed that the control environment has not identified any significant failings or weaknesses in key processes and that Beazley plc is operating within risk appetite as at 31 December 2020.

It would seem that change is our new normal. I look forward to reporting on how we have navigated this new environment next year.

Risk management *continued*

Risk management philosophy

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

Risk management strategy

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

Clear roles, responsibilities and accountabilities are in place for the management of risks and controls, and all employees are aware of the role they play in all aspects of the risk management process, from identifying sources of risk to playing their part in the control environment. The impact of each risk is recorded in the risk register on a 1:10 likelihood of that risk manifesting in the next 12 months. A risk owner has been assigned responsibility for each risk, and it is the responsibility of that individual to periodically assess the impact of the risk and to ensure appropriate risk mitigation procedures are in place. External factors facing the business and the internal controls in place are routinely reassessed and changes made when necessary.

On an annual basis, the board agrees the risk appetite for each risk event and this is documented in the risk management framework document. The residual financial impact is managed in a number of ways, including:

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

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

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

Business risk management
Risk ownership

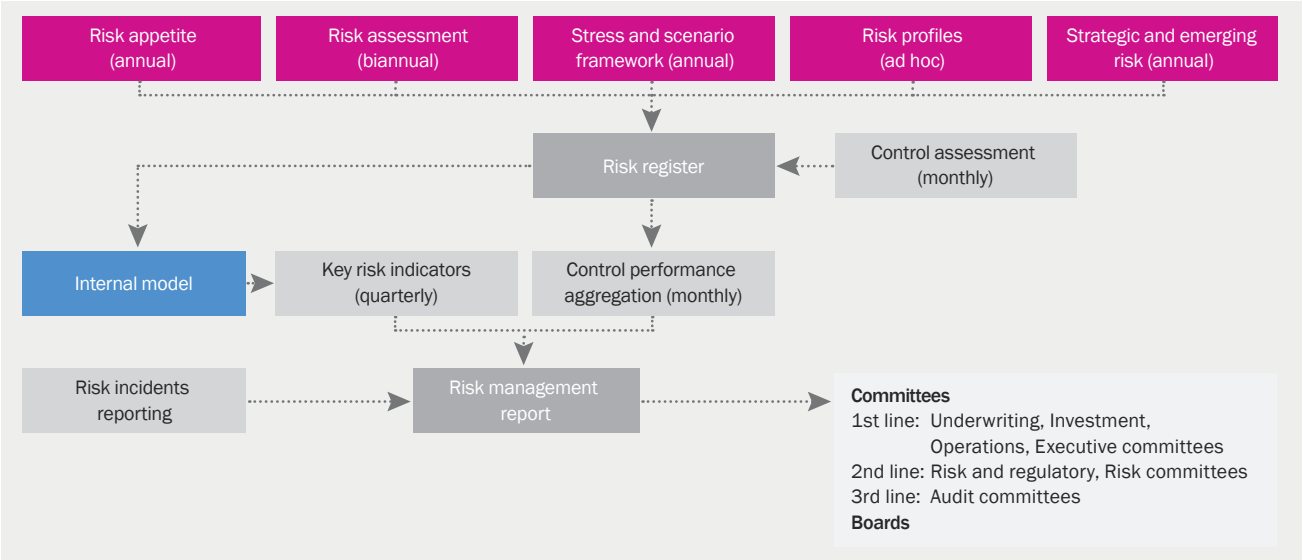
- *Identifies risk*
- *Assesses risk*
- *Mitigates risk*
- *Monitors risk*
- *Records status*
- *Remediates when required*

Risk management
Risk oversight

- *Challenge that risks are being identified*
- *Assess the risk mitigation strategy*
- *Monitor that controls are operating effectively*
- *Reports to committees and board on risk and control issues with risk management opinions*

Internal audit
Risk assurance

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



Risk management framework

Beazley takes an enterprise-wide approach to managing risk, following the group's risk management framework. The framework establishes our approach to identifying, measuring, mitigating and monitoring the group's key risks. Beazley has adopted the 'three lines of defence' framework. Across the business, there are two defined risk-related roles: risk owner and control reporter. Each risk event is owned by the risk owner, who is a senior member of staff. Risk owners, with support and challenge provided by the risk management team, perform a risk assessment twice a year, including an assessment of heightened and emerging risks.

The risk management framework comprises a number of risk management components, which when added together describe how risk is managed on a day-to-day basis. The framework includes a risk register that captures the risk universe (approximately 50 risk events grouped into eight risk categories: insurance, market, credit, liquidity, operational, regulatory and legal, group and strategic), the risk appetite set by the Beazley plc board, and the control environment that is operated by the business to remain within the risk appetite and which is monitored and signed off by control reporters.

In summary, the board identifies risk, assesses risk and sets risk appetite. The business then implements a control environment which describes how the business should operate to stay within risk appetite. The risk management review and challenges these assessments and reports to the board on how well the business is operating, using a risk management report.

For each risk, the risk management report brings together a view of how successfully the business is managing risk and whether there have been any events that we can learn from (risk incidents). Finally, the framework is continually evaluated and where appropriate improved, through the consideration of stress and scenario testing, themed reviews using risk profiles, and an assessment of strategic and emerging risks. There were no material changes made during 2020. A suite of risk management reports are provided to the boards and committees to assist senior management and board members to discharge their oversight and decision-making responsibilities. The risk reports include the risk appetite statement, the risk management report, risk profiles, stress and scenario testing, reverse stress testing, an emerging and strategic report, a report to the remuneration committee and the Own Risk and Solvency Assessment (ORSA) report.

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

Viability statement

The directors have completed an assessment of the viability of the group over a three-year period. A period of three future years has been selected to be short enough to be reasonably assessable but long enough to reflect Beazley's risk profile of a portfolio of diversified short- tailed and medium-tailed insurance liabilities. This three-year period also aligns with the length of time over which business underwritten at Lloyd's, being the majority of our insurance business, is managed prior to its reinsurance to close. The board has performed an annual risk assessment and the key risks to the group in the future are summarised on pages 60 to 62.

The risks and associated capital requirements have been brought together into a five-year plan, although the uncertainties in years 4 and 5 of the plan mean the board focuses on the first three years for assessing viability. The main assumption is that the current market conditions will prevail, over which the outcomes of the board's strategic initiatives are overlaid. These include reserve allowances for the COVID-19 pandemic. In addition, the board has reviewed the sensitivity of key assumptions and has performed scenario testing to understand the impact on cash flows of Beazley's three key aggregation risks of (1) a significant natural catastrophe, (2) a significant cyber-aggregation event and (3) an extreme casualty soft cycle. Each stress scenario chosen is very large, equivalent to an event that is only expected to occur once every 200 years. In the base case and the first two stress scenarios, the group has sufficient existing resources. In the third stress scenario, an extreme casualty soft cycle, all existing sources of capital would be fully utilised and additional capital could be raised to strengthen the capital position and to take advantage of the subsequent market conditions. In the event that Beazley is unable to obtain additional financing, the subsequent year's business plan would be reduced to a level supportable by the available capital.

The board has reviewed the financial impact of climate change, based on three scenarios, and has concluded that it does not currently impact viability. Further enhancements are planned in the future and these will feature in each annual assessment.

I provide a quarterly ORSA to the board summarising the short-term and longer-term risks to the group and the capital implications.

The directors have concluded, based on this review, that there is a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the three-year period of assessment.

The board has also given specific consideration to the work of the Brexit team and whether or not Brexit materially impacts viability and has concluded it does not.

Risk management continued

The risks to financial performance

The board monitors and manages risks grouped into eight categories, which cover the universe of risk that could affect Beazley. There have been no new risk areas identified and, apart from COVID-19, there have been no major changes in existing risks. The board confirm that they have undertaken a robust assessment of the principal risks and uncertainties that the group faces. The board considers the first two of the following risk categories to be the most significant.

Insurance risk

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

- **Market cycle risk**: The risk of systematic mispricing of the medium-tailed Specialty Lines and Cyber and Executive risk business, which could arise due to a change in the US tort environment, changes to the supply and demand of capital, and companies using incomplete data to make decisions. This risk would affect multiple classes within the Specialty Lines division across a number of underwriting years. The group uses a range of techniques to mitigate this risk including sophisticated pricing tools, analysis of macro trends, analysis of claim frequency and the expertise of our experienced underwriters and claims managers.
- **Natural catastrophe risk:** The risk of one or more large events caused by nature affecting a number of policies and therefore giving rise to multiple losses. Given Beazley's risk profile, such an event could be a hurricane, major windstorm, earthquake or wildfires. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.
- **Non-natural catastrophe risk:** This risk is similar to natural catastrophe risk except that multiple losses arise from one event caused by mankind. Given Beazley's risk profile, examples include a coordinated cyber-attack, global pandemic, losses linked to an economic crisis, an act of terrorism, an act of war or a political event. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.
- **Reserve risk:** Beazley has a consistent reserving philosophy. However, there is a risk that the reserves put aside for expected losses turn out to be insufficient. This could be due to any of the three drivers of risk described above. The group uses a range of techniques to mitigate this risk including a detailed reserving process which compares estimates established by the claims team with a top-down statistical view developed by the actuarial team. A suite of metrics is also used to ensure consistency each year.
- **Single risk losses:** Given the size of policy limits offered on each risk, it is unlikely that the poor performance of one policy will have a material impact on the group's financial performance.

Strategic risk

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

- **Strategic decisions:** The group's performance would be affected in the event of making strategic decisions that do not add value. The group mitigates this risk through the combination of recommendations and challenge from non-executive directors, debate at the executive committee and input from the strategy and performance group (a group of approximately 30+ senior individuals from across different disciplines at Beazley).
- **Environment:** There is a risk that the chosen strategy cannot be executed because of the environmental conditions within which Beazley operates, thereby delaying the timing of the strategy.
- **Communication:** Having the right strategy and environment is of little value if the strategy is not communicated internally so that the whole group is heading in the same direction, or if key external stakeholders are not aware of Beazley's progress against its strategy.
- **Senior management performance:** There is a risk that senior management could be overstretched or could fail to perform, which would have a detrimental impact on the group's performance. The performance of the senior management team is monitored by the Chief Executive and talent management team and overseen by the nomination committee.
- **Reputation**: Although reputational risk is a consequential risk, i.e. it emerges upon the occurrence of another risk manifesting, it has the potential to have a significant impact on an organisation. Beazley expects its staff to act honourably by doing the right thing.
- **Flight**: There is a risk that Beazley could be unable to deliver its strategy due to the loss of key personnel. Beazley has controls in place to identify and monitor this risk, for example through succession planning.
- **Crisis management**: This is the risk caused by the destabilising effect of the group having to deal with a crisis and is mitigated by having a detailed crisis management plan.
- **Corporate transaction**: There is a risk that Beazley could undertake a corporate transaction which did not return the expected value to shareholders. This risk is mitigated through the due diligence performed, the financial structure of transactions and the implementation activity.

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

Other risks

The remaining six risk categories monitored by the board are:

- **Market (asset) risk:** This is the risk that the value of investments could be adversely impacted by movements in interest rates, exchange rates, default rates or external market forces. This risk is monitored by the investment committee.
- **Operational risk:** This is the risk of failures of people, processes and systems or the impact of an external event on Beazley's operations, and is monitored by the operations committee. An example would be a cyber-attack having a detrimental impact on our operations.
- **Credit risk:** Beazley has credit risk to its reinsurers, brokers and coverholders, of which the reinsurance asset is the largest. The underwriting committee monitors this risk.
- **Regulatory and legal risk:** This is the risk that Beazley might fail to operate in line with the relevant regulatory framework in the territories where it does business. Of the eight risk categories, the board has the lowest tolerance for this risk. This risk is monitored by the risk and regulatory committee.
- **Liquidity risk:** This is the risk that the group might not have sufficient liquid funds following a catastrophic event. The investment committee monitors this risk which, given the nature of the asset portfolio, is currently small.
- **Group risk:** The key risk is a deterioration in Beazley's culture which leads to inappropriate behaviour, actions or decisions. This is monitored through engagement surveys, staff feedback and regular dialogue with senior management. As the structure of the Beazley group is not complex, the other main group risk is that one group entity operates to the detriment of another group entity or entities. The Beazley plc board monitors this risk through the reports it receives from each entity.

Financial crime risk

The group also considered anti-bribery and corruption risk across all risk categories. We are committed to ensuring that all business is conducted in an ethical and honest manner, and that we are not involved in any illicit activity as defined under the UK Bribery Act and US Foreign Corrupt Practices Act. This risk includes the risk of bribery and corruption we are exposed to and manifests itself in the susceptibility to unethical or dishonest influences whereby illicit payments and/or inducements are either made or received.

Such activity has severe reputational, regulatory and legal consequences, including fines and penalties.

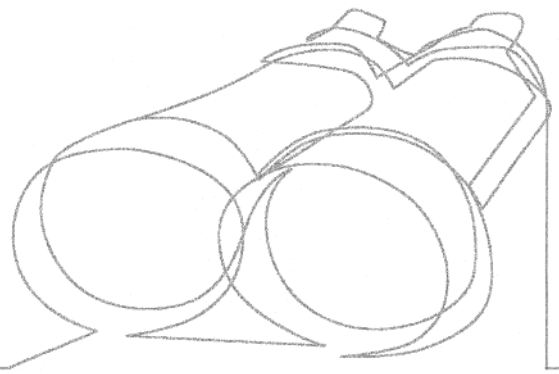
Considerations relevant to this risk include the nature, size and type of transactions, the jurisdiction in which transactions occur, and the degree to which agents or third parties are used during such transactions.

Every employee and individual acting on Beazley's behalf is responsible for maintaining our reputation. We have a zero-tolerance approach to bribery and corruption and are committed to acting professionally, fairly and with integrity in all aspects of our business. In doing so, we aim to recruit and retain high-calibre employees who carry out their responsibilities honestly, professionally and with integrity. We maintain a number of policies designed to prevent any risk of bribery and corruption, which are communicated to all employees and supplemented with appropriate training.

Climate change risk

The changing global climate is recognised as an important emerging risk due to its widespread potential impact on the global population, environment and economy. A key aspect of Beazley's business model is to support our clients who have been affected by natural catastrophes, helping them return to pre-catastrophe conditions as soon as possible. As a specialist insurer, various classes of business we underwrite are subject to the effect climate change presents to the risk environment.

As part of the underwriting process, we work with our insureds to understand the risks facing their organisations, including applicable climate-related risks and to tailor insurance coverages to mitigate the associated financial risks.



Risk management continued

We acknowledge and accept that over time climate change could impact the risks facing our insureds and we aim to manage the resulting risk to Beazley as described below:

- **Pricing risk**: This is the risk that current pricing levels do not adequately consider the prospective impact of climate change, resulting in systemic underpricing of climate-exposed risks. The group's business planning process establishes how much exposure in certain classes of business or geographic area we wish to accept. We benefit from a feedback loop between our claims and underwriting teams to ensure that emerging claims trends and themes can be contemplated in the business planning process, the rating tools and the underwriter's risk-by-risk transactional level considerations. Our underwriters are empowered to think about climate risk during their underwriting process in order to determine the implication on each risk.
- **Catastrophe risk**: This is the risk that current models do not adequately capture the impact of climate change on the frequency, severity or nature of natural catastrophes or other extreme weather events (e.g. wildfires) that could drive higher-than-expected insured losses. The group utilises commercial catastrophe models to facilitate the estimation of aggregate exposures based on the group's underwriting portfolio. These catastrophe models are updated to reflect the latest scientific perspectives. Catastrophe models are evolving to include new or secondary perils which may be related to climate change. In addition, the group runs a series of natural catastrophe Realistic Disaster Scenarios (RDS) on a monthly basis which monitor the group's exposure to certain scenarios that could occur. These RDS include hurricanes in the US, typhoons in Japan, European windstorms and floods in the UK.
- **Reserve risk:** This is the risk that established reserves are not sufficient to reflect the ultimate impact climate change may have on paid losses. This includes unanticipated liability risk losses arising from our clients facing litigation if they are held to be responsible for contributing to climate change, or for failing to act properly to respond to the various impacts of climate change. With support from our group actuarial team, claims teams and other members of management the group establishes financial provisions for our ultimate claims liabilities. The group maintains a consistent approach to reserving to help mitigate the uncertainty within the reserves estimation process.
- **Asset risk:** This is the risk that climate change has a significant impact across a number of industries which may negatively impact the value of investments in those companies. The group considers the impact of climate change on its asset portfolio by seeking to incorporate an assessment of environmental risks in the investment process. We subscribe to the research services of a specialist company in the field of environmental, social and governance research and have integrated their proprietary ratings into the internal credit process applied to investments in corporate debt securities. A minimum standard for environmental, social and governance performance is defined and companies not meeting the required standard will be excluded from the approved list of issuers. The analysis also includes consideration of the sustainability of each company with regard to the potential decline in demand in specific sectors.
- **External event risk:** This is the risk that the physical impact of climate-related events has a material impact on our own people, processes and systems, leading to increased operating costs or the inability to deliver uninterrupted client service. The group has business continuity plans in place to minimise the risk of an interrupted client service in the event of a disaster.
- **Commercial management risk:** The group aims to minimise where possible the environmental impact of our business activities and those that arise from the occupation of our office spaces. As we operate in leased office spaces our ability to direct environmental impacts is limited. However, we do choose office space with climate change mitigation in mind, and engage with our employees, vendors and customers in an effort to reduce overall waste and our environmental footprint.
- **Credit risk:** As a result of material natural catastrophe events, there is a risk that our reinsurance counterparties are unable to pay reinsurance balances due to Beazley. If the frequency or severity of these events is increased due to climate change this could cause a corresponding increase in credit risk. An important consideration when placing our reinsurance programme is evaluation of our counterparty risk. Every potential reinsurer is evaluated through a detailed benchmarking, which considers financial strength ratings, capital metrics, performance metrics and other considerations.
- **Regulatory and legal risk:** Regulators, investors and other stakeholders are becoming increasingly interested in companies' responses to climate change. Failure to appropriately engage with these stakeholders and provide transparent information may result in the risk of reputational damage or increased scrutiny. The group regularly monitors the regulatory landscape to ensure that we can adhere to any changes in relevant laws and regulations. This includes making any necessary regulatory or statutory filings with regard to climate risk.
- **Liquidity risk:** Linked to the underwriting and credit risks noted above, there is a risk that losses resulting from unprecedented natural disasters or extreme weather could erode our ability to pay claims and remain solvent. The group establishes capital at a 1:200 level based on the prevailing business plan.
- **Strategic risk:** This is the risk that our strategy fails to effectively consider climate change, resulting in our business planning not adapting fast enough to respond to changes in wider claims trends. This would create a transition risk that our underwriting portfolio might not keep pace with the changes, being heavily exposed to declining industries and failing to capitalise on the opportunities. Our emerging risks analysis and business planning process seek to mitigate this risk through horizon scanning for our longer-tail book, while we are able to be more flexible in responding to events impacting our short-tail exposures.

Directors' report

Principal activity

Beazley plc (registered number 09763575) is the ultimate holding company for the Beazley group, a global specialist risk insurance and reinsurance business operating through: its managed syndicates at Lloyd's in the UK; Beazley Insurance Company, Inc. and Beazley American Insurance Company, Inc., both of which are admitted insurance carriers in the US; and Beazley Insurance dac, a European insurance company in Ireland.

Management report

The directors' report, together with the strategic report on pages 1 to 68, serves as the management report for the purpose of Disclosure and Transparency Rule 4.1.8R.

Directors' responsibilities

The statement of directors' responsibilities in respect of the annual report and financial statements is set out on page 115.

Review of business

A more detailed review of the business for the year and a summary of future developments are included in the statement of the Chair, the Chief Executive's statement and the financial review.

Results and dividends

The consolidated loss before taxation for the year ended 31 December 2020 amounted to $50.4m (2019: Profit $267.7m).

Given the financial result, and the continued uncertainty around COVID-19, the directors have decided not to pay a second interim dividend, in line with the action taken at the half year (2019 second interim dividend: 8.2p). Beazley remain fully committed to a progressive dividend strategy and are focused on returning to paying dividends in 2021.

Going concern and viability statement

A review of the financial performance of the group is set out on pages 44 to 52. The financial position of the group, its cash flows and its borrowing facilities are included therein.

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

In accordance with provision C.2.2 of the UK Corporate Governance Code, the directors have assessed the viability of the group. The viability statement, which supports the going concern basis mentioned above, is included in the risk management section on page 59.

Directors

The directors of the company who served during 2020 and/or to the date of this report were as follows:

David Lawton Roberts	Non-Executive Chair
David Andrew Horton	Chief Executive
Adrian Peter Cox	Director
Pierre-Oliver Desaulle	Non-Executive Director (appointed 01/01/2021)
Nicola Hodson	Non-Executive Director
Sally Michelle Lake	Finance Director
Christine LaSala	Non-Executive Director
Sir John Andrew Likierman	Non-Executive Director
Anthony Jonathan Reizenstein	Non-Executive Director
John Peter Sauerland	Non-Executive Director
Robert Arthur Stuchbery	Non-Executive Director
Catherine Marie Woods	Non-Executive Director

Sir Andrew Likierman and John Sauerland will be standing down from the board at the conclusion of the AGM on 26 March 2021.

Directors' report continued

The board is complying with the provision on annual re-election of all directors in accordance with the UK Corporate Governance Code. The appointment and replacement of directors is governed by the company's Articles of Association (the Articles), the UK Corporate Governance Code (the Code), the Companies Act 2006 and related legislation. The Articles may be amended by a special resolution of the shareholders. Subject to the Articles, the Companies Act 2006 and any directions given by special resolution, the business of the company will be managed by the board which may exercise all the powers of the company.

Further information can be found in the statement of corporate governance on page 77.

Directors' interests

The directors' interests in shares of the company, for those directors in office at the end of the year, including any interests of a connected person (as defined in the Disclosure and Transparency Rules of the UK's Financial Conduct Authority), can be found in the directors' remuneration report on pages 94 to 114.

Details of directors' service contracts are given in the directors' remuneration report. The directors' biographies are set out in the board of directors section of this report.

Corporate governance

The company was compliant with UK Corporate Governance Code during 2020. More information on compliance is disclosed in the statement of corporate governance on pages 77 to 91.

Corporate, social and environmental responsibility

The company's corporate, social and environmental activities are set out on pages 30 to 39. During 2020 Beazley and employees donated and raised over $342,000 to charities, details of which can be found in the responsible business report on pages 31 to 33.

Risk management

The group's approach to risk management is set out on pages 55 to 62 and further detail is contained in note 2 to the financial statements on pages 149 to 162.

Substantial shareholdings

As at 4 February 2021, the board had been notified of, or was otherwise aware of, the following shareholdings of 3% or more of the company's issued ordinary share capital:

	Number of ordinary shares	% as at 4 Feb 2021
Fidelity Management & Research	54,836,274	9.0
MFS Investment Management	41,497,340	6.8
Wellington Management	31,167,709	5.1
BlackRock	29,578,400	4.9
Platinum Asset Management	25,151,060	4.1
Vanguard Group	24,924,689	4.1
Janus Henderson Investors	18,345,350	3.0

Note: All interests disclosed to the company in accordance with DTRs that have occurred can be found on the news and alerts section of our corporate website: **www.beazley.com**

Recent developments and post balance sheet events

Recent developments and postbalance sheet events are given in note 34 to the financial statements on page 204.

Likely future developments

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

Research and development

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

Employee engagement

We place great emphasis on open and regular communication, which helps to ensure employees are apprised of what is going on at Beazley. Throughout the year the board considered the impact of the ongoing COVID-19 pandemic on the company's employees and received regular feedback via monthly employee pulse surveys. The board also received regular updates on the enhanced communication mechanisms that were implemented during the pandemic. We have a number of channels to share information and gather feedback, including an intranet which is accessible by all employees and is updated at least every other day with company news.

We also email all employees a weekly newsletter, and provide the opportunity for colleagues to join presentations every other week to hear about a specific team/project/topic. Our CEO provides a bulletin featuring a general business update and what has been the most recent key focus of the executive committee, together with updates on the financial and economic factors affecting Beazley that month (when relevant).

Every other year all employees are encouraged to take part in a survey which measures the way our people feel about the business, its vision and its aspirations. Our executive team host regular face-to-face sessions with employees in which they have the opportunity to ask questions and

The directors have pleasure in presenting their report and the audited financial statements of the group for the year ended 31 December 2020.

share. During 2020, we continued to have these sessions virtually. We also ask for volunteers to work on projects outside their day jobs in order to give different perspectives to decisions the company is making. In addition, a group of selected representatives from across the business gather input and views on set topics and provide those to the board through Bob Stuchbery, the non-executive director nominated by the board to bring views of the workforce to the boardroom.

In relation to performance relating to reward, our employees' annual bonus relates to the performance of the company as well as their own performance. Colleagues in the UK, the US, Ireland, Canada, France, Germany, Spain and Singapore are able to join our Save As You Earn scheme, and a long-term incentive share plan is offered to senior employees.

Inclusion & diversity

Information concerning inclusion and diversity can be found in the responsible business section on pages 36 and 37 and in the statement on corporate governance on page 77.

Part of our Beazley culture is creating an open and inclusive environment for all of our employees, celebrating our differences and creating internal networks to help us connect. We treat everyone equally irrespective of age, sex, sexual orientation, race, colour, nationality, ethnic origin, religious or other philosophical belief, disability, gender identity, gender reassignment, marital or civil partner status, pregnancy or maternity. We hire people with wider perspectives, leading to a more dynamic, innovative, and responsive organisation in touch with the changing world and marketplace. All applications for employment are fully considered on the basis of the skills and aptitudes of the applicant concerned, including those candidates with disabilities. In the event an employee becomes disabled, every effort is made to ensure that their employment with the group continues, and that appropriate support is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, so far as possible, be identical to that of other employees.

Share capital

Beazley raised $292.6m of equity during the year to take advantage of growth opportunities and in response to COVID losses. As at 31 December 2020, the company's issued shared capital comprised 608,942,527 ordinary shares, each with a nominal value of 5p and representing 100% of the total issued share capital. Details of the movement in ordinary share capital during the year can be found in note 21 on page 181. There are no restrictions on the transfer of shares in the company other than as set out in the Articles of Association and certain restrictions which may from time to time be imposed by law and regulations.

Authority to purchase own shares

On 25 March 2020 shareholders approved an authority, which will expire on 25 June 2021 or, if earlier, at the conclusion of the 2021 Annual General Meeting (AGM), for the company to repurchase up to a maximum of 52,974,406 ordinary shares (representing approximately 10% of the company's issued ordinary share capital).

The board continues to regard the ability to repurchase issued shares in suitable circumstances as an important part of the financial management of the company. A resolution will be proposed at the 2021 AGM to renew the authority for the company to purchase its own share capital up to the specified limits for a further year. More detail of this proposal is given in the notice of AGM.

Significant agreements – change of control

Details of an agreement to which the company is party that alters on change of control of the company following a takeover bid are as follows.

In 2020 we amended the multi-currency standby letter of credit and revolving credit facility to increase its capacity from $225m to $450m. No other significant changes were made to the facility agreement since the previous amendment in July 2019. The agreement, which is between the company, other members of the group and various banks, provides that if any person or groups of persons acting in concert gains control of the company or another group obligor, then: (a) the banks are thereafter not obliged to participate in any new revolving advances or issue any letter of credit; and (b) the facility agent may:

(i) require the group obligors to repay outstanding revolving advances made to them together with accrued interest; and

(ii) ensure that the liabilities under letters of credit are reduced to zero or otherwise secured by providing cash collateral in an amount equal to the maximum actual and contingent liabilities under such letters of credit.

Furthermore, the facility agreement includes a covenant that no group obligor (other than a wholly owned subsidiary) will, without prior consent of the banks, amalgamate, merge (within the meaning of generally accepted accounting principles in the UK), consolidate or combine by scheme of arrangement or otherwise with any other corporation or person. If this covenant should be breached without prior consent, then the facility agent may: (a) require the group obligors to repay outstanding revolving advances made to them together with accrued interest; (b) ensure that the liabilities under letters of credit are reduced to zero or otherwise secured by providing cash collateral in an amount equal to the maximum actual and contingent liabilities under such letters of credit; (c) declare that any unutilised portion of the facility is cancelled; and (d) give a notice of non-extension to Lloyd's in respect of any letter of credit.

Annual general meeting

The AGM of the company will be held on 26 March 2021 at 14.30. Due to ongoing restrictions this will be an online only event this year. Details of how to join the meeting remotely will be provided in the AGM notice and on the Investor Relations page of our website. The notice of the AGM details the business to be put to shareholders.

Directors' report continued

Carbon emissions

Our Green House Gas (GHG) emissions were 4,217.22 tonnes carbon dioxide equivalent (tCO_2e) in 2020. This equates to a 70% reduction when compared to 2019. This sizeable reduction is a reflection of the COVID-19 travel restrictions reducing Beazley's business travel. It should be noted that year on year reductions going forward will be based on 2019 as the baseline year, as this is a truer reflection of emissions from our business activities. Beazley operates from offices which form part of a wider commercial development. This means that our operational control over our office differs by location. The scope of our carbon emissions cover office locations where Beazley pays our utility bills independent of any service charge. It does not include any serviced office suites we operate from. This reporting has expanded from previous years where we only focused on our top 3 European offices and our top 4 North America offices. All shared offices and serviced office suites are excluded from the scope of Beazley's GHG reporting. We expect emissions to be reported from these locations by our landlords. Our 2020 reporting covers 88% of Full Time Equivalent (FTE) staff. The same parameters apply for the reporting of Transmission and Distribution losses within our Scope 3 inventory.

Our Scope 3 emissions also cover our global operations from all offices, with the exception of those in Canada. This is an expansion from previous years and include all aspects of travel i.e. air, rail, taxis, car hire and hotels. This data is collated by our travel partners.

Beazley's overall corporate Green House Gas (GHG) emissions for 2020 are detailed in the table below, with data from previous years provided for comparison:

	Carbon Emissions tCO_2e		
	2018	2019	2020
Scope 1	34.17	21.08	**9.22**
Scope 2	1,047.31	990.30	**870.16**
Scope 3	12,124.74	12,812.50	**3,337.84**
Total	**13,206.22**	**13,823.88**	**4,217.22**

Normalised for Full Time Equivalent (FTE) of staff, performance is as follows:

Carbon Emissions tCO_2e/FTE		
2018	2019	2020
10.39	9.88	2.91

Calculation clarifications

Greenhouse gas emissions are calculated and presented in accordance with HM UK Government Department for Environment, Food and Rural affairs (DEFRA) Environmental Reporting Guidelines, using the UK Government's GHG Conversion Factors for Company Reporting where possible.

GHG emissions are, where possible, calculated using the HM UK Government Department of Business, Energy and Industrial Strategy (BEIS) conversion factors for kilograms of CO_2 equivalent ($kgCO_2e$) the sum of carbon dioxide, methane and nitrous oxide emission factors. The exceptions to this are emissions associated with:

- Refrigerants (Scope 1 emissions), which are reported as carbon dioxide equivalent (CO_2e) emissions;
- Dublin office electricity use which is based on information reported by the Sustainable Energy Authority of Ireland (SEAI) and reported as tonnes of CO_2 (tCO_2) only. Scope 3 Transmission & Distribution (T&D) European emissions are based on DEFRA reporting metrics in the absence of T&D conversions factors.
- US Office electricity (Scope 2) and T&D losses (Scope 3) have been calculated using regional emission factors provided by the US Environmental Protection Agency (EPA);
- Scope 3 emissions from US Business travel, as well as global car rental have all been calculated using US EPA emission factors. Hire car travel has been assumed as 100 miles per day of hire, using a worst case emission factor for passenger vehicle;
- Emissions from company cars (Scope 1) are calculated based on their maximum mileage enabled under the deals of their lease.

Target for 2021

Beazley has set the target to reduce normalised CO_2 emissions by 30% in 2021. This is against a baseline year of 2019. This target does not allow for the offsetting of these emissions through recognised schemes.

Streamlined Energy and Carbon Reporting

The following data is set out to demonstrate compliance with the Streamlined Energy and Carbon Reporting (SECR) requirements set out by HM UK Government in the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Methodology

The scope of this reporting differs from the carbon emissions reported in the previous section, in such that it only covers UK based operations. Global comparisons for overall energy consumption is also provided for reference.

Data has been collated from a number of sources. For all travel including car hire, hotels, rail, air and taxi data has been provided from our booking agent partners, or through invoices on our accountancy system. Energy data and company car details have been sourced from utility bills and lease agreements, respectively.

Further clarifications for each section of the reporting is included below:

Company cars

Data collated for company cars include yearly mileage agreement, make, model, registration and fuel type. Consumption has been based on the maximum agreed mileage for the car in 2020, as set out in the lease agreement. Fuel economy data has been based on the worst case fuel consumption figures cited by the manufacturer. This has enabled the kWh energy associated with the car to be calculated. There were 13 company cars used across 2020 of which seven are current at the end of 2020. Five of these cars are either hybrids or electric.

Electricity for utilities
Beazley delivers business from two locations in the UK – Birmingham and London. Additional offices are located across the globe, many of which are considered shared space and serviced office suites. Beazley pays a service charge for their use, however, has no control over the operation or use of utility provisions. Responsibility for energy consumption and carbon emissions, therefore, falls to the landlord, and is considered out of scope for the purpose of these calculations. The Global Emissions reported do not include data for the following office locations: Houston, Los Angeles, Minneapolis, Philadelphia, Scottsdale, Rio de Janeiro, Sydney, Miami and Singapore, Shanghai, Montreal, Vancouver and Seattle. These offices make up 11% of Global FTE in 2020.

Car hire
Car hire for business use has been estimated, as data is unavailable to assess the mileage travelled as part of the rental period. Calculations have been based on an assumption that the user would travel 100 miles per day as part of the rental. The make, model and fuel type of the car is also unknown, therefore, a worst case approach to estimating energy consumption has been used, with all fuel types considered to be diesel, with an average fuel consumption of 7.2 litres of gasoline per 100km travelled (Lge/100km) as stated by the International Energy Agency (IEA) or 11.59Lge/100 miles. This gives a fuel factor conversion rate from litres to kilowatt hour (kWh) as 10.9.

Exclusions
Energy consumption from business travel with the exception of hire cars and company cars has not been included, as Beazley does not operate the transport in question.

Energy report
Beazley has a total of 1,646.5 FTE staff (including contractors) as at 1st January 2021, 1,450.52 (including contractors) of which are considered in scope for the global energy consumption reported in the tables below. Within the UK, Beazley has 773.61 FTE (including contractors). This is the equivalent of 46.98% of our global workforce.

Company cars
The total estimated kWh equivalent for fuel consumption in 2020 is 55,480.50 kwh.

Energy for heating, cooling and small power
There was no gas use within Beazley operations in 2020.

Electricity

	Energy consumption kWh		
	2018	2019	2020
UK	1,620,714	1,676,306	1,309,423
Europe	387,286	400,498	393,395
USA	1,135,975	1,168,276	1,175,306
Total	**3,143,975**	**3,245,080**	**2,878,124**

We were able to procure energy from certified renewable sources for the following locations in 2020:

Office location	Energy consumption (kWh)
London	1,251,636
Dublin	290,533

Car hire
There was no in scope energy use related to car hire within 2020. It is estimated globally hire car use was as follows:

Estimated energy use from car hire (kWh)		
2018	2019	2020
64,681	87,926	12,127

Overall energy consumption
Within the scope of the SECR, total energy consumption within the UK was 1,364,903.5 kWh. This equates to 1,764.33kWh/FTE.

Global energy use from Beazley's operations within the same scope was 2,945,731.98 kWh, which equates to 2,030.81kWh/FTE.

Energy plans
In 2020, energy savings in the offices Beazley operate from were to be realised through a number of projects. This included the upgrading of IT equipment, the commencement of the relocation of IT servers to dedicated data centres, and the relocation of our London office.

We delivered the roll out of new IT equipment, however, the impact of COVID-19 has resulted in delays to the relocation of the servers and the move to our new London Office. The increased energy efficiency as a result of these relocations will help drive energy savings in 2021. Although out of scope for SECR, it should be noted that further energy savings will be achieved through reducing our business travel, using online alternatives to undertake many of our business meetings.

Directors' report continued

Auditor

EY LLP has indicated its willingness to continue in office. Accordingly a resolution to reappoint EY LLP as the auditor of the company will be proposed at the 2021 AGM.

Disclosure of information to auditor

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

By order of the board, covering the strategic report from pages 1 to 68 and the directors' report from pages 63 to 68.

C P Oldridge
Company Secretary
Plantation Place South
60 Great Tower Street
London
EC3R 5AD

4 February 2021

Governance

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Letter from our Chair

On behalf of the board of directors, I am pleased to present the governance report, in which we describe our governance arrangements, the operation of the board and its committees and how the board discharged its responsibilities throughout the year.

We have not made any fundamental changes to our governance framework during the year, however the board has continued to increase its emphasis on its consideration of our wider stakeholders and on our corporate purpose.

Board changes

I am pleased to report that your board remains highly engaged in fulfilling its principal tasks of leading the company and overseeing the governance of the group. We have a strong board that has a good range of newer and more established directors.

In accordance with the group's policy on director independence and rotation, Sir Andrew Likierman and John Sauerland, both non-executive directors will retire at the conclusion of the Annual General Meeting on 26 March 2021, Sir Andrew having served for six years and John having served on the board for five years. Christine LaSala will succeed Andrew as a chair of the remuneration committee. The board is immensely grateful to both Andrew and John for their substantial contributions to the company during their tenure.

The board welcomed Pierre-Olivier Desaulle who was appointed as a director with effect from 1 January 2021. Pierre-Olivier's operational insurance experience will provide valuable insight to the board, as the group continues to grow its presence in Europe.

The board will be continuing its search for an individual with US expertise and it remains committed to increasing its ethnic diversity; this will be a specific consideration in its future appointments.

As we announced in September 2020, Nicola Hodson has joined the remuneration committee and John Reizenstein joined the nomination committee.

Our people

Communication with our people has always been a key focus for the company, but the importance of this has been underscored in 2020 during the pandemic, and I have been impressed with the effort and enthusiasm afforded to communicating and keeping employee engagement levels high, together with finding innovative ways of supporting the workforce. This year we introduced monthly pulse surveys. This allowed us to understand our people's concerns, and the company has been able to react in meaningful ways to address these. Bob Stuchbery, the director appointed to bring workforce feedback into the boardroom, has continued to report to the board and also to evolve the process. One of the particular contributions from the 'Sounding Board' this year that the board considered was their feedback on the company's sustainability strategy. In addition to the regular engagement that the executive team has with staff in all jurisdictions, the non-executive directors periodically travel to Beazley's offices to meet with staff – this year, we continued these office visits 'virtually'. Along with other non-executive directors, I participated in panel discussions on the work of the board and topical areas of interest that were broadcast to all staff.

The board continues to devote significant attention to developing robust succession plans for both the board and senior management and reviewing the pipeline of emerging talent throughout the organisation. The board has also had continued oversight and provided challenge on the group's inclusion and diversity strategy.

Board effectiveness

In 2019, we conducted internal board and committee evaluations. As was the case last year, the review concluded that the board, its committees and its individual members continue to operate effectively however there were particular areas on which the board should focus. The following were the key areas that the board addressed during 2020:

- the board considered whether to separate the audit and risk committee, in order to achieve a greater emphasis on risk as identified in the evaluation process. The agendas of the audit and risk committee were subsequently revised to provide a more balanced time allocation for risk discussions and Bob Stuchbery agreed to act as the director with designated responsibility for risk. The board concluded that the change in the agendas had brought about the desired outcome and the committee structure would remain as it was.
- the search for two non-executive directors to bring additional skillsets and knowledge to the board, was progressed, and one of the positions was filled. It is anticipated that the other role will be filled in 2021.
- progress was made in reducing duplication of matters considered by the board and its subsidiaries, and opportunities for reducing this further would be sought in the coming year.
- improvements were made to both the quality and conciseness of board reports, which allowed for meaningful discussions.
- delivery of the board training plan.

Further details of the actions taken this year to improve the board's performance can be found in the corporate governance section of the report on page 81. The 2020 board and committee effectiveness reviews were carried out by way of internal questionnaires. The specific actions that the board will be taking are: to ensure that there is appropriate momentum to the company's approach to climate change; taking a holistic view of strategy; continuing its work to enhance the information it receives and its discussion; and continuing group development and training, as well as individual development programmes. We will be agreeing a specific action plan that will be taken forward in 2021 and will report on the progress in implementing the recommendations made in the 2021 annual report. The 2021 board evaluation will be externally facilitated.

Company culture

The company has an open culture and there is regular communication with the workforce. In light of the global pandemic, 2020 proved to be a year when our strong culture was more important than ever. A report on culture is provided to the board on an annual basis but it is also referred to during other board discussions. A number of information sources are used to gauge the company's culture and these include: the employee engagement and leadership surveys, turnover statistics, whistleblowing data and grievances raised, feedback from leavers, reports from internal audit and customer complaints. The board also measures culture through its interaction with senior management and the workforce. This year, a number of these interactions have continued via virtual engagement and the board has received feedback on these. A component cornerstone of our culture is empowering our people to find the best way to deliver results for the business, without confining them to a 'one size fits all' mentality. Beazley's values – professionalism, integrity, effectiveness and dynamic – support Beazley's culture.

Governance

The company continues to be committed to the highest standards of governance and I am pleased to confirm that the company has complied with the principles and provisions that are set out in the 2018 UK Corporate Governance Code throughout the year ended 31 December 2020. Details of the activities of the board and its committees are also set out on pages 77 to 91.

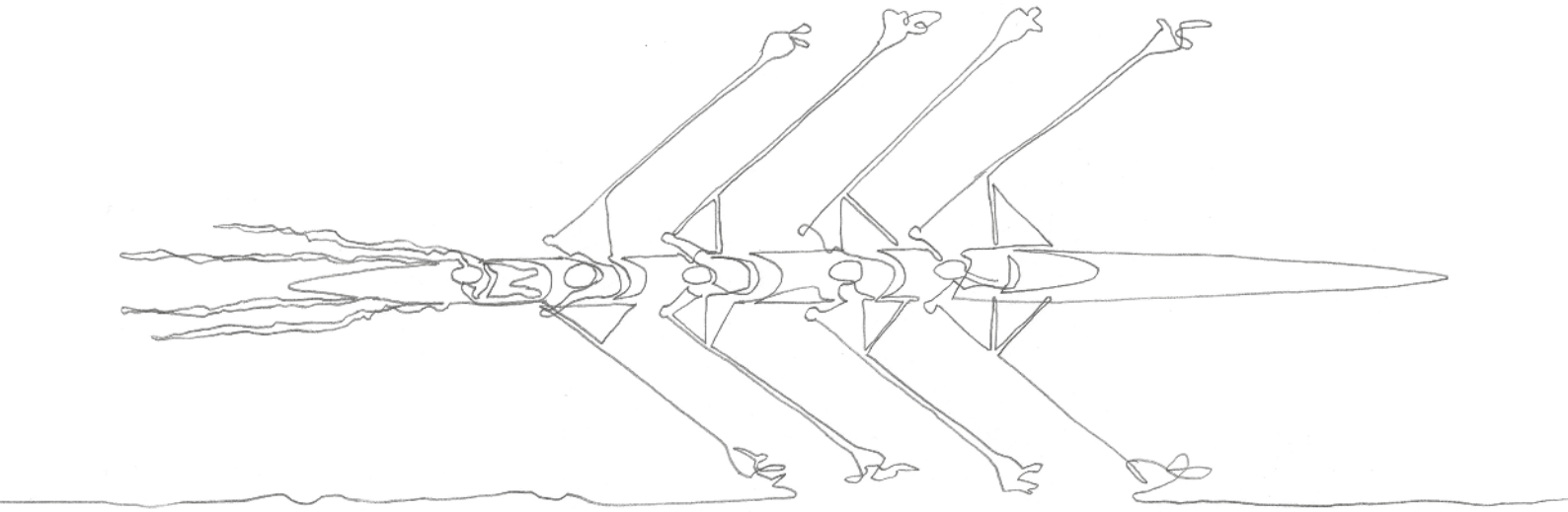
The board transitioned seamlessly to virtual meetings in March 2020, and added in additional board calls to ensure that directors were kept informed in a rapidly changing environment. The board has also spent some time reflecting on the lessons learned from 2020 in order to ensure that we are well-placed to oversee the groups business in 2021.

All directors expect to attend this year's AGM, which will again provide an opportunity for all shareholders to hear more about our performance and to ask questions of the board.

I would like to thank all of my colleagues on the board for their contribution during the year.

David Roberts
Chair

Board of directors



An effective board of directors made up of diverse and experienced members.

Our committees and committee chairs

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

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

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

Governance framework

Board of directors

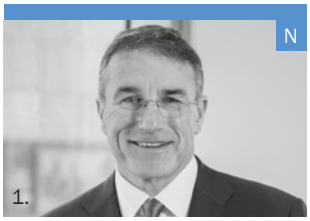
Audit and risk committee
The audit and risk committee is chaired by John Reizenstein.

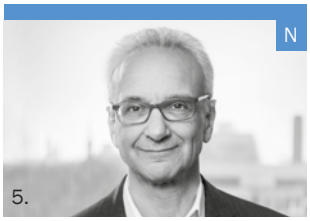
Nomination committee
The nomination committee is chaired by David Roberts.

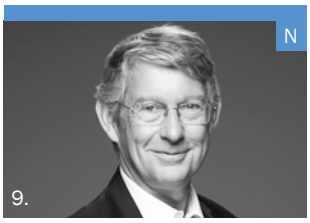
Remuneration committee
The remuneration committee is chaired by Sir Andrew Likierman.

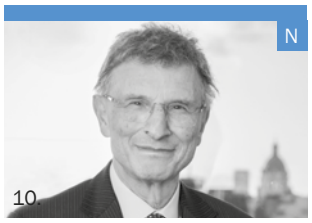
Executive committee
The executive committee is chaired by Andrew Horton and acts under delegated authority from the board.

Board of directors *continued*









1. David Roberts
Chair

Appointed: 1 November 2017

Experience: David joined Beazley on 1 November 2017 and became chair on 22 March 2018. He is chair of Nationwide Building Society and vice chair of NHS England. He has over 30 years' experience in financial services and was previously chair and CEO of Bawag PSK AG, Austria's second largest retail bank, and an executive director and member of the group executive committee at Barclays plc, where he was responsible for the international retail and commercial banking business. Prior to joining Nationwide he was group deputy chair at Lloyds Banking Group. His previous non-executive directorships include Absa Group SA and BAA plc.

Committee: Nomination committee (chair)

Skills: governance, strategy, board leadership and regulation.

2. Andrew Horton
Chief Executive Officer

Appointed: 12 June 2003*

Experience: Andrew joined Beazley in June 2003 as finance director and became chief executive officer in September 2008. Prior to that he held various financial positions within ING, NatWest and Lloyds Bank and was the chief financial officer for the UK wholesale banking division of ING immediately prior to joining Beazley. Andrew was a non-executive director of Man Group plc from 2013 to 2020. He qualified as a chartered accountant with Coopers and Lybrand in 1987.

Committee: Executive committee (chair)

Skills: strategy, investment, finance, mergers and acquisitions, leadership and people management.

3. Sally Lake
Group Finance Director

Appointed: 23 May 2019

Experience: A Fellow of the Institute of Actuaries since 2004. Sally joined Beazley in 2006 initially working with the Specialty Lines division, the largest underwriting division, for six years. This gave her a breadth of exposure to many aspects of the business at Beazley, especially focusing on claims analytics and reserving. In 2012 Sally became reserving manager and then group actuary in 2014. As group actuary Sally covered both pricing and reserving, as well as capital model validation. She became group finance director in May 2019. Prior to joining Beazley, Sally held financial positions within Lane Clark & Peacock where she qualified as an actuary and PwC where she gained experience in pensions.

Committee: Executive committee

Skills: reserving and actuarial pricing, capital model validation, leadership and people management, inclusion and diversity.

4. Adrian Cox
Chief Underwriting Officer

Appointed: 6 December 2010*

Experience: Adrian began his career at Gen Re in 1993 writing short tail facultative reinsurance before moving to the treaty department in 1997, where he wrote both short and long tail business specialising in financial lines. He joined Specialty Lines at Beazley in 2001 where he performed a variety of roles including underwriting manager, building the long tail treaty account, managing the private enterprise teams and the large risk teams before taking responsibility for Specialty Lines in 2008. He took on the role of chief underwriting officer in January 2019. Adrian was appointed to the boards of Beazley Furlonge Limited in 2008 and Beazley plc in 2011.

Committee: Executive committee

Skills: insurance, management, international business development and governance.

E Executive Directors

N Non-Executive Directors

*Where the appointment date of a director pre-dates 13 April 2016 (being the date that Beazley plc became the holding company of Beazley Group) this appointment date refers to their representation on the Beazley Ireland Holdings plc board (formerly Beazley plc).

5. John Reizenstein
Non-Executive Director

Appointed: 10 April 2019

Experience: John joined Beazley in April 2019 as chair of the audit and risk committee. He has more than 30 years' experience in financial services, most recently as chief financial officer of Direct Line Insurance Group plc, from which he retired in 2018. Prior to that he held senior positions in insurance and banking at Co-operative Financial Services and in investment banking at Goldman Sachs and UBS. He is a member of the Takeover Panel, chair of Farm Africa and a trustee of Nightingale Hammerson.

Committees: Audit and risk committee (chair), nomination committee

Skills: finance, strategy, leadership, investment, and mergers & acquisitions.

6. Nicola Hodson
Non-Executive Director

Appointed: 10 April 2019

Experience: Nicola joined the board in April 2019. Nicola is vice president field transformation, for Microsoft Global Sales and Marketing and was previously chief operating officer for Microsoft UK. She is a non-executive director on the board of Drax Group plc and is chair of its remuneration committee. Nicola was formerly a non-executive director at Ofgem, a board member at the UK Council for Child Internet Safety and at the Child Exploitation and Online Protection group.

Committees: Audit and risk committee, remuneration committee

Skills: strategy, leadership and management. digital transformation, sales & marketing.

7. John Sauerland
Non-Executive Director

Appointed: 5 May 2016

Experience: John is chief financial officer of the Progressive Corporation, a US based insurance holding company. Prior to his current role, he was Progressive's personal lines group president for eight years, responsible for the company's primary business unit with $17bn in revenues. During his tenure as personal lines group president, he led the introduction of many innovations such as Name Your Price® and Snapshot®, the industry-leading pay-as-you-drive offering. He also oversaw significant growth of the company's direct marketing efforts and consumer-facing web and mobile technology.

Committee: Remuneration committee

Skills: finance, pricing, marketing and distribution.

8. Christine LaSala
Non-Executive Director

Appointed: 1 July 2016

Experience: Christine is the senior independent director. Based in New York, she retired as chair of Willis Towers Watson North America. She has over 40 years of management, client leadership and financial experience in the insurance industry including work as an underwriter and 27 years as an insurance broker, leading the large businesses and working with corporate and public institution clients. Christine's experience includes board and leadership roles at Johnson & Higgins and Marsh and 10 years as CEO of the WTC Captive.

Committees: Audit and risk committee, nomination committee and remuneration committee

Skills: insurance, distribution, strategy, risk management, client leadership, regulatory, governance and talent and leadership development.

9. Pierre-Olivier Desaulle
Non-Executive Director

Appointed: 1 January 2021

Experience: Pierre-Olivier has over 25 years of experience as an international insurance executive, with a focus on products and distribution innovation. He joined the Beazley plc board in January 2021 and has been a non-executive director of Beazley Insurance dac since 2017, where he chairs the risk and compliance committee. He served as chief executive officer of Hiscox Europe until 2017 and has held a number of other executive roles within the (re)insurance industry including strategic planning, operations and systems director at Marsh. With a background in strategy consulting, having been at Strategic Planning Associates (now Oliver Wyman), he transitioned to insurance helping Marsh with the integration of the leading French broker. He is currently the chief insurance officer of the InsurTech startup, Setoo.

Skills: insurance, reinsurance, strategy, operations, distribution.

10. Sir Andrew Likierman
Non-Executive Director

Appointed: 25 March 2015*

Experience: Andrew is professor of management practice at the London Business School having served as Dean from 2009-2017. His career has spanned the public and private sectors as well as academic life, including 10 years as head of the UK Government Accountancy Service and president of the Chartered Institute of Management Accountants. Previous non-executive posts have included Chairmanship of the National Audit Office, the Economist's Bookshop Group and market research firm MORI. Non-executive directorships have included the Bank of England, Barclays Bank and currently include Times Newspapers Holdings Ltd and Monument Corporation Ltd.

Committee: Remuneration committee (chair), nomination committee

Skills: accountancy, financial services and governance.

11. Catherine Woods
Non-Executive Director

Appointed: 1 January 2016*

Experience: Catherine has 35 years' experience in financial services as well as significant governance experience. Her executive career was with JP Morgan in the City of London, specialising in European financial institutions. She is a former vice president and head of the JP Morgan European Banks equity research team. She is currently a non-executive director of BlackRock Asset Management (Ireland) and is an independent director at Lloyds Banking Group Board. She was previously appointed by the Irish Government to the Electronic Communications Appeals Panel and the Adjudication Panel to oversee the rollout of the National Broadband scheme. Catherine is a former deputy chair of AIB Group plc, former chair of EBS DAC and former non-executive director of AIB Mortgage Bank and An Post.

Committees: Audit and risk committee, remuneration committee, nomination committee

Skills: insurance, strategy, stakeholder management, finance, governance, leadership and management.

12. Robert Stuchbery
Non-Executive Director and Employee Voice of the Board

Appointed: 11 August 2016

Experience: Bob was previously the president of international operations of The Hanover Group until he retired from the Group in May 2016. He brings extensive Lloyd's experience, having been chief executive officer of Chaucer until 2015 and having held numerous management roles at the company for over 25 years, and a deep knowledge of the Lloyd's market and distribution and operational strategies. In addition to the plc board, Bob is also a non-executive director to the board of Beazley Furlonge Ltd, the group's Lloyd's managing agency, where he chairs the risk committee. Bob served as a member of the London Market Group and was deputy chairman of the Lloyd's Market Association board. He is currently a Liveryman and court member of The Worshipful Company of Insurers.

Committee: Audit and risk committee

Skills: insurance, risk management and strategy.

Investor relations

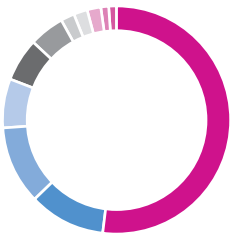
We place great importance on communication with shareholders. The annual report and accounts and the interim report are available to shareholders on the company's website (www.beazley.com). A mailed copy of the accounts is also available on request. The company responds to individual letters from shareholders and maintains a separate investor relations centre within the existing www.beazley.com website, as a repository for all investor relations matters.

Financial reporting for insurance companies can seem to be complex. In order to help shareholders and potential investors better understand the key drivers of the business and its prospects, we have endeavoured to provide increasing levels of transparency and explanation in our communications. As a result, in addition to enhancing the information contained in the annual and interim reports, the investor relations centre on the company website contains a substantial amount of relevant information for investors, including key corporate data and news, presentations to analysts, information for the names of syndicate 623 and special purpose syndicates 5623 and 6107, analyst estimates and a financial calendar. The website also gives investors the opportunity to sign up for an alert service as new information becomes available.

There is regular dialogue with institutional shareholders, as well as general presentations after the preliminary and interim results. The board is advised of any specific comments from institutional investors to enable it to develop an understanding of the views of major shareholders. All shareholders have the opportunity to put questions at the company's annual general meeting.

The company's shares are listed on the London Stock Exchange. Prices are given daily in newspapers including the Financial Times, The Times, the Daily Telegraph, the Daily Mail and the Evening Standard.

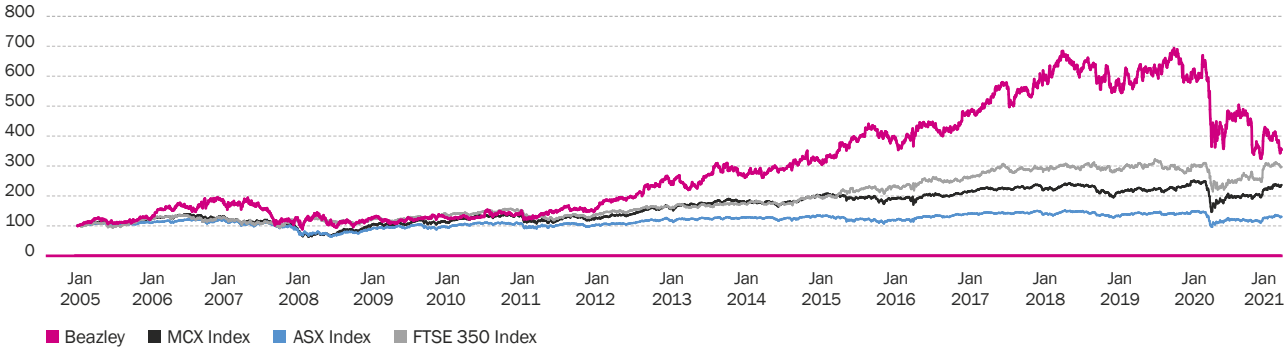
Shareholding by type of investor



Mutual Funds	52%
Retail	11%
Pensions	11%
Insurance	7%
SWF	6%
Trading	5%
ETF	2%
Investment Trusts	2%
Hedge funds	2%
Directors	1%
Charities	1%

There are currently 13 analysts publishing research notes on the group. In addition to research coverage from Numis and JP Morgan, the company's joint corporate broker, coverage is provided by Autonomous, Credit Suisse, Investec, Jefferies, Keefe Bruyette & Woods, Morgan Stanley, Peel Hunt, Shore Capital, Exane Paribas, UBS and RBC.

Share price performance



Financial calendar

26 March 2021	Annual general meeting
23 July 2021	First interim dividend announcement for the six months ended 30 June 2021

Statement of corporate governance

Compliance with Code provisions

The board confirms that the company and the group have complied with the provisions set out in the 2018 version of the Financial Reporting Council's UK Corporate Governance Code (the Code) throughout the year ended 31 December 2020.

The Code can be viewed on the **www.frc.org.uk** website. The governance section, together with the directors' and remuneration reports, describes how the committee have applied the main principles of the Code and complied with its detailed provisions.

The board considers that the annual report and accounts, taken as a whole, are fair, balanced understandable; and that they provide the information necessary for shareholders to assess the company's performance, business model and strategy. The company's auditors have reviewed the company's compliance to the extent required by the UK listing rules for review by auditors of UK listed companies.

The board is accountable to the company's shareholders for good governance and the statements set out below describe how the main principles identified in the Code have been applied by the group.

Governance framework

The company operates through the main board, the managing agent board, the board of the Irish insurance company (that accepts non-life reinsurance premiums ceded by the corporate member, Beazley Underwriting Limited), the board of the US admitted insurance companies and their board committees. The group has established properly constituted audit and risk, remuneration, nomination and disclosure committees of the board. There are terms of reference for each committee and details of their main responsibilities and activities in 2020 are set out on pages 78 to 91. Andrew Horton as the chief executive officer, has also constituted an executive committee that he chairs and which acts under delegated authority from the board. The executive committee usually meets on a monthly basis and is responsible for managing all activities of the operational group. The governance framework of the main board and its committees is shown in the diagram on the following page.

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

Statement of corporate governance

Company Secretary
Christine Oldridge

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

Shareholders

Chair
David Roberts

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

The board

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

Chair
David Roberts

Members
Adrian Cox
Pierre-Olivier Desaulle
Nicola Hodson
Andrew Horton
Sally Lake
Christine LaSala
Sir Andrew Likierman
John Reizenstein
John Sauerland
Robert Stuchbery
Catherine Woods

Chief Executive
Andrew Horton

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

Audit and risk committee

Chair
John Reizenstein

Members
Nicola Hodson
Christine LaSala
Robert Stuchbery
Catherine Woods

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

Nomination committee

Chair
David Roberts

Members
Christine LaSala
Sir Andrew Likierman
Catherine Woods
John Reizenstein

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

Remuneration committee

Chair
Sir Andrew Likierman

Members
Christine LaSala
John Sauerland
Catherine Woods
Nicola Hodson

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

Disclosure committee

Chair
Sally Lake (or her nominee)

Members
Andrew Horton (or his nominee)
Andrew Pryde
Christine Oldridge

Key responsibilities
The disclosure committee has responsibility to oversee the implementation of the governance and procedures associated with the assessment, control and disclosure of inside information in relation to the company.

Executive committee

Chair
Andrew Horton

Members
Adrian Cox
Beth Diamond
James Eaton
Ian Fantozzi
Bethany Greenwood
Patrick Hartigan
Sally Lake
Lou Ann Layton
Richard Montminy
Andrew Pryde
Jerry Sullivan
Christian Tolle
Tim Turner
Pippa Vowles

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

The information above is as at 4 February 2021.

The board

The board has a schedule of matters reserved for its decision. This includes inter alia: strategic matters; statutory matters intended to generate and preserve value over the longer term; acquisitions and disposals; approval of financial statements and dividends; appointments and terminations of directors, officers and auditors; and appointments of committees and setting of their terms of reference. It is responsible for: reviewing group performance against budgets; approving material contracts; determining authority levels within which management is required to operate; reviewing the group's annual forecasts; and approving the group's corporate business plans, including capital adequacy and the Own Risk and Solvency Assessment (ORSA). The board is responsible for determining the nature and extent of the principal risks it is willing to take in pursuing its strategic objectives. To this end, the board is responsible for the capital strategy, including the group's Solvency II internal model.

The board consists of a non-executive chair, David Roberts, together with eight independent non-executive directors, of whom Christine LaSala is the senior independent non-executive director, and three executive directors, of whom Andrew Horton is chief executive officer. The non-executive directors, who have been appointed for specified terms, are considered by the board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement.

As senior independent director Christine LaSala will, if required, deputise for the chair. She is available to talk to shareholders if they have any issues or concerns or if there are any unresolved matters that shareholders believe should be brought to her attention. There were no changes to board membership during 2020. Pierre-Olivier Desaulle was appointed as a non-executive director to the board with effect from 1 January 2021. Pierre-Olivier also serves as a non-executive director on the board of our subsidiary, Beazley Insurance dac. On 25 September 2020, the board appointed Nicola Hodson to the remuneration committee and John Reizenstein to the nomination committee.

In accordance with the Code, the board has recommended that all directors should submit themselves for election or re-election on an annual basis and as such all directors will stand for election or re-election at the forthcoming AGM.

Biographies of current board members appear in the board of directors section of this report. The biographies indicate the high level and wide range of business experience that are essential to manage a business of this size and complexity. A well defined operational and management structure is in place and the roles and responsibilities of senior executives and key members of staff are clearly defined.

Board meeting attendance

The full board meets at least five times each year and more frequently where business needs require. In 2020, in addition to the seven regular board meetings, there were further meetings to consider the interim trading statements, the equity raise and the impact of COVID-19 on the business. All the directors also attend an annual strategy day. The audit and risk committee had additional ad hoc meetings. The chair holds meetings with the non-executive directors without the executive directors being present.

Statement of corporate governance

In addition to its regularly scheduled meetings, the board met on an additional twelve occasions throughout the year with nearly full attendance. In total, there were 19 board meetings throughout 2020.

Attendance at the regular board and committee meetings is set out in the table below:

	Board		Audit and risk committee		Remuneration committee		Nomination committee	
Director	No. of meetings	No. attended	No. of meetings	No. attended	No. of meetings	No. attended	No. of meetings	No. attended
Adrian P Cox	7	7	–	–	–	–	–	–
Nicola Hodson[1]	7	7	9	9	1	1	–	–
D Andrew Horton	7	7	–	–	–	–	–	–
Sally M Lake	7	7	–	–	–	–	–	–
Christine LaSala	7	7	9	9	5	5	4	4
Sir J Andrew Likierman[4]	7	6	–	–	5	5	4	4
A John Reizenstein[2]	7	7	9	9	–	–	1	1
David L Roberts	7	7	–	–	–	–	4	4
John P Sauerland	7	7	–	–	5	5	–	–
Robert A Stuchbery	7	7	9	9	–	–	–	–
Catherine M Woods[3]	7	6	9	8	5	4	4	3

1 Nicola Hodson was appointed to the remuneration committee on 25 September 2020.
2 John Reizenstein was appointed to the Nomination committee on 25 September 2020.
3 Catherine Woods was unable to attend the board and the audit and risk, nomination and remuneration committee meetings in September 2020 due to a longstanding scheduling clash.
4 Sir Andrew Likierman was unable to attend the December board meeting due to a scheduling clash brought about by the global pandemic.

Where a director joined or stood down from the board or board committee during the year only the number of meetings following appointment or before standing down are shown.

Board discussions during the year

At each scheduled meeting the board receives reports from the chief executive officer and group finance director on the performance and results of the group and also receives reports from the chief underwriting officer and the chief risk officer and any board committees following their meetings. In addition the board receives updates from the group operating functions on major projects and corporate governance matters.

There is an annual schedule of rolling agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the financial and regulatory cycle. Meetings are structured to ensure that there is sufficient time for consideration and debate of all matters.

During the year, the board has spent time particularly on:

- monitoring of the impact of COVID-19 on the business;
- discussions on the capital position and dividends, including the placement of new ordinary shares of the company and capital allocation;
- review of strategic initiatives;
- talent development and succession planning;
- climate change and the risks and opportunities associated with it;
- engagement with the workforce and other key stakeholders;
- discussing the prioritisation of investment expenditure;
- review of risk management framework, including risk appetite;
- review of the Own Risk and Solvency Assessment (ORSA);
- approval of the 2021 business plan, including plans for optimising growth;
- cyber product development and cyber security; and
- continued monitoring of developments and responding to requirements for Brexit.

Training, information and support

New directors receive appropriate induction training when they join the board of Beazley plc. They are asked to complete a skills and knowledge assessment and a tailored training plan is developed. There are a number of modules available to the directors which are regularly reviewed to ensure they meet best practice and the changing business environment. Where appropriate, mentoring is provided to new directors by an external provider. Annual training is provided for all directors. The training sessions include business and industry specific topics and information on changes to director duties and responsibilities and to legal, accounting, information security and tax matters. Bespoke training will also be provided if requested by any director.

To enable the board to function effectively and directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of board meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussion documents regarding specific matters. Directors have access to an electronic information repository to support their activities. During 2020, the board continued to support the maintenance and development of Beazley's information security programme to address changing and emerging cyber security threats. Director training included: operational resiliency, reserving, financial reporting, the internal capital model and drivers of performance for an insurance company. The terms and conditions of appointment for all the non-executive directors set out the expected time commitment and they agree that they have sufficient time to provide what is expected of them.

There is an agreed principle that directors may take independent professional advice if necessary at the company's expense, assuming that the expense is reasonable. This is in addition to the access which every director has to the company secretary. The company secretary is charged by the board with ensuring that board procedures are followed.

Board performance evaluation

Under the UK Corporate Governance Code, the board is required to undertake formal and rigorous evaluation of its own performance and that of its committees and individual directors and this should be externally facilitated every three years. The board and its committees consider their effectiveness regularly. An internal review was conducted in 2020 and an assessment will be externally facilitated in 2021 (the last external review was conducted in 2018).

The 2020 board and committee effectiveness reviews were carried out by way of internal questionnaires. The specific actions that the board will be taking are: to give further momentum to the company's approach to climate change; widening the company's approach to strategy accordingly; improvements to the quality of board information in the light of feedback; enhancing the training programme for the board as a whole and for individuals. In addition to the effectiveness review, the board spent some time considering what lessons it had learned from 2020 to ensure it was well-placed to effectively oversee the delivery of the 2021 business plan.

Overall the review concluded that the board and its committees continue to operate effectively.

Inclusion & diversity

The committee believe having a diverse and inclusive workplace will support our vision for growth and outperforming the market. The committee continually review our approach to diversity and our aim is to have nurtured diverse employees across the business who are given the tools and opportunities to progress their career within Beazley. Further details are included in the report from the nomination committee.

Statement of corporate governance

Audit and internal control

EY were first appointed as the external auditor for the 2019 accounting year and were subsequently appointed as auditor for the 2020 accounting year following shareholder approval at the 2020 AGM.

The respective responsibilities of the directors and the auditors in connection with the accounts are explained in the statement of directors' responsibilities and the independent auditors report, together with the statement of the directors on going concern in the directors' report.

The board agreed the 2020 risk appetite for the group at the end of 2019 and, throughout 2020, the board has considered and acted upon the information presented to it in order to make risk based decisions against risk appetite. Key components of the risk management framework include monthly control self-assessments, with ad hoc risk assessments being conducted when required. These matters have been considered by the executive risk and regulatory committee each month and the audit and risk committee and board quarterly. Risk management also provides the board with a risk management view and/or opinion on key decision documents. In addition, the board has considered the quarterly Own Risk and Solvency Assessment report in the past year. This risk management framework has provided the board with an ongoing process for identifying, assessing, monitoring and managing the risks to the company. During the year, an externally facilitated review of the group's risk framework was commissioned to receive input on best practice across the industry.

The board is responsible for the group's system of internal control and for reviewing its effectiveness. However, such a system can only provide reasonable, not absolute, assurance against material misstatement or loss. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives within the risk appetite set by the board.

The key procedures that the board has established to ensure that internal controls are effective and commensurate with a group of Beazley's size include:

- day-to-day supervision of the business by the executive directors;
- review and analysis by the various group committees of standard monthly, quarterly and periodic reporting, as prescribed by the board;
- review of financial, operational and assurance reports from management; and
- review of any significant issues arising from internal and external audits.

The board therefore confirms that it has, during 2020, reviewed the effectiveness of the group's risk management and internal controls (including financial, operational and compliance controls), which have been in place throughout the year under review and continue to operate up to the date of approval of the annual report and accounts.

The chair of the audit and risk committee also had regular contact with external and internal auditors during 2020.

Further information on the role of the audit and risk committee is set out on page 83 and further information on risk management at Beazley is set out in the risk management report.

Shareholder engagement

The company places great importance on communication with shareholders. The annual report and accounts and the interim report are available from **www.beazley.com** and, where elected or on request, will be mailed to shareholders and to stakeholders who have an interest in the group's performance. The company responds to individual letters from shareholders and maintains a separate investor relations centre within the existing **www.beazley.com** website, as a repository for all investor relations matters. In 2020, Beazley appointed its first Head of Investor Relations.

There is regular dialogue with institutional shareholders, as well as general presentations attended by executive directors, after the preliminary and interim results. The board is advised of any specific comments from institutional investors, to enable it to develop an understanding of the views of major shareholders. All shareholders have the opportunity to put forward questions at the company's annual general meeting.

The company has the authority within its articles to communicate with its shareholders using electronic and website communication and to allow for electronic proxy voting.

Statement of corporate governance
Audit and risk committee

The impact of COVID-19 and the broader risk environment have been key agenda items in 2020.

John Reizenstein
Non-Executive Director

The board has delegated oversight of audit and risk matters to the audit and risk committee which currently comprises John Reizenstein (chair), Catherine Woods, Nicola Hodson, Christine LaSala and Robert Stuchbery.

The role of the committee is to assist the board of directors in fulfilling its oversight duties for the financial reporting process, the system of internal control, the audit process and the company's process for monitoring compliance with laws and regulations and the Code of Conduct. This role is unchanged from previous years and in order to perform this role effectively the committee works with management and key stakeholders to ensure that the risk and control framework within Beazley remains robust and appropriate for the group in the current environment. In addition to assessing the risk and control framework, in 2020 the committee also considered a number of specific issues including monitoring changes in regulatory and tax environments, appraising the impact of COVID-19 on the group and assessing the risks associated with Brexit.

As part of the appointments process the nomination committee reviewed the membership of the committee during the year. Taken as a whole, the committee has an appropriate balance of skills specific to the industry within which the group operates, including recent and relevant financial experience, as required by the UK Corporate Governance Code. Details of the members' relevant financial experience are given in their biographies under 'board of directors' on pages 74 and 75. All committee members are independent non-executives.

There is regular attendance by plc audit and risk committee members at the group's regulated subsidiary audit and/or risk committees. The committee also receive regular updates from the audit and risk committees of the group's regulated subsidiaries. This further demonstrates our proactive approach to understanding our control and risk environment at all levels of the organisation.

Only members of the committee have the right to attend meetings; however standing invitations are extended to the chair, chief executive officer, the group finance director, the chief risk officer, the head of internal audit and the head of compliance. Other non-members may be invited to attend all or part of any meeting as and when appropriate. The company secretary acts as secretary to the committee.

The audit and risk committee is required to meet at least quarterly, with meetings scheduled at appropriate intervals in the reporting and audit cycle. Additional meetings are held as required. In 2020 there were a total of nine meetings in the year compared to six meetings in 2019.

The internal and external auditors attend committee meetings and regularly meet in private with the committee. In addition the chair of the audit and risk committee has regular contact with the external and internal auditors throughout the year and members of the committee met individually with the Central Bank of Ireland and the Prudential Regulation Authority during 2020.

Membership and attendance – audit and risk committee

	Appointment	Attendance at full meetings during 2020
John Reizenstein	10 April 2019	9/9
Nicola Hodson	10 April 2019	9/9
Christine LaSala	1 July 2016	9/9
Robert Stuchbery	11 August 2016	9/9
Catherine Woods	11 March 2016	8/9

Statement of corporate governance

Audit and risk committee continued

Responsibilities of the committee

The committee's main audit-related responsibilities are broadly unchanged from the prior year and are detailed in the section below.

The primary role of the audit and risk committee in relation to financial reporting is to monitor the integrity of the financial statements of the group and any formal announcements relating to the group's financial performance, and to review significant financial reporting judgements. The committee has continued to approach its review of the annual report as a whole with focus on behalf of the board on considering the concept of 'fair, balanced and understandable'.

We have challenged ourselves to ensure the key messages about the performance of the business are delivered in a manner consistent with our own understanding and interpretation of the information we receive.

The committee also monitors the integrity of the group's Solvency II reporting and financial statements. The committee receives reports annually for review and recommendation to the board.

Specific committee responsibilities are set out below:

Audit and financial reporting

a) Financial and narrative reporting

- monitor the integrity of the company's financial statements and any other formal announcements relating to the company's financial performance;
- review the annual report before submission to, and approval by, the board, and before clearance by the external auditors. This covers critical accounting policies, significant financial reporting judgements, the going concern assumption, compliance with accounting standards and other requirements under applicable law and regulations and governance codes applicable to the financial statements;
- advise the board on whether, taken as a whole, the annual report is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy; and
- review the Solvency and Financial Condition Report and Regular Supervisory Report as required.

b) Internal audit

- recommend the appointment or termination of appointment of the head of internal audit;
- monitor and review the effectiveness of the company's internal audit function;
- receive a report on the results of the internal auditor's work, review internal audit reports and make recommendations to the board on a periodic basis; and
- review and approve the internal audit plan, charter and ensure the function has the necessary resources and access to information.

c) External audit

- recommend to the board, to be put to the shareholders for approval, the appointment, reappointment and removal of the external auditors;
- oversee the relationship with the external auditor including planning, reviewing of findings and assessing overall effectiveness;
- approve auditor's remuneration for audit, assurance and non-audit services;
- review and approve the annual audit plan to ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team; and
- review the findings of the audit with the external auditor.

d) Actuaries

- recommend to the board the appointment and termination of any firm of consulting actuaries used for the provision of Syndicate Actuarial Opinions (SAO) and/or review of insurance reserving; and
- monitor performance, determine independence and approve fees.

Risk management and compliance

a) Internal control and risk management systems

- review the company's internal financial controls and the company's internal control and risk management systems;
- advise the board on the company's risk management framework, which includes the risk management objectives, risk appetite, risk culture and assignment of risk management responsibilities;
- review risk reports and management information to enable a clear understanding of the key risks and controls in the business;
- review any breaches of risk appetite and the adequacy of proposed action;
- review the identification of future risks, including considering emerging trends and future risk strategy; and
- review the remit of the risk management function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively.

b) Compliance

- review the arrangements by which employees of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other areas;
- review procedures and systems relating to fraud detection, prevention of bribery and money laundering; and
- review the regular reports from the group head of compliance and keep under review the adequacy and effectiveness of the group's compliance function.

Full details of the terms of reference of the committee are available at **www.beazley.com**

Principal activities

The principal activities undertaken by the committee in discharging its responsibilities in 2020 are described below:

a) Significant financial statement reporting issues

The significant financial statement reporting issues, along with the significant matters and accounting judgements that the committee considered during the year under review, are set out below:

i) Valuation of insurance liabilities

As further explained in note 1 to the financial statements, the group's policy is to hold sufficient provisions, including those to cover claims which have been incurred but not reported (IBNR) to meet all liabilities as they fall due. The reserving for these claims represents the most critical estimate in the group's financial statements. In 2020, we observed the impact of COVID-19 on the world economy, lockdowns across the world, and the knock-on impact particularly on our contingency business due to event cancellations. We note the ongoing uncertainty around the timing of resumption to a form of normality in respect of the impact of COVID-19 on the global economy and the potential for recessionary effects on corporates will result in increased volatility and greater estimation challenges in respect of insurance claims.

We have also seen a rise in cyber and liability claims in recent years particularly in respect of ransomware. While there remains uncertainty around the timing of resumption to a form of normality and the final cost of these events to the company, the committee notes that Beazley continues to adopt a prudent approach where uncertainty exists as to the final cost of settlement.

The audit and risk committee receives regular reports from both the internal group actuary and the external audit team (including the SAO), as the output of independent projections are reviewed at key reporting quarters. In the latter part of the year, the group actuary has reported on the results of the third quarter reserving process, which the committee considers to be a key control as this process provides a level of informed independent challenge for the reserve position. To support the year end view, the committee has received a detailed paper in support of the level of margin held within technical reserves in the group's statement of financial position. Management confirmed that they remain satisfied that the outstanding claims reserves included in the financial statements provide an appropriate margin over projected ultimate claims costs to allow for the risks and uncertainties within the portfolio, and the committee was satisfied that there were no errors or inconsistencies that were material in the context of the financial statements as a whole.

As with the prior years, the committee also considers the report of the external auditor following its re-projection of reserves using its own methodologies. On the basis of the work the auditor undertook, it reported no material misstatements in respect of the level of reserves held by the group at the balance sheet date.

On the basis of the information provided by the group actuary throughout the year and at the year end and the consistent application of Beazley's reserving philosophy, the committee was satisfied that the reserves held on the group statement of financial position at 31 December 2020 were appropriate.

ii) Financial close process

The audit and risk committee continues to focus on the group's close and estimation processes generally, and the related controls carried out by the business and specifically the finance team. The close process is particularly important in the current environment where insurers are being required to adhere to increasingly tight regulatory reporting timelines and the audit and risk committee remains committed to ensuring that the robust nature of our control environment is not compromised during this period of change.

During the year and at year end, the committee received updates from management on the level of estimations used in the close process and the controls carried out to review these estimates retrospectively. The main areas of estimation and judgement remain materially consistent with prior years, with IBNR representing the most crucial estimate within the group's financial statements. The committee also reviews the process and controls related to actuarial and underwriting estimates of written premium. The committee continued to receive periodic reporting from both the finance and actuarial functions on our estimation process, and the related controls, in respect of claims reserves, premium income estimates and other key financial statement captions. The committee was satisfied that, based on the information provided to them, the estimates used in the financial close process are appropriate.

On the basis of the reporting received and reviewed during the last 12 months, the audit and risk committee remains satisfied that the estimation and control processes deployed by the group are appropriate.

iii) Valuation of financial assets at fair value

The board is responsible for setting the investment strategy, defining the risk appetite and overseeing the internal and outsourced providers via the chief investment officer. As the group's business model is to predominantly issue insurance contracts, the group has taken the option to defer the effective date of IFRS 9 until January 2023, as per the amendment to IFRS 4. As such the group continues to report its financial assets at fair value.

The committee notes that the overall investment strategy is broadly unchanged from prior periods. The committee receives updates from the group finance director and/or the chief investment officer and it has reviewed reports that confirm that the investment portfolio is in line with the 2020 board approved risk appetite, that carrying values of the portfolio as at 31 December 2020 are appropriate and that the valuation methodologies applied to each hierarchy level are consistent with the accounting policies. Committee members are invited to and periodically attend the investment committee.

Statement of corporate governance

Audit and risk committee continued

No misstatements that were material in the context of the financial statements as a whole were identified and the committee was satisfied with the approach employed by management in valuing the financial assets at fair value on the balance sheet at 31 December 2020.

iv) Recoverability of insurance receivables
Following a review of the group's year end debtor position, the committee is comfortable that the level of insurance receivables on the group's balance sheet are appropriate and do not require adjustment.

v) Recoverability of reinsurance assets
The committee received confirmation from management that over 90% of Beazley's reinsurance receivables are due from highly rated institutions. During the year, the committee has not noted any instances where poor quality reinsurers have led to a material financial loss and is comfortable with the monitoring processes management have described and put in place to ensure this continues.

Considering management updates and supported by the external auditor's report on the output of their work over assessing the recoverability of the group's reinsurance assets, the committee was satisfied that the judgements applied by management in making provision for bad debts are appropriate.

vi) Dividends, going concern and viability
During key reporting periods, management outlined to the committee in detail their support for the basis of preparation adopted in the financial statements and any statements around the future viability of the group.

The committee reviews detailed projections of future cash flows, profit forecasts and capital requirements under various scenarios, including scenarios stressed in terms of claims frequency and liquidity. In the current year, we considered the group's capital position with regards to the group's issuance of new equity of $293m.

We also considered the appropriateness of management's viability statement and the period over which this analysis is performed. The committee was satisfied by the level of analysis presented during the year and the related approach taken and statements made in the group's key external reporting.

vii) Tax
The committee continues to monitor the evolving tax environment and in particular considered management's approach to Diverted Profits Tax in the UK and base erosion anti-avoidance tax provisions (the 'BEAT') in the US. The committee is of the view that the approach taken by management, as outlined in note 9 to the financial statements, is reasonable.

viii) Intangible asset valuation
The audit and risk committee received an overview of management's valuation of intangible assets. The committee was satisfied that management's approach in respect of the carrying value of all of the group's intangible assets is reasonable.

b) Risk management and compliance
i) Risk management
To assist the board, the committee, supported by the risk committees of the subsidiary boards, receives and reviews reports from the risk management function focusing on the following areas:

- risk appetite: the committee has monitored the actual risk profile against risk appetite throughout 2020 and can confirm that Beazley plc has been operating within risk appetite as at 31 December 2020. The committee has also reviewed the proposed 2021 risk appetite;
- risk assessment: the committee has performed a review of the group's risk profile to assess its coverage of the universe of risk and that major underlying risks are visible and are being monitored;
- risk profiles: the committee has reviewed a number of risk profiles, which are focused risk assessments of specific topics. In 2020, the committee received an assessment of the impact that COVID-19 has had on Beazley's risk register and the mitigation in place. In addition, the CRO provided an opinion on the update to COVID-19 first-party claims costs. Other risk profiles have included a review of the cyber underwriting risk aimed at ensuring our suite of realistic disaster scenarios remain appropriate. There was also a product review of Beazley benefits, operational risk profiles covering payroll, sanctions, recovery & resolution and exposure management, an assessment of Beazley's reputational risk and an update confirming Beazley's preparedness for Brexit;
- emerging risk: the committee supported the identification of strategic and emerging risks which were discussed at the board meeting in May 2020 and have been subsequently monitored and reported in the quarterly Own Risk and Solvency Assessment (ORSA);
- oversight of the control environment: the committee has received a quarterly risk management report which provides commentary on the status of the control environment. This includes entries from the risk incidents log. This is supplemented by an annual Chief Risk Officer (CRO) opinion on the performance of the enterprise risk management framework;
- reverse stress testing: the committee has received the results of the reverse stress testing exercise, which explores what would have to happen for the group to be unviable and has been able to provide assurance to the board that this work has been performed with the appropriate level of depth and expertise;
- heightened risk: the committee consider the heightened risk register quarterly. A risk is considered heightened if the likelihood or the impact of occurrence was higher than usual;
- oversight of the internal model: the committee and the risk committees of the subsidiary boards have reviewed regular reports associated with the internal model. These have included a standing report on internal model output, and a validation report featuring both internal and independent validation and themed reviews, for example, on the approach used to aggregate risk in individual entities which consolidate up to the group level. These assessments have supported the boards' use of the internal model; and

- quarterly ORSA: the committee has received a quarterly ORSA report and has reviewed it as part of the quality assurance process before commending it to the board.

During the year an externally facilitated review of the group's risk framework was commissioned to receive input on best practice across the industry. The committee agreed with management on actions arising from the review.

c) Internal audit

The group's internal audit function reports directly, and is accountable to, the committee and the head of internal audit has direct access to the committee chair. The committee has reviewed the effectiveness of the function and remains satisfied that the internal audit function had sufficient resources during the year to undertake its duties.

During 2020 the committee:

- considered the results of all internal audit reports, and the findings and themes emerging from them;
- monitored the implementation of the 2020 internal audit plan;
- reviewed and approved the basis for internal audit planning. This included reviewing and approving the group's risk-based audit universe and the internal audit plan, and reviewing other business developments which could also potentially be the subject of internal audit work in the coming year. It also included challenging the frequency of audits in certain areas of the business and challenging the balance between thematic reviews and full end-to-end audits;
- reviewed and approved the internal audit charter;
- reviewed and approved the internal audit budget for 2021;
- received information relating to the internal audit functions quality assurance activities;
- reviewed how the internal audit, risk management and compliance functions contributed information and assurance relating to the group's control effectiveness;
- received and reviewed an overall summary assessment of 2020 internal audit activity;
- monitored the timely implementation of agreed management actions and reviewed the status of the same;
- requested and reviewed a report regarding the group's control environment as a whole; and
- reviewed and approved the implementation of agreed actions arising from the external quality assessment finalised in 2019.

During the course of 2020 a number of internal audit recommendations were made to management in relation to its systems of controls and agreed upon action plans were subsequently or are in process of being implemented. Overall the internal audit function was able to report that in the context of the agreed audit universe and plans the design and operation of our risk management framework, controls and processes have supported the group in operating within its risk appetite.

d) Compliance

The group head of compliance has direct access to the committee members and attends all committee meetings.

To assist the board the committee receives reports and updates from the compliance function on various issues including, but not limited to, regulatory developments, routine and non-routine interactions with the group's regulators, any significant instances of non-compliance with regulatory or internal compliance requirements.

During 2020, the committee:

- monitored the implementation of the 2020 compliance plan;
- reviewed and approved the 2021 annual compliance plan, including the compliance monitoring programme;
- reviewed changes in the regulatory environment applicable to Beazley;
- received updates on relationships with key group regulators, and oversight of regulatory requests;
- provided oversight to regulatory responses to corporate developments;
- reviewed updates from the money laundering reporting officer on the adequacy and effectiveness of the company's anti-money laundering systems and controls;
- provided oversight of the progress of the business in addressing identified enhancements to compliance requirements;
- approved the group policies and controls in respect of anti-bribery and corruption and anti-fraud;
- received updates on the structure and effectiveness of the company's compliance function;
- received updates on the framework, training and policy put in place regarding whistleblowing.
- received observations on risk culture as part of the various risk reports presented; and
- received updates on the structure and effectiveness of the company's risk management function.

In reviewing the effectiveness of the function the audit and risk committee remained satisfied that the compliance function had sufficient resources during the year to undertake its duties.

In addition, the risk committees and/or boards of the group's regulated subsidiaries receive more locally-focused compliance reports which are specific to those entities.

e) External audit

i) Assessing the effectiveness of the external auditor

The committee places great emphasis on ensuring there are high standards of quality and effectiveness in the external audit process. Audit quality is assessed throughout the year, with a focus on strong audit governance and the quality of the team.

The effectiveness of the audit is assessed through discussion throughout the year, taking into account considerations such as:

- reviewing the quality and scope of the audit planning and its responsiveness to changes in the business;
- monitoring of the auditor's independence; and
- considering the level of challenge evidenced in discussions and reporting.

Statement of corporate governance

Audit and risk committee continued

The committee took note of recommendations from EY following the conclusion of their first year as auditors. In 2020 the FRC conducted an Audit Quality Review of EY's 2019 audit of Beazley. There were no significant points raised in this review.

These considerations are taken into account by the committee when determining whether to reappoint the external auditor.

ii) Non-audit services

The audit and risk committee's responsibility to monitor and review the objectivity and independence of the external auditor is supported by a policy that we have developed in relation to the provision of non-audit services by the auditor. During 2020, our non-audit services policy was reviewed by the committee.

The objective is to ensure that the provision of such services does not impair the external auditor's objectivity. The policy specifically disallows certain activities from being provided by the auditor, such as bookkeeping and accounting services, internal actuarial services and executive remuneration services. The policy requires consideration and pre-approval for all other material services such as due diligence assistance, tax services and advice on accounting and audit matters.

The committee reviews the terms of such proposed services to ensure they have been robustly justified. The committee receives a report from the external auditors three times a year setting out all non-audit services undertaken, so that it can monitor the types of services being provided, and the fees incurred for that work.

The split between audit and non-audit fees for the year under review is disclosed in note 6 to the financial statements.

In the year the audit fees and audit related services for 2020 were $3.4m (2019: $1.9m). Fees for non-audit and assurance services include work related to the accounts and regulatory reporting of the syndicates managed by Beazley, work which would commonly be carried out by the external auditor. None of the non-audit services provided are considered by the audit and risk committee to affect the auditor's independence or objectivity.

f) Other updates

During 2020, in addition to the financial reporting matters mentioned above, the following items were key topics of discussion for the committee:

- oversight of the reporting and control processes and procedures relating to Solvency II reporting requirements;
- overview of key reporting and regulatory updates, including updates on accounting standards, changes in tax legislation and changes in regulatory requirements;
- a project to improve efficiency and control over the payments process;
- consideration of an appropriate level of investment risk for the group;
- a program of change to the finance function;
- a review of the whistleblowing policy;
- compliance, financial crime and assurance reporting including risk incident information;
- quarterly reserving and actuarial data;
- the consideration of strategic, emerging and heightened risks identified by management and the group's risk management team, alongside the processes and controls in place to mitigate these risks,
- the impact of Brexit was discussed and monitored during the year. Potential outcomes were considered and actions taken to mitigate the impact where possible. The impact on the estimates and judgements contained within this report were considered and deemed immaterial; and
- appraising the impact of COVID-19 on the group.

Committee meetings are scheduled to ensure that they support the financial and regulatory reporting timetables and the internal audit and risk cycle.

Fair, balanced and understandable assessment

It is a key compliance requirement of the group's financial statements to be fair, balanced and understandable. The annual report is prepared following a well-documented process and is performed in parallel with the formal process undertaken by the external auditor. The committee has reviewed a report presenting the approach taken during the preparation of the annual report. Following its review, the committee is satisfied that the annual report is fair, balanced and understandable, and provides the information necessary for shareholders and other stakeholders to assess the company's position and performance, business model and strategy, and has advised the board accordingly.

Solvency II reporting

During 2020 the committee has reviewed and approved the group's 2019 Solvency and Financial Condition Report and Regular Supervisory Report summary as well as approving the Solvency II policy documentation for the group.

The committee also reviewed the Solvency II technical provisions on an ad hoc basis.

Competition and Markets Authority Order 2014 statement of compliance

The committee confirms that during 2020 the group complied with the mandatory audit processes and audit committee responsibilities provisions of the Competition and Markets Authority Statutory Audit Services Order 2014 as presented in this report.

Statement of corporate governance
Nomination committee

In 2020, the committee was focussed on both board and senior management succession as well as the emerging talent pipeline.

David Roberts
Chair

The nomination committee is chaired by David Roberts, and currently also comprises Christine LaSala, Sir Andrew Likierman, Catherine Woods and John Reizenstein.

The nomination committee meets at least twice annually and at such other times during the year as are necessary to discharge its duties. In 2020, there were four scheduled meetings, reflecting the workload of the committee during the year. Only members of the committee have the right to attend meetings; however, other individuals, such as the chief executive and external advisers, may be invited to attend for all or part of any meeting.

The specific responsibilities and duties of the committee are set out in its terms of reference. The committee has responsibility to keep under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring that the organisation can compete effectively in the marketplace. The terms of reference are available to download from the company's website.

Responsibilities of the committee

The committee's main responsibilities are to, inter alia:

- regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) required by the board compared to its current and projected position;
- give full consideration to succession planning for executive and non-executive directors and in particular for the key roles of chair and chief executive, senior executives and any other member of the senior management that it is relevant to consider whilst considering a diverse pipeline of talent;
- ensure the directors have the required skills and competencies;
- review annually the time required from non-executive directors;
- review the results of the board performance evaluation process that relate to the composition and skills and competencies of the board and ensure an appropriate response to development needs;
- recommend to the board appointments to the role of senior independent director and chair as well as membership of board committees; and
- recommend, if appropriate,all directors for re-election by shareholders under the annual re-election provisions of the UK Corporate Governance Code.

Policy on gender, inclusion and diversity

Beazley commits to recruit, retain and develop people with diverse backgrounds and experiences to thrive at all levels of our business, in a truly inclusive environment that operates zero tolerance to discrimination or harassment and fully supports and celebrates differences. These differences could include but are not limited to age, disability, gender, gender reassignment, marital status, pregnancy & maternity, race, nationality or ethnic origin, religion or religious beliefs, sexuality, socio-economic group or working pattern.

Membership and attendance – nomination committee

	Appointment	Attendance at full meetings during 2020
David Roberts	22 March 2018	4/4
Christine LaSala	21 March 2019	4/4
Sir Andrew Likierman	25 March 2015	4/4
Catherine Woods	1 October 2018	3/4
John Reizenstein	25 September 2020	1/1

Statement of corporate governance

Nomination committee continued

We want our workforce to reflect the diversity of our customers and communities where we work around the world however we know that simply aspiring to have a diverse workforce is not enough. We will set measurable targets at an organisational level and clear objectives at an individual level as we work to become a truly diverse and inclusive organisation where everyone is able to contribute their best work and develop fully.

Beazley will continue to:

- Have leadership and sponsorship of our inclusion and diversity commitments at the most senior levels of our organisation;
- Work to embed inclusion and diversity within the organisation, ensuring all employees have the tools, training and understanding to be able to fully comply with this policy;
- Ensure all employees are able to work with dignity and respect free from harassment, bullying or victimisation;
- Support our employee-led resource groups encouraging them to continue to raise awareness and contribute to our strategy and policy changes;
- Nurture, support, mentor and encourage individuals from diverse backgrounds across all areas of the business and encourage them to grow into senior positions within our organisation;
- Regularly review our employment policies and practices. We expect our people to respect and embrace them and work with us to further enhance our commitments;
- Ensure all employees receive equality of opportunity in recruitment, training, development, promotion and remuneration; and
- Recognise that individuals will need bespoke support where an overarching policy may not exist. In this case, we commit to working with the individual, applying our flexible working practices and support to find a solution best suiting the individual.

The committee has agreed the establishment of goals for gender diversity for both the board and the broader organisation. The representation of females on the board currently stands at four or 36%. The committee reviewed progress against the group's 2020 goals for there being a minimum of 35% female senior managers within the organisation by 2020 and 33% female board members at group level by 2021, both of which were met. The board has taken the opportunity to review targets across the company, with the specific aim of achieving a minimum of 45% female representation at the senior manager level by 2023. The committee is seeking a candidate from an ethnic minority background to fill the next vacant board position in line with the recommendations from the Parker Review committee ,The committee will be reviewing broader targets for the group's race and ethnicity strategy early in 2021.

The 2020 board effectiveness review was carried out internally and the board will agree an action plan from this review, early in 2021. A report on the plan and actions taken will be included in the 2021 annual report. An external review of the board's effectiveness is due to be carried out in 2021.

In addition to the formal board evaluation, the board chair met with each individual director during the year to discuss their contribution to the board. The senior independent director met with the chair to discuss his performance.

Key activities in 2020

Tasks which the committee carried out in 2020 were to:

- carry out the search for two further non-executive directors one having expertise in US distribution and the other European insurance/business expansion. The committee appointed search consultants Sainty, Hird & Partners to facilitate the external search process and an internal search process was also conducted. One of these roles was filled following the appointment of Pierre-Olivier DeSaulle to the board with effect from 1 January 2021. Pierre-Olivier also serves on the board of our subsidiary, Beazley Insurance dac. The search for a candidate with US distribution expertise is anticipated to conclude by Q2 2021;
- consider whether the hybrid working environment had necessitated the requirement of any different skillsets across the organisation;
- review the performance of management by inviting all non-executive directors to attend a nomination committee meeting to review the performance of the executive management team;
- consider the board and committee succession plans;
- assess the collective skills and competency of the board and consider the proposed reappointment of directors;
- ensure that director development plans were implemented and that the board collectively received relevant training;
- ensure board members were able to allocate sufficient time to the company to discharge their responsibilities effectively;
- consider the wider executive management succession and has planned for the non-executive directors to get to know some of the potential successors; and
- consider and approve proposals for individuals to be included in the Senior Managers and Certification Regime and holders of other regulatory roles across the group.

Statement of corporate governance
Remuneration committee

The committee continued to ensure remuneration was appropriate within Beazley.

Sir Andrew Likierman
Non-Executive Director

Currently the membership of the remuneration committee comprises Sir Andrew Likierman (chair), Christine LaSala, John Sauerland, Catherine Woods and Nicola Hodson.

Responsibilities of the committee

The committee's main responsibilities are to, inter alia:

- set the remuneration policy for the group for approval at the annual general meeting. The objective of such policy shall be to ensure that members of the executive management of the company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the company;
- recommend and where appropriate approve targets for performance related pay schemes and seek shareholder approval for any long term incentive arrangements;
- recommend and approve the remuneration of the chair of the company;
- recommend the remuneration of the chief executive, the other executive directors, the direct reports to the chief executive, the company secretary and such other members of the executive management as it is designated to consider. No director or manager shall be involved in any decisions as to his or her own remuneration;
- obtain reliable, up-to-date information about remuneration in other companies; and
- appoint and review the performance of remuneration committee consultants, currently Deloitte LLP.

Key activities in 2020

During 2020 the committee:

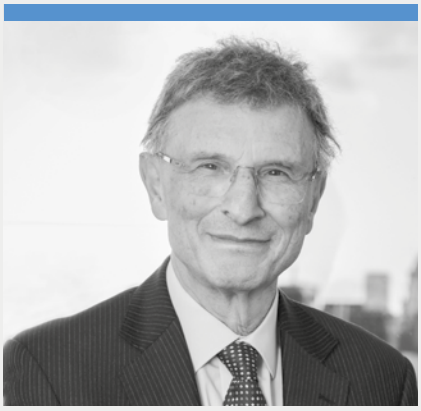
- reviewed the key aspects of the remuneration policy, and oversaw its implementation and application (including the implementation of the post-employment shareholding policy);
- considered the impact of COVID-19 on remuneration decisions;
- considered the aggregate remuneration approach to the wider workforce;
- satisfied itself that the current remuneration structure is appropriate to attract and retain talented people;
- considered the chief risk officer's report which confirmed that the design of remuneration promotes appropriate risk behaviour throughout the organisation. In addition, the analysis considered the performance of the control environment, profit related pay targets, calculation of the bonus pool, share awards, a suite of risk metrics for each Solvency II member of staff and any individual who has created a higher than expected level of risk;
- ensured incentives continued to be appropriate to align company and shareholders;
- reviewed methodology of reporting of bonus disclosures with the objective of improving transparency;
- approved the grant of share awards under the group's deferred, retention and LTIP plans;
- considered the salary and bonus awards for 2020 for executive directors, heads of control functions, material risk takers and other officers;
- approved the gender pay gap report;
- approved the chair's fees;
- reviewed the executive director employment contracts;
- reviewed the remuneration landscape for FTSE 250 and FTSE 100 companies and guidance from proxy agencies; and
- considered what changes would be proposed to the remuneration policy in 2020 and consulted with over twenty of our largest shareholders and three proxy advisory agencies.

Further information on the work of the remuneration committee is set out in the directors' remuneration report.

Membership and attendance – remuneration committee

	Appointment	Attendance at full meetings during 2020
Sir Andrew Likierman	25 March 2015	5/5
Christine LaSala	21 March 2019	5/5
John Sauerland	11 May 2016	5/5
Catherine Woods	1 October 2018	4/5
Nicola Hodson	25 September 2020	1/1

Letter from the Chair of our remuneration committee



Dear shareholder

On behalf of the board, I am pleased to present the 2020 directors' remuneration report.

Business performance and response to COVID-19

Since the publication of our 2019 annual report and accounts the outbreak of COVID-19 has had an unprecedented impact on the insurance industry, our clients, our colleagues and on Beazley itself. The pandemic has highlighted the need for our business to be agile and responsive and I am proud of how our colleagues have responded to the challenges presented.

Despite making a loss of $50.4m due to the impact of COVID-19, our diversified business model and skills of our people have meant we have been able to navigate the impacts of the pandemic and find opportunities. Beazley achieved double-digit premium growth in 2020 across the business as a whole, with gross premiums increasing to $3,563.8m (2019: $3,003.9m). This growth has been primarily been driven by rate rises across all divisions. We also saw a good performance from our investments with returns of $188.1m or 3%. The decision to raise capital in May 2020 provides additional strength to the balance sheet and positions the business well for future growth opportunities.

Incentive out-turns

At Beazley, our remuneration policy is aligned with performance outcomes and the interests of our shareholders, with our incentive out-turns being based on group profitability and long term performance. Our senior leaders are rewarded through annual bonuses, which are funded by the group's profitability. Once the bonus pool has been determined, corporate and individual performance against set objectives drives the allocation of the bonus awards for the executives. For 2020, in light of the group's financial performance, the remuneration committee decided that no annual bonus should be awarded to the executive directors. While the group managed the challenges presented by COVID-19 and achieved double digit premium growth, the committee took into account the impact of COVID-19 on the group's overall level of profitability and the experience of our shareholders during the year.

Awards under the Long Term Investment Plan (LTIP) vest (pay out) based on growth in net asset value per share to ensure alignment with shareholders performance is measured over the long term with three and five year performance periods. In respect of 2020, executive directors are eligible to receive the second tranche (instalment) of the 2016 LTIP which has vested at 13.2%. However, the first tranche of the LTIP for 2018 will lapse. These outcomes reflect net asset value growth per annum of 9.6% and, 6.3% respectively for the five and three year performance periods. The committee reviewed the vesting out-turn for the 2016 award and given the long-term nature of the award, considered that the out-turn was appropriate. Therefore the committee did not exercise discretion in respect of the LTIP awards.

The committee believes that the remuneration policy operated as intended during 2020 and considers that out-turns are aligned with company and individual performance.

Salaries for 2021

Given the exceptional level of effort and dedication shown by Beazley colleagues during the year in the face of the COVID-19 pandemic it was decided that salaries should be increased for 2021. The average employee salary has been increased by c.3.2%. Executive director salaries have been increased for 2021 by an average of c.2.6%, below the rate for the workforce.

Incentive arrangements for 2021

The remuneration committee undertook a detailed review of our remuneration arrangements as part of the renewal of our remuneration policy at the 2020 AGM. I would like to thank shareholders for the levels of support we received for our policy. The full policy can be found on our website at www.beazley.com. We continue to believe that the current remuneration framework works well for Beazley and supports our strategy to promote the long-term success of the group. Therefore for 2021 we are not making any material changes to our annual bonus or LTIP arrangements.

The committee is aware of evolving shareholder views that a fall in share price should be taken into account when determining LTIP award levels. We have carefully considered the performance of Beazley over recent years as well as the long-term nature of the LTIP awards which measure performance, in-part, over five financial years. In addition, the vesting of awards is based on growth in net asset value per share (NAVps), one of Beazley's key performance indicators. The committee considers the LTIP NAVps growth targets to be very stretching, particularly taking into account that growth must be over a sustained three and five year period.

The committee has therefore decided to maintain LTIP awards at the normal levels of 200% of salary for the CEO and 150% of salary for the other executive directors. However the committee will review outcomes at the end of the performance period and we retain discretion to adjust the vesting level if it is not considered to be appropriate or if we identify that executives have benefitted unduly from the current share price.

Consideration of the wider workforce

The welfare of our colleagues has been a key priority for the board since the outbreak of COVID-19. We have encouraged colleagues to work flexibly to help manage workloads and to take time off when they need to, providing extra wellness days to everyone. During the year our network of Beazley mental health first aiders was expanded to ensure all colleagues can get support during a stressful time. The changes to how people are able to perform their roles has also meant that we have had to be flexible and innovative in how we engage with the workforce. There has been an increased focus on communicating with colleagues and their wellbeing, this has been accompanied by a 16% increase to our employee engagement score.

Part of the Beazley culture is creating an open and inclusive environment for our employees, celebrating differences and creating internal networks. During 2020 we progressed our overarching inclusion and diversity strategy, including signing the Race at Work Charter, which endeavours to improve outcomes for black, Asian and minority ethnic employees in the workplace.

For the second year we have published information on our CEO to employee pay ratio of our fourth gender pay gap analysis. The committee takes internal pay gaps and our ratios into account when considering remuneration policies and frameworks for the group and will continue to monitor them. As part of its agenda the committee reviews the firm-wide remuneration policy and is also presented with updates on arrangements for the wider workforce.

Over the past year, Beazley has increased our fundraising efforts, including participation in the 2.6 Challenge initiative, raising money for its global charity partner Renewable World.

Shareholders

The committee continues to welcome the views of our shareholders. We were pleased to see strong levels of support for our remuneration arrangements at the 2020 AGM.

I will be stepping down from the board at the 2021 AGM and will be handing over as chair of the committee to Christine LaSala. I'm very grateful to all those who have served as committee members in the period and to the staff and advisors who have given the committee excellent support.

Sir Andrew Likierman
Remuneration Committee Chair

Directors' remuneration report
Remuneration in brief

Remuneration policy

Last year during the review of our directors' remuneration policy in 2019 the remuneration committee took into account a wide range of factors including guidance from institutional shareholders, the requirements of Solvency II and the provisions of the UK Corporate Governance Code. The main aim of Beazley's remuneration policy is to ensure that management and staff are remunerated fairly and in such a manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel. The committee considers that the policy supports our strategy and promotes the long-term success of Beazley.

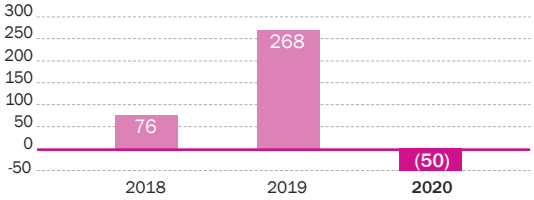
The following table summarises how the committee addressed the factors set out in the UK Corporate Governance Code when determining the remuneration policy. The full policy can be found on our website at **www.beazley.com**:

Factor	Details
Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce	At Beazley performance-related remuneration is an essential motivation to management and staff and is structured to ensure that executives' interests are aligned with those of our shareholders. We operate a bonus structure that is based on group profitability and long term performance. A portion of this bonus is generally deferred into shares for three years. A key principle is that the committee exercises its judgement in determining individual awards. We have expanded our disclosure to provide shareholders with further clarity on the way in which we determine annual bonuses.
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand	In determining our remuneration framework the committee was mindful of avoiding complexity and making arrangements easy to understand for both participants and our shareholders.
Risk Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated	We believe reward at Beazley is appropriately balanced in light of risk considerations. The committee receives an annual report from the chief risk officer on remuneration policy to ensure that it is consistent with, and promotes, effective risk management. Our framework has a number of features which align remuneration out-turns with risk, including a five year time horizon on the LTIP, deferral of bonus into shares and personal shareholding requirements which, from 2020, extend post departure. Further details of the link between risk and remuneration are set out on page 106.
Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy	Page 104 of our 2019 Annual Report provides four illustrations of the application of our remuneration policy including the key elements of remuneration: base salary, pension, benefits and incentives. Payments at Beazley are directly aligned to the group's performance and the graph set out on page 99 demonstrates how historic annual bonus out-turns have reflected profit and ROE performance.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance	Individual remuneration reflects group objectives but is dependent on the profitability of the group and is appropriately balanced against risk considerations. Potential rewards are market-competitive and the committee is comfortable that the range of potential out-turns are appropriate and reasonable.
Alignment to culture Incentive schemes should drive behaviours consistent with company purpose, values and strategy	The remuneration committee considers that the structure of remuneration packages supports meritocracy, which is an important part of Beazley's culture. All employees at Beazley are eligible to participate in a defined contribution pension plan and a bonus plan. Bonuses are funded by a pool approach which reflects our commitment to encourage teamwork at every level, which is one of our key cultural strengths.

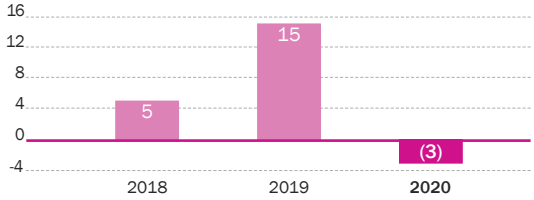
Performance in 2020

Beazley delivered strong growth in 2020, with gross premiums written in a market that saw rates respond sharply to heightened claims activity in many lines of business. The loss before income tax of $50.4m and our combined ratio of 109% were significantly impacted by the volume of COVID-19 related claims. We achieved strong investment income in the face of volatile conditions.

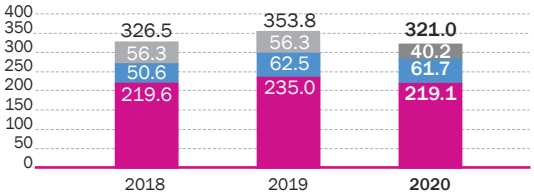
(Loss)/profit before tax ($m)



Return on equity (%)

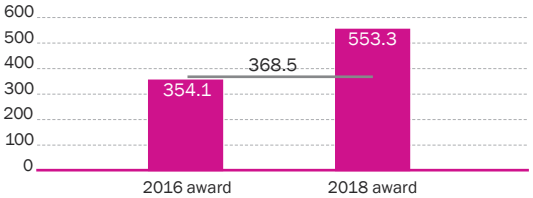


Net assets and cumulative dividend per share (p)



- Special dividend
- Interim and second interim dividend
- Net asset per share

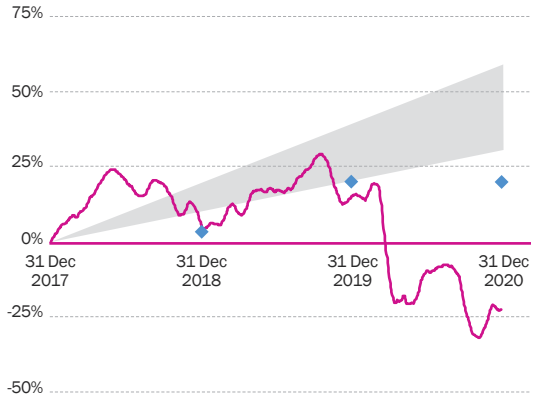
Share price (p)



- Share price at grant
- Vesting price £368.5

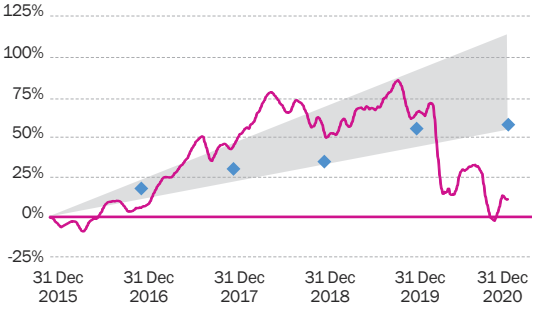
The group's performance over the longer term was strong in terms of NAVps growth and total shareholder return, as illustrated in the charts below.

LTIP performance 2017-2020 NAV and TSR growth



- NAV target range (RFR +7.5% p.a. to RFR +15% p.a.)
- TSR growth (1 month average)
- NAV growth (including dividends)

LTIP performance 2015-2020 NAV and TSR growth



- NAV target range (RFR +7.5% p.a. to RFR +15% p.a.)
- TSR growth (1 month average)
- NAV growth (including dividends)

Directors' remuneration report

Outcomes for 2020 and implementation for 2021

Element	Overview of policy	Implementation and outcomes during 2020	Implementation for 2021
Base salary	Salaries are set at a level to appropriately recognise responsibilities and to be broadly market competitive. Any salary increases will generally reflect our standard approach to all-employee salary increases across the group.	Salaries for 2020 were as follows: • D A Horton: £495,000 • A P Cox: £390,000 • S M Lake: £350,000	The executive directors received salary increases of 2.5% to 2.9%, below the average for the wider workforce. Salaries for 2021 will be as follows: • D A Horton: £507,500 • A P Cox: £400,000 • S M Lake: £360,000
Benefits	To provide market levels of benefits.	Benefits include private medical insurance, travel insurance, and company car or monthly car allowance.	In line with policy.
Pension	To provide market levels of pension provision through contributions to a defined contribution pension plan.	Contribution rates for executive directors are in line with wider workforce at 12.5%	In line with policy.
Annual bonus	Discretionary annual bonus determined by reference to both financial and individual performance. A portion is generally deferred into shares for three years dependent on level of bonus.	Maximum bonus opportunity for executive directors was 400% of salary. ROE in the year was (2.5)%. Loss for the year was $50.4m. Despite strong individual performances the executive directors will not receive an annual bonus for 2020. Further details are set out on page 103.	In line with policy.
Long term incentive plan (LTIP)	Vesting of LTIP awards is dependent on net asset value per share (NAVps) performance against the risk-free rate of return. 50% of awards are subject to performance over three years and 50% over five years. NAVps performance — % of award vesting < average risk-free rate +7.5% p.a. — 0% = average risk-free rate +7.5% p.a. — 10% = average risk-free rate +10% p.a. — 25% = average risk-free rate +15% p.a. — 100% Straight-line vesting between points Since 2019 the first tranche of the LTIP is subject to a further two year holding period taking the total time frame for the entire award to five years.	The first tranche of the 2018 LTIP award vested at 0% of maximum following three year NAVps performance of 6.3% p.a. The second tranche of the 2016 LTIP award vested at 13.2% of maximum following five year NAVps performance of 9.6%p.a. In 2020, executive directors received the usual grant levels, subject to the usual NAVps performance condition: • D A Horton: 200% • A P Cox: 150% • S Lake: 150%	In line with policy. In 2021, executive directors will receive the usual grant levels, subject to the usual NAVps performance condition: • D A Horton: 200% • A P Cox: 150% • S Lake: 150% The committee retains discretion to adjust the outcomes at vesting if they are not considered appropriate or if the committee identifies that the executives have benefited unduly from the current share price. Further details are provided on page 105.
Shareholding guidelines	Executive directors are expected to build up and maintain a shareholding of 200% of salary. LTIP awards may be forfeited if shareholding requirements are not met. From 2020 we introduced post-employment shareholding guidelines. Executives are expected to maintain 100% of their shareholding requirement for the first year post-departure and 50% of their shareholding requirement for the second year post-departure.	The CEO and CUO met their shareholding guidelines. The CFO was appointed during 2019 and has made progress towards meeting the guideline.	In line with policy.

Directors' remuneration report

Annual remuneration report

The symbol ▪ by a heading indicates that the information in that section has been audited. This part of the report, the annual remuneration report, sets out the remuneration out-turns for 2020 (and how these relate to our performance in the year) and details of the operation of our policy for 2021.

Single total figure of remuneration ▪

The tables below set out the single figure of total remuneration for executive directors and non-executive directors for the financial years ending 31 December 2020 and 31 December 2019.

Executive directors

		Fixed pay				Pay for performance			
£		Salary	Benefits	Pension	Total fixed pay	Total annual bonus[1]	Long term incentives (LTI)	Total variable pay	Total remuneration[2]
D Andrew Horton	2020	495,000	14,112	61,875	570,987	0	60,903	60,903	631,890
	2019	482,500	16,853	63,598	562,951	1,100,000	494,067	1,594,067	2,157,018
Adrian P Cox	2020	390,000	12,805	48,750	451,555	0	34,277	34,277	485,832
	2019	380,000	12,030	50,088	442,118	900,000	278,056	1,178,056	1,620,174
Sally M Lake[3]	2020	350,000	3,016	39,170	392,186	0	11,892	11,892	404,078
	2019	207,487	2,241	23,532	233,260	371,000	56,881	427,881	661,141

1 A portion of the 2019 bonus awards shown in the table above is deferred into shares for three years (see page 105).

2 The LTI figures for 2020 have been calculated using the average share price in the last three months of 2020 of 368.53p. The share prices at the time LTI awards were granted were 354.10p for the 2016 award and 553.33p for the 2018 award. The 2020 LTI figures shown include share appreciation of £2,384 for D Andrew Horton, £1342 for Adrian P Cox and £465 for Sally M Lake in relation to the 2016 award.

3 Sally M Lake was appointed to the board on 23 May 2019. The figures in the table in respect of 2019 reflect the period from her appointment to the board. On appointment Sally's pension contribution rate was unchanged from her previous role at 12.5% of salary, in-line with the wider workforce..

Non-executive directors

		Total fees £[1]
Nicola Hodson[2]	2020	72,037
	2019	44,548
Christine LaSala[3]	2020	109,605
	2019	78,313
Sir J Andrew Likierman	2020	80,600
	2019	78,500
David L Roberts	2020	264,000
	2019	257,500

		Total fees £[1]
John P Sauerland[4]	2020	76,604
	2019	69,767
Robert A Stuchbery[5]	2020	104,400
	2019	89,500
A John Reizenstein[6]	2020	101,100
	2019	71,349
Catherine M Woods[7]	2020	94,638
	2019	80,134

1 Other than for the chair, fees include fees paid for chair of the audit and risk and remuneration committees, and for the role of senior independent director, as well as fees, where relevant, for membership of the subsidiary boards of Beazley Furlonge Limited (BFL) and Beazley Insurance dac, the chair of the BFL risk committee and Beazley Insurance Company, Inc. (BICI).

2 Nicola Hodson joined the plc board on 10 April 2019 and the figure in the table above represents her fees from this date. Included in the figures are her fees for membership on Audit & Risk from 1 Jan 2020 and Remco which she became a member of from 24 Sep 2020.

3 Christine LaSala received fees of $10,800 for her role on the BICI board which are represented in the table above. The fees for this role have been converted at an exchange rate of 1.27. Christine joined the BFL board on 2 April 2020 and also started to receive fees for her membership on Remco and Audit & Risk from 1 Jan 2020.

4 John P Sauerland received fees of $10,800 for his role on the BICI board which are represented in the table above. The fees for this role have been converted at an exchange rate of 1.27.

5 Bob Stuchbery started to receive fees for his membership on Audit & Risk and non-executive director for Employee Voice from 1 Jan 2020.

6 John Reizenstein joined the plc board on 10 April 2019 and became chair of the audit committee on 31 May 2019. The figure in the table above represents his fees from these dates.

7 Catherine M Woods' non-executive director fee was based on €106,000 (2019 :89,750) and has been converted into sterling for this table at the average exchange rate of 1.12 (2019: the fee was converted into £80,134 at the average exchange rate of 1.132).

Directors' remuneration report

Annual remuneration report continued

Salary ▪

The committee reviews salaries annually taking into consideration any changes in role and responsibilities, development of the individual in the role, and levels in comparable positions in similar financial service companies. It also considers the performance of the group and the individual as well as the average salary increase for employees across the whole group. Salary reviews take place in December of each year, with new salaries effective from 1 January.

For 2021, the average salary increase was 2.6%, which was below the average salary increase across the group.

The base salaries for the executive directors in 2020 and 2021 are as set out below:

	2020 base salary £	2021 base salary £	Increase %
D Andrew Horton	495,000	507,500	2.5
Adrian P Cox	390,000	400,000	2.6
Sally M Lake	350,000	360,000	2.9

Benefits ▪

Benefits include private medical insurance for the director and their immediate family, income protection insurance, death in service benefit at four times annual salary, travel insurance, health-club membership, season ticket and the provision of either a company car or a monthly car allowance.

Pension ▪

Beazley operates a defined contribution scheme arranged through Fidelity.

Executive directors receive a pension allowance of 12.5% of salary, in-line with the rate available to the majority of the UK workforce.

Prior to 31 March 2006 the company provided pension entitlements to directors that are defined benefit in nature, based on its legacy policy under the Beazley Furlonge Limited Final Salary Pension Scheme. Future service accruals ceased on 31 March 2006. Only base salary is pensionable, subject to an earnings cap. The normal retirement age for pension calculation purposes is 60 years. A spouse's pension is the equivalent of two-thirds of the member's pension (before any commutation) payable on the member's death after retirement.

Details of the defined benefit entitlements of those who served as directors during the year are as follows:

	Accrued benefit at 31 Dec 2020 £	Increase in accrued benefits excluding inflation (A) £	Increase in accrued benefits including inflation £	Transfer value of (A) less directors' contributions £	Transfer value of accrued benefits at 31 Dec 2020 £	Transfer value less directors' contributions £	Normal retirement date
Adrian P Cox	14,065	0	161	0	551,723	50,891	12 Mar 2031

Under the Beazley Furlonge Limited Final Salary Pension Scheme, on early retirement the director receives a pension which is reduced to reflect early payment in accordance with the rules of the scheme.

No other pension provisions are made.

Annual bonus

The annual bonus plan is a discretionary plan in which all employees are eligible to participate. The annual bonus is funded by a bonus pool. The pool is calculated as a percentage of profit subject to a minimum group ROE. The size of the pool as a percentage of profit increases for higher levels of ROE. This ensures that outcomes are strongly aligned with shareholders' interests.

The operation of an annual bonus pool approach reflects Beazley's commitment to encourage teamwork at every level, which, culturally, is one of its key strengths. A broad senior management team, beyond executive directors, participate in the bonus pool, reinforcing the company's collegiate culture.

Once the annual bonus pool has been calculated the committee determines individual allocations taking into consideration corporate/strategic achievements and individual achievements. The bonus is discretionary and, rather than adopting a prescriptive formulaic framework, the committee considers wider factors in its deliberations at the end of the year: for example quality of profit and risk considerations.

In determining awards, the committee will not necessarily award the bonus pool in aggregate (i.e. the sum of the bonus awards may be less than the bonus pool).

The approach to the calculation of bonuses is aligned to shareholders' interests and ensures that bonuses are affordable, while the ROE targets increase the performance gearing. The committee reviews the bonus pool framework each year to ensure it remains appropriate, taking into account the prevailing environment, interest rates and expected investment returns, headcount and any other relevant factors.

Annual bonus out-turn for 2020

The process for determining 2020 bonuses is described below, including full details of the ROE targets underpinning our bonus approach along with the guideline levels which are used by the committee in its determination for each executive director.

Annual bonus pool calculation

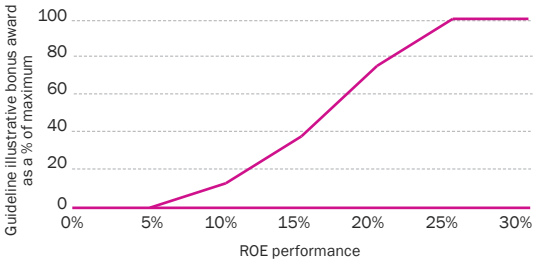
At the beginning of the financial year, the risk-free return (RFR) was set at 1.5% taking into account the yield on US treasuries of two to five year maturities. This resulted in the following ROE hurdles and guideline bonus awards:

ROE performance hurdles	Threshold				Maximum
ROE performance	1.5%	4.5%	11.5%	19.0%	26.5%
Guideline/illustrative bonus award as % of maximum	0%	12.5%	37.5%	75%	100%

These percentages are indicative only and based on broad corporate results. Within the pool framework bonus out-turns may be higher or lower taking into account corporate achievements and individual performance (see next page).

ROE for 2020 was (2.5%) and the overall bonus pool (in which executive directors as well as other senior employees participate) was calculated based on this.

2020 ROE hurdles and guideline bonus awards



Governance

Directors' remuneration report

Annual remuneration report continued

When considering the annual bonus pool outcome is considered by the Committee taking into account the outcome of the group's ROE/profit. The framework is used by the committee as a broad guideline rather than being formulaic and applies to a broader group of executives than board directors. A key principle of the process is that the committee exercises its judgement in determining individual awards taking into account the corporate/strategic objectives, individual's contribution and performance. In particular, there may be a diverse spread of returns earned across the various divisions within the business which will be reflected in bonus out-turns achieved. The table therefore provides full retrospective disclosure of all the group financial targets and corporate/strategic performance which the committee considers when determining the annual bonuses.

When determining annual bonuses an assessment against the expectation for each element is made with reference to the following grading system:

- ✓ Expectation achieved or exceeded
- = Reasonable outcome against expectation
- ✗ Expectation not met

Assessment of corporate achievements

In determining annual bonuses for 2020 the committee took into account a range of financial and strategic elements as set out below. Performance against corporate/strategic and individual objectives has been provided. Due to the overall financial performance of the Group, the remuneration committee decided to not award the executive directors an annual bonus for 2020.

Financial performance

Element	Achievement	
Profit after tax	• $46.1m loss after tax.	✗
Gross written premiums growth	• 19% gross premiums written growth.	✓
Net written premiums growth	• 17% net written premiums growth.	✓
Investment performance (portfolio return)	• 3% portfolio return.	✓
Expense management	• Reduced down to 36%.	✓

Corporate/strategic performance

Element	Expectation	Achievement	
Capital performance	Continue to be within our target range for surplus above the Lloyd's economic capital requirement	• $292.6m of new capital was raised through a non-pre-emptive share issuance. • Banking facility increased from $225m to $450m, of which $225m has been drawn down. • Formed a captive insurer in the US to ensure active management of capital requirements.	=
Manage the business through global pandemic	Minimise negative impact on the business through COVID-19	• All employees able to work remotely within 24 hours of global lockdown. • Operationally ensured the business ran without interruption. • Productivity metrics achieved or increased. • Paid claims quickly and efficiently, with our claims service recognised by several awards from brokers. • Increased focus on employee communication, engagement and wellbeing, resulting in employee engagement score increasing through lock down. • Launched the Beazley Citizen campaign with employees volunteering to help other teams at key times through the year, for example our claims team, to ensure the business delivered.	✓
Sustainability	Improve Beazley's ESG rating and drive greater focus	• Appointed a Sustainability Officer and provided the necessary resources to enable the further development of our sustainability strategy. • Improved SAM corporate sustainability assessment (CSA) ESG score by 25 points. • Improved climatewise score by 6 points. • Achieved a 0.8 improvement in sustainalytics ESG rating. • Continued focus on reducing CO2 emissions from our operations.	✓
Strategic initiatives	Strong progress with strategic initiatives, as areas which have the potential make a considerable difference to the business	• Established a London Market Management Committee responsible for our London talent strategy. • Launched an online booking system to allow brokers in London to arrange virtual appointments with our underwriters through COVID-19. • Our faster smarter underwriting strategic initiative is collecting cyber data to see our insureds the way cyber criminals see them, so we can stay one step ahead and improve our risk selection.	✓
US performance	Achieve profitable growth in US	• Premium growth and expense management targets achieved.	✓
International growth	Drive profitable growth in Europe, Singapore and Canada	• Canadian and European businesses grew at around 30% and 40% per annum. • Launched a range of products to support international growth, from fine art and jewellers in mainland Europe to virtual care in Asia.	✓
Culture and people	Maintain high levels of employee engagement	• Employee engagement increased by 16% during COVID-19 from 70% last year to 86% this year. • Leadership survey score has been the highest it has been to date. Since last year, the leadership score improved by 0.13 to 5.35, out of possible 6.	✓

Directors' remuneration report

Annual remuneration report continued

Assessment of individual contributions

While a number of the specific individual objectives of the executive directors are considered commercially sensitive, the following provides details of executive director achievements which the committee took into account.

Executive	Objectives	Achievements	
D Andrew Horton (Chief Executive Officer)	• Manage and strengthen the balance sheet to ensure business has appropriate level of capital for current operations and future growth.	• Capital and LOC raised as required.	=
	• Manage underwriting, claims and investment policy to protect the business from current and future risks whilst delivering high levels of service to clients and brokers.	• Quick and robust underwriting action taken in face of recession risk and COVID-19. • Claims and investments performed well under significant pressure. • Proactive stance on settling claims resulted in positive client and broker feedback.	✓
	• Protect and enhance Beazley's reputation amongst core external stakeholders, including clients, shareholders, market participants, rating agencies and regulators.	• Results from broker feedback, surveys showed above average scores ,with high scores for claims function through pandemic.	✓
	• Sustain high levels of employee engagement, focussing in particular on enhancing colleague wellbeing.	• Very high engagement during significant uncertainty and pressure. Employee engagement increased by 16% during COVID-19 from 70% last year to 86% this year.	✓
Adrian P Cox (Chief Underwriting Officer)	• Deliver 2020 business plan 2020 KPIs.	• Premium growth, rate change and expense targets met.	=
	• Execute revised risk appetite framework and revise Risk Disaster Scenario's following Contingency event.	• Risk disaster scenario's updated.	✓
	• Deliver Syndicate 5623 business plan.	• 139% growth in premium from $36.0m to $86.1m.	=
	• Update long term plan to include new modules for expenses and reinsurances.	• Complete.	✓
	• Co-sponsor the Faster Smarter Underwriting initiative.	• 2020 KPIs and objectives met and initiative is now making an impact across the business.	✓
	• Enhance our underwriting innovation.	• Further roll-out of the Virtual Care product and Virtual Events product launched.	=
Sally Lake (Group Finance Director)	• Ensure we have the right level of capital to cover COVID-19 related issues and growth plans.	• Delivered increase in LOC and a Capital raise of $292.6m.	=
	• Reduce expenses in 2020 and evolve the expense approach for the future.	• Expenses as a % of net earned premium, reduced from 38% to 36%.	✓
	• Ensure Beazley is on track for IFRS 17 and continues to deliver within budget.	• Plans in place for IFRS 17 and 2020 deliverables achieved.	=
	• Ensure focus on agreed elements of Women in Finance Charter.	• 2020 Women in Finance Charter targets achieved, including 35% gender diversity in our senior management.	✓

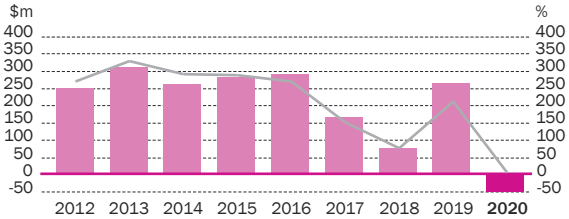
Annual bonus awards outcomes for 2020

Within the framework of the annual bonus, in respect of individual performance and achievements, awards are dependent on a profit pool and minimum level of ROE performance. Despite the strong progress made by the executive directors during the year the remuneration committee decided that no bonuses should be awarded to executive directors for 2020.

	% of maximum	% of salary	Bonus (delivered as a mix of cash and deferred shares)
D Andrew Horton	0%	0%	£0
Adrian P Cox	0%	0%	£0
Sally M Lake	0%	0%	£0

The following graph and table set out the out-turn for 2020 against performance and illustrate the way in which bonuses over time reflect profit and ROE performance.

Average executive director bonus (% of salary)



	2012	2013	2014	2015	2016	2017	2018	2019	**2020**
Pre-tax profit/(loss)	$251m	$313m	$262m	$284m	$293m	$168m	$76m	$268m	**$(50)**
Post-tax ROE	19%	21%	17%	19%	18%	9%	5%	15%	**(3)%**
Average executive director bonus as a percentage of salary	c.272%	c.333%	c.294%	c.291%	c.272%	c.150%	c.73%	c.212%	**c.0%**

Bonus deferral ▪

As there were no annual bonuses for 2020, there was no bonus deferral. Generally a portion of the bonus will be deferred into shares for three years. Dependent on the level of bonus the deferral will range from 20% to 40%. Deferred shares are generally subject to continued employment.

A portion of bonus may also be deferred under the investment in underwriting plan, and this capital can be lost if underwriting performance is poor. No such deferral was made in 2020 (see investment in underwriting section on page 105 for further details).

For 2020, the portion of each director's annual bonus deferred into shares was as follows:

	Deferred into shares
D Andrew Horton	£0
Adrian P Cox	£0
Sally M Lake	£0

Directors' remuneration report

Annual remuneration report continued

Annual bonus awards for 2021

The annual bonus for 2021 will operate within a similar framework as set out above, awards are dependent on a profit pool and minimum level of ROE performance and take into account individual performance and achievements.

Long term incentive plan (LTIP) ▪

Under the LTIP executive directors, senior management and selected underwriters receive awards of shares subject to the achievement of stretching performance conditions measured over three and five years.

The key features of the plan are as follows:

- 50% of the award is measured after three years and 50% after five years;
- awards are in the form of nil-cost options with a 10-year term;
- participants are expected to build a shareholding in Beazley equal to their annual award level. For example executive directors have a shareholding requirement of 200% of salary. Participants have three years to build this shareholding. LTIP awards may be forfeited if shareholding requirements are not met; and
- in accordance with the updated UK Corporate Governance Code, since 2019, the first tranche of LTIP awards has been subject to a further two year holding period taking the total time frame for the entire award to five years.

Vesting of awards is based on growth in net asset value per share (NAVps), one of Beazley's key performance indicators. The committee considers the LTIP NAVps growth targets to be very stretching, particularly taking into account that growth must be over a sustained three and five year period.

Growth in NAVps is calculated taking into account any payment of dividends by the company. In line with our reporting to shareholders, NAVps is denominated in US dollars.

LTIP outturns in respect of 2020 ▪

The LTIP awards shown in the single total figure of remuneration for 2020 include:

- the second tranche of awards granted on 13 February 2016. These are due to vest on 13 February 2021, subject to the achievement of a NAVps growth performance condition over the five years ended 31 December 2020; and
- the first tranche of awards granted on 9 February 2018. These are due to vest on 9 February 2021, subject to the achievement of a NAVps growth performance condition over the three years ended 31 December 2020.

The NAVps performance conditions for both these awards are as follows:

NAVps performance	% of award vesting
NAVps growth < average risk-free rate +7.5% p.a.	0%
NAVps growth = average risk-free rate +7.5% p.a.	10%
NAVps growth = average risk-free rate +10% p.a.	25%
NAVps growth = average risk-free rate +15% p.a.	100%
Straight-line vesting between points	

Actual NAVps growth achieved in the five years to 31 December 2020 was 9.6% p.a. which resulted in 13.2% of the second tranche of the 2016 awards vesting.

Actual NAVps growth achieved in the three years to 31 December 2020 was 6.3% p.a. which resulted in 0% of the first tranche of the 2018 awards vesting.

These results demonstrate the framework of the LTIP scheme, in particular our KPI of using net asset value per share, is completely aligned to shareholder interest by producing an outcome that is reflective of our business result over a long term performance.

The results were independently calculated by Deloitte LLP.

LTIP awards for 2020

During 2020 LTIP awards with a face value equal to 200% of salary for the CEO and 150% of salary were granted to executive directors. The awards were as shown in the table below.

Share awards granted during the year

Individual	Type of interest	Basis on which award made	Number of shares awarded	Face value of shares (£)[1]	% vesting at threshold	Performance period end	
						Three years (50%)	Five years (50%)
LTIP							
D Andrew Horton	Nil cost option (LTIP)	200% of salary	166,246	990,000	10%	31/12/2022	31/12/2024
Adrian P Cox	Nil cost option (LTIP)	150% of salary	98,236	585,000	10%	31/12/2022	31/12/2024
Sally M Lake	Nil cost option (LTIP)	150% of salary	88,161	525,000	10%	31/12/2022	31/12/2024
Deferred bonus *(in respect of 2019 bonus)*							
D Andrew Horton	Deferred shares	n/a	55,415	330,000	–	–	–
Adrian P Cox	Deferred shares	n/a	45,340	270,000	–	–	–
Sally M Lake	Deferred shares	n/a	21,410	127,497	–	–	–

1 The face value of shares awarded was calculated using the three day average share price prior to grant, which was 595.50p.

NAVps performance	% of award vesting
NAVps growth < risk-free rate +7.5% p.a.	0%
NAVps growth = risk-free rate +7.5% p.a.	10%
NAVps growth = risk-free rate +10% p.a.	25%
NAVps growth = risk-free rate +15% p.a.	100%
Straight-line vesting between points	

LTIP awards for 2021

It is intended that the performance conditions and targets for the LTIP awards for 2021 will be in line with those granted in 2020 (see table above). The remuneration committee carefully considered LTIP award sizes for 2021 in-light of the company's current share price. Taking into account Beazley's share price history and the long-term nature of the LTIP awards which measure performance, in-part, over five financial years, the committee has decided to maintain awards at the typical level. Therefore for 2021 the LTIP awards will be 200% of salary for the CEO and 150% for other executive directors. The committee will review LTIP outcomes at the end of the performance period and retains discretion to adjust the vesting level if does not reflect the underlying financial or non-financial performance or if it would otherwise not be appropriate. This will include a review of the share price at the time of vesting and if the committee considers that the executives have benefitted unduly from the current share price awards will be scaled back.

Dilution

The share plans permit 10% of the company's issued share capital to be issued pursuant to awards under the LTIP, SAYE and option plan in a 10-year period.

The company adheres to a dilution limit of 5% in a 10 year period for executive schemes.

Investment in underwriting

Traditionally, Lloyd's underwriters contributed their personal capital to syndicates in which they worked. With the move to corporate provision of capital, individual membership of Lloyd's has declined significantly. The committee feels that having personal capital at risk in the syndicate is an important part of the remuneration policy and provides a healthy counterbalance to incentivisation through bonuses and long term incentive awards. The company has operated the Beazley staff underwriting plan for this purpose since 2004 and executive directors and other selected staff are invited to participate through bonus deferral with an element of their cash incentives 'at risk' as capital commitments. These capital commitments can be lost in full if underwriting performance is poor.

The group funds the capital for the plan. The individual capital commitment is then funded through individual's bonus deferral. The aim is for individuals to fund their capital within three years.

To date over 300 employees of the group have committed to put at risk £15.5m of bonuses to the underwriting results of syndicate 623. Of the total at risk, £11.7m has already been deferred from the bonuses awarded.

Directors' remuneration report

Annual remuneration report continued

The following executive directors participated in syndicate 623 through Beazley Staff Underwriting Limited:

	Total bonuses deferred £	2018 year of account underwriting capacity £	2019 year of account underwriting capacity £	2020 year of account underwriting capacity £
D Andrew Horton	186,080	400,000	400,000	400,000
Adrian P Cox	186,080	400,000	400,000	400,000
Sally M Lake[1]	–	n/a	100,000	100,000

1 Sally M Lake was appointed to the board on 23 May 2019.

The executive directors who participated in the 2017 year of account have had their capital funding reduced as a result of a loss incurred on the 2017 year of account. Sally Lake first year of participation was the 2019 year of account and is working towards the funding requirement.

Malus and clawback

Recovery provisions (malus and clawback) have applied to incentives for a number of years. Further detail on the recovery provisions, including the circumstances and timeframe for which they can be applied are set out in the remuneration policy.

Risk and reward at Beazley

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

We believe reward at Beazley is appropriately balanced in light of risk considerations, particularly taking into account the following features:

Features aligned with risk considerations	
Share deferral	A portion of bonus is normally deferred into shares for three years. These deferred shares, together with shares awarded under the LTIP, mean that a significant portion of total remuneration is delivered in the form of shares deferred for a period of years.
LTIP holding period	For awards made from 2019 the first tranche of the LTIP is subject to a further two-year holding period.
Extended performance periods	A portion of the LTIP has performance measured over an extended five-year period.
Shareholding requirements	Executive directors are expected to build up and maintain a shareholding of 200% of salary. LTIP awards may be forfeited if shareholding requirements are not met. From 2020 executive directors are expected to maintain a shareholding post-departure.
Investment in underwriting	Management and underwriters may defer part of their bonuses into the Beazley staff underwriting plan, providing alignment with capital providers. Capital commitments can be lost if underwriting performance is poor.
Underwriters' remuneration aligned with profit achieved	Under the profit related bonus plan payments are aligned with the timing of profits achieved on the account. For long tail accounts this may be in excess of six years. If the account deteriorates then payouts are 'clawed back' through adjustments to future payments. Since 2012 profit related pay plans may be at risk of forfeiture or reduction if, in the opinion of the remuneration committee, there has been a serious regulatory breach by the underwriter concerned, including in relation to the group's policy on conduct risk.
Clawback and malus provisions for annual bonus and LTIP shares	For deferred share awards and LTIP awards from 2012 malus provisions were introduced. For LTIP awards from 2015 and annual bonus in respect of 2015 and onwards, clawback provisions also apply for executive directors.

Service contracts and payments for loss of office

No loss of office payments have been made in the year.

There is no unexpired term as each of the executive directors' contracts is on a rolling basis.

Non-executive directors' fees

The fees of non-executive directors are determined by the board and are reviewed annually. When setting fee levels consideration is given to levels in comparable companies for comparable services and also to the time commitment and responsibilities of the individual non-executive director. No non-executive director is involved in the determination of their fees.

Following the annual review no change to the chair or non-executive director fees were made for 2021. Details of the non-executive directors' fees payable for plc board responsibilities are set out below:

	2020 fee	2021 fee
Chair of board fee	£211,150	£211,150
Basic fee	£63,100	£63,100
Senior independent director fee (additional)	£11,300	£11,300
Chair of audit and risk committee fee (additional)	£19,000	£19,000
Chair of remuneration committee fee (additional)	£17,500	£17,500
Membership fee for non-executive directors on the audit and risk committee (additional)	£7,500	£7,500
Membership fee for non-executive directors on the remuneration committee (additional)	£5,000	£5,000
Fee for designated non-executive director representing employee voice (additional)	£5,000	£5,000

Beazley operates across Lloyd's, Europe and the US markets through a variety of legal entities and structures. Non-executive directors, in addition to the plc board, typically sit on either one of our key subsidiary boards, namely Beazley Furlonge Ltd, our managing agency at Lloyd's, or Beazley Insurance dac, our Irish insurance company. Non-executive directors may receive additional fees for sitting on subsidiary boards. As a result of developments in regulation, the degree of autonomy in the operation of each board has increased in recent years, with a consequent increase in time commitment and scope of the role.

No non-executive director participates in the group's incentive arrangements or pension plan.

Non-executive directors are appointed for fixed terms, normally for three years, and may be reappointed for future terms. Non-executive directors are typically appointed through a selection process that assesses whether the candidate brings the desired competencies and skills to the group. The board has identified several key competencies for non-executive directors to complement the existing skill-set of the executive directors. These competencies may include:

- insurance sector expertise;
- asset management skills;
- public company and corporate governance experience;
- risk management skills;
- finance skills; and
- IT and operations skills.

Non-executive directors' service contracts ▪

Details of the non-executive directors' terms of appointment are set out below:

	Commencement of appointment	Expires
Christine LaSala	1 Jul 2016	AGM 2023
Sir J Andrew Likierman	25 Mar 2015	AGM 2021
David L Roberts	1 Nov 2017	AGM 2021
John P Sauerland	5 May 2016	AGM 2023
Robert A Stuchbery	11 Aug 2016	AGM 2023
Catherine M Woods	1 Jan 2016	AGM 2022
A John Reizenstein	10 Apr 2019	AGM 2022
Nicola Hodson	10 Apr 2019	AGM 2022

The standard approach for non-executive director appointments is that the appointment expires at the AGM following the end of a three year term, notwithstanding the fact that each non-executive director is subject to annual re-election at each AGM.

Directors' remuneration report

Annual remuneration report continued

Approach to remuneration for employees other than directors

The committee also has oversight of remuneration arrangements elsewhere in the group. The following tables set out the additional incentive arrangements for other staff within the organisation.

Other incentive arrangements at Beazley (not applicable to executive directors):

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

Underwriter bonus plan – profit related pay plan

Underwriters participate in a profit related pay plan based upon the profitability of their underwriting account. Executive directors do not participate in this plan.

The objective of the plan is to align the interests of the group and the individual through aligning an underwriter's reward to the long term profitability of their portfolio. Underwriters who have significant influence over a portfolio may be offered awards under the plan. There is no automatic eligibility. Profit related pay is awarded irrespective of the results of the group. Awards are capped.

This bonus is awarded as cash and is based upon a fixed proportion of profit achieved on the relevant underwriting account as measured at three years and later. Any movements in prior years are reflected in future year payments as the account develops after three years. For long-tail accounts the class is still relatively immature at the three-year stage and therefore payments will be modest. Underwriters may receive further payouts in years four, five and six (and even later) as the account matures. Therefore each year they could be receiving payouts in relation to multiple underwriting years.

If the account deteriorates as it develops any payouts are 'clawed back' through reductions in future profit related pay bonuses. From 2012 onwards any new profit related pay plans may be at risk of forfeiture or reduction if, in the opinion of the remuneration committee, there has been a serious regulatory breach by the underwriter concerned, including in relation to the group's policy on conduct risk. The remuneration committee also have oversight for all materials risk takers who participate in the profit related pay plan.

The fixed proportion is calculated based upon profit targets which are set through the business planning process and reviewed by a committee formed of executive committee members and functional specialists including the group actuary. Underwriting risk is taken into account when setting profit targets.

In addition to profit related pay, underwriters are also eligible to receive a discretionary bonus, based upon performance, from the enterprise bonus pool. A proportion of this bonus may be paid in deferred shares, which vest after three years subject to continued employment.

Support bonus plan

Employees who are not members of the executive and who do not participate in the underwriters' profit related pay plan participate in a discretionary bonus pool. This pool provides employees with a discretionary award of an annual performance bonus that reflects overall individual performance including meeting annual objectives.

A proportion of this award may also be dependent on the group's ROE and therefore allocated from the enterprise bonus pool. A proportion of this bonus may be paid in deferred shares, which vest after three years subject to continued employment.

UK SAYE

The company operates an HMRC-approved SAYE scheme for the benefit of UK-based employees. The scheme offers a three-year savings contract period with options being offered at a 20% discount to the share price on grant. Monthly contributions are made through a payroll deduction on behalf of participating employees. The UK SAYE scheme has been extended to eligible employees in Singapore, Ireland, Canada, France, Germany and Spain. The Irish SAYE scheme has been approved by the Irish Revenue.

US SAYE

The Beazley plc savings-related share option plan for US employees permits all eligible US-based employees to purchase shares of Beazley plc at a discount of up to 15% to the shares' fair market value. Participants may exercise options after a two-year period. The plan is compliant with the terms of section 423 of the US Internal Revenue Code and is similar to the SAYE scheme operated for UK-based Beazley employees.

Retention shares

The retention plan may be used for recruitment or retention purposes. Any awards vest at 25% per annum over years three to six. Policy going forward is that existing executive directors do not participate in this plan and no executive directors have subsisting legacy awards outstanding.

Annual percentage change in remuneration of directors and employees

	Percentage change in remuneration from 31 Dec 2019 to 31 Dec 2020		
	Percentage change in base salary/fee %	Percentage change in benefits %	Percentage change in annual bonus %
Executive directors			
CEO	2.6%	-7.2%	-100.0%
CFO[1]	2.9%	15.4%	-100.0%
CUO	2.6%	-0.9%	-100.0%
Non-executive directors			
The average fee increase for 2020 (excluding the introduction of committee membership fees) was 2.7%. During 2020 a number of the non-executive directors joined additional board committees and therefore received additional fees. Therefore, for these non-executive directors, the year-on-year comparisons reflect their additional responsibilities and corresponding fees relative to 2019.			
Sir J Andrew Likierman	2.7%	n/a	n/a
Christine LaSala[2]	40.0%	n/a	n/a
David L Roberts	2.5%	n/a	n/a
John P Sauerland	9.8%	n/a	n/a
Robert A Stuchbery	16.6%	n/a	n/a
Catherine M Woods	18.1%	n/a	n/a
A John Reizenstein[3]	2.5%	n/a	n/a
Nicola Hodson[3]	2.5%	n/a	n/a
All employees	3.5%	-12.8%	-30.5%

Note: Salary and bonus are compared against all employees of the group. Benefits (excluding season ticket due to COVID-19) and pension are compared against all UK employees, reflecting the group's policy that benefits are provided by reference to local market levels.

1. Sally M Lake was appointed to the board on 23 May 2019. To enable a meaningful comparison the figures in the table above have been calculated on a full-year equivalent basis. On appointment, her pension contribution rate was unchanged from her previous role at 12.5% of salary, in-line with the wider workforce. The increase in benefits shown in the table above is a result of the additional pension received on her higher salary for the new role.
2. In addition to Audit and Risk and Remuneration Committee membership, Christine LaSala also joined the BFL board.
3. Appointed to the board during 2019. To enable a meaningful comparison the figures in the table above have been calculated on an a full-year equivalent basis.

Directors' remuneration report

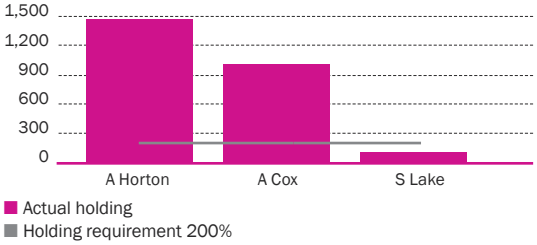
Annual remuneration report continued

Statement of directors' shareholdings and share interests ▪

LTIP participants are expected to build a shareholding in Beazley equal to their annual award level. The executive directors have a shareholding requirement of 200% of salary.

LTIP awards may be forfeited if shareholding requirements are not met. The CEO and CUO met the shareholding guidelines. The group finance director was appointed during the 2019 and has made progress towards meeting the guideline (see chart below).

Directors' shareholdings (% of salary)



The table below shows the total number of directors' interests in shares as at 31 December 2020 or date of cessation as a director.

		Unvested awards			Vested awards	
Name	Number of shares owned (including by connected persons)	Conditional shares not subject to performance conditions (deferred shares and retention shares)	Nil cost options subject to performance conditions (LTIP awards)	Options over shares subject to savings contracts (SAYE)	Unexercised nil cost options	Options exercised in the year
D Andrew Horton	1,967,605	96,428	755,159	4,199	–	171,382
Adrian P Cox	1,065,113	81,268	444,582	4,202	–	122,399
Sally M Lake	103,072	28,815	203,758	4,258	–	17,812
Christine LaSala	53,085	–	–	–	–	–
Sir J Andrew Likierman	23,000	–	–	–	–	–
David L Roberts	82,137	–	–	–	–	–
John P Sauerland	30,000	–	–	–	–	–
Robert A Stuchbery	88,073	–	–	–	–	–
Catherine M Woods	42,698	–	–	–	–	–
A John Reizenstein	11,904	–	–	–	–	–
Nicola Hodson	–	–	–	–	–	–

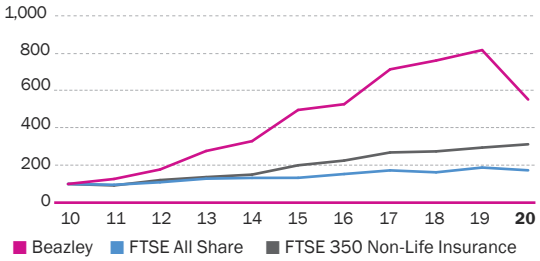
No changes in the interests of directors have occurred between 31 December 2020 and 4 February 2021.

CEO pay versus performance

The following graph sets out Beazley's 10 year total shareholder return performance to 31 December 2020, compared with the FTSE All Share and FTSE 350 Non-Life Insurance indices. These indices were chosen as comparators as they comprise companies listed on the same exchange and, in the case of the Non-Life Insurance index, the same sector as Beazley.

Total shareholder return performance

Value of £100 invested on 31 December 2010



Historical CEO payouts

Year	CEO single figure of total remuneration	Annual variable award (% of maximum opportunity)[1]	Long term incentives vesting (% of maximum opportunity)
2011	£1,008,669	14%	99%
2012	£2,339,573	71%	84%
2013	£2,922,392	93%	100%
2014	£3,745,989	74%	100%
2015	£3,711,647	73%	100%
2016	£3,715,146	70%	100%
2017	£3,140,145	38%	98%
2018	£1,524,600	19%	41%
2019	£2,157,018	57%	37%
2020	£631,890	0%	6.6%

1 An individual overall cap of 400% of salary was introduced from 2013. Prior to this date and in line with industry practice, there was no formal limit on individual bonuses. To enable comparison, the above table assumes that a maximum annual variable award of 400% of salary also applied for years prior to 2013.

Pay ratio data

The following table provides pay ratio data in respect of the CEO's total remuneration compared to the 25th, median and 75th percentile UK employees.

Financial year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020	Option A	13:1	7:1	5:1
2019	Option A	42:1	25:1	15:1

The employees used for the purposes of the table above were identified on a full-time equivalent basis as at 31 December 2020. Option A was chosen as it is considered to be the most accurate way of identifying the relevant employees. This captures all relevant pay and benefits and aligns to how the single figure table is calculated.

Directors' remuneration report

Annual remuneration report continued

The following table provides salary and total remuneration information in respect of the employees at each quartile.

Financial year	Element of pay	25th percentile employee	Median employee	75th percentile employee
2020	Salary	£42,250	£70,000	£88,438
	Total remuneration	£50,212	£86,641	£133,270
2019	Salary	£38,500	£63,650	£95,300
	Total remuneration	£52,500	£89,500	£148,300

Note: Salary and bonus are compared against all employees of the UK group.

The pay ratios for 2020 have reduced considerably compared to 2019. The main driver for this is the reduction in the CEO's single figure attributable to the fall in variable remuneration with no bonus payable in respect of 2020, the second tranche of the 2016 LTIP vesting at 13.2% of maximum and the first tranche of the 2018 LTIP lapsing in full. This reflects that a higher proportion of the CEO's remuneration is variable and subject to performance. Therefore the remuneration committee believes that the pay ratio for 2020 is suitably aligned to performance and consistent with the pay, reward and progression polices for the Beazley's UK workforce.

Relative importance of spend on pay

The following table shows the relative spend on pay compared to distributions to shareholders:

	Overall expenditure on pay	Shareholder distributions (dividends in respect of the year)
2020	$219.0m	$0m
2019	$218.8m	$83.2m

Directors' share plan interests ▪

Details of share plan interests of those directors who served during the period are as follows:

	Outstanding options at 1 Jan 2020[1]	Options granted	Options exercised	Lapsed unvested	Outstanding options at 31 Dec 2020[2]
D Andrew Horton					
Deferred bonus:	127,352	55,415	86,339	–	96,428
LTIP (see notes):	844,100	166,246	82,482	172,705	755,159
SAYE:	4,603	2,157	2,561	–	4,199
Adrian P Cox					
Deferred bonus:	111,907	45,340	75,979	–	81,268
LTIP (see notes):	499,746	98,236	46,420	106,980	444,582
SAYE:	4,202	–	–	–	4,202
Sally M Lake					
Deferred bonus:	13,160	21,410	5,755	–	28,815
LTIP (see notes):	149,675	88,161	9,496	24,582	203,758
SAYE:	4,662	2,157	2,561	–	4,258

Notes to share plan interests table

Deferred bonus	Deferred bonus awards are made in the form of conditional shares that normally vest three years after the date of award.
LTIP 2016 – 3/5 year	Awards were made on 9 February 2016 at a mid-market share price of 354.1p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+7.5% p.a. equates to 0% vesting, NAVps = RFR+7.5% p.a. equates to 10% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points. Awards expire in February 2026.
LTIP 2017 – 3/5 year	Awards were made on 8 February 2017 at a mid-market share price of 434.33p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+7.5% p.a. equates to 0% vesting, NAVps = RFR+7.5% p.a. equates to 10% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points. Awards expire in February 2027.
LTIP 2018 – 3/5 year	Awards were made on 13 February 2018 at a mid-market share price of 553.33p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+7.5% p.a. equates to 0% vesting, NAVps = RFR+7.5% p.a. equates to 10% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points. Awards expire in February 2028.
LTIP 2019 – 3/5 year	Awards were made on 12 February 2019 at a mid-market share price of 510.16p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+7.5% p.a. equates to 0% vesting, NAVps = RFR+7.5% p.a. equates to 10% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points. Awards expire in February 2029.
LTIP 2020 – 3/5 year	Awards were made on 11 February 2020 at a mid-market share price of 595.5p Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+7.5% p.a. equates to 0% vesting, NAVps = RFR+7.5% p.a. equates to 10% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points. Awards expire in February 2030.

Share prices

The market price of Beazley ordinary shares at 31 December 2020 (the last trading day of the year) was 364p and the range during the year was 293p to 606p.

Remuneration committee

The committee consists of only non-executive directors and during the year the members were Sir Andrew Likierman (chair), John Sauerland, Catherine Woods, Nicola Hodson and Christine LaSala. The board views each of the committee members as independent.

The committee considers the individual remuneration packages of the chief executive, executive directors and executive committee members. It also has oversight of the salary and bonus awards of individuals outside the executive committee who either directly report to executive committee members or who have basic salaries over £200,000, as well as the overall bonus pool and total incentives paid by the group. The terms of reference of the committee are available on the company's website. The committee met six times during the year. Further information on the key activities of the committee for 2020 can be found within the statement of corporate governance on page 94.

During the year the committee was advised by remuneration consultants from Deloitte LLP. Total fees in relation to executive remuneration consulting were £87,500. Deloitte LLP also provided advice in relation to share schemes, tax, internal audit and compliance support.

Deloitte LLP was appointed by the committee. Deloitte LLP is a member of the remuneration consultants' Group and as such voluntarily operates under a code of conduct in relation to executive remuneration consulting in the UK. The committee agrees each year the protocols under which Deloitte LLP provides advice, to support independence. The committee is satisfied that the advice received from Deloitte LLP has been objective and independent.

Input was also received by the committee during the year from the chief executive, head of talent management, company secretary and chief risk officer. However, no individual plays a part in the determination of their own remuneration.

Directors' remuneration report

Annual remuneration report continued

Engagement with the workforce

As part of the regular cycle, the committee is informed of pay and employment conditions of wider employees in the group and takes these into account when determining the remuneration for executive directors.

Statement of shareholder voting

The voting outcomes of the 2019 annual remuneration report and remuneration policy were as follows:

	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld (abstentions)
2019 remuneration policy	373,357,955	90.03%	41,349,712	9.97%	414,707,667	5,521
2019 annual remuneration report	377,362,937	92.07%	32,518,047	7.93%	409,880,984	4,832,204

Annual general meeting

At the forthcoming annual general meeting to be held on 26 March 2021, an advisory resolution will be proposed to approve this annual remuneration report

I am keen to encourage an ongoing dialogue with shareholders. Accordingly, if you would like to discuss any matter arising from this report or remuneration issues generally, please email Christine Oldridge at christine.oldridge@beazley.com.

By order of the board

J A Likierman
Chair of the remuneration committee

4 February 2021

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

The directors are responsible for preparing the annual report and the group financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) in conformity with the Companies Act 2006.

Under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, group financial statements are required to be prepared in accordance with IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. Under company law the directors must not approve the group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group and the company for that period.

Under company law the directors must not approve the group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group and the company for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the group's financial position and financial performance;
- in respect of the group financial statements, state whether IFRSs in conformity with the Companies Act 2006 and IFRSs adopted pursuant to Regulation(EC) No 1606/2002 as it applies in the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- in respect of the parent company financial statements, state whether IFRSs in conformity with the Companies Act have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the company and the group will not continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's and group's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the company and the group financial statements comply with the Companies Act 2006 and, with respect to the group financial statements, Article 4 of the IAS Regulation . They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that complies with that law and those regulations.

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

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

We confirm, to the best of their knowledge:

- that the consolidated financial statements, prepared in accordance with IFRSs in conformity with the Companies Act 2006 and IFRSs adopted pursuant to Regulation(EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the parent company and undertakings included in the consolidation taken as a whole;
- that the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

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

D Roberts
Chair

S M Lake
Group Finance Director

4 February 2021

Independent auditor's report
to the members of Beazley plc

Opinion

In our opinion;

- Beazley plc's consolidated financial statements and parent company financial statements (the 'Financial Statements') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Beazley plc and its subsidiaries (collectively 'the Group') and the parent company financial statements which comprise:

Group	Parent company
Consolidated statement of profit or loss for the year then ended	
Statement of comprehensive income for the year then ended	Statement of comprehensive income for the year then ended
Statement of changes in equity for the year then ended	Statement of changes in equity for the year then ended
Statement of financial position as at 31 December 2020	Statement of financial position as at 31 December 2020
Statement of cash flows for the year then ended	Statement of cash flows for the year then ended
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies (except for note 2 where it is marked as unaudited).	Related notes 1 to 34 to the financial statements including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and parent company's ability to continue to adopt the going concern basis of accounting involved an assessment of the reasonableness of the Group's going concern assessment. The going concern assessment period used by Beazley was 12 months from the date of the approval of the financial statements. We assessed the appropriateness of the approach and model used by management when performing their going concern assessment. With support from our actuarial team and valuation specialists, we assessed and independently stressed the assumptions used by Beazley to develop their plan. This included an assessment of the potential additional losses that could arise from COVID-19. In addition to underwriting performance, we determined a key driver of stable profitability for Beazley plc is investment return. We assessed how Beazley had altered their investment strategy in light of COVID-19, and the impact this would have over the Group's solvency and liquidity position if lockdown restrictions were to continue throughout 2021 coupled with a 1 in 200 natural catastrophe event occurring in 2021 taking into consideration mitigating actions by management to reduce risk exposure, e.g. reducing their exposure to several capital growth assets and lengthening the duration of fixed income investments. Additionally we reviewed and challenged the results of management's stress testing, to assess the reasonableness of economic assumptions in light of the impact of COVID-19 in terms of their impact on the Group's solvency and liquidity position.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or actions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of two components ((Syndicate 2623 and Beazley Insurance Company Inc ('BICI')), and audit procedures on specific balances for a further components(Syndicate 3623, Beazley Insurance DAC ('BIDAC'), Beazley Furlonge Limited, Beazley Management Limited and Beazley Services USA Inc) and other audit procedures on group wide processes. • The components where we performed full or specific audit procedures accounted for 97% of Loss before income tax, 97% Gross Written Premium and 98% Total assets.
Key audit matters	• Valuation of gross Insurance claims Liabilities and reinsurer's share of IBNR *– Actuarial assumptions used in estimating gross IBNR and reinsurer's share of IBNR, and* *– Data* • Measurement of estimated premium income • Valuation of level 3 financial investments • Impact of COVID-19
Materiality	• Overall Group materiality of $11m (2019: $11m) which represents 5% of pre-tax profits on a 5 year average adjusted for COVID-19 losses. (2019: 5% of pre-tax profits on a 5 year average)

Independent auditor's report to the members of Beazley plc continued

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes to the business environment and other factors when assessing the level of work to be performed at each reporting component.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we identified 32 legal entities within the group. Of the 32 legal entities within the Group we selected seven entities covering entities within UK, Ireland and US which represent the material business units within the Group. Two full scope entities (Syndicate 2623 and Beazley Insurance Company Inc. ('BICI')) and five specific scope entities (Syndicate 3623, Beazley Services USA Inc., Beazley Insurance DAC ('BIDAC'), Beazley Furlonge Limited and Beazley Management Limited). Our work on specific scope components covers areas such as financial liabilities, pension scheme, premiums, expenses and reinsurance on outstanding claims. Furthermore, for group-wide processes we performed specific audit procedures over accounts which consist of Incurred But Not Reported reserves ('IBNR'), Taxation, Cash and cash equivalents, Share based payments, Right of use assets, Lease liabilities, Financial assets, Plant and equipment and Intangible assets.

Details of the seven reporting components are set out below:

Component	Scope	Auditor
Syndicate 2623	Full	EY Primary Team
BICI	Full	EY Component Team
Syndicate 3623	Specific	EY Primary Team
Beazley Services USA Inc	Specific	EY Component Team
BIDAC	Specific	EY Primary Team
Beazley Furlonge Limited	Specific	EY Primary Team
Beazley Management Limited	Specific	EY Primary Team

(*) In addition to the above we perform specific audit procedures over group wide processes.

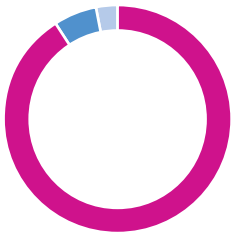
Of the seven components selected, we performed an audit of the complete financial information of two components ("full scope components") which were selected based on their size and risk characteristics. For the remaining five components ("specific scope components"), we performed audit procedures on specific accounts within those components that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. For group-wide processes we performed specific audit procedures over accounts which consist of IBNR, Taxation, Cash and cash equivalents, Share based payments, Right of use assets, Lease liabilities, Financial assets, Plant and equipment and Intangible assets.

The reporting components where we performed audit procedures accounted for 97% (2019: 97%) of the Group's Loss before Income Tax, 97% (2019: 98%) of the Group's gross written premium and 98% (2019: 99%) of the Group's total assets. For the current year, the full scope components contributed 91% (2019: 61%) of the Group's Loss before Income Tax, 90% (2019: 79%) of the Group's Gross Written Premium and 10% (2019: 8%) of the Group's Total assets. The specific scope components including group wide processes contributed 6% (2019: 36%) of the Group's Loss before Income Tax, 7% (2019: 19%) of the Group's Gross Written Premium and 88% (2019: 91%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining 25 legal entities that together represent 3% (2019: 3%) of the Group's Loss before Income Tax, none are individually greater than 1% (2019: 3%) of the Group's Loss before Income Tax. For these components, we performed other procedures, including analytical review, testing of significant balances, review of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

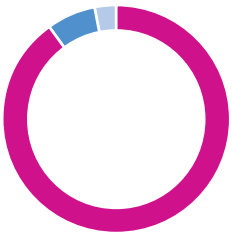
The charts below illustrate the coverage obtained from the work performed by our audit teams.

Loss before tax



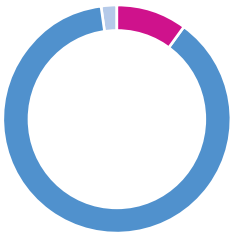
Full scope component	91%
Specific scope components	6%
Other procedures	3%

Gross Written Premium



Full scope component	90%
Specific scope components	7%
Other procedures	3%

Total assets



Full scope component	10%
Specific scope components	88%
Other procedures	2%

Changes from the prior year

In the prior year BICI was classified as specific scope but due to growth of the business over the year, BICI now represents a greater proportion of the Group's operating performance and is now considered a full-scope component. Furthermore, in the prior year Group specific scope entities where work was performed by the primary team, being Beazley Services USA Inc., Beazley Furlonge Limited, Beazley Management Limited and group wide processes, were defined as 'Group function.'

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction.

The primary audit team provided detailed audit instructions to the component teams which included guidance on areas of focus, including the relevant risks of material misstatement detailed above, and set out the information required to be reported to the primary audit team.

For one full scope component (Syndicate 2623), four specific scope components (Syndicate 3623, BIDAC, Beazley Furlonge Limited, Beazley Management Limited) and all group wide processes, all audit procedures were performed directly by the primary audit team whilst the other full scope component (BICI) and specific scope component (Beazley Services USA Inc) were audited by a component audit team in the United States of America. For the companies where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence has been obtained as a basis for our opinion on the Group as a whole.

Due to travel restrictions in place as a result of the COVID-19 global health pandemic, although no site visits were performed, the primary audit team followed a programme of planned virtual meetings, and had regular team interactions with the component teams where appropriate during various stages of the audit, reviewed key working papers and participated in the component team's planning event, and attended the closing meetings with the management of BICI and Beazley Services USA Inc at the component virtually.

The work performed on the components, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the consolidated financial statements.

Independent auditor's report to the members of Beazley plc continued

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Valuation of Gross Insurance claims Liabilities of $5,454.1m and reinsurer's share of IBNR of $1,034.4m (PY comparative Gross: $4,460.3m and reinsurer's share of IBNR: $845.1m) *Refer to the Audit and Risk Committee Report (pages 83 to 88; Accounting policies (pages 141 and 142); and Note 24 of the Consolidated Financial Statements (pages 185 to 194).* One of the most significant financial statement risk areas from both a business and an audit perspective is the valuation and adequacy of the claims liabilities held by the Group. Gross claims liabilities, and the related reinsurance on IBNR are inherently uncertain and subjective by nature and therefore are more susceptible to fraud or error than other financial statement balances. A small manipulation of an assumption could have a significant impact on the result for the year. This could lead to insurance liabilities not falling within a reasonable range of estimates, resulting in a misstatement in the financial statements. Additionally, the valuation process is conditional upon the accuracy and completeness of the data. We have split the risk relating to the valuation of insurance liabilities into the following component parts: • *Actuarial assumptions used in estimating gross IBNR and reinsurer's share of IBNR; and* • data		
The assumptions used to develop the IBNR reserves, which make up a significant component of the insurance liabilities (gross and reinsurer's share on IBNR), involves a significant degree of judgement. As a result we focused on this area as the valuation can be materially impacted by various factors including: • The risk of inappropriate assumptions used in determining gross IBNR and reinsurer's share of IBNR, especially on newer or growing classes of business such as Financial Institutions and Cyber, due to changing historical trends and greater reliance on expert judgement in management's estimates due to the limited historical data available. • The risk that IBNR loss reserve estimates in respect of catastrophe and large claims losses are insufficient due to the size and extent of these losses being uncertain. The areas we consider as key areas of judgement include the tail development and consistency of reserves specifically on reserving classes where prior year deteriorations are seen, premium rate increases are assumed, and inflationary trends, including social inflation, are experienced. • The areas we consider as key areas of judgement include the tail development and consistency of reserves specifically on classes such D&O where prior year deteriorations is seen, premium rate increases, allowance of social inflation and other inflationary trends at a reserving class level which are key assumptions used in management's projections.	To obtain sufficient audit evidence to conclude on the appropriateness of actuarial assumptions, we engaged our actuaries as part of our audit team and performed the following procedures: • Obtained an understanding and tested the design and operating effectiveness of key controls over management's process in respect of the valuation of gross IBNR and reinsurer's share of IBNR including the setting and updating of actuarial assumptions and the reinsurance netting down process to calculate the reinsurer's share of IBNR from the gross IBNR. • Assessed the reserving methodology on a gross basis and net of reinsurer's share of IBNR. This has also involved challenging Group's reserving methodology with industry practice. • Performed independent re-projections of IBNR applying our own assumptions, across all classes of business for attritional claims on a net and gross basis and compared these to the management's results as at 31 December 2020. • Assessed whether the assumptions such as inflationary trends applied to key areas of uncertainties were appropriate based on our knowledge of the Group, industry practice and regulatory and financial reporting requirements. • Compared premium rates increases against industry benchmarks and held discussions with underwriting and actuarial teams to understand any variances seen. Additionally, we reviewed evidence of renewals to verify the cause of rate increases which included determining the reasonableness of the factors used to convert price changes to rate increases. • Benchmarking catastrophe, large losses, assumptions and rates used in inherently uncertain classes and new growing classes, against other comparable industry participants to challenge and assess the reserving assumptions.	We determined that the actuarial assumptions as a whole, which are used by management are reasonable based on our analysis of the experience to date, industry practice and the financial and regulatory requirements. We therefore conclude that reserves lie within our reasonable range of possible outcomes.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Data The valuation of insurance liabilities depends on complete and accurate data used since they are used to form expectations about future claims.	To obtain sufficient audit evidence to assess the integrity of premium, paid and outstanding claims to determine the gross reserves as well as the reinsurance program used as an input to the netting down process of the gross reserves to obtain the reinsurer's share of IBNR, we performed the following procedures: • Obtained an understanding of the process and tested the design and operating effectiveness of key controls over management's data collection, extraction and validation process. • Tested the completeness and accuracy of the claims, reinsurance programme and premium data used within the reserving process by reconciling the data used in the actuarial projections to the underlying policy administration, reinsurance and finance systems. • For a sample of paid and outstanding claims we corroborated to underlying supporting evidence. For paid claims this included authorisation requests and bank statements. For a sample of outstanding claims we held discussions with claims handlers to further understand the background of the claims. We also obtained supporting evidence including claims handler reports performed by third party handlers to corroborate the year end balances. • Additionally, for claims outstanding we assessed the consistency in reserving methodology used in the current year compared to methodology used in previous years.	We determined based on our audit work that the data used for the actuarial model inputs was materially consistent and accurate.
Measurement of estimated premium within Gross Written Premium income (Gross Written Premium $3,563.8m, PY comparative $3,003.9m) *Refer to the Audit and Risk Committee Report (pages 83 to 88); and Accounting policies (pages 138 and 139).* For certain contracts, premium is initially recognised based on estimates of ultimate premium. This occurs where pricing is based on variables which are not known with certainty at the point of binding the policy. Subsequent adjustments to those estimates arise as updated information relating to those pricing variables becomes available and are recorded in the period in which they are determined. These estimates are judgemental and therefore could result in misstatements of revenue recognised in the financial statements.	Our procedures included: • Obtaining an understanding of the process and tested the design effectiveness of key controls, including the monitoring. • Performing independent re-projections of ultimate premium per underwriting year for the 2019 and prior underwriting years, applying our own assumptions and comparing these to the group's booked ultimate premium on a class of business including distribution channel basis. Where there were significant variances we challenged management's assumptions used for bias and consistency in approach from prior year. • For the data used in our independent re-projections we corroborated premium data to underlying policy and finance systems in order to test the completeness and accuracy of this data set. This was performed through substantive testing of key reconciliations to external sources such as external service organisations reports. • For a sample of policy estimates in respect of the 2020 underwriting year, we corroborated the estimated premium for all binders to third party supporting evidence such as third party signed slips. Additionally to corroborate estimates, including for coverholder business, where similar policies and binders have been written previously, we performed back testing against historic experience of estimated premium income compared to actual premium signed. • Performing analytical review procedures on a class of business level, comparing actual premium to management's business forecasts.	Based on the results of the procedures performed we concluded that premium estimates had been recorded appropriately.

Independent auditor's report to the members of Beazley plc continued

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Valuation of level 3 investments ($268.5m, PY comparative $216.6m) *Refer to the Audit and Risk Committee Report (pages 83 to 88); Accounting policies (pages 143 and 144); and Note 16 of the Consolidated Financial Statements (pages 173 to 179).* Investments in level 3 assets predominately comprise illiquid credit asset funds managed by third party managers (generally closed end limited partnerships or open ended funds). The investments themselves are in many cases private and unquoted. These assets are inherently harder to value due to the inability to obtain a market price of these assets as at the balance sheet date. Therefore, there is judgement in both deriving the price and the timeliness of receiving the information from the third party managers, either of which could result in misstatements of the value recognised in the financial statements. Additionally, Beazley hold syndicate loans which are funds provided by Beazley's group syndicates to the Central Funds at Lloyd's in respect of the 2019 and 2020 underwriting years. Observable inputs are not readily available for the valuation of Syndicate loans and so management use models with other inputs to estimate their value. We consider that the key risks on the valuation of Syndicate loans relates to (i) the assumptions used, as these are largely based on non-observable inputs (ii) the appropriateness of the valuation methodology applied to derive the fair value.	To obtain sufficient audit evidence to conclude on the appropriateness of valuation of level 3 investments, we performed the following procedures for a sample of key investments: • Obtained an understanding of the process and tested the design and operating effectiveness of key controls. • Obtained net assets valuation ('NAV') statements provided by third party administrators in respect of investments and compared these to management's valuations. We assessed management's valuations by performing independent back testing of recent realisations, to confirm that NAV is an appropriate proxy for fair value. • With support from our EY valuation specialist we perform independent valuation of the syndicate loans.	Based on our procedures performed we are satisfied that the valuations of illiquid credit asset funds were reasonable. In respect of the syndicate loans, our own valuation was not materially different to the carrying value recorded.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Impact of COVID-19 on the group's viability and loss reserves including the adequacy of the unexpired risk reserve. *Refer to the Viability statement (page 59); Accounting policies (page 141); and Note 24 of the Consolidated Financial Statements (page 185).* The COVID-19 pandemic and measures taken in response will have a significant economic impact across the world, but as of the date of our audit report, the precise extent of that impact remains uncertain. This uncertainty had an impact on our risk assessment and, as a result, on our audit of the financial statements. We considered a number of potential risks that could have been heightened by the pandemic. This included the earning of premium where we assessed the impact of suspension periods and cancellations, which were found to have had an immaterial impact to the group's earned premium for the year. Similarly, we did not identify material specific COVID-19 related risks around valuation of intangibles, reinsurance assets and financial instruments. The risks which had the greatest impact on our audit procedures are outlined below:		
• **Group's prospects and viability** – Given the potential emergence of claims and the broader economic uncertainty resulting in a downturn in investment performance and potential issues with liquidity, there is an increased risk that the going concern assumption is incorrectly applied. There is also a risk that the group viability has not been appropriately considered and adequately disclosed within the annual report and accounts. • **Understatement of Loss reserves and the need and adequacy of an unexpired risk reserve** – There is a risk that the impact of COVID-19 on key judgements within susceptible reserving classes of business and the extent of losses have not been appropriately reflected in booked reserves on those classes which have been significantly impacted by COVID-19 e.g. Property, Marine, Political, accident and contingency classes of business, both on a gross and net of reinsurance basis as at the balance sheet date. Furthermore, there is risk that management have not adequately recognised an unexpired risk reserve on those impacted classes, especially on contingency business where future losses are anticipated. • **Operational impact of remote working** – Due to the significant amount of time personnel have been working remotely during the financial year, this results in a risk that operational controls are not applied consistently across the different departments of the group.	**Group's prospects and Viability:** We obtained the forecast used by management in assessing the Group's viability for the three-year period to 31 December 2023 and the Group's going concern assessment period for the 12 months following the approval of the financial statements. With support from our EY actuarial team and valuation specialists we assessed the assumptions used to develop Beazley's forecasts, including ultimate exposure to COVID-19 losses and impact COVID has on the stability of the group's investment return. We reviewed the results of management's stress testing and assess the reasonableness of economic assumptions in light of the impact of COVID-19 on the Group's solvency and liquidity position. We separately considered and assessed the reasonableness of director's disclosure of the Group's prospects and viability for the three-year period to December 2023 in accordance with Provision 31 of the UK Corporate Governance Code 2018 and assessed the adequacy of disclosures in respects of the impact of COVID-19 within the financial statements. **Understatement of Loss reserves and the need and adequacy of an unexpired risk reserve** – To address the risk of COVID-19 exposure on reserves, our EY actuarial team performed a benchmarking exercise to assess the adequacy of reserves held on classes of business which are impacted significantly by COVID-19 losses, such as business interruption and event cancellation. Additionally we considered the adequacy of the unexpired risk provision ($82.5m) held by Beazley by challenging expected losses on unearned premium specifically on contingency lines where future cancellations are known. **Operational impact of remote working** – Assessed the group's entity-level and financial controls as well as the consistency of the group's operations and processes throughout the year despite the remote working across the organisation.	Based on the results of the procedure performed we concluded as follows: **Group's prospects and Viability:** The directors have an appropriate basis on which to conclude that there is no material uncertainty relating to going concern. We have reviewed the disclosures relating to going concern and determined that they are appropriate. **Loss reserves** – We determined that the actuarial assumptions used by management as a whole which include COVID-19 losses are reasonable. In addition management's recognition and valuation of an unexpired risk reserve of business was reasonable with appropriate disclosures being made. **Operational impact of remote working** – our audit procedures did not identify any material control deficiencies arising as a result of working remotely.

Independent auditor's report to the members of Beazley plc continued

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group to be $11 million (2019: $11 million), which is 5% of average profit before income tax over the last 5 years in line with 2019, adjusted for COVID-19 losses ($340m net of reinsurance in 2020 financial year), reflecting the unprecedent nature of those losses. We considered that adjusted profit before income tax is the most relevant performance measure used by investors, regulators and other stakeholders when assessing the Group. Given the nature of risks underwritten by Beazley, we believe the use of a five year average profit is appropriate, as the profitability of the group is expected to fluctuate from period to period. Despite this we believe that an additional adjustment for COVID-19 losses is also appropriate given its unprecedented nature, which would not normally be expected in such a five year time horizon. Additionally, the COVID-19 losses have not reduced the scale and complexity of Beazley's business and so we are satisfied that no reduction in materiality is required as a result of them. We determined materiality for the Parent Company to be $10 million (2019: $7 million), which is 1% of net assets (FY19: 1% of net assets). The Parent company primarily holds the investment in Group entities and, therefore, net assets is considered to be the key focus for users of the financial statements.

We calculated materiality at the planning stage of the audit and then during the course of our audit, we reassessed initial materiality at year end based on actual 2020 results.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely $5.5m (2019: $5.5m).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was $5.5m to $1.1m (2019: $4.5m to $1.4m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of $0.5m (2019: $0.5m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 208 , other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 115;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 59;
- Directors' statement on fair, balanced and understandable set out on page 77;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 60;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 82; and;
- The section describing the work of the audit committee set out on pages 83 to 88.

Independent auditor's report to the members of Beazley plc continued

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 115, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined below, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the relevant laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Central Bank of Ireland ('CBI'), Lloyd's, Prudential Regulation Authority ('PRA'), the Financial Conduct Authority ('FCA') and the UK Listing Authority ('UKLA').
- We understood how Beazley plc is complying with these legal and regulatory frameworks by making enquiries of management, internal audit and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and regulatory bodies, reviewed minutes of the Executive Committee, Risk and Regulatory Committee and attended the Audit and Risk Committees and gained an understanding of the Group's approach to governance demonstrated by the Board's approval of the Group's governance framework.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, including complex transactions, performance targets, external pressures and the impact these have on the control environment and their potential to influence management to manage earnings or influence the perceptions of investors and stakeholders. Where this risk was considered to be higher, within the valuation of insurance liabilities and the reinsurer's share of IBNR estimated premium income we performed audit procedures to address the identified fraud risk as detailed in the respective key audit matters above. Additionally we considered the impact of COVID-19 and the impact this has on the group, as detailed within the KAM above, this included an assessment of the consistency of operations and controls in place within the group as they transitioned to operating remotely for a significant proportion of 2020, we made enquiries with management via the use of video conferencing and performed analytical review procedures to assess for unusual movements throughout the year. These procedures to address the risk identified, also incorporated unpredictability into the nature, timing and/or extent of our testing, challenging assumptions and judgements made by management within their forward looking information (i.e. five year plan) and their significant estimates. Additionally, we tested year-end adjustments i.e. early close topside adjustments and manual journals, to provide reasonable assurance that the financial statements were free from fraud or error. Additionally we tested year-end adjustments i.e. early close topside adjustments and manual journals, to provide reasonable assurance that the financial statements were free from fraud or error.

- Based on our understanding we designed our audit procedures to identify non-compliance with such laws and regulations including those at the components impacting the group. Our procedures involved making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations; inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees both at a group and component level; inquiring about the Group's methods of enforcing and monitoring compliance with such policies; and inspecting significant correspondence with CBI, Lloyd's, FCA and PRA.
- The Group operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Company Directors on 23 May 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is two years.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit and Risk committee

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stuart Wilson (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
London

4 February 2021

Notes:

1. The maintenance and integrity of the Beazley plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial statements

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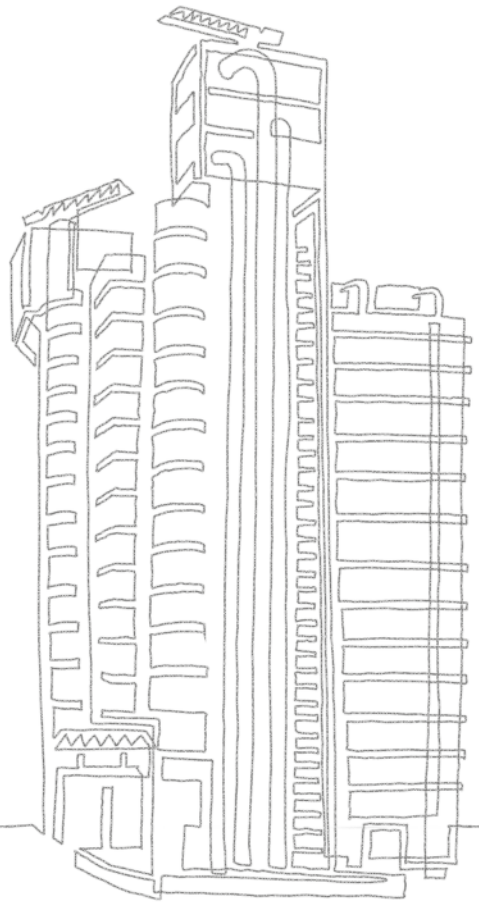


Consolidated statement of profit or loss

for the year ended 31 December 2020

	Notes	2020 $m	2019 $m
Gross premiums written	3	3,563.8	3,003.9
Written premiums ceded to reinsurers		(646.8)	(500.4)
Net premiums written	3	**2,917.0**	**2,503.5**
Change in gross provision for unearned premiums		(331.7)	(184.5)
Reinsurers' share of change in the provision for unearned premiums		108.1	28.0
Change in net provision for unearned premiums		**(223.6)**	**(156.5)**
Net earned premiums	3	**2,693.4**	**2,347.0**
Net investment income	4	188.1	263.7
Other income	5	29.8	25.8
		217.9	**289.5**
Revenue		**2,911.3**	**2,636.5**
Insurance claims		2,589.3	1,842.5
Insurance claims recoverable from reinsurers		(631.0)	(390.0)
Net insurance claims	3	**1,958.3**	**1,452.5**
Expenses for the acquisition of insurance contracts	3	738.9	645.4
Administrative expenses	3	235.5	244.3
Foreign exchange gain	3	(11.2)	(1.1)
Operating expenses		**963.2**	**888.6**
Expenses	3	**2,921.5**	**2,341.1**
Results of operating activities		**(10.2)**	**295.4**
Finance costs	8	(40.2)	(27.7)
(Loss)/profit before income tax		**(50.4)**	**267.7**
Income tax credit/(expense)	9	4.3	(33.6)
(Loss)/profit for the year attributable to equity shareholders		**(46.1)**	**234.1**
(Loss)/earnings per share (cents per share):			
Basic	10	(8.0)	44.6
Diluted	10	(8.0)	44.0
(Loss)/earnings per share (pence per share):			
Basic	10	(6.3)	35.0
Diluted	10	(6.3)	34.5

Statement of comprehensive income

for the year ended 31 December 2020

	2020 $m	2019 $m
Group		
(Loss)/profit for the year attributable to equity shareholders	(46.1)	234.1
Other comprehensive (expense)/income		
Items that will never be reclassified to profit or loss:		
(Loss)/gain on remeasurement of retirement benefit obligations	(2.0)	6.6
Income tax on defined benefit obligation	(0.5)	(0.4)
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange translation differences	2.8	1.8
Total other comprehensive income	0.3	8.0
Total comprehensive (loss)/income recognised	**(45.8)**	**242.1**

Statement of comprehensive income

for the year ended 31 December 2020

	2020 $m	2019 $m
Company		
Profit for the year attributable to equity shareholders	47.9	75.7
Total comprehensive income recognised	**47.9**	**75.7**

Statement of changes in equity

for the year ended 31 December 2020

	Notes	Share capital $m	Share premium $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Group							
Balance at 1 January 2019		**38.0**	**1.6**	**(95.9)**	**16.5**	**1,507.0**	**1,467.2**
Total comprehensive income recognised		–	–	1.8	–	240.3	242.1
Dividends paid	11	–	–	–	–	(79.5)	(79.5)
Issue of shares	21	0.1	1.6	–	–	–	1.7
Equity settled share based payments	22	–	–	–	4.7	–	4.7
Acquisition of own shares in trust	22	–	–	–	(13.8)	–	(13.8)
Tax on share option vestings	9	–	–	–	1.0	2.6	3.6
Transfer of shares to employees	22	–	–	–	(4.8)	4.1	(0.7)
Balance at 31 December 2019		**38.1**	**3.2**	**(94.1)**	**3.6**	**1,674.5**	**1,625.3**
Balance at 1 January 2020		**38.1**	**3.2**	**(94.1)**	**3.6**	**1,674.5**	**1,625.3**
Total comprehensive (loss)/income recognised		–	–	2.8	–	(48.6)	(45.8)
Dividends paid	11	–	–	–	–	(50.2)	(50.2)
Issue of shares	21	–	2.1	–	–	–	2.1
Equity raise[1]	21	4.8	–	–	–	287.8	292.6
Equity settled share based payments	22	–	–	–	2.8	–	2.8
Acquisition of own shares in trust	21	–	–	–	(13.6)	–	(13.6)
Tax on share option vestings	9	–	–	–	(5.4)	1.2	(4.2)
Transfer of shares to employees	22	–	–	–	3.2	(2.7)	0.5
Balance at 31 December 2020		**42.9**	**5.3**	**(91.3)**	**(9.4)**	**1,862.0**	**1,809.5**

1 During the financial year ended 31 December 2020, the group raised $292.6m through a share issuance via a cash box structure. Merger relief under the Companies Act 2006, section 612 was available, and thus no share premium was recognised. As the redemption of the cash box entity's shares was in the form of cash, the transaction was treated as qualifying consideration and the premium is therefore considered to be immediately distributable and can be recognised within retained earnings. The funds raised are net of issuance costs.

Statement of changes in equity

for the year ended 31 December 2020

	Notes	Share capital $m	Share premium $m	Merger reserve[2] $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Company								
Balance at 1 January 2019		**38.0**	**1.6**	**55.4**	**0.7**	**4.6**	**621.0**	**721.3**
Total comprehensive income recognised		–	–	–	–	–	75.7	75.7
Dividends paid	11	–	–	–	–	–	(79.5)	(79.5)
Issue of shares	21	0.1	1.6	–	–	–	–	1.7
Equity settled share based payments	22	–	–	–	–	4.7	–	4.7
Acquisition of own shares in trust	22	–	–	–	–	(13.8)	–	(13.8)
Transfer of shares to employees	22	–	–	–	–	(4.8)	4.1	(0.7)
Balance at 31 December 2019		**38.1**	**3.2**	**55.4**	**0.7**	**(9.3)**	**621.3**	**709.4**
Balance at 1 January 2020		**38.1**	**3.2**	**55.4**	**0.7**	**(9.3)**	**621.3**	**709.4**
Total comprehensive income recognised		–	–	–	–	–	47.9	47.9
Dividends paid	11	–	–	–	–	–	(50.2)	(50.2)
Issue of shares	21	–	2.1	–	–	–	–	2.1
Equity raise[1]	21	4.8	–	–	–	–	287.8	292.6
Equity settled share based payments	22	–	–	–	–	2.8	–	2.8
Acquisition of own shares in trust	22	–	–	–	–	(13.6)	–	(13.6)
Transfer of shares to employees	22	–	–	–	–	3.2	(2.7)	0.5
Balance at 31 December 2020		**42.9**	**5.3**	**55.4**	**0.7**	**(16.9)**	**904.1**	**991.5**

1 During the financial year ended 31 December 2020, the group raised $292.6m through a share issuance via a cash box structure. Merger relief under the Companies Act 2006, section 612 was available, and thus no share premium was recognised. As the redemption of the cash box entity's shares was in the form of cash, the transaction was treated as qualifying consideration and the premium is therefore considered to be immediately distributable and can be recognised within retained earnings. The funds raised are net of issuance costs.

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

Statements of financial position

as at 31 December 2020

	Notes	2020 Group $m	2020 Company $m	2019 Group $m	2019 Company $m
Assets					
Intangible assets	12	126.3	–	122.2	–
Plant and equipment	13	19.7	–	8.9	–
Right of use assets	29	86.4	–	35.9	–
Deferred tax asset	28	26.8	–	41.0	–
Investment in subsidiaries	31	–	724.6	–	724.6
Investment in associates	14	0.3	–	0.1	–
Deferred acquisition costs	15	384.9	–	350.7	–
Retirement benefit asset	27	4.8	–	5.4	–
Reinsurance assets	19, 24	1,684.7	–	1,338.2	–
Financial assets at fair value	16, 17	6,362.0	–	5,572.8	–
Insurance receivables	18	1,467.9	–	1,048.0	–
Other receivables		86.5	267.9	72.0	–
Current income tax asset		27.9	1.9	–	1.1
Cash and cash equivalents	20	309.5	0.9	278.5	–
Total assets		**10,587.7**	**995.3**	**8,873.7**	**725.7**
Equity					
Share capital	21	42.9	42.9	38.1	38.1
Share premium		5.3	5.3	3.2	3.2
Merger reserve		–	55.4	–	55.4
Foreign currency translation reserve		(91.3)	0.7	(94.1)	0.7
Other reserves	22	(9.4)	(16.9)	3.6	(9.3)
Retained earnings		1,862.0	904.1	1,674.5	621.3
Total equity		**1,809.5**	**991.5**	**1,625.3**	**709.4**
Liabilities					
Insurance liabilities	24	7,378.4	–	6,059.0	–
Financial liabilities	16, 17, 25	558.5	–	554.8	–
Lease liabilities	29	90.1	–	39.4	–
Deferred tax liability	28	0.6	–	19.5	–
Current income tax liability		16.7	–	9.3	–
Other payables	26	733.9	3.8	566.4	16.3
Total liabilities		**8,778.2**	**3.8**	**7,248.4**	**16.3**
Total equity and liabilities		**10,587.7**	**995.3**	**8,873.7**	**725.7**

No income statement is presented for the parent company as permitted by Section 408 of the Companies Act 2006. The profit after tax of the parent company for the period was $47.9m (2019: $75.7m).

The financial statements were approved by the board of directors on 4 February 2021 and were signed on its behalf by:

D L Roberts
Chair

S M Lake
Group Finance Director

4 February 2021

Statements of cash flows

for the year ended 31 December 2020

	Notes	2020 Group $m	2020 Company $m	2019 Group $m	2019 Company $m
Cash flow from operating activities					
(Loss)/profit before income tax		**(50.4)**	**46.1**	**267.7**	**74.7**
Adjustments for:					
Amortisation of intangibles	12	16.7	–	14.1	–
Equity settled share based compensation	22	2.8	2.8	4.7	4.7
Net fair value gain on financial assets	4	(83.0)	–	(151.6)	–
Depreciation of plant and equipment	13	3.2	–	2.4	–
Depreciation of right of use assets		13.0	–	10.1	–
Impairment of reinsurance assets recognised	6	1.1	–	1.5	–
(Decrease)/increase in insurance and other payables		1,486.9	(12.5)	722.8	0.1
(Increase)/decrease in insurance, reinsurance and other receivables		(782.1)	(268.7)	(265.0)	10.3
Increase in deferred acquisition costs		(34.2)	–	(43.3)	–
Financial income	4	(110.9)	(55.5)	(120.9)	(80.2)
Financial expense	8	40.2	5.6	27.7	1.9
Foreign exchange on financial liabilities		–	–	(3.2)	–
Income tax paid		(26.5)	–	(6.8)	–
Net cash generated from operating activities		**476.8**	**(282.2)**	**460.2**	**11.5**
Cash flow from investing activities					
Purchase of plant and equipment	13	(12.9)	–	(6.3)	–
Expenditure on software development	12	(20.5)	–	(12.3)	–
Purchase of investments		(6,126.6)	–	(4,824.5)	–
Proceeds from sale of investments		5,443.8	–	4,125.3	–
Interest and dividends received	4	104.3	55.5	112.0	80.2
Net cash (used in)/from investing activities		**(611.9)**	**55.5**	**(605.8)**	**80.2**
Cash flow from financing activities					
Acquisition of own shares in trust	22	(13.6)	(13.6)	(13.8)	(13.8)
Payment of lease liabilities		(15.3)	–	(10.8)	–
Repayment of borrowings	25	–	–	(92.6)	–
Issuance of debt	25	–	–	297.8	–
Equity raise	21	292.6	292.6	–	–
Finance costs	8	(37.8)	(5.6)	(25.8)	(1.9)
Issuance of shares		2.1	2.1	1.7	1.7
Dividend paid		(50.2)	(50.2)	(79.5)	(79.5)
Net cash from/(used in) financing activities		**177.8**	**225.3**	**77.0**	**(93.5)**
Net increase/(decrease) in cash and cash equivalents		**42.7**	**(1.4)**	**(68.6)**	**(1.8)**
Cash and cash equivalents at beginning of year		278.5	–	336.3	2.4
Effect of exchange rate changes on cash and cash equivalents		(11.7)	2.3	10.8	(0.6)
Cash and cash equivalents at end of year	20	**309.5**	**0.9**	**278.5**	**–**

Notes to the financial statements

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 2020 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (EU). 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 have applied amendments to IFRS issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2020. The new effective amendments are:

- IFRS 3: Amendment: Definition of a business (IASB effective date: 1 January 2020);
- IAS 1 and IAS 8: Amendment: Definition of Material (IASB effective date: 1 January 2020);
- IFRS 9, IFRS 7 and IAS 39: Amendment: Interest Rate Benchmark Reform (IASB effective date: 1 January 2020);
- Amendments to References to the Conceptual Framework in IFRS Standards (IASB effective date: 1 January 2020);
- Interest Rate Benchmark Reform (IBOR) – Phase 1 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (effective date: 1 January 2020); and
- IFRS 16: COVID-19-Related Rent concessions (2020).

None of the amendments issued by the IASB have had a material impact to the group.

A number of new standards and interpretations adopted by the EU which are not mandatorily effective, as well as standards and interpretations issued by the IASB but not yet adopted by the EU, have not been applied in preparing these financial statements. The group does not plan to adopt these standards early; instead it expects to apply them from their effective dates as determined by their dates of EU endorsement. The group is still reviewing the upcoming standards to determine their impact:

- IFRS 9: Financial Instruments (EU effective date: 1 January 2018, deferred in line with implementation of IFRS 17);
- IFRS 9: Amendment: Prepayment Features with Negative Compensation (EU effective date: 1 January 2019, deferred in line with implementation of IFRS 17);
- Interest Rate Benchmark Reform (IBOR) – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (effective date: 1 January 2021);
- IFRS 17: Insurance Contracts (IASB effective date: 1 January 2023);[1] and
- IFRS 10 and IAS 28: Amendment: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (IASB effective date: optional).[1]

1 Have not been endorsed by EU.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

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

- IFRS 17 will fundamentally change the way insurance contracts are accounted for and reported. Revenue will no longer be equal to premiums written but instead reflect a change in the contract liability on which consideration is expected. On initial assessment the major change will be on the presentation of the statement of profit or loss, with premium and claims figures being replaced with insurance contract revenue, insurance service expense and insurance finance income and expense. It is currently unknown what impact the new requirements will have on the group's profit and financial position, but it is expected that the timing of profit recognition will be altered. During 2020, the group continued to undertake a number of tasks in preparation for IFRS 17. These tasks included:
  - Concluding on writing and presenting technical papers to governance committees of how the standard will be applied;
  - Building upon data requirements documented in 2019 to land and conform the majority of gross data that can be consumed for IFRS 17 purposes, as well as documenting the requirements for the landing and conforming of reinsurance data;
  - Developing an internal calculation engine/user interface as a means of testing a vendor solution or to use as an alternative solution; and
  - Outlining the requirements and plan of a target operating model/operational readiness framework within affected teams as well as outlining the impacts and plan to resolve impacts for the wider stakeholders of the group.
- As was stated in the 2017 annual report, the group chose to apply the temporary exemption permitted by IFRS 4 from applying IFRS 9: Financial Instruments. The group qualifies for this exemption because, as at 31 December 2015, $5,040.7m or 95% of its total liabilities were connected with insurance. There has been no material change in the group's activities since 31 December 2015, therefore the exemption still remains. The group has also disclosed information in relation to specific types of financial instruments to ensure the comparability with the entities applying IFRS 9. As such, fair values are disclosed separately for the group's financial assets which are managed and evaluated on a fair value basis and those which meet the solely payments of principal and interest (SPPI) test under IFRS 9. Beazley plc as a standalone company adopted IFRS 9 from 1 January 2018. However, as the standalone company has no financial investments the adoption had an immaterial impact on its financial statements. Below is a table outlining the fair value of assets which are managed and evaluated on a fair value basis and those which meet the SPPI test under IFRS 9. The information on credit exposures can be found in note 2 to the financial statements on page 164.

On 25 June 2020, the International Accounting Standards Board (IASB) issued amendments to IFRS 17 Insurance Contracts, which included the deferral of the effective date of IFRS 17 and IFRS 9 (for qualifying insurers) to 1 January 2023.

	2020 $m	2019 $m
Financial assets managed and evaluated on a fair value basis		
Fixed and floating rate debt securities:		
– Government issued	2,723.7	1,870.9
– Corporate bonds		
– Investment grade	2,444.9	2,696.4
– High yield	251.1	235.8
Syndicate loans	40.6	8.0
Equity funds	203.2	163.6
Hedge funds	442.1	354.0
Illiquid credit assets	227.9	216.6
Derivative financial assets	28.5	25.5
Total financial assets managed and evaluated on a fair value basis	**6,362.0**	**5,570.8**
Financial assets meeting the SPPI test		
Cash and cash equivalents	309.5	278.5
Other receivables	86.5	72.0
Total financial assets meeting the SPPI test	**396.0**	**350.5**

1 Statement of accounting policies *continued*

Basis of presentation

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

In accordance with the requirements of IAS 1 the financial statements' assets and liabilities have been presented in order of liquidity which provides information that is more reliable and relevant for a financial institution.

Going Concern

The financial statements of Beazley plc have been prepared on a going concern basis. The group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report contained in the group's Annual Report & Accounts. In addition, the Risk report includes the group's risk management objectives and the group's objectives, policies and processes for managing its capital.

The group continues to monitor and respond to the global COVID-19 outbreak, in particular in relation to the impact on the group that is expected to relate to claims on the business previously written. The current assessment is an exposure of $340m net of reinsurance across our political, accident and contingency, property, marine and reinsurance divisions. It is too early to say what the quantum of claims within our liability classes will be as these will emerge as the impact of the pandemic is fully realised over the next few years. The group has taken a number of underwriting actions on its future business which should reduce this impact.

The capital raised from the share issuance in May 2020 ($292.6m), while predominantly held to better position the business for future growth opportunities, also provides additional strength to the statement of financial position in light of the continued uncertainty from COVID-19.

In assessing the group's going concern position as at 31 December 2020, the directors have considered a number of factors, including the current statement of financial position, the group's strategic and financial plan, taking account of possible changes in trading performance and funding retention, and stress testing and scenario analysis. The assessment concluded that, for the foreseeable future, the group has sufficient capital and liquidity for the next 12 months. As at its most recent regulatory submission, the group's capital ratios and its total capital resources are comfortably in excess of regulatory solvency requirements and internal stress testing indicates the group can withstand severe economic and competitive stresses.

As a result of the assessment, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future and therefore believe that the group is well placed to manage its business risks successfully. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

Part VII transfer

On 30 December 2020, the group transferred all relevant policies (and related liabilities) underwritten by the group's syndicates to Lloyd's Insurance Company S.A. ('Lloyd's Brussels'), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the group entered into a 100% Quota Share Reinsurance Agreement whereby Lloyd's Brussels reinsured all risks on the same policies back to the group. The purpose of these transactions were to ensure these policies could be serviced after Brexit on the 31 December 2020.

Following the sanction of the scheme by the High Court on 25 November 2020, the scheme took effect on 30 December 2020 and the group transferred the impacted EEA policies and related liabilities to Lloyd's Brussels, together with cash of $229.2m. On the same date, under the Reinsurance Agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of $229.2m. The combined effect of the two transactions had no economic impact for the group, and accordingly there is no impact on the group's financial statements.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

Use of estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates and judgements that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those on which management's estimates are based. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. Estimates which are based on future economic conditions, and sensitive to changes in those conditions, have been impacted by COVID-19.

a) Estimates

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

Provision & claims

The most critical estimate included within the group's financial position is the estimate for insurance losses incurred but not reported (IBNR), which is included within total insurance liabilities and reinsurance assets in the statement of financial position and in note 24. This estimate is critical as it outlines the current liability for future expenses expected to be incurred in relation to claims. If this estimation was to prove inadequate then an exposure would arise in future years where a liability has not been provided for. The total estimate for insurance losses incurred but not reported gross of reinsurers' share as at 31 December 2020 is $3,855.3m (2019: $3,196.6m). The total estimate for insurance losses incurred but not reported net of reinsurers' share as at 31 December 2020 is $2,820.9m (2019: $2,351.5m) and is included within total insurance liabilities and reinsurance assets in the statement of financial position and in note 24.

Another critical estimate within insurance liabilities is the estimation of an unexpired risk reserve (URR) for the expected value of net claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date which exceeds the unearned premium reserve. The provision has been determined by reviewing various policies/events which are expected to trigger a COVID-19 related claims loss in the first half of 2021. This estimate is based on the assumption that various government restrictions are predicted to ease from July 2021. If this estimation was to prove inadequate, the unexpired risk reserve provision could be understated. The total estimate for URR gross of reinsurers' shares at 31 December 2020 was $91.5m (2019: nil). The total estimate for URR net of reinsurers' shares at 31 December 2020 was $82.5m (2019: nil).

The claims handling expense provision is based on a set percentage of IBNR and URR which is reviewed on an annual basis.

The best estimate of the most likely ultimate outcome is used when calculating notified claims. This estimate is based upon the facts available at the time, in conjunction with the claims manager's view of likely future developments.

Financial assets & liabilities

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

Premium estimates

Other critical estimates contained within our close process are premium estimates and the earning pattern of recognising premium over the life of the contract. In the syndicates the premium written is initially based on the estimated premium income (EPI) of each contract. Where premium is sourced through binders, the binder EPI is pro-rated across the binder period. This is done on a straight-line basis unless the underlying writing pattern from the prior period indicates the actual underlying writing pattern is materially different. The underwriters adjust their EPI estimates as the year of account matures. As the year of account closes premiums are adjusted to match the actual signed premium. An accrual for estimated future reinstatement premiums is retained. Premiums are earned on a straight-line basis over the life of each contract. At a portfolio level this is considered to provide a reasonable estimate for the full year of the pattern of risk over the coverage period.

Estimation techniques are necessary to quantify the future premium on all syndicate business written and are commonly used within the Lloyd's insurance market. The majority of the estimation arises within the binder and lineslip estimates where the premium amounts are dependent on the volume of policies that are insured under the binder/lineslip over the coverage period. In these cases underwriters estimate an initial premium volume and then adjust throughout the life of the binder/lineslip as and when new information becomes available. The process of determining the EPI is based on a number of factors, which can include:

- Coverholder business plan documents supplied prior to binding;
- Historical trends of business written;
- Current and expected market conditions for this line of business; and
- Life to date bordereaux submissions versus expectation.

1 Statement of accounting policies *continued*

Due to the nature of the Lloyd's business and the settlement patterns of the underlying business it is also not uncommon for some contracts to take a number of years to finalise and settle, and as such remain a receivable on the balance sheet remains. The amount of estimated future premium that remains in insurance receivables relating to years of account that are more than three years developed at 31 December 2020 is $13.7m (2019: $11.5m).

Goodwill

Another estimate used by Beazley is based on the key assumptions underlying the recoverable amounts used in assessing the impairment of goodwill. The key assumptions used in the preparation of future cash flows are: premium growth rates, claims experience, discount rates, retention rates and expected future market conditions as per note 12.

b) Judgements

Information about areas of judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in this statement of accounting policies and also specifically in the following notes:

- note 1a: accounting treatment for the group's interest in managed syndicates

Consolidation

a) Subsidiary undertakings

Subsidiary undertakings are entities controlled by the group. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The group has used the acquisition method of accounting for business combinations arising on the purchase of subsidiaries. Under this method, the cost of acquisition is measured as the fair value of assets given, shares issued or liabilities undertaken at the date of acquisition directly attributable to the acquisition. The excess of the cost of an acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired is recorded as goodwill.

For all business combinations:

(i) transaction costs, other than those associated with the issue of debt or equity securities, that the group incurs in connection with a business combination, are expensed as incurred;

(ii) in addition, any consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognised in profit or loss; and

(iii) any contingent consideration is measured at fair value at the acquisition date.

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

Certain group subsidiaries underwrite as corporate members of Lloyd's on syndicates managed by Beazley Furlonge Limited.

In view of the several and direct liability of underwriting members at Lloyd's for the transactions of syndicates in which they participate, only attributable shares of transactions, assets and liabilities of those syndicates are included in the group financial statements. The group continues to conclude that it remains appropriate to consolidate its share of the result of these syndicates and accordingly, as the group is the sole provider of capacity on syndicates 2623, 3622 and 3623, these financial statements include 100% of the economic interest in these syndicates. For the following syndicates to which Beazley is appointed managing agent, being syndicates 623, 6107, and 6050, for which the capacity is provided entirely by third parties to the group, these financial statements reflect Beazley's economic interest in the form of agency fees and profit commission to which it is entitled. In 2018, 2019 and 2020 Beazley also consolidated 33.85% of the business written through syndicate 5623 on the 2018 year of account, which is aligned with Beazley Corporate Member No.3 Limited's participation in the syndicate. There is no participation on the 2019 and 2020 year of account.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

b) Associates

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

Other factors that are considered when determining the existence of significant influence also include:

- representation on the board of directors or equivalent governing body of the investee;
- participation in the policy-making process including participation in decisions about dividends or other distributions;
- material transactions between the entity and the investee;
- interchange of managerial personnel; or
- provision of essential technical information.

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

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

c) Intercompany balances and transactions

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

Foreign currency translation

a) Functional and presentational currency

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

b) Transactions and balances

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

c) Foreign operations

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

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

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

Insurance contracts

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

1 Statement of accounting policies *continued*

Net earned premiums

a) Premiums

Gross premiums written represent premiums on business commencing in the financial year together with adjustments to premiums written in previous accounting periods and estimates for premiums from contracts entered into during the course of the year. Gross premiums written are stated before deduction of brokerage, taxes, duties levied on premiums and other deductions. For the year ending 31 December 2020, gross premiums written includes a one off transfer of business written through the group syndicates to Lloyd's Brussels and subsequent inward reinsurance of business from Lloyd's Brussels to reflect the Part VII transfer. The net impact of this transaction is nil.

b) Unearned premiums

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

Deferred acquisition costs (DAC)

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

Claims

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

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

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

Liability adequacy testing

At each reporting date, liability adequacy tests are performed to ensure the adequacy of the claims liabilities net of DAC and unearned premium reserves. In performing these tests, current best estimates of future contractual cash flows, claims handling and administration expenses, and investment income from the assets backing such liabilities are used. Management have determined that the unprecedented impact COVID-19 has had on certain areas of the group's underwriting portfolio has been the specific event/trigger to initiate the assessment for an unexpired risk reserve ('URR') recognition. This assessment has been made at a level more granular than segment to reflect the different risk characteristics, including duration, of the related COVID-19 exposures.

Management have assessed the Property, Treaty, Marine and PAC segments – all of which have been impacted by COVID-19. Contingency business written through the PAC division was identified as the only class of business within these divisions that required a URR consideration as a result of COVID-19. The contingency book which insures against event cancellation has expected future claims on events taking place in the first half of calendar year 2021, which exceed the unearned premium on these policies.

Any deficiency is immediately charged to the statement of profit or loss and subsequently by establishing a URR provision for losses arising from liability adequacy tests.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

Ceded reinsurance

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

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

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

Revenue

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

Dividends paid

Dividend distributions to the shareholders of the group are recognised in the period in which the dividends are paid, as a first interim dividend, second interim dividend or special dividend. The second and special dividends are approved by the group's shareholders at the group's annual general meeting.

Plant and equipment

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

Fixtures and fittings	Three to ten years
Computer equipment	Three years

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

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

Intangible assets

a) Goodwill

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

Goodwill has an indefinite life and is annually tested for impairment. Goodwill is allocated to each cash-generating unit (CGU, being the group's operating segments) for the purpose of impairment testing. Goodwill is impaired when the net carrying amount of the relevant CGU exceeds its recoverable amount, being its value in use. Value in use is defined as the present value of the future cash flows expected to be derived from the CGU.

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

b) Syndicate capacity

The syndicate capacity represents the cost of purchasing the group's participation in the combined syndicates. The capacity is capitalised at cost in the statement of financial position. It has an indefinite useful life and is carried at cost less accumulated impairment. It is annually tested for impairment by reference to the latest auction prices provided by Lloyd's.

1 Statement of accounting policies *continued*

c) Licences

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

d) IT development costs

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

e) Renewal rights

Renewal rights comprise future profits relating to insurance contracts acquired and the expected renewal of those contracts. The costs directly attributable to acquire the renewal rights are recognised as intangible assets where they can be measured reliably and it is probable that they will be recovered by directly related future profits. These costs are subject to an impairment review annually and are amortised on a straight-line basis, based on the estimated useful life of the assets, which is estimated to be between five and 10 years.

Financial instruments

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

a) Financial assets

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

b) Financial assets at fair value through profit or loss

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

c) Loans and receivables

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

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

d) Fair value measurement

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

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

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

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

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

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

e) Hedge funds, equity funds and illiquid credit assets

The group invests in a number of hedge funds, equity funds and illiquid credit assets for which there are no available quoted market prices. The valuation of these assets is based on fair value techniques as described above. The fair value of our hedge fund and illiquid asset portfolio is calculated by reference to the underlying net asset values (NAVs) of each of the individual funds. Consideration is also given to adjusting such NAV valuations for any restriction applied to distributions, the existence of side pocket provisions and the timing of the latest available valuations. At certain times, we will have uncalled unfunded commitments in relation to our illiquid credit assets. These uncalled unfunded commitments are actively monitored by the group and are disclosed in the notes 2 and 16 to the financial statements. The additional investment into our illiquid credit asset portfolio is recognised on the date that this funding is provided by the group.

f) Insurance receivables and payables

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

1 Statement of accounting policies *continued*

g) Other receivables

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

h) Investment income

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

i) Borrowings

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

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

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

j) Other payables

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

k) Hedge accounting and derivative financial instruments

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

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

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

l) Impairment of financial assets

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

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

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

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

m) Cash and cash equivalents

Cash and cash equivalents consist of cash held at bank, cash in hand, deposits held at call with banks, cash held in Lloyd's trust accounts and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These investments have less than three months maturity from the date of acquisition. Cash and cash equivalents are measured at fair value through the profit and loss account.

n) Unfunded commitment capital

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

Leases

a) Right of use assets

The group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

b) Lease liabilities

At the commencement date of the lease, the group recognises a lease liability measured at the present value of the lease payments to be made over the lease term.

In calculating the present value of lease payments, the group uses the weighted average incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

c) Short-term leases and leases of low-value assets

The group applies the short-term lease recognition exemption to its short-term leases of property (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense in the profit or loss on a straight-line basis over the lease term.

d) The determanation of a lease term with renewal options within lease contracts

The group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The group has the option, under some of its leases to lease the assets for various additional terms. The group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. After the commencement date, the group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affect its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

1 Statement of accounting policies *continued*

Employee benefits

a) Pension obligations

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

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

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

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

- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect of the asset ceiling.

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

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

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

b) Share based compensation

The group offers option plans over Beazley plc's ordinary shares to certain employees, which includes the save-as-you-earn (SAYE) scheme.

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

When the options are exercised and new shares are issued to cover SAYE vestings, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) with the excess amount going to share premium. For other plans, when no proceeds are received, the nominal value of shares issued is to share capital and debited to retained earnings. When the options are exercised and the shares are granted from the employee share trust, the proceeds received, net of any transaction costs, and the value of shares held within the trust, are credited to retained earnings.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

Income taxes

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

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

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

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

Earnings per share

Basic earnings per share are calculated by dividing profit or loss after tax available to shareholders by the weighted average number of ordinary shares in issue during the period.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares such as share options granted to employees. Share options with performance conditions attaching to them have been excluded from the weighted average number of shares to the extent that these conditions have not been met at the reporting date.

The shares held in the employee share options plan (ESOP) and treasury shares are excluded from both the calculations, until such time as they vest unconditionally with the employees.

Provisions and contingencies

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

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

2 Risk management

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

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

The symbol † by a table or numerical information means it has not been audited.

2.1 Insurance risk

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

a) Underwriting risk

Underwriting risk comprises four elements that apply to all insurance products offered by the group:

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

We manage and model these four elements in the following three categories: attritional claims, large claims and catastrophe events.

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

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

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

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

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

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

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

Notes to the financial statements *continued*

2 Risk management *continued*

The group's high level catastrophe risk appetite is set by the board and the business plans of each team are determined within these parameters. The board may adjust these limits over time as conditions change. In 2020 the group operated to a catastrophe risk appetite for a probabilistic 1-in-250 years US event of † $437.0m (2019: $416.0m) net of reinsurance. This represents an increase of 5% in 2020.

Lloyd's has also defined its own specific set of RDS events for which all syndicates with relevant exposures must report. Of these the three largest, net of reinsurance, events which could have impacted Beazley in 2019 and 2020 are:

†

	2020	
Lloyd's prescribed natural catastrophe event (total incurred losses)	Modelled PML[1] (before reinsurance) $m	Modelled PML[1] (after reinsurance) $m
San Francisco quake (2020: $78.0bn)	663.2	232.1
Los Angeles quake (2020: $78.0bn)	706.4	228.6
Gulf of Mexico windstorm (2020: $112bn)	642.8	216.0

	2019	
Lloyd's prescribed natural catastrophe event (total incurred losses)	Modelled PML[1] (before reinsurance) $m	Modelled PML[1] (after reinsurance) $m
San Francisco quake (2019: $78.0bn)	727.9	222.8
Los Angeles quake (2019: $78.0bn)	748.2	218.8
US Northeast windstorm (2019: $78.0bn)	554.6	205.3

1 Probable market loss.

The tables above show each event independent of each other and considered on their own. The impacts would be net of reinsurance exposures for the two California quakes and have increased by circa 4% in 2020, whereas gross exposures have reduced by 9% for the San Francisco event and 5.5% for the Los Angeles scenario. The reduction in gross exposures is being driven by the Property division, who have reduced their writings of US quake business, but this has not lead to a reduction in net as the drop in exposure is contained within the reinsurance programme. Windstorm exposures have increased in the Gulf of Mexico during 2020, which has resulted in the Gulf of Mexico windstorm scenario replacing the US northeast windstorm scenario as being the third largest scenario. The natural catastrophe risk appetite increased by 5% in 2020 to † $437m.

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

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

To manage the potential exposure, the board has established a risk budget for the aggregation of data breach related claims which is monitored by reference to the largest of ten realistic disaster scenarios that have been developed internally. These scenarios include the failure of a data aggregator, the failure of a shared hardware or software platform and the failure of a cloud provider. Whilst it is not possible to be precise, as there is sparse data on actual aggregated events, these severe scenarios are expected to be very infrequent. The largest net realistic disaster scenario is currently similar to the Gulf of Mexico windstorm event shown above for the group as at 31 December 2020. The reinsurance programmes that protects the CyEx and Specialty Lines divisions would partially mitigate the cost of most, but not all, data breach catastrophes.

Beazley also reports on cyber exposure to Lloyd's using the three largest internal realistic disaster scenarios and three prescribed scenarios which include both data breach and property damage related cyber exposure. Given Beazley's risk profile, the quantum from the internal data breach scenarios is larger than any of the cyber property damage related scenarios. To manage underwriting exposures, the group has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry. In 2020, the maximum line that any one underwriter could commit the managed syndicates to was † $150m. In most cases, maximum lines for classes of business were much lower than this.

2 Risk management *continued*

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

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

Binding authority contracts

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

Operating divisions

In 2020, the group's business consisted of seven operating divisions. The following table provides a breakdown of gross premiums written by division, and also provides a geographical split based on placement of risk.

2020	UK (Lloyd's)	US (Non-Lloyd's)	Europe (Non-Lloyd's)	Total
Cyber & Executive Risk	19%	10%	1%	30%
Marine	9%	–	–	9%
Market Facilities	4%	–	–	4%
Political, Accident & Contingency	7%	1%	–	8%
Property	13%	–	–	13%
Reinsurance	5%	–	–	5%
Specialty Lines	25%	5%	1%	31%
Total	**82%**	**16%**	**2%**	**100%**

2019[1]	UK (Lloyd's)	US (Non-Lloyd's)	Europe (Non-Lloyd's)	Total
Cyber & Executive Risk	18%	9%	–	27%
Marine	10%	–	–	10%
Market Facilities	2%	–	–	2%
Political, Accident & Contingency	8%	1%	–	9%
Property	14%	–	–	14%
Reinsurance	7%	–	–	7%
Specialty Lines	25%	5%	1%	31%
Total	**84%**	**15%**	**1%**	**100%**

1 From 1 January 2020, the Market Facilities division has been split from Specialty Lines. The prior year comparative has been re-presented to allow comparison.

Notes to the financial statements *continued*

2 Risk management *continued*

b) Reinsurance risk

Reinsurance risk to the group arises where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated, result in coverage disputes or prove inadequate in terms of the vertical or horizontal limits purchased. Failure of a reinsurer to pay a valid claim is considered a credit risk which is detailed in the credit risk section on page 157.

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

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

c) Claims management risk

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

d) Reserving and ultimate reserves risk

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

To manage reserving and ultimate reserves risk, our actuarial team uses a range of recognised techniques to project gross premiums written, monitor claims development patterns and stress-test ultimate insurance liability balances. The group aims to hold reserves within a range of 5-10% above the actuarial estimates, which themselves include some margin for uncertainty.

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

2.2 Strategic risk

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

a) Senior management performance

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

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

2 Risk management *continued*

2.3 Market risk

Market risk arises where the value of assets and liabilities or future cash flows changes as a result of movements in foreign exchange rates, interest rates and market prices. Efficient management of market risk is key to the investment of group assets. Appropriate levels of investment risk are determined by limiting the proportion of forecast group earnings which could be at risk from lower than expected investment returns, using a 1 in 10 confidence level as a practical measure of such risk. In 2020, this permitted variance from the forecast investment return was set at † $150m, but ultimately increased to † $180m in the second half of the year. For 2021, the permitted variance is likely to be at the same level. Investment strategy is developed to be consistent with this limit and investment risk is monitored on an ongoing basis, using outputs from our internal model.

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

a) Foreign exchange risk

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

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

In 2020, the group managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting to have net assets that are predominantly denominated in US dollar. As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure across the group. Details of foreign currency derivative contracts entered into with external parties are disclosed in note 17. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk.

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

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

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

31 December 2020	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	737.6	213.9	420.4	1,371.9	9,215.8	10,587.7
Total liabilities	(828.2)	(203.0)	(431.9)	(1,463.1)	(7,315.1)	(8,778.2)
Net assets	**(90.6)**	**10.9**	**(11.5)**	**(91.2)**	**1,900.7**	**1,809.5**

31 December 2019	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	546.2	165.5	364.3	1,076.0	7,797.7	8,873.7
Total liabilities	(549.2)	(165.2)	(348.7)	(1,063.1)	(6,185.3)	(7,248.4)
Net assets	**(3.0)**	**0.3**	**15.6**	**12.9**	**1,612.4**	**1,625.3**

Notes to the financial statements *continued*

2 Risk management *continued*

Sensitivity analysis

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

	Impact on profit after tax for the year ended		Impact on net assets	
Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar	2020 $m	2019 $m	2020 $m	2019 $m
Dollar weakens 30% against other currencies	(25.0)	3.4	(33.9)	(1.0)
Dollar weakens 20% against other currencies	(16.7)	2.3	(22.6)	(0.6)
Dollar weakens 10% against other currencies	(8.3)	1.1	(11.3)	(0.3)
Dollar strengthens 10% against other currencies	8.3	(1.1)	11.3	0.3
Dollar strengthens 20% against other currencies	16.7	(2.3)	22.6	0.6
Dollar strengthens 30% against other currencies	25.0	(3.4)	33.9	1.0

b) Interest rate risk

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

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

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

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

Duration 31 December 2020	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	1,696.1	2,031.7	640.0	484.3	384.3	183.3	–	5,419.7
Syndicate loans	–	–	–	8.2	32.4	–	–	40.6
Cash and cash equivalents	309.5	–	–	–	–	–	–	309.5
Derivative financial instruments	28.5	–	–	–	–	–	–	28.5
Borrowings	–	–	–	–	–	(547.1)	–	(547.1)
Total	**2,034.1**	**2,031.7**	**640.0**	**492.5**	**416.7**	**(363.8)**	**–**	**5,251.2**

31 December 2019	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	1,530.8	1,650.5	898.0	327.7	304.2	87.6	6.3	4,805.1
Syndicate loans	–	–	–	–	–	–	8.0	8.0
Cash and cash equivalents	278.5	–	–	–	–	–	–	278.5
Derivative financial instruments	25.5	–	–	–	–	–	–	25.5
Borrowings	–	–	–	–	–	(546.8)	–	(546.8)
Total	**1,834.8**	**1,650.5**	**898.0**	**327.7**	**304.2**	**(459.2)**	**14.3**	**4,570.3**

The change in the duration of Syndicate loans is reflects a change in the repayment timeline assumption set by Lloyd's. This revision now reflects a five year repayment timeline from the collection date.

Borrowings consist of two items. The first is $250m of subordinated tier 2 debt raised in November 2016. This debt is due in 2026 and has annual interest of 5.875% payable in May and November of each year. The second comprises $300m of subordinated tier 2 debt raised in September 2019. This debt is due in 2029 and has annual interest of 5.5% payable in March and September each year.

2 Risk management *continued*

Sensitivity analysis

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

	Impact on profit after income tax for the year		Impact on net assets	
	2020 $m	2019 $m	2020 $m	2019 $m
Shift in yield (basis points)				
150 basis point increase	(138.4)	(112.7)	(138.4)	(112.7)
100 basis point increase	(92.3)	(75.1)	(92.3)	(75.1)
50 basis point increase	(46.1)	(37.6)	(46.1)	(37.6)
50 basis point decrease	46.1	37.6	46.1	37.6
100 basis point decrease	92.3	75.1	92.3	75.1

c) Price risk

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

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

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

	Impact on profit after income tax for the year		Impact on net assets	
	2020 $m	2019 $m	2020 $m	2019 $m
Change in fair value of hedge funds, syndicate loans, equity funds and illiquid credit assets				
30% increase in fair value	239.4	192.5	239.4	192.5
20% increase in fair value	159.6	128.3	159.6	128.3
10% increase in fair value	79.8	64.2	79.8	64.2
10% decrease in fair value	(79.8)	(64.2)	(79.8)	(64.2)
20% decrease in fair value	(159.6)	(128.3)	(159.6)	(128.3)
30% decrease in fair value	(239.4)	(192.5)	(239.4)	(192.5)

Notes to the financial statements *continued*

2 Risk management *continued*

d) Investment risk

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

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

Beazley's investment strategy is developed by reference to an investment risk budget, set annually by the board as part of the overall risk budgeting framework of the business. The Solvency II internal model is used to monitor compliance with the budget, which limits the amount by which our reported annual investment return may deviate from a predetermined target, at the 1 in 10 confidence level. In 2020, this permitted deviation was set at † $150m, but ultimately increased to † $180m in the second half of the year. Additionally, a limit is specified for the net interest rate sensitivity of assets and liabilities combined and investments are managed to ensure that this limit is not exceeded.

2.4 Operational risk

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

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

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

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

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

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

COVID-19 has caused a temporary shift in the operational strategy of Beazley from an office based environment to a completely remote working environment. This has meant that internal processes, capability of people and systems have been put to the test. The group have adapted to the changes in the operational environment and business processes have continued to be carried out. The group continues to actively manage operational risks caused by COVID-19, while engaging in open communication with staff. The group also continues to regularly monitor the performance of its controls through the risk management reporting process.

2 Risk management *continued*

2.5 Credit risk

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the group are:

- reinsurers – reinsurers may fail to pay valid claims against a reinsurance contract held by the group;
- brokers and coverholders – counterparties fail to pass on premiums or claims collected or paid on behalf of the group;
- investments – issuer default results in the group losing all or part of the value of a financial instrument or a derivative financial instrument; and
- cash and cash equivalents.

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

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

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

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

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

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

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

Notes to the financial statements *continued*

2 Risk management *continued*

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

31 December 2020	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	4,813.6	606.1	–	–	–	5,419.7
– syndicate loans	40.6	–	–	–	–	40.6
– equity funds	–	–	–	–	203.2	203.2
– hedge funds	–	–	–	–	442.1	442.1
– illiquid credit assets	–	–	–	–	227.9	227.9
– derivative financial instruments	–	–	–	–	28.5	28.5
Insurance receivables	–	–	–	–	1,467.9	1,467.9
Reinsurance assets	1,684.7	–	–	–	–	1,684.7
Other receivables	86.5	–	–	–	–	86.5
Cash and cash equivalents	307.2	0.8	–	–	1.5	309.5
Total	**6,932.6**	**606.9**	**–**	**–**	**2,371.1**	**9,910.6**

31 December 2019	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	3,536.0	1,269.1	–	–	–	4,805.1
– syndicate loans	8.0	–	–	–	–	8.0
– equity funds	–	–	–	–	163.6	163.6
– hedge funds	–	–	–	–	354.0	354.0
– illiquid credit assets	–	–	–	–	216.6	216.6
– derivative financial instruments	–	–	–	–	25.5	25.5
Insurance receivables	–	–	–	–	1,048.0	1,048.0
Reinsurance assets	1,338.2	–	–	–	–	1,338.2
Other receivables	72.0	–	–	–	–	72.0
Cash and cash equivalents	278.5	–	–	–	–	278.5
Total	**5,232.7**	**1,269.1**	**–**	**–**	**1,807.7**	**8,309.5**

The largest counterparty exposure within tier 1 is $2,326.0m of US treasuries (2019: $1,599.9m).

Financial investments falling within the unrated category comprise hedge funds and illiquid credit assets for which there is no readily available market data to allow classification within the respective tiers. Additionally, insurance receivables are classified as unrated, due to premium debtors not being credit rated. At 31 December 2020, $1.5m of cash and cash equivalents fell within the unrated category (2019: nil). This is due to the group, transacting with a bank in the US that does not have an external credit rating.

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

2 Risk management *continued*

An analysis of the overall credit risk exposure indicates that the group has reinsurance assets that are impaired at the reporting date.

The total impairment in respect of the reinsurance assets, including reinsurers' share of outstanding claims, at 31 December 2020 was as follows:

	Individual impairment $m	Collective impairment $m	Total $m
Balance at 1 January 2019	2.8	9.4	12.2
Impairment loss recognised	0.3	1.2	1.5
Balance at 31 December 2019	3.1	10.6	13.7
Impairment loss recognised	–	1.1	1.1
Balance at 31 December 2020	**3.1**	**11.7**	**14.8**

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

31 December 2020	Up to 30 days past due $m	30-60 days past due $m	60-90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance receivables	52.3	21.6	8.4	30.6	112.9
Reinsurance assets	80.6	32.8	12.4	22.1	147.9

31 December 2019	Up to 30 days past due $m	30-60 days past due $m	60-90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance receivables	59.2	26.0	8.6	31.9	125.7
Reinsurance assets	3.0	5.6	0.9	7.3	16.8

The total impairment provision in the statement of financial position in respect of reinsurance assets past due (being reinsurance recoverables due on paid claims) by more than 30 days at 31 December 2020 was $3.0m (2019: $3.1m). This $3.0m provision in respect of overdue reinsurance recoverables is included within the total provision of $14.8m shown in the table at the top of the page.

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

2.6 Regulatory and legal risk

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

2.7 Liquidity risk

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

The group's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (details of the group's exposure to realistic disaster scenarios are provided on page 150 to 151. This means that the group maintains sufficient liquid assets, or assets that can be converted into liquid assets at short notice and without any significant capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return. The group also makes use of loan facilities and borrowings, details of which can be found in note 25. Further information on the group's capital resources is contained on pages 51 to 52.

Notes to the financial statements *continued*

2 Risk management *continued*

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

31 December 2020	Within 1 year $m	1-3 years $m	3-5 years $m	Greater than 5 years $m	Total $m	Weighted average term to settlement (years)
Cyber & Executive Risk	300.2	502.6	215.1	79.3	1,097.2	2.2
Marine	133.8	122.1	43.0	20.0	318.9	1.8
Market Facilities	4.7	5.2	1.5	1.3	12.7	2.1
Political, Accident & Contingency	178.0	123.6	29.3	29.6	360.5	1.9
Property	195.9	166.2	43.3	31.5	436.9	1.9
Reinsurance	110.9	94.1	27.6	23.3	255.9	2.0
Specialty Lines	297.6	539.6	357.5	471.7	1,666.4	4.0
Net claims liabilities	**1,221.1**	**1,553.4**	**717.3**	**656.7**	**4,148.5**	

31 December 2019[2]	Within 1 year $m	1-3 years $m	3-5 years $m	Greater than 5 years $m	Total $m	Weighted average term to settlement (years)
Cyber & Executive Risk	263.2	431.0	177.8	58.4	930.4	2.2
Marine	112.2	100.5	35.1	16.5	264.3	1.8
Market Facilities	0.5	1.9	1.6	2.0	6.0	4.4
Political, Accident & Contingency	69.9	51.1	13.1	12.2	146.3	1.9
Property	159.5	129.0	31.9	20.9	341.3	1.7
Reinsurance	106.8	93.8	26.0	19.4	246.0	1.9
Specialty Lines	245.8	481.5	339.8	390.1	1,457.2	3.8
Net claims liabilities	**957.9**	**1,288.8**	**625.3**	**519.5**	**3,391.5**	

1 For a breakdown of net claims liabilities refer to note 24.

2 From 1 January 2020, the Market Facilities division has been split from Specialty Lines. The prior year comparative has been re-presented to allow comparison.

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

31 December 2020	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Net claims liabilities	1,221.1	1,553.4	717.3	656.7	4,148.5
Borrowings	31.2	62.4	62.4	620.7	776.7
Lease liabilities	6.2	5.8	21.2	54.9	88.1
Other payables	733.9	–	–	–	733.9

31 December 2019	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Net claims liabilities	957.9	1,288.8	625.3	519.5	3,391.5
Borrowings	31.2	62.4	62.4	651.9	807.9
Lease liabilities	10.7	3.3	6.9	16.5	37.4
Other payables	566.4	–	–	–	566.4

The group makes additional interest payments for borrowings. Further details are provided in notes 8 and 25. The next two tables summarise the carrying amount at reporting date of financial instruments analysed by maturity date.

Maturity 31 December 2020	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	1,620.5	1,899.3	562.5	422.8	445.5	469.1	–	5,419.7
Syndicate loans	–	–	–	8.2	32.4	–	–	40.6
Derivative financial instruments	28.5	–	–	–	–	–	–	28.5
Cash and cash equivalents	309.5	–	–	–	–	–	–	309.5
Insurance receivables	1,467.9	–	–	–	–	–	–	1,467.9
Other receivables	86.5	–	–	–	–	–	–	86.5
Other payables	(733.9)	–	–	–	–	–	–	(733.9)
Borrowings	–	–	–	–	–	(547.2)	–	(547.2)
Total	**2,779.0**	**1,899.3**	**562.5**	**431.0**	**477.9**	**(78.1)**	**–**	**6,071.6**

2 Risk management *continued*

31 December 2019	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	1,229.5	1,686.6	954.2	410.2	471.2	27.5	25.9	4,805.1
Syndicate loans	–	–	–	–	–	–	8.0	8.0
Derivative financial instruments	25.5	–	–	–	–	–	–	25.5
Cash and cash equivalents	278.5	–	–	–	–	–	–	278.5
Insurance receivables	1,048.0	–	–	–	–	–	–	1,048.0
Other receivables	72.0	–	–	–	–	–	–	72.0
Other payables	(566.4)	–	–	–	–	–	–	(566.4)
Borrowings	–	–	–	–	–	(546.8)	–	(546.8)
Total	**2,087.1**	**1,686.6**	**954.2**	**410.2**	**471.2**	**(519.3)**	**33.9**	**5,123.9**

Borrowings consist of two items. The first is $250m of subordinated tier 2 debt raised in November 2016. This debt is due in 2026 and has annual interest of 5.875% payable in May and November of each year. The second comprises $300m of subordinate tier 2 debt raised in September 2019. This debt is due in 2029 and has annual interest of 5.5% payable in March and September each year.

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

2.8 Group risk

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

a) Contagion

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

b) Reputation

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

2.9 Capital management

The group follows a risk-based approach to determine the amount of capital required to support its activities. Recognised stochastic modelling techniques are used to measure risk exposures, and capital to support business activities is allocated according to risk profile. Stress and scenario analysis is regularly performed and the results are documented and reconciled to the board's risk appetite where necessary.

The group has several requirements for capital, including:

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

Notes to the financial statements *continued*

2 Risk management *continued*

The group uses letters of credit (LOC) available under a syndicated short term banking facility led by Lloyds Banking Group plc to support Funds at Lloyd's (FAL) requirements. Lloyd's of London apply certain criteria to banks issuing LOCs as FAL, including minimum credit rating requirements and counterparty limits. Should any of the banks on the existing LOC facility breach Lloyd's of London requirements, the group might be asked to replace the LOC provided with alternative eligible issuer(s) and/or assets meeting Lloyd's requirements. The creditworthiness of the counterparties on the facility is monitored by the group on an ongoing basis.

For more detail on the value of capital managed, please see pages 51 to 52.

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

The board's strategy is to grow the dividend (excluding special dividend) by between 5% and 10% per year. Our capital management strategy is to carry some surplus capital to enable us to take advantage of growth opportunities which may arise. At 31 December 2020, we have surplus capital of 23% of ECR (on a Solvency II basis), within our current target range of 15% to 25% of ECR.

2.10 Company risk

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

3 Segmental analysis

a) Reporting segments

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

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

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

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

Market Facilities
This new segment underwrites entire portfolios of business with the aim of offering a low cost mechanism for placing follow business within the Lloyd's market.

Political, Accident & Contingency
This segment underwrites terrorism, political violence, expropriation and credit risks as well as contingency and risks associated with contract frustration. In addition, this segment underwrites life, health, personal accident, sports and income protection risks.

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

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

3 Segmental analysis *continued*

Specialty Lines

This segment underwrites a wide portfolio of business, including architects and engineers, healthcare, lawyers and environmental liability, Market Facilities business and international financial institutions.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Those items that are allocated on a reasonable basis are split based on each segments capital requirements which is taken from the group's most up to date Business plan. 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

2020	Cyber & Executive Risk $m	Marine $m	Market Facilities $m	Political, Accident & Contingency $m	Property $m	Reinsurance $m	Specialty Lines $m	Total $m
Gross premiums written	1,020.1	337.4	133.4	273.0	470.5	194.5	1,134.9	3,563.8
Net premiums written	864.6	309.4	37.3	227.1	389.9	126.9	961.8	2,917.0
Net earned premiums	787.2	297.1	27.9	213.8	360.7	124.3	882.4	2,693.4
Net investment income	53.6	12.8	0.5	10.6	21.4	11.9	77.3	188.1
Other income	2.8	1.7	0.1	4.1	5.1	1.7	14.3	29.8
Revenue	**843.6**	**311.6**	**28.5**	**228.5**	**387.2**	**137.9**	**974.0**	**2,911.3**
Net insurance claims	557.7	160.5	8.3	354.1	291.3	86.8	499.6	1,958.3
Expenses for the acquisition of insurance contracts	180.0	82.2	19.3	75.9	105.4	32.0	244.1	738.9
Administrative expenses	54.4	25.1	1.9	23.1	36.4	12.2	82.4	235.5
Foreign exchange (gain)	(3.3)	(1.2)	(0.1)	(0.9)	(1.5)	(0.5)	(3.7)	(11.2)
Expenses	**788.8**	**266.6**	**29.4**	**452.2**	**431.6**	**130.5**	**822.4**	**2,921.5**
Segment result	**54.8**	**45.0**	**(0.9)**	**(223.7)**	**(44.4)**	**7.4**	**151.6**	**(10.2)**
Finance costs								(40.2)
Loss before income tax								**(50.4)**
Income tax credit								4.3
Loss for the year attributable to equity shareholders								**(46.1)**
Claims ratio	71%	54%	30%	166%	81%	70%	57%	73%
Expense ratio	30%	36%	76%	46%	39%	35%	37%	36%
Combined ratio	101%	90%	106%	212%	120%	105%	94%	109%
Segment assets and liabilities								
Segment assets	2,909.9	707.4	182.5	786.3	1,216.7	734.1	4,050.8	10,587.7
Segment liabilities	(2,389.8)	(612.2)	(170.7)	(678.4)	(966.0)	(591.2)	(3,369.9)	(8,778.2)
Net assets	**520.1**	**95.2**	**11.8**	**107.9**	**250.7**	**142.9**	**680.9**	**1,809.5**
Additional information								
Capital expenditure	8.5	1.6	0.2	1.8	4.1	2.3	11.2	29.7
Amortisation and depreciation	(3.4)	(2.2)	(0.1)	(0.7)	(1.6)	(0.9)	(11.0)	(19.9)
Net cash flow	8.9	1.6	0.2	1.9	4.3	2.4	11.7	31.0

Notes to the financial statements *continued*

3 Segmental analysis *continued*

2019[1]	Cyber & Executive Risk $m	Marine $m	Market Facilities $m	Political, Accident & Contingency $m	Property $m	Reinsurance $m	Specialty Lines $m	Total $m
Gross premiums written	823.0	306.4	60.5	272.7	428.7	206.0	906.6	3,003.9
Net premiums written	712.2	222.1	22.3	245.8	365.6	123.0	812.5	2,503.5
Net earned premiums	644.5	222.2	15.1	237.4	361.8	123.0	743.0	2,347.0
Net investment income	76.8	21.8	0.9	13.0	28.7	17.0	105.5	263.7
Other income	6.2	1.3	–	1.7	5.1	1.2	10.3	25.8
Revenue	**727.5**	**245.3**	**16.0**	**252.1**	**395.6**	**141.2**	**858.8**	**2,636.5**
Net insurance claims	395.7	126.8	5.5	110.5	207.3	144.6	462.1	1,452.5
Expenses for the acquisition of insurance contracts	143.2	82.4	9.9	76.4	110.3	30.6	192.6	645.4
Administrative expenses	62.2	27.8	1.8	24.1	34.9	14.3	79.2	244.3
Foreign exchange loss	(0.2)	(0.1)	–	(0.1)	(0.2)	(0.1)	(0.4)	(1.1)
Expenses	**600.9**	**236.9**	**17.2**	**210.9**	**352.3**	**189.4**	**733.5**	**2,341.1**
Segment result	**126.6**	**8.4**	**(1.2)**	**41.2**	**43.3**	**(48.2)**	**125.3**	**295.4**
Finance costs								(27.7)
Profit before income tax								**267.7**
Income tax expense								(33.6)
Profit for the year attributable to equity shareholders								**234.1**
Claims ratio	61%	57%	36%	47%	57%	118%	62%	62%
Expense ratio	32%	50%	78%	42%	40%	36%	37%	38%
Combined ratio	93%	107%	114%	89%	97%	154%	99%	100%
Segment assets and liabilities								
Segment assets	2,481.2	633.3	68.1	479.0	976.5	767.5	3,468.1	8,873.7
Segment liabilities	(1,980.5)	(560.8)	(60.8)	(385.0)	(772.2)	(630.5)	(2,858.6)	(7,248.4)
Net assets	**500.7**	**72.5**	**7.3**	**94.0**	**204.3**	**137.0**	**609.5**	**1,625.3**
Additional information								
Capital expenditure	5.7	0.8	0.1	1.1	2.3	1.6	7.0	18.6
Amortisation and depreciation	(2.6)	(1.9)	–	(0.5)	(1.0)	(7.6)	(2.9)	(16.5)
Net cash flow	(17.8)	(2.6)	(0.3)	(3.3)	(7.3)	(4.9)	(21.2)	(57.4)

1 From 1 January 2020, the Market Facilities division has been split from Specialty Lines. The prior year comparative has been re-presented to allow comparison.

3 Segmental analysis *continued*

c) Information about geographical areas

The group's operating segments are also managed geographically by placement of risk. UK earned premium in the analysis below represents all risks placed at Lloyd's; US earned premium represents all risks placed at the group's US insurance company, Beazley Insurance Company, Inc; and Europe earned premium represents all risks placed at the group's European insurance company, Beazley Insurance dac. An analysis of gross premiums written split geographically by placement of risk and by reportable segment is provided in note 2 on page 151.

	2020 $m	2019 $m
Net earned premiums		
UK (Lloyd's)	2,214.6	1,974.3
US (Non-Lloyd's)	430.7	346.3
Europe (Non-Lloyd's)	48.1	26.4
	2,693.4	**2,347.0**

	2020 $m	2019 $m
Segment assets		
UK (Lloyd's)	9,433.1	8,046.5
US (Non-Lloyd's)	976.6	762.4
Europe (Non-Lloyd's)	178.0	64.8
	10,587.7	**8,873.7**

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

	2020 $m	2019 $m
Capital expenditure		
Non-US	23.2	13.7
US	6.5	4.9
	29.7	**18.6**

4 Net investment income

	2020 $m	2019 $m
Interest and dividends on financial investments at fair value through profit or loss	110.7	120.6
Interest on cash and cash equivalents	0.2	0.3
Net realised gains on financial investments at fair value through profit or loss	46.3	21.5
Net unrealised fair value gains on financial investments at fair value through profit or loss	36.7	130.1
Investment income from financial investments	**193.9**	**272.5**
Investment management expenses	(5.8)	(8.8)
	188.1	**263.7**

Notes to the financial statements continued

5 Other income

	2020 $m	2019 $m
Commissions received by Beazley service companies	23.6	21.2
Profit commissions from syndicates	(0.5)	1.0
Agency fees from syndicate 623	3.0	2.5
Other income	3.7	1.1
	29.8	**25.8**

Profit Commissions:
There is an agreement between syndicate 623 and Beazley Furlonge Limited (the managing agent) where the syndicate remunerates Beazley for writing business in parallel with syndicate 2623. As such, profitability of 623 is a performance criterion for this contract. The transaction price represents a fixed percentage on profit by YOA. No other variable considerations (for example: discounts, rebates, refunds, incentives) are attached. The value of a transaction price is derived at each reporting period from the actual profit syndicate 623 has made to date, therefore represents the most likely amount of consideration at the reporting date.

As at 31 December 2020 there is nil (31 December 2019: nil) accrued profit commission at risk of being reversed if there was to be an adverse impact on syndicate 623's profit. As at 31 December 2020 $0.5m of previously recognised profit commissions from business written by Beazley Canada Limited prior to acquisition by Beazley in 2017 was reversed due to adverse impacts on profit (2019: nil).

Commissions received from service companies:
Commission is payable to the group by syndicate 623 due to group service companies writing business on behalf of the syndicate. While the commercial purpose of the contract is to pass business to 623, the remuneration is triggered by incurring expenses, irrespective of volume of business gained. The performance criterion is deemed to be the realisation of expenses.

Other income:
As part of other income, the group has received $0.2m of government grants relating to COVID-19 for wage relief for our Singapore employees (31 December 2019: nil). These grants are deemed to be tax free in the hands of the employer. Under IAS 20: Government Grants, government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

6 Operating expenses

	2020 $m	2019 $m
Operating expenses include:		
Amounts receivable by the auditor[1] and associates in respect of:		
– audit services for the group and subsidiaries	2.4	1.2
– audit-related assurance services	1.0	0.7
– taxation compliance services	–	–
– other non-audit services	0.5	0.5
	3.9	2.4
Impairment loss recognised on reinsurance assets	1.1	1.5

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

7 Employee benefit expenses

	2020 $m	2019 $m
Wages and salaries	179.6	165.2
Short term incentive payments	39.1	56.2
Social security	17.5	17.0
Share based remuneration	3.0	4.9
Pension costs[1]	13.0	11.5
	252.2	254.8
Recharged to syndicate 623	(33.2)	(36.0)
	219.0	**218.8**

1 Pension costs also include contributions made under the defined contribution scheme. Further information on the defined benefit pension scheme can be found in note 27.

The average number of employees for 2020 was 1,497 (2019: 1,399).

8 Finance costs

	2020 $m	2019 $m
Interest expense on financial liabilities	37.8	25.8
Interest expense on lease liabilities	2.4	1.9
	40.2	**27.7**

9 Income tax expense

	2020 $m	2019 $m
Current tax expense		
Current tax expense	12.9	38.8
Prior year adjustments	(6.5)	(4.0)
	6.4	34.8
Deferred tax expense		
Origination and reversal of temporary differences	(12.1)	2.3
Impact of change in UK/US tax rates	(0.4)	(0.5)
Prior year adjustments	1.8	(3.0)
	(10.7)	(1.2)
Income tax (credit)/charge	**(4.3)**	**33.6**

Notes to the financial statements *continued*

9 Income tax expense *continued*

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 2% (2019: 15.0%), whereas the tax charged for the year 31 December 2020 as a percentage of loss before tax is 8.5% (2019: 12.6%). The reasons for the difference are explained below:

	2020 $m	2020 %	2019 $m	2019 %
(Loss)/profit before tax	**(50.4)**	**–**	**267.7**	**–**
Tax calculated at the weighted average of statutory tax rate	(1.0)	2.0	40.3	15.0
Effects of:				
– non-deductible expenses	2.1	(4.2)	1.5	0.6
– tax relief on share based payments – current and future years	(0.4)	0.8	(0.7)	(0.3)
– over provided in prior years	(4.6)	9.1	(7.0)	(2.6)
– change in UK/US tax rates[1]	(0.4)	0.8	(0.5)	(0.1)
Tax (credit)/charge for the period	**(4.3)**	**8.5**	**33.6**	**12.6**

1 A change to the main UK corporation tax rate, announced in the Budget on 11 March 2020, was substantively enacted on 17 March 2020. The rate applicable from 1 April 2020 now remains at 19 percent, rather than the previously enacted reduction to 17 percent. The 19 percent tax rate has been reflected in the calculation of the deferred tax balance as at 31 December 2020.

As noted on page 48, the group has assessed the potential impact of the diverted profits tax (DPT) following the enactment of new legislation in April 2015 and is of the view that no liability arises. Since 2015 the group has been exchanging correspondence with the UK's tax authority (HMRC) in relation to DPT applicability with respect to the intra-group transactions. These correspondence exchanges with HMRC have now reached a conclusion with no assessment to DPT being raised.

A new Tax Act (the Tax Cuts and Jobs Act) was signed into law in the US in December 2017. The Tax Act includes base erosion anti-avoidance tax provisions (the "BEAT"). We have performed an assessment for our intra-group transactions potentially in scope of BEAT. The application of this new BEAT legislation is still uncertain for some types of transaction and we are keeping developments under review. With support from external advisors, we believe that the BEAT impact on the group is not significant. For the year 2020 $1.1m was provided in the group accounts for BEAT liabilities (for 2019 the group paid BEAT tax of $3.2m). The ultimate outcome may differ and if any additional amounts did fall within the scope of the BEAT, incremental tax at 10% might arise on some or all of those amounts.

Amounts recognised directly in equity

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

	2020 $m	2019 $m
Current tax: share based payments	(1.2)	(2.6)
Deferred tax: share based payments	5.4	(1.0)
	4.2	**(3.6)**

10 (Loss)/earnings per share

	2020	2019
Basic (cents)	(8.0)c	44.6c
Diluted (cents)	(8.0)c	44.0c
Basic (pence)	(6.3)p	35.0p
Diluted (pence)	(6.3)p	34.5p

Basic

Basic (loss)/earnings per share are calculated by dividing loss after tax of $46.1m (2019: Profit $234.1m) by the weighted average number of shares in issue during the year of 573.8m (2019: 525.1m). The shares held in the Employee Share Options Plan (ESOP) of 3.8m (2019: 4.8m) have been excluded from the calculation, until such time as they vest unconditionally with the employees.

Diluted

Diluted (loss)/earnings per share are calculated by dividing loss after tax of $46.1m (2019: Profit $234.1m) by the adjusted weighted average number of shares of 582.6m (2019: 532.4m). The adjusted weighted average number of shares assumes conversion of dilutive potential ordinary shares, being shares from the equity settled compensation schemes. The shares held in the ESOP of 3.8m (2019: 4.8m) have been excluded from the calculation, until such time as they vest unconditionally with the employees. Further details of equity compensation plans can be found on note 23 as well as in the directors' remuneration report on pages 91 to 114.

11 Dividends per share

In light of the current uncertainty as to the economic impact of the COVID-19 pandemic, the directors do not propose a payment of a dividend in respect of the year ended 31 December 2020 (2019: 12.3p per ordinary share)

12 Intangible assets

	Goodwill $m	Syndicate capacity $m	Licences $m	IT development costs $m	Renewal rights $m	Total $m
Cost						
Balance at 1 January 2019	72.0	10.7	9.3	75.0	59.0	226.0
Other additions	–	–	–	12.3	–	12.3
Foreign exchange gain	–	–	–	0.5	1.0	1.5
Balance at 31 December 2019	**72.0**	**10.7**	**9.3**	**87.8**	**60.0**	**239.8**
Balance at 1 January 2020	72.0	10.7	9.3	87.8	60.0	239.8
Other additions	–	–	–	20.5	–	20.5
Foreign exchange gain	–	–	–	0.9	1.3	2.2
Balance at 31 December 2020	**72.0**	**10.7**	**9.3**	**109.2**	**61.3**	**262.5**
Amortisation and impairment						
Balance at 1 January 2019	(10.0)	–	–	(55.7)	(33.8)	(99.5)
Amortisation for the year	–	–	–	(5.6)	(8.5)	(14.1)
Foreign exchange loss	–	–	–	(3.6)	(0.4)	(4.0)
Balance at 31 December 2019	(10.0)	–	–	(64.9)	(42.7)	(117.6)
Balance at 1 January 2020	(10.0)	–	–	(64.9)	(42.7)	(117.6)
Amortisation for the year	–	–	–	(8.1)	(8.6)	(16.7)
Foreign exchange loss	–	–	–	(0.6)	(1.3)	(1.9)
Balance at 31 December 2020	**(10.0)**	**–**	**–**	**(73.6)**	**(52.6)**	**(136.2)**
Carrying amount						
31 December 2020	**62.0**	**10.7**	**9.3**	**35.6**	**8.7**	**126.3**
31 December 2019	62.0	10.7	9.3	22.9	17.3	122.2

Notes to the financial statements *continued*

12 Intangible assets *continued*

Impairment tests

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

2020	Cyber & Executive Risk $m	Marine $m	Market Facilities $m	Political, Accident & Contingency $m	Property $m	Reinsurance $m	Specialty Lines $m	Total $m
Goodwill	1.5	2.3	–	29.6	24.9	0.8	2.9*	62.0
Capacity	1.7	1.6	–	1.0	2.5	0.8	3.1	10.7
Licences	3.3	–	–	–	1.9	–	4.1	9.3
Total	**6.5**	**3.9**	**–**	**30.6**	**29.3**	**1.6**	**10.1**	**82.0**

2019[1]	Cyber & Executive Risk $m	Marine $m	Market Facilities $m	Political, Accident & Contingency $m	Property $m	Reinsurance $m	Specialty Lines $m	Total $m
Goodwill	1.5	2.3	–	29.6	24.9	0.8	2.9	62.0
Capacity	1.7	1.6	–	1.0	2.5	0.8	3.1	10.7
Licences	3.3	–	–	–	1.9	–	4.1	9.3
Total	**6.5**	**3.9**	**–**	**30.6**	**29.3**	**1.6**	**10.1**	**82.0**

1 From 1 January 2020, the Market Facilities division has been split from Speciality Lines. The prior year comparative has been represented to allow comparison.

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

A discount rate, based on weighted average cost of capital (WACC) of 7% (2019: 7%) has been applied to projected future cash flows. This has been calculated using independent measures of the risk-free rate of return and is indicative of the group's risk profile relative to the market. The impairment test for goodwill confirms that no impairment is required.

Significant changes in the economic and regulatory environment, such as COVID-19, US legislation and Brexit, could impact the amount of premium written and investment income for each CGU which could adversely impact the carrying value of each CGU.

The group has taken the following measures to ensure that the key assumptions used in deriving value in use for each CGU considers the potential adverse effects of these potential changes in economic and regulatory environments:

- **Premium growth rates/Retention rates** – The group has used a terminal growth rate of 0% to extrapolate projections beyond the covered five year period. This is to allow for a conservative approach to the effect of COVID-19 on the PAC business as well as any adverse effects of the UK leaving the European Union.
- **Claims experience** – the full exposure of COVID-19 related claims ($340m net of reinsurance) has been included in the future net cash flow calculations that derive the value in use for each CGU.
- **Future market conditions** – to test the segment's sensitivity to variances (including those caused by the factors listed above) from forecast profits, the discount rate has been flexed to 5% above and 5% below the central assumption. Within this range, the recovery of goodwill was stress tested and remains supportable across all CGUs. Headroom was calculated in respect of the value in use of all the group's other intangible assets.

*Speciality lines, when flexed to the upper range of 12% (7% + 5% flex) resulted in the segmental carrying value being greater than the value in use. After performing a sensitivity analysis we noted that speciality lines weighted average cost of capital can be flexed up to 11% (1% less than Beazley's current test) before the carrying value exceeds the value in use. Management will continue to monitor speciality lines for a potential impairment of $2.9m of goodwill which is allocated to the CGU.

12 Intangible assets *continued*

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

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

13 Plant and equipment

	Company	Group		
	Fixtures & fittings $m	Fixtures & fittings $m	Computer equipment $m	Total $m
Cost				
Balance at 1 January 2019	–	23.4	7.9	31.3
Additions	–	4.0	2.3	6.3
Foreign exchange loss	–	0.3	0.1	0.4
Balance at 31 December 2019	–	27.7	10.3	38.0
Balance at 1 January 2020	–	27.7	10.3	38.0
Additions	–	9.2	3.7	12.9
Foreign exchange gain	–	0.9	0.3	1.2
Balance at 31 December 2020	–	37.8	14.3	52.1
Accumulated depreciation				
Balance at 1 January 2019	–	(19.3)	(7.1)	(26.4)
Depreciation charge for the year	–	(1.6)	(0.8)	(2.4)
Foreign exchange loss	–	(0.2)	(0.1)	(0.3)
Balance at 31 December 2019	–	(21.1)	(8.0)	(29.1)
Balance at 1 January 2020	–	(21.1)	(8.0)	(29.1)
Depreciation charge for the year	–	(1.9)	(1.3)	(3.2)
Foreign exchange gain/(loss)	–	0.1	(0.2)	(0.1)
Balance at 31 December 2020	–	(22.9)	(9.5)	(32.4)
Carrying amounts				
31 December 2020	–	14.9	4.8	19.7
31 December 2019	–	6.6	2.3	8.9

Notes to the financial statements *continued*

14 Investment in associates

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

Group	2020 $m	2019 $m
As at 1 January	**0.1**	**–**
Investment in CyberAcuView LLC	0.3	–
Investment in Pegasus Underwriting Ltd	–	0.1
Share of profit after tax	(0.1)	–
As at 31 December	**0.3**	**0.1**

The group's investment in associates consists of:

	Country/region of incorporation	% interest held	Carrying value $m
2020			
Falcon Money Management Holdings Limited (and subsidiaries)	Malta[1]	25%	–
Pegasus Underwriting Limited	Hong Kong[2]	33%	–
CyberAcuView LLC	New York[3]	14%	0.3
			0.3

1 259 St Paul Street, Valletta, Malta.
2 Suite 126, 12/F Somptuex Central, 52-54 Wellington Street, Hong Kong.
3 106 W 32nd Street, New York.

The CyberAcuView LLC board is charged with governance over its affairs. The board is composed of individuals who are selected by the investors. As a result, the group has the ability to appoint a member to the board of CyberAcuView LLC to represent the group's interest. As a result, the group is deemed to have significant influence over CyberAcuView LLC and therefore this investment is recognised as an associate.

The aggregate financial information for all associates (100%) held at 31 December 2020 is as follows:

	2020 $m	2019 $m
Assets	6.5	4.0
Liabilities	4.5	3.7
Equity	2.0	0.3
Revenue	4.3	4.3
Profit after tax	0.2	–
Share of other comprehensive income	–	–
Share of total comprehensive income	**–**	**–**

All of the investments in associates are unlisted and are equity accounted using available financial information as at 31 December 2020. Falcon Money Management Holdings Limited is an investment management company which also acts in an intermediary capacity.

15 Deferred acquisition costs

	2020 $m	2019 $m
Balance at 1 January	350.7	307.4
Additions	773.1	688.7
Amortisation charge	(738.9)	(645.4)
Balance at 31 December	**384.9**	**350.7**

16 Financial assets and liabilities

	2020 $m	2019 $m
Financial assets at fair value		
Fixed and floating rate debt securities:		
– Government issued	2,723.7	1,870.9
Corporate bonds		
– Investment grade	2,444.9	2,698.4
– High yield	251.1	235.8
Syndicate loans	40.6	8.0
Total fixed and floating rate debt securities and syndicate loans	**5,460.3**	**4,813.1**
Equity funds	203.2	163.6
Hedge funds	442.1	354.0
Illiquid credit assets	227.9	216.6
Total capital growth assets	**873.2**	**734.2**
Total financial investments at fair value through statement of profit or loss	**6,333.5**	**5,547.3**
Derivative financial assets	28.5	25.5
Total financial assets at fair value	**6,362.0**	**5,572.8**

Notes to the financial statements *continued*

16 Financial assets and liabilities *continued*

Investment corporate bonds are rated BBB-/Baa3 or higher by at least one major rating agency, while high yield corporate bonds have lower credit ratings. Hedge funds are investment vehicles pursuing alternative investment strategies, structured to have minimal correlation to traditional asset classes. Equity funds are investment vehicles which invest in equity securities and provide diversified exposure to global equity markets. Illiquid credit assets are investment vehicles that predominantly target private lending opportunities, often with longer investment horizons. The fair value of these assets at 31 December 2020 excludes an unfunded commitment of $49.3m (2019: $74.3m).

The amounts expected to mature within and after one year are:

	2020 $m	2019 $m
Within one year	1,407.1	1,037.3
After one year	4,081.7	3,801.3
Total	**5,488.8**	**4,838.6**

Our capital growth assets have no defined maturity dates and have thus been excluded from the above maturity table. However, all $203.2m (2019: $163.6m) of equity funds could be liquidated within two weeks, $267.7m (2019: $272.8m) of hedge fund assets within six months and the remaining $174.4m (2019: $81.2m) of hedge fund assets within 18 months, in normal market conditions. Illiquid credit assets are not readily realisable and principal will be returned over the life of these assets, which may be up to 12 years.

As noted on page 144 consideration is also given when valuing the hedge funds and illiquid credit funds to the timing of the latest valuations, and the impact of any significant market stress events. The adjustment to the underlying net asset value of the funds as a result of these considerations was $nil at 31 December 2020 (2019: $nil).

Financial liabilities	2020 $m	2019 $m
Tier 2 subordinated debt (2026)	249.0	248.9
Tier 2 subordinated debt (2029)	298.1	297.9
Derivative financial liabilities	11.4	8.0
Total financial liabilities	**558.5**	**554.8**

The amounts expected to mature before and after one year are:		
Within one year	11.4	8.0
After one year	547.1	546.8
	558.5	**554.8**

A breakdown of the group's investment portfolio is provided on page 48.
A breakdown of derivative financial instruments is disclosed in note 17.

The tier 2 subordinated debt (2029) was issued in 2019. Tier 2 subordinated debt (2026) was issued in 2016. Please refer to note 25 for further details of our borrowings and associated repayment terms.

The group has given a fixed and floating charge over certain of its investments and other assets to secure obligations to Lloyd's in respect of its corporate member subsidiary. Further details are provided in note 32.

16 Financial assets and liabilities *continued*

Valuation hierarchy

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

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

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

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

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

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

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

Level 2 investments

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

The group records the unadjusted price provided and validates the price through various tolerance checks, such as comparison with prices provided by investment custodians and investment managers, to assess the reasonableness and accuracy of the price to be used to value each security. In the rare case that a price fails the tolerance test, it is escalated and discussed internally. We would not normally override a price retrospectively, but we would work with the administrator and pricing vendor to investigate the difference. This generally results in the vendor updating their inputs. We also review our valuation policy on a regular basis to ensure it is fit for purpose. For the year ended 31 December 2020, no adjustments have been made to the prices obtained from the independent sources.

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

Notes to the financial statements *continued*

16 Financial assets and liabilities *continued*

Additional information is obtained from fund managers relating to the underlying assets within individual hedge funds. We identified that 81% (31 December 2019: 83%) of these underlying assets were level 1 and the remainder level 2. This enables us to categorise our hedge fund as level 2. Prior to any new hedge fund investment, extensive due diligence is undertaken on each fund to ensure that pricing and valuation is undertaken by an independent administrator and that each fund's valuation policy is appropriate for the financial instruments the manager will be employing to execute the investment strategy. Fund liquidity terms are reviewed prior to the execution of any investment to ensure that there is no mismatch between the liquidity of the underlying fund assets and the liquidity terms offered to fund investors. As part of the monitoring process, underlying fund subscriptions and redemptions are assessed by reconciling the increase or decrease in fund assets with the investment performance in any given period.

Level 3 investments

The group's level 3 investments consist of illiquid credit assets and Lloyd's syndicate loans.

(i) Illiquid credit assets

Within the groups' level 3 investments we have a diversified portfolio of illiquid credit fund investments managed by third party managers (generally closed ended limited partnerships or open ended funds). While the funds provide full transparency on their underlying investments, the investments themselves are predominantly in private and unquoted instruments and are therefore classified as level 3 investments. Closed-ended funds that are still in their investment period continue to draw down capital, whilst funds that are in their harvest period distribute capital as the underlying investments are realized.

The valuation techniques used by the fund managers to establish the fair value of the underlying private/unquoted investments may incorporate discounted cash flow models or a more market based approach, whilst the main inputs might include discount rates, fundamental pricing multiples, recent transaction prices, or comparable market information to create a benchmark multiple. We take the following steps to ensure accurate valuation of these level 3 assets. A substantial part of the pre-investment due diligence process is dedicated to a comprehensive review of each fund's valuation policy and the internal controls of the manager. In addition to this, confirmation that the investment reaches a minimum set of standards relating to the independence of service providers, corporate governance, and transparency is sought prior to approval. Post investment, quarterly capital statements are reviewed to ensure consistency between audited and unaudited valuations and compare the updated values to the estimated figures used in previous valuations in order to highlight and explain any discrepancies. Particular emphasis is placed on identifying assets that have been either marked up or down, as well as whether any specific assets are at particular risk due to prevailing economic/market conditions. The review also involves regular conversations with the managers and industry sources, particularly in times of market stress. Audited financial statements are received and reviewed on an annual basis, with the valuation of each transaction being confirmed. For the group's annual and interim accounts, we use the latest fund valuation statements, which are typically as at the previous quarter or month end.

To ensure that values are materially correct at the reporting date, all fund managers are contacted to confirm whether there has been a material impairment to the fund valuations since the most recent valuation date. In the event that a manager confirms a material impairment since the latest valuation date, we would make a downwards revision to the value of our fund holding based on the manager's assessment. Furthermore, during major stress events in public financial markets (defined as >10% fall in leveraged loan market indices during a calendar quarter), such as the macroeconomic uncertainty caused by COVID-19 in Q1 2020, we would consider adjusting the valuations of all level 3 fund holdings to account for material impairment in the valuation between the latest valuation date and the reporting date. The magnitude and breadth of any broader portfolio impairment would be dependent on the specific situation.

(ii) Syndicate loans

These are loans provided by our group syndicates to the Central Fund at Lloyd's in respect of the 2019 and 2020 underwriting years. These instruments are not tradeable and are valued using discounted cash flow models, designed to appropriately reflect the credit and illiquidity risk of the instruments. The Syndicate loans have been classified as Level 3 investments because the valuation approach includes significant unobservable inputs and an element of subjectivity in determining appropriate credit and illiquidity spreads within the discount rates used in the discounted cash flow model. There is no market in which the instruments can be traded.

16 Financial assets and liabilities *continued*

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

2020	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets measured at fair value				
Fixed and floating rate debt securities				
– Government issued	2,637.8	85.9	–	2,723.7
– Corporate bonds				
– Investment grade	1,148.3	1,296.6	–	2,444.9
– High yield	103.0	148.1	–	251.1
Syndicate loans	–	–	40.6	40.6
Equity funds	203.2	–	–	203.2
Hedge funds	–	442.1	–	442.1
Illiquid credit assets	–	–	227.9	227.9
Derivative financial assets	28.5	–	–	28.5
Total financial assets measured at fair value	**4,120.8**	**1,972.7**	**268.5**	**6,362.0**
Financial liabilities measured at fair value				
Derivative financial liabilities	11.4	–	–	11.4
Financial liabilities not measured at fair value				
Tier 2 subordinated debt (2029)	–	320.5	–	320.5
Tier 2 subordinated debt (2026)	–	271.0	–	271.0
Total financial liabilities not measured at fair value	**11.4**	**591.5**	**–**	**602.9**

2019	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets measured at fair value				
Fixed and floating rate debt securities				
– Government issued	1,839.1	31.8	–	1870.9
– Corporate bonds				
– Investment grade	1,244.1	1,454.3	–	2,696.4
– High yield	–	235.8	–	235.8
Syndicate loans	–	8.0	–	8.0
Equity funds	–	163.6	–	163.6
Hedge funds	–	354.0	–	354.0
Illiquid credit assets	–	–	216.6	216.6
Derivative financial assets	25.5	–	–	25.5
Total financial assets measured at fair value	**3,108.7**	**2,247.5**	**216.6**	**5,572.8**
Financial liabilities measured at fair value				
Derivative financial liabilities	8.0	–	–	8.0
Financial liabilities not measured at fair value				
Tier 2 subordinated debt (2029)	–	318.6	–	318.6
Tier 2 subordinated debt (2026)	–	276.8	–	276.8
Total financial liabilities not measured at fair value	**8.0**	**595.4**	**–**	**603.4**

Notes to the financial statements *continued*

16 Financial assets and liabilities *continued*

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

Transfers

The group determines whether transfers have occurred between levels in the fair value hierarchy by assessing categorisation at the end of the reporting period.

The following transfers between levels 1 & 2 for the period ended 31 December 2020 reflect the level of trading activities including frequency and volume derived from market data obtained from an independent external valuation tool.

31 December 2020 vs 31 December 2019 transfer from level 2 to level 1	Level 1 $m	Level 2 $m
– Equity funds	25.0	(25.0)
– High yield	69.1	(69.1)
– Investment grade	190.0	(190.0)
– Government issued	4.1	(4.1)

31 December 2019 vs 31 December 2020 transfer from level 1 to level 2	Level 1 $m	Level 2 $m
– Investment grade	(414.6)	414.6
– Government issued	(40.5)	40.5

The following transfers between levels 2 & 3 for the period ended 31 December 2020 is a result of management's enhanced understanding of the syndicate loans instruments based on additional details provided by Lloyd's of London.

31 December 2019 vs 31 December 2020 transfer from level 2 to level 3	Level 2 $m	Level 3 $m
Syndicate loans	(8.2)	8.2

The values shown in the transfer tables above are translated at foreign exchange rate as at 31 December 2020.

Level 3 investment reconciliations

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

	2020 $m	2019 $m
As at 1 January	216.6	186.6
Purchases	94.4	68.9
Sales	(56.9)	(48.0)
Reclass from level 2	8.2	–
Total net gains recognised in profit or loss	6.2	9.1
As at 31 December	**268.5**	**216.6**

The $6.2m net gains recognised in the profit or loss on level 3 investments includes realised gains $8.1m (2019: $17.6m) and unrealised losses $1.9m (2019: $8.5m).

Unconsolidated structured entities

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

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

16 Financial assets and liabilities *continued*

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

	2020 $m	2019 $m
High yield bond funds	251.1	235.8
Equity funds	203.2	163.6
Hedge funds	442.1	354.0
Illiquid credit assets	227.9	216.6
Investments through unconsolidated structured entities	**1,124.3**	**970.0**

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

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

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

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

Currency exposures

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

2020	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Financial assets at fair value						
Fixed and floating rate debt securities	15.1	248.6	–	263.7	5,156.0	5,419.7
Syndicate loans	40.6	–	–	40.6	–	40.6
Equity funds	–	–	–	–	203.2	203.2
Hedge funds	–	–	–	–	442.1	442.1
Illiquid credit assets	3.2	–	34.6	37.8	190.1	227.9
Derivative financial assets	–	–	–	–	28.5	28.5
Total	**58.9**	**248.6**	**34.6**	**342.1**	**6,019.9**	**6,362.0**

2019	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Financial assets at fair value						
Fixed and floating rate debt securities	13.7	198.8	–	212.5	4,592.6	4,805.1
Syndicate loans	8.0	–	–	8.0	–	8.0
Equity funds	–	–	28.1	28.1	135.5	163.6
Hedge funds	–	–	–	–	354.0	354.0
Illiquid credit assets	4.8	–	25.9	30.7	185.9	216.6
Derivative financial assets	–	–	–	–	25.5	25.5
Total	**26.5**	**198.8**	**54.0**	**279.3**	**5,293.5**	**5,572.8**

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

Notes to the financial statements continued

17 Derivative financial instruments

In 2020 and 2019 the group entered into over-the-counter and exchange traded derivative contracts. The group had the right and the intention to settle each contract on a net basis.

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

	2020		2019	
Derivative financial instrument assets	Gross contract amount $m	Market value of derivative position $m	Gross contract amount $m	Market value of derivative position $m
Foreign exchange forward contracts	623.7	28.5	427.3	25.3
Bond futures contract	–	–	222.8	0.2
	623.7	**28.5**	**650.1**	**25.5**

	2020		2019	
Derivative financial instrument liabilities	Gross contract amount $m	Market value of derivative position $m	Gross contract amount $m	Market value of derivative position $m
Foreign exchange forward contracts	287.0	11.0	323.2	8.0
Bond futures contract	288.8	0.4	–	–
	575.8	**11.4**	**323.2**	**8.0**

Foreign exchange forward contracts

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

Bond futures positions

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

18 Insurance receivables

	2020 $m	2019 $m
Insurance receivables	1,467.9	1,048.0
	1,467.9	**1,048.0**

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

The timing and level of impact of business failures as a result of COVID-19 remains uncertain. Current and expected collection of insurance receivables since the start of the COVID-19 pandemic have been modelled on a region-specific basis, taking into account macroeconomic factors, such as revised GDP outlooks, government support available, and other regional specific microeconomic factors. Compared to historical receivable collection rates, management have recognised a $1.8m provision against insurance receivables. This provision is in light of an increase in balances over 90 days as a proportion of total insurance receivables over the past year.

Insurance receivables in respect of coverholder business are credit controlled by third-party managers. We monitor third-party coverholders' performance and their financial processes through the group's coverholder management team. These assets are individually impaired after considering information such as the occurrence of significant changes in the counterparties' financial position, patterns of historical payment information and disputes with counterparties.

19 Reinsurance assets

	2020 $m	2019 $m
Reinsurers' share of claims	1,320.4	1,082.5
Impairment provision	(14.8)	(13.7)
	1,305.6	1,068.8
Reinsurers' share of unearned premium reserve	379.1	269.4
	1,684.7	**1,338.2**

The total impairment provision in the statement of financial position in respect of reinsurance assets past due by more than 30 days at 31 December was $3.0m (2019: $3.1m). This $3.0m provision in respect of overdue reinsurance recoverables is included within the total provision of $14.8m.

The group have assessed whether a specific provision for COVID-19 should be required for reinsurance recoverables, equivalent to the provision recognised in insurance receivables in note 18. The group have determined a provision is not required. This is largely due to the fact that the groups Security Committee have a requirement that the minimum credit rating of any reinsurer is at least an A for short tail business and at least AA or A+ for longer tail business, as well as that the group not being aware of any specific examples of reinsurers defaulting. The group believes that the unimpaired amounts that are past due more than 30 days are still collectable in full, based on historic payment behaviour and analyses of credit risk.

Further analysis of the reinsurance assets is provided in note 24.

20 Cash and cash equivalents

Group	2020 $m	2019 $m
Cash at bank and in hand	309.5	276.9
Short term deposits and highly liquid investments	–	1.6
	309.5	**278.5**

Company	2020 $m	2019 $m
Cash at bank and in hand	0.9	–
	0.9	**–**

21 Share capital

	2020		2019	
	No. of shares (m)	$m	No. of shares (m)	$m
Ordinary shares of 5p each				
Issued and fully paid	608.9	38.1	529.7	38.0
Balance at 1 January	**529.7**	**38.1**	**527.8**	**38.0**
Issue of shares	79.1	4.8	1.9	0.1
Balance at 31 December	**608.8**	**42.9**	**529.7**	**38.1**

On 19 May 2020, the group successfully completed the placing of new ordinary shares in the capital of the company. A total of 78,501,420 new ordinary shares of five pence each in the capital of the group were placed at a price of 315 pence per Placing Share. A total of 13,085 Subscription Shares were subscribed through the Subscription. The placing raised total net proceeds of $292.6m.

The Placing Price of 315 pence represented a discount of 4.95 per cent to the closing share price of 331.4 pence on 18 May 2020. The Placing Shares and the Subscription Shares being issued together represented approximately 15 per cent of the existing issued ordinary share capital of Beazley prior to the Placing and Subscription.

This equity was raised through a cash box structure. Pre-emptive rights were not considered with the placing, however prior to issuance, senior management consulted with approximately 85% of existing shareholders (calculated by voting rights) who were given the option to participate. The shares issued are classified as ordinary shares and carry the same voting rights as previously issued ordinary shares. The group considered it an appropriate time to raise equity in order to position the business for future growth opportunities. It also provides further strength to the balance sheet in light of the continued uncertainty from COVID-19.

Notes to the financial statements *continued*

22 Other reserves

	Employee share options reserve $m	Employee share trust reserve $m	Total $m
Group			
Balance at 1 January 2019	**46.7**	**(30.2)**	**16.5**
Share based payments	4.7	–	4.7
Acquisition of own shares held in trust	–	(13.8)	(13.8)
Tax on share option vestings	1.0	–	1.0
Transfer of shares to employees	(16.8)	12.0	(4.8)
Balance at 31 December 2019	**35.6**	**(32.0)**	**3.6**
Share based payments	2.8	–	2.8
Acquisition of own shares held in trust	–	(13.6)	(13.6)
Tax on share option vestings	(5.4)	–	(5.4)
Transfer of shares to employees	(17.0)	20.2	3.2
Balance at 31 December 2020	**16.0**	**(25.4)**	**(9.4)**

	Employee share options reserve $m	Employee share trust reserve $m	Total $m
Company			
Balance at 1 January 2019	**13.1**	**(8.5)**	**4.6**
Share based payments	4.7	–	4.7
Acquisition of own shares held in trust	–	(13.8)	(13.8)
Transfer of shares to employees	(16.8)	12.0	(4.8)
Balance at 31 December 2019	**1.0**	**(10.3)**	**(9.3)**
Share based payments	2.8	–	2.8
Acquisition of own shares held in trust	–	(13.6)	(13.6)
Transfer of shares to employees	(17.0)	20.2	3.2
Balance at 31 December 2020	**(13.2)**	**(3.7)**	**(16.9)**

The merger reserve is shown within the statement of changes in equity as a separate category and as such has been excluded from the other reserves note.

The employee share options reserve is held in accordance with IFRS 2: Share-based payment. For more information refer to note 23.2.

More information on the employee share trust reserve is included in note 23.

23 Equity compensation plans

23.1 Employee share trust

	2020		2019	
	Number (m)	$m	Number (m)	$m
Movements in employee share trust reserve				
Balance at 1 January	4.8	32.0	4.7	30.2
Additions	2.0	13.6	2.0	13.8
Transfer of shares to employees	(3.1)	(20.2)	(1.9)	(12.0)
Balance at 31 December	**3.7**	**25.4**	**4.8**	**32.0**

The shares are owned by the employee share trust to satisfy awards under the group's deferred share plan, retention plan, one-off share incentive plan and long term incentive plan (LTIP). These shares are purchased on the market and carried at cost.

On the third anniversary of an award the shares under the deferred share plan are transferred from the trust to the employee. Under the retention plan, on the third anniversary, and each year after that up to the sixth anniversary, 25.0% of the shares awarded are transferred to the employee.

The deferred share plan is recognised in the statement of profit or loss on a straight-line basis over a period of three years, while the retention share plan is recognised in the statement of profit or loss on a straight-line basis over a period of six years.

23.2 Employee share option plans

The group has a long term incentive plan (LTIP), one-off share incentive plan, deferred share plan, retention plan and save-as-you-earn (SAYE) plan that entitle employees to purchase shares in the group.

The terms and conditions of the grants are as follows:

Share option plan	Grant date	No. of options (m)	Vesting conditions	Contractual life of options
LTIP	11/02/2020	1.5	Five years' service + NAV + minimum shareholding requirement	10 years
	12/02/2019	1.6		
	13/02/2018	1.3		
	17/02/2017	1.6		
	09/02/2016	1.8		
LTIP	11/02/2020	1.6	Three years' service + NAV + minimum shareholding requirement	10 years
	11/02/2019	1.5		
	13/02/2018	1.3		
SAYE (UK)	30/03/2020	0.4	Three years' service	n/a
	01/04/2019	0.4		
	04/04/2018	0.5		
SAYE (US)	01/06/2020	0.3	Two years' service	n/a
	30/06/2019	0.1		
SAYE (Others)	04/04/2018	0.2	Three years' service	n/a
Total share options outstanding		**14.1**		

Vesting conditions

In summary the vesting conditions are defined as:

- two years' service – an employee has to remain in employment until the second anniversary from the grant date;
- three years' service – an employee has to remain in employment until the third anniversary from the grant date; and
- NAV – the NAV growth, after adjusting for the effect of dividends, is greater than the risk-free rate of return plus a premium per year.

Notes to the financial statements *continued*

23 Equity compensation plans *continued*

Further details of equity compensation plans can be found in the directors' remuneration report on pages 94 to 114. The total gain on directors' exercises of share-option plans during the period was £0.5m (2019: £2.7m).

The number and weighted average exercise prices of share options are as follows:

	2020		2019	
	Weighted average exercise price (pence per share)	No. of options (m)	Weighted average exercise price (pence per share)	No. of options (m)
Outstanding at 1 January	**50.7**	**14.6**	**44.7**	**16.5**
Forfeited during the year	60.2	(3.1)	18.9	(3.7)
Exercised during the year	84.7	(2.0)	90.5	(2.1)
Granted during the year	84.4	4.1	68.0	3.9
Outstanding at 31 December	**63.5**	**13.6**	**50.7**	**14.6**
Exercisable at 31 December	–	–	–	–

The share option programmes allow group employees to acquire shares of the company. The fair value of options granted is recognised as an employee expense with a corresponding increase in the employee share options reserve. The fair value of the options granted is measured at grant date and spread over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The following is a summary of the assumptions used to calculate the fair value:

	2020 $m	2019 $m
Share options charge to employee share options reserve	**2.8**	**4.9**
Weighted average share price (pence per option)	502.1	445.0
Weighted average exercise price (pence per option)	63.5	50.7
Average expected life of options	4.2 yrs	4.4 yrs
Expected volatility	23.0%	22.8%
Expected dividend yield	1.4%	1.2%
Average risk-free interest rate	0.8%	0.8%

The expected volatility is based on historic volatility over a period of at least two years.

24 Insurance liabilities and reinsurance assets

	2020 $m	2019 $m
Gross		
Claims reported and loss adjustment expenses	1,507.3	1,263.7
Unexpired risk reserve	91.5	–
Claims incurred but not reported	3,855.3	3,196.6
Gross claims liabilities	5,454.1	4,460.3
Unearned premiums	1,924.3	1,598.7
Total insurance liabilities, gross	**7,378.4**	**6,059.0**
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	262.2	223.7
Unexpired risk reserve	9.0	–
Claims incurred but not reported	1,034.4	845.1
Reinsurers' share of claims liabilities	1,305.6	1,068.8
Unearned premiums	379.1	269.4
Total reinsurers' share of insurance liabilities	**1,684.7**	**1,338.2**

	2020 $m	2019 $m
Net		
Claims reported and loss adjustment expenses	1,245.1	1,040.0
Unexpired risk reserve	82.5	–
Claims incurred but not reported	2,820.9	2,351.5
Net claims liabilities	4,148.5	3,391.5
Unearned premiums	1,545.2	1,329.3
Total insurance liabilities, net	**5,693.7**	**4,720.8**

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.

24.1 Movements in insurance liabilities and reinsurance assets

a) Claims and loss adjustment expenses

	2020			2019		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
Claims reported and loss adjustment expenses	1,263.7	(223.7)	1,040.0	1,171.2	(231.9)	939.3
Claims incurred but not reported	3,196.6	(845.1)	2,351.5	2,869.5	(719.8)	2,149.7
Balance at 1 January	**4,460.3**	**(1,068.8)**	**3,391.5**	**4,040.7**	**(951.7)**	**3,089.0**
Claims paid	(1,671.1)	404.7	(1,266.4)	(1,439.5)	280.1	(1,159.4)
Increase in claims						
– Arising from current year claims	2,698.2	(646.8)	2,051.4	1,860.6	(398.6)	1,462.0
– Arising from prior year claims	(109.8)	16.7	(93.1)	(18.2)	8.7	(9.5)
Net exchange differences	76.5	(11.4)	65.1	16.7	(7.3)	9.4
Balance at 31 December	**5,454.1**	**(1,305.6)**	**4,148.5**	**4,460.3**	**(1,068.8)**	**3,391.5**
Claims reported and loss adjustment expenses	1,507.3	(262.2)	1,245.1	1,263.7	(223.7)	1,040.0
Unexpired risk reserve	91.5	(9.0)	82.5	–	–	–
Claims incurred but not reported	3,855.3	(1,034.4)	2,820.9	3,196.6	(845.1)	2,351.5
Balance at 31 December	**5,454.1**	**(1,305.6)**	**4,148.5**	**4,460.3**	**(1,068.8)**	**3,391.5**

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

b) Unearned premiums reserve

	2020			2019		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
Balance at 1 January	1,598.7	(269.4)	1,329.3	1,415.5	(241.1)	1,174.4
Increase in the year	3,563.8	(655.7)	2,908.1	3,003.9	(508.0)	2,495.9
Release in the year	(3,238.2)	546.0	(2,692.2)	(2,820.7)	479.7	(2,341.0)
Balance at 31 December	**1,924.3**	**(379.1)**	**1,545.2**	**1,598.7**	**(269.4)**	**1,329.3**

24.2 Assumptions, changes in assumptions and claims reserve strength analysis

a) Process used to decide on assumptions

The peer review reserving process

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

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

A formal internal peer review process is then undertaken to determine the reserves held for accounting purposes which, in totality, are not lower than the actuarially established figure.

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

Actuarial assumptions

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

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

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

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

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

24 Insurance liabilities and reinsurance assets *continued*

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. first-party COVID-19 losses, the events of 11 September 2001, the hurricanes in 2004, 2005, 2008, 2012, 2017, 2018 and 2019, the typhoons in 2018 and 2019, or the earthquakes in 2010, 2011 and 2017), the development is usually very different from the attritional losses. In these situations, the large loss total is extracted from the remainder of the data and analysed separately by the respective claims managers using exposure analysis of the policies in force in the areas affected.

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

b) Major assumptions

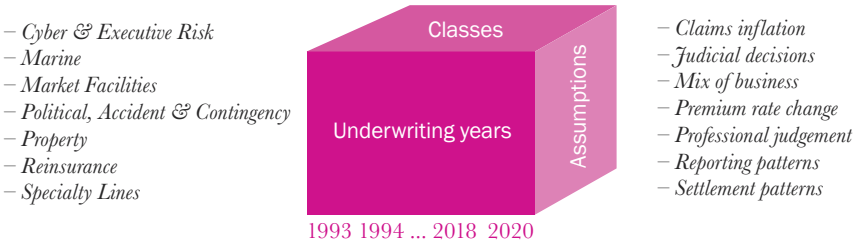
The main assumption underlying these techniques is that the group's past claims development experience (with appropriate adjustments for known changes) can be used to project future claims development and hence ultimate claims costs. As such these methods extrapolate the development of premiums, paid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

Another assumption used within insurance liabilities is the estimation of an unexpired risk reserve (URR) for the expected value of net claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date which exceeds the unearned premium reserve. The provision has been determined by reviewing various policies/events which are expected to trigger a COVID-19 related claims loss in the first half of 2021. This estimate is based on the assumption that various government restrictions are predicted to ease from July 2021.

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

c) Changes in assumptions

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



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

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

d) Claims reserve strength analysis

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

As such, our reserving assumptions contain a reasonable margin for prudence given the uncertainties inherent in the insurance business underwritten, particularly on the longer tailed Specialty Lines and executive risk classes.

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

To illustrate the robustness of our reserves, the loss development tables below provide information about historical claims development by the seven segments – Cyber & Executive Risk, Marine, Market Facilities, Political, Accident & Contingency, Property, Reinsurance and Specialty Lines. The tables are by underwriting year which in our view provides the most transparent reserving basis. We have supplied tables for both ultimate gross claims and ultimate net claims.

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.

For the assessment of first-party COVID-19 losses, underlying policies' exposure to event cancellation and business interruption losses resulting from the pandemic were considered. Expected losses were then assumed by considering the individual contract wordings for each policy. A key uncertainty is the future event cancellation exposure in 2021 within the contingency book. Event cancellation losses are assumed to occur during the first half of 2021 in line with that experienced during 2020, with an assumption of a return to some form of normality in the second half of 2021. Were this not to be the case, we estimate that there is potential for a further $50m of claims net of reinsurance to the end of 2021.

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 2020 is adequate. However, due to inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

24 Insurance liabilities and reinsurance assets *continued*

Gross ultimate claims	2010 ae %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %	2020 %
Cyber & Executive Risk											
12 months		75.1	71.6	71.0	66.0	64.3	61.9	59.5	61.1	61.8	73.5
24 months		74.2	71.8	71.3	66.2	64.4	61.9	61.5	62.3	72.0	
36 months		78.8	69.1	71.1	63.6	59.0	58.5	56.8	61.4		
48 months		76.2	65.5	69.0	65.0	54.0	58.2	56.5			
60 months		76.7	63.7	66.3	69.7	55.9	59.4				
72 months		68.8	61.4	62.8	68.3	57.4					
84 months		72.0	60.8	62.9	69.0						
96 months		74.4	59.6	63.4							
108 months		76.4	59.8								
120 months		75.9									
Marine											
12 months		54.8	56.0	56.9	57.8	56.7	59.5	68.0	61.9	60.2	57.7
24 months		47.5	46.3	52.2	47.0	53.9	70.2	62.3	68.2	56.8	
36 months		39.2	34.6	44.7	47.2	47.3	65.4	61.6	66.3		
48 months		33.8	32.0	43.0	46.8	45.3	63.8	57.9			
60 months		35.5	31.3	42.4	55.9	43.2	62.4				
72 months		31.9	30.5	41.8	53.9	42.6					
84 months		31.0	29.8	40.6	52.7						
96 months		29.5	29.6	39.6							
108 months		29.4	29.7								
120 months		29.4									
Market Facilities											
12 months		–	–	–	–	–	–	–	66.3	73.0	76.7
24 months		–	–	–	–	–	–	–	66.2	72.9	
36 months		–	–	–	–	–	–	–	55.1		
48 months		–	–	–	–	–	–	–			
60 months		–	–	–	–	–	–				
72 months		–	–	–	–	–					
84 months		–	–	–	–						
96 months		–	–	–							
108 months		–	–								
120 months		–									
Political, Accident & Contingency											
12 months		57.5	60.0	59.5	59.5	60.3	61.7	57.9	59.3	56.9	111.0
24 months		45.0	55.9	51.0	52.2	59.6	55.5	49.8	55.2	143.2	
36 months		45.6	53.0	46.6	48.3	58.0	50.7	46.4	92.1		
48 months		41.0	50.6	45.7	51.3	58.8	49.3	49.7			
60 months		39.3	47.4	47.5	52.5	55.2	47.7				
72 months		37.2	46.6	47.3	53.5	54.2					
84 months		36.8	45.7	47.2	54.5						
96 months		36.9	45.8	46.7							
108 months		36.9	45.6								
120 months		36.7									
Property											
12 months		59.0	52.9	54.9	53.2	55.0	59.0	72.3	63.4	53.2	67.9
24 months		49.5	47.4	48.9	47.7	49.1	68.4	88.5	63.5	63.3	
36 months		48.7	39.6	45.6	41.4	46.0	71.3	91.2	65.4		
48 months		46.9	36.5	45.6	40.6	44.8	71.8	91.3			
60 months		46.0	35.9	45.5	39.7	43.7	71.8				
72 months		44.8	35.3	47.2	40.2	46.0					
84 months		44.3	35.2	46.6	39.7						
96 months		44.0	36.6	47.0							
108 months		44.0	37.6								
120 months		44.2									

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

Gross ultimate claims	2010 ae %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %	2020 %	
Reinsurance												
12 months		78.3	62.8	60.0	61.4	65.9	68.0	121.3	98.5	100.9	79.4	
24 months		77.4	37.0	46.1	33.4	33.6	41.6	116.6	124.4	69.3		
36 months		70.0	31.5	43.5	30.8	25.6	40.4	128.3	122.9			
48 months		66.2	30.4	42.1	27.7	25.4	41.2	131.0				
60 months		63.4	30.6	39.2	27.5	25.3	40.5					
72 months		63.2	30.4	38.9	27.0	25.0						
84 months		58.3	30.4	38.0	27.0							
96 months		58.4	30.1	37.9								
108 months		58.9	30.0									
120 months		58.8										
Specialty Lines												
12 months		75.2	74.9	74.6	69.8	69.3	67.6	65.9	68.5	66.9	68.3	
24 months		76.0	75.0	74.2	69.5	69.9	67.5	66.1	69.0	68.6		
36 months		74.5	73.7	73.9	65.8	68.3	65.4	65.9	65.9			
48 months		73.9	74.0	69.4	61.7	67.4	64.1	62.1				
60 months		71.5	70.3	64.2	58.1	69.3	60.8					
72 months		68.4	69.2	62.1	55.7	78.1						
84 months		64.6	68.8	61.5	54.0							
96 months		62.7	71.1	60.1								
108 months		60.9	72.4									
120 months		60.7										
Total												
12 months		67.2	64.6	63.9	62.1	62.5	63.3	70.0	66.7	64.6	72.7	
24 months		63.0	58.3	59.4	55.8	58.4	62.8	71.0	69.5	73.9		
36 months		60.6	53.3	56.7	52.6	54.4	60.7	70.9	71.2			
48 months		57.9	51.4	54.7	51.7	52.6	60.1	69.7				
60 months		57.0	49.5	52.7	53.2	52.7	59.1					
72 months		53.8	48.4	51.7	52.2	55.5						
84 months		52.5	48.0	51.1	51.8							
96 months		52.0	48.6	50.8								
108 months		51.9	49.1									
120 months		51.7										
Estimated total ultimate losses ($m)	7,108.3	851.2	869.1	933.6	996.9	1,125.3	1,275.2	1,711.8	1,917.2	2,276.0	2,443.9	21,508.5
Less paid claims ($m)	(6,962.0)	(776.3)	(779.8)	(818.4)	(910.4)	(879.4)	(960.9)	(1,116.4)	(933.9)	(530.2)	(157.8)	(14,825.5)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	(38.6)	(227.7)	(962.6)	(1,228.9)
Gross claims liabilities ($m)	**146.3**	**74.9**	**89.3**	**115.2**	**86.5**	**245.9**	**314.3**	**595.4**	**944.7**	**1,518.1**	**1,323.5**	**5,454.1**

24 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2010ae %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %	2020 %
Cyber & Executive Risk											
12 months		72.0	68.2	66.5	63.2	60.4	59.2	57.9	58.2	59.9	72.3
24 months		71.5	68.5	66.8	63.8	60.4	59.2	59.0	60.5	68.1	
36 months		72.9	65.6	65.1	62.3	56.0	56.1	55.5	62.4		
48 months		70.1	60.2	62.2	61.3	50.3	56.3	55.8			
60 months		69.2	60.3	59.5	65.9	51.5	55.1				
72 months		66.1	57.6	56.8	64.9	49.7					
84 months		68.2	57.1	56.3	65.5						
96 months		69.9	56.0	56.3							
108 months		72.2	56.4								
120 months		71.2									
Marine											
12 months		55.4	55.2	56.4	56.6	56.6	56.6	57.4	59.3	56.6	54.2
24 months		47.5	45.7	53.2	48.7	52.3	62.4	61.2	67.7	55.1	
36 months		38.5	36.9	47.6	46.6	47.0	61.4	61.6	68.7		
48 months		34.2	34.5	46.1	45.8	46.5	61.8	59.4			
60 months		35.3	33.4	45.5	47.1	45.2	60.5				
72 months		32.1	32.7	44.9	45.3	44.7					
84 months		31.1	32.4	42.8	44.6						
96 months		29.9	32.2	42.6							
108 months		29.9	32.3								
120 months		29.9									
Market Facilities											
12 months		–	–	–	–	–	–	–	36.5	24.7	28.3
24 months		–	–	–	–	–	–	–	36.5	24.3	
36 months		–	–	–	–	–	–	–	30.4		
48 months		–	–	–	–	–	–	–			
60 months		–	–	–	–	–	–				
72 months		–	–	–	–	–					
84 months		–	–	–	–						
96 months		–	–	–							
108 months		–	–								
120 months		–									
Political, Accident & Contingency											
12 months		55.0	58.7	59.0	57.3	57.8	60.5	57.0	58.5	56.1	90.8
24 months		45.7	53.6	52.4	50.7	56.6	54.4	49.3	54.4	111.5	
36 months		47.1	51.4	49.1	46.2	55.8	50.9	45.8	81.9		
48 months		44.0	47.9	46.6	50.6	55.1	48.6	46.4			
60 months		42.0	44.9	46.8	50.9	52.5	47.4				
72 months		40.0	43.9	47.0	51.8	51.8					
84 months		39.5	43.4	47.1	52.3						
96 months		39.6	43.8	47.0							
108 months		39.7	43.7								
120 months		39.4									
Property											
12 months		60.0	56.6	56.2	54.6	55.1	57.6	76.0	64.4	56.4	67.8
24 months		56.0	53.0	56.1	51.5	50.6	69.5	93.5	66.9	66.2	
36 months		54.4	46.4	52.2	44.8	47.3	71.3	95.5	68.1		
48 months		51.1	41.5	50.4	43.4	45.1	70.8	93.4			
60 months		49.7	40.9	50.3	42.4	44.9	69.9				
72 months		48.5	40.4	51.9	43.5	46.5					
84 months		48.2	40.1	52.1	43.0						
96 months		48.0	41.7	52.4							
108 months		48.0	42.5								
120 months		48.3									

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2010ae %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %	2020 %	
Reinsurance												
12 months		88.5	66.6	57.8	58.7	61.8	61.5	103.9	86.8	87.0	85.7	
24 months		89.2	44.4	53.0	37.9	34.7	39.2	93.0	100.2	70.3		
36 months		80.3	38.0	49.0	34.1	24.9	38.8	103.9	98.1			
48 months		74.6	36.3	47.7	31.4	24.5	40.4	107.2				
60 months		72.0	36.5	44.1	31.2	24.7	41.4					
72 months		72.3	36.2	43.8	30.8	25.0						
84 months		67.0	36.2	42.9	30.7							
96 months		67.0	35.8	42.8								
108 months		67.7	35.8									
120 months		67.7										
Specialty Lines												
12 months		72.0	71.3	70.4	67.0	65.0	65.0	63.8	66.0	64.7	65.4	
24 months		72.4	71.4	70.0	66.6	65.8	65.0	63.7	67.1	65.0		
36 months		70.9	70.1	70.0	64.1	63.2	61.2	63.4	64.1			
48 months		68.8	68.5	64.1	59.1	58.5	57.0	58.2				
60 months		69.6	66.0	59.2	55.8	58.8	52.1					
72 months		69.4	66.1	57.7	54.5	62.7						
84 months		66.8	66.1	57.6	52.8							
96 months		65.6	67.2	56.4								
108 months		64.3	68.0									
120 months		63.5										
Total												
12 months		66.5	63.8	62.1	60.4	59.8	60.6	65.7	63.4	61.6	68.6	
24 months		63.7	58.3	60.2	56.1	56.6	60.9	67.6	66.1	69.0		
36 months		60.3	53.8	57.4	52.8	52.7	58.8	67.5	68.1			
48 months		57.2	50.7	54.5	51.2	49.7	57.5	65.5				
60 months		56.7	49.4	52.3	51.4	49.6	55.5					
72 months		55.2	48.7	51.6	50.9	50.4						
84 months		53.9	48.4	51.1	50.4							
96 months		53.5	48.8	50.8								
108 months		53.5	49.2									
120 months		53.2										
Estimated total ultimate losses ($m)	5,127.5	723.7	723.4	798.4	836.5	868.9	1,015.2	1,362.6	1,547.4	1,793.0	1,886.5	16,683.1
Less paid claims ($m)	(4,987.0)	(669.8)	(658.9)	(709.1)	(766.2)	(715.0)	(806.3)	(892.6)	(750.2)	(403.7)	(90.3)	(11,449.1)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	(28.0)	(215.4)	(842.1)	(1,085.5)
Net claims liabilities ($m)	**140.5**	**53.9**	**64.5**	**89.3**	**70.3**	**153.9**	**208.9**	**470.0**	**769.2**	**1,173.9**	**954.1**	**4,148.5**

24 Insurance liabilities and reinsurance assets *continued*

Analysis of movements in loss development tables

We have updated our loss development tables to show the ultimate loss ratios as at 31 December 2020 for each underwriting year. The impact of amounts reported in respect of the unexpired risk reserve are embedded within the loss ratios presented.

Cyber & Executive Risk

The 2019 and 2020 underwriting years have strengthened in response to cyber ransomware activity. However, these years are now recovering under aggregate excess of loss reinsurance programmes, so the impact is reduced net of reinsurance.

Marine

Releases continue on mature underwriting years as the risks expire. The 2018 underwriting year saw an overall strengthening net of reinsurance driven by the marine hull account.

Market Facilities

The loss development tables are presented gross of acquisition costs. Due to the Market Facilities division being significantly reinsured and this reinsurance being ceded net of acquisition costs, the net of reinsurance loss development values are much lower than the gross of reinsurance. The release on the 2018 underwriting year arises as risk expires.

Political, Accident & Contingency

The contingency, accident and life classes within this division have been significantly impacted by COVID-19 claims, which has led to strengthening on the 2018 to 2020 underwriting years. The contingency class benefits from clash reinsurance, causing this effect to be less pronounced net of reinsurance.

Property

The 2019 and 2020 underwriting years have been impacted by COVID-19 as well as the recent US hurricane events. The mature underwriting years continue to see adverse development from the construction and engineering book, which is now in run off.

Reinsurance

The 2020 underwriting year has been impacted by COVID-19 experience and the recent US hurricanes. Favourable developments on established catastrophes have led to positive experience on the 2018 and 2019 underwriting years. The increase in 2017 is due to a reduction in expectation for further reinsurance premiums relating to the catastrophes within that year.

Specialty Lines

The 2015 year continues to see claims development in excess of expectations. However, this year is now recovering under aggregate excess of loss reinsurance programmes so the impact is lower net of reinsurance. Other underwriting years continue to release as the risk expires.

Claim releases

The table on the next page 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 2020.

Reserve releases during the year totalled $93.1m (2019: $9.5m). The net of reinsurance estimates of ultimate claims costs have improved primarily on the 2017 and prior underwriting years by $74.7m during 2020 as medium tail reserves in Specialty Lines mature, while 2018 and 2019 underwriting years' improvements of $2.3m and $16.1m respectively were partially offset by adverse development particularly in Cyber & Executive Risk as a result of an uptick in ransomware activity.

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

The movements shown on 2017 and earlier are absolute claim movements and are not impacted by any current year movements in premium on those underwriting years.

2020	Cyber & Executive Risk $m	Marine $m	Market Facilities $m	Political, Accident & Contingency $m	Property $m	Reinsurance $m	Specialty Lines $m	Total $m
Current year	553.3	169.4	9.2	358.7	295.7	107.5	557.6	2,051.4
Prior year								
– 2017 underwriting year and earlier	(28.3)	(9.8)	–	(2.2)	2.1	2.4	(47.3)	(74.7)
– 2018 underwriting year	26.7	1.9	(0.6)	(1.9)	3.7	(3.0)	(20.7)	(2.3)
– 2019 underwriting year	6.0	(1.0)	(0.3)	(0.5)	(10.2)	(20.1)	10.0	(16.1)
	4.4	(8.9)	(0.9)	(4.6)	(4.4)	(20.7)	(58.0)	(93.1)
Net insurance claims	**557.7**	**160.5**	**8.3**	**354.1**	**291.3**	**86.8**	**499.6**	**1,958.3**

2019	Cyber & Executive Risk $m	Marine $m	Market Facilities $m	Political, Accident & Contingency $m	Property $m	Reinsurance $m	Specialty Lines $m	Total $m
Current year	405.1	120.4	5.5	127.3	190.2	114.5	499.0	1,462.0
Prior year								
– 2016 underwriting year and earlier	4.3	(11.1)	–	(6.6)	9.3	(3.6)	(34.2)	(41.9)
– 2017 underwriting year	(13.2)	6.1	–	(7.8)	8.4	17.4	(3.4)	7.5
– 2018 underwriting year	(0.5)	11.4	–	(2.4)	(0.6)	16.3	0.7	24.9
	(9.4)	6.4	–	(16.8)	17.1	30.1	(36.9)	(9.5)
Net insurance claims	**395.7**	**126.8**	**5.5**	**110.5**	**207.3**	**144.6**	**462.1**	**1,452.5**

25 Borrowings

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

Carrying value	Tier 2 subordinated debt (2029) $m	Tier 2 subordinated debt (2026) $m	Retail bond $m	Total $m
Balance at 1 January 2020	**297.9**	**248.9**	**–**	**546.8**
Amortisation of capitalised borrowing costs	0.2	0.1	–	0.3
Balance at 31 December 2020	**298.1**	**249.0**	**–**	**547.1**

Fair value	Tier 2 Subordinated debt (2029) $m	Tier 2 subordinated debt (2026) $m	Retail bond $m	Total $m
Balance at 1 January 2020	**318.6**	**276.8**	**–**	**595.4**
Change in fair value	1.9	(5.8)	–	(3.9)
Balance at 31 December 2020	**320.5**	**271.0**	**–**	**591.5**

Carrying value	Tier 2 subordinated debt (2018) $m	Tier 2 subordinated debt (2026) $m	Retail bond $m	Total $m
Balance at 1 January 2019	**–**	**248.7**	**95.6**	**344.3**
Issuance of new debt	297.8	–	–	297.8
Debt redemption	–	–	(92.6)	(92.6)
Amortisation of capitalised borrowing costs	0.1	0.2	0.2	0.5
Foreign exchange gain	–	–	(3.2)	(3.2)
Balance at 31 December 2019	**297.9**	**248.9**	**–**	**546.8**

Fair value	Tier 2 subordinated debt (2018) $m	Tier 2 subordinated debt (2026) $m	Retail bond $m	Total $m
Balance at 1 January 2019	**–**	**249.4**	**98.2**	**388.7**
Debt redemption/(redemption)	297.9	–	(98.2)	199.7
Change in fair value	20.7	27.4	–	48.1
Balance at 31 December 2019	**318.6**	**276.8**	**–**	**595.4**

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

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

In September 2019, the group issued $300m of subordinated tier 2 notes due in 2029. Annual interest, at a fixed rate of 5.5% is payable in March and September each year.

A syndicated short term banking facility led by Lloyds Banking Group plc provides potential borrowings up to $450m, up from $225m at the start of the year. Under the facility $393.8m may be drawn as letters of credit to support underwriting at Lloyd's, and up to $225m may be advanced as cash under a revolving facility. The cost of the facility is based on a commitment fee of 0.4725% per annum and any amounts drawn are charged at a margin of 1.35% per annum. The cash element of the facility will expire on 23 July 2022, whilst letters of credit issued under the facility can be used to provide support for the 2019, 2020 and 2021 underwriting years. In 2020 $225m has been drawn down under the facility and placed as a letter of credit as Funds at Lloyd's (FAL).

Notes to the financial statements *continued*

26 Other payables

Group	2020 $m	2019 $m
Reinsurance premiums payable	393.9	214.1
Accrued expenses including staff bonuses	172.1	169.0
Other payables	57.3	81.5
Due to syndicate 623	–	21.0
Due to syndicate 6107	51.9	65.5
Due to syndicate 5623	58.7	15.3
	733.9	**566.4**

Company	2020 $m	2019 $m
Other payables	3.8	16.3
	3.8	**16.3**

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

27 Retirement benefit obligations

	2020 $m	2019 $m
Present value of funded obligations	64.8	54.7
Fair value of plan assets	(69.6)	(60.1)
Retirement benefit (asset) in the statement of financial position	**(4.8)**	**(5.4)**
Amounts recognised in the statement of profit or loss		
Interest cost	1.2	1.3
Expected return on plan assets	(1.2)	(1.3)
	–	–

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

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

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

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

Contributions to the scheme are determined by a qualified actuary using the projected unit credit method as set out in the scheme rules and the most recent valuation was at 31 December 2020. According to the Schedule of Contributions, the group expects to contribute approximately $1.4m in each of the next two years.

27 Retirement benefit obligations *continued*

Trustees obligations

Under section 222 of the Pension Act 2004, every scheme is subject to the Statutory Funding Objective (SFO), which is to have sufficient and appropriate assets to cover its technical provisions, which represent the present value of benefits to which members are entitled based on pensionable service to the valuation date. This is assessed at least every three years using assumptions agreed between the Trustees and the employer as set out in the Statement of Funding Principles produced in accordance with the Occupational Pensions (Scheme Funding) Regulations 2005 (OP(SF)R 2005) Regulation 6.

The Trustees written Statement of Funding Principles is dated 27 December 2017 and it sets out their policy for securing that the SFO is met (that the scheme will have sufficient assets to cover its technical provisions). In accordance with the OP(SF)R 2005 Regulation 5(2) trustees have chosen the Defined Accrued Benefit Method, a variant of the projected unit credit method where accrual has ceased.

The most recently completed Actuarial Valuation of the Scheme was carried out at 1 January 2017 including a valuation carried out in accordance with the Pensions Protection Fund (Valuation) Regulations 2005 and with appropriate section 179 guidance and assumptions issued by the Board of the Pension Protection Fund.

A recovery plan was agreed between the Trustees and the employer on 27 December 2017 in accordance with OP(SF)R 2005 Regulation 8. These arrangements were formalised in a schedule of contributions which the scheme Actuary certified on 27 December 2017 in accordance with OP(SF)R 2005 Regulation 9.

	2020 $m	2019 $m
Movement in present value of funded obligations recognised in the statement of financial position		
Balance at 1 January	**54.7**	**47.0**
Interest cost	1.1	1.3
Actuarial gain – Demographic assumptions	–	(2.7)
Actuarial loss – Financial assumptions	8.5	8.0
Benefits paid	(1.5)	(0.5)
Foreign exchange loss	2.0	1.6
Balance at 31 December	**64.8**	**54.7**

	2020 $m	2019 $m
Movement in fair value of plan assets recognised in the statement of financial position		
Balance at 1 January	**60.1**	**44.6**
Expected return on plan assets	1.2	1.3
Actuarial gain	6.3	11.9
Employer contributions	1.4	1.3
Benefits paid	(1.5)	(0.4)
Foreign exchange gain	2.1	1.4
Balance at 31 December	**69.6**	**60.1**

Plan assets are comprised as follows:		
Equities	69.5	59.9
Cash	0.1	0.2
Total	**69.6**	**60.1**

Notes to the financial statements *continued*

27 Retirement benefit obligations *continued*

The actual gain on plan assets was $7.5m (2019: gain of $13.2m).

	2020 $m	2019 $m
Principal actuarial assumptions		
Discount rate	1.3%	2.0%
Inflation rate	3.3%	3.4%
Expected return on plan assets	2.9%	2.0%
Future salary increases	3.3%	3.4%
Future pensions increases	1.3%	2.9%
Life expectancy for members aged 60 at 31 December	89 years	89 years
Life expectancy for members aged 40 at 31 December	91 years	91 years

At 31 December 2020, the weighted-average duration of the defined benefit obligation was 22.5 years (2019: 22.2 years).

Sensitivity analyses

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

31 December 2020	Increase $m	Decrease $m
Discount rate (0.5% decrease)	8.0	–
Inflation rate (0.3% decrease)	–	(3.2)
Future salary changes (0.5% decrease)	–	(0.5)
Life expectancy (1 year increase)	2.7	–

31 December 2019	Increase $m	Decrease $m
Discount rate (0.5% decrease)	6.8	–
Inflation rate (0.3% decrease)	–	(2.4)
Future salary changes (0.5% decrease)	–	(0.4)
Life expectancy (1 year increase)	2.1	–

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

28 Deferred tax

	2020 $m	2019 $m
Deferred tax asset	26.8	41.0
Deferred tax liability	(0.6)	(19.5)
	26.2	**21.5**

The movement in the net deferred income tax is as follows:

Balance at 1 January	21.5	19.8
Income tax charge	10.7	1.2
Amounts recorded through equity	(5.4)	0.9
Foreign exchange translation differences	(0.6)	(0.4)
Balance at 31 December	**26.2**	**21.5**

	Balance 1 Jan 20 $m	Recognised in income $m	Recognised in equity $m	FX translation differences $m	Balance 31 Dec 20 $m
Plant and equipment	0.7	(0.6)	–	–	0.1
Intangible assets	(1.9)	0.4	–	–	(1.5)
Underwriting profits	15.5	9.8	–	–	25.3
Deferred acquisition costs	(7.6)	0.1	–	–	(7.5)
Tax losses carried forward	–	6.3	–	–	6.3
Share based payments	14.3	(1.3)	(5.4)	(0.6)	7.0
Other	0.5	(4.0)	–	–	(3.5)
Net deferred income tax account	**21.5**	**10.7**	**(5.4)**	**(0.6)**	**26.2**

	Balance 1 Jan 19 $m	Recognised in income $m	Recognised in equity $m	FX translation differences $m	Balance 31 Dec 19 $m
Plant and equipment	0.1	0.6	–	–	0.7
Intangible assets	(2.1)	0.2	–	–	(1.9)
Underwriting profits	(1.9)	17.4	–	–	15.5
Deferred acquisition costs	(2.5)	(5.1)	–	–	(7.6)
Tax losses carried forward	10.0	(10.0)	–	–	–
Share based payments	13.9	(0.1)	0.9	(0.4)	14.3
Other	2.3	(1.8)	–	–	0.5
Net deferred income tax account	**19.8**	**1.2**	**0.9**	**(0.4)**	**21.5**

Deferred tax assets of $6.3m (2019: $nil), relating to tax losses, which depend on the availability of future taxable profits, have been recognised. The group has concluded that, notwithstanding the impact of the COVID-19 pandemic, it is probable that the deferred tax assets will be recovered using the estimated future taxable profits based on the approved business plans. The losses can be carried forward indefinitely and have no expiry date.

The group has no unrecognised tax losses as at 31 December 2020 (2019: deferred tax asset $0.7m).

Notes to the financial statements *continued*

29 Leases

Leases as lessee (IFRS 16)

The group leases offices, IT equipment and motor vehicles. The leased offices are in several locations and the leases of large offices such as London and New York typically run for a period of 10 years with an option to renew the lease after that date or continue on a rolling month by month basis. Lease payments are renegotiated as agreed in the lease contracts.

During 2020, the group entered into a new office entered into a new lease agreement with 22 Bishopsgate, London which resulted in the recognition of a right of use asset of $35.8m and lease liability $35.8m, Additionally the group utilised extending the office at Plantation Place South, London up to 31 May 2021 resulting in recognising a right of use asset of $0.6m and $0.6m liability. This was due to delays in completion of the new London office.

In the USA the group entered into a new lease in Philadelphia resulting in a right of use asset of $2.0m and lease liability of $1.7m. In Singapore the group entered into a new lease resulting in a right of use asset of $1.9m and lease liability $1.5m.

Additionally during 2020, the group also entered into five new IT leases which are the result of a Data migration project improving the group IT infrastructure capabilities which resulted in recognising a right of use asset of $17.3m and a liability of $18.7m.

During 2019, the lease of the San Francisco extension has been sub-let by the group. The lease and sub-lease expire in 2022. The right of use asset was therefore recognised as an investment asset of $0.5m.

Information about leases for which the group is a lessee is presented below.

Right of use assets

Right of use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment.

	Offices $m	IT equipment $m	Motor vehicles $m	Total $m
Balance at 1 January 2020	**35.2**	**0.6**	**0.1**	**35.9**
Depreciation charge for the year	(9.4)	(3.5)	(0.1)	(13.0)
Additions of right of use assets	40.9	17.3	–	58.2
Disposals of right of use assets	0.2	1.5	0.1	1.8
Foreign exchange gain	2.6	0.9	–	3.5
Balance at 31 December 2020	**69.5**	**16.8**	**0.1**	**86.4**

Lease liabilities

	Offices $m	IT equipment $m	Motor vehicles $m	Total $m
Balance at 1 January 2020	**38.8**	**0.5**	**0.1**	**39.4**
Lease payments	(11.4)	(3.8)	(0.1)	(15.3)
Interest on lease liabilities	2.0	0.4	–	2.4
Additions to lease portfolio	41.1	18.7	0.1	59.9
Foreign exchange gain	2.8	0.9	–	3.7
Balance at 31 December 2020	**73.3**	**16.7**	**0.1**	**90.1**

Right of use assets

	Offices $m	IT equipment $m	Motor vehicles $m	Total $m
Balance at 1 January 2019	**29.5**	**1.5**	**0.2**	**31.2**
Depreciation charge for the year	(9.1)	(0.9)	(0.1)	(10.1)
Additions of right of use assets	15.8	–	0.1	15.9
Disposals of right of use assets	(1.3)	–	(0.1)	(1.4)
Foreign exchange gain	0.3	–	–	0.3
Balance at 31 December 2019	**35.2**	**0.6**	**0.1**	**35.9**

29 Leases *continued*

Lease liabilities

	Offices $m	IT equipment $m	Motor vehicles $m	Total $m
Balance at 1 January 2019	**31.6**	**1.5**	**0.1**	**33.2**
Lease payments	(9.7)	(1.0)	(0.1)	(10.8)
Interest on lease liabilities	1.8	–	–	1.8
Additions to lease portfolio	15.3	–	0.1	15.4
Disposals from lease portfolio	(0.5)	–	–	(0.5)
Foreign exchange gain	0.3	–	–	0.3
Balance at 31 December 2019	**38.8**	**0.5**	**0.1**	**39.4**

Amounts recognised in profit or loss

	2020 $m	2019 $m
Leases under IFRS 16		
Interest on lease liabilities	(2.4)	(1.8)
Depreciation	(13.0)	(10.1)
Income from sub-leasing right of use assets	0.1	0.1
Expenses relating to low value leases	(0.3)	(0.4)
Expenses relating to short-term leases	(0.1)	(0.2)
Total recognised in profit or loss	**(15.7)**	**(12.4)**

Extension options

Some property leases contain extension options exercisable by the group before the end of the non-cancellable contract period or the option to continue with the lease on a monthly rolling basis. The group reassess whether it is reasonably certain to exercise the options if there is a significant event or changes in circumstances within its control.

Leases as lessor

The group sub-leases leased property, which is classified as a investment asset. The group recognised $0.1m in 2020 ($0.5m 2019). The sub-lease contract ends in 2022.

Notes to the financial statements *continued*

30 Related party transactions

The group and company have related party relationships with syndicates 623, 6107, 5623, its subsidiaries, associates and its directors.

30.1 Syndicates 623, 6107, 6050 and 5623

The group received management fees and profit commissions for providing a range of management services to syndicates 623, 6107 and 6050, which are all managed by the group. In addition, the group ceded portions or all of a group of insurance policies to syndicates 6107, 5623 and 6050. The participants on syndicates 623, 6107 and 6050 are solely third party capital.

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

	2020 $m	2019 $m
Written premium ceded to syndicates	148.6	96.3
Other income received from syndicates	22.9	25.8
Services provided	33.4	33.1
Balances due:		
Due from/(to) to syndicate 623	18.2	(21.0)
Due to syndicate 6107	(51.9)	(65.5)
Due from syndicate 6050	–	0.4
Due to syndicate 5623	(58.7)	(15.3)

30.2 Key management compensation

	2020 $m	2019 $m
Salaries and other short term benefits	10.6	16.4
Post-employment benefits	0.6	0.6
Share based remuneration	0.5	1.1
	11.7	**18.1**

Key management include executive and non-executive directors and other senior management.

The total number of Beazley plc ordinary shares held by key management was 4.7m. Apart from the transactions listed in the table above, there were no further related party transactions involving key management or a close member of their family. Further details of directors' shareholdings and remuneration can be found in the directors' remuneration report on pages 96 to 124.

30.3 Other related party transactions

At 31 December 2020, the group had purchased services from Falcon Money Management Holdings Limited of $2.3m (2019: $2.3m) throughout the year. All transactions with the associate and subsidiaries are priced on an arm's length basis.

31 Parent company and subsidiary undertakings

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

The following is a list of all the subsidiaries in the group as at 31 December 2020:

	Country/region of incorporation	Ownership interest	Nature of business	Functional currency	Beazley plc direct investment in subsidiary ($m)
Beazley Ireland Holdings plc	Jersey	100%	Intermediate holding company	USD	**724.6**
Beazley Group Limited	England	100%	Intermediate holding company	USD	
Beazley Furlonge Holdings Limited	England	100%	Intermediate holding company	USD	
Beazley Furlonge Limited	England	100%	Lloyd' managing agents	GBP	
Beazley Investments Limited	England	100%	Investment company	USD	
Beazley Newco Captive Company, Inc.	USA	100%	Special Purpose Financial Captive	USD	
Beazley Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Management Limited	England	100%	Management company	GBP	
Beazley Staff Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Solutions Limited	England	100%	Insurance services	GBP	
Beazley Underwriting Services Limited	England	100%	Insurance services	GBP	
Beazley Corporate Member (No.2) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.3) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.6) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Leviathan Limited	England	100%	Underwriting at Lloyd's	GBP	
Beazley Canada Limited	Canada	100%	Insurance services	CAD	
Beazley Insurance dac	Ireland	100%	Insurance and reinsurance company	USD	
Beazley Solutions International Limited	Ireland	100%	Insurance services	EUR	
Beazley Underwriting Pty Ltd	Australia	100%	Insurance services	AUD	
Beazley USA Services, Inc.*	USA	100%	Insurance services	USD	
Beazley Holdings, Inc.*	USA	100%	Holding company	USD	
Beazley Holdings, Inc. Digital LLC	USA	100%	Insurance services	USD	
Beazley Group (USA) General Partnership**	USA	100%	General partnership	USD	
Beazley Insurance Company, Inc.***	USA	100%	Underwriting admitted lines	USD	
Beazley America Insurance Company, Inc.***	USA	100%	Underwriting admitted lines	USD	
Lodestone Securities LLC****	USA	100%	Consultancy services	USD	
Beazley Pte. Limited	Singapore	100%	Underwriting at Lloyd's	SGD	
Beazley Labuan Limited	Malaysia	100%	Insurance services	USD	
					724.6

Please see page 204 for registered addresses.

Notes to the financial statements *continued*

31 Parent company and subsidiary undertakings *continued*

The following is a list of group registered office locations:

Address	City	Postcode	Country/region
United Kingdom and Continental Europe			
60 Great Tower Street	London	EC3R 5AD	England
2 Northwood Avenue	Dublin	D09 X5N9	Ireland
22 Grenville Street	Saint Helier	JE4 8PX	Jersey
North America			
1209 Orange Street*	Wilmington, Delaware	19801	USA
2711 Centerville Road Suite 400**	Wilmington, Delaware	19808	USA
30 Batterson Park Road***	Farmington, Connecticut	06032	USA
160 Greentree Drive, Suite 101****	Dover, Delaware	19904	USA
55 University Avenue, Suite 550	Toronto, Ontario	M5J 2HJ	Canada
Asia			
138 Market Street, 03-04 Capita Green	Singapore	048946	Singapore
36/F., Tower Two, Times Square, 1 Matheson Street, Causeway Bay	Hong Kong	–	Hong Kong
Kensington Gardens, No. I1317, Lot 7616, Jalan Jumidar Buyong	Labuan	87000	Malaysia
Australia			
Level 15, 1 O'Connell Street	Sydney	NSW 2000	Australia

32 Contingencies

Funds at Lloyd's

The following amounts are held in trust by Lloyd's to secure underwriting commitments:

	As at 31 December 2020 $m	As at 31 December 2019 $m	As at 31 December 2018 $m
Financial assets at fair value and cash	1,563.3	1,702.8	1,017.7
Letters of credit ('LOC')	225.0	–	–
Total Funds at Lloyd's	**1,788.3**	**1,702.8**	**1,017.7**

The funds are held in trust and can be used to meet claims liabilities should syndicates fail to meet their claim liabilities.

The funds can be only used to meet claim liabilities of the relevant member.

In 2020 $225m under the group's syndicated short term banking facility has been utilised as letters of credit placed as Funds at Lloyd's (FAL) to provide capital support for the group's underwriting at Lloyd's. Letters of credit issued under the facility are uncollateralised. See Note 25 Borrowings for further details on banking facility.

Other than the letters of credit these balances are included within financial assets at fair value and cash and cash equivalents on the statement of financial position.

33 Foreign exchange rates

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

	2020		2019	
	Average	Year end spot	Average	Year end spot
Pound sterling	0.78	0.73	0.79	0.76
Canadian dollar	1.34	1.27	1.33	1.32
Euro	0.88	0.81	0.89	0.90

34 Subsequent events

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

Glossary

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

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

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

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

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

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

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

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

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

Claims ratio
Ratio, in percentage terms, of net insurance claims to net earned premiums. The calculation is performed excluding the impact of foreign exchange. In 2020, this ratio was 73% (2019: 62%). This represented total claims of $1,958.3m (2019: $1,452.5m) divided by net earned premiums of $2,693.4m (2019: $2,347.0m).

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 2020, this ratio was 109% (2019: 100%). This represents the sum of net insurance claims of $1,958.3m (2019: $1,452.5m), expenses for acquisition of insurance contracts of $738.9m (2019: $645.4m) and administrative expenses of $235.5m (2019: $244.3m) to net earned premiums of $2,693.4m (2019: $2,347.0m). This is also the sum of the expense ratio 36% (2019: 38%) and the claims ratio 73% (2019: 62%).

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

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

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

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

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

Expense ratio
Ratio, in percentage terms, of the sum of expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. The calculation is performed excluding the impact of foreign exchange on non-monetary items. In 2020, the expense ratio was 36% (2019: 38%). This represents the sum of expenses for acquisition of insurance contracts of $738.9m (2019: $645.4m) and administrative expenses of $235.5m (2019: $244.3m) to earned premiums of $2,693.4m (2019: $2,347.0m).

Glossary continued

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

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

Group Surplus Capital Ratio
The group surplus capital ratio is the surplus of funds available to meet the group's ECR expressed as a percentage of the ECR. The funds available are calculated on an economic basis, consistent with how the ECR is calculated.

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

Horizontal limits
Reinsurance coverage limits for multiple events.

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

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

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

Investment return
Ratio, in percentage terms, calculated by dividing the net investment income by the average financial assets at fair value, including cash. In 2020, this was calculated as net investment income of $188.1m (2019: $263.7m) divided by average financial assets at fair value, including cash, of $6,261.4m (2019: $5,452.0m).

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

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

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

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

Managed premiums
Managed premium refers to all gross premiums written by Beazley's underwriters. In addition to gross premiums written on behalf of the group managed premium includes gross premiums written in syndicate 623 by Beazley's underwriters on behalf of third party capital providers.

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

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

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

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

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

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

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

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

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

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

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

Return on equity (ROE)
Ratio, in percentage terms, calculated by dividing the consolidated profit after tax by the average daily total equity. In 2020, this was calculated as loss after tax of $46.1m (2019: Profit $234.1m) divided by average equity of $1,792.7m (2019: $1,538.6m).

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

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

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

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

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

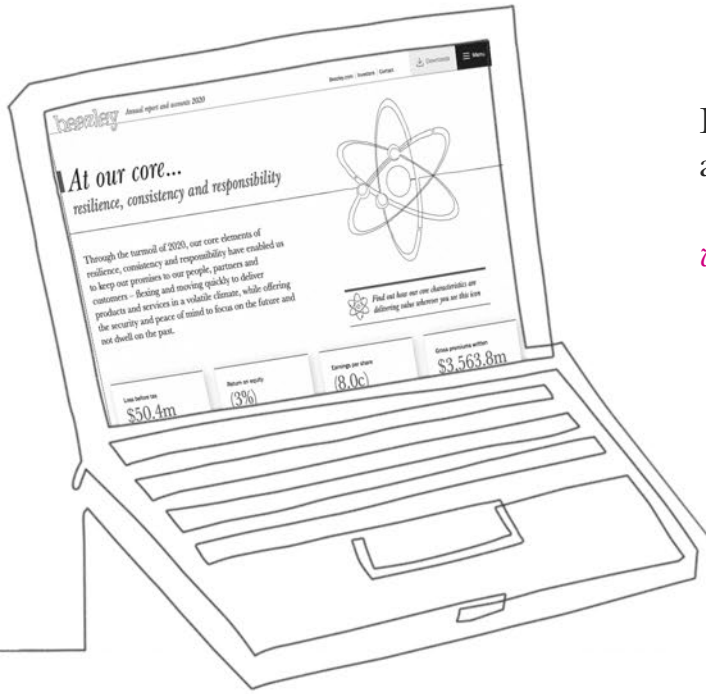
Surplus lines insurer
An insurer that underwrites surplus lines insurance in the US. Lloyd's underwriters are surplus lines insurers in all jurisdictions of the US except Kentucky and the US Virgin Islands.

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

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

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

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



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