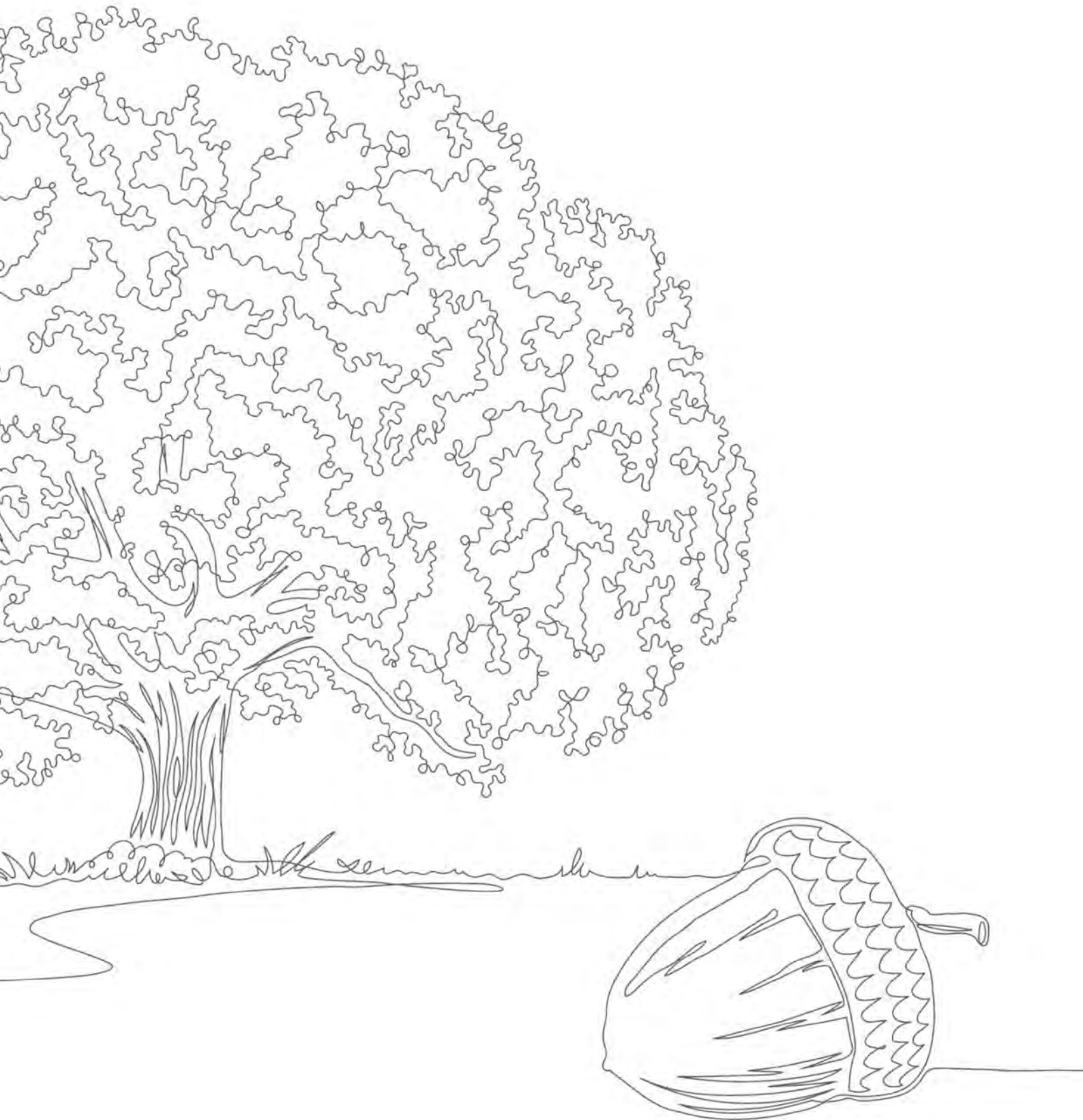


Sustaining growth



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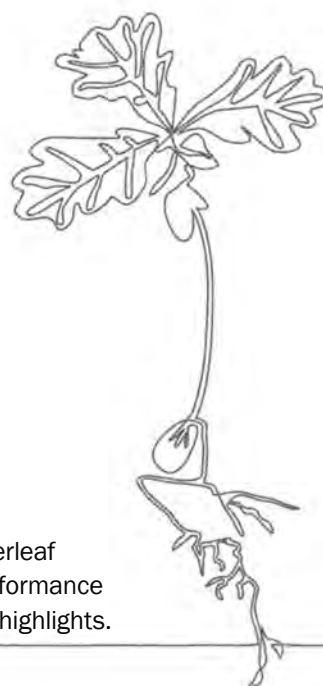
Sustaining growth

Sustaining growth requires sustained investment. Our strong premium growth in 2018 was the result of continuous investment in our people, technology and global office network over many years. This investment continues.



You can find out more about our 'sustaining growth' strategy where you see this symbol.

[▶ Find out more on pages 10 to 13](#)



Please turn overleaf
for our Key performance
indicators and highlights.

Highlights

Gross premiums written

\$2,615.3m

(2017: \$2,343.8m)

Cash and investments

\$5,052.6m

(2017: \$4,890.1m)

Net premiums written

\$2,248.5m

(2017: \$1,978.8m)

Net investment income

\$41.1m

(2017: \$138.3m)

Net earned premiums

\$2,084.6m

(2017: \$1,869.4m)

Investment return

0.8%

(2017: 2.9%)

Renewal rate increase

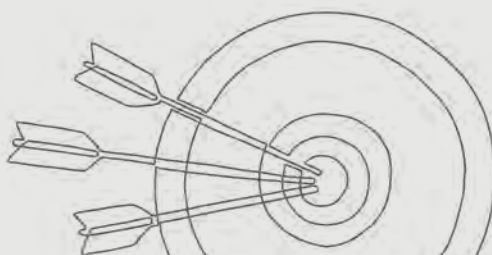
3%

(2017: decrease 1%)

Profit before tax for the financial year

\$76.4m

(2017: \$168.0m)

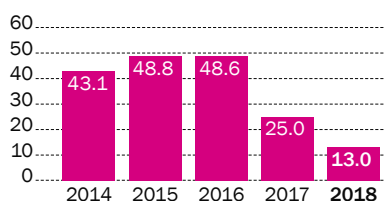


Key performance indicators

KPIs

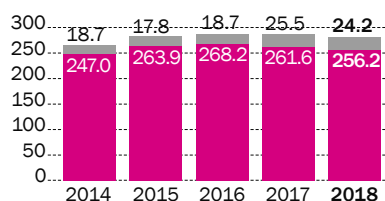
Financial highlights

Earnings per share (c)



EPS is at 0.8x total dividend cover for 2018.

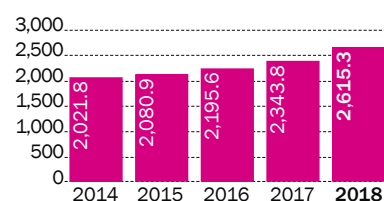
Net assets per share (c)



■ Tangible ■ Intangible

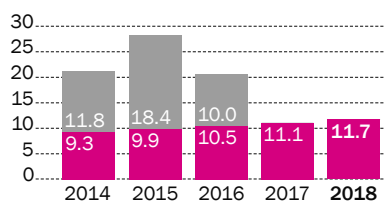
Net assets per share are consistent despite a challenging environment.

Gross premiums written (\$m)



Growth of 12% in 2018 and 29% since 2014.

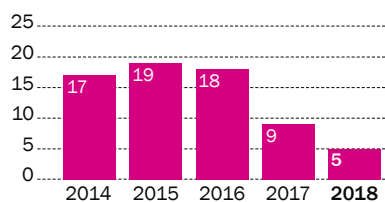
Dividends per share (p)



■ Interim and second interim ■ Special

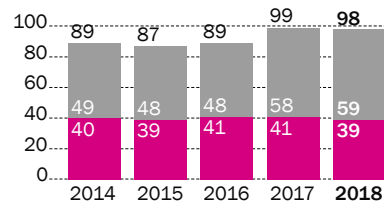
The interim and second interim dividend for 2018 is in line with our dividend strategy and has grown by 5%.

Return on equity (%)



Average five year return on equity of 14%.

Combined ratio (%)



■ Expense ratio ■ Claims ratio

Our combined ratio has averaged 92% over five years.

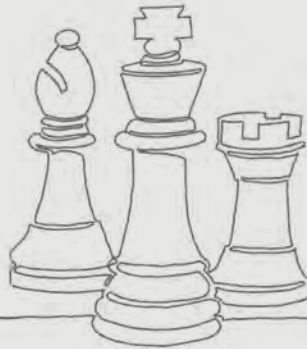
The group is of the view that some of the above metrics constitute alternative performance measures (APMs). Further information on our APMs can be found in the financial review on page 41 and in the glossary on page 198.

► Find out more within our Financial Statements on pages 130 to 197



Our key differentiators

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



Entrepreneurial spirit

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

Strong partnerships

Strong long term relationships have sustained our business over more than three decades

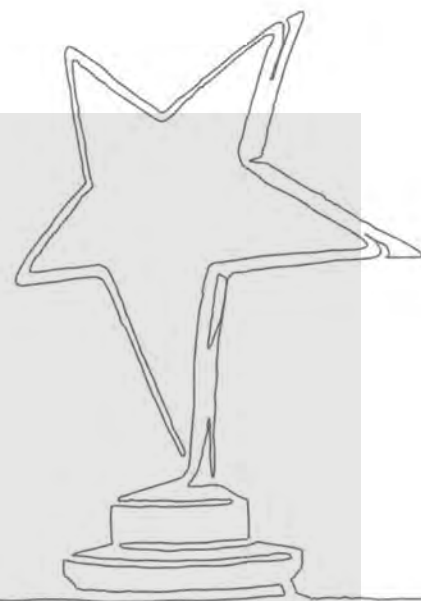
Diversified business

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

Our key differentiators *continued*

Entrepreneurial spirit

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



“We’ve built a billion dollar business in the US in 14 years, based on our ability to respond quickly and creatively to the challenges brokers and clients bring us. The growth opportunities open to us today are greater than ever.”

Jennifer Englund
Head of US operations

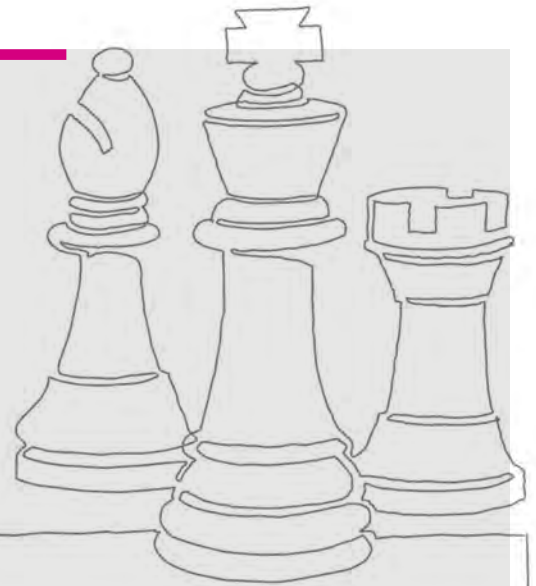
Since Beazley was founded in 1986, the company has relied on the zeal and commitment of people who want to build a business, not just do a job. For the first two decades, most of the individuals who embodied this spirit were underwriters who had deep knowledge of a particular line of business and a vision of how best to grow their book.

Highly motivated entrepreneurial underwriters are still crucial to Beazley’s success. However in recent years other functions within the company, such as IT, operations and marketing, have been encouraged to take a similar broad view of the opportunities Beazley offers. Initiatives such as the launch of the world’s first fully personalised digital insurance policy in 2018 owed their existence to multi-disciplinary teams of individuals from varied backgrounds working towards a common goal.

As the digital transformation of Beazley’s operations gathers pace, driving internal efficiencies and enhancing the experience of brokers and clients, the capability of all Beazley employees to think and act like entrepreneurs will continue to be critical.

Strong partnerships

Strong long term relationships have sustained our business over more than three decades



Insurance is a highly collaborative business and much of Beazley's success is derived from the strength of its relationships with other participants in the market. Strong client relationships are of course crucial and Beazley's relationships with its clients frequently span many years in some cases, decades. However relationships with other insurers are also important, particularly within the London market.

In London, most business is transacted on a subscription basis, meaning that large risks are parcelled out among numerous Lloyd's syndicates and insurance companies. As a widely recognised lead underwriter for many of the classes of business in which we specialise, Beazley sets the price and terms and conditions for most of the business it writes.

On occasion a group of Lloyd's syndicates will come together to form a consortium, increasing the capacity limits they can offer. Such was the case in July 2018 when Beazley spearheaded the creation of a 'wage & hour' consortium at Lloyd's to protect US companies against claims made under the Fair Labor Standards Act. Limits up to \$25m are thus available for the costs of defending and indemnifying US organisations that are alleged to have violated their obligations under this extremely complex legislation.



Lloyd's of London

The Lloyd's syndicates

The Lloyd's syndicates managed by Beazley compete vigorously with other syndicates, but they also collaborate with both Lloyd's syndicates and insurance companies to provide the underwriting capacity that clients need.

Our key differentiators *continued*

Diversified business

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



For the second year in a row, natural catastrophe activity was relatively intense in 2018, testing the diversification of our underwriting portfolio. As it had in 2017, the portfolio – and the principles on which it was built – stood up well, generating a combined ratio of 98%.

Not all of the areas of diversification within Beazley's portfolio are obvious. For example, large risks and small risks in a particular line of business tend to perform quite differently as the supply and demand of insurance fluctuates. Large risks tend to be more volatile, with greater swings between the peaks and troughs of the insurance cycle, whereas small risks are generally more stable. A judicious mix of large and small business can thus help optimise an insurer's risk adjusted return.

It was with the goal of expanding Beazley's small and mid-sized business that the company established a local underwriting presence in the US market in 2005. The goal was to write business from smaller clients, who would not normally seek cover in the London market, but for the same lines of business for which Beazley was already well known. The strategy has paid off, securing access to significant growth opportunities while balancing the overall underwriting portfolio. Beazley's US underwriters wrote in excess of \$1bn in gross premiums during 2018.

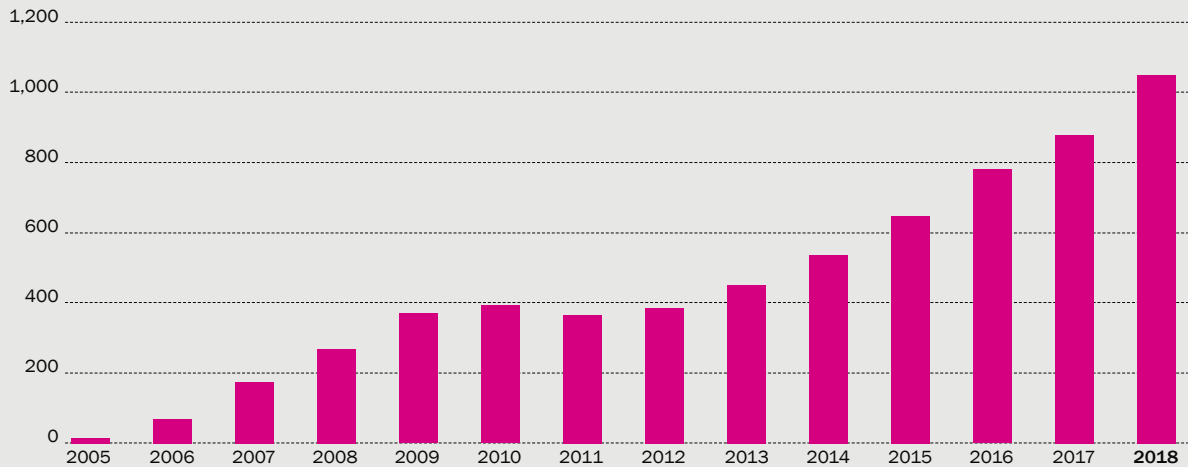


Dallas office

\$1bn achievement

On 13 December, our US offices celebrated achieving our milestone of \$1bn gross premiums written in the US. Since launching in 2005, our US business has grown from a single office to 589 employees across 13 locations. We maintain our A rated status, write over 27 product lines and continue to pursue our vision. In early 2019, we will celebrate this achievement and thank our brokers by hosting them at various events across the US. We are proud of this accomplishment and have already set our sights on our next milestone in the US.

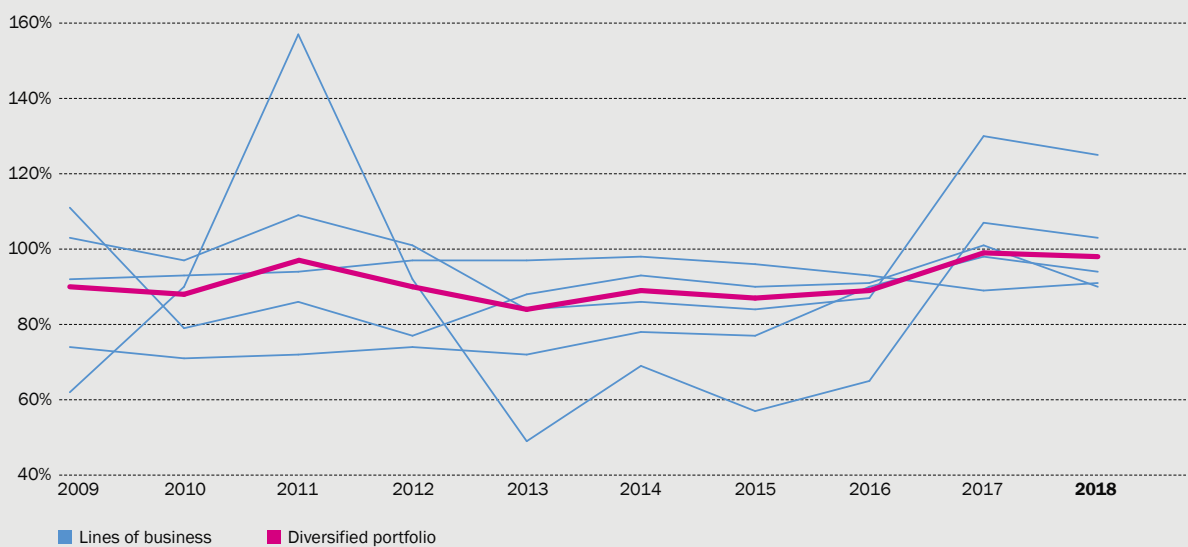
US managed gross premiums \$m



Diversified portfolio

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

Diversified portfolio achieves consistent combined ratio through market cycles



Our key differentiators *continued*

Diversified business

Growth of managed gross premiums by division \$m

■ Marine

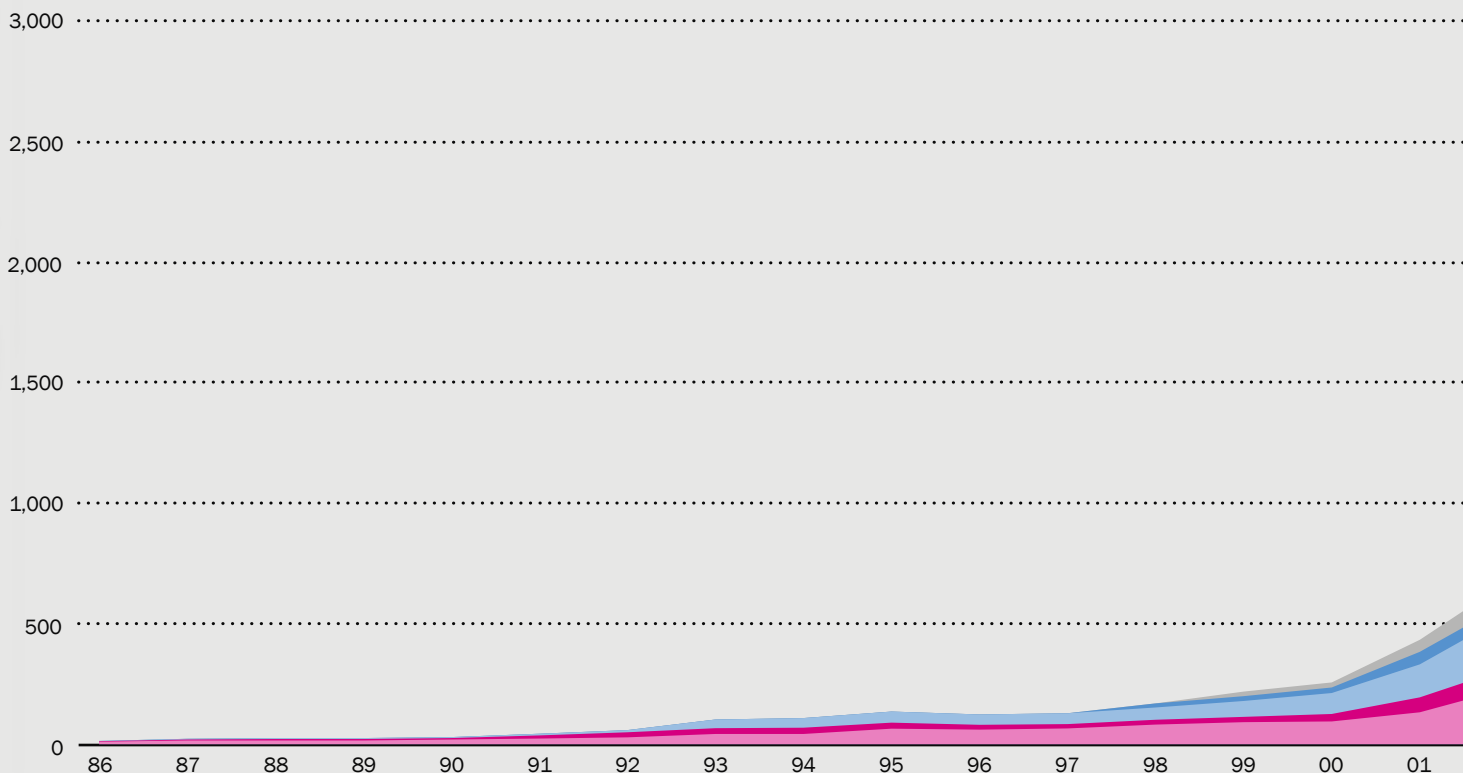
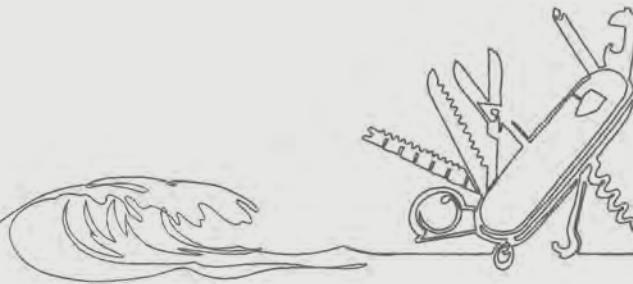
We help insure in excess of 20% of the world's ocean-going tonnage and are the pre-eminent leader of voyage and tow business in the London market. The energy team work with over 500 oil and gas companies, drilling contractors and service companies globally offering insurance solutions for these complex risks. We have extensive experience insuring a wide variety of cargoes including project cargo, fine art and specie.

► Find out more on pages 28 to 29

■ Political, accident & contingency

In addition to traditional lines such as contract frustration, expropriation and credit, we insure a growing number of businesses against terrorism and political violence. Our personal accident product 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.

► Find out more on pages 30 to 31



Property

We've protected clients ranging from Fortune 1000 companies to homeowners through 25 years of natural and man-made catastrophes. We underwrite this business through five platforms: London, the US, Canada, Latin America and Singapore, with a business focus on commercial property risks, valuable assets and select homeowners' business.

Reinsurance

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

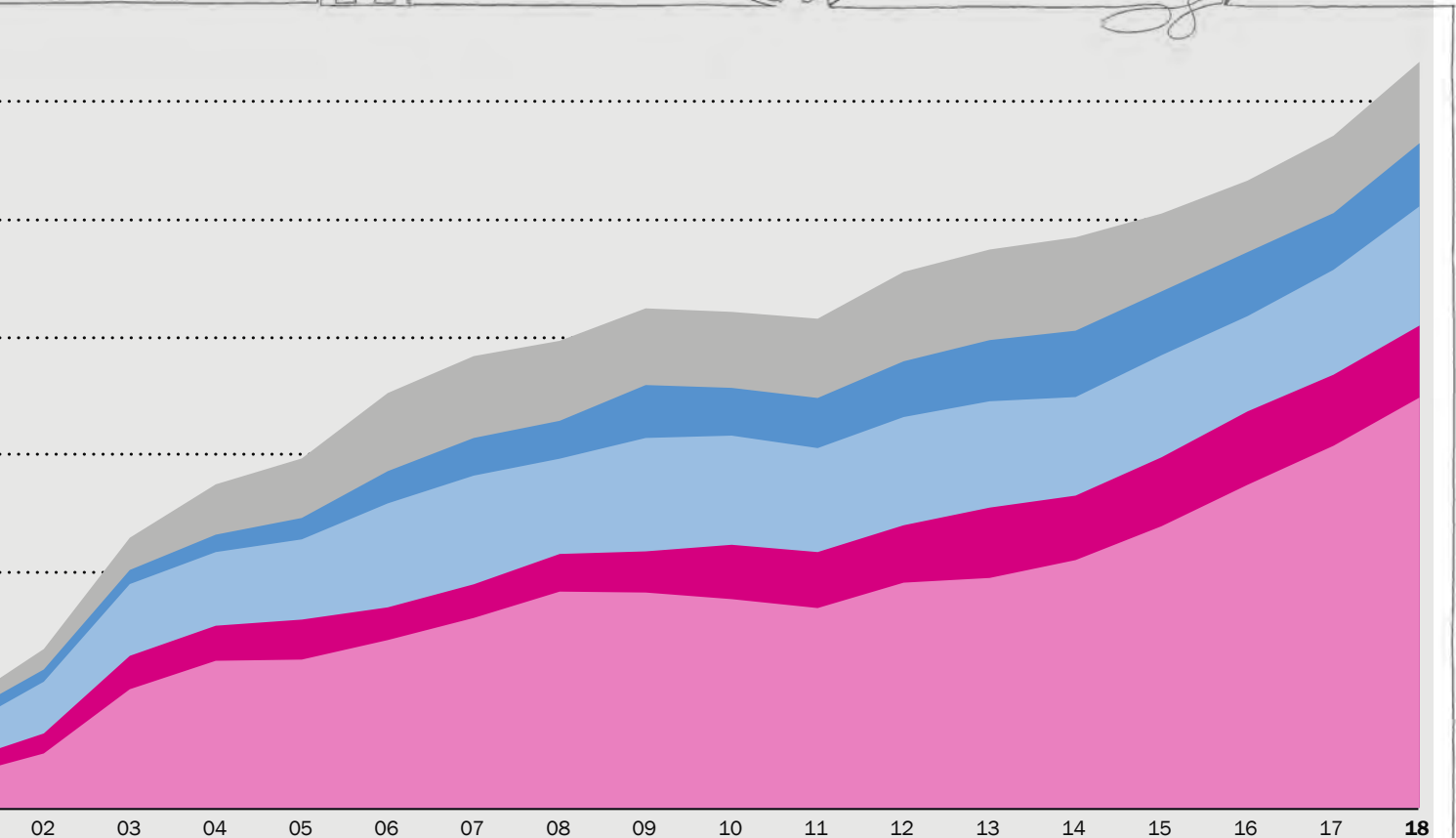
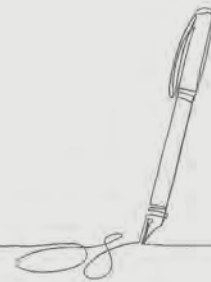
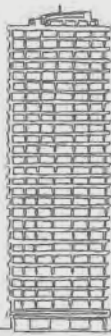
Specialty lines

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

▶ Find out more on pages 32 to 33

▶ Find out more on pages 34 to 35

▶ Find out more on pages 36 to 37



Our business model and strategy

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

Our business model

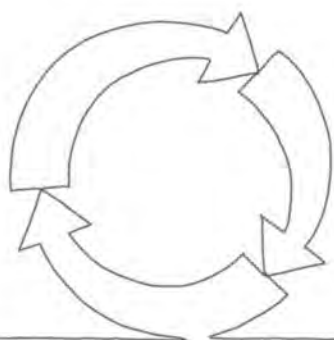
Reconfirmed annually through the business planning process, our business model is as follows:

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

Our strategy

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

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



Our current strategic initiatives

Beazley Digital

Focus on smaller/less complex risks by doing business in a way which maximises the value we get from technology and provides seamless and efficient solutions to brokers and clients.

Faster, Smarter Underwriting

Focus on larger more complex risks using new technology and data analytics to improve the efficiency and the quality of our complex risk underwriting and claims settlement.

Closer to the Client

By better understanding our clients' needs, we will be able to enhance our product design and improve our clients' experience. Also we look to improve the client experience and strengthen our brand as a client-focused insurer by enhancing our client attraction, retention and cross-selling.

London Market

Explore ways of promoting London as a great place to write specialist insurance while improving the efficiency of the London market (Lloyd's and company market). Also ensure the market continues to obtain the most value for our clients, brokers and shareholders. Enhance ways that the London market can generate access to business and capital more efficiently.

Risks

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

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

► **Our approach to managing these and other risks is described in detail on pages 53 to 58**

How we measure value creation

For shareholders

We measure our value creation for shareholders through earnings per share, the growth of net assets per share, and total shareholder returns in dollars as this is the currency of the majority of our transactions. Underpinning our strong results against all of these metrics has been our consistently strong underwriting performance, reflected in our combined ratio. Our combined ratio in 2018, a year of high natural catastrophes, was 98%. In the five years prior to 2018 it averaged 90%.

For staff

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

For customers

Nearly all business at Beazley comes through brokers. We monitor broker and client perceptions of our service – particularly our claims service – in a variety of ways, including through a detailed annual broker survey. This is the third year Beazley have conducted a global survey, and the number of brokers participating continues to increase, reflecting strong engagement. Over 5,000 brokers provided feedback on our underwriting and claims service. Our high Net Promoter Scores in both areas reflect their continued willingness to recommend Beazley to their clients.

Sustaining growth



Strong organic growth has been nurtured by steady investments in Beazley's people and technology

In 2018, Beazley's teams across the US celebrated a landmark achievement – passing the goal of underwriting a billion dollars of US business. From modest beginnings in 2005, when Beazley's underwriters in Farmington, Connecticut brought in \$15.4m in premium, the US business has grown to encompass 13 offices, 589 people, and during 2018 \$1,051.2m in gross premiums written.¹



Obtaining growth

Growth for insurance companies rarely proceeds in a straight line and, when it does, it does not usually bode well for investors. Market conditions, particularly for catastrophe exposed risks, can swing wildly and a disciplined insurer will adjust its exposures accordingly. In 2010 and 2011, Beazley's premiums overall declined by 2% as intense competition in many lines of business and the global recession following the 2008 financial crisis took their toll. However in 2012, the business bounced back with double digit premium growth and record profits. Since 2012, Beazley's top line has grown by an average of 6% annually.

Most of this growth has been organic, which Beazley generally favours over growth by acquisition. One exception was the business derived through the acquisition of Creechurch Underwriters in February 2017, a managing agency in Canada that Beazley had supported since its establishment in 1996. This acquisition has afforded Beazley a strong platform for growth in the Canadian market that would have been difficult and time-consuming to build from scratch.



Downtown Toronto: Beazley now has a strong platform for growth in Canada

"Our acquisition of Creechurch has been very successful," says Beazley's CEO Andrew Horton. "But in the main we focus on organic growth because it is more sustainable and poses less of a risk of nasty surprises. We have been fortunate at Beazley in being able to attract some talented individuals from other companies that have become quite internally focused due to large scale mergers and complex corporate reorganisations."

Although organic growth means the company does not have to invest in the purchase of businesses, it does require continuous investment. Beazley has been investing in technology to enhance the productivity of underwriters and improve the service provided to clients and brokers.

With any investments in technology come investments in people, to help them optimise the value of the technology and build satisfying long term careers at the company.

The US has proved the main engine of Beazley's growth in recent years but since 2017 Beazley has increased its investments elsewhere in the world, notably in continental Europe. "We see strongly growing demand in Europe for many of the lines of business in which we specialise," says new chief underwriting officer Adrian Cox. "That includes cyber of course, but also specialist liability products for healthcare providers, technology companies and financial institutions."

1 Beazley's underwriters also write on behalf of syndicate 623, a syndicate managed by Beazley but backed by third party capital. As such, \$114.5m of locally underwritten US premium does not remain within the Beazley plc group.

Sustaining *growth* continued



Investment in people

In the past two years, Beazley has added 99 underwriters to develop business around the world outside the US, against 43 actually within the US. There is no expectation that the pace of growth in the US will slacken, but the overall geographic mix of the portfolio is likely to diversify further as Beazley grows into other markets.

Beazley's new hires in Europe and elsewhere are often multiline underwriters able to write a range of specialty risks. Their ability to do this (which represents a departure from Beazley's historic single line underwriter model) is supported by technology that marshals underwriting data more efficiently and shortens response time for brokers' submissions. Particularly for small risks, speed of response is often the main determinant of winning business.

Technology that enhances the speed and agility of Beazley's workforce also underpins another major innovation designed to sustain future growth. In February 2018 Beazley opened its first office – in Birmingham, England – equipped to provide its 40 occupants with an activity based working (ABW) environment.



Gearing up for activity based working: artist's impression of Twentytwo Bishopsgate, Beazley's London headquarters from 2020

"The principle underlying ABW is flexibility," says Munira Hirji, Beazley's head of commercial management, who is responsible for the company's 24 offices worldwide. "Flexibility to work in the way you need to and with the tools you need. So we looked closely at the design of this office to create places that reflected the different activities we do each day: for example quiet areas for calls or focused work, creative areas for collaboration, and social areas for eating and catching up."

In spring 2019 Beazley's office in Toronto will move to new premises equipped for ABW. The 190 person New York office will follow suit later in 2019 and in 2020 the company's London office will move to Twentytwo Bishopsgate, a new development in the City of London, also providing for ABW.



Amongst others, Beazley's Birmingham office houses members of the company's global IT team who have been focusing on robotics technology that promises significant efficiency gains over time. The goal of the Beazley Digital strategic initiative launched in 2018 is to introduce 'no touch' processing for most small business transacted by Beazley, and robotics will be key to this transformation.



"We are seeking to offer our early career joiners a broad exposure to the workings of the company."

Pippa Vowles
Head of talent management



Beazley's office in Birmingham

"Digital transformation has become almost a cliché in the insurance industry," says Beazley's chief operating officer Ian Fantozzi. "At Beazley our focus has been on delivering steady improvements in the service we can provide to our clients and brokers without adding proportionately to our headcount."

"We have also been looking to harness new sources of data, including social media feeds, that can help us price risks more swiftly. The ultimate effect of all this will be to transform our business, but it's not a big bang."

In the course of this transformation, the skills required of Beazley's underwriters – and within the company as a whole – will change. Beazley has historically relied upon hiring experienced underwriters who have brought all the capabilities needed to the job, together with strong pre-existing broker relationships.

The company continues to hire such individuals, but is now also beginning to train up underwriters in their first or second role.

"We are seeking to offer our early career intake a broad exposure to the workings of the company," says Pippa Vowles, Beazley's head of talent management. "They need to be well versed in the ways in which technology and new forms of data are reshaping our business, as well as in the traditional but still critical technical pricing and relationship-building skills. It's a new world."

Sustainability overview



Our record of sustained growth as a company is closely intertwined with our interest in supporting sustainable growth in the world around us. The future of our business depends upon a sustainable future for our clients, our environment and our communities



For Beazley, being a responsible business means we take our environmental, social and governance (ESG) obligations seriously. As global trends – including climate change – threaten our clients' interests, it is becoming ever more clear that good business must simply be responsible business.



Global warming may be aggravating flood damage as warm air can hold far more water than cooler air

Insurance is an essential enabler of human and economic activity. Without insurance, the risks inherent in many endeavours could prohibit development and innovation. The consequences of risk events would be unmitigated. We are there to protect our clients' physical and financial interests in the event that things go wrong. In this sense insurance is a force for progress.

However, we must also be sensitive to the undesirable side effects – what economists call 'externalities' – that may accompany economic growth. At Beazley, our underwriters and our investment professionals are sensitive to these externalities. Before binding any risks, our underwriters consider the risks being presented in the widest possible sense, including the potential social and environmental impact of the insurance in question.

On the investment side, we believe our strategy should seek to have a positive influence on society and the wider world. For this reason we consider ESG risks as part of our decision making process. We view this approach as consistent with the objective of optimising total return, as companies demonstrating a commitment to a sustainable business strategy and ethical business culture have been shown to enjoy a competitive advantage over time, generating stronger and more stable returns.



“We know that our insurance products perform a vital function in protecting our clients’ interests and helping them to recover from disaster. As a responsible business, we also recognise our role in trying to ensure that the insurance that we provide, and the wider impact of our people, business and assets, serve a positive purpose in this planet on which we all depend.”

Emma Whiteacre
Chair of the responsible business committee

As the insurance industry continues to pick up the bill for increasing extreme weather events, it is starting to re-evaluate on how to perform its role as an enabler of economic activity. At Beazley, we are on a journey to explore this further. Our internal sustainability initiative considers how we can use our expertise to support and incentivise improved social and environmental outcomes.

We also aim to support the communities within which we work by using our resources and skills. Whether it’s volunteering with the elderly, feeding the homeless as part of our global Make a Difference programme, working directly with our global charity partner, All Hands and Hearts or indeed making business decisions that take their social and environmental impact into consideration, our aim isn’t just to provide short-term solutions for our communities but to provide sustainable and long-term support through our programmes.

In recognition of the importance of transparency in ESG performance, we will be making this report available as a standalone document for the first time this year.

We have contributed over

\$300,000

to charitable causes in 2018



Our sustainable business
ESG report is described in detail
on pages 59 to 73

Maximising and measuring our impact

Underwriting strategy

Before binding any risks, our underwriters consider the risks being presented in the widest possible sense, including the potential social and environmental impact of the insurance in question.

Investment strategy

Through our investment strategy, we seek to have a positive influence on society and the world at large and we accordingly consider environmental, social and governance (ESG) risks in our decision making.

Environmental

Beazley has reported its environmental impacts under the insurance sector’s ClimateWise initiative since 2007.

Local communities

In 2018, more than 550 Beazley employees around the world participated in a wide range of activities in support of the communities where they work and live, helping young people and vulnerable adults, and restoring local parks and community gardens.

Charitable giving

The company and our employees contributed over \$300,000 to charitable causes in 2018.

Equal opportunity

We work with Stonewall to identify the best support for our colleagues in the LGBT+ community and with Disability Forum to help make our organisation and working environment more ‘disability-smart’. We were the first Lloyd’s managing agent to sign up to the British Government’s Women in Finance Charter.

Prevention of bribery and corruption

Prevention, detection and reporting of bribery and other forms of corruption is the responsibility of all employees. Senior management have overall accountability for ensuring Beazley’s Anti-Bribery and Corruption Policy complies with Beazley’s ethical obligations, and that all those under its control comply with it.

Chairman's statement

“Strong premium growth against a backdrop of challenging market conditions

David Roberts
Chairman



Beazley delivered strong premium growth in 2018 against a backdrop of often challenging market conditions, with premiums rising 12% to \$2,615.3m (2017: \$2,343.8m). Profitability was impacted by underwriting losses in our property insurance and reinsurance business, which fed into a combined ratio for the group of 98% (2017: 99%), as well as a sharply lower investment return. The company generated a return on average shareholders' equity of 5% (2017: 9%).

After 2017's exceptional catastrophe experience, 2018 was only slightly less eventful. There were two hurricanes in the US, Florence and Michael, and two typhoons in Japan, Jebi and Trami, and in November, California experienced massively destructive wildfires for the second year in a row.

We are constantly mindful of the human cost of these traumatic events and the need to act swiftly to help communities and companies rebuild and recover. By year end we had disbursed \$110m in funds to clients afflicted by 2018's natural catastrophes.

The board is pleased to announce a second interim dividend of 7.8p per ordinary share, in line with our strategy of delivering 5-10% dividend growth. Together with the first interim dividend of 3.9p this takes the total dividends declared for 2018 to 11.7p per ordinary share (2017: first interim dividend of 3.7p plus a second interim dividend of 7.4p, totalling 11.1p).

I took over as chairman from Dennis Holt in March 2018. In the six years of Dennis's tenure as chairman, Beazley grew premiums by 37% and generated annual shareholder returns of 31%, a quite remarkable track record. On behalf of the board I would like to thank Dennis for his leadership and wish him well for the future.

I see my role and that of the board as being to challenge, support and advise Beazley's management as they embark on the next phase of profitable growth. Two prerequisites for this growth are clearly present. In recent months, I have been greatly impressed with the talent of individuals at all levels of the organisation. Beazley also has significant headroom to grow in all its major markets and geographies.

This breadth of opportunity is significant. Cyber insurance is perhaps too often cited as a growth opportunity for Beazley – not because it is unimportant but because it can eclipse other promising opportunities. The growth of the US business has been broad-based and our plans for growth outside of the US equally rely on a diverse product range.

Future growth will also increasingly depend on harnessing new technologies and data sources. Beazley took a number of measures to grasp these opportunities in 2018. In particular, our two new IT related strategic initiatives – Beazley Digital and Faster, Smarter Underwriting – should help capture the benefits of new technology and the availability of new data sources across our product range.

Board changes

The changes that Beazley and other insurers are grappling with are more than incremental and they are likely to accelerate. They will necessitate new ways of working, new skills and a new approach to the interaction between people and technology. Succession planning is a critical responsibility for a board, and therefore in the light of planned retirements we have been looking closely at the composition of the Beazley board, taking into account the skills required to compete successfully in this new environment, whilst ensuring we can continue to discharge our responsibility to challenge, support and advise management.

In March 2019, George Blunden will be stepping down from the board, having served for eight years as Beazley's senior independent director, as well as participating on the audit and risk committee, remuneration committee and nomination committee. He has been an outstanding servant of Beazley, helping to guide the company through a period of sustained growth. George will step down from the board at the conclusion of the annual general meeting, but we will continue to benefit from his counsel as a member of the board of our Lloyd's managing agency, Beazley Furlonge Limited.

I am delighted that Christine LaSala will assume the role of senior independent director upon George's retirement from the board. Christine has a long and distinguished career in the insurance industry and has already made a significant contribution to the board.

Following the conclusion of two three-year terms, Angela Crawford-Ingle, non-executive director and chairman of the audit and risk committee, will step down from the board at the conclusion of the 2018 accounting year and when the handover to her successor is complete. On behalf of the board I would like to extend our considerable gratitude to Angela. She has been an excellent chairman of the audit and risk committee and has made a significant contribution to Beazley.

Neil Maidment also retired from the board, and as our chief underwriting officer, at the end of 2018. Neil has made an inestimable contribution over his 28 years at Beazley, for which I am very grateful. We wish him every success and fulfilment in his future ventures.

We announced last March that Adrian Cox would succeed Neil as chief underwriting officer, a role for which he is exceptionally well qualified, having run our largest division, specialty lines, since 2008.

We also announced during 2018 that Martin Bride, our finance director, will retire during 2019 and we are delighted to announce that Sally Lake, currently our group actuary, will take over from Martin during 2019 following a hand over.

Management changes present a twofold opportunity: to bring people with new ideas and experiences into the company and to promote capable and ambitious individuals internally. It is particularly pleasing that the strength of Beazley's talent – for which the company has long been known – has enabled many of our recent senior appointments to be internal.

Beazley has thrived as a specialist insurer for more than three decades by offering brokers products that are well designed to meet their clients' most pressing needs. These skills will continue to be important in the years ahead. However Beazley will additionally need to show itself as a leader in redesigning insurance business processes in a market that is ripe for structural change. I am confident that Beazley possesses the skills and the vision to make this leap.

David Roberts
Chairman



Chief executive's statement

Achieving profitable growth while supporting our insureds is key to Beazley maintaining its long term value

Andrew Horton
Chief executive officer



Beazley delivered strong premium growth in 2018, with gross premiums written rising 12% to \$2,615.3m (2017: \$2,343.8m). Profit before income tax declined by 55% to \$76.4m (2017: \$168.0m) due to a decline in investment returns. Our combined ratio stood at 98% (2017: 99%) and was affected by severe natural catastrophe claims again in 2018.

In November, we estimated the combined cost of two US hurricanes, Florence and Michael, and two Japanese typhoons, Jebi and Trami, at \$105m net of reinsurance and reinstatement premiums. As the year drew to a close, we sustained an additional \$40m of claims net of reinsurance for the wildfires that blazed with unprecedented ferocity in northern California. The previous year's exceptionally heavy catastrophe losses had already depleted our catastrophe reserves with the outcome that prior year reserve releases for the group as a whole in 2018 fell to \$115.0m (2017: \$203.9m).

We are in business to pay claims and the long term value of the company depends on the claims service we provide, which supports strong, enduring relationships with our clients and brokers. When insurers talk of catastrophe claims, they usually mean claims triggered by events such as storms, earthquakes or wildfires. However for our clients any loss may potentially rank as a catastrophe.

Beazley's claims teams worked tirelessly in 2018 to provide the swift and supportive claims service expected by all of our clients.

We have now seen two years of above average claims for short tail property insurance and reinsurance business, following on from five years of very subdued claims activity. The erosion of premium rates we saw between 2012 and 2016 has, to some extent, been reversed. We hope to build on last year's price increases during 2019. In particular, numerous competitors have curtailed their property underwriting following heavy losses and this withdrawal of capacity should make recent price rises more sustainable.

Growth opportunities

Growth in insurance can be opportunistic – driven by firming premium rates – but it can also be strategic, based on an insurer's position in growth markets. Over time, the latter is more important. Beazley is well positioned in a wide array of growth markets. The cyber insurance market, showing double digit annual growth, is perhaps the most widely discussed. Nevertheless demand is also very strong for the specialty liability products we offer to healthcare providers, technology companies, and property developers confronting environmental liability risks.

Our position in markets such as these has underpinned the strong growth of our US operations in recent years, which continued in 2018. We saw locally underwritten US premiums grow 20% during the year to \$1,051.2m (2017: \$878.2m), nearly 90% of which is written on behalf of the group (the balance is attributable to the external investors supporting Beazley syndicate 623). Our US business has grown at an average rate of 18% for the past five years and we foresee further double digit growth during 2019.

Developing a strong foothold in new markets often takes time. Our US accident and health business is a case in point. In recent years, the soaring cost of health benefits to US companies has generated strong demand for 'supplemental health' offerings to employees that are either partly funded by employers or wholly funded by employees. This has not historically been a target market for Beazley and it has taken time to develop the relationships needed to win a share of this business. Under the leadership of Brian Thompson, our US team began to gain real traction in this market in 2017 and this continued into 2018, when we wrote \$20.6m.

Outside the US, we have also been laying the foundations for long term growth. In 2017, our specialty lines division – Beazley's largest – began a concerted effort to capitalise on the growing demand for specialty liability products that we saw developing outside the US, particularly in continental Europe. We saw opportunities in many of the industries that have also fuelled our US growth, such as healthcare and technology, but we also saw significant growth potential in financial institutions business, which we have not historically underwritten in the US.

As described on page 12 and 13 of this report, we have invested heavily in both people and technology to support the growth of our non-US business, hiring 34 underwriters outside the US in 2018. Although we are a UK-based business, Brexit should not present any insurmountable challenges for Beazley. In July 2017 we secured approval from the Central Bank of Ireland for our Dublin based European insurance company, Beazley Insurance dac, to write insurance business. We are accordingly able to underwrite European business for the account of Beazley Insurance dac – which has branches in Germany, France, Spain and the UK – and for the account of our Lloyd's syndicates through the Lloyd's Brussels office.

New strategic initiatives

Change is gathering pace in our industry, fuelled by new technologies and new data sources. In 2018 we launched a series of strategic initiatives to help Beazley adjust to these changes and benefit from them. Our overarching goal is to make the company an even better business partner to our clients and brokers.

A key objective of these initiatives will be to lower, over time, the expense ratios that have proved stubbornly high in our industry. Our value to our clients will dramatically increase if we can pay out less in expenses and more in claims. This in turn will depend on enlisting technology to enhance the productivity of our underwriters and other staff, automating manual processes wherever possible.

Two of our strategic initiatives are tackling this challenge in different ways. Our Beazley Digital initiative focuses on small, relatively simple business, where we see significant scope for automation. Our Faster, Smarter Underwriting initiative is tackling the larger, more complex risks that are the historic mainstay of Beazley's business. We see some opportunities for automation here too, but there is also scope for enlisting new data sources to help us underwrite risks that were previously very hard to price or even deemed uninsurable.

The value we offer to clients depends of course on our underwriting appetite and the claims service that we provide. However it also depends on how easy it is to do business with us. To improve our overall service we need to stand in our clients' shoes and this is the focus of a third strategic initiative we are calling Closer to the Client. In parallel with this, we have been working hard to simplify our policies – a drive epitomised in April 2018 by the launch of a digital version of our WeatherGuard policy that dramatically simplifies weather-related cover for event organisers.

Finally, as a London-based insurer our success is in many respects bound up with the broader success – and particularly the efficiency – of the London insurance market. Last April I was delighted to be invited to chair the London Market Group (LMG), a body that represents all of the market's businesses. At Beazley our London Market strategic initiative was launched during 2018 to ensure that we benefit to the fullest possible extent from the work that the LMG is doing to modernise and promote the London market.

Chief executive's statement *continued*

Executive changes

Succession planning is something we take very seriously at Beazley at all levels in the organisation. Some of our plans are currently being executed: we welcomed four new members to the executive committee in 2018 and a further four will join during 2019. I am delighted that more than half of our recent senior appointments are internal promotions, including all of those to senior underwriting roles.

At the beginning of 2019, Adrian Cox succeeded Neil Maidment as Beazley's chief underwriting officer. Adrian is exceptionally well qualified to assume the role, having run our largest division, specialty lines, since 2008. From the beginning of 2019, we have split this division – which accounted for 56% of our total premiums in 2018 – into two. The new divisions are headed by seasoned Beazley underwriters: one, under the leadership of James Eaton, will continue to be called specialty lines, while the other, under the leadership of Mike Donovan, has been named cyber & executive risk (CyEx).

It is difficult to do justice to the contribution that Neil has made to Beazley. He has overseen the development of one of the best performing underwriting portfolios in the market. He also helped us to shape our business model and brand, and to maintain an open and inclusive culture as the company has grown. We wish him well in all his future endeavours.

In November 2018, Tim Turner succeeded Clive Washbourn as head of Beazley's marine division. Tim joined Beazley in 1998 when the marine division was established and has for several years headed the marine, hull and war risk account within the division. He has represented the marine division on Beazley's underwriting committee since 2016. Clive took the decision to step down for personal reasons. We are however delighted that he has expressed his willingness to continue to offer the team the benefit of his expertise in underwriting and business development.

Mark Bernacki, who joined Beazley in 2005 and has led our property division since 2012, will also be leaving during 2019 and there will be an announcement about his successor as head of property in due course.

Jerry Sullivan, who leads our professions group within specialty lines, is one of the four individuals joining the executive committee during 2019 replacing Mark as the chairman of our US management committee.

Two other key appointments have ensued from the planned retirements of Martin Bride, our finance director, and Dan Jones, who heads our marketing and broker relations functions, in 2019. Martin will be succeeded by Sally Lake in May 2019. Sally has been with Beazley since 2006 in various roles and is the current group actuary. In late 2018, Lou Ann Layton joined us from Marsh as Dan's successor. Prior to joining Beazley Lou Ann held a series of senior positions at Marsh in the US, most recently as head of the south east region.

Investment performance

Beazley's investment returns fell to \$41.1m or 0.8% in 2018 (2017: \$138.3m, or 2.9%), mainly due to a series of interest rate hikes in the US that only generated a modest return for our fixed income portfolio, which accounted for 81% (2017: 76%) of our total investments at year end. A higher US dollar interest rate does, however, mean that the longer term outlook for these investments is more positive than it has been for a number of years.

Our capital growth investments, accounting for 12% of our portfolio at year end (2017: 15%), suffered from the very adverse market conditions that affected many asset classes, generating a loss of 1% (2017: return of 11%). This performance could have been materially worse had our investment team, led by Stuart Simpson, not prudently reduced our exposure to equities part way through the year.

Beazley maintains a conservative investment strategy which has served us well over the years. Nevertheless with financial assets of more than \$5.1bn, it is clear that sharp gyrations in asset values can significantly affect the company's overall performance. In 2018, the 70% decline in our investment return was equivalent in effect to a large catastrophe loss on our underwriting portfolio.



Risk management

Risk management continued to be an invaluable part of our business model and the team, led by Andrew Pryde, undertook a number of special assignments in 2018. In light of the impending Brexit deadline, Beazley implemented a cross business working group to discuss and work through the various possible outcomes ahead of March 2019. At the time of writing, many outcomes still remain on the table but we believe we are well placed to navigate through the uncertainties.

With changes to corporate taxation arising within the US, Beazley also revisited and amended its intragroup reinsurance contracts to ensure that they continued to be as efficient as possible in providing the desired effect on capital allocation and risk management.

The latest chief risk officer report to the board confirmed that the control environment has not identified any significant failings or weaknesses in key processes and that Beazley is operating within risk appetite as at 31 December 2018.

Outlook

Our business confronted some stiff headwinds in 2018, which impacted both our underwriting and investment returns. By contrast, we enter 2019 with some moderate tailwinds: firmer pricing for some lines of business and higher interest rates to underpin our investment returns. However the world remains a very uncertain place, with political risk – the kind that none of us can insure against – threatening global growth through trade wars and protectionism.

In this environment our focus will continue to be on the determinants of growth that we can control, investing in our people, our systems, and in our offices around the world. Emblematic of these investments is our new Birmingham office which opened in February 2018: the first of many new and remodelled offices around the world designed to accommodate the varied workplace needs of our people in the years to come. In 2020, Beazley's London staff will move into similar, futuristic office space at Twentytwo Bishopsgate in the City of London and our New York and Toronto colleagues are already ahead of us in the queue.

It is perhaps fitting that our new Birmingham office houses our robotics team, whose work will free up many of our people's time from repetitive tasks. Our watchword, reflected in the design of our new offices, is flexibility. Beazley has thrived as a specialist insurer by being quicker than competitors to spot opportunities and more decisive in grasping them. The investments we have been making and the strategic initiatives we launched last year are designed to ensure that we can maintain this competitive edge in the years to come.

Andrew Horton
Chief executive

Q&A with the chief executive

Andrew discusses key topics around performance and outlook



Q Do you agree that, as some have argued, Lloyd's is unnecessarily constraining the growth of the market's better performing businesses?

A Lloyd's is the leading market for specialty insurance. However its profitability as a market has come under pressure with falling rates over the past few years and in 2017 its overall result was an underwriting loss even with the impact of the catastrophe events excluded. On the back of this Lloyd's has taken action to ensure businesses operating at Lloyd's, including Beazley, aim to write business profitably. Not surprisingly these actions have had more of an impact on the less profitable operations or lines of business. These challenges to the market have not had a major impact on our growth plans for 2019 but have ensured we remain, as we have always have been, focused on underwriting profitably. Our aim is for each product to secure a profit over the underwriting cycle, which is why we decided in 2018 to withdraw from construction business.

Q Are you satisfied with the performance of Beazley's property division in 2018?

A 2018 is the second consecutive year in which the property division has made a significant loss so, no, we are not satisfied with the performance. Rates in property business had been going down for a number of years and finally in 2018 we saw rates increase. The business has been impacted by the increased cost of attritional claims on top of worse than average catastrophe claims. We started re-underwriting the business in our large risk property book at the end of 2017 and our aim is to see the benefit of this in the improved profitability in 2019 and beyond. We will be closely monitoring the division throughout 2019 to ensure this business returns to acceptable profitability.

Q How has syndicate 5623 performed? Has it succeeded in driving the cost of doing business down?

A Syndicate 5623 focuses on underwriting entire portfolios of business, or shares of portfolios of business. Its aim is to be a low cost operation attracting third party capital delivering reasonable returns with limited volatility. 2018 was the first year of operation and we are pleased with the access we have had to a range of business and, while it is early, we are comfortable with its profitability at this stage. We are aiming to grow 5623 by two and a half times in 2019 and if the model works we will continue to grow this business going forward. The aim of the syndicate is to offer a low cost mechanism for placing follow business within the Lloyd's market. If we can all work to reduce the cost of transacting business in London then we will be able to attract more business into the Lloyd's market.

Q After two years of exceptionally severe wildfires in California, do you see this peril as insurable?

A I think the industry has been surprised at the size of the Californian wildfire losses in 2017 and 2018. If these are going to be regular events in the future then the pricing and structure of insurance covering losses such as these will need to change. There is always a balance between not over-reacting to two years of unusual losses versus ensuring technical pricing properly reflects risk, rather than assuming similar events will not happen in the future.

Q Do you see any adverse effects for Beazley from Brexit?

A I think we have done everything possible to mitigate the impact of Brexit. Over the past couple of years we have been focusing on growing our business in Europe, expanding our underwriting presence in France, Spain and Germany, and we feel that our specialist products will sell well in those countries. Lloyd's has set up Lloyd's Brussels and we are writing business in those countries via that platform and in addition we have our Irish incorporated insurance company with branches in those three countries. So far we have not seen a major negative impact of Brexit on our business although we have seen one or two clients being unwilling to commit their business to Lloyd's whilst there is uncertainty around the Brexit position. The challenge at the moment is uncertainty – hopefully we will know soon where we are and it will be easier to ensure that our plans are fit for purpose.

Q Do you believe that the specialty insurance business will be materially disrupted by outsiders or will incumbents find ways to hold onto the business?

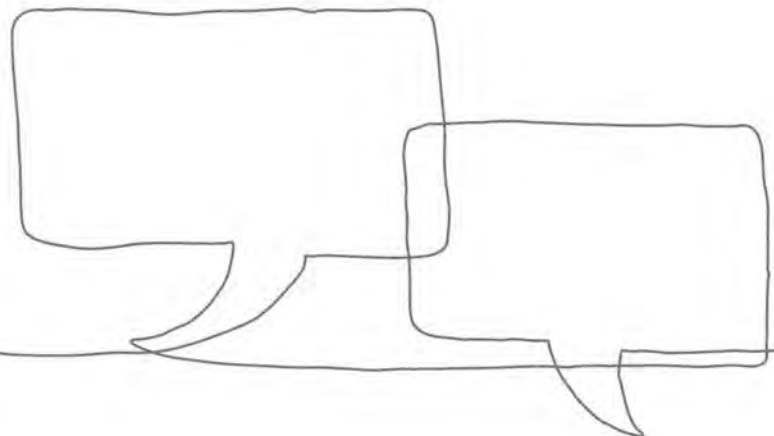
A I think it is up to the incumbents to ensure that they embrace the use of data and technology better than they have done so far. This means insureds working with their brokers and insurers to determine how best to make the placement chain of insurance as efficient as possible. I feel optimistic that there is more progress on this topic now than there has ever been. If the incumbents do not act quickly and decisively then I am sure disruptors will come in and impact us.

Q Has Beazley's investment performance in 2018 prompted any changes to your investment strategy?

A Applying hindsight to set an investment strategy for now which would have worked perfectly a year ago is a classic trap to be avoided. We have a consistent approach and a good balance within our investment portfolio of treasuries, corporate fixed income, and capital growth assets. We concentrate on optimising the return we can get over time given our limited risk appetite. Our focus is being an underwriting company and our aim is to deliver best in class underwriting profits across the cycle together with creditable investment returns.

Q What keeps you up at night?

A Fortunately I have always been a good sleeper. Our business is built on the high quality of the people we employ, retain and develop and attract and the only thing that I worry about from time to time is how we ensure this continues. The culture of the company is of paramount importance to the board and management and we need to ensure that we maintain the entrepreneurial, empowered, transparent culture that we have had for the past 32 years.



Chief underwriting officer's report

Effective cycle management through an active claims environment

Adrian Cox
Chief underwriting officer



Against the backdrop of an active claims environment, 2018 saw Beazley deliver a combined ratio of 98% (2017: 99%) and gross premiums written of \$2,615.3m (2017: \$2,343.8m). All five divisions achieved top line growth year on year with political, accident & contingency, property and specialty lines all achieving double digit growth.

With 2018 being another year of significant natural catastrophes we were pleased that we could record an underwriting profit. Maintaining a diverse portfolio once again showed its value, as the group as a whole was able to compensate for the claims experienced in our catastrophe exposed lines of business.

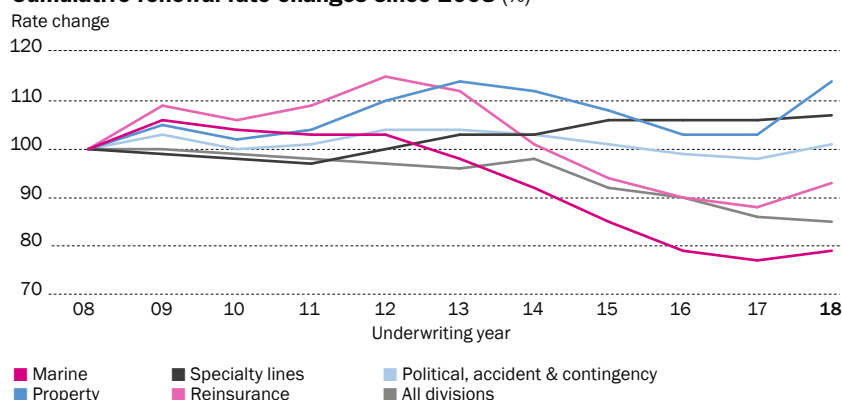
As is inevitably the case with natural catastrophe claims, our reinsurance and property teams were hardest hit with the former registering claims of \$97.7m (2017: \$97.5m). The claims were in the reinsurance division's expectation for such events, with the division recording a combined ratio of 103% (2017: 107%).

We have maintained our philosophy of setting prudent claims reserves initially. In aggregate, the current cost of the 2017 events is within our original estimates albeit there have been some variances at a divisional level.

Our property division saw overall premiums increase 14% to \$415.4m for 2018 (2017: \$362.9m) driven by the double digit rate increase of 10%. However, the active claims market in 2018, with claims arising from the 2018 natural catastrophes as well as a higher level of attritional claims from prior underwriting years, meant that the property division recorded an overall loss of \$80.4m for 2018 (2017: loss of \$68.3m). The division also decided to cease underwriting construction and

engineering business during the year since it was concluded, following close scrutiny of the plans for this product over a number of years, that it would be unlikely to satisfy our cross-cycle profitability requirements in the foreseeable future. This business accounted for approximately 10% of the division's premiums in 2017.

Our specialty lines division was the largest contributor to the group's result achieving a combined ratio of 91% (2017: 89%). The division continued to see strong growth with premiums increasing 14% to \$1,469.0m (2017: \$1,292.2m) helped by rate increases of 1% (2017: flat). Our US platform continues to be the core driver of the division's premiums written, contributing \$760.7m in 2018 (2017: \$632.9m). Our specialty lines international business also began to show promising developments as we saw steady growth in the first full year of underwriting. It is expected that our non-US specialty lines business will become more prominent as we move through 2019.

Cumulative renewal rate changes since 2008 (%)

Our political, accident & contingency division achieved strong top line growth with an increase of 11% to \$238.7m (2017: \$214.3m). We were pleased in particular with the development of our US accident and health business which is focused on the growing supplemental health cover market. It was also pleasing to see all of the lines of business performing well in 2018, generating an improved combined ratio for the division of 90% (2017: 101%).

Our marine division started to benefit from an improved rating environment, most prominent in areas such as aviation and cargo, which allowed the division as a whole to achieve premium growth of 6% to \$284.8m (2017: \$267.6m) and an improved combined ratio for 2018 of 94% (2017: 98%). We expanded our presence in the US during 2018, with the division starting to write marine business out of the Houston office.

Rating environment

The catastrophe loss activity during 2017 had a positive effect on the rating environment with rates increasing by 3% in 2018 across the portfolio (2017: decrease of 1%). Most of our lines of business saw increases in rates compared to 2017, with marine increasing by 3%, property increasing by 10%, reinsurance rates increasing by 6% and specialty lines increasing 1%. However, rates on renewals in our political, accident & contingency division decreased by 1%.

Premium retention rates

In 2018, we were able to maintain a strong retention of business from existing clients and brokers. We believe that being able to work with clients and brokers for a number of years has enabled Beazley to provide coverage which was sustainably priced while still covering the insureds' needs.

The table below shows our premium retention rates by division compared to 2017:

Retention rates ¹	2018	2017
Marine	89%	88%
Political, accident & contingency	76%	79%
Property	73%	82%
Reinsurance	88%	85%
Specialty lines	83%	84%
Overall	82%	84%

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

Outlook

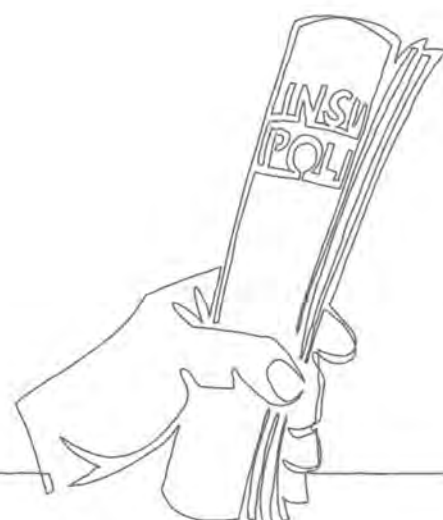
Beazley continues to benefit from the diverse portfolio which the group maintains across its underwriting divisions. Our philosophy of effective cycle management has underpinned our underwriting strategy for many years. We actively seek to grow the areas where we see the best opportunities for future profitability and shrink areas where margins are challenged.

As we enter 2019 we continue to see opportunities for high single digit premium growth. Further development of our business written onshore in the US and of our international specialty lines platform will support this.

Beazley's underwriting strategy of exercising discipline across a diverse portfolio of specialist products will remain a constant. It has enabled us to achieve an underwriting profit in another catastrophe year in 2018 and will position Beazley well as the company goes into 2019.

Adrian Cox

Chief underwriting officer



Performance by division

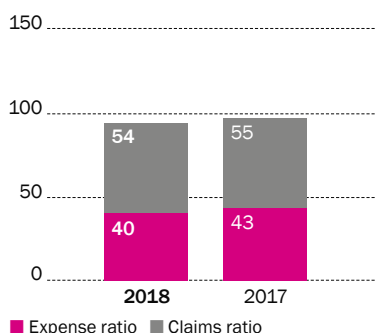
Increased premium with double digit top line growth across three divisions

Marine



Tim Turner
Head of marine

Combined ratio %



	2018 \$m	2017 \$m
Gross premiums written	284.8	267.6
Net premiums written	255.0	233.2
Results from operating activities	20.5	19.3
Claims ratio	54%	55%
Expense ratio	40%	43%
Combined ratio	94%	98%
Rate change	3%	(3%)

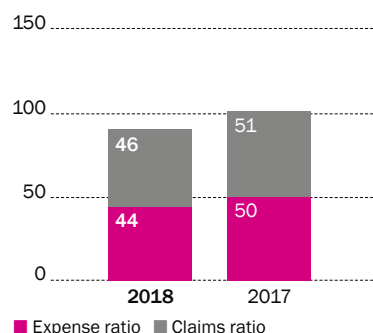
[Find out more on pages 28 to 29](#)

Political, accident & contingency



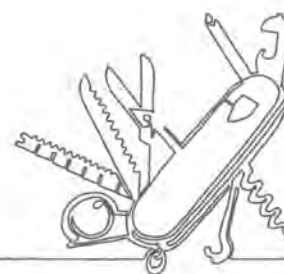
Christian Tolle
Head of political, accident & contingency

Combined ratio %



	2018 \$m	2017 \$m
Gross premiums written	238.7	214.3
Net premiums written	212.7	190.8
Results from operating activities	24.2	7.9
Claims ratio	46%	51%
Expense ratio	44%	50%
Combined ratio	90%	101%
Rate change	(1%)	(4%)

[Find out more on pages 30 to 31](#)

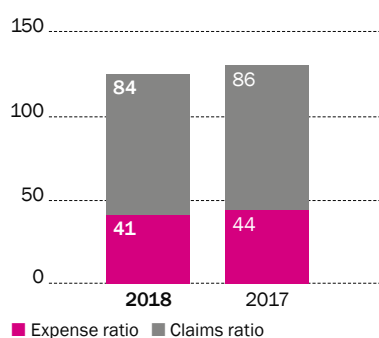


Property



Mark Bernacki
Head of property

Combined ratio %



	2018 \$m	2017 \$m
Gross premiums written	415.4	362.9
Net premiums written	360.2	300.0
Results from operating activities	(80.4)	(68.3)
Claims ratio	84%	86%
Expense ratio	41%	44%
Combined ratio	125%	130%
Rate change	10%	-

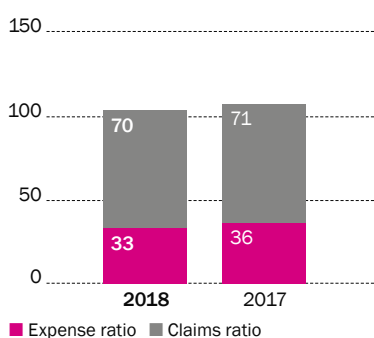
► Find out more on pages 32 to 33

Reinsurance



Patrick Hartigan
Head of reinsurance

Combined ratio %



	2018 \$m	2017 \$m
Gross premiums written	207.4	206.8
Net premiums written	137.3	134.6
Results from operating activities	(1.8)	3.8
Claims ratio	70%	71%
Expense ratio	33%	36%
Combined ratio	103%	107%
Rate change	6%	(2%)

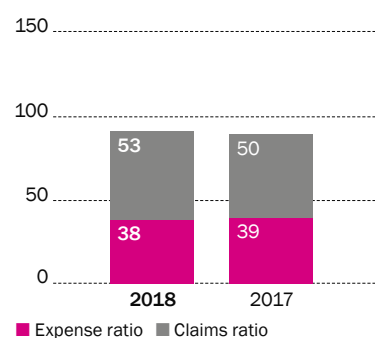
► Find out more on pages 34 to 35

Specialty lines



Adrian Cox
Head of specialty lines

Combined ratio %



	2018 \$m	2017 \$m
Gross premiums written	1,469.0	1,292.2
Net premiums written	1,283.3	1,120.2
Results from operating activities	136.3	227.4
Claims ratio	53%	50%
Expense ratio	38%	39%
Combined ratio	91%	89%
Rate change	1%	-

► Find out more on pages 36 to 37



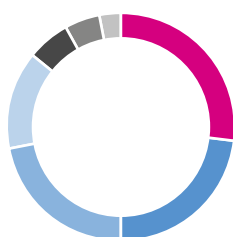
Marine



Tim Turner
Head of marine

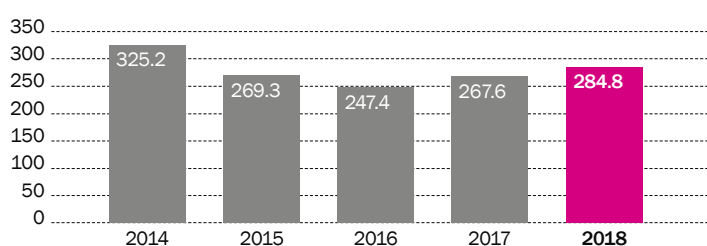
Premium rates for much of the business underwritten in Beazley's marine division started to rise last year, enabling the division to achieve a combined ratio of 94% on premiums of \$284.8m (2017: 98% on premium of \$267.6m), but competition remained intense.

Portfolio mix



● Liability	27%
● Hull & miscellaneous	23%
● Cargo	22%
● Energy	14%
● Aviation	6%
● War	5%
● Satellite	3%

Gross premiums written (\$m)



Gross premiums written

\$284.8m

Result from operating activities

\$20.5m

Lloyd's 'decile 10' initiative, through which Lloyd's syndicates were asked in 2018 to submit remediation plans for the worst-performing 10% of business lines in their portfolios, has had a significant effect on the marine market. After several years of competition that drove the combined ratios of many syndicates well into triple digits, we saw a number of syndicates withdrawing from marine hull, cargo and aviation business. Hull, cargo and aviation rates have recently increased materially.

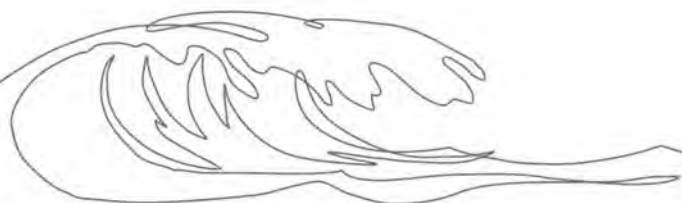
The hull market was significantly impacted by one major loss after the superyacht *Sassi* caught fire while under construction at the Lürssen shipyard in Bremen in northern Germany in September. We expect the loss to contribute further to rising premium rates in this market.

Beazley is well positioned in this context, achieving consistent underwriting profitability within the marine division over the past 10 years and accounting on average for a quarter of the entire Lloyd's marine market's profits between 2013 and 2017.

Two smaller lines of business – marine and aviation war risks and satellite business – made good contributions to our overall profitability in 2018, although we have seen the war risks account shrink steadily in recent years. Aviation business, another relatively small component of the division's total portfolio, has begun at last to see meaningful rate rises after the withdrawal of capacity by a number of our competitors.

Political factors, such as tariffs on trade between the US and China, could potentially have a material effect on the volume of goods transported by our clients and thus on demand for hull and cargo cover, but we have yet to see any impact from such trade tensions.

We had also seen our larger energy account reduce in size under the pressure of falling rates and a declining oil price from 2012, but this trend was reversed in 2018 as the rating environment began to improve. Rising energy prices during much of the year also stimulated an uptick in exploration activity, benefiting our sub-sea team which insures the equipment used in offshore oil and gas exploration. For 2019 we plan to grow our energy business as well as our hull and machinery account.

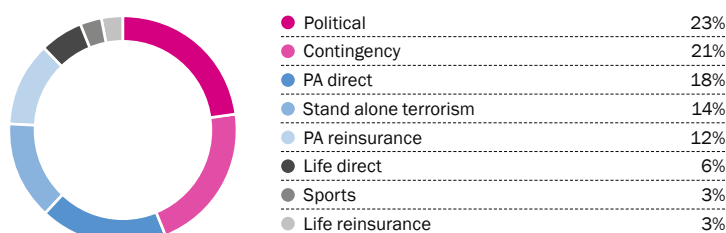


Political, accident & contingency

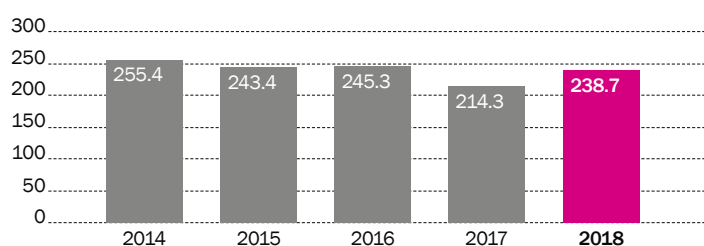


Christian Tolle
Head of political, accident & contingency

Portfolio mix



Gross premiums written (\$m)



Gross premiums written

\$238.7m

Result from operating activities

\$24.2m

All of the lines of business comprising the political, accident & contingency (PAC) division performed well in 2018, generating an improved combined ratio for the division of 90% (2017: 101%) on premiums that grew by 11% to \$238.7m (2017: \$214.3m).

Many of the lines of business in which we specialise, including political risks, terrorism and contingency, are historic areas of focus for the London market and we continue to write the bulk of our business in London. However we also have local teams in the US, Europe and Singapore to access business we would not normally see in London, including the fast growing market for supplemental health insurance solutions for company employees in the US.

Our political risks team had a good year with premium growth of 11% and a far more benign claims environment than we had witnessed in 2017. Only about a third of political risk accounts are renewable so we depend on brokers to bring our teams a steady flow of new business. However, as political tensions rise in many parts of the world, we expect demand for cover to remain strong. Our practice is to reserve prudently for claims, and if the claims do not fully materialise this enables us to make reserve releases in later years: in 2018 we were able to release funds no longer required to meet political risks and trade credit claims on the 2016 and prior underwriting years.

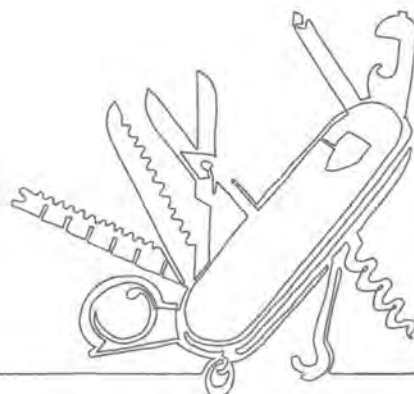
The terrorism market continued to see premium rates decline in 2018, but at a slower rate than in previous years, due to the relative rarity of attacks that result in widespread physical damage. The potential for such attacks of course continues to exist but in recent years terrorists have sadly tended to target people more than property. Attacks of any kind can have a chilling effect on local businesses and we have accordingly been offering loss of attraction cover to companies that may find their business affected by a nearby incident.

Terrorism, or the threat thereof, is also a peril covered by our contingency team, which offers broad cancellation cover for events of widely varying sizes, including some of the world's largest sports and entertainment events. The team had a good year with premium growth of 25%. Our London team, the largest and most experienced in the market, focuses predominantly on large scale events whereas our US underwriters also underwrite a large volume of smaller risks.

In April 2018 in the US we launched a new version of our WeatherGuard policy for weather-related event cancellation risks, offering each policyholder a fully personalised digital policy that can be consulted on a phone. The easy to use digital policy, which also offers automatic claims payment in the event that the insured weather peril occurs, has been very well received by brokers and clients.

The final major component of our business – life, accident and health risks – also performed strongly in 2018. We continued to reshape our London book with a focus on improving the balance in the portfolio. We have been adding underwriting talent to our London team, which now numbers seven, including two underwriters focused on sports disability insurance.

The focus of our US team is purely on accident and health business, and specifically on supplemental health cover for the employees of companies seeking additional protection over and above that provided by high deductible benefit plans. Under the leadership of Brian Thompson, we made excellent progress in carving out a niche for Beazley in this growing market in 2018.



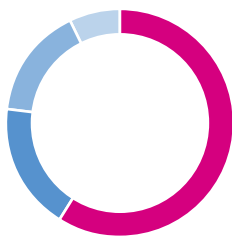
Property



Mark Bernacki
Head of property

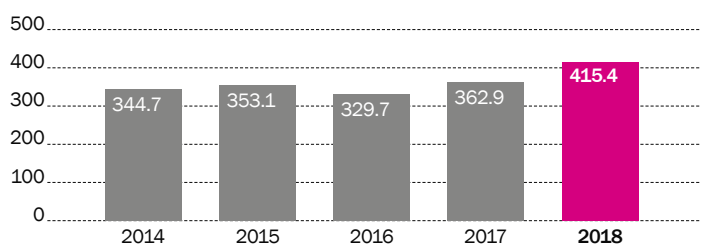
Deteriorating claims experience made 2018 a challenging year for property insurers while ushering in a more favourable pricing environment. At Beazley we saw the cost of the previous year's catastrophes, notably Hurricane Irma, rise and combine with fresh losses from Hurricanes Michael and Florence in the US. Attritional losses also continued at a higher rate than in recent years.

Portfolio mix



Commercial property	59%
Small property business	18%
Jewellers & homeowners	16%
Engineering	7%

Gross premiums written (\$m)



Gross premiums written

\$415.4m

Result from operating activities

(\$80.4m)

As a result we experienced a very high combined ratio of 125% (2017: 130%). This was the second year in a row where a combined ratio over 100% was seen, but after two years of severe claims the strain is telling on the broader market. We have seen more than a dozen Lloyd's businesses either withdraw from direct and facultative property business altogether or sharply curtail their exposures.

In light of the scale of the market losses it is not surprising that we saw significant rate rises on renewal business this year. Rates for our large risk open market property team in London rose by 18% and we saw rates rise across the entirety of our portfolio by 10%.

These rate rises have made for a healthier pricing environment after several years of price erosion. We wrote 14% more business in 2018 than the previous year.

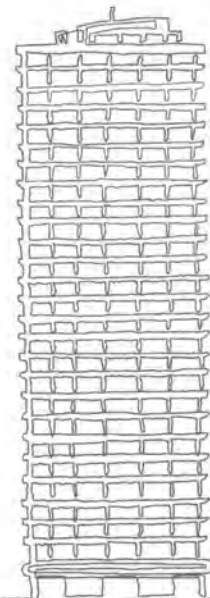
The large risk property business we underwrite in London was most affected by the catastrophe losses of the past two years and increased attritional activity, but other segments of our portfolio were also impacted by increased claims experience. Our small business team led by Paul Bromley writes a large volume of business through binding authorities granted to Lloyd's coverholders around the world. In recent months we have cancelled some of these binders with coverholders in North America, as they failed to meet our profitability requirements.

Furthermore, in October 2018 we took the difficult decision to exit the market for construction and engineering business around the world, transacted through teams in London, the US (where the business is known as builders' risk), Singapore and Latin America. This business accounted for approximately 10%, or \$35m, of our property division's premiums in 2017. After careful analysis, we concluded it was unlikely to satisfy our cross-cycle profitability requirements in the foreseeable future.

We will of course honour the commitments we have made to our brokers and clients as we run off our existing construction and engineering book in a professional and orderly manner, but we have ceased underwriting new business. This decision affects only property risks and has no bearing on the construction liability business that our colleagues in Beazley's specialty lines division continue to write.

London remains our largest underwriting location but we have continued to see strong top line growth in the business we write locally in the US. This business – which comprises mid-market commercial property risks underwritten on a surplus lines basis, a portfolio of homeowners' business in catastrophe-exposed locations, and some large risk commercial accounts – grew 2% last year, contributing to the strong premium growth of Beazley's US operations.

I will be leaving Beazley at the end of April after 13 years with the company and seven years at the helm of our property division and I wish the team continuing success.



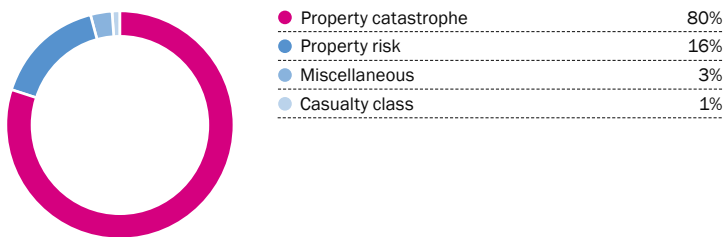
Reinsurance



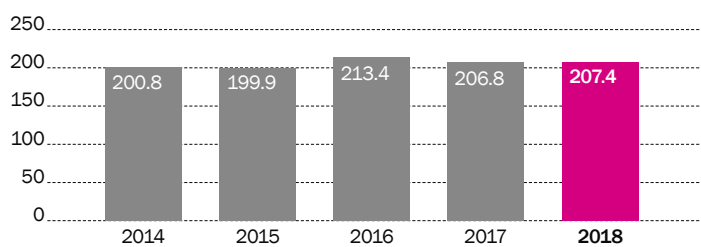
Patrick Hartigan
Head of reinsurance

Two of the major perils that drove our claims experience in 2017 – hurricanes and wildfires – recurred in 2018, resulting in a combined ratio for the year of 103% (2017: 107%) on premiums of \$207.4m (2017: \$206.8m).

Portfolio mix



Gross premiums written (\$m)



Gross premiums written

\$207.4m

Result from operating activities

(\$1.8m)

Beazley has provided consistent reinsurance support to clients in Japan for more than two decades and we accordingly incurred a share of the reinsurance losses from Typhoon Jebi in September, the most severe storm to make landfall in Japan since 1993, and from Typhoon Trami, which hit the south of the country a few weeks later.

Also in September, Hurricane Florence came ashore in North Carolina, triggering massive flood damage over a wide area. The following month, Hurricane Michael became the strongest storm ever to hit the Florida panhandle, with wind speeds of 155 mph. For our reinsurance book, Michael was the more expensive storm, generating reinsurance losses of about half those of Hurricane Irma in 2017.

In aggregate, we incurred an estimated \$41m in reinsurance losses from the storms in Japan and the US in 2018. Total market losses for the Japanese typhoons are estimated at between \$10bn and \$12bn and for the US hurricanes at between \$11bn and \$14bn.

For the reinsurance market, the wildfires that ravaged California for the second year in a row were far less predictable. Wildfire has historically been regarded as an attritional peril by insurers in California but this approach looks unsustainable after the experience of the past two years. Wildfire losses in 2017 are estimated to have cost insurers \$10bn and losses in 2018 look likely to exceed this figure, with current estimates running between \$9bn and \$15bn. Beazley's share of this loss is currently estimated at \$40m.

Questions are now being raised about the insurability of wildfires, but our hope is that it will prove possible to identify effective loss control precautions that can continue to make affordable cover available.

The net effect of 2017's catastrophe losses exerted continued upward pressure on premium renewal rates in January 2018. We saw rate rises averaging 8% for US business, which accounts for approximately 54% of our portfolio, and 5% for non-US business.

In light of the current rating environment, we plan to continue to grow our reinsurance account in 2019.

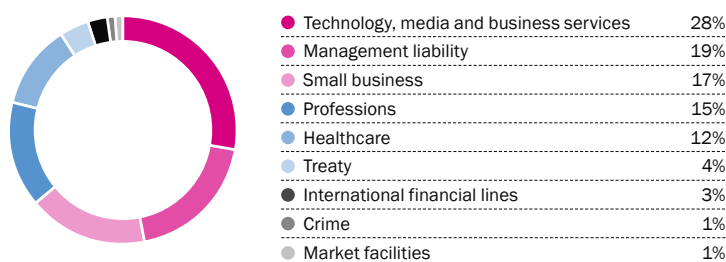


Specialty lines

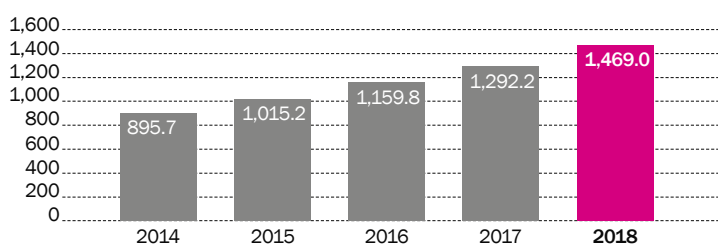


Adrian Cox
Head of specialty lines

Portfolio mix



Gross premiums written (\$m)



Gross premiums written

\$1,469.0m

Result from operating activities

\$136.3m

Specialty lines, Beazley's largest division, was an engine of premium growth for the company in 2018, with premiums rising 14% to \$1,469.0m (2017: \$1,292.2m). Our combined ratio was up to 91% (2017: 89%) following reserve releases that were slightly below those of 2017. Overall we saw rates rise by 1% (2017: flat).

For more than three decades, the US has been the largest and most attractive market for Beazley's specialty lines products, ranging from architects' and engineers' professional liability (A&E) in the early years (and still today) to healthcare and environmental liability insurance more recently. The US continued to account for the bulk of our premium in 2018 and we saw top line growth of 20% in our locally underwritten US business. However our efforts to grow internationally outside the US are also gathering pace, especially in Europe, as demand for our products intensifies.

We expect that the rapid development of our non-US business will, over time, change the geographic mix of our portfolio, although our focus on the US market will certainly not diminish in the process. Our 2019 plan envisages the non-US portion of our portfolio growing to 20%, from 17% in 2018.

Specialty lines accounted for 56% of Beazley's total premium in 2018, covering a very wide array of types of cover and clients ranging in size from the world's largest engineering firms, health systems and technology companies to thousands of small businesses requiring specialist liability policies.

We concluded that it would be beneficial to split this diverse portfolio into two new divisions from 2019 onwards. One division, which continues to be called specialty lines, is now led by James Eaton, who was previously responsible for our small business portfolio. The other, called cyber & executive risk (CyEx), is now led by Mike Donovan, who previously ran our technology, media and business services team.

The rationale for this grouping is that we saw great value in bringing our management liability and cyber business together 'under one roof'. Many of our brokers already group cyber and management liability business together and discuss them in the same breath with clients. Both directors' and officers' insurance (D&O), a major management liability line, and cyber liability risks rank as boardroom issues in the eyes of many of our clients.

The strength of Beazley's cyber business is well known. We saw premiums from this line grow by 9% in 2018 and there is further scope to grow significantly, given that more than half the new business we saw in 2018 was from first time buyers. However we see excellent growth opportunities within our management liability portfolio as well, particularly for products such as Beazley Safeguard, which combines risk management advice, crisis response and liability coverage for organisations entrusted with the care of children or vulnerable adults.

Our ambition within the CyEx division will be to position Beazley as the leading provider of quality management liability coverage for both traditional and emerging exposures – a reputation our cyber team already enjoys. Our London market business will continue to serve as a crucible for innovation in many of these lines: our London underwriters have deep expertise in a number of areas that are not well addressed by many domestic markets, such as 'wage & hour' coverage in the US, protecting companies against claims made under the Fair Labor Standards Act. In July 2018 our management liability launched in London a Lloyd's consortium to offer increased capacity for wage & hour risks.

Innovation is equally important to the team that will continue to trade under the specialty lines name. These include our professions group, led by Jerry Sullivan, with teams focusing on the professional liability needs of lawyers and architects and engineers, as well as our fast growing environmental liability team.

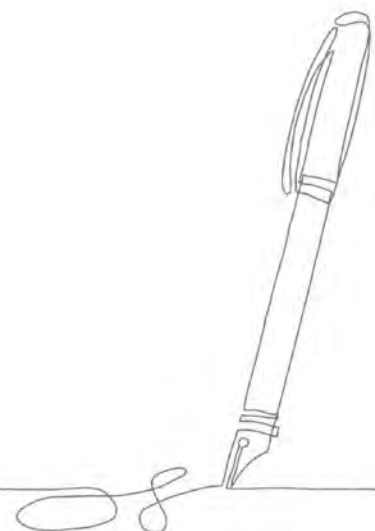
Another major growth area within specialty lines is in the healthcare space, where we have been expanding our offerings to life sciences companies. This segment currently comprises medical device manufacturers, contract research organisations involved in clinical trials, blood and tissue banks, and a range of service providers to the life services sector. It is a field in which companies collaborate closely, generating complex exposures. Adaptability and willingness to innovate need to be second nature: around two thirds of the risks underwritten by Marc Amis and his life sciences team are tailored to meet the unique needs of the individual clients involved. They are accordingly able to offer clients bundled cover for multiple exposures, which is invaluable when a single claim can span multiple forms of insurance.

Finally, specialty lines will also continue to include our small business teams. Automating the operations of these teams as much as possible is the focus of our Beazley Digital strategic initiative, which should increase the productivity of our underwriters significantly. Like most Lloyd's businesses, Beazley began life as a large risk insurer but in recent years we have been writing an ever growing volume of small business risks. These clients, and the brokers who serve them, appreciate the quality of our specialist cover and the claims service that supports them, but we do see opportunities to simplify these products and make the placement process more efficient.

Maintaining the right mix of large risk, mid-market and small business will continue to be central to our thinking at Beazley. In 2018, we continued to observe an active claims environment for some of our larger risk business, including D&O risks, and large professional liability business, including hospitals and health systems. However, in contrast to previous years, we have seen prices beginning to firm in these areas.

In the cyber market, rates have been softening, but we continue to see profitable growth opportunities. The strongest growth we saw last year was outside the US, where the impact of the European Union's General Data Protection Regulation and similar regulations in other regions is now beginning to bite. The business interruption risk presented by cyber attacks also continues to worry our clients and is no longer exclusively the concern of the larger businesses we insure.

From the beginning of 2019, I assumed the role of chief underwriting officer at Beazley. It was very gratifying that we did not need to look outside the company to fill the key underwriting and leadership roles within our two new divisions.



Sustained profitable growth



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 and our underwriting operations have an unbroken record of profitability.

Trading
began
1986

1986► 1991

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

UK windstorms \$3.5bn

European storms \$10bn

Flotation
2002

1992► 2000

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

US Hurricane Andrew \$17bn

UK Bishopsgate explosion \$750m

US Northridge earthquake \$12.5bn

European storms \$12bn

2001► 2007

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)

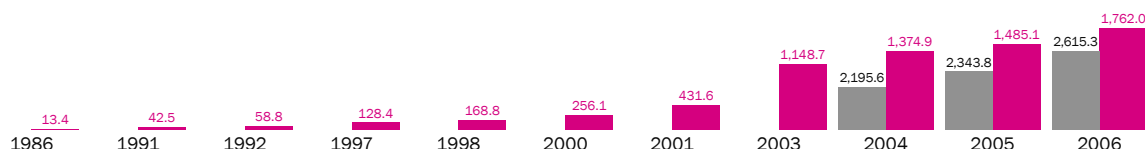
US 9/11 terrorist attack \$20.3bn

SARS outbreak in Asia \$3.5bn

US Hurricanes Katrina, Rita and Wilma \$101bn

Managed gross premiums and Group share \$m

■ Managed gross premiums
■ Group share



2008

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 Hurricane Ike \$20bn

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

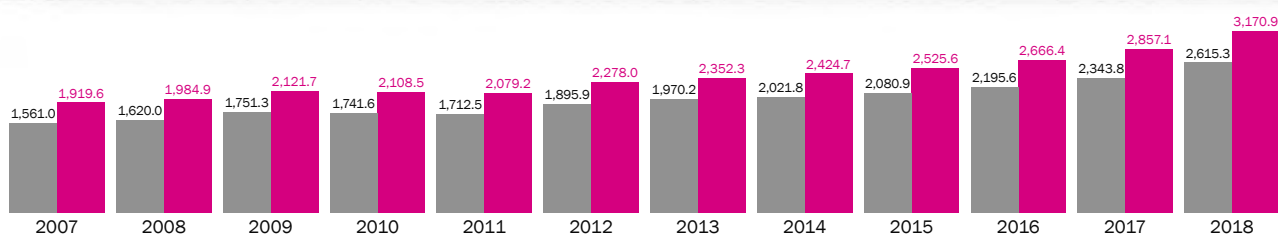
Neil Maidment retires as chief underwriting officer

Beazley closes Oslo office

Hurricanes Florence and Michael \$11-14bn

Typhoons Jebi and Trami \$10-12bn

Californian wildfires \$9-15bn



Financial review

Group performance

A robust financial performance despite high levels of claims and a low investment return

Martin Bride
Finance director



Profit

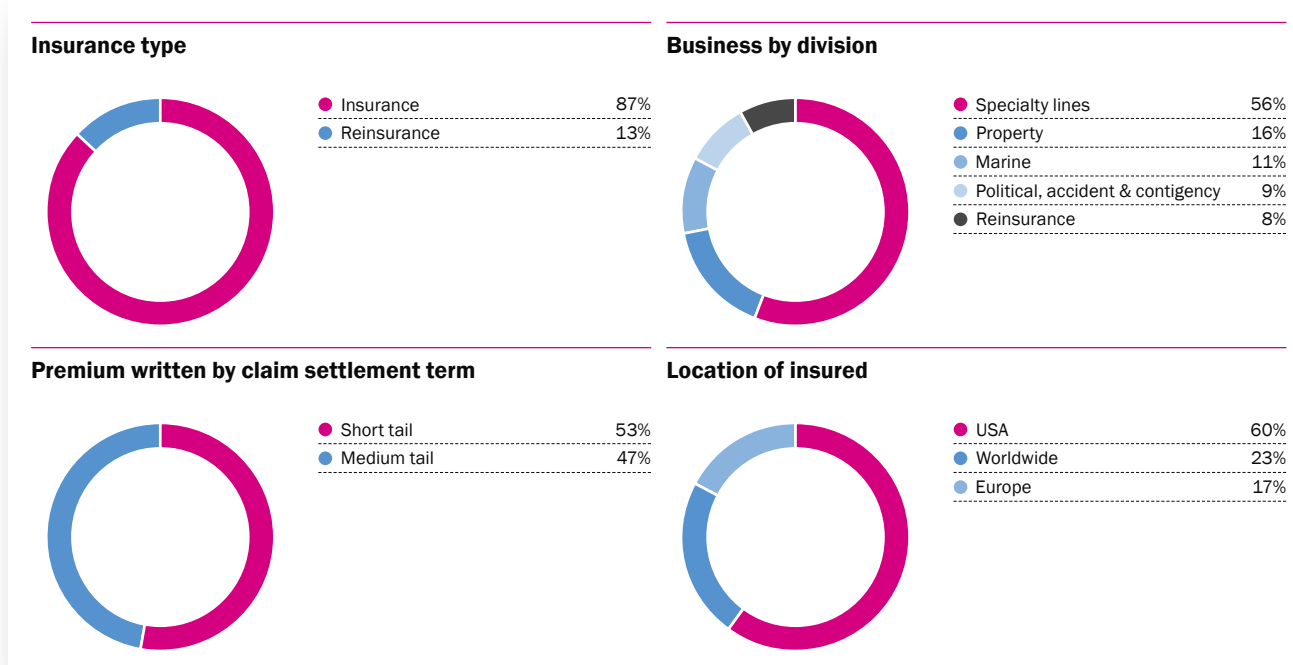
Profit before tax in 2018 was \$76.4m (2017: \$168.0m). The group's combined ratio improved slightly to 98% (2017: 99%) thanks to an improving expense ratio in what was another year of high claims activity. By recording an underwriting profit we once again demonstrated the resilience of our portfolio. Our investment team achieved an investment return of 0.8% (2017: 2.9%) or \$41.1m (2017: \$138.3m).

Premiums

Gross premiums written have increased by 12% in 2018 to \$2,615.3m (2017: \$2,343.8m). We are confident of the quality of this growth, which is the fruit of sustained investment in our underwriting teams and our patience in waiting for the appropriate conditions, market by market, before growing. Rates on renewal business on average increased by 3% across the portfolio (2017: decreased by 1%) with our catastrophe exposed lines obtaining the largest increases.

Our portfolio mix is broadly unchanged from 2017. We continue to operate a diversified portfolio by type of business and geographical location.

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



Statement of profit or loss

	2018 \$m	2017 \$m	Movement %
Gross premiums written	2,615.3	2,343.8	12%
Net premiums written	2,248.5	1,978.8	14%
Net earned premiums	2,084.6	1,869.4	12%
Net investment income	41.1	138.3	(70%)
Other income	33.7	35.5	(5%)
Revenue	2,159.4	2,043.2	6%
Net insurance claims	1,227.8	1,075.7	14%
Acquisition and administrative expenses	812.6	774.4	5%
Foreign exchange loss	13.2	3.1	326%
Expenses	2,053.6	1,853.2	11%
Share of profit of associates	-	0.1	
Impairment of investment in associate	(7.0)	-	
Finance costs	(22.4)	(22.1)	
Profit before tax	76.4	168.0	
Income tax expense	(8.2)	(38.0)	
Profit after tax	68.2	130.0	
Claims ratio	59%	58%	
Expense ratio	39%	41%	
Combined ratio	98%	99%	
Rate increase/(decrease)	3%	(1%)	
Investment return	0.8%	2.9%	

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 section (inside front cover) and in the glossary on page 198.

Financial review *continued*

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 2018 was \$366.8m (2017: \$365.0m). As a percentage of gross premiums written it decreased to 14% from 16% in 2017 due to a desire to keep reinsurance spend flat year on year.

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 reduced in 2018 to 98% (2017: 99%) thanks to an improvement in the expense ratio.

Claims

Claims activity in 2018 was very similar to that seen in 2017. Hurricanes Florence and Michael hit the US, while Typhoons Jebi and Trami affected Japan. Added to this, wildfires broke out in California for the second year in a row causing widespread damage. Whilst these natural disasters were not quite at the level of the catastrophes experienced in 2017, they combined with higher attritional claims particularly in our property account and the lower reserve releases compared to 2017 that we had signalled, to cause the claims ratio to increase slightly to 59% (2017: 58%).

Reserve releases

Beazley has a consistent reserving philosophy, with initial reserves being set to include risk margins that may be released over time as and when any uncertainty reduces. Historically these margins have given rise to held reserves within the range of 5-10% above our actuarial estimates, which themselves include some margin for uncertainty. The margin held above the actuarial estimate was 5.6% at the end of 2018 (2017: 5.0%). Whilst the margin is higher than year end 2017, it is still towards the low end of the range that management targets, which is in part a result of the above average natural catastrophe activity again in 2018. As a consequence, reserve releases in 2019 are likely to be below the long term average level particularly in the short tail classes affected by the natural catastrophes. However, it is important to recognise that while there is strong correlation between the level of margin and future reserve releases, current year developments can also affect releases either positively or negatively.

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

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

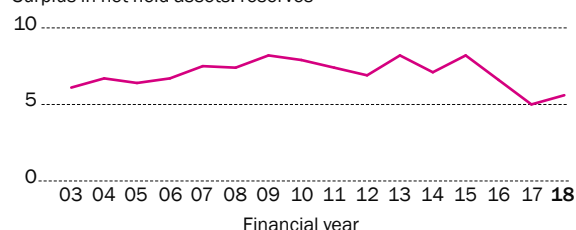
	2014 \$m	2015 \$m	2016 \$m	2017 \$m	2018 \$m	5 year average \$m
Marine	40.2	31.2	15.9	10.7	12.5	22.1
Political, accident & contingency	24.5	23.7	27.2	3.9	14.8	18.8
Property	35.9	37.8	36.8	13.2	(47.3)	15.3
Reinsurance	27.8	44.9	32.3	54.7	23.8	36.7
Specialty lines	29.7	38.7	68.5	121.4	111.2	73.9
Total	158.1	176.3	180.7	203.9	115.0	166.8
Releases as a percentage of net earned premium	9.5%	10.4%	10.2%	10.9%	5.5%	9.3%

The reserve releases in 2018 decreased to \$115.0m (2017: \$203.9m). Our property division strengthened its reserves materially. Approximately half of this was driven by increasing the reserves for the 2017 catastrophes, notably Hurricane Irma, and the balance was due to higher than expected attritional claims in our property division, particularly in relation to the 2016 and 2017 underwriting years. Our overall reserves for the 2017 catastrophes proved sufficient and the downward revisions in our reinsurance division that counter balanced the increases in the property division were the major driver of that division's release. Our specialty lines division maintained a strong level of reserve release in 2018 at \$111.2m (2017: \$121.4m) including meaningful amounts from the 2015/2016 cyber portfolio. This part of the specialty lines portfolio is effectively short tail and will show more year on year variability than the balance of the division.

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 (%)

Surplus in net held assets: reserves



Financial review *continued*

Group performance *continued*

Acquisition costs and administrative expenses

Business acquisition costs and administrative expenses increased during 2018 to \$812.6m from \$774.4m in 2017. The breakdown of these costs is shown below:

	2018 \$m	2017 \$m
Brokerage costs	461.1	431.1
Other acquisition costs	100.8	88.6
Total acquisition costs	561.9	519.7
Administrative expenses	250.7	254.7
Total acquisition costs and administrative expenses	812.6	774.4

Brokerage costs are the premium commissions paid to insurance intermediaries for providing business. As a percentage of net earned premiums they have decreased slightly to 22% in the current year (2017: 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.

Beazley's overall expense ratio was down by two percent from 41% in 2017 to 39%. It is also flat five years on from 2013 when it was also 39%. The company has always stressed that improving the expense ratio during the phases of stronger growth was a key objective. It is encouraging that this outcome has been achieved whilst at the same time maintaining investment in future growth opportunities.

Foreign exchange

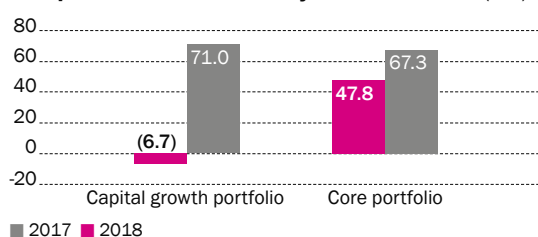
The majority of Beazley's business is transacted in US dollars, which is the currency we have reported in since 2010 and the currency in which we hold the company's net assets. Changes in the US dollar exchange rate with sterling, the Canadian dollar and the euro do have an impact as we receive premiums in those currencies and a material number of our staff receive their salary in sterling. Beazley's foreign exchange loss taken through the statement of profit or loss in 2018 was \$13.2m (2017: loss of \$3.1m).

Investment performance

2018 proved to be a difficult year for investments and many asset classes have produced negative returns. Whilst our absolute return was disappointing, most of the portfolio performed well relative to its benchmarks and the management actions of Stuart Simpson and his team had a positive effect at the margin. US interest rates were increased four times as the Federal Reserve continued to reverse the easing monetary policies of recent years and officials indicated that interest rates would continue to rise through 2019. As a result US bond yields rose throughout most of the year, generating capital losses on these securities. These developments, combined with continuing tensions over international trade and signs that global economic growth may be slowing, has led to growing pessimism about prospects for global economic activity, culminating in a significant correction in risk asset values, including equities and credit, in the final quarter of the year.

We reduced our exposure to more volatile capital growth investments from 14.8% to 12.1% of assets during the year, which was beneficial as these exposures produced a negative return in this period, with equities the worst performing asset class as the global equity index declined by more than 7%. We halved our equity exposure, from 3.4% to 1.7% of assets, during the period. Our fixed income investments grew from 76.0% to 81.1% of assets in 2018 and this portfolio returned 1.3%, held back by rising interest rates and widening credit spreads, but helped by the significant decline in US bond yields during December. Our overall investment return for the year ending 31 December 2018 was 0.8%, or \$41.1m (2017: 2.9%, \$138.3m). Rising yields in 2018 have increased the average yield of our fixed income investments to 3.3% and this should support better investment returns in future periods.

Comparison of returns – major asset classes (\$m)



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

	31 Dec 2018		31 Dec 2017	
	\$m	%	\$m	%
Cash and cash equivalents	336.3	6.7	440.5	9.0
Fixed and floating rate debt securities				
– Government, quasi-government and supranational	1,410.1	27.9	1,390.6	28.4
– Corporate bonds				
– Investment grade	2,525.3	50.0	2,179.7	44.6
– High yield	32.7	0.6	58.8	1.2
– Senior secured loans	132.1	2.6	85.6	1.8
Derivative financial instruments	6.9	0.1	8.8	0.2
Core portfolio	4,443.4	87.9	4,164.0	85.2
Equity funds	85.4	1.7	168.3	3.4
Hedge funds	337.2	6.7	377.4	7.7
Illiquid credit assets	186.6	3.7	180.4	3.7
Total capital growth assets	609.2	12.1	726.1	14.8
Total	5,052.6	100.0	4,890.1	100.0

Comparison of return by major asset class:

	31 Dec 2018		31 Dec 2017	
	\$m	%	\$m	%
Core portfolio	47.8	1.1	67.3	1.6
Capital growth assets	(6.7)	(1.0)	71.0	11.0
Overall return	41.1	0.8	138.3	2.9

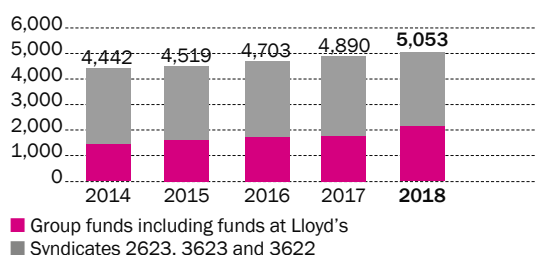
During 2018, the funds managed by the Beazley group increased on the prior year, with financial assets at fair value and cash and cash equivalents of \$5,052.6m at the end of the year (2017: \$4,890.1m). The chart below shows the increase in our group funds since 2014.

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 18.6% (2017: 18.7%). The effective tax rate has decreased in 2018 to 10.7% (2017: 22.6%). The decrease has been possible thanks to the revision of prior years' US tax returns to incorporate additional tax deductions for staff costs, including share based payments.

The application of the diverted profits tax legislation passed by the UK government early in 2015 still remains uncertain. We have considered the implication of this and retain the view that this tax should not apply to Beazley (see note 9 to the financial statements). Whilst the uncertainty around the legislation remains, the quantum of our earnings that could theoretically fall within its scope grows as the period since the legislation started to apply lengthens.

Beazley group funds (\$m)



Financial review *continued*

Balance sheet management

Summary statement of financial position

	2018 \$m	2017 \$m	Movement %
Intangible assets	126.5	133.5	(5%)
Reinsurance assets	1,192.8	1,231.1	(3%)
Insurance receivables	943.3	918.0	3%
Other assets	418.7	386.0	8%
Financial assets at fair value and cash and cash equivalents	5,052.6	4,890.1	3%
Total assets	7,733.9	7,558.7	2%
Insurance liabilities	5,456.2	5,167.8	6%
Financial liabilities	356.7	367.3	(3%)
Other liabilities	454.1	524.7	(13%)
Total liabilities	6,267.0	6,059.8	3%
Net assets	1,466.9	1,498.9	(2%)
Net assets per share (cents)	280.4c	287.1c	(2%)
Net tangible assets per share (cents)	256.2c	261.6c	(2%)
Net assets per share (pence)	219.6p	215.3p	2%
Net tangible assets per share (pence)	200.7p	196.2p	2%
Number of shares¹	523.1m	522.0m	-

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

Intangible assets

Intangible assets consist of goodwill on acquisitions of \$62.0m (2017: \$62.0m), purchased syndicate capacity of \$10.7m (2017: \$10.7m), US admitted licences of \$9.3m (2017: \$9.3m), renewal rights of \$25.2m (2017: \$35.2m) and capitalised expenditure on IT projects of \$19.3m (2017: \$16.3m).

Reinsurance assets

Reinsurance assets represent recoveries from reinsurers in respect of incurred claims of \$951.7m (2017: \$993.2m), and the unearned reinsurance premiums reserve of \$241.1m (2017: \$237.9m). The reinsurance receivables from reinsurers are split between recoveries on claims paid or notified of \$231.9m (2017: \$219.4m) and an actuarial estimate of recoveries on claims that have not yet been reported of \$719.8m (2017: \$773.8m). The group's exposure to reinsurers is managed through:

- minimising risk through selection of reinsurers who meet strict financial criteria (e.g. minimum net assets, minimum 'A' rating by S&P). These criteria vary by type of business (short vs medium tail). The chart on page 47 shows the profile of these assets (based on their S&P rating) at the end of 2018;
- 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 2018 our provision in respect of reinsurance recoveries totalled \$12.2m (2017: \$13.2m).

Insurance receivables

Insurance receivables are amounts receivable from brokers in respect of premiums written. The balance at 31 December 2018 was \$943.3m (2017: \$918.0m).

Other assets

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

- deferred acquisition costs of \$307.4m (2017: \$281.4m);
- profit commissions of \$5.9m (2017: \$10.1m); and
- deferred tax assets available for use against future taxes payable of \$28.9m (2017: \$6.9m).

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.

Insurance liabilities

Insurance liabilities of \$5,456.2m (2017: \$5,167.8m) consist of two main elements, being the unearned premium reserve (UPR) and gross insurance claims liabilities.

Our UPR has increased by 12% to \$1,415.5m (2017: \$1,259.2m). The majority of the UPR balance relates to current year premiums that have been deferred and will be earned in future periods. Current indicators are that this business is profitable.

Gross insurance claims reserves are made up of claims which have been notified to us but not yet paid of \$1,171.2m (2017: \$1,056.3m) and an estimate of claims incurred but not yet reported (IBNR) of \$2,869.5m (2017: \$2,852.3m). These are estimated as part of the quarterly reserving process involving the underwriters and group actuary. Gross insurance claims reserves have increased 3% from 2017 to \$4,040.7m (2017: \$3,908.6m).

Financial liabilities

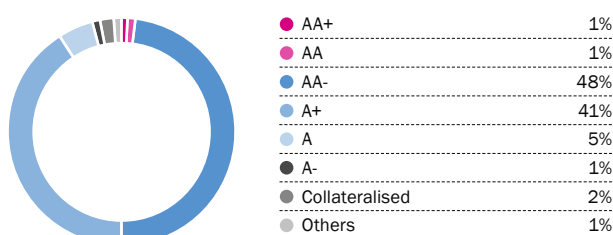
Financial liabilities comprise borrowings and derivative financial liabilities. The group utilises two long term debt facilities:

- during September 2012 we issued a sterling denominated 5.375% retail bond under a £250m euro medium term note programme which raised £75m for the group and is due in 2019. This diversified the source and maturity profile of the group's debt financing; and
- in November 2016, Beazley Insurance dac issued \$250m of 5.875% subordinated tier 2 notes due in 2026.

In October 2018, the group exercised its call option and redeemed the full nominal amount of \$18.0m subordinated debt issued in 2004.

A syndicated short term banking facility led by Lloyds Banking Group plc provides potential borrowings up to \$225m. Under the facility \$225m may be drawn as letters of credit to support underwriting at Lloyd's. Of this, 100% may be advanced as cash under a revolving facility. The cost of the facility is based on a commitment fee of 0.385% per annum and any amounts drawn are charged at a margin of 1.1% per annum. The cash element of the facility will expire on 31 July 2019, whilst letters of credit issued under the facility can be used to provide support for the 2017, 2018 and 2019 underwriting years. The facility is currently unutilised.

Reinsurance debtor credit quality



Financial review *continued*

Capital structure

Capital structure

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

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

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

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

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

In 2018, Beazley acquired 6.0m of its own shares into the employee benefit trust. These were acquired at an average price of 547p and the cost to the group was £32.8m.

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

	2018 \$m	2017 \$m
Shareholders' funds	1,466.9	1,498.9
Tier 2 subordinated debt (2026)	248.7	248.5
Retail bond (2019)	95.6	99.5
Long term subordinated debt (2034)	-	18.0
	1,811.2	1,864.9

Our funding comes from a mixture of our own equity alongside \$248.7m of tier 2 subordinated debt, a \$95.6m retail bond and an undrawn banking facility of \$225.0m.

The changes in the US tax legislation announced towards the end of 2017 have led us to reconsider how risk is distributed across the group and following changes to Beazley's internal reinsurance programs, more premium and more risk is retained within the US in our admitted insurance company, BICI. As a result of this, BICI has required a c.\$80m increase in its capital, which was partially offset by a decrease in the Lloyd's ECR. The net impact on the group's capital requirement was not material. These changes do not impact how Beazley manages its operations. We expect that Beazley's revised internal reinsurance arrangements may still result in some exposure to the new US BEAT tax, but that it will not have any significant impact on the group's effective tax rate.

The final Lloyd's economic capital requirement (ECR) at year end 2018 as confirmed by Lloyd's is consistent with our projection at the interim results and reflects our plans for growth. Overall we expect our capital requirement to grow in line with the net written premiums in our business plan, which in the short term should be high single digit.

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

	2018 \$m	2017 \$m
Lloyd's economic capital requirement (ECR)	1,594.5	1,517.2
Capital for US insurance company	173.4	96.5
	1,767.9	1,613.7

At 31 December 2018, we have surplus capital of 26% of ECR (on a Solvency II basis). Following payment of the second interim dividend of 7.8p, this surplus reduces to 23% compared to our current target range of 15% to 25% of ECR.

Solvency II

The Solvency II regime came into force on 1 January 2016. Beazley continue to provide quarterly Solvency II pillar 3 reporting to both Lloyd's for the Beazley managed syndicates and the Central Bank of Ireland for Beazley Insurance dac and Beazley plc. During 2018 the second 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.

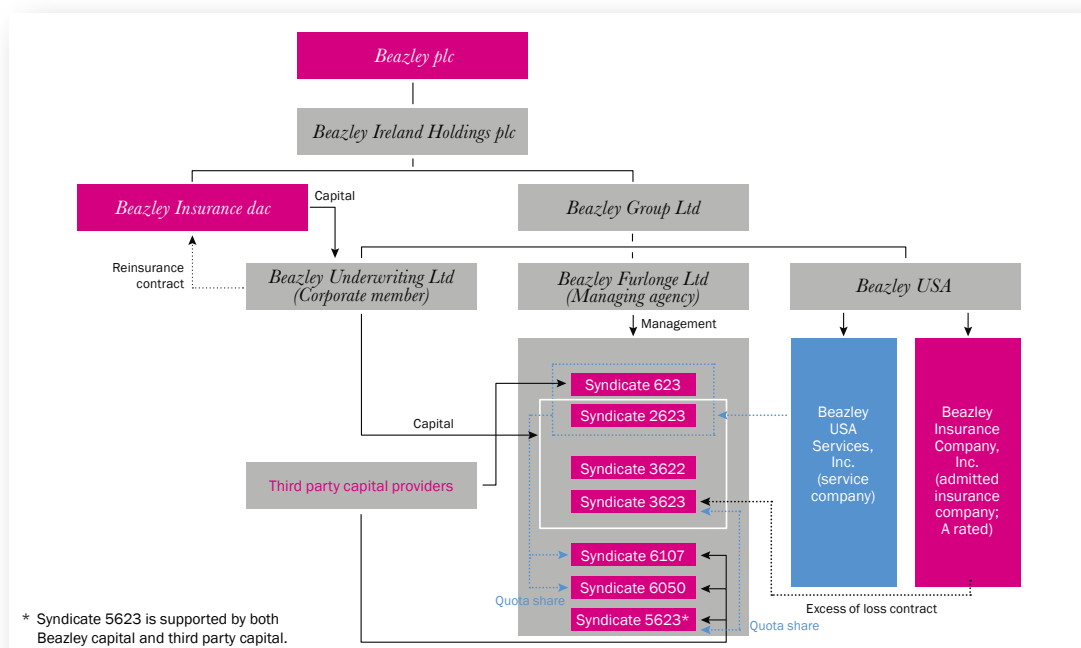
IFRS 17

The implementation of IFRS 17: Insurance contracts is currently scheduled for accounting periods commencing on or after 1 January 2021, although a 12 month deferral is widely expected. 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 2018 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 which holds £75m sterling denominated notes;
- Beazley Underwriting Limited – corporate member at Lloyd's writing business through syndicates 2623, 3622 and 3623;
- Beazley Furlonge Limited – managing agency for the seven syndicates managed by the group (623, 2623, 3622, 3623, 6107, 6050 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, facilities business;
- Syndicate 6050 – special purpose syndicate which has its capital provided by third party names and provided reinsurance to syndicates 623 and 2623 on the 2015, 2016 and 2017 years of account;
- Syndicate 5623 – special purpose syndicate writing facilities ceded from syndicate 3623;
- Beazley Insurance Company, Inc. (BICI) – insurance company regulated in the US. Licensed to write insurance business in all 50 states; and
- Beazley USA Services, Inc. ('BUSA') – managing general agent based in Farmington, Connecticut. Underwrites business on behalf of Beazley syndicates and BICI.



Operational update



Ian Fantozzi
Chief operating officer

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

To support Beazley's continuing growth we have developed a scalable and efficient operating platform that through focused investment has become an important competitive advantage. A high performing global operations function relies on us maintaining consistency in operational standards throughout the group, while simultaneously being prepared to try new things and leverage our depth of insurance operations expertise to give us a lead over the competition. In order to achieve this, we pursue our group operations strategy. This focuses on the areas below:

Supporting growth initiatives

In support of our growth plan, we have continued to enhance our infrastructure so that we can bring attractive new products to market as efficiently as possible. Expanded versions of our products such as Information Security for mid-sized and large businesses, and expanded regulatory coverage for nutraceutical firms are examples of products we launched in 2018.

We have also supported the launch of several financial lines products in Europe via our Europe based insurance company. Key to growing the distribution of smaller risk business has been the ongoing expansion of our myBeazley.com e-trading platform. The latest e-trading product launches have been for our financial lines market offering, with a new management liability package product delivered in October 2018, with subsequent go-lives planned in early 2019 for France and Spain. Meanwhile in the US, another myBeazley.com product launch was the small enterprise MediaTech package, which provides a quick and simple way for small businesses to access specialist insurance coverage.

Supporting business growth relies on effective processes and systems, but it is also important that we have a high quality working environment that is conducive to team working and thought leadership. In 2018, we opened a new larger Munich office that will help to increase our access to continental European business. We also opened a new Birmingham office which has the capacity to take over 150 Beazley staff. This office now provides both an operations hub to support our UK and European growth, and also a facility to make it easier for UK regional brokers to access our business.

Cost efficiency

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

In pursuit of greater efficiency and consistency of operational service, we have centralised operations support or outsourced it where this brings further value. We want to make sure that operations and processing are done by appropriately skilled people, at the most cost effective location, whilst providing the best service levels. To help achieve this we have built operations service centres in Connecticut and Georgia, both in the US, and the new Birmingham office provides a cost-effective alternative to London. It also benefits from excellent access to skills relevant to Beazley's future growth plans, for example in technology, data analytics and financial services support generally.

We also make use of global outsourcing agreements for business processing support and information technology support. These arrangements have been carefully planned and selected to ensure we can maximise a highly efficient and scalable operating platform to support our business growth. A significant proportion of our IT is now outsourced to specialist technology vendors. Not only has this enabled us to deliver far more for our shareholders' money, but it has also been a source of expertise and ideas that would have been difficult to build in-house.

Managing operational risk effectively

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

A widely discussed topic across our industry is the preparation for the UK departure from the EU. We have worked closely with the Lloyd's Brussels subsidiary and our regulators to make sure that we are operationally ready for a post Brexit world.

Over the last two years, another area of focus across our industry was the preparation for the General Data Protection Regulation (GDPR) which came into effect in May 2018. We see the privacy of our customer data, and the rights associated to the use of personal data, as very important to preserve. In previous years, Beazley has made significant investment in this area and so our preparation for GDPR had been a continuation of this work. We completed our GDPR readiness project prior to the May deadline and believe that we have put the necessary measures in place to be GDPR compliant.

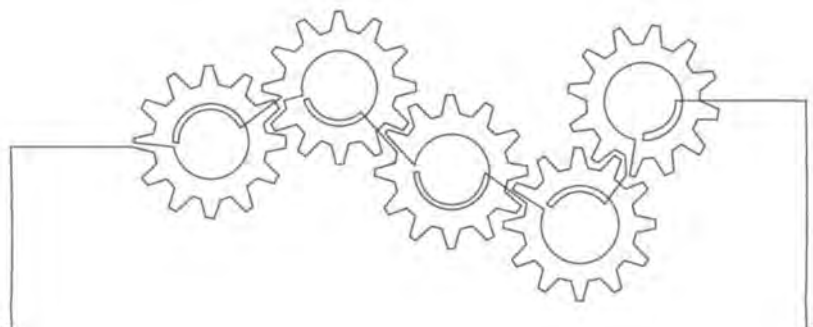
Beazley's digital transformation

We have had some notable successes in the two years since establishing the Beazley Labs team, which provides dedicated resource for researching new technology and data analytics solutions. One has been the implementation of a permanent robotics development team that is steadily eliminating manual or repetitive tasks within our back office. We have run several data analysis trials which have generated new insights to support our specialist underwriting and claims handling. A recent example was the use of natural language processing software to identify patterns within high volumes of US hospital claims data. The analysis has been used to identify correlations between key terms in submission data and claims activity, and these are now used to support our medical malpractice underwriting and to provide risk management advice back to our clients.

We can see many applications of data and technology across our business, and there continues to be a flow of technology innovations that we could pursue. However, as we move further into the digital age, we recognise that it's not just about the technology. To truly transform our business and make it fit for a digital environment, there are other areas we must focus on:

1) Applying technology and data to our business model

Our specialist insurance business provides cover for a broad range of client risks – both smaller risks such as those covered by our SME business products, and larger complex risks such as those covered by our marine energy products. Different technology solutions are best applicable to different points on this spectrum of risk size and complexity. So that we best leverage technology, we have created two new strategic initiatives: Beazley Digital to focus on our smaller and higher volume underwriting; and Faster, Smarter Underwriting to focus on our larger and more complex risk underwriting.



Operational *update continued*

The goal of Beazley Digital is to take out any unnecessary points of manual interaction in the underwriting process, which is key to writing profitable business and to minimising response times for our higher volume products. The main technologies that we are applying here are: myBeazley.com, for our brokers wanting an end-to-end electronic trading portal; natural language processing, to enable us to quickly extract underwriting data from the high volumes of submission emails we receive; and Application Programming Interfaces (APIs), so that we can interface directly with broker IT systems and provide quotes or policies without any re-keying required by either the broker or Beazley staff. In an increasingly connected world, we see APIs as a critical technology for transacting business. In 2018, for example, in partnership with a large broker, we launched our cyber pricing API in both Spain and Australia.

Faster, Smarter Underwriting aims to use technology and data to support the expert judgement of our underwriters. The types of technology most applicable here are data science tools which identify correlations in external data sets that could enhance our underwriting decisions. A practical example of this is with our Reputational Risk product, which uses a technology to provide the underwriters with public sentiment trends on emerging risks being discussed on social media.

2) Building an agile delivery capability

One thing is certain in a digital world – business agility is key. Beazley is well regarded for its innovation in specialist insurance. To stay ahead of the competition, we seek to innovate in an increasingly agile way, taking new ideas to the market quickly, gathering feedback, evolving or failing them fast. This is why during 2018 we restructured our operations and technology teams to what we call a platform delivery model.

Instead of delivering change and technology via many individual projects, we have reorganised our teams into 'platforms' that are aligned both to the markets that Beazley operates in, and to the type of business being written. Each platform has an annual delivery budget within which there is greater flexibility afforded to the relevant business lines on how the budget is applied, and with the discipline of achieving against specific business outcomes aligned to our group strategy – such as increasing cost efficiency and responsiveness in customer service.

The move to the platform delivery model has enabled us to increase the speed of process and technology delivery by using an agile approach. This is instead of a more conventional 'waterfall' delivery approach which could in the past impede our ability to deliver new ideas quickly. Today, we often start the process of solving a business problem or addressing an opportunity by running a 'hackathon', where we put underwriting, operations and technology talent together for a short and intensive period of delivery. An early notable success has been our US operations platform, which has managed to cut its product delivery time by half.

3) Developing our talent to best leverage technology

We are investing in our workforce to ensure we have the right blend of skills for the future. This means that our talent development programmes are placing emphasis on cross-skilled staff so they can operate in a more digital insurance market. In practice this means underwriters with increased understanding of technology, and similarly technology teams with greater knowledge of how specialist underwriting works. The outcome we strive for is to put technology and data at the centre of our specialist underwriting proposition. It also means we are increasingly equipped for changes driven by our business partners – ranging from brokers wanting to trial new digital distribution methods to better understanding new insurance risks such as the growth in crypto currencies.

4) Creating the optimum physical environment

Although Beazley receives plenty of interest when attracting new operations and technology talent, we recognise that our working environment needs to keep evolving to maintain this attraction and to then retain and further motivate this talent. In 2017 we commenced a project to develop our larger offices into activity based working (ABW) environments. Although one benefit of ABW is more efficient use of office space, it also creates a physical and technology environment that maximises the potential for our staff to carry out their daily activities. In 2018 we opened our first ABW environment in the Birmingham office and we are in the process of building ABW offices in Toronto and New York, both opening in 2019. We have also signed a lease for a London office move in 2020. The new London office will also be an ABW environment.

As we proceed into 2019 we are well placed not only as a high performing specialist insurer, but also because we have developed great strength in our operational capability. The changes we have made in 2018 will allow us to build on this operational strength and ensure we remain a high performing specialist insurer in an increasingly digital world.

Risk management



Andrew Pryde
Chief risk officer

Creating the environment for sustainable growth

2018 in review

A key design principle of the risk management framework is that all members of staff are responsible for identifying, managing and communicating risk. Whilst this activity is supported by the risk management function, all Beazley staff understand that with the benefits of an empowered culture comes the responsibility for identifying and managing risk. This is particularly important when an organisation is navigating above average levels of change.

In 2018, Beazley has successfully responded to both external and internal change.

External change

The main political change that Beazley continued to navigate in 2018 was Brexit, although this is not a significant risk as only around 4% of Beazley's premium originates from the EU. Despite the uncertainty throughout the year, a cross functional working group has prepared Beazley for the worst case scenario of a hard Brexit, which is where the UK leaves the EU without agreements and a transitional period. From an underwriting perspective, the EU risks expiring from 1 January 2019 have been successfully renewed. Generally the renewals have been onto the newly established Lloyd's Brussels platform. However EU renewals within the specialty lines and reinsurance divisions have been written on the Beazley Insurance dac platform where clients have requested it. From a staff perspective, we continue to work with the 40 EU nationals (3% of employees) who are working in our UK offices to minimise

the impact of Brexit on them. As such, Beazley has successfully navigated the key risks of a potential hard Brexit. Since such a hard Brexit is not certain, our preparations have also considered two other potential outcomes in order to ensure that the group is able to operate in every eventuality; namely 1) some form of transitional arrangement or 2) the UK decides not to leave the EU prior to Brexit.

In light of political decisions in the US, the group reviewed its intragroup reinsurance arrangements, which resulted in more premium being retained in the US in Beazley Insurance Company Inc. with a corresponding reduction in premium in syndicate 3623 at Lloyd's of London. Two key consequences of this change are that the group is slightly less capital efficient, as the change has required a c.\$80m increase in the US capital which was partially offset by a specific reduction in our Lloyd's ECR, and the risk profile of syndicate 3623 is more diversified with a relatively equal mix of specialty lines risks and personal accident risks. This was an example of an important use of our internal model to balance risk and capital resources. These changes however did not impact how Beazley manages its operations.

The approach taken to business planning at Lloyd's of London during the year attracted extensive press coverage and resulted in a number of changes to the marketplace. From a Beazley perspective, the approach taken was closely aligned to our own process of cycle management which has been followed for many years. As a result, we were able to present syndicate business plans and associated

capital requirements that were approved by Lloyd's as being consistent with their objective of improved risk selection and market profitability.

The introduction of IFRS 17 will change the way that Beazley measures and reports the profitability of our insurance contracts to the market in the future. A multi-year programme of work has been progressing as planned during 2018 to ensure that our data and systems are able to meet the new accounting requirements when they come into force, while continuing to support our internal management practices.

We have included a new section within this risk management report (see page 57) covering the impact of climate change on Beazley. A key aspect of Beazley's business model is to support clients who have been affected by natural catastrophes, helping them return to pre-catastrophe conditions as soon as possible. In addition, we explain how climate change could affect Beazley's own risk profile, highlighting how we respond to these risks. These include the performance of our insurance contracts, the investments we make, the office spaces we occupy, the companies we partner with and our travel footprint.

Internal change

The Beazley plc board undertook regular reviews of its strategy which culminated in wide ranging discussions at its strategy day in May. As a result, four new strategic initiatives were identified to support our vision. The first, Beazley Digital, looks at how we can use technology to transact and process smaller, simpler business.

Risk management *continued*

The second, Faster, Smarter Underwriting, aims to equip underwriters with data and analytics to better support the underwriting of larger, more complex business. The third is about getting closer to our clients to better understand how we can support their risk management either with existing insurance products or by designing innovative new products to tackle a risk that our clients are worrying about. Finally, the fourth initiative is how we can do more in the London market, particularly because this is the core part of our risk profile.

There has been a high level of change at board and executive level during 2018 and this will continue into 2019. The risk management function has been working with the individuals in new roles to ensure that they understand their responsibilities within the risk management framework and to minimise the risk associated with such transition periods. The risk management function is also providing assurance to the board that the group continues to operate within risk appetite and is supported in this by internal audit who have completed an audit of risk culture.

The group's risk profile has altered with the exit from the construction and engineering class of business within the property division and the closing of the office in Norway, which underwrote part of our energy class of business within the marine division. Growth continues in the US with the \$1bn annual managed premiums milestone being reached during 2018. The chief risk officer completed his secondment to the Atlanta office and provided a report to the Beazley plc board. This report provided assurance that the US operations have coped well with the recent growth and that processes and practices have evolved to adapt to the risks and challenges associated with operating a larger company. As such, the US operations are well placed to achieve the planned growth over the next five years.

Finally, we have introduced a number of new working practices across the group to provide our staff with the best environment and to continue to attract new talent to the group. This included starting to introduce activity based working environments in our larger

offices, which provide staff with the space most conducive to the task in hand. We have also provided staff with technology to be able to work remotely and to work more flexibly around our core hours, so that Beazley employees can better balance the demands of work and personal life. We now also provide staff with flexibility to dress for the day. These various changes help ensure that our staff can perform to the best of their ability, which helps to lower the operational risk inherent in the company.

Beazley's approach of empowering all our employees, coupled with thoughtful 'management of risk' means that we can nimbly respond to and manage change, which creates the right environment for delivering sustainable growth.

The latest chief risk officer report to the board has confirmed that the control environment has not identified any significant failings or weaknesses in key processes and that Beazley is operating within risk appetite as at 31 December 2018.

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 a 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:

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

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: namely business risk management, the risk management function and the internal audit function. Within business risk management, there

are two defined roles: risk owner and control reporter. Each risk event is owned by the risk owner, who is a senior member of staff. Risk owners, supported by the risk management team, perform a risk assessment twice a year, including an assessment of heightened and emerging risks.

The risk management framework comprises a number of risk management components, which when added together describe how risk is managed on a day to day basis. The framework includes a risk register that captures the risk universe (53 risk events grouped into eight risk categories: insurance, market, credit, liquidity, operational, regulatory and legal, group and strategic), the risk appetite set by the Beazley plc board, and the control environment that is operated by the business to remain within the risk appetite.

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

For each risk, the risk management report brings together a view of how successfully the business is managing

risk, qualitative commentary from the assurance functions and whether there have been any events that we can learn from (risk incidents). Finally, the framework is continually evaluated and where appropriate improved, through the consideration of stress and scenario testing, themed reviews using risk profiles and an assessment of strategic and emerging risks. There were no material changes made during 2018.

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.

Business risk management
Risk ownership

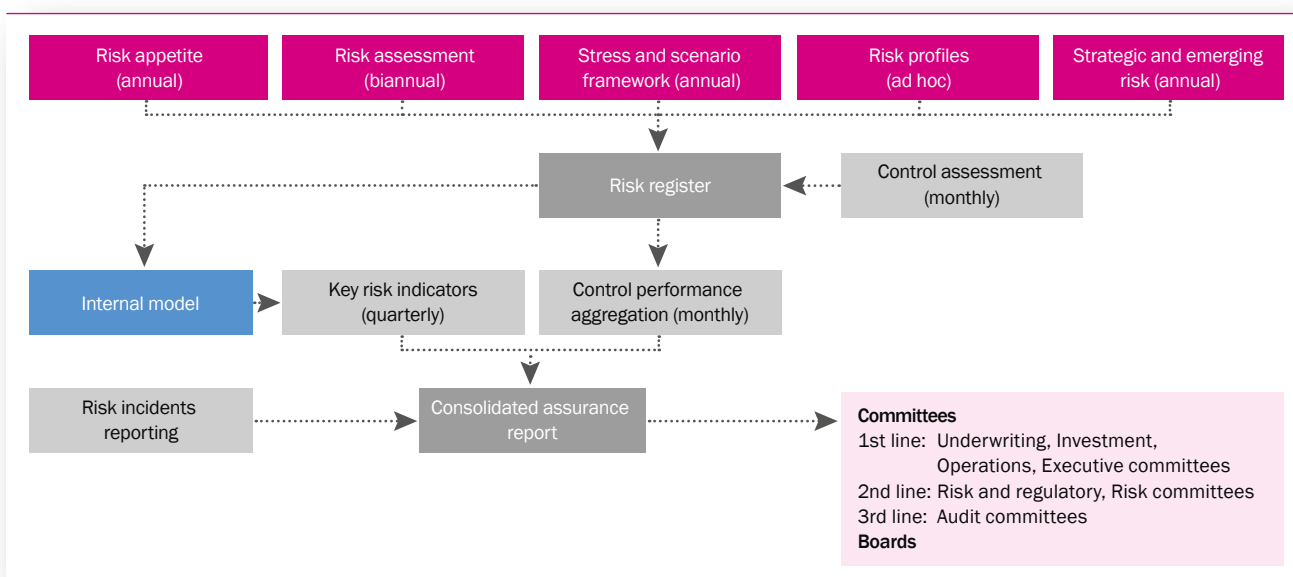
- *Identifies risk*
- *Assesses risk*
- *Mitigates risk*
- *Monitors risk*
- *Records status*
- *Remediates when required*

Risk management
Risk oversight

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

Internal audit
Risk assurance

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



Risk management *continued*

Viability statement

The directors have completed a robust 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. The board has performed an annual risk assessment and the key risks to the group in the future are summarised on pages 56 to 58.

The risks and associated capital requirements have been brought together into a five year plan. The main assumption is that the current market conditions will prevail, over which the outcomes of the board's strategic initiatives are overlaid. In addition, the board has reviewed the sensitivity of key assumptions and has performed scenario testing to understand the impact on cash flows of the key risks of a major natural catastrophe and/or a systemic mispricing of the medium-tailed liability classes.

The chief risk officer provides 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 in general and, more specifically, hard Brexit materially impacts viability and has concluded it does not.

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 no major shifts in existing risks. 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 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 or earthquake. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.
- **Non-natural catastrophe risk:** This risk is similar to natural catastrophe risk except that multiple losses arise from one event caused by mankind. Given Beazley's risk profile, examples include a coordinated cyber attack, an act of terrorism, an act of war or a political event. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.
- **Reserve risk:** 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, claim by claim,

estimates established by the claims team with a top down statistical view developed by the actuarial team. A suite of metrics is also used to ensure consistency each year.

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

Strategic risk

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

- **Strategic decisions:** The group's performance would be affected in the event of making strategic decisions that do not add value. The 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 environmental 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 risk is the failure of people, processes and systems or the impact of an external event on Beazley's operations, and is monitored by the 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 structure of the Beazley group is not complex and so the main group risk is that one group entity might operate to the detriment of another group entity or entities. This includes, for example, changes in tax legislation such as the US Tax Cuts and Jobs Act enacted in late 2017 which affects which types of intragroup reinsurance it is efficient for Beazley to use. The Beazley plc board monitors this risk through the reports it receives from each entity.

Anti-bribery and corruption risk

The group also considered anti-bribery and corruption risk across all risk categories. We are committed to ensuring that all business is conducted in an ethical and honest manner, and that we are not involved in any illicit activity 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.

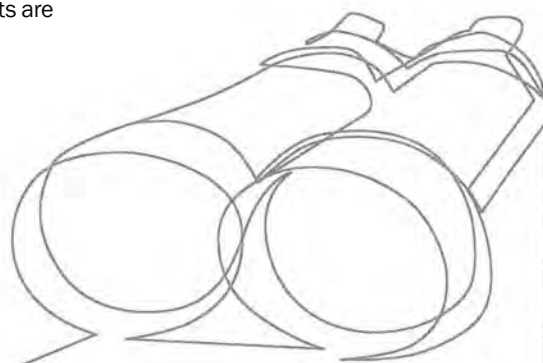
Such activity has severe reputational, regulatory and legal consequences, including fines and penalties. Considerations relevant to this risk include the nature, size and type of transactions, the jurisdiction in which transactions occur, and the degree to which agents or third parties are used during 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 warming of the 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 organisation, including applicable climate related risks, 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 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's) on a monthly basis which monitors the group's exposure to certain scenarios that could occur. These RDS's 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 liability risk unanticipated 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 the economic scenario generator performance is defined and companies not meeting the required standard will be excluded from the approved list of issuers. The analysis also includes a 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 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 have a corresponding increase on 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 as well as other considerations.
- **Regulatory and legal risk:** Regulators, investors and other stakeholders are becoming increasingly interested in companies' response 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 creates 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 seeks 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.

Sustainable business

In 2017 the cost to the insurance industry from natural disasters hit a record \$144bn, and 2018 looks set to be similarly catastrophe-dominated. While our business entails dealing with the financial burden of these losses, we recognise that their impact on lives and livelihoods is far greater. For this reason, we try to align our responsible business efforts with our natural interest and expertise in risk management and mitigation.

For Beazley, being a Responsible Business is core to our values and actions.

We aim to support our local and international communities and clients by using our resources and skills – whether it's through volunteering with the lonely elderly and helping to feed the homeless as part of our global Make a Difference programme, creating bespoke activities such as 'Maths in insurance' workshops or finding ways to make existing and new products that have a beneficial impact on our wider society and the environment too.

Our aim isn't just to provide short-term solutions for our communities but to provide sustainable and long-term support through our programmes. For our Responsible Business strategy, we have six areas of focus:

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

Responsible business committee

Our responsible business committee is chaired by Emma Whiteacre and sponsored by executive member Anthony Hobkinson. It reports into the executive committee and the board.



Emma Whiteacre

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

Inclusivity and diversity

Our vision is to inspire and develop people with diverse perspectives to thrive at all levels of our business

Responsible underwriting compliance

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

Sustainable business *continued*

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



“At Beazley being a responsible business is a core part of our culture. So many employees give up their time to lend their expertise, influence and passion as a force for good, both in our local communities and the wider world. We encourage and support that behaviour, both because it is the right thing to do and it makes business sense too.”

Anthony Hobkinson
Executive committee sponsor



All Hands and Hearts

Our global charity partner, All Hands and Hearts, is often there to help communities pick up the pieces when disaster strikes. We chose to work with them because of their innovative approach, focused on deploying volunteers to areas in need, and their relatively small size, which means that our involvement can be more impactful.

We have donated over

\$190,000

to All Hands and Hearts

“Thank you so much for being a great group to work with. You all carry such positive attitudes and displayed amazing work ethic. It was an absolute pleasure being able to oversee your arrival to the Yabucoa base. You’ve set the bar very high!”

Cia
All Hands and Hearts



Our global partnership with All Hands and Hearts provides different opportunities to use our skills and support international communities impacted by natural disaster. For Beazley, our charity efforts go beyond simply making a donation. We focus on making a difference, both in our local communities and around the globe.

All Hands and Hearts works with volunteers and local partners to rebuild the basic hubs of a community – including schools and homes. Participating in these relief efforts has enabled Beazley employees to help to support devastated communities on the ground. Many people who are hit by these disasters fall into the ‘insurance gap’ and are unprotected to some degree.



Puerto Rico volunteering

Volunteering in Puerto Rico

Hurricane Maria devastated Puerto Rico in 2017. The hurricane was the worst natural disaster ever to hit the island and caused the longest blackout in US history. Thousands died and many more were left homeless or forced to live in damaged homes.

Beazley offered employees the chance to work alongside All Hands and Hearts on a project to help rebuild damaged homes. Over 80 employees expressed interest, and, after a blind application process, eight employees were selected.

Beazley colleagues around the world fundraised over \$37,000 through international bake sales and quiz nights to support their colleagues during the two week project.

The volunteers were in Puerto Rico from Saturday 1 December to Saturday 15 December. There they spent two long weeks working hard to restore homes damaged by the hurricane.

Match funding

As important as supporting our charity partner is, we also aim to empower our people to take charge of their own fundraising and volunteering. We offer match funding of \$750 (or local currency equivalent) per employee, and up to \$5,000 per team of three employees or more. Some examples of colleagues who used this are:

Conquering Everest Base Camp

To support the communities still recovering from the devastating Nepal earthquake, Jon Labram from London took the challenge to trek to Everest Base Camp. His challenge took almost two weeks, and he raised over £2,300 for our charity partner All Hands and Hearts.



Jon at Everest Base Camp



Team Puerto Rico



SOS image from Puerto Rico

Five-time marathon runner

To raise money for the charity Healing Venezuela, Rafael Guia Vera took on the challenge of running five marathons in 2018 – in Cambridge, Madrid, Budapest, Valencia and Hartlebury (Worcestershire). So far he has raised almost £900, plus match funding from Beazley.



Five marathons in 2018

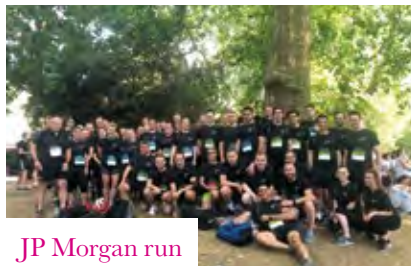
Sustainable business *continued*Charity *continued*

Clock-to-clock

Clock-to-clock challenge

To help raise money for his local hospice, Hospice on the Weald, Richard took on the challenge to run, kayak and cycle over 360km in 26.5 hours. On 24 June, Richard and three of his friends started a 65km overnight run from a clock tower in Kent, UK before kayaking 40km across the English Channel. They concluded the race by cycling a final 260km to the clock tower by Notre Dame in Paris.

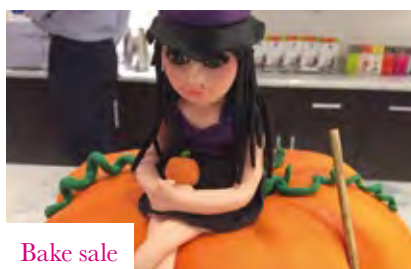
During their challenge, they burned approximately 14,000 calories, drank 45 litres of water, ate 35 bananas and did over 18,000 kayak paddle strokes. They raised over £10,000 as a result.



JP Morgan run



Houston



Bake sale



Charity quiz fundraiser

Highlights

Volunteering in Houston: following the aftermath of Hurricane Harvey, our colleagues from Houston and Dallas fundraised and collected toiletries and clothes, and five employees worked with All Hands and Hearts to help restore a damaged family home.

Charity runs: over 80 colleagues took part in the JP Morgan Run in London, raising money for Macmillan Trust in London. Colleagues in the US took part in similar 5k runs for local charities, including The Connection Inc, a Connecticut-based human service and community development agency.

Cycle for Survival: employees in our New York City and Chicago offices took part to raise funds for the Memorial Sloan Kettering Cancer Center, for research into rare cancers.

Natural disasters: We respond to large-scale disasters, especially if they affect the communities where we work. We have donated over \$15,000 to charities, including the relief efforts following three earthquakes and a tsunami in Indonesia, Hurricane Florence in the US, Storm Mangkhut in the Philippines, the Greek wildfires and Hurricane Lane in Hawaii.

These events not only raise donations and awareness for charities, but also help to strengthen employee engagement.

Community

We know our communities have many needs. Our long-term global approach focuses on young people, vulnerable adults and conservation

Highlights

Young people – We partner with a number of educational charities to help support local young individuals from lower socio-economic backgrounds through their education and into the world of work.

Vulnerable adults – It's important to us and our people to support the elderly and homeless in our communities. We do this through volunteering in programmes to tackle root causes of these issues.

Conservation – We adopt an honourable approach to how we should protect and conserve our environment. By restoring local parks and community gardens, our communities will be better able to enjoy these areas.



Maths workshop

Hague Primary School students

Feedback...

"I thoroughly enjoyed the opportunity to ask mentors questions as I learned a lot about being an actuary."

Year 11 student

"Thank you so much for your support, I have been working at Hague for 12 years now and we have never had so many supportive reading partners; in addition we have never had so many children asking for reading partners! I have children currently on a 'wait list' who I am reading with as they are all desperate to have a reading partner. This is amazing and incredibly motivating for the children who do have one as they feel they have something incredibly special."

*Teacher
Hague Primary School*

"Access to learning using a class set of professional devices, rather than one per class, is a game changer! Pupils will have more hands on access and teachers will be able to plan better opportunities for children to use ICT across the curriculum. From experience iPads are more instantly accessible meaning more time is spent actually learning than on computers loading up and setting them up."

"Pupils with special educational needs can enjoy iPads support for learning. More pupils can use Siri, instead of a dictionary or teaching assistant. They can develop graphic skills and so much more to illustrate work."

School feedback on iPad donations

Sustainable business *continued*Community *continued*

Make a Difference

More than 530 employees took part in Make a Difference in 2018

Make a Difference is our global community volunteering programme. This year marked a successful fifth consecutive year. Over 530 employees took part. Activities were selected based on local need and ranged from working at a farm to harvesting crops for local food pantries, sorting food at food banks, preparing and serving meals to the homeless, spending time with local pensioners and upgrading community facilities like crèches and parks.



Make a Difference



Make a Difference



Make a Difference

Farmington workshop
(sustaining talent)

Our colleagues in Farmington hosted a Career Day workshop for students from local high schools.

They spent the day learning about the business along with potential career opportunities within the insurance industry.



Career day workshop

“I love how open Beazley is and how willing the people here are to get to know you, or to just sit and have a conversation.”

Camryn
Talent Management intern, US

Global intern programme

This year over 35 individuals were given internships from our local communities in our Chicago, London, New York, Farmington, San Francisco and Singapore offices.

Our interns worked for teams across the business. As well as having valuable work experience, they spent time volunteering in local food banks and worked in a global project to search for Beazley's next charity partner.



Interns

For her efforts, our responsible business assistant, Shakeela Khanom, was awarded 'Best Project Champion' award by the Lord Mayor of London.



Shakeela Khanom



Interns

More highlights in 2018:

- We launched our bespoke 'Maths in Insurance' workshop, with volunteers supporting 32 aspiring students to learn about maths-related roles;
- 45 Beazley volunteers mentored 15-16 year old students throughout the year;
- 35+ local young people were hired as summer interns in our UK and US offices, and three former interns have been employed in permanent roles;
- 25 Beazley volunteers supported reading and numeracy skills for 50 children from our local community partner, Hague School;
- we facilitated and hosted four workshops for over 100 young people to increase their knowledge of the insurance sector and career development; and
- we donated over 40 iPads to our local schools.

“Internships such as these are essential for the business as they introduce a whole new demographic to the industry. Internships are also very important to young people for a variety of reasons, the first being that they are given an opportunity to work in a professional environment and see whether the corporate world is something they may enjoy as a future career. Also for many, they may not have any previous connections or opportunity to access these types of highly skilled and highly paid jobs.”

Celine
Property intern, UK

Sustainable business *continued*

Environment

We are committed to minimising our own environmental footprint, and reducing the adverse impacts arising from office-based activities and business travel as laid out in our Environmental Policy

As well as ensuring compliance with all applicable environmental legislation, we:

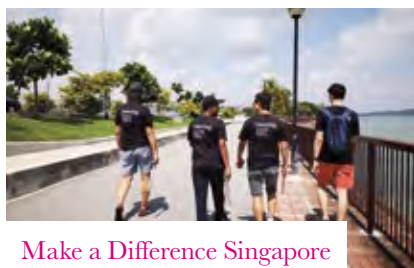
- monitor our energy consumption, greenhouse gas emissions and other environmental criteria, and are using this data to help identify opportunities to improve our performance;
- source office space that is LEED or BREEAM certified, where environmental considerations have been factored in;
- ensure that environmental impacts are considered and managed during the procurement process. Our focus is on recyclable, recycled, renewable, and low-VOC (volatile organic compound) materials, including, but not limited to, office supplies and lunch providers;
- regularly review waste management practices to identify opportunities to improve;
- engage our people to help achieve our goals, encourage them to consider their environmental approach outside of work and keep them informed of what we are doing; and
- audit our progress with yearly GHG emissions reports across London, Dublin and our four largest US offices.

Taking the environmental initiative in Singapore

As part of Make a Difference month, our Singapore colleagues spent a day in the blistering heat to clean up a local beach. This inspired another Beazley campaign where colleagues were encouraged to pick up litter during their summer holidays at their own local beach.



Make a Difference Singapore



Make a Difference Singapore

Looking forward in London – Twentytwo Bishopsgate

As we plan to move into our new London offices at Twentytwo Bishopsgate, we are making sure that sustainability is a top consideration. Twentytwo is pursuing WELL certification, demonstrating its commitment to improving and encouraging the health and wellness of its community.

The construction company are aware of the impact on local residents and are engaged in community liaison to address any concerns and communicate with local businesses and neighbours.

As a new building, all of its functions will be more energy efficient than our current site and in keeping with our other new offices, we are making sustainable choices (wood, vegan leather alternatives) for our furniture and fittings.

Environmental governance

Environmental and sustainability issues are primarily the responsibility of the Commercial Management team, who set objectives and targets and manage deadlines. Beazley communicates our Environmental Policy to all employees through the company intranet, as well as through employee induction and training.

Where appropriate our internal and external stakeholders are required to acknowledge and adhere to our Environmental Policy and relevant operating procedures.

Procurement and outsourcing

Where we can, we ensure good working conditions and employee rights throughout our supply chains. Our external contracts are governed by our Outsourcing Policy and our Procurement Policy. Our due diligence in both cases includes assessment of risk management, internal controls, compliance with laws including the UK Bribery Act 2010 and Modern Slavery Act 2015, and information on staff turnover, industrial relations, staff training and recruitment. We take our obligations to our suppliers seriously and ensure that when we enter into significant outsourcing contracts with new service providers we conduct due diligence on their operations, and carry out site visits to ensure that conditions are suitable. We maintain ongoing communication and close relations with such suppliers.

We comply with all Lloyd's Minimum Standards on outsourcing, and oversee our outsourcing arrangements with annual reviews and updates to our operations committee. An executive committee member retains full responsibility for each outsourced relationship.

Carbon emissions report

Latest Greenhouse Gas Emission figures (tonnes CO₂ equivalent)¹

Scope 1

39.47

Scope 3

7,357.11

Scope 2

898.54

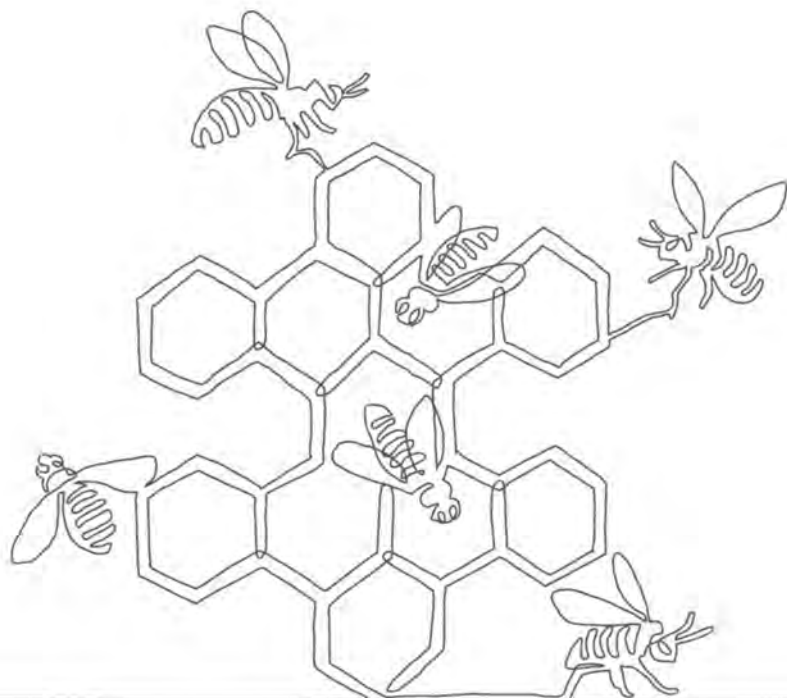
tCO₂e/employee/year

7.7

Scope 1 and 2 emissions increased due to expanded scope of reporting

Scope 3 emissions increased due to increased business travel by air

¹ For further information, please refer to pages 76 to 77.



Sustainable business *continued*

Marketplace

Using our influence as a force for good

In 2018 we have been taking a more strategic approach to ESG matters, and overtly linking them to our business:

- We have been running a cross-business sustainability initiative, exploring how we can embed social and environmental considerations into our products and business practices. With the help of external experts, we held workshops to focus on the insurance angle of the global issues we face, and are consequently pursuing a number of business development opportunities and partnerships across business lines, including clean energy generation and storage, clean technology, climate change adaptation, measures to address marine pollution, support for environmental pollinators, and employment practices liability.
- We are conducting an ongoing review of decarbonisation-related business implications, as well as convening a working group to produce our 2019 ClimateWise report, which will be aligned with the recommendations of the Taskforce on Climate-related Financial Disclosures.
- We remain committed to the Lloyd's Disaster Risk Facility (DRF), as a founding member. The consortium was set up to increase economic resilience by developing innovative solutions for populations which suffer some of the most serious losses from natural disasters, yet currently have little or no access to insurance. While this is a long-term development opportunity, with such exposures often being considered at the sovereign government level and having very long lead-in times, the DRF has been very active in building relations with multilateral financing institutions and relevant government agencies worldwide.
- 2018 was a pivotal year in marine sustainability. The headline item is the shipping industry defining how the low sulphur fuel regulations will be implemented and analysis of how this will affect the shipping industry as a whole. More renewable farms have been completed, with offshore wind leading from the front. The subsea team have underwritten a number of accounts which have shown increased activity in the preparation and completion of renewable infrastructure. Also the hull, liability, cargo and subsea teams will be working with a key oceanographic organisation, supporting their scientific research efforts to better understand the ocean.

We are signatory to the Paris Pledge for Action, the formal initiative for non-state organisations supporting the Paris Climate Change Agreement.

As climate change risks rise up the public agenda, the insurance industry is taking steps to ensure that we are sufficiently prepared for both the potential physical impacts of more frequent and severe extreme weather events, and the transition risks arising from the shift to a low-carbon economy.



We have reported into ClimateWise, the insurance industry's initiative to monitor and disclose the risks and opportunities associated with the climate risk protection gap, since 2007.

As ClimateWise shifts to incorporate anticipated greater regulatory disclosure requirements and the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), we are preparing to significantly increase our reporting efforts in 2019, with assigned board and executive committee level oversight.

Our risk management team assesses and monitors the broad array of risks presented by climate change, including:

- Pricing risk;
- Catastrophe risk;
- Reserve risk;
- Asset risk;
- External event risk;
- Commercial management risk;
- Credit risk;
- Regulatory and legal risk;
- Liquidity risk; and
- Strategic risk.

► **Our risk management of climate change risks is described in detail on pages 57 to 58**

Responsible investing

At Beazley, we believe our investment strategy should seek to have a positive influence on society and the world at large and for this reason we incorporate a consideration of environmental, social and governance (ESG) risks into our decision-making process. Our view is that this approach is consistent with the objective of optimising total return as companies demonstrating a commitment to a sustainable business strategy and ethical business culture have been shown to enjoy a competitive advantage over time, generating stronger and more stable returns.

The majority of our assets (approximately 75%) are held in a portfolio of investment grade fixed income securities managed in-house by the Beazley investment team. Our internal investment process applied to these assets incorporates an analysis of ESG factors to ensure that we favour those companies who actively seek to identify and control ESG risks. To support this process we subscribe to the services of a specialist provider of ESG and governance research and ratings.

The remaining assets are outsourced to external investment managers and invested across a range of asset classes. We have undertaken an audit of the ESG policy of each manager to understand how they incorporate an assessment of sustainability into their investment process and over time we may realign our mandates to ensure a consistent approach is applied.



Sustainable business *continued*

Inclusivity and diversity

Our vision of inspiring and developing people with diverse perspectives

During 2018, we continued our journey towards our vision of inspiring and developing people with diverse perspectives to thrive at all levels of our business, in an environment that supports and celebrates differences.

On gender diversity, the executive committee agreed a range of initiatives including diverse recruitment slates and increased senior leadership accountability for creating and maintaining gender-diverse teams. We made good progress with our Her Majesty's treasury (HMT) Women in Finance Charter target, which is to increase the women in our senior leadership team to at least 35% by the end of 2020. At the beginning of 2019, 32% of our senior leadership team will be women, compared to 29% at the beginning of 2018.

Other actions we have taken to enhance gender diversity at all levels of our organisation include development, networking and mentoring opportunities for our female talent facilitated by Women in Banking and Finance, which we joined in 2018. Our chief executive officer and chairman are members of the 30% Club, demonstrating our most senior leaders' commitment to gender diversity.

Networks

Colleagues have formed three networks that focus on the interests of the LGBT+ community (PROUD@Beazley), colleagues from a minority race/ethnicity (Empowered@Beazley) and our young talent (Beazley Young Professionals).

During 2018:

PROUD@Beazley supported our talent management team's review of our employee handbooks to be more inclusive from an LGBT+ perspective and facilitated Beazley joining a leading online LGBT+ recruitment and networking hub called myGwork.

Beazley Young Professionals continued its expansion into our offices across the group. The network arranged lunch and learn sessions, networking events, panel discussions, and screened relevant TED talks, all targeted at the development needs and interests of our younger talent.

Empowered@Beazley launched and welcomed its first members. The network is focused on helping to create an environment where colleagues from different races and ethnicities feel empowered to showcase their skills and reach for opportunities across the group.

Employee diversity by gender

Beazley plc board



Total 2018 – 12

Senior management



Total 2018 – 110

All employees



Total 2018 – 1,384



“2018 has been a year of continued focus on our diversity and inclusion journey. We are proud of our inclusive culture and of our progress on gender diversity, which we will maintain. Looking ahead, we will apply what we have learned from our focus on gender diversity to other forms of diversity. This includes acknowledgement of the pivotal role that all our leaders and managers play in this journey and the support they require in doing so.”

Rob Anarfi
Chair, diversity steering group

NexCo

NexCo is a group drawn from our younger talent who each represent one of the executive committee members. The group works through the monthly executive committee papers, reviewing them and challenging them in a similar way to the executive committee. The main aims of the idea are to:

- garner more diverse perspectives on important Beazley matters;
- provide a wider understanding of Beazley strategies and key issues/opportunities for this group; and
- help younger members of the organisation learn about Beazley governance and direction setting.

External group membership

We are proud members or sponsors of external bodies including: HMT Women in Finance Charter, Stonewall, Women in Banking and Finance, myGwork, Business Insurance D&I Institute, 30% Club, Insurance Supper Club, and Diveln. They are a helpful source of ideas and best practice for us to learn from.

Celebrating our differences

An important part of our vision is creating an environment that recognises and celebrates our differences. That helps our people to feel comfortable with being themselves in the workplace and creates the opportunity for Beazley to benefit from those collective differences. As part of that, we celebrated across the group, International Men's and International Women's Days, Black History Month, Pride, and World Aids Day.



Sustainable business *continued*

Responsible underwriting – compliance

Being Beazley is at the heart of everything we do

It guides our behaviours, embeds a culture of good conduct, and ensures we do the right thing for all our stakeholders.

We are committed to ensuring that our business is conducted in an ethical and honest manner, and to ensuring our continued compliance with all applicable bribery and corruption legislation, including the UK Bribery Act and US Foreign Corrupt Practices Act. Our Code of Conduct policy details our core values and the behaviours to which we require all employees to adhere, with reference to:

- Customer conduct protocol
- Complaints handling policy
- Anti-bribery and corruption policy
- Conflicts of interest policy
- Whistleblowing policy
- Acquisition cost protocol
- Financial crime policy
- Anti-fraud policy.

These are communicated to all employees and are available on our intranet. Executive responsibility for our Code of Conduct policy is with the head of talent management.

Prevention, detection and reporting of bribery and other forms of corruption is the responsibility of all employees. Senior management have overall accountability for ensuring Beazley's Anti-Bribery and Corruption Policy complies with Beazley's ethical obligations, and that all those under its control comply with it. We undertake a bribery and corruption risk assessment on an annual basis, analysing our worldwide business for exposure to higher risk jurisdictions, the distribution channels used and the nature and size of business we conduct.

Our Gifts and Hospitality Policy and Anti-Bribery and Corruption Policy both outline the appropriate behaviour required of all staff and associated persons, and identify record-keeping requirements and approval procedures. Employees complete annual mandatory training and assessment on financial crime, bribery and corruption.

Our Whistleblowing Policy allows for anonymous reporting; all reports are treated with the utmost confidentiality. A record of concerns raised and their resolution is maintained and considered annually by the relevant audit and risk committee. An annual report is made to the Beazley Insurance dac, Beazley Furlonge Ltd and Beazley plc boards on the operation and effectiveness of our systems and controls in relation to whistleblowing.

Further information regarding our approach to anti-bribery and corruption can be found on our website.

Financial Crime Policy

Beazley's executive management is ultimately responsible for preventing, detecting and investigating alleged financial crime activity. However, all employees share the responsibility to watch out for possible financial crime and are empowered to take appropriate action.

Beazley has operating guidelines for reporting suspicious transactions.

Staff complete annual training on anti-money laundering (AML) and terrorist financing. The Financial Crime e-learning module currently being updated to include tax evasion. Staff complete annual training on internal sanctions.

The Financial Crime Policy outlines the reporting requirements that the company must adhere to depending on the nature of the irregularity.

Underwriting and claims due diligence procedure

The Beazley due diligence procedure, aimed at underwriting and claims staff, outlines the customer due diligence requirements before writing a risk or paying a claim, and the enhanced due diligence requirements for those in high-risk scenarios.

Compliance monitoring policy

Beazley's compliance monitoring team monitor existing business relationships for AML and sanctions purposes.

Data security

We have a mandatory annual training and assessment programme on data security and privacy, enriched by regular awareness campaigns.

An information security and privacy assessment process is embedded into our business and technology change projects.

The group's internal audit department undertakes IT related audits as part of its risk-based schedule of audit work. This includes annual audits of IT security and information security. Internal audit also undertakes annual reviews of the group's risk management framework.

Beazley has a governance structure which enable the information security and privacy function to report on data privacy and security issues without restraint. We are committed to the rights of a data subject and follow our legal and regulatory obligations within the various jurisdictions in which we operate. We have a global privacy policy aligned to European, North American, Canadian and Singaporean privacy and breach notification requirements.

We are committed to informing data subjects about what data on them we collect and process, ensuring we only collect what is required to deliver the services back to them. We are committed to protecting customer and personnel data by having appropriate organisational, people and technical controls and delivering an information security programme built around a framework of prepare, protect, detect, respond and recover.

Managerial responsibilities for privacy and data security are defined within Beazley policies.

Governance

We have a number of internal procedures that govern our approach to data and data subjects:

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

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 below:

	Chapter	Page reference
Environmental matters	Sustainability overview; Risk management; Sustainable business; Directors' report	14-15; 53-77
The company's employees	Our key differentiators; Our business model and strategy; Sustaining growth; Sustainability overview; Chairman's statement; Chief executive's statement; Q&A with the chief executive; Operational update; Risk management; Sustainable business; Directors' report; Letter from our chairman; Board of directors; Statement of corporate governance; Letter from our chairman of our remuneration committee; Directors' remuneration report	1-23; 50-83; 85-120
Social matters	Sustainability overview; Chairman's statement; Chief executive's statement; Sustainable business	14-21; 59-73
Respect of human rights	Sustaining growth; Sustainable business	10-13; 59-73
Anti-corruption and anti-bribery matters	Sustainability overview; Risk management; Sustainable business	14-15; 53-73

Directors' report

Principal activity

Beazley plc is the ultimate holding company for the Beazley group, a global specialist risk insurance and reinsurance business operating through: its managed syndicates at Lloyd's in the UK; Beazley Insurance Company, Inc., an admitted insurance carrier 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 77, 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 121.

Review of business

A more detailed review of the business for the year and a summary of future developments are included in the chairman's statement, the chief executive's statement and the financial review.

Results and dividends

The consolidated profit before taxation for the year ended 31 December 2018 amounted to \$76.4m (2017: \$168.0m).

The directors announce a second interim dividend of 7.8p per ordinary share (2017 second interim dividend: 7.4p). The dividend, together with the first interim dividend of 3.9p per ordinary share (2017 first interim dividend: 3.7p), gives a total of 11.7p (2017: 11.1p).

The aforementioned second interim dividend will be paid on 27 March 2019 to shareholders on the register on 1 March 2019.

Going concern and viability statement

A review of the financial performance of the group is set out on pages 40 to 49. The financial position of the group, its cash flows and borrowing facilities are included therein.

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

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 56.

Directors

The directors of the company who served during 2018 and/or to the date of this report were as follows:

Dennis Holt	Non-executive chairman (resigned 22/03/2018)
David Lawton Roberts	Non-executive chairman (appointed 22/03/2018)
David Andrew Horton	Chief executive
George Patrick Blunden	Non-executive director
Martin Lindsay Bride	Finance director
Adrian Peter Cox	Director
Angela Doreen Crawford-Ingle	Non-executive director
Christine LaSala	Non-executive director
Sir John Andrew Likierman	Non-executive director
Neil Patrick Maidment	Director (resigned 31/12/2018)
John Peter Sauerland	Non-executive director
Robert Arthur Stuchbery	Non-executive director
Catherine Marie Woods	Non-executive director

The directors have pleasure in presenting their report and the audited financial statements of the group for the year ended 31 December 2018

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 who may exercise all the powers of the company.

Further information can be found in the statement of corporate governance on page 85.

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 100 to 120.

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 corporate governance during 2018. More information on compliance is disclosed in the statement of corporate governance on pages 85 to 99.

Corporate, social and environmental responsibility

The company's corporate, social and environmental policy is disclosed on pages 59 to 73. During 2018 Beazley donated over \$300,000 to charities, details of which can be found in the sustainable overview report on pages 14 and 15.

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

Risk management

The group's approach to risk management is set out on pages 53 to 58 and further detail is contained in note 2 to the financial statements on pages 148 to 160.

Substantial shareholdings

As at 6 February 2019, 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	%
MFS Investment Management	46,080,688	8.7
Invesco Perpetual	44,909,637	8.5
Fidelity Management & Research	36,899,614	7.0
BlackRock	25,654,836	4.9
SKAGEN Fondene	21,868,203	4.1
NBIM	21,549,042	4.1
Vanguard Group	17,861,118	3.4

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 post balance sheet events are given in note 34 to the financial statements on page 197.

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.

Directors' report *continued*

Diversity and inclusion

Information concerning diversity and inclusion can be found in the sustainable business section on pages 70 and 71 and in the statement on corporate governance on page 85.

Share capital

As at 31 December 2018, the company's issued share capital comprised 527,761,271 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 178. 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 22 March 2018 shareholders approved an authority, which will expire on 22 June 2019 or, if earlier, at the conclusion of the 2019 Annual General Meeting (AGM) for the company to repurchase up to a maximum of 52,578,239 ordinary shares (representing approximately 10% of the company's issued ordinary share capital). During the year, Beazley acquired 6,039,136 of its own shares into its employee benefit trust. 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 2019 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:

The amended and restated \$225m multi-currency standby letter of credit and revolving credit facility agreement dated 25 July 2017 remains unchanged. The agreement 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 the maximum actual and contingent liabilities under such letters of credit.

Furthermore, the facility agreement includes a covenant that no group obligor will amalgamate, merge, consolidate or combine by scheme of arrangement or otherwise with any other corporation or person. If this covenant was 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 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 at 14.30 on Thursday 21 March 2019 at Plantation Place South, 60 Great Tower Street, London EC3R 5AD. The notice of the AGM details the business to be put to shareholders.

Greenhouse gas emissions

Our latest greenhouse gas (GHG) emissions report showed 2017 UK and European GHG emissions of 6,103.16 tonnes CO₂ equivalent (tCO₂e) an increase of 18% relative to 2016. This increase is primarily due to increased business travel by air (Scope 3). 2017 GHG emissions for Beazley's four principal North American offices are reported as 2,191.96 tCO₂e. This is 33% higher than 2016 reported emissions and is due to the expansion of the scope of reporting for 2017. 2017 Scope 1 and 2 emissions (214.91 tCO₂e) are 26% higher than those reported for 2016 – also due to the expanded scope of reporting.

Beazley's GHG emission intensity ratio (emissions/employee/year) rose from 7.1 tCO₂e/employee in 2016 to 7.7 tCO₂e/employee in 2017.

Beazley's corporate GHG emissions are summarised in the table below:

	European offices	North American offices
Scope 1 emissions	2016: 51.48 2017: 39.47	2016: data not available 2017: data not available
Scope 2 emissions	2016: 886.83 2017: 683.63	2016: 170.21 2017: 214.91
Scope 3 emissions	2016: 4,235.00 2017: 5,380.06	2016: 1,483.74 2017: 1,977.05
Total	2016: 5,173.31 2017: 6,103.16	2016: 1,653.95 2017: 2,191.96
tCO₂e/employee/year		2016: 7.1 2017: 7.7

Notes:

- i) Greenhouse gas emissions are calculated and presented in accordance with DEFRA Environmental Reporting Guidelines, using the UK Government's GHG Conversion Factors for Company Reporting where possible.
- ii) Beazley Group's 2017 GHG emissions are, where possible, calculated using emission factors for carbon dioxide, methane and nitrous oxide, reported in units of tonnes of carbon dioxide equivalent (tCO₂e). The principal exceptions to this are reporting of emissions associated with electricity use in our Dublin and US offices, which are limited to just carbon dioxide (CO₂).
- iii) Reporting is based on operational control. Beazley Group does not have operational control over the building infrastructure and plant at its offices due to the presence of facility management companies and shared tenancy; as a result, emissions primarily fall within Scope 2 and 3 of the Greenhouse Gas Protocol.
- iv) Reported Scope 1 sources are: company cars, fuel use in back-up generators and fugitive refrigerant losses from AC systems. Emissions associated with electricity used in Beazley's offices and data centres are reported as Scope 2 emissions. Scope 3 sources include business travel by air, rail, taxi and leased cars.
- v) UK and European office reporting covers activity associated with our principal UK office, Plantation Place South and our Dublin office. These sites collectively accounted for 90% of Beazley's UK/European permanent and contracted staff in 2017.
- vi) Beazley's US office reporting covers activity associated with our three principal US offices, Farmington, New York and Chicago in 2015 and 2016. The scope of reporting was expanded in 2017 to also include our Atlanta office. These sites collectively accounted for 63% of Beazley's US employees in 2016 and 73% in 2017.

The scope of 2017 reporting is consistent with that for 2016. Our 2017 scope of reporting has been expanded to include our Atlanta office; this takes US office coverage to 80% of employees (based on 2016 occupancy).

Auditor

The group undertook an audit tender process during 2018 in respect of external audit services. EY will be proposed for appointment, for financial periods on or after 1 January 2019, to shareholders at the 2019 AGM. KPMG will resign as auditor following completion of the 31 December 2018 audit.

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 73 and the directors' report from pages 74 to 77 .

C P Oldridge

Company secretary
Plantation Place South
60 Great Tower Street
London
EC3R 5AD

6 February 2019

Governance

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Letter from our chairman



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.

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. As mentioned on page 87, the board has continued to evolve with a number of changes during the year and further developments planned for the forthcoming year. Neil Maidment retired from the board on 31 December 2018 after having served as an executive director since 2001. We also announced that Martin Bride, the group finance director, will retire from the board in May 2019 following the finalisation of the 2018 accounting year. We were delighted to announce that Martin will be succeeded on the board by Sally Lake. The board would like to express their thanks to Neil and Martin for the immense contribution they have made to the development of the group. The board is looking forward to welcoming Sally to her new role.

In accordance with the group's policy on Director independence and rotation, non-executive directors George Blunden (senior independent director) and Angela Crawford-Ingle (chair of the audit and risk committee) will be stepping down from the board during 2019. George will stand down at the conclusion of the AGM in March 2019 and Angela will stand down following the conclusion of the 2018 accounting year and following a handover to her successor. The board is immensely grateful to both George and Angela for being such tremendous servants to the company during their tenure. A search for a successor to chair the audit and risk committee is well progressed and the board expects to make an appointment in due course. As previously reported, Dennis Holt, our previous chairman stepped down following the conclusion of the 2018 AGM and I took up the role of board chairman.

Christine LaSala will succeed George Blunden and will assume the role of senior independent director following the AGM. Christine will also join the nomination and remuneration committees from the same date. Catherine Woods joined both the nomination and remuneration committees with effect from 1 October 2018. We have increased diversity across all of the board's subcommittees during the year.

In line with the board's commitment to ensuring it has the skills necessary to support and challenge management on the areas central to the group's strategy, a search is underway for a non-executive director with expertise in technology, operations and data and it is anticipated that an appointment will be made during the first half of 2019.

The board is well supported through continuous group development and training as well as individual development programs. The board continues to devote significant attention to developing robust succession plans for both the board and senior management. This will be increasingly important to ensure the optimum balance of expertise, skills and experience is available across the group in a fast changing marketplace.

Board evaluation

This year, we appointed Boardroom Review Limited to undertake the triennial externally facilitated board evaluation. I am pleased to report that the review concluded that the board, its committees and its individual members continue to operate effectively. The review highlighted the following key areas that the board will focus on in the coming year:

- reviewing the governance structure and information flows between our regulated subsidiary boards in light of the changing business and political landscape;
- considering whether a risk committee should be established, separating out the risk and audit agendas and continued development of the role of internal audit; and
- continuing monitoring of corporate culture, and board engagement with executive development, diversity and talent.

We will report on the progress in implementing the recommendations made in the 2020 annual report.

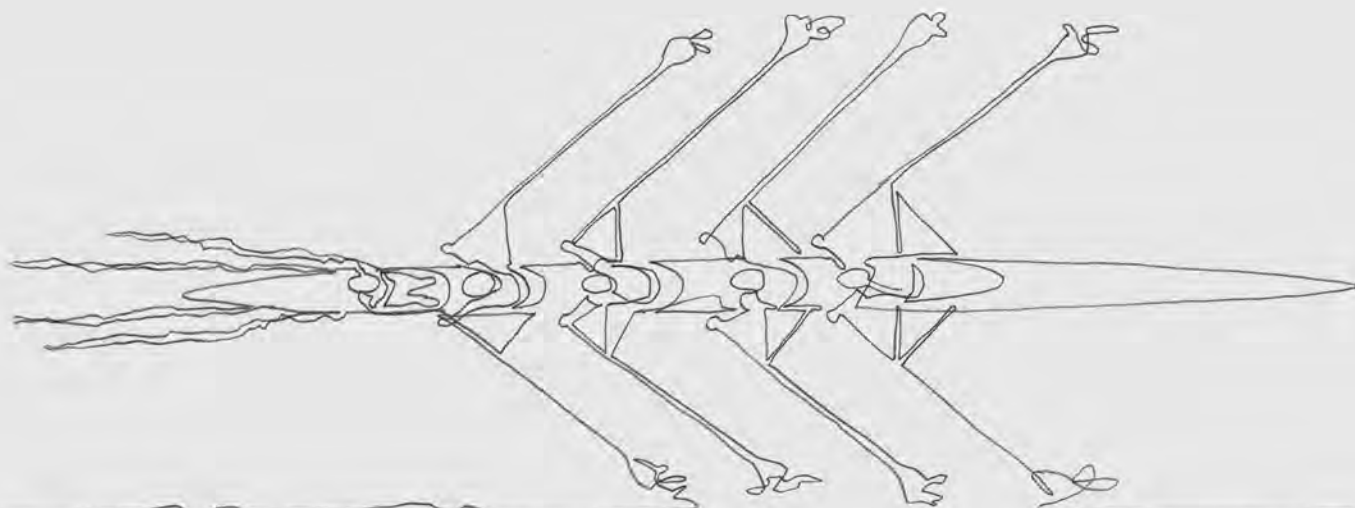
Governance

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 2016 UK Corporate Governance Code throughout the year ended 31 December 2018. The board has also considered the changes introduced in the 2018 UK Governance Code (the "Code") and it is pleasing to note that the company had a number of processes already in place to assist compliance with the principles and provisions of the Code and we will report fully on our compliance in the 2019 annual report. Details of the activities of the board and its committees are also set out on pages 86 to 99. All directors will attend this year's AGM, either in person or via teleconference, 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
Chairman

Board of directors



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

Our committees and committee chairmen

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 regulatory and governance bodies, satisfying the expectations 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 Angela Crawford-Ingle.

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*



David Roberts
Chairman

Appointed: 1 November 2017
Experience: David joined Beazley on 1 November 2017 and became chairman on 22 March 2018. He is chairman of Nationwide Building Society and vice chairman of NHS England. He has over 30 years experience in financial services and was previously chairman 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 chairman at Lloyds Banking Group. His previous non-executive directorships include Absa Group SA and BAA plc.
Committee: Nomination committee (chairman)
Skills: governance, strategy, board leadership and regulation.



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. He qualified as a chartered accountant with Coopers and Lybrand in 1987. He joined the board of Man Group plc in 2013 as a non-executive director.
Committee: Executive committee (chairman)
Skills: strategy, investment, finance, mergers and acquisitions, leadership and people management.



Martin Bride
Group finance director

Appointed: 5 May 2009*
Experience: Martin joined Beazley in April 2009 as finance director. He began his career in insurance in 1985 and took up his first role as a finance director in 1996. He trained as a general insurance actuary, and his experience spans personal and commercial lines general insurance, the London market, life insurance and asset management in both the UK and France. Martin has 34 years' experience in insurance and his career includes a number of senior level finance and general management roles in the sector. He has also held directorships at Société Foncière Lyonnaise and Union Financière de France Banque. Martin has been group finance director at Beazley for 10 years joining from Zurich Financial Services where he was Chief Financial Officer for the UK Life Business. Prior to that, he spent 17 years at Aviva both in France and the UK.
Committee: Executive committee
Skills: finance, insurance, mergers and acquisitions and leadership.



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 has 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 Furlong Ltd in 2008 and Beazley plc in 2011.
Committee: Executive committee
Skills: insurance, management, international business development and governance.



George Blunden
Non-executive director

Appointed: 1 January 2010*
Experience: George is the senior independent director. He retired as senior vice president and director from AllianceBernstein Ltd in December 2009. He had previously been chief executive of Union plc, and a director of SG Warburg Securities, Secombe, Marshall and Campion plc and Meridian Investment Performance Services. He is the chairman of the Charity Bank Ltd and chairman of Stonewater Ltd.
Committees: Audit and risk committee, remuneration committee, nomination committee
Skills: investments, treasury, credit, capital and governance.



Angela Crawford-Ingle
Non-executive director

Appointed: 27 March 2013*
Experience: Angela is a chartered accountant with extensive audit experience of multinational and listed companies. She was a partner in PricewaterhouseCoopers specialising in financial services for 20 years during which time she led the insurance and investment management division and retired in 2008. She is currently a partner in Ambre Partners, a firm providing strategic, financial and operational advice. Angela is also currently a non-executive director and audit chair of Swinton Group Ltd and River and Mercantile Group plc.
Committee: Audit and risk committee (chairman)
Skills: finance, governance, audit and strategy.



N

Christine LaSala*Non-executive director***Appointed:** 1 July 2016

Experience: Based in New York, Christine retired as chair of Willis Towers Watson North America. She has 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 working with large 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.

Committee: Audit and risk committee

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



N

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 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. He has had many non-executive director appointments, including at the Bank of England, and is currently also a non-executive director of Times Newspapers Ltd.

Committees: Remuneration committee (chairman), nomination committee

Skills: accountancy, financial services, parliamentary advice and governance.



N

Catherine Woods*Non-executive director***Appointed:** 1 January 2016*

Experience: Catherine has over 30 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 currently holds a number of non-executive directorships including deputy chairman of AIB Group plc and is a director of AIB Mortgage Bank EBS DAC, Black Rock Asset Management (Ireland) and EBS DAC. 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 Chairman of EBS DAC and former director of An Post.

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

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



N

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.



N

Robert Stuchbery*Non-executive director***Appointed:** 11 August 2016

Experience: Bob had previously been appointed as a non-executive director to the board of Beazley Furlonge Ltd, the group's Lloyd's managing agency, where he chairs the risk committee. He brings extensive Lloyd's experience, having been chief executive officer of Chaucer until 2015, and a deep knowledge of the Lloyd's market and distribution and operational strategies.

Committee: Audit and risk committee

Skills: insurance, risk management and strategy.

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 the Beazley group) this appointment date refers to their representation on the parent company of the Beazley group.

Investor relations

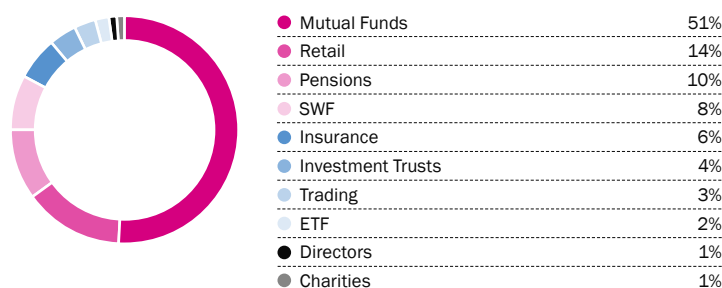
We place great importance on communication with shareholders. The annual report and accounts and the interim report are available to shareholders on the company's website (www.beazley.com). A mailed copy of the accounts is also available on request. The company responds to individual letters from shareholders 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 syndicates 623 and 5623 and special purpose syndicate 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.

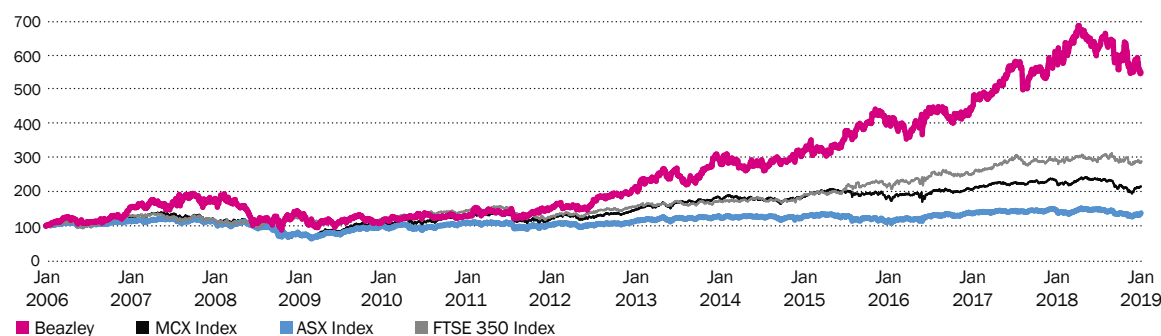
The company's shares are listed on the London Stock Exchange. Prices are given daily in newspapers including the Financial Times, The Times, the Daily Telegraph, the Daily Mail and the Evening Standard.

Shareholding by type of investor



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, Berenberg, Canaccord, Credit Suisse, Jefferies, Keefe Bruyette & Woods, Peel Hunt, Shore Capital, Investec, UBS and RBC.

Share price performance



Financial calendar

1 March 2019	Second interim dividend record date
21 March 2019	Annual general meeting
27 March 2019	Second interim dividend payment date for the six months ended 31 December 2018
23 July 2019	First interim dividend announcement for the six months ended 30 June 2019

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 2016 version of the Financial Reporting Council's UK Corporate Governance Code (the Code) throughout the year ended 31 December 2018. The new reporting requirements of the UK Corporate Governance Code 2018 will be fully reported on in the 2019 annual report.

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

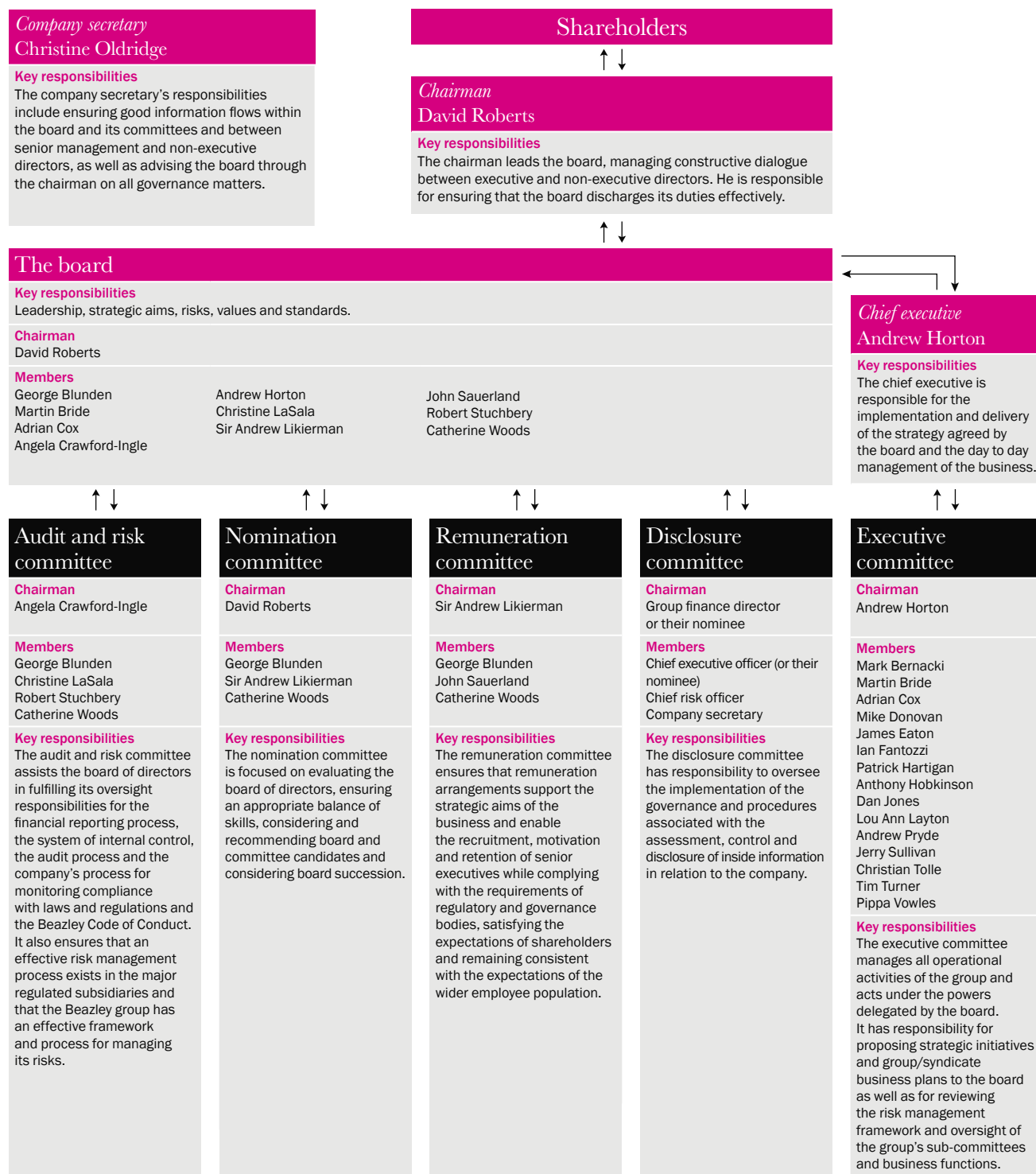
The board considers that the annual report and accounts, taken as a whole, are fair, balanced and understandable; and that they provide the information necessary for shareholders to assess the company's performance, business model and strategy. The company's auditors have reviewed the company's compliance 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 company 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 2018 are set out on pages 86 to 99. The board has also appointed an executive committee that is chaired by Andrew Horton and acts under delegated authority from the board. The executive committee meets on a monthly basis and is responsible for managing all activities of the operational group. The governance framework of the main board and its committees is shown in the diagram on the following page.

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

Statement of corporate governance *continued*

The information above is as at 6 February 2019.

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; 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 chairman, David Roberts, together with seven independent non-executive directors, of whom George Blunden is the senior independent non-executive director, and four executive directors, of whom Andrew Horton is chief executive. Following the retirement of Neil Maidment on 31 December 2018, there are now three executive directors. 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.

George Blunden has served a term in excess of six years and continues to bring strong challenge and insight to the board and its committees. His appointment was extended for a further three years at the 2016 AGM, subject to annual reappointment at the AGM. The nomination committee carried out a rigorous assessment of George Blunden's continuing independence, taking into account the length of his tenure on the boards of both Beazley plc and Beazley Furlonge Ltd, and concluded that he remained independent. As senior independent director George will, if required, deputise for the chairman. He 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 his attention. As George Blunden has served a further three year term, he will stand down at the 2019 AGM.

Christine LaSala has been appointed as the senior independent non-executive director with effect from 21 March 2019. She will take over the role from George Blunden, who will step down from the board at the conclusion of the AGM. Christine LaSala had a long and distinguished career in the insurance industry and has already made a significant contribution to the Beazley board. Neil Maidment retired from the board on 31 December 2018 and Adrian Cox has assumed his executive management responsibilities.

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 2018, in addition to the five regular board meetings, there were further meetings to consider the Solvency II annual return and the Q3 2018 interim statement. There was nearly full attendance at all meetings. All the directors also attend an annual strategy day. The remuneration, nomination, and audit and risk committees had additional ad hoc meetings with full attendance. The chairman holds regular meetings with the non-executive directors without the executive directors being present.

Statement of corporate governance *continued*

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

Director	Board		Audit and risk committee		Remuneration committee		Nomination committee	
	No. of meetings	No. attended	No. of meetings	No. attended	No. of meetings	No. attended	No. of meetings	No. attended
George P Blunden	5	5	7	7	6	6	6	6
Martin L Bride	5	5	–	–	–	–	–	–
Adrian P Cox	5	5	–	–	–	–	–	–
Angela D Crawford-Ingle	5	5	7	7	–	–	–	–
Dennis Holt ¹	1	1	–	–	–	–	2	2
D Andrew Horton	5	5	–	–	–	–	–	–
Christine LaSala	5	5	7	7	–	–	–	–
Sir J Andrew Likierman	5	5	–	–	6	6	6	6
Neil P Maidment	5	5	–	–	–	–	–	–
John P Sauerland	5	5	–	–	6	6	–	–
Robert A Stuchbery	5	5	7	7	–	–	–	–
Catherine Woods ²	5	5	7	7	1	1	1	1
David Roberts ³	5	5	–	–	–	–	4	4

1 Dennis Holt resigned as a director on 22 March 2018.

2 Catherine Woods was appointed to the remuneration committee and nomination committee on 1 October 2018.

3 David Roberts was appointed to the nomination committee on 22 March 2018.

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 and 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:

- review of strategic initiatives;
- review of the competitive landscape;
- discussions over prioritisation of investment expenditure;
- Solvency II reporting;
- review of risk management framework, including risk appetite;
- continued monitoring of developments and responding to requirements for Brexit;
- understanding the General Data Protection Regulation implemented in May 2018;
- review of the Own Risk and Solvency Assessment (ORSA);
- discussion on capital position and dividends;
- cyber product development and cyber security;
- review of developments in corporate governance and receipt of key legal and regulatory updates including the PRA/FCA Senior Managers and Certification Regime, gender pay gap, and the new UK Corporate Governance Code 2018; and
- discussion of the outcome of the board evaluation and effectiveness review and agreement of improvement opportunities.

In July 2018 Beazley backed the Inclusion Behaviours Pledge. This is a public commitment made by members of the insurance sector, which reinforces Beazley's promise to challenge inappropriate behaviour and create increasingly welcoming and inclusive workplaces in our sector. In the UK, Beazley has joined the Women in Banking & Finance forum to share best practice and offer networking and development opportunities to our female talent through their programme.

Beazley is signed up to HM Treasury's Women in Finance Charter. The aim of the Charter is to help build a more balanced and fair financial services industry, by working together with other signatories to see gender balance at all levels across the sector. We are also a member of the 30% Club, which further demonstrates our commitment to gender diversity.

The Beazley diversity and inclusion steering group provides diversity and inclusion support for all employees and aims to foster open dialogue about gender, social, ethnicity, LGBT+, disability and parental/carer inclusion. Beazley currently has an LGBT+ network and young professionals network in place.

Beazley continue to work with Stonewall and the Business Disability Forum. Both organisations work closely with Beazley to identify the best support for our colleagues in the LGBT+ community, and for those living with disabilities, to help Beazley become a more inclusive and supportive place to work.

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 the company secretary, in conjunction with talent management, arranges and coordinates the appropriate training. 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 2018 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 sessions on IFRS 17, Senior Managers and Certification Regime and refresher training on Solvency II. All directors allocate sufficient time to the company to enable them to discharge their responsibilities effectively. 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 assessment was externally facilitated in 2018 by Boardroom Review Limited; The review concluded that the board and its committees continue to operate effectively. However, it is intended that the recommendations of the Boardroom Review Limited review will be implemented and reported on in the 2019 annual report.

Audit and internal control

A comprehensive audit tender was carried out in 2018 (details of this process can be found in the audit committee report on pages 94 and 95) and EY have been appointed as the new external auditor for the 2019 accounting year, subject to shareholder approval at the 2019 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 auditor's report, together with the statement of the directors on going concern in the directors' report.

The board confirms that there is a continuous process for identifying, evaluating and managing any significant compliance issues and risks facing the group. All significant known risks are captured in the Beazley risk register and monitored on a monthly basis. The risk register and the related internal capital assessment process are subject to review, challenge and approval by the board.

Statement of corporate governance *continued*

The board agreed the 2018 risk appetite for the group at the end of 2017 and, throughout 2018, the board has considered and acted upon the information presented to it in order to make risk based decisions against the 2018 risk appetite. Key components of the risk management framework include monthly control self assessments and six monthly risk 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. 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, and accords with the UK Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial Business Reporting' document.

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 2018, 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 chairman of the audit and risk committee also had regular contact with external and internal auditors during 2018 and members of the audit and risk committee met individually with the Central Bank of Ireland and the Prudential Regulation Authority.

Further information on the role of the audit and risk committee is set out on page 91 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.

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.

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.

Statement of corporate governance *continued*

Audit and risk committee



Angela Crawford-Ingle
Non-executive director

Membership and attendance

	Appointment	Attendance at full meetings during 2018
Angela Crawford-Ingle	27 March 2013	7/7
George Blunden	1 October 2010	7/7
Christine LaSala	1 July 2016	7/7
Robert Stuchbery	11 August 2016	7/7
Catherine Woods	11 March 2016	7/7

The board has delegated oversight of audit and risk matters to the audit and risk committee which currently comprises Angela Crawford-Ingle (chairman), George Blunden, Catherine Woods, 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 2018 the committee also considered a number of specific topics such as the external audit tender process, monitoring of changes in regulatory and tax environments, and assessing emerging risks such as 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' financial, accounting and other relevant financial experience are given in their biographies under 'board of directors' on pages 82 and 83. 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 chairman, chief executive officer, the group finance director, the chief underwriting officer, 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 2018 there were a total of 7 meetings in the year compared to 6 meetings in 2017, with an additional meeting required for approval of Solvency II returns.

The internal and external auditors attend committee meetings and regularly meet in private with the committee. In addition the chairman 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 2018.

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.

Statement of corporate governance *continued*

Audit and risk committee *continued*

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; and
- 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.

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 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 compliance officer 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 2018 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 both 2017 and 2018, we observed a significant amount of natural catastrophe activity which impacted many lines of business underwritten by Beazley. While there remains uncertainty around 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, as the output of independent projections are reviewed at key reporting quarters. In the latter part of the year, the group actuary has reported both informally and formally 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, the consistent application of Beazley's reserving philosophy, and the review work carried out by our external auditor, the committee was satisfied that the reserves held on the group statement of financial position at 31 December 2018 are reasonable.

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, we received updates from management on the level of estimations used in our 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.

The committee also discussed the likely impact of IFRS 17 and in particular the impact that this new standard would have on the current financial close process, including data flows and controls. The committee expects that this new standard will remain a key focus over the next 3-4 years. The committee notes that there is a proposed delay in the implementation to 1 January 2022. As such the committee will continue to monitor the progress for implementing IFRS 17 during 2019.

iii) Valuation of financial assets at fair value

As the group's business model is to predominantly issue insurance contracts, the group have taken the option to defer the effective date of IFRS 9 until January 2021, as per the amendment to IFRS 4. As such the group continues to report its 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. 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 reported for 2018 that the investment portfolio is in line with the board approved risk appetite, that carrying values of the portfolio as at 31 December 2018 are appropriate and that the valuation methodologies applied to each hierarchy level are consistent with the accounting policies. Committee members are invited to and regularly attend the investment committee.

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 2018.

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 the majority of Beazley's reinsurance receivables are due from highly rated institutions. Based on previous experience, 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. In addition, the committee considers the appropriateness of management's dividend strategy of growing the ordinary dividend each year and the appropriateness of applying this strategy in the current year.

Statement of corporate governance *continued*

Audit and risk committee *continued*

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 in particular the impact of the natural catastrophe activity during the second half of 2018, which compounded the impact of the catastrophes seen in 2017. We also consider 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. 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 intangibles. 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) Other updates

During 2018, 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 the increased Solvency II reporting requirements;
- overview of key reporting and regulatory updates, including updates on accounting standards, changes in tax legislation, changes in regulatory requirements and the implementation of General Data Protection Regulation in particular;
- compliance, financial crime and assurance reporting including risk incident information;
- the group's external audit tender (discussed further below);

- 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; and
- 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.

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

Function updates

The Beazley plc board has delegated a number of oversight responsibilities to the audit and risk committee in relation to the risk management framework, compliance, internal audit and external audit.

The work undertaken and key matters considered during the year in these areas are set out below:

Audit and financial reporting

a) 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 chairman. 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 2018, the committee:

- considered the results of all internal audit reports, and the findings and themes emerging from them;
- monitored the implementation of the 2018 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. This 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 2019;
- 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 2018 internal audit activity;
- monitored the timely implementation of agreed management actions and reviewing the status of the same;
- following the resignation of the head of internal audit who left in August 2018, representatives from the committee interviewed candidates to fill the vacancy. An appointment was agreed subject to regulatory approval required by Beazley's UK and Irish regulators; and
- requested and reviewed a report regarding the group's control environment as a whole.

During the course of 2018 a number of internal audit recommendations were made to management in relation to its systems of control which have been subsequently implemented. Overall the internal audit function was able to report that for those areas it reviewed, the design and operation of our risk management framework, controls and processes have supported the group in operating within its risk appetite.

b) External audit

i) Audit tender

As disclosed in the group's annual report for the year ended 31 December 2016, the board committed to changing group auditor no later than for the 2019 financial year.

During 2017 the audit committee reviewed management's tender strategy and in 2018 a comprehensive audit tender was conducted by a selection panel, acting with delegated responsibility and authority of the audit committee.

This selection panel included a director of each of the Public Interest Entities ('PIEs') and regulated entities in the group alongside the group actuary and chief risk officer.

The tender process can be summarised as follows:

- six firms were invited to participate in the tender; this was split evenly between the three 'Big 4' firms not currently providing audit services to the group and three mid-tier insurance audit firms;
- three firms confirmed their interest and independence and moved into the first round which included both a written application outlining the strength and depth of the firm and a technical case study;
- the selection panel identified two firms to move into the second round which required a written response to a request for proposal (RFP), two case studies, partner interviews and a presentation to the selection panel;
- each firm was assessed by the selection panel based on the following transparent and non-discriminatory decision-making criteria: overall audit quality and service proposition; coordination and communication; additional value; and capability and competence of the lead partner, team and the firm; and
- the audit committee received a recommendation from the selection panel and arrived at a recommendation for the board.

The recommendation, which has been accepted by the board, is that EY be proposed for appointment at this year's annual general meeting as Beazley's external auditor for financial periods commencing on or after 1 January 2019. A period of knowledge transfer will occur during the first half of 2019.

Throughout the tender the committee were pleased to receive reassurance that the current audit framework within Beazley is aligned with market expectations.

ii) 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;
- considering the level of challenge evidenced in discussions and reporting; and
- discussing the output of the FRC's Audit Quality Review ('AQR') with our auditor.

These considerations are taken into account by the committee when determining whether to reappoint the external auditor. Due to the appointment of EY as the group's external auditor for financial periods on or after 1 January 2019, KPMG is deemed to not be reappointed by the committee.

iii) 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 2018, our non-audit services policy was updated, enhanced and 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 aim is to limit the total spend on non-audit services to a maximum of the annual audit fee, unless it is deemed that not doing so is in shareholders' interest from an efficiency and effectiveness point of view.

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 2018 were \$1.6m (2017: \$1.6m). 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.

KPMG is a panel member eligible to provide services under our cyber breach response service to policy holders. The committee receives regular updates to monitor the level of activity and to ensure conflicts of interest do not occur.

None of the non-audit services provided are considered by the audit and risk committee to affect the auditor's independence or objectivity.

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.

Statement of corporate governance *continued*

Audit and risk committee *continued*

Risk management and compliance

a) 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 2018 and can confirm that Beazley plc has been operating within risk appetite as at 31 December 2018. The committee has also reviewed the proposed 2019 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 and the risk committees of the subsidiary boards have reviewed Beazley's risk profiles, which are focused risk assessments of specific topics. In 2018, the committee received a review of cyber risk aimed at ensuring our suite of realistic disaster scenarios are appropriate. There was also a number of other operational risk profiles presented which supported the committee's oversight of the on-going business processes;
- emerging risk: The committee supported the identification of strategic and emerging risks which were discussed at the board meeting in May 2018 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 consolidated assurance report which provides commentary on the status of the control environment with perspective from the business, risk management, compliance and internal audit. It also includes entries from the risk incident log;

- 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; and
- 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.

b) 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 2018, the committee:

- monitored the implementation of the 2018 compliance plan;
- reviewed and approved the 2019 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; and
- received updates on the framework, training and policy put in place regarding whistleblowing.

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.

Committee effectiveness

The committee considers its effectiveness regularly. An assessment was externally facilitated in 2018. Whilst the review concluded that the committee was operating effectively, a recommendation is being considered regarding the establishment of a separate risk committee.

Competition and Markets Authority Order 2014 statement of compliance

The committee confirms that during 2018 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 *continued*

Remuneration committee



Sir Andrew Likierman
Non-executive director

Membership and attendance

	Appointment	Attendance at scheduled meetings during 2018
Sir Andrew Likierman	25 March 2015	6/6
George Blunden	1 January 2011	6/6
John Sauerland	11 May 2016	6/6
Catherine Woods	1 October 2018	1/1

Currently the membership of the remuneration committee comprises Sir Andrew Likierman (chairman), George Blunden, John Sauerland and Catherine Woods.

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 chairman 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 2018**
During 2018 the committee:
- reviewed the key aspects of the remuneration policy, and oversaw its implementation and application;
 - 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 and 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 2018 for executive directors, heads of control functions, material risk takers and other officers;
 - approved the gender pay gap report;
 - approved the chairman's fees;
 - reviewed the executive director employment contracts; and
 - considered the effects of the 2018 UK Corporate Governance Code requirements on the committee's responsibilities.

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

Statement of corporate governance *continued*

Nomination committee



David Roberts
Chairman

Membership and attendance

	Appointment	Resigned	Attendance at scheduled meetings during 2018
Dennis Holt	21 July 2011	22 March 2018	2/2
David Roberts	22 March 2018		4/4
George Blunden	1 January 2010		6/6
Sir Andrew Likierman	25 March 2015		6/6
Catherine Woods	1 October 2018		1/1

The nomination committee is chaired by David Roberts, who took over from Dennis Holt in March 2018, and currently also comprises George Blunden, Sir Andrew Likierman and Catherine Woods.

The nomination committee meets at least twice annually and at such other times during the year as are necessary to discharge its duties. In 2018 there were six 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, which were updated in September 2018 and reflect the new requirements set out in the UK Corporate Governance Code 2018. These requirements include specific responsibility to keep under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to 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 chairman 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 chairman 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, diversity and inclusion

We believe having a diverse and inclusive workplace will support our vision for growth and outperforming the market. We 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. We believe employing individuals with wider perspectives and from a broader skill base will lead to a more dynamic, innovative, responsive organisation in touch with changes and developments in our business environment.

We have a defined policy and strategy that will enable us to:

- nurture diverse individuals across all areas of the business and encourage them to grow into senior positions within our organisation;
- develop plans on how to best support diversity in a way that is both locally relevant and globally impactful;
- support, mentor and encourage individuals from diverse backgrounds to grow and develop within Beazley;
- have leadership and sponsorship of our vision at the most senior level of our organisation;
- regularly review our employment policies and practices. We expect our people to work with us to further enhance our diversity objectives; and
- ensure all employees receive equality of opportunity in recruitment, training, development, promotion and remuneration.

The committee has agreed the establishment of goals for gender diversity for both the board and the broader organisation. The board achieved its goals for gender diversity for the Beazley plc board of two female members by AGM 2016, and a third female member by AGM 2017. Female representation on the board went from zero to three in five years. 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.

The 2018 board effectiveness review was overseen by the committee and was externally facilitated in October/November 2018 by Boardroom Review Limited. As part of the review, Boardroom Review Limited interviewed directors in one to one meetings; observed board and committee meetings; and reviewed meeting packs together with corporate information. Boardroom Review Limited provided feedback to each director and to the chair of each committee. The review resulted in a robust board discussion on the areas in which action should be taken to strengthen the board's overall effectiveness. The key areas of focus will be:

- reviewing the governance structure and information flows between our regulated subsidiary boards in light of the changing business and political landscape;
- considering whether a risk committee should be established, separating out the risk and audit agendas and continued development of the role of internal audit; and
- continuing monitoring of corporate culture, and board engagement with executive development, diversity and talent.

The committee will oversee the implementation of the resulting action plan and will report on the progress made in implementing the recommendations made in the 2019 annual report. Boardroom Review Limited has no other connection with the company.

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

Key activities in 2018

Tasks which the committee carried out in 2018 were to:

- The committee commenced the search for a successor of Angela Crawford-Ingle (chair of the audit and risk committee) in accordance with the group's policy on director independence and rotation. Angela will be stepping down from the board during 2019 following the conclusion of 2018 accounting year and a full handover to her successor. The committee has been assisted by JCA Group, recruitment consultants, for this search;
- commence the search process for a new group finance director with a view to appointing in Q1 2019. The appointment of Sally Lake as finance director following the conclusion of 2018 accounting year was announced in January 2019. For the recruitment process the committee was assisted by Russell Reynolds Associates, recruitment consultants;
- commence the search for a non-executive director with expertise in technology, operations and data. It is anticipated an appointment will be made in 2019. For the recruitment process the committee has been assisted by Audeliss Executive Search;
- 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
- consider and approve proposals for individuals to be included in the new Senior Managers and Certification Regime.

Letter from the chairman of our remuneration committee



Dear shareholder

The basis of the remuneration policy remains to attract and keep those who are among the best in the world in specialist insurance, rewarding sustained performance and keeping the company competitive.

Business performance and incentive out-turns

The commercial background to this year's remuneration report is, as you will have seen from the results, strong premium growth but profitability affected by increased claims and a decline in investment returns. The decline in the average director's bonus from 38% to 18% of the maximum reflects these results.

Directors will receive the second tranche (instalment) of the 2014 LTIP and the first tranche of the LTIP for 2016. The tranches are due to vest (pay out) at 63.4% and 17.8% of the maximum respectively. These percentages reflect sustained growth in net asset value per annum of 14.2% and 10.6% respectively for the five and three year performance periods.

Executive salaries for 2019

The average executive director salary increase for 2019, excluding the effects of the promotion to chief underwriting officer (see below), was 3.0%, less than the average salary increase for the rest of the organisation.

Director changes

Following Neil Maidment's retirement, Adrian Cox was promoted from head of specialty lines to chief underwriting officer (CUO). The role of CUO has also been restructured so that, in addition to responsibility for treaty and political, accident and contingency, the CUO will now also have oversight of property, marine and specialty lines. To recognise this increased responsibility, Adrian's salary was increased by 8.3%.

As announced after the year end, Sally Lake has been promoted from group actuary to be the new group finance director, effective from May 2019. Sally's compensation will be in line with our remuneration policy and will be announced when she takes up her appointment.

There have been no special remuneration arrangements for the retirements of Neil Maidment and Martin Bride.

Corporate Governance Developments

Following the publication of the new UK Corporate Governance Code, the committee is reviewing the remuneration policy to ensure that Beazley is aligned with best practice.

A number of changes have already been made and taking into account the new Code, the 2019 LTIP awards will be awarded with a post-vesting holding period. The first tranche of the LTIP, which vests after three years, will now have an additional two-year holding period. Executive directors will therefore be required to wait until five years from grant to receive any shares under the LTIP. In addition, the recovery provisions have been strengthened and an additional clause has been introduced to the LTIP to enable the committee to apply independent judgement and discretion to out-turns taking into account wider company and individual performance. The committee is also mindful of evolving market practice in relation to post-employment shareholding guidelines. Currently on cessation, in the case of a "good leaver", all outstanding share awards subsist to their normal release/vesting dates providing considerable alignment with shareholders post-employment.

The committee will be considering other matters, including the remuneration reporting requirements and the approach to post-employment shareholding guidelines. There will be an opportunity to vote on a revised remuneration policy at the 2020 Annual General Meeting.

Gender pay

During the year Beazley published its second gender pay gap report. While we were pleased to see a minor improvement, we are determined to do more. Details of the work in progress are set out in the 2018 UK gender pay report.

Shareholders

In light of our shareholders' feedback this year we have provided more detail of the corporate performance and individual contributions that resulted in the annual bonus outturns. This, as well as a graph that compares financial out-turns, is on page 107.

The committee continues to welcome the views of our shareholders. We were pleased to see another strong vote of 96% on last year's directors' remuneration report and look forward to receiving our shareholders' support for this year's report.

Sir Andrew Likierman

Remuneration committee chairman

Directors' remuneration report

Remuneration in brief

Remuneration principles

The main aim of Beazley's 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. In particular we believe that:

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

Remuneration policy

Our policy, which remains unchanged for 2019, has two guiding principles: alignment to shareholders' interests and performance of the group. The key features and basis of alignment are:

- Key performance indicators used in incentives. Two important factors in the determination of the annual bonus pool are profit before tax and return on equity, both of which are key performance indicators for the company. In addition the long term incentive plan (LTIP) uses another key performance indicator, net asset value per share (NAVps) growth, since it is aligned to shareholders' interest. For the maximum awards to vest, NAVps growth of 15% above the risk-free return has to be sustained for five years;
- Five year performance. For a number of years we have operated an LTIP where performance is measured over five years as well as three. This aligns reward with the long term performance of the business including malus and clawback provisions taking reclaim provisions to seven years. In addition, for executive directors, a further two year holding period on the three year award applies from 2019 and ensures alignment with longer term decision-taking. Further strengthening alignment with longer term decision making is the company's policy to defer a portion of annual bonuses into shares and our shareholding guidelines; and
- Risk. The features which align remuneration with risk include a long time horizon, deferral of bonus into shares and personal shareholding requirements. The committee receives an annual report from the chief risk officer on remuneration policy to ensure it is consistent with, and promotes, effective risk management.

A full copy of the remuneration policy can be found on our website at www.beazley.com.

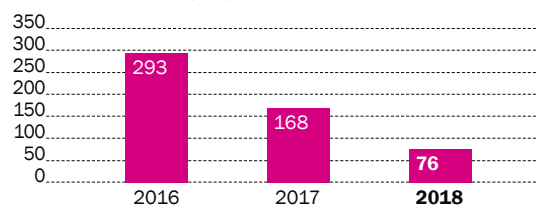
Directors' remuneration report *continued*

Remuneration in brief *continued*

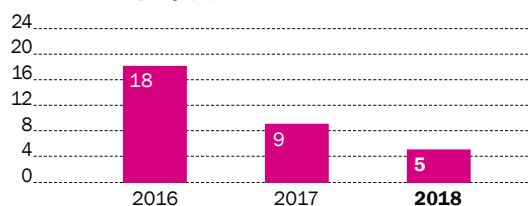
Performance in 2018

Beazley had strong premium growth in a challenging year with an exceptional series of natural catastrophes and the incentive outcomes reflect this.

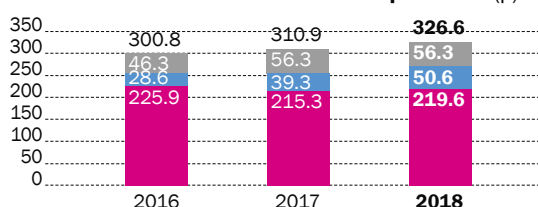
Profit before tax (\$m)



Return on equity (%)

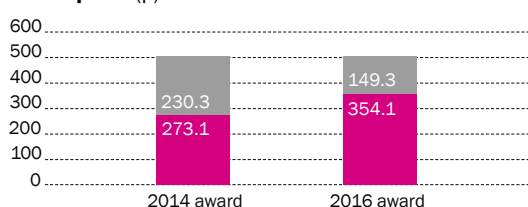


Net assets and cumulative dividend per share (p)



■ Special dividend
■ Interim and second interim dividend
■ Net asset per share

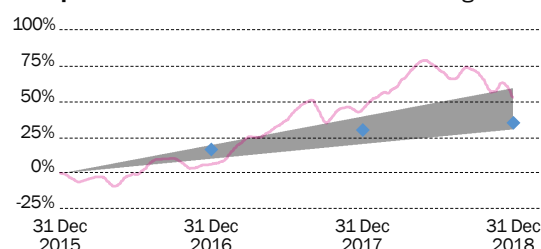
Share price (p)



■ Share price at grant
■ Share price appreciation

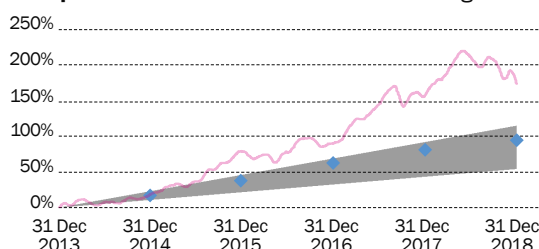
The group's performance over the longer term was strong in terms of NAVps growth and total shareholder return, as illustrated in the charts below.

LTIP performance 2015-2018 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 2013-2018 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 *continued*

Outcomes for 2018 and implementation for 2019

Element	Overview of policy	Implementation and outcomes during 2018	Implementation for 2019										
Base salary	<p>Salaries are set at a level to appropriately recognise responsibilities and to be broadly market competitive.</p> <p>Any salary increases will generally reflect our standard approach to all-employee salary increases across the group.</p>	<p>Salaries for 2018 were as follows:</p> <ul style="list-style-type: none">• D A Horton: £468,500• M L Bride: £330,000• A P Cox: £351,000• N P Maidment: £351,000	<p>D A Horton and M L Bride each received a salary increase of c.3%, below the average for the wider employee workforce.</p> <p>The role of the chief underwriting officer has been restructured to include additional responsibilities. The role already included responsibility for treaty and political, accident and contingency and will now include oversight of property, marine and specialty lines. To recognise the increased responsibility and scope of the role, A P Cox's salary was increased by c.8.3%.</p> <p>Salaries for 2019 will be as follows:</p> <ul style="list-style-type: none">• D A Horton: £482,500• M L Bride: £340,000• A P Cox: £380,000										
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.	Existing executive directors receive a pension contribution or cash payment in lieu of pension of 15% of base salary.	In line with policy.										
Annual bonus	<p>Discretionary annual bonus determined by reference to both financial and individual performance.</p> <p>A portion is generally deferred into shares for three years (between 0% and 37.5% of bonus) dependent on level of bonus.</p>	<p>Maximum bonus opportunity for executive directors was 400% of salary.</p> <p>ROE in the year was 5%. Profit for the year was \$76.4m.</p> <p>Bonus outcomes range from 15% to 21% of maximum.</p>	In line with policy.										
Long term incentive plan (LTIP)	<p>Vesting of LTIP awards is dependent on net asset value per share (NAVps) performance against the risk-free rate of return.</p> <p>50% of awards are subject to performance over three years and 50% over five years.</p> <table><thead><tr><th>NAVps performance</th><th>% of award vesting</th></tr></thead><tbody><tr><td>< average risk-free rate +7.5% p.a.</td><td>0%</td></tr><tr><td>= average risk-free rate +7.5% p.a.</td><td>10%</td></tr><tr><td>= average risk-free rate +10% p.a.</td><td>25%</td></tr><tr><td>= average risk-free rate +15% p.a.</td><td>100%</td></tr></tbody></table> <p>Straight-line vesting between points</p>	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%	<p>The first tranche of the 2016 LTIP award vested at 17.8% of maximum following three year NAVps performance of 10.6% p.a.</p> <p>The second tranche of the 2014 LTIP award vested at 63.4% of maximum following five year NAVps performance of 14.2% p.a.</p> <p>In 2018, the following grants as a percentage of base salary were made, subject to the usual NAVps performance condition:</p> <ul style="list-style-type: none">• D A Horton: 200%• M L Bride: 150%• A P Cox: 150%• N P Maidment: 150%	<p>In 2019, the following grants as a percentage of base salary will be made, subject to the usual NAVps performance condition:</p> <ul style="list-style-type: none">• D A Horton: 200%• A P Cox: 150% <p>In accordance with the updated UK Corporate Governance Code the first tranche of the 2019 LTIP award will be subject to a further two year holding period taking the total time frame for the entire award to five years.</p>
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%												
Shareholding guidelines	<p>Executive directors are expected to build up and maintain a shareholding of 150% of salary (200% for the CEO).</p> <p>LTIP awards may be forfeited if shareholding requirements are not met.</p>	All executive directors met their shareholder guidelines.	In line with policy.										

Directors' remuneration report *continued*

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 2018 (and how these relate to our performance in the year) and details of the operation of our policy for 2019.

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 2018 and 31 December 2017.

Executive directors

£		Fixed pay			Pay for performance		Total remuneration ²
		Salary	Benefits	Pension	Total annual bonus ¹	Long term incentives (LTI)	
Martin L Bride	2018	330,000	11,949	43,497	200,000	346,199	931,645
	2017	320,000	11,548	42,179	400,000	997,144	1,770,871
Adrian P Cox	2018	351,000	10,602	46,265	300,000	372,594	1,080,461
	2017	342,500	12,226	45,145	600,000	1,066,415	2,066,286
D Andrew Horton	2018	468,500	16,762	61,753	350,000	662,055	1,559,070
	2017	457,000	17,399	60,237	700,000	1,905,509	3,140,145
Neil P Maidment ³	2018	351,000	15,949	46,265	250,000	372,594	1,035,808
	2017	342,500	16,383	45,145	500,000	1,072,326	1,976,354

1 A portion of the bonus awards shown in the table above is deferred into shares for three years. Details of the deferral in respect of 2018 awards can be found on page 109.

2 A significant portion of the single figure values shown arises from the substantial share price appreciation over the period. For 2018 the share price at the time LTI awards were made was, 273.13p for the 2014 award and 354.10p for the 2016 award, while the average share price in the last three months of 2018 was 533.00p. This represents share price growth of 95% and 51% over the five and three year periods respectively.

3 Neil Maidment stepped down from the board on 31 December 2018.

The figures in the preceding table reflect the following:

- salaries for 2018 increased by an average of 2.6%, which was below the average increase for all employees;
- annual bonus out-turns were lower than last year, commensurate with group performance; and
- LTI out-turns reflect that the second tranche of the 2014 LTI award vested at 63.4% of maximum and that the first tranche of the 2016 LTI award vested at 17.8% of maximum. Beazley achieved sustained NAV growth of 10.6% per annum and 14.2% per annum over the three and five year periods respectively. Beazley also achieved significant share price appreciation as detailed in the notes to the table.

Non-executive directors

		Total fees £ ¹
George P Blunden ²	2018	87,750
	2017	85,500
Angela D Crawford-Ingle	2018	95,000
	2017	92,500
Dennis Holt ³	2018	47,695
	2017	204,000
Christine LaSala ⁴	2018	67,192
	2017	58,000
Sir J Andrew Likierman	2018	76,000
	2017	74,000
David L Roberts ⁵	2018	211,462
	2017	13,072
John P Sauerland ⁶	2018	67,192
	2017	58,000
Robert A Stuchbery	2018	86,250
	2017	84,000
Catherine M Woods ⁷	2018	76,788
	2017	73,696

1 Other than for the chairman, fees include fees paid for chairmanship 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 chairmanship of the BFL risk committee and BICI.

2 George Blunden will be stepping down from the plc board and as SID effective 21 March 2019.

3 Dennis Holt stepped down as chairman on 22 March 2018 and the figure in the table above represents his fees until this date.

4 Christine LaSala was appointed to the BICI board on 1 January 2018 and received fees of \$10,000 from this date which are represented in the table above. The fees for this role have been converted at an exchange rate of 1.30. Christine will also be joining the remuneration committee and nomination committee as well as becoming the senior independent director (SID) effective 21 March 2019. She will receive additional fees for the SID role from this date of £8,546 (pro-rated).

5 David Roberts was appointed as chairman of Beazley plc and Beazley Furlonge Limited on 22 March 2018 and the figure in the table above represents his increase in fees from this date.

6 John Sauerland was appointed to the BICI board on 1 January 2018 and received fees of \$10,000 from this date which are represented in the table above. The fees for this role have been converted at an exchange rate of 1.30.

7 Catherine Woods joined the remuneration committee and nomination committee effective 1 October 2018. Her non-executive director fee was based on €87,000 (2017: €84,750) and has been converted into sterling for this table at the average exchange rate of 1.13 (2017: the fee was converted into £73,696 at the average exchange rate of 1.15).

Directors' remuneration report *continued*

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 2019, the average salary increase for Martin Bride and Andrew Horton was 3%, below the average salary increase across the group. Adrian Cox, transitioned from his role as head of specialty lines to chief underwriting officer. As part of this transition, the role of the chief underwriting officer has been restructured to include additional responsibilities. The role already included responsibility for Treaty and Political, Accident and Contingency and will now include oversight of Property, Marine and Specialty lines. To recognise the increased responsibility and scope of the role, Adrian's salary was increased by c.8.3%.

The base salaries for the executive directors in 2018 and 2019 are as set out below:

	2018 base salary £	2019 base salary £	Increase %
Martin L Bride	330,000	340,000	3.0
Adrian P Cox	351,000	380,000	8.3
D Andrew Horton	468,500	482,500	3.0
Neil P Maidment	351,000	n/a	n/a

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.

Annual bonus plans ■

The enterprise bonus plan is a discretionary plan in which all employees are eligible to participate. The operation of a pool approach reflects Beazley's commitment to encourage teamwork at every level, which, culturally, is one of its key strengths.

Bonus framework

The framework for determining bonuses is as follows:

- a percentage of profit is allocated to a bonus pool subject to a minimum group ROE; and
- the percentage of profit increases for higher levels of ROE.

This ensures that outcomes are strongly aligned with shareholders' interests.

A broad senior management team, beyond executive directors, participate in the bonus pool, reinforcing the company's collegiate culture.

Bonus calculation

Recommended awards to individuals from the available pool are determined by taking into account performance based on each individual's contribution to the group, including a review of performance against individual objectives. For heads of the business divisions, divisional performance is also taken into account. 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 enterprise bonus pool in aggregate (i.e. the sum of the bonus awards may be less than the enterprise 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 2018

The process for determining 2018 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.

Financial performance

At the beginning of the financial year, the risk-free return (RFR) was set at 2% 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:

2018 ROE hurdles and guideline bonus awards

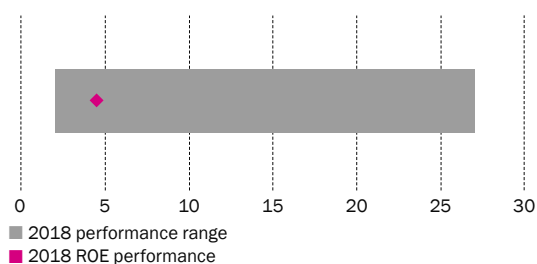


ROE performance hurdles	Threshold				Maximum
ROE performance	2.0%	5.0%	12.0%	19.5%	27.0%
Guideline/illustrative bonus award as a % of maximum	0%	12.5%	37.5%	75%	100%

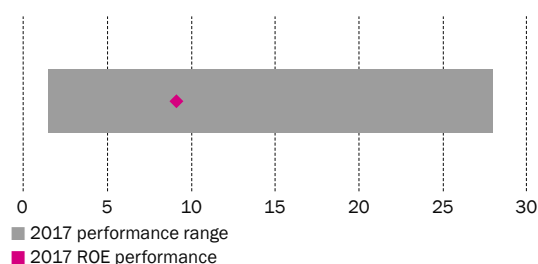
These percentages are indicative only and based on broad group results. Within the pool framework bonus out-turns may be higher or lower taking into account divisional, strategic and personal performance.

ROE for 2018 was 5% and the overall enterprise bonus pool (in which executive directors as well as other senior employees participate) was calculated based on this.

2018 ROE performance (%)



2017 ROE performance (%)



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 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 that determine the annual bonuses.

Directors' remuneration report *continued*

Annual remuneration report *continued*

Corporate achievements

Corporate achievements that the committee took into account for the year included the following:

Financial performance

- The delivery of a profit after tax of \$68.2m and the return of \$67.6m to shareholders by way of dividend despite paying out substantial claims due to the natural catastrophes in the second half of the year and low investment income.
- Delivery of growth in our gross premiums written of 12% in a market where premium rates continued to be under pressure.

US performance

- Achieved the goal of underwriting a billion dollars of US business. Locally underwritten US premiums grew 20% during the year.
- Extending the reach of our market leading products in the US, such as cyber, healthcare liability, accident and health, and environmental liability.

Investment performance

- Achieved a portfolio return of 0.8%.

International growth

- Growing demand in Europe for many of the lines of business in which we specialise including healthcare and technology.
- Integration of Creechurch in Canada with growth of 15% and expanding our capacity to write multi-line financial business.
- Significant growth potential internationally in financial institutions business.

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
Martin L Bride (group finance director)	<ul style="list-style-type: none"> • Pursue expense improvements and containment of expense ratio • Lead European strategic initiative • Ensure Beazley is prepared for IFRS 17 and achieve one year deliverables • Manage US legislative changes for reinsurance structure and capital • Ensure focus on agreed elements of Women in Finance Charter • Define five year vision for Beazley operations with executive committee colleagues and establish key projects for delivery 	<ul style="list-style-type: none"> • Strong momentum across the business on expense management focus • Achieved premium growth of 3.1% in the European business for 2018 and governance in place for future growth • Plans in place for IFRS 17 and one year deliverables achieved • RI structure and capital delivered in line with US legislative changes • Strong leadership and plans in place to help Beazley achieve Women in Finance Charter commitments – increase in number of women in senior management from 32 to 37 • Target operating model principles agreed and plan in place.
Adrian P Cox (head of specialty lines)	<ul style="list-style-type: none"> • Deliver specialty lines 2018 plan and continue the development of international business • Execute on year one of life sciences plan • Promote and raise capital for syndicate 5623 • Deliver smooth processes within specialty lines and support delivery of target operating model in Beazley. • Co-lead the business plan with Neil Maidment ahead of assuming CUO role at the end of 2018 	<ul style="list-style-type: none"> • Delivered specialty lines 2018 plan in all areas other than opening loss ratios due to pressure on reserve surplus. Grew international line of business and delivered excellent growth in the US. Overall premiums up 12.9% • Completed year one of life sciences plan • Capital raising for Beazley smart tracker completed. • Target operating model principles agreed • Plan successfully created for 2019
D Andrew Horton (chief executive officer)	<ul style="list-style-type: none"> • Grow the business outside the US • Manage strategy refresh and determine actions as a result • Manage executive succession • Continue to build culture with a focus on digital and agile working 	<ul style="list-style-type: none"> • Good progress and momentum with business growing outside of the US by 7% • Led a very strong team effort with board support of the new strategic initiatives, focusing on data and technology. • Smooth transition of CUO role from Neil Maidment to Adrian Cox, successful recruitment of Lou-Ann Layton to succeed Dan Jones as head of broker relations. New group finance director appointed effective from May 2019 • Internal audit of culture shows good progress has been made • Plans in place for digital and agile culture
Neil P Maidment (chief underwriting officer)	<ul style="list-style-type: none"> • Deliver 2018 business plan GAAP and YoA profitability targets and key business objectives • Support development and launch of new products • Ensure claims offering continues to be the best, including people, processes and systems • Support Lloyd's PPL initiative to drive modernisation across London market • Create 2019 business plan • Transition of CUO role to Adrian Cox 	<ul style="list-style-type: none"> • Premiums are in line with plan however increased claims have impacted the GAAP plan • Several key products launched during 2018 including reputational harm • Strong leadership of claims team and support of initiatives underway to improve operational aspects including improved feedback for the claims team in annual broker survey • Beazley is in top quartile for adoption rates of Lloyd's PPL initiative • Strong business plan in place for 2019 with Lloyd's approval • Successful transition of CUO role during the year

Bonus awards for 2018

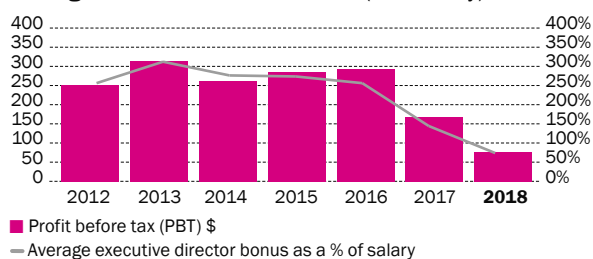
Within the framework of the annual bonus, in respect of individual performance and achievements, awards are dependent on a profit pool and minimum level of ROE performance.

The resultant bonuses were as follows:

	Bonus (delivered as a mix of cash and deferred shares)	% of maximum	% of salary
Martin L Bride	£200,000	15%	61%
Adrian P Cox	£300,000	21%	85%
D Andrew Horton	£350,000	19%	75%
Neil P Maidment	£250,000	18%	71%

The following graph and table set out the out-turn for 2018 against performance and illustrate the way in which bonuses over time reflect profit and ROE performance.

Average executive director bonus (% of salary)



	2011	2012	2013	2014	2015	2016	2017	2018
Pre-tax profit	\$63m	\$251m	\$313m	\$262m	\$284m	\$293m	\$168m	\$76m
Post-tax ROE	6%	19%	21%	17%	19%	18%	9%	5%
Average executive director bonus as a percentage of salary	c.64%	c.272%	c.333%	c.294%	c.291%	c.272%	c.150%	c.73%

Bonus deferral

A portion of the bonus will generally be deferred into shares for three years. The deferral will range from 0% to 37.5% dependent on the level of bonus. 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 2018 (see investment in underwriting section on pages 110 for further details).

For 2018, the portion of each director's annual bonus deferred into shares was as follows:

	Deferred into shares
Martin L Bride	£0
Adrian P Cox	£45,000
D Andrew Horton	£52,500
Neil P Maidment	£0

Directors' remuneration report *continued*

Annual remuneration report *continued*

Bonus awards for 2019

The annual bonus for 2019 will operate within the same framework as set out above with reference to both corporate and individual performance.

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 the CEO has 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
- three year awards to executive directors are subject to a further two year holding period from 2019.

In accordance with the updated UK Corporate Governance Code, from 2019, the first tranche of LTIP awards will be subject to a further two year holding period taking the total time frame for all awards 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 awards vesting in respect of the year ■

The LTIP awards shown in the single total figure of remuneration for 2018 include:

- the second tranche of awards granted on 11 February 2014. These are due to vest on 11 February 2019, subject to the achievement of a NAVps growth performance condition over the five years ended 31 December 2018; and
- the first tranche of awards granted on 9 February 2016. These are due to vest on 11 February 2019, subject to the achievement of a NAVps growth performance condition over the three years ended 31 December 2018.

The results were independently calculated by Deloitte LLP.

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 2018 was 14.2% p.a. which resulted in 63.4% of the second tranche of the 2014 awards vesting.

Actual NAVps growth achieved in the three years to 31 December 2018 was 10.6% p.a. which resulted in 17.8% of the first tranche of the 2016 awards vesting.

LTIP awards for 2018

During 2018 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							
Martin L Bride	Nil cost option (LTIP)	150% of salary	89,458	495,000	10%	31/12/2020	31/12/2022
Adrian P Cox	Nil cost option (LTIP)	150% of salary	95,151	526,500	10%	31/12/2020	31/12/2022
D Andrew Horton	Nil cost option (LTIP)	200% of salary	169,338	937,000	10%	31/12/2020	31/12/2022
Neil P Maidment	Nil cost option (LTIP)	150% of salary	95,151	526,500	10%	31/12/2020	31/12/2022
<i>Deferred bonus (in respect of 2017 bonus)</i>							
Martin L Bride	Deferred shares	n/a	18,072	100,000	–	–	–
Adrian P Cox	Deferred shares	n/a	27,108	150,000	–	–	–
D Andrew Horton	Deferred shares	n/a	30,723	170,000	–	–	–
Neil P Maidment	Deferred shares	n/a	22,590	125,000	–	–	–

1. The face value of shares awarded was calculated using the three day average share price prior to grant, which was 553.33p.

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 2019

It is intended that the performance conditions for the LTIP awards for 2019 will be in line with those granted in 2018 (see table above). LTIP awards will be 200% of salary for the CEO and 150% for other executive directors. In response to the updated UK Corporate Governance Code, for awards in 2019 an additional clause has been introduced that would enable the committee to adjust the vesting outcome if it is not considered to be a fair representation of the underlying financial or non-financial performance.

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.

Directors' remuneration report *continued*

Annual remuneration report *continued*

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 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 £14.8m of bonuses to the underwriting results of syndicate 623. Of the total at risk, £12.5m has already been deferred from the bonuses awarded.

The following executive directors participated in syndicate 623 through Beazley Staff Underwriting Limited:

	Total bonuses deferred £	2017 year of account underwriting capacity £	2018 year of account underwriting capacity £	2019 year of account underwriting capacity £
Martin L Bride ¹	191,600	400,000	400,000	n/a
Adrian P Cox	191,600	400,000	400,000	400,000
D Andrew Horton	191,600	400,000	400,000	400,000
Neil P Maidment ¹	191,600	400,000	400,000	n/a

1. Neil Maidment and Martin Bride have not been invited to participate on the 2019 plan due to their respective retirements.

The executive directors are currently fully funded in the plan and no further bonus deferral was made in 2018.

Malus and clawback

Clawback provisions have operated for incentives in respect of 2015 and onwards. Under these provisions the committee has the discretion to require clawback in certain circumstances for a defined period following payment or vesting.

Annual bonus and LTIP awards may be subject to clawback in the event of:

- material misstatement of results;
- gross misconduct;
- factual error in calculating vesting or award;
- any reputational damage or;
- a material corporate failure in any Group Member or a relevant business unit.

Annual bonus awards may be subject to clawback for a period of three years following payment of the cash bonus. These clawback provisions will also extend to any deferred shares delivered before the end of the three year period and to any bonus which is voluntarily deferred as notional capital into the staff underwriting plan (excluding any returns on the investment, which will not be subject to clawback).

LTIP awards may be subject to clawback for a period of two years following vesting.

Malus provisions have applied to the LTIP and deferred share plan for a number of years. The committee has the discretion to reduce or withhold an award in circumstances of:

- conduct which justifies summary dismissal;
- an exceptional development which has a material adverse impact on the company, including but not limited to reputational damage, material failure of risk management, a material misstatement or any significant sanction from a government agency or regulatory authority; or
- where the committee considers it is necessary in order to comply with a law or regulatory requirement.

Pensions ■

The pension benefits for executive directors and staff are provided by way of a defined contribution scheme arranged through Fidelity, which is non-contributory. The company contributes 15% of salary for directors.

Following changes to pension tax legislation that came into force from April 2011, an equivalent cash alternative may be offered if an individual exceeds the lifetime or annual allowance.

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 2018 £	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 2018 £	Transfer value less directors' contributions £	Normal retirement date
Adrian P Cox	13,582	–	467	–	413,572	13,194	12 Mar 2031
Neil P Maidment	46,365	–	1,595	–	1,476,894	37,442	21 Oct 2022

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.

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	From 2019 the first tranche of the LTIP will be 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 150% of salary (200% for the CEO). LTIP awards may be forfeited if shareholding requirements are not met.
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.

Directors' remuneration report *continued*

Annual remuneration report *continued*

Service contracts and payments for loss of office

No loss of office payments have been made in the year.

Having been with Beazley since 1990, Neil Maidment retired from Beazley effective 31 December 2018 and stepped down from the board. Neil's outstanding share awards subsist to their normal release/vesting date subject to performance where applicable.

During the year Martin Bride also announced his intention to retire from the group. Martin will step down in Q2 2019 and treatment of his cessation will be disclosed in next year's remuneration report.

The current contracts in place for executive directors are as follows:

	Date of contract
Martin L Bride	2 Nov 2015
Adrian P Cox	2 Nov 2015
D Andrew Horton	2 Nov 2015
Neil P Maidment	22 Feb 2016

The notice period for each of the above contracts is 12 months. There is no unexpired term as each of the executive directors' contracts is on a rolling basis.

External appointments

Andrew Horton has been a non-executive director of Man Group plc since 3 August 2013, and he retains the fees in respect of this appointment. Fees for the year 2018 were £92,500.

Neil Maidment was appointed to the Council of Lloyd's on 1 February 2016, and he retains the fees in respect of this appointment. Fees for the year 2018 were £52,500.

Non-executive directors' fees

The fees of non-executive directors are determined by the board. 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. The board reviews fees annually.

During the year the chairman and non-executive director fees were reviewed and increased reflecting the responsibilities and time commitment of the roles. Details of the non-executive directors' fees payable for plc board responsibilities are set out below:

	2018 fee	2019 fee
Chairman fee	£200,000	£206,000
Basic fee	£59,500	£61,500
Senior independent director fee (additional)	£10,500	£11,000
Chairman of audit and risk committee fee (additional)	£17,750	£18,500
Chairman of remuneration committee fee (additional)	£16,500	£17,000

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
George P Blunden	1 Jan 2010	AGM 2019
Angela D Crawford-Ingle	27 Mar 2013	AGM 2019
Christine LaSala	1 Jul 2016	AGM 2020
Sir J Andrew Likierman	25 Mar 2015	AGM 2021
David L Roberts	1 Nov 2017	AGM 2021
John P Sauerland	5 May 2016	AGM 2020
Robert A Stuchbery	11 Aug 2016	AGM 2020
Catherine M Woods	1 Jan 2016	AGM 2019

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.

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 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.

Directors' remuneration report *continued*

Annual remuneration report *continued*

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 and Ireland. 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.

CEO pay increase in relation to all employees

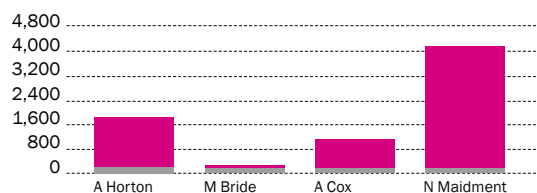
	Percentage change in remuneration from 31 Dec 2017 to 31 Dec 2018		
	Percentage change in base salary %	Percentage change in benefits %	Percentage change in annual bonus %
CEO	2.5%	1.14%	(50%)
All employees	3.0%	2.07%	(26.2%)

Note: Salary and bonus are compared against all employees of the group. Benefits (including pension) are compared against all UK employees, reflecting the group's policy that benefits are provided by reference to local market levels.

Statement of directors' shareholdings and share interests ■

LTIP participants are expected to build a shareholding in Beazley equal to their annual award level. The CEO has a shareholding requirement of 200% of salary and other executive directors have a shareholding requirement of 150% of salary. LTIP awards may be forfeited if shareholding requirements are not met. All executive directors have met their shareholding requirements (see chart below).

Directors' shareholdings (% of salary)



■ Actual holding as % of salary
■ Holding requirement as % of salary

The table below shows the total number of directors' interests in shares as at 31 December 2018 or date of cessation as a director.

Name	Number of shares owned (including by connected persons)	Unvested awards			Vested awards	
		Conditional shares not subject to performance	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
George P Blunden	40,000	–	–	–	–	–
Martin L Bride	169,643	140,399	493,867	–	–	167,051
Adrian P Cox	785,756	186,925	548,962	6,742	–	300,253
Dennis Holt ¹	50,000	–	–	–	–	–
D Andrew Horton	1,716,766	226,052	940,913	4,603	–	490,918
Angela D Crawford-Ingle	34,207	–	–	–	–	–
Christine LaSala	35,000	–	–	–	–	–
Sir J Andrew Likierman	10,000	–	–	–	–	–
Neil P Maidment	2,917,188	174,118	529,248	5,413	–	305,709
David L Roberts	41,300	–	–	–	–	–
John P Sauerland	30,000	–	–	–	–	–
Robert A Stuchbery	62,500	–	–	–	–	–
Catherine M Woods	30,000	–	–	–	–	–

1 Dennis Holt ceased to be a director on 22 March 2018.

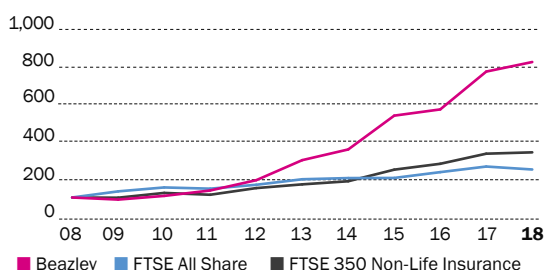
No changes in the interests of directors have occurred between 31 December 2018 and 7 February 2019.

CEO pay versus performance

The following graph sets out Beazley's 10 year total shareholder return performance to 31 December 2018, 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 2008



Directors' remuneration report *continued*

Annual remuneration report *continued*

Historical CEO payouts

Year	CEO single figure of total remuneration	Annual variable award (% of maximum opportunity) ¹	Long term incentives vesting (% of maximum opportunity)
2009	£1,458,131	71%	50%
2010	£1,525,102	63%	50%
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	£1,559,070	19%	41%

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.

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)
2017	\$223.4m	\$76.5m
2018	\$208.8m	\$67.6m

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 2018	Options granted	Options exercised	Lapsed unvested	Outstanding options at 31 Dec 2018
Martin L Bride					
Deferred bonus:	203,482	18,072	81,155	–	140,399
LTIP (see notes):	593,214	89,458	185,896	2,909	493,867
SAYE:	–	–	–	–	–
Adrian P Cox					
Deferred bonus:	261,260	27,108	101,443	–	186,925
LTIP (see notes):	655,744	95,151	198,810	3,123	548,962
SAYE:	6,742	–	–	–	6,742
D Andrew Horton					
Deferred bonus:	327,206	30,723	131,877	–	226,052
LTIP (see notes):	1,132,365	169,338	355,241	5,549	940,913
SAYE:	6,361	2,042	3,800	–	4,603
Neil P Maidment					
Deferred bonus:	252,971	22,590	101,443	–	174,118
LTIP (see notes):	637,132	95,151	199,912	3,123	529,248
SAYE:	3,371	2,042	4,354	–	1,059

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 2013 – 3/5 year	Awards were made on 13 February 2013 at a mid-market share price of 204.2p. 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 2023.
LTIP 2014 – 3/5 year	Awards were made on 11 February 2014 at a mid-market share price of 273.13p. 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 2024.
LTIP 2015 – 3/5 year	Awards were made on 10 February 2015 at a mid-market share price of 295.73p. 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 2025.
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.

Share prices

The market price of Beazley ordinary shares at 31 December 2018 (the last trading day of the year) was 503.5p and the range during the year was 493.2p to 619.5p.

Remuneration committee

The committee consists of only non-executive directors and during the year the members were Sir Andrew Likierman (chairman), George Blunden, John Sauerland and Catherine Woods. The board views each of these directors 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 2018 can be found within the statement of corporate governance on page 97.

During the year the committee was advised by remuneration consultants from Deloitte LLP. Total fees in relation to executive remuneration consulting were £103,100. 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 *continued*

Annual remuneration report *continued*

Statement of shareholder voting

The voting outcomes of the 2017 annual remuneration report and 2016 remuneration policy were as follows:

	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld (abstentions)
2017 annual remuneration report	368,446,491	96.11	14,909,623	3.89	383,356,114	14,573,813
2016 remuneration policy	382,443,087	94.63	21,721,581	5.37	404,164,668	103,464

Annual general meeting

At the forthcoming annual general meeting to be held on 21 March 2019, an advisory resolution will be proposed to approve this annual remuneration report.

I am keen to encourage an ongoing dialogue with shareholders. Accordingly, please feel free to contact me if you would like to discuss any matter arising from this report or remuneration issues generally, either by writing to me at the company's head office or by email through Christine Oldridge at christine.oldridge@beazley.com.

By order of the board

J A Likierman

Chairman of the remuneration committee

6 February 2019

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 and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. 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 that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report/directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

D Roberts
Chairman

M L Bride
Finance director

6 February 2019

Independent auditor's report

to the members of Beazley plc

1. Our opinion is unmodified

We have audited the financial statements of Beazley plc ("the Company") for the year ended 31 December 2018 which comprise the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity, statements of financial position, statements of cash flows, and the related notes, including the accounting policies.

In our opinion:

- 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 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 6 November 2002. The period of total uninterrupted engagement is for the 16 financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: \$20m (2017:\$20m)
Group financial statements as a whole 1% (2017: 1%) of Gross premiums written

Coverage 99% (2017: 99%) of Group revenue

Key audit matters vs 2017

Recurring risks	Valuation of insurance liabilities	◀▶
	Recoverability of insurance and reinsurance debtors	◀▶
	Valuation of hard to value investments	◀▶
	Valuation of premium estimates	◀▶
Parent: Recoverability of parent company's investment in subsidiaries		◀▶

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2017), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
<p>Valuation of insurance liabilities</p> <p>(\$2,869.5m, gross, \$2,149.7m, net; 2017: \$2,852.3m, gross, \$2,078.5m, net)</p> <p><i>Refer to page 92 (Audit and Risk Committee Report), page 142 (Statement of accounting policies) and page 181 (financial disclosures).</i></p>	<p>Subjective valuation:</p> <p>Insurance liabilities represent the single largest liability for the Group. valuation of these liabilities is highly judgemental because it requires a number of assumptions to be made with high estimation uncertainty such as expected loss ratios, estimates of ultimate premium and of the frequency and severity of claims and, where appropriate, the discount rate for longer tail classes of business by territory and line of business. The determination and application of the methodology and performance of the calculations are also complex.</p> <p>These judgemental and complex calculations for insurance liabilities are also used to derive the valuation of the related reinsurance assets.</p> <p>A margin is added to the actuarial best estimate of insurance liabilities to make allowance for specific risks identified in assessment of the best estimate. The appropriate margin to recognise is a subjective judgement and estimate taken by the directors, based on the perceived uncertainty and potential for volatility in the underlying claims.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of insurance liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p> <p>Completeness and accuracy of data:</p> <p>The valuation of insurance liabilities depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims. If the data used in calculating the insurance liabilities, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise.</p>	<p>We used our own actuarial specialists to assist us in performing our procedures in this area.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> — Sector experience and benchmarking: Performed benchmarking of the Group's ultimate loss ratios, initial expected loss ratios, premium rate change and expectations of total losses on natural catastrophes, in order to identify specific trends and outliers; — Re-projections: Used our projection of premiums and claims (on a gross and net basis) and compared these with the Group's estimates to assess their reasonableness. — Methodology assessment: Assessed the reserving assumptions and methodology (on a gross basis and net of outwards reinsurance) for reasonableness and consistency year on year, including inspecting the Group's margin paper. — Actual versus expected testing: Challenged the quality of the Group's historical reserving estimates by monitoring progression of loss ratios against expectations. — Assessing transparency: Considered the adequacy of the Group's disclosures in respect of the valuation of insurance liabilities. <p>In addition to the procedures above, the audit team performed procedures to assess the completeness and accuracy of data:</p> <ul style="list-style-type: none"> — Data reconciliations: Checked the completeness and accuracy of the data used within the reserving process by reconciling the actuarial source data to the financial systems. We have also checked the completeness and accuracy of the data flow from the claims and policy systems into the financial systems primarily by performing substantive testing over data reconciliations. <p>Our results</p> <ul style="list-style-type: none"> — We found the resulting estimate of insurance liabilities to be acceptable. (2017 result: acceptable).

2. Key audit matters: our assessment of risks of material misstatement (cont.)

	The risk	Our response
<p>Recoverability of insurance receivables and reinsurance assets</p> <p>(Insurance receivables \$943.3m; 2017: \$918.0m, Reinsurance assets: \$1,192.8m; 2016: \$1,231.1m)</p> <p><i>Refer to page 93 (Audit and Risk Committee Report), page 145 (Statement of accounting policies) and page 177 (financial disclosures).</i></p>	<p>Recoverability of debtors</p> <p>— Insurance receivables:</p> <p>The ability to identify, monitor and age insurance debtors relies on the timely availability of reliable data. The availability of this data is also impacted by the source, being either settled direct through intermediaries or through Xchanging.</p> <p>— Reinsurance assets:</p> <p>Major catastrophes could impair the Group's ability to recover incurred losses from its reinsurers, depending on the financial strength of the counterparties, which would then impact the recoverability of reinsurance assets.</p> <p>In recent years, Beazley has adopted a consistent approach in determining the bad debt provisions to be booked in the financial statements. However, judgement is required in ensuring this approach remains relevant and that any aged balances are being given appropriate attention.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the recoverability of insurance receivables and reinsurance assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p>	<p>Our procedures included:</p> <p>— Data reconciliation: Reperformed the Group's prepared reconciliations between Xchanging and the Group's financial systems;</p> <p>— Assessing future premium debtors: Performed an analysis over the unsigned debtors within the insurance receivables balance in order to assess the valuation and recoverability of the debtors.</p> <p>— Provisioning analysis: Critically assessed, based on our sector expertise, the adequacy of the provisioning policy in place for Beazley by assessing and investigating any material movements in policy and the overall percentage of bad debt during the reporting period.</p> <p>— Recoverability assessment: Considered potential indications of non-recovery for a sample of reinsurance assets, in light of the credit standing of the counterparty and age of the debt.</p> <p>— Assessing transparency: Considered the adequacy of the Group's disclosures in respect of the recoverability of insurance receivables and reinsurance assets.</p> <p>Our results</p> <p>— We found the resulting estimate of the recoverability of insurance and reinsurance debtors to be acceptable (2017 result: acceptable).</p>
<p>Valuation of hard to value investments</p> <p>(\$523.8m; 2017: \$557.8m)</p> <p><i>Refer to page 93 (Audit and Risk Committee Report), page 145 (Statement of accounting policies) and page 171 (financial disclosures).</i></p>	<p>Subjective valuation:</p> <p>A proportion of the Group's investment assets are comprised of either illiquid credit assets or investments in hedge funds. These assets are inherently harder to value due to the inability to obtain a market price of these assets as at the balance sheet date. As such there is judgement involved in the valuation of these assets.</p> <p>The valuation of the investments are based on third party valuation reports which are received at dates other than the year end date. The investments are subject to variations in value between the date of the valuation report and the period end date. These variations where applicable require judgement to assess whether adjustments are required to the valuation of the investments at the period end date.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of hard to value investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p>	<p>Our procedures included:</p> <p>— Reconciliation controls: Tested the design and operating effectiveness of the controls associated with the existence and valuation of the hedge funds and illiquid credit assets.</p> <p>— Comparing valuations: For investments in hedge funds we inspected the financial statements of the underlying funds to assess that the valuation approach was acceptable.</p> <p>— Historical accuracy: For illiquid credit assets and investments in hedge funds the historical accuracy of the valuations was assessed by comparing interim valuation reports to the final year-end reports for prior periods.</p> <p>— Roll forward testing: Assessed the quantum of change in the valuation of investments between the early close date and the period end date to consider whether there was a material movement post the early close date that required adjustment.</p> <p>— Assessing transparency: Considered the adequacy of the Group's disclosures in respect of the valuation of hard to value investments.</p> <p>Our results</p> <p>— We found the resulting estimate of the valuation of hard to value investments to be acceptable. (2017 result: acceptable).</p>

2. Key audit matters: our assessment of risks of material misstatement (cont.)

The risk	Our response
<p>Valuation of gross premium written estimates</p> <p>(\$2615.3m; 2017: \$2,343.8m)</p> <p><i>Refer to page 93 (Audit and Risk Committee Report), page 141 (Statement of accounting policies) and page 161 (financial disclosures).</i></p>	<p>Subjective valuation:</p> <p>There are adjustments made to gross premiums written to reflect adjustments to ultimate premium estimates, binding authority contract ('binders') adjustments, reinstatement premiums and other ad hoc adjustments to premium income.</p> <p>There is a large proportion of premium is written through the Group syndicates via binders. Such premiums are uncertain at inception and the model used in the recognition and earning of such premiums is subject to judgement and estimation.</p> <p>There is an increased risk of premium estimates being misstated as a result of the early close process which requires Beazley to estimate the premiums relating to the month of December and where necessary make adjustments at the period end.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that valuation of gross premium written estimates has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> — Retrospective analysis: Critically assessed the Group's past expertise in making premium estimates by comparing the estimates and actuals for prior years for a sample of binders. We also compared the Group's estimate of gross premiums written between the early close date and reporting date to actuals. — Methodology assessment: Inspected the binder adjustment calculation and agreed that the methodology remains consistent and appropriate in the context of the timing of business written throughout the year. — Independent reperformance: Recalculated, on a sample basis, the earning of premium and investigated any changes to earnings patterns. — Assessing transparency: Considered the adequacy of the Group's disclosures in respect of the valuation of gross premium written estimates. <p>Our results</p> <ul style="list-style-type: none"> — We found the resulting estimate of the valuation of estimated premium to be acceptable. (2017 result: acceptable).
<p>Parent: Recoverability of parent company's investment in subsidiaries</p> <p>(\$724.6m; 2017: \$724.6m)</p> <p><i>Refer to page 140 (Statement of accounting policies) and page 196 (financial disclosures).</i></p>	<p>Low risk, high value</p> <p>The carrying amount of the parent company's investments in subsidiaries represents 99% (2017: 97%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> — Tests of detail: Comparing the carrying amount of 100% of investments with the relevant subsidiaries' financial statements/draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. — Assessing subsidiary audits: Assessing the findings of the audit work performed by the relevant component auditors and whether these findings provide any indicators that the value of the subsidiaries may be impaired. <p>Our results</p> <ul style="list-style-type: none"> — We found the Group's assessment of the recoverability of the parent company's investment in subsidiaries to be acceptable. (2017 result: acceptable).

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

Materiality for the Group financial statements as a whole was set at \$20m (31 December 2017: \$20m), determined with reference to a benchmark of 2017 Group gross premiums written (of which it represents 1%; 31 December 2017: 1%). Gross premiums written was used as the benchmark as it is a more stable metric year on year than profit before tax. In addition, we applied materiality of \$10m (31 December 2017: \$10m) for UK balances other than insurance and reinsurance technical balances and investments, for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could be reasonably expected to influence the company's members' assessment of the financial performance of the Group.

Materiality for the parent company financial statements as a whole was set at \$7m (31 December 2017: \$7m), determined with reference to a benchmark of 2017 total assets (of which it represents 1%, 31 December 2017 1%). We have used total assets as the benchmark rather than profit before tax because the purpose of the entity is to act as the ultimate parent company of the Group and hold investments in other Group companies and not to generate profits.

We agreed to report to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding \$1m (\$0.5m for non-technical) (31 December 2017: \$1m (\$0.5m for non-technical)) in addition to other identified misstatements that warranted reporting on qualitative grounds.

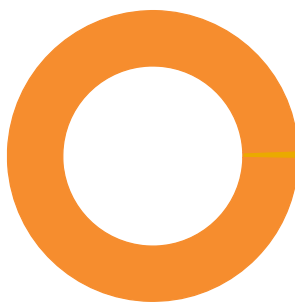
Of the Group's 32 (2017: 33) reporting components, we subjected 16 (2017: 17) to full scope audits for Group purposes and 3 (2017: 3) to specified risk-focused audit procedures. These entities were not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the percentages illustrated opposite. For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these. The work on 3 of the 16 components (2017: 3 of the 17 components) was performed by component auditors and the rest, including the audit of the parent company, was performed by the Group team. The Group audit team instructed the component team as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back.

The Group audit team approved the component materialities, which ranged from \$0.1m to \$16m (31 December 2017: \$0.1m to \$16m), having regard to the mix of size and risk profile of the Group across the components. All other work, including the audit of the parent company, was performed by the Group audit team.

The Group team visited 3 (2017: 0) component locations in the United States of America (2017: none) to assess the audit risk and scoping. Telephone conference meetings were also held with these component auditors. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

Gross written premium
\$2.6bn (2017: \$2.3bn)



■ Gross written premium
■ Group materiality

Group Materiality
\$20m (2017: \$20m)

\$20m

Whole financial statements materiality (2017: \$20m)

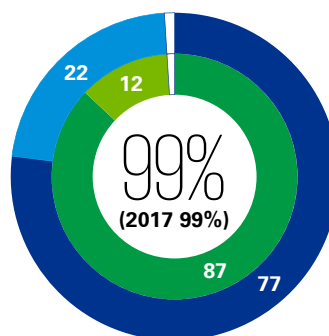
\$18m

Range of materiality at 16 components (\$0.1m-\$16m) (2017: \$0.1m to \$16m)

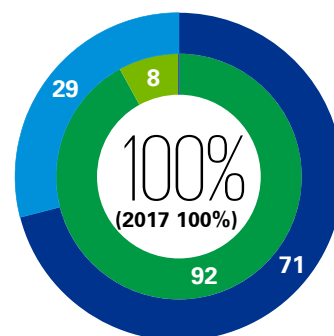
\$1m

Misstatements reported to the audit committee (2017: \$1m)

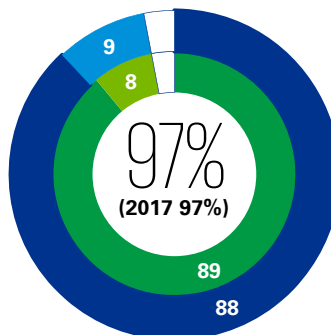
Group revenue



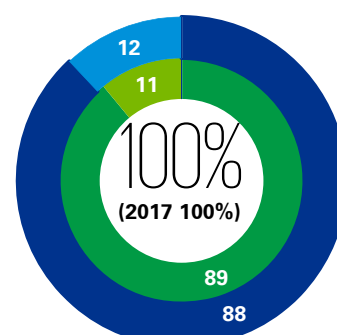
Group profit before tax



Group total assets



Group total liabilities



■ Full scope for Group audit purposes 2018
■ Specified risk-focused audit procedures 2018
■ Full scope for Group audit purposes 2017
■ Specified risk-focused audit procedures 2017
■ Residual components

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- adverse insurance reserves development;
- a deterioration in claims experience, potentially caused by market wide catastrophe event(s); and
- a deterioration in the valuation of the Group and Company's investments.

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the impact on the economic environment, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 74 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

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

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

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement page 56 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements 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; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

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

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 121, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: UK listing rules, Companies Act, Prudential Regulatory Authority and Lloyd's of London prudential regulation recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

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.

Daniel Cazeaux (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
 15 Canada Square
 London, E14 5GL
 6 February 2019

Financial statements

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Consolidated statement of profit or loss

for the year ended 31 December 2018

	Notes	2018 \$m	2017 \$m
Gross premiums written	3	2,615.3	2,343.8
Written premiums ceded to reinsurers		(366.8)	(365.0)
Net premiums written	3	2,248.5	1,978.8
Change in gross provision for unearned premiums		(167.6)	(118.4)
Reinsurer's share of change in the provision for unearned premiums		3.7	9.0
Change in net provision for unearned premiums		(163.9)	(109.4)
Net earned premiums	3	2,084.6	1,869.4
Net investment income	4	41.1	138.3
Other income	5	33.7	35.5
		74.8	173.8
Revenue		2,159.4	2,043.2
Insurance claims		1,463.9	1,388.0
Insurance claims recoverable from reinsurers		(236.1)	(312.3)
Net insurance claims	3	1,227.8	1,075.7
Expenses for the acquisition of insurance contracts	3	561.9	519.7
Administrative expenses	3	250.7	254.7
Foreign exchange loss	3	13.2	3.1
Operating expenses		825.8	777.5
Expenses	3	2,053.6	1,853.2
Share of profit in associates	14	-	0.1
Impairment of investment in associate	14	(7.0)	-
Results of operating activities		98.8	190.1
Finance costs	8	(22.4)	(22.1)
Profit before income tax		76.4	168.0
Income tax expense	9	(8.2)	(38.0)
Profit for the year attributable to equity shareholders		68.2	130.0
Earnings per share (cents per share):			
Basic	10	13.0	25.0
Diluted	10	12.8	24.4
Earnings per share (pence per share):			
Basic	10	9.7	19.5
Diluted	10	9.5	19.0

Statement of comprehensive income

for the year ended 31 December 2018

	2018 \$m	2017 \$m
Group		
Profit for the year attributable to equity shareholders	68.2	130.0
Other comprehensive income		
Items that will never be reclassified to profit or loss:		
Loss on remeasurement of retirement benefit obligations	(1.5)	(0.6)
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange translation differences	(2.1)	2.9
Total other comprehensive income	(3.6)	2.3
Total comprehensive income recognised	64.6	132.3

Statement of comprehensive income

for the year ended 31 December 2018

	2018 \$m	2017 \$m
Company		
Profit for the year attributable to equity shareholders	81.7	134.8
Total comprehensive income recognised	81.7	134.8

Statement of changes in equity

for the year ended 31 December 2018

	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 2017		37.7	-	(96.7)	23.4	1,519.3	1,483.7
Total comprehensive income recognised		-	-	2.9	-	129.4	132.3
Dividends paid	11	-	-	-	-	(135.9)	(135.9)
Issue of shares		0.1	-	-	-	-	0.1
Equity settled share based payments	22	-	-	-	24.5	-	24.5
Acquisition of own shares in trust	22	-	-	-	(16.2)	-	(16.2)
Tax on share option vestings	9	-	-	-	4.3	4.0	8.3
Transfer of shares to employees	22	-	-	-	(4.0)	6.1	2.1
Balance at 31 December 2017		37.8	-	(93.8)	32.0	1,522.9	1,498.9
Total comprehensive income recognised		-	-	(2.1)	-	66.7	64.6
Dividends paid	11	-	-	-	-	(80.5)	(80.5)
Issue of shares	21	0.2	1.6	-	-	-	1.8
Equity settled share based payments	22	-	-	-	18.7	-	18.7
Acquisition of own shares in trust	22	-	-	-	(44.9)	-	(44.9)
Tax on share option vestings	9	-	-	-	4.1	6.1	10.2
Transfer of shares to employees	22	-	-	-	6.6	(8.5)	(1.9)
Balance at 31 December 2018		38.0	1.6	(95.9)	16.5	1,506.7	1,466.9

Statement of changes in equity

for the year ended 31 December 2018

	Notes	Share capital \$m	Share premium \$m	Merger reserve \$m	Foreign currency translation reserve \$m	Other reserves \$m	Retained earnings \$m	Total \$m
Company								
Balance at 1 January 2017		37.7	–	55.4	0.7	19.9	623.3	737.0
Total comprehensive income recognised		–	–	–	–	–	134.8	134.8
Dividends paid	11	–	–	–	–	–	(135.9)	(135.9)
Issue of shares		0.1	–	–	–	–	–	0.1
Equity settled share based payments	22	–	–	–	–	24.5	–	24.5
Acquisition of own shares in trust	22	–	–	–	–	(16.2)	–	(16.2)
Transfer of shares to employees	22	–	–	–	–	(4.0)	6.1	2.1
Balance at 31 December 2017		37.8	–	55.4	0.7	24.2	628.3	746.4
Total comprehensive income recognised		–	–	–	–	–	81.7	81.7
Dividends paid	11	–	–	–	–	–	(80.5)	(80.5)
Issue of shares	21	0.2	1.6	–	–	–	–	1.8
Equity settled share based payments	22	–	–	–	–	18.7	–	18.7
Acquisition of own shares in trust	22	–	–	–	–	(44.9)	–	(44.9)
Transfer of shares to employees	22	–	–	–	–	6.6	(8.5)	(1.9)
Balance at 31 December 2018		38.0	1.6	55.4	0.7	4.6	621.0	721.3

Statements of financial position

as at 31 December 2018

		2018		2017	
	Notes	Group \$m	Company \$m	Group \$m	Company \$m
Assets					
Intangible assets	12	126.5	-	133.5	-
Plant and equipment	13	4.9	-	4.4	-
Deferred tax asset	28	28.9	-	6.9	-
Investment in subsidiaries	31	-	724.6	-	724.6
Investment in associates	14	-	-	7.0	-
Deferred acquisition costs	15	307.4	-	281.4	-
Reinsurance assets	19, 24	1,192.8	-	1,231.1	-
Financial assets at fair value	16, 17	4,716.3	-	4,449.6	-
Insurance receivables	18	943.3	-	918.0	-
Other receivables		58.5	-	68.6	21.0
Current income tax asset		19.0	0.3	17.7	0.5
Cash and cash equivalents	20	336.3	2.4	440.5	0.7
Total assets		7,733.9	727.3	7,558.7	746.8
Equity					
Share capital	21	38.0	38.0	37.8	37.8
Share premium		1.6	1.6	-	-
Merger reserve		-	55.4	-	55.4
Foreign currency translation reserve		(95.9)	0.7	(93.8)	0.7
Other reserves	22	16.5	4.6	32.0	24.2
Retained earnings		1,506.7	621.0	1,522.9	628.3
Total equity		1,466.9	721.3	1,498.9	746.4
Liabilities					
Insurance liabilities	24	5,456.2	-	5,167.8	-
Financial liabilities	16, 17, 25	356.7	-	367.3	-
Retirement benefit liability	27	2.4	-	2.3	-
Deferred tax liability	28	9.1	-	9.9	-
Other payables	26	442.6	6.0	512.5	0.4
Total liabilities		6,267.0	6.0	6,059.8	0.4
Total equity and liabilities		7,733.9	727.3	7,558.7	746.8

The financial statements were approved by the board of directors on 6 February 2019 and were signed on its behalf by:

D Roberts
Chairman

M L Bride
Finance director

6 February 2019

Statements of cash flows

for the year ended 31 December 2018

		2018		2017	
	Notes	Group \$m	Company \$m	Group \$m	Company \$m
Cash flow from operating activities					
Profit before income tax		76.4	81.2	168.0	133.3
Adjustments for:					
Amortisation of intangibles	12	12.6	-	11.6	-
Equity settled share based compensation	22	18.7	18.7	23.6	24.5
Net fair value loss/(gain) on financial assets		53.7	-	(69.6)	-
Share of profit in associates	14	-	-	(0.1)	-
Impairment of investment in associate	14	7.0	-	-	-
Depreciation of plant and equipment	13	2.1	-	2.7	-
Impairment of reinsurance assets (written back)/recognised	6	(1.0)	-	0.6	-
Increase/(decrease) in insurance and other payables ¹		216.7	5.6	534.4	(0.2)
Decrease/(increase) in insurance, reinsurance and other receivables		23.9	19.8	(295.9)	(7.0)
Increase in deferred acquisition costs		(26.0)	-	(38.6)	-
Financial income	4	(102.6)	(82.9)	(76.6)	(136.8)
Financial expense	8	22.4	0.9	22.1	0.9
Foreign exchange on financial liabilities		(4.1)	-	4.6	-
Income tax paid		(21.1)	-	(27.9)	-
Net cash generated from operating activities		278.7	43.3	258.9	14.7
Cash flow from investing activities					
Purchase of plant and equipment	13	(2.6)	-	(1.7)	-
Expenditure on software development	12	(7.2)	-	(9.3)	-
Purchase of investments		(2,686.2)	-	(3,299.3)	-
Proceeds from sale of investments		2,376.9	-	3,093.7	-
Sale of associate	14	-	-	3.0	-
Sale of LAH renewal rights		-	-	0.8	-
Acquisition of subsidiaries (net of cash)		-	-	(31.8)	-
Interest and dividends received	4	102.6	82.9	74.5	136.8
Issuance of shares		1.8	1.8	2.2	2.2
Net cash (used in)/from investing activities		(214.7)	84.7	(167.9)	139.0
Cash flow from financing activities					
Acquisition of own shares in trust	22	(44.9)	(44.9)	(16.2)	(16.2)
Repayment of borrowings	25	(18.0)	-	-	-
Finance costs		(22.0)	(0.9)	(20.7)	(0.9)
Dividend paid		(80.5)	(80.5)	(135.9)	(135.9)
Net cash used in financing activities		(165.4)	(126.3)	(172.8)	(153.0)
Net (decrease)/increase in cash and cash equivalents		(101.4)	1.7	(81.8)	0.7
Cash and cash equivalents at beginning of year		440.5	0.7	507.2	-
Effect of exchange rate changes on cash and cash equivalents		(2.8)	-	15.1	-
Cash and cash equivalents at end of year	20	336.3	2.4	440.5	0.7

1. 2018 increase in insurance and other payables is net of \$1.9m of dividend accruals on share schemes settled through equity.

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 2018 comprise the parent company, its subsidiaries and the group's interest in associates. The principal activity of the company and its subsidiaries (the 'group') is to participate as a specialist insurer which transacts primarily in commercial lines of business through its subsidiaries and through Lloyd's syndicates.

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

In the current year, the group has applied amendments to IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2018. The new effective requirements are:

- IFRS 2: Amendment: Classification and Measurement of Share-based Payment Transactions (EU effective date: 1 January 2018);
- IFRS 4: Amendment: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (EU effective date: 1 January 2018);
- IFRIC 22: Foreign Currency Transactions and Advance Consideration (EU effective date: 1 January 2018);
- IAS 40: Amendment: Transfers of Investment Property (EU effective date: 1 January 2018);
- Annual Improvements to IFRS Standards 2014-2016 Cycle (EU effective date: 1 January 2018); and
- Clarifications to IFRS 15: Revenue from Contracts with Customers (EU effective date: 1 January 2018).

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

An additional standard, IFRS 15: Revenue from Contracts with Customers, has been applied when preparing these financial statements. The new standard has no material impact on the financial statements. Note 5 provides an income breakdown for each contract type within the scope of IFRS 15. When recognising profit commission from syndicate 623, the revenue is recognised on a year of account basis as soon as the year of account becomes profitable. No other significant judgements were made when recognising income from other contracts. All related balances are classified as receivables and included within the other receivables line in the statement of financial position.

A number of new standards and interpretations adopted by the EU which are not mandatorily effective, as well as standards and interpretations issued by the IASB but not yet adopted by the EU, have not been applied in preparing these financial statements. The group does not plan to adopt these standards early; instead it will apply them from their effective dates as determined by their dates of EU endorsement. The group is still reviewing the upcoming standards to determine their impact:

- IFRS 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);
- IFRIC 23: Uncertainty over Income Tax Treatments (EU effective date: 1 January 2019);
- IFRS 17: Insurance Contracts (IASB effective date: 1 January 2021);¹
- IAS 19: Amendment: Plan Amendment, Curtailment or Settlement (IASB effective date: 1 January 2019);¹
- IAS 28: Amendment: Long-term Interests in Associates and Joint Ventures (IASB effective date: 1 January 2019);¹
- Annual Improvements to IFRS Standards IFRS Standards 2015-2017 Cycle (IASB effective date: 1 January 2019);¹
- Amendments to References to the Conceptual Framework in IFRS Standards (IASB effective date: 1 January 2020);
- IFRS 3: Amendment: Business Combinations (IASB effective date: 1 January 2020);¹ and
- IAS 1 and IAS 8: Amendment: Definition of Material (IASB effective date: 1 January 2020).¹

¹ Have not been endorsed by EU.

The following upcoming standards have been reviewed:

- IFRS 16: Leases (EU effective date: 1 January 2019).

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, IFRS 9 and IFRS 16 will have the most material impact on the financial statements' presentation and disclosures. For IFRS 16 a full impact assessment has been carried out and processes put in place for transition on 1 January 2019. 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. A brief overview of each of these standards is provided below:

- IFRS 17, effective from 1 January 2021, will fundamentally change the way insurance contracts are accounted for and reported. Revenue will no longer be equal to premiums written but instead reflect a change in the contract liability on which consideration is expected. On initial assessment the major change will be on the presentation of the statement of profit or loss, with premium and claims figures being replaced with insurance contract revenue, insurance service expense and insurance finance income and expense. It is not currently known what impact the new requirements will have on the group's profit and financial position, but it is expected that profit recognition will be altered with expenses for onerous contracts being accelerated and recognised upfront rather than being spread over the term of the insurance contract. During 2018, the group undertook a number of tasks in preparation for IFRS 17. These tasks included completing various modelling exercises to understand the data requirements needed under IFRS 17. Various assumptions have also been agreed upon such as unit of account and whether to pursue the general measurement model (building block approach) or the simplified model (premium allocation approach) or to use both for different contracts. A more detailed update will be provided after the implementation has been completed.
- 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 as at 31 December 2015 \$5,040.7m or 95% of its total liabilities were connected with insurance. There has been no 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 no effect 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 156.

	2018 \$m	2017 \$m
Financial assets managed and evaluated on a fair value basis		
Cash and cash equivalent	336.3	440.5
Fixed and floating rate debt securities:		
– Government issued	1,384.2	1,345.4
– Quasi-government	25.9	24.1
– Supranational	–	21.1
– Corporate bonds		
– Investment grade	2,525.3	2,179.7
– High yield	32.7	58.8
– Senior secured loans	132.1	85.6
Equity funds	85.4	168.3
Hedge funds	337.2	377.4
Illiquid credit assets	186.6	180.4
Derivative financial assets	6.9	8.8
Total financial assets managed and evaluated on a fair value basis	5,052.6	4,890.1
Financial assets meeting the SPPI test		
Insurance receivables	943.3	918.0
Other receivables	58.5	68.6
Total financial assets meeting the SPPI test	1,001.8	986.6

1 Statement of accounting policies *continued*

- IFRS 16, effective from 1 January 2019, replaces the existing leases standard IAS 17: Leases, and introduces a single, on-balance-sheet accounting model for leases, where distinction between operating and finance leases is eliminated. The standard will have a material impact on the group's statement of financial position, as large assets and liabilities related to the recognition of a right-of-use asset and lease liability will now be included. As at 31 December 2018 the group's future minimum estimated payments under non-cancellable lease contracts amounted to \$35.6m. This represents the value of the opening lease liability on the statement of financial position as at 1 January 2019. The group has three portfolios of leases: IT equipment, vehicles and property. The group does not have any instances where it is a lessor or is involved in a sublease arrangement. The group has taken the approach of recognising a right-of-use asset of the same amount as the lease liability on initial recognition as at 1 January 2019. With regard to profit and loss impact, this new approach will have no long term impact. However, the group will have a different profit recognition pattern to the current process with interest expense now being contained within finance costs, but the depreciation of the right-of-use asset going through administrative expenses. This is expected to have the overall impact of reducing administrative expenses and increasing finance costs. The net impact is a reduction to profit before tax. On transition to the new standard the group will opt to retain prior period figures as reported under the previous standards as per the modified retrospective approach of transition. The cumulative effect of applying IFRS 16 will have an immaterial impact on the opening balance in equity as at the date of initial application.

Basis of presentation

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

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

Use of estimates and judgements

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

a) Estimates

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

The most critical estimate included within the group's financial position is the estimate for insurance losses incurred but not reported, which is included within total insurance liabilities and reinsurance assets in the statement of financial position and 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 2018 is \$2,869.5m (2017: \$2,852.3m). The total estimate for insurance losses incurred but not reported net of reinsurers' share as at 31 December 2018 is \$2,149.7m (2017: \$2,078.5m) and is included within total insurance liabilities and reinsurance assets in the statement of financial position and in note 24.

The claims handling expense provision is based on a set percentage of IBNR which is reviewed on an annual basis.

The best estimate of the most likely ultimate outcome is used when calculating notified claim. This estimate is based upon the facts available at the time, in conjunction with the claims manager's view of likely future developments.

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

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

Other key 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.

b) Judgements

Information about significant areas of critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in this statement of accounting policies and also specifically in the following notes:

- note 1a: accounting treatment for the group's interest in managed syndicates; and
- note 12: intangible assets including goodwill (assumptions underlying recoverable amounts).

Consolidation

a) Subsidiary undertakings

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

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

For all business combinations from 1 January 2010:

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

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

Certain group subsidiaries underwrite as corporate members of Lloyd's on syndicates managed by Beazley Furlonge Limited. In view of the several and direct liability of underwriting members at Lloyd's for the transactions of syndicates in which they participate, only attributable shares of transactions, assets and liabilities of those syndicates are included in the group financial statements. The group continues to conclude that it remains appropriate to consolidate its share of the result of these syndicates and accordingly, as the group is the sole provider of capacity on syndicates 2623, 3622 and 3623, these financial statements include 100% of the economic interest in these syndicates. For the other syndicates to which Beazley is appointed managing agent, being syndicates 623, 6107, and 6050, for which the capacity is provided entirely by third parties to the group, these financial statements reflect Beazley's economic interest in the form of agency fees and profit commission to which it is entitled. In 2018, Beazley also consolidated a 33.85% of the business written through syndicate 5623, which is aligned with Beazley Corporate Member No.3 Limited's participation in the syndicate.

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.

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

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

c) Intercompany balances and transactions

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

Foreign currency translation

a) Functional and presentational currency

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

b) Transactions and balances

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

c) Foreign operations

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

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

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

Insurance contracts

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

Net earned premiums

a) Premiums

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

b) Unearned premiums

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

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

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

Ceded reinsurance

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

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

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

Revenue

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

Dividends paid

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

1 Statement of accounting policies *continued*

Plant and equipment

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

Fixtures and fittings	Three to ten years
Computer equipment	Three years

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

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

Intangible assets

a) Goodwill

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

Goodwill has an indefinite life and is annually tested for impairment. Goodwill is allocated to each cash-generating unit (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 the higher of its value in use or fair value less costs to sell. Value in use is defined as the present value of the future cash flows expected to be derived from the CGU. On transition to IFRS at 1 January 2004, any goodwill previously amortised or written off was not reinstated.

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

b) Syndicate capacity

The syndicate capacity represents the cost of purchasing the group's participation in the combined syndicates. The capacity is capitalised at cost in the statement of financial position. It has an indefinite useful life and is carried at cost less accumulated impairment. It is annually tested for impairment by reference to the latest auction prices provided by Lloyd's.

c) Licences

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

d) IT development costs

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

e) Renewal rights

Renewal rights comprise future profits relating to insurance contracts acquired and the expected renewal of those contracts. The costs directly attributable to acquire the renewal rights are recognised as intangible assets where they can be measured reliably and it is probable that they will be recovered by directly related future profits. These costs are subject to 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.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

a) Financial assets

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

b) Financial assets at fair value through profit or loss

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

c) Loans and receivables

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

d) Fair value measurement

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

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

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

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

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

Upon initial recognition, attributable transaction costs relating to financial instruments at fair value through profit or loss are recognised in the statement of profit or loss when incurred. Financial assets at fair value through profit or loss are 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.

1 Statement of accounting policies *continued*

e) Hedge funds, equity funds and illiquid credit assets

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

g) Other receivables

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

h) Investment income

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

i) Borrowings

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

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

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

j) Other payables

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

k) Hedge accounting and derivative financial instruments

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

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

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

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

l) Impairment of financial assets

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

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

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

m) Cash and cash equivalents

Cash and cash equivalents consist of cash held at bank, cash in hand, deposits held at call with banks, cash held in Lloyd's trust accounts and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These investments have less than three months maturity from the date of acquisition. Cash and cash equivalents are measured at fair value through the profit and loss account.

n) Unfunded commitment capital

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

Leases

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

Employee benefits

a) Pension obligations

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

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors 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 expense/(income) for the period on the net defined benefit liability/(asset) by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset) at the beginning of the annual period, taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the defined benefit liability/(asset) comprises:

- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect of the asset ceiling.

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

1 Statement of accounting policies *continued*

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, including 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.

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 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.

Notes to the financial statements *continued*

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 heading indicates that the information in that section has not been audited.

2.1 Insurance risk

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

a) Underwriting risk

Underwriting risk comprises four elements that apply to all insurance products offered by the group:

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

We manage and model these four elements in the following three categories: attritional claims, large claims and catastrophe events.

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

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

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 2018 the group operated to a catastrophe risk appetite for a probabilistic 1-in-250 years US event of \$416.0m (2017: \$370.0m) net of reinsurance. This represented an increase in our catastrophe risk appetite of 12% compared to 2017.

2 Risk management *continued*

Lloyd's has also defined its own specific set of RDS events for which all syndicates with relevant exposures must report. Of these the three largest, net of reinsurance, events which could have impacted Beazley in 2017 and 2018 are:

Unaudited †

	2018	
	Modelled PML ¹ (before reinsurance) \$m	Modelled PML ¹ (after reinsurance) \$m
Lloyd's prescribed natural catastrophe event (total incurred losses)		
San Francisco quake (2018: \$78.0bn)	704.4	236.9
Gulf of Mexico windstorm (2018: \$112.0bn)	595.1	199.0
Los Angeles quake (2018: \$78.0bn)	697.2	235.9

Unaudited †

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

1. Probable market loss.

The net of reinsurance exposures for all three scenarios have increased during 2018, with the Gulf of Mexico windstorm increasing the most, by 22%. These increases are being driven by less reinsurance being purchased by the reinsurance division, which was in line with the plan to increase the natural catastrophe risk appetite in 2018.

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

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

To manage the potential exposure, the board has established a risk budget for the aggregation of data breach related claims which is monitored by reference to the largest of 15 realistic disaster scenarios that have been developed internally. These scenarios have been peer reviewed by an external technical expert and include the failure of a data aggregator, the failure of a shared hardware or software platform, the failure of a cloud provider, the failure of a financial transaction system and four property damage related scenarios. These scenarios include all aspects of coverage, including dependent business interruption. Whilst it is not possible to be precise, as there is sparse data on actual aggregated events, these severe scenarios are expected to be very infrequent. The largest realistic disaster scenario is currently lower than the exposure to the Lloyd's prescribed natural catastrophe events listed above for the group as at 31 December 2018. However, the cost of these scenarios will increase as Beazley continues to grow its data breach product. The clash reinsurance programme that protects the specialty lines account would partially mitigate the cost of most, but not all, data breach catastrophes.

Beazley also reports on cyber exposure to Lloyd's using the three largest internal realistic disaster scenarios and 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 2018, the maximum line that any one underwriter could commit the managed syndicates to was \$100m. In most cases, maximum lines for classes of business were much lower than this.

Notes to the financial statements *continued*

2 Risk management *continued*

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

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

Binding authority contracts

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

Operating divisions

In 2018, the group's business consisted of five operating divisions. The following table provides a breakdown of gross premiums written by division, and also provides a geographical split based on placement of risk.

2018	UK (Lloyd's)	US (Non-Lloyd's)	Europe (Non-Lloyd's)	Total
Marine	11%	–	–	11%
Political, accident & contingency	8%	1%	–	9%
Property	16%	–	–	16%
Reinsurance	8%	–	–	8%
Specialty lines	40%	16%	–	56%
Total	83%	17%	–	100%

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

b) Reinsurance risk

Reinsurance risk to the group arises where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated, result in coverage disputes or prove inadequate in terms of the vertical or horizontal limits purchased. Failure of a reinsurer to pay a valid claim is considered a credit risk which is detailed in the credit risk section on page 155.

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.

2 Risk management *continued*

c) *Claims management risk*

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

d) *Reserving and ultimate reserves risk*

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

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

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

2.2 Strategic risk †

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

Senior management performance

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

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

2.3 Market risk

Market risk arises where the value of assets and liabilities or future cash flows changes as a result of movements in foreign exchange rates, interest rates and market prices. Efficient management of market risk is key to the investment of group assets. Appropriate levels of investment risk are determined by limiting the proportion of forecast group earnings which could be at risk from lower than expected investment returns, using a 1 in 10 confidence level as a practical measure of such risk. In 2018, this permitted variance from the forecast investment return was set at \$150.0m (unaudited). For 2019, 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.

Notes to the financial statements *continued***2 Risk management** *continued***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 2018, the group managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting to have net assets that are predominantly denominated in US dollar. As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure across the group. Details of foreign currency derivative contracts entered into with external parties are disclosed in note 17. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk.

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

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

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

	UK £ \$m	CAD \$ \$m	EUR € \$m	Subtotal \$m	US \$ \$m	Total \$m
31 December 2018						
Total assets	506.3	131.6	290.3	928.2	6,805.7	7,733.9
Total liabilities	(511.8)	(138.9)	(305.6)	(956.3)	(5,310.7)	(6,267.0)
Net assets	(5.5)	(7.3)	(15.3)	(28.1)	1,495.0	1,466.9
31 December 2017						
Total assets	549.0	130.8	333.6	1,013.4	6,545.3	7,558.7
Total liabilities	(514.4)	(110.0)	(304.6)	(929.0)	(5,130.8)	(6,059.8)
Net assets	34.6	20.8	29.0	84.4	1,414.5	1,498.9

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	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar				
Dollar weakens 30% against other currencies	(7.5)	19.6	(11.5)	11.8
Dollar weakens 20% against other currencies	(5.0)	13.0	(7.7)	7.9
Dollar weakens 10% against other currencies	(2.5)	6.5	(3.8)	3.9
Dollar strengthens 10% against other currencies	2.5	(6.5)	3.8	(3.9)
Dollar strengthens 20% against other currencies	5.0	(13.0)	7.7	(7.9)
Dollar strengthens 30% against other currencies	7.5	(19.6)	11.5	(11.8)

2 Risk management *continued*

b) Interest rate risk

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

The group manages interest rate risk by primarily investing in short duration financial assets along with cash and cash equivalents. The 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	<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
31 December 2018								
Fixed and floating rate debt securities	1,566.0	831.0	963.8	467.4	188.2	83.8	–	4,100.2
Cash and cash equivalents	336.3	–	–	–	–	–	–	336.3
Derivative financial instruments	6.9	–	–	–	–	–	–	6.9
Borrowings	(95.6)	–	–	–	–	(248.7)	–	(344.3)
Total	1,813.6	831.0	963.8	467.4	188.2	(164.9)	–	4,099.1
31 December 2017								
Fixed and floating rate debt securities	1,447.4	851.7	571.1	366.3	382.0	96.2	–	3,714.7
Cash and cash equivalents	440.5	–	–	–	–	–	–	440.5
Derivative financial instruments	8.8	–	–	–	–	–	–	8.8
Borrowings	–	(99.5)	–	–	–	(248.5)	(18.0)	(366.0)
Total	1,896.7	752.2	571.1	366.3	382.0	(152.3)	(18.0)	3,798.0

Borrowings consist of two items as at 31 December 2018. The first is \$250.0m of subordinated tier 2 debt raised in November 2016. This debt is due in 2026 and has annual interest of 5.875% payable in May and November of each year. The second comprises £75m of sterling denominated 5.375% notes due in 2019 with interest payable in March and September each year.

As at 31 December 2017, borrowings included \$18.0m subordinated debt that was due in October 2034 and callable at the group's option since 2009. The group exercised its call option in October 2018. As the debt was recalled in November 2018 it is not included within any of the categories in the 31 December 2018 table (2017: >10 yrs category).

Sensitivity analysis

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

	Impact on profit after income tax for the year		Impact on net assets	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Shift in yield (basis points)				
150 basis point increase	(93.8)	(50.9)	(93.8)	(50.9)
100 basis point increase	(62.6)	(33.9)	(62.6)	(33.9)
50 basis point increase	(31.3)	(17.0)	(31.3)	(17.0)
50 basis point decrease	31.3	17.0	31.3	17.0
100 basis point decrease	62.6	33.9	62.6	33.9

Notes to the financial statements *continued*

2 Risk management *continued*

c) Price risk

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

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

Listed investments that are quoted in an active market are recognised in the statement of financial position at quoted bid price, which is deemed to be approximate exit price. If the market for the investment is not considered to be active, then the group establishes fair value using valuation techniques (refer to note 16). This includes comparison of orderly transactions between market participants, reference to 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	
	2018 \$m	2017 \$m	2018 \$m	2017 \$m
Change in fair value of hedge funds, equity funds and illiquid credit assets				
30% increase in fair value	163.2	168.6	163.2	168.6
20% increase in fair value	108.8	112.4	108.8	112.4
10% increase in fair value	54.4	56.2	54.4	56.2
10% decrease in fair value	(54.4)	(56.2)	(54.4)	(56.2)
20% decrease in fair value	(108.8)	(112.4)	(108.8)	(112.4)
30% decrease in fair value	(163.2)	(168.6)	(163.2)	(168.6)

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 2018, the permitted deviation was \$150.0m. Additionally, a limit is specified for the net interest rate sensitivity of assets and liabilities combined and investments are managed to ensure that this limit is not exceeded.

2.4 Operational risk †

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

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

2 Risk management *continued*

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

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

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

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

2.5 Credit risk

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the group are:

- reinsurers – reinsurers may fail to pay valid claims against a reinsurance contract held by the group;
- brokers and coverholders – counterparties fail to pass on premiums or claims collected or paid on behalf of the group;
- investments – issuer default results in the group losing all or part of the value of a financial instrument or a derivative financial instrument; 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 2018	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	3,041.2	1,059.0	–	–	–	4,100.2
– equity funds	–	–	–	–	85.4	85.4
– hedge funds	–	–	–	–	337.2	337.2
– illiquid credit assets	–	–	–	–	186.6	186.6
– derivative financial instruments	–	–	–	–	6.9	6.9
Insurance receivables	–	–	–	–	943.3	943.3
Reinsurance assets	1,192.8	–	–	–	–	1,192.8
Other receivables	58.5	–	–	–	–	58.5
Cash and cash equivalents	336.3	–	–	–	–	336.3
Total	4,628.8	1,059.0	–	–	1,559.4	7,247.2
31 December 2017	Tier 1 \$m	Tier 2 \$m	Tier 3 \$m	Tier 4 \$m	Unrated \$m	Total \$m
Financial assets at fair value						
– fixed and floating rate debt securities	2,840.0	874.7	–	–	–	3,714.7
– equity funds	–	–	–	–	168.3	168.3
– hedge funds	–	–	–	–	377.4	377.4
– illiquid credit assets	–	–	–	–	180.4	180.4
– derivative financial instruments	–	–	–	–	8.8	8.8
Insurance receivables	–	–	–	–	918.0	918.0
Reinsurance assets	1,231.1	–	–	–	–	1,231.1
Other receivables	68.6	–	–	–	–	68.6
Cash and cash equivalents	440.5	–	–	–	–	440.5
Total	4,580.2	874.7	–	–	1,652.9	7,107.8

The largest counterparty exposure within tier 1 is \$1,106.5m of US treasuries (2017: \$936.7m).

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.

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

2 Risk management *continued*

An analysis of the overall credit risk exposure indicates that the group has reinsurance assets that are impaired at the reporting date. The total impairment in respect of the reinsurance assets, including reinsurer's share of outstanding claims, at 31 December 2018 was as follows:

	Individual impairment \$m	Collective impairment \$m	Total \$m
Balance at 1 January 2017	2.4	10.2	12.6
Impairment loss recognised	0.5	0.1	0.6
Balance at 31 December 2017	2.9	10.3	13.2
Impairment loss written back	(0.1)	(0.9)	(1.0)
Balance at 31 December 2018	2.8	9.4	12.2

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

	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
31 December 2018					
Insurance receivables	49.6	13.9	5.3	18.8	87.6
Reinsurance assets	1.0	2.3	0.3	3.4	7.0

	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
31 December 2017					
Insurance receivables	57.5	13.7	5.3	18.9	95.4
Reinsurance assets	20.4	2.9	0.5	5.2	29.0

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 2018 was \$3.1m (2017: \$3.1m). This \$3.1m provision in respect of overdue reinsurance recoverables is included within the total provision of \$12.2m shown in the table at the top of the page.

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

2.6 Regulatory and legal risk †

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

2.7 Liquidity risk

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

The group's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (details of the group's exposure to realistic disaster scenarios are provided on page 149). 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 48 to 49.

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 liabilities¹ balance held at 31 December:

	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)
31 December 2018						
Marine	116.3	97.3	28.6	21.8	264.0	2.0
Political, accident & contingency	59.5	44.2	12.2	16.8	132.7	2.4
Property	179.9	111.9	29.0	27.0	347.8	1.8
Reinsurance	88.4	71.5	22.8	21.3	204.0	2.2
Specialty lines	431.3	731.2	471.9	506.1	2,140.5	3.5
Net claims liabilities	875.4	1,056.1	564.5	593.0	3,089.0	

1. For a breakdown of net claims liabilities refer to note 24.

	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)
31 December 2017						
Marine	100.6	89.3	26.7	20.4	237.0	2.0
Political, accident & contingency	62.6	45.8	9.9	12.0	130.3	2.3
Property	134.5	101.2	29.2	32.8	297.7	2.2
Reinsurance	70.8	66.1	20.8	19.8	177.5	2.3
Specialty lines	542.7	713.8	360.4	456.0	2,072.9	3.4
Net claims liabilities	911.2	1,016.2	447.0	541.0	2,915.4	

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

	Within 1 year \$m	1-3 years \$m	3-5 years \$m	Greater than 5 years \$m	Total \$m
31 December 2018					
Net claims liabilities	875.4	1,056.1	564.5	593.0	3,089.0
Borrowings	95.6	-	-	248.7	344.3
Other payables	442.6	-	-	-	442.6
31 December 2017					
Net claims liabilities	911.2	1,016.2	447.0	541.0	2,915.4
Borrowings	-	99.5	-	266.5	366.0
Other payables	512.5	-	-	-	512.5

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	<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
31 December 2018								
Fixed and floating rate debt securities	1,114.0	909.1	1,050.2	516.6	322.1	188.2	-	4,100.2
Derivative financial instruments	6.9	-	-	-	-	-	-	6.9
Cash and cash equivalents	336.3	-	-	-	-	-	-	336.3
Insurance receivables	943.3	-	-	-	-	-	-	943.3
Other receivables	58.5	-	-	-	-	-	-	58.5
Other payables	(442.6)	-	-	-	-	-	-	(442.6)
Borrowings	(95.6)	-	-	-	-	(248.7)	-	(344.3)
Total	1,920.8	909.1	1,050.2	516.6	322.1	(60.5)	-	4,658.3

2 Risk management *continued*

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

Borrowings consist of two items as at 31 December 2018. 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 a of £75m sterling denominated 5.375% notes due in 2019 with interest payable in March and September each year.

As at 31 December 2017, borrowings included \$18.0m subordinated debt that was due in October 2034 and callable at the group's option since 2009. The group exercised its call option in October 2018. As the debt was recalled in November 2018 it is not included within any of the categories in the 31 December 2018 table (2017: >10 yrs category).

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

2.8 Group risk †

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

a) Contagion

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

b) Reputation

Reputation risk is the risk of negative publicity as a result of the group's contractual arrangements, customers, products, services and other activities. Key sources of reputation risk include operation of a Lloyd's franchise, interaction with capital markets since the group's IPO during 2002, and reliance upon the Beazley brand in North America, Europe, 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;
- 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.

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

Notes to the financial statements *continued*

2 Risk management *continued*

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 2018 we have surplus capital of 26% of ECR (unaudited, on a Solvency II basis). Following payment of the second interim dividend of 7.8p per share, the surplus reduces to 23% (unaudited) compared to 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:

Marine

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

Political, accident & contingency

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.

Specialty lines

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

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

3 Segmental analysis *continued*

b) Segment information

2018	Marine \$m	Political, accident & contingency \$m	Property \$m	Reinsurance \$m	Specialty lines \$m	Total \$m
Segment results						
Gross premiums written	284.8	238.7	415.4	207.4	1,469.0	2,615.3
Net premiums written	255.0	212.7	360.2	137.3	1,283.3	2,248.5
Net earned premiums	249.5	194.3	344.1	139.5	1,157.2	2,084.6
Net investment income	3.3	2.3	3.1	1.8	30.6	41.1
Other income	2.9	3.8	6.4	1.7	18.9	33.7
Revenue	255.7	200.4	353.6	143.0	1,206.7	2,159.4
Net insurance claims	134.0	90.2	289.4	97.7	616.5	1,227.8
Expenses for the acquisition of insurance contracts	74.5	63.3	103.5	33.2	287.4	561.9
Administrative expenses	25.1	21.5	38.9	13.0	152.2	250.7
Foreign exchange loss	1.6	1.2	2.2	0.9	7.3	13.2
Expenses	235.2	176.2	434.0	144.8	1,063.4	2,053.6
Impairment of associate ¹	-	-	-	-	(7.0)	(7.0)
Segment result	20.5	24.2	(80.4)	(1.8)	136.3	98.8
Finance costs						(22.4)
Profit before income tax						76.4
Income tax expense						(8.2)
Profit for the year attributable to equity shareholders						68.2
Claims ratio	54%	46%	84%	70%	53%	59%
Expense ratio	40%	44%	41%	33%	38%	39%
Combined ratio	94%	90%	125%	103%	91%	98%
Segment assets and liabilities						
Segment assets	689.7	445.4	882.1	666.4	5,050.3	7,733.9
Segment liabilities	(571.9)	(347.2)	(726.1)	(505.8)	(4,116.0)	(6,267.0)
Net assets	117.8	98.2	156.0	160.6	934.3	1,466.9
Additional information						
Impairment of associate ¹	-	-	-	-	(7.0)	(7.0)
Capital expenditure	0.8	0.7	1.0	1.1	6.2	9.8
Increase in intangibles	-	-	-	-	-	-
Amortisation and depreciation	(2.1)	(0.4)	(0.6)	(0.6)	(11.0)	(14.7)
Net cash flow	(8.3)	(7.0)	(11.1)	(11.4)	(66.4)	(104.2)

1 In 2018, management received information which led them to conclude that the recoverable amount of the group's investment in Capson was lower than its carrying value. In March 2018 the group took the decision to write down its investment in Capson Corp., Inc to \$2.8m. In December the group took the further decision to fully write down its investment in Capson Corp., Inc to nil. This is deemed to be an appropriate value for Beazley's share in Capson.

Notes to the financial statements *continued*3 Segmental analysis *continued*

2017	Marine \$m	Political, accident & contingency \$m	Property \$m	Reinsurance \$m	Specialty lines \$m	Total \$m
Segment results						
Gross premiums written	267.6	214.3	362.9	206.8	1,292.2	2,343.8
Net premiums written	233.2	190.8	300.0	134.6	1,120.2	1,978.8
Net earned premiums	227.9	188.7	293.8	136.9	1,022.1	1,869.4
Net investment income	12.7	6.7	14.1	9.4	95.4	138.3
Other income	3.2	3.6	7.3	3.7	17.7	35.5
Revenue	243.8	199.0	315.2	150.0	1,135.2	2,043.2
Net insurance claims	124.7	96.2	251.6	97.5	505.7	1,075.7
Expenses for the acquisition of insurance contracts	68.9	67.2	95.3	32.9	255.4	519.7
Administrative expenses	30.5	27.8	36.1	15.6	144.7	254.7
Foreign exchange loss	0.4	0.3	0.5	0.2	1.7	3.1
Expenses	224.5	191.5	383.5	146.2	907.5	1,853.2
Share of loss of associates	-	0.4	-	-	(0.3)	0.1
Segment result	19.3	7.9	(68.3)	3.8	227.4	190.1
Finance costs						(22.1)
Profit before income tax						168.0
Income tax expense						(38.0)
Profit for the year attributable to equity shareholders						130.0
Claims ratio	55%	51%	86%	71%	50%	58%
Expense ratio	43%	50%	44%	36%	39%	41%
Combined ratio	98%	101%	130%	107%	89%	99%
Segment assets and liabilities						
Segment assets	694.1	448.9	841.7	665.4	4,908.6	7,558.7
Segment liabilities	(574.2)	(344.0)	(676.8)	(485.5)	(3,979.3)	(6,059.8)
Net assets	119.9	104.9	164.9	179.9	929.3	1,498.9
Additional information						
Investment in associates ¹	-	-	-	-	7.0	7.0
Capital expenditure	0.9	0.8	1.2	1.3	6.8	11.0
Increase in intangibles	-	-	-	-	34.4	34.4
Amortisation and depreciation	(2.1)	(0.4)	(0.7)	(0.7)	(10.4)	(14.3)
Net cash flow	(2.6)	(2.3)	(3.6)	(3.9)	(54.3)	(66.7)

1. In July 2017 the group sold its share in associate, Equinox Global Limited, to Nexus Underwriting Management Limited.

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 150.

	2018 \$m	2017 \$m
Net earned premiums		
UK (Lloyd's)	1,821.8	1,807.8
US (Non-Lloyd's) ¹	260.2	61.6
Europe (Non-Lloyd's)	2.6	–
	2,084.6	1,869.4

	2018 \$m	2017 \$m
Segment assets		
UK (Lloyd's)	7,213.2	7,207.3
US (Non-Lloyd's) ¹	482.1	351.4
Europe (Non-Lloyd's)	38.6	–
	7,733.9	7,558.7

1. Increase in US net earned premiums and assets is driven by a change of internal reinsurance contract. As a result of this, more premiums are retained in the US.

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

	2018 \$m	2017 \$m
Capital expenditure		
Non-US	9.5	10.2
US	0.3	0.8
	9.8	11.0

4 Net investment income

	2018 \$m	2017 \$m
Interest and dividends on financial investments at fair value through profit or loss	102.1	76.1
Interest on cash and cash equivalents	0.5	0.5
Net realised gains on financial investments at fair value through profit or loss	12.4	23.1
Net unrealised fair value (losses)/gains on financial investments at fair value through profit or loss	(66.1)	46.5
Investment income from financial investments	48.9	146.2
Investment management expenses	(7.8)	(7.9)
	41.1	138.3

Notes to the financial statements *continued*

5 Other income

	2018 \$m	2017 \$m
Commissions received by Beazley service companies	20.7	22.7
Profit commissions from syndicates 623/6107	7.5	8.0
Agency fees from 623	2.5	2.2
Other income	3.0	2.6
	33.7	35.5

As at 31 December 2018 there was no accrued profit commission at risk of being reversed if there were to be an adverse impact on syndicate 623's profit (31 December 2017: \$0.7m). We have not experienced any deterioration to profits on this contract recognised previously.

6 Operating expenses

	2018 \$m	2017 \$m
Operating expenses include:		
Amounts receivable by the auditor and associates in respect of:		
– audit services for the group and subsidiaries	1.0	0.9
– audit-related assurance services	0.6	0.7
– taxation compliance services	0.1	0.1
– other non-audit services	0.8	0.6
	2.5	2.3
Impairment loss (written back)/recognised on reinsurance assets	(1.0)	0.6
Operating leases	11.4	9.3

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

7 Employee benefit expenses

	2018 \$m	2017 \$m
Wages and salaries	156.0	142.4
Short term incentive payments	38.0	70.2
Social security	21.0	18.2
Share based remuneration	17.7	21.1
Pension costs ¹	11.7	10.9
	244.4	262.8
Recharged to syndicate 623	(35.6)	(39.4)
	208.8	223.4

1 Pension costs refer to the contributions made under the defined contribution scheme. Further information on the defined benefit pension scheme can be found in note 27.

8 Finance costs

	2018 \$m	2017 \$m
Interest expense	22.4	22.1
	22.4	22.1

During 2018, Beazley redeemed debt with a nominal value of \$18.0m and a market value of \$18.0m in the form of subordinated debt using its call right. No profit or loss was realised at redemption as there was no difference between the carrying value and market value of the debt. Please refer to note 25 for further detail on subordinated debt.

9 Income tax expense

	2018 \$m	2017 \$m
Current tax expense		
Current year	32.3	35.4
Prior year adjustments	(5.3)	(0.6)
	27.0	34.8
Deferred tax expense		
Origination and reversal of temporary differences	(14.6)	(3.6)
Impact of change in UK/US tax rates	0.7	5.3
Prior year adjustments	(4.9)	1.5
	(18.8)	3.2
Income tax expense	8.2	38.0

Reconciliation of tax expense

The weighted average of statutory tax rates applied to the profits earned in each country in which the group operates is 18.6% (2017: 18.7%), whereas the tax charged for the year 31 December 2018 as a percentage of profit before tax is 10.7% (2017: 22.6%). The reasons for the difference are explained below:

	2018 \$m	2018 %	2017 \$m	2017 %
Profit before tax	76.4	-	168.0	-
Tax calculated at the weighted average of statutory tax rates	14.2	18.6	31.4	18.7
Effects of:				
- non-deductible expenses	3.0	3.9	0.9	0.5
- non-taxable losses/(gains) on foreign exchange	0.3	0.4	(0.5)	(0.3)
- tax relief on share based payments – current and future years	0.2	0.3	-	-
- (over)/under provided in prior years	(10.2)	(13.4)	0.9	0.5
- change in UK/US tax rates ¹	0.7	0.9	5.3	3.2
Tax charge for the period	8.2	10.7	38.0	22.6

1 The Finance Act 2016, which provides for reduction in the UK Corporation tax rate down to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. This 17% tax rate will reduce the company's future current tax charge and has been reflected in the calculation of the deferred tax balance as at 31 December 2018.

A change in the effective corporation tax in the US from 35% to 21% was substantively enacted in December 2017 and has been reflected in the calculation of the deferred tax balance as at 31 December 2018.

As noted on page 45, the group has assessed the potential impact of the diverted profits tax (DPT) following the enactment of new legislation in April 2015 and is of the view that no liability arises. The ultimate outcome may differ and any profits that did fall within the scope of the DPT would potentially be taxed at a rate of 25% rather than 12.5% (the current rate of tax on corporate earnings in Ireland). The earnings that would potentially be taxed at 25% are the relevant earnings from 2015 to 2018. The relevant earnings are determined in relation to 75% of the profits and losses in Beazley's syndicates potentially starting with a proportion of the profits on the 2013, 2014 and 2015 years of account and 75% of all profits and losses in Beazley's syndicates on years of account from 2016 onwards.

Notes to the financial statements *continued*

10 Earnings per share

	2018	2017
Basic (cents)	13.0c	25.0c
Diluted (cents)	12.8c	24.4c
Basic (pence)	9.7p	19.5p
Diluted (pence)	9.5p	19.0p

Basic

Basic earnings per share are calculated by dividing profit after tax of \$68.2m (2017: \$130.0m) by the weighted average number of shares in issue during the year of 523.2m (2017: 520.5m). The shares held in the Employee Share Options Plan (ESOP) of 4.7m (2017: 3.8m) have been excluded from the calculation, until such time as they vest unconditionally with the employees.

Diluted

Diluted earnings per share are calculated by dividing profit after tax of \$68.2m (2017: \$130.0m) by the adjusted weighted average number of shares of 533.1m (2017: 533.6m). The adjusted weighted average number of shares assumes conversion of dilutive potential ordinary shares, being shares from the SAYE, retention and deferred share schemes. The shares held in the ESOP of 4.7m (2017: 3.8m) have been excluded from the calculation, until such time as they vest unconditionally with the employees.

11 Dividends per share

A second interim dividend of 7.8p per ordinary share (2017: 7.4p) will be payable on 27 March 2019 to Beazley plc shareholders registered at 5.00pm on 1 March 2019 in respect of the six months ended 31 December 2018. No special dividend was declared in 2018 (2017: nil). The company expects the total amount to be paid in respect of the second interim dividend to be approximately £40.6m. These financial statements do not provide for the second interim dividend as a liability.

Together with the interim dividend of 3.9p (2017: 3.7p) this gives a total dividend for the year of 11.7p (2017: 11.1p).

12 Intangible assets

	Goodwill \$m	Syndicate capacity \$m	Licences \$m	IT development costs \$m	Renewal rights \$m	Total \$m
Cost						
Balance at 1 January 2017	72.0	10.7	9.3	57.0	24.6	173.6
Other additions	-	-	-	9.3	34.4	43.7
Foreign exchange gain	-	-	-	4.8	2.0	6.8
Balance at 31 December 2017	72.0	10.7	9.3	71.1	61.0	224.1
Balance at 1 January 2018	72.0	10.7	9.3	71.1	61.0	224.1
Other additions	-	-	-	7.2	-	7.2
Foreign exchange loss	-	-	-	(3.3)	(2.0)	(5.3)
Balance at 31 December 2018	72.0	10.7	9.3	75.0	59.0	226.0
Amortisation and impairment						
Balance at 1 January 2017	(10.0)	-	-	(49.4)	(17.6)	(77.0)
Amortisation for the year	-	-	-	(3.5)	(8.1)	(11.6)
Foreign exchange loss	-	-	-	(1.9)	(0.1)	(2.0)
Balance at 31 December 2017	(10.0)	-	-	(54.8)	(25.8)	(90.6)
Balance at 1 January 2018	(10.0)	-	-	(54.8)	(25.8)	(90.6)
Amortisation for the year	-	-	-	(3.8)	(8.8)	(12.6)
Foreign exchange gain	-	-	-	2.9	0.8	3.7
Balance at 31 December 2018	(10.0)	-	-	(55.7)	(33.8)	(99.5)
Carrying amount						
31 December 2018	62.0	10.7	9.3	19.3	25.2	126.5
31 December 2017	62.0	10.7	9.3	16.3	35.2	133.5

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:

	Marine \$m	Political, accident & contingency \$m	Property \$m	Reinsurance \$m	Specialty lines \$m	Total \$m
2018						
Goodwill	2.3	29.6	24.9	0.8	4.4	62.0
Capacity	1.6	1.0	2.5	0.8	4.8	10.7
Licences	–	–	1.9	–	7.4	9.3
Total	3.9	30.6	29.3	1.6	16.6	82.0
2017						
Goodwill	2.3	29.6	24.9	0.8	4.4	62.0
Capacity	1.6	1.0	2.5	0.8	4.8	10.7
Licences	–	–	1.9	–	7.4	9.3
Total	3.9	30.6	29.3	1.6	16.6	82.0

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

A discount rate, based on weighted average cost of capital (WACC) of 9% (2017: 6%) 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 US legislation and Brexit, could impact the amount of premiums written and investment income for each CGU. This could potentially have an impact on the carrying value of the CGU, however this remains remote.

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.

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

US insurance authorisation licences represent the privilege to write insurance business in particular states in the US. Licences are allocated to the relevant CGU. There is no active market for licences, therefore value in use is deemed to be fair value. As described above, a WACC rate is applied to projected future cash flows sourced from management approved budgets. Key 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 2017	-	21.5	9.2	30.7
Additions	-	1.1	0.6	1.7
Write off	-	(0.1)	(2.2)	(2.3)
Foreign exchange gain	-	0.4	-	0.4
Balance at 31 December 2017	-	22.9	7.6	30.5
Balance at 1 January 2018	-	22.9	7.6	30.5
Additions	-	2.1	0.5	2.6
Write off	-	(1.2)	(0.1)	(1.3)
Foreign exchange loss	-	(0.4)	(0.1)	(0.5)
Balance at 31 December 2018	-	23.4	7.9	31.3
Accumulated depreciation				
Balance at 1 January 2017	-	(17.3)	(8.0)	(25.3)
Depreciation charge for the year	-	(1.8)	(0.9)	(2.7)
Write off	-	0.1	2.2	2.3
Foreign exchange loss	-	(0.3)	(0.1)	(0.4)
Balance at 31 December 2017	-	(19.3)	(6.8)	(26.1)
Balance at 1 January 2018	-	(19.3)	(6.8)	(26.1)
Depreciation charge for the year	-	(1.5)	(0.6)	(2.1)
Write off	-	1.2	0.1	1.3
Foreign exchange gain	-	0.3	0.2	0.5
Balance at 31 December 2018	-	(19.3)	(7.1)	(26.4)
Carrying amounts				
31 December 2018	-	4.1	0.8	4.9
31 December 2017	-	3.6	0.8	4.4

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	2018 \$m	2017 \$m
As at 1 January	7.0	9.9
Sale of share in Equinox Global Limited	-	(3.0)
Impairment of Capson Corp., Inc.	(7.0)	-
Share of profit after tax	-	0.1
As at 31 December	-	7.0

The group's investment in associates consists of:

	Country of incorporation	% interest held	Carrying value \$m
2018			
Falcon Money Management Holdings Limited (and subsidiaries)	Malta ¹	25%	-
Capson Corp., Inc. (and subsidiary)	USA ²	31%	-
			-

1 259 St Paul Street, Valletta, Malta.

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

In March 2018 the group took the decision to write down its investment in Capson Corp., Inc. to \$2.8m. In December the group took the further decision to fully write down its investment in Capson Corp., Inc. to nil. This is deemed to be an appropriate value for Beazley's share in Capson.

The aggregate financial information for all associates (100%) held at 31 December 2018 is as follows:

	2018 \$m	2017 \$m
Assets	36.7	35.1
Liabilities	24.6	21.2
Equity	12.1	13.9
Revenue	18.8	17.1
Profit/(loss) after tax	0.9	(1.0)
Share of other comprehensive income	-	-
Share of total comprehensive income	0.9	(1.0)

All of the investments in associates are unlisted and are equity accounted using available financial information as at 31 December 2018. Falcon Money Management Holdings Limited is an investment management company which also acts in an intermediary capacity.

15 Deferred acquisition costs

	2018 \$m	2017 \$m
Balance at 1 January	281.4	242.8
Additions	587.9	558.3
Amortisation charge	(561.9)	(519.7)
Balance at 31 December	307.4	281.4

16 Financial assets and liabilities

	2018 \$m	2017 \$m
Financial assets at fair value		
Fixed and floating rate debt securities:		
– Government issued	1,384.2	1,345.4
– Quasi-government	25.9	24.1
– Supranational	–	21.1
– Corporate bonds		
– Investment grade	2,525.3	2,179.7
– High yield	32.7	58.8
– Senior secured loans	132.1	85.6
Total fixed and floating rate debt securities	4,100.2	3,714.7
Equity funds	85.4	168.3
Hedge funds	337.2	377.4
Illiquid credit assets	186.6	180.4
Total capital growth assets	609.2	726.1
Total financial investments at fair value through statement of profit or loss	4,709.4	4,440.8
Derivative financial assets	6.9	8.8
Total financial assets at fair value	4,716.3	4,449.6

Quasi-government securities include securities which are issued by non-sovereign entities but which have an explicit sovereign guarantee. Supranational securities are issued by institutions sponsored by more than one sovereign issuer. 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. Senior secured loans are tradeable, floating rate debt obligations of corporate issuers, with credit ratings of BB+/Ba1 or below. 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 2018 excludes an unfunded commitment of \$81.8m (2017: \$63.0m).

	2018 \$m	2017 \$m
The amounts expected to mature within and after one year are:		
Within one year	1,121.0	935.3
After one year	2,986.1	2,788.2
Total	4,107.1	3,723.5

Our capital growth assets have no defined maturity dates and have thus been excluded from the above maturity table. However, all \$85.4m (2017: \$153.1m) of equity funds could be liquidated within two weeks, \$256.5m (2017: \$299.5m) of hedge fund assets within six months and the remaining \$80.7m (2017: \$77.9m) 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 145 consideration is also given when valuing the hedge 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 2018 (2017: \$nil).

Notes to the financial statements *continued*16 Financial assets and liabilities *continued*

Financial liabilities	2018 \$m	2017 \$m
Retail bond	95.6	99.5
Subordinated debt	–	18.0
Tier 2 subordinated debt (2026)	248.7	248.5
Derivative financial liabilities	12.4	1.3
Total financial liabilities	356.7	367.3
The amounts expected to mature before and after one year are:		
Within one year	108.0	1.3
After one year	248.7	366.0
	356.7	367.3

A breakdown of the group's investment portfolio is provided on page 45.

A breakdown of derivative financial instruments is disclosed in note 17.

The retail bond was issued in 2012. The subordinated debt was issued in 2004 and redeemed in 2018. Tier 2 subordinated debt 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.

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, 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 can be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

16 Financial assets and liabilities *continued*

Level 2 investments

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

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

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

Additional information is obtained from fund managers relating to the underlying assets within individual hedge funds. We identified that 83% (2017: 67%) of these underlying assets were level 1 and the remainder level 2. This enables us to categorise hedge funds as level 2.

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

Level 3 investments

During 2018, the group's investment committee approved additional allocations to an illiquid asset portfolio comprising investments in funds managed by third party managers (generally closed end limited partnerships or open ended funds). While the funds provide full transparency on their underlying investments, the investments themselves are in many cases private and unquoted, and are therefore classified as level 3 investments.

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

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

Notes to the financial statements *continued***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.

2018	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	1,384.2	–	–	1,384.2
– Quasi-government	25.9	–	–	25.9
– Corporate bonds				
– Investment grade	–	2,525.3	–	2,525.3
– High yield	–	32.7	–	32.7
– Senior secured loans	–	132.1	–	132.1
Equity funds	–	85.4	–	85.4
Hedge funds	–	337.2	–	337.2
Illiquid credit assets	–	–	186.6	186.6
Derivative financial assets	6.9	–	–	6.9
Total financial assets measured at fair value	1,417.0	3,112.7	186.6	4,716.3
Financial liabilities measured at fair value				
Derivative financial liabilities	12.4	–	–	12.4
Financial liabilities not measured at fair value				
Retail bond	–	98.2	–	98.2
Tier 2 subordinated debt (2026)	–	249.4	–	249.4
Total financial liabilities not measured at fair value	–	347.6	–	347.6
2017				
	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Financial assets measured at fair value				
Fixed and floating rate debt securities				
– Government issued	1,345.4	–	–	1,345.4
– Quasi-government	24.1	–	–	24.1
– Supranational	21.1	–	–	21.1
– Corporate bonds				
– Investment grade	15.2	2,164.5	–	2,179.7
– High yield	–	58.8	–	58.8
– Senior secured loans	–	85.6	–	85.6
Equity funds	–	168.3	–	168.3
Hedge funds	–	377.4	–	377.4
Illiquid credit assets	–	–	180.4	180.4
Derivative financial assets	8.8	–	–	8.8
Total financial assets measured at fair value	1,414.6	2,854.6	180.4	4,449.6

16 Financial assets and liabilities *continued*

2017	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Financial liabilities measured at fair value				
Derivative financial liabilities	1.3	–	–	1.3
Financial liabilities not measured at fair value				
Retail bond	–	104.1	–	104.1
Tier 2 subordinated debt (2026)	–	266.6	–	266.6
Total financial liabilities not measured at fair value	–	370.7	–	370.7

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

Transfers and level 3 investment reconciliations

There were no transfers in either direction between Level 1, 2 and 3 in either 2017 or 2018.

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

	2018 \$m	2017 \$m
As at 1 January	180.4	126.1
Purchases	46.3	55.4
Sales	(52.4)	(21.1)
Total net gains recognised in profit or loss	12.3	20.0
As at 31 December	186.6	180.4

Total unrealised loss on level 3 investments included into net gains above was \$0.7m (2017: gain of \$16.4m).

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.

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

	2018 \$m	2017 \$m
High yield bond funds	32.7	58.8
Equity funds	85.4	168.3
Hedge funds	337.2	377.4
Illiquid credit assets	186.6	180.4
Investments through unconsolidated structured entities	641.9	784.9

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.

Notes to the financial statements *continued***16 Financial assets and liabilities** *continued*

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

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

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

Currency exposures

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

	UK £ \$m	CAD \$ \$m	EUR € \$m	Subtotal \$m	US \$ \$m	Total \$m
2018						
Financial assets at fair value						
Fixed and floating rate debt securities	6.6	184.5	–	191.1	3,909.1	4,100.2
Equity funds	–	–	22.2	22.2	63.2	85.4
Hedge funds	–	–	–	–	337.2	337.2
Illiquid credit assets	–	–	16.2	16.2	170.4	186.6
Derivative financial assets	–	–	–	–	6.9	6.9
Total	6.6	184.5	38.4	229.5	4,486.8	4,716.3
2017						
Financial assets at fair value						
Fixed and floating rate debt securities	12.4	161.1	–	173.5	3,541.2	3,714.7
Equity funds	–	–	39.9	39.9	128.4	168.3
Hedge funds	–	–	–	–	377.4	377.4
Illiquid credit assets	–	–	13.7	13.7	166.7	180.4
Derivative financial assets	–	–	–	–	8.8	8.8
Total	12.4	161.1	53.6	227.1	4,222.5	4,449.6

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.

17 Derivative financial instruments

In 2018 and 2017 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:

	2018		2017	
	Gross contract amount \$m	Market value of derivative position \$m	Gross contract amount \$m	Market value of derivative position \$m
Derivative financial instrument assets				
Foreign exchange forward contracts	365.1	6.9	446.7	7.2
Bond futures contract	–	–	(341.4)	1.6
	365.1	6.9	105.3	8.8

	2018		2017	
	Gross contract amount \$m	Market value of derivative position \$m	Gross contract amount \$m	Market value of derivative position \$m
Derivative financial instrument liabilities				
Foreign exchange forward contracts	205.6	9.6	361.7	1.3
Bond futures contract	189.2	2.8	–	–
	394.8	12.4	361.7	1.3

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

	2018 \$m	2017 \$m
Insurance receivables	943.3	918.0
	943.3	918.0

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

Notes to the financial statements *continued*

19 Reinsurance assets

	2018 \$m	2017 \$m
Reinsurers' share of claims	963.9	1,006.4
Impairment provision	(12.2)	(13.2)
	951.7	993.2
Reinsurers' share of unearned premium reserve	241.1	237.9
	1,192.8	1,231.1

Further analysis of the reinsurance assets is provided in note 24.

20 Cash and cash equivalents

Group	2018 \$m	2017 \$m
Cash at bank and in hand	291.3	376.2
Short term deposits and highly liquid investments	45.0	64.3
	336.3	440.5

Total cash and cash equivalents include \$10.4m (2017: \$9.0m) held in Lloyd's Singapore trust accounts. These funds are only available for use by the group to meet local claim and expense obligations.

Company	2018 \$m	2017 \$m
Cash at bank and in hand	2.4	0.7
	2.4	0.7

21 Share capital

	2018		2017	
	No. of shares (m)	\$m	No. of shares (m)	\$m
Ordinary shares of 5p each				
Issued and fully paid	527.8	38.0	525.8	37.8
Balance at 1 January	525.8	37.8	523.3	37.7
Issue of shares	2.0	0.2	2.5	0.1
Balance at 31 December	527.8	38.0	525.8	37.8

22 Other reserves

	Employee share options reserve \$m	Employee share trust reserve \$m	Total \$m
Group			
Balance at 1 January 2017	45.0	(21.6)	23.4
Share based payments	24.5	-	24.5
Acquisition of own shares held in trust	-	(16.2)	(16.2)
Tax on share option vestings	4.3	-	4.3
Transfer of shares to employees	(24.4)	20.4	(4.0)
Balance at 31 December 2017	49.4	(17.4)	32.0
Share based payments	18.7	-	18.7
Acquisition of own shares held in trust	-	(44.9)	(44.9)
Tax on share option vestings	4.1	-	4.1
Transfer of shares to employees	(25.5)	32.1	6.6
Balance at 31 December 2018	46.7	(30.2)	16.5
Company			
Balance at 1 January 2017	19.8	0.1	19.9
Share based payments	24.5	-	24.5
Acquisition of own shares held in trust	-	(16.2)	(16.2)
Transfer of shares to employees	(24.4)	20.4	(4.0)
Balance at 31 December 2017	19.9	4.3	24.2
Share based payments	18.7	-	18.7
Acquisition of own shares held in trust	-	(44.9)	(44.9)
Transfer of shares to employees	(25.5)	32.1	6.6
Balance at 31 December 2018	13.1	(8.5)	4.6

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.

Notes to the financial statements *continued*

23 Equity compensation plans

23.1 Employee share trust

	2018		2017	
	Number (m)	\$m	Number (m)	\$m
Costs debited to employee share trust reserve				
Balance at 1 January	3.8	17.4	6.1	21.6
Additions	6.0	44.9	3.0	16.2
Transfer of shares to employees	(5.1)	(32.1)	(5.3)	(20.4)
Balance at 31 December	4.7	30.2	3.8	17.4

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
One-off share incentive plan	10/02/2015	0.2	Five years' service + ROE	10 years
LTIP	13/02/2018	1.5	Five years' service + NAV + minimum shareholding requirement	10 years
	17/02/2017	1.9		
	09/02/2016	2.1		
	10/02/2015	2.1		
	11/02/2014	1.4		
LTIP	13/02/2018	1.5	Three years' service + NAV + minimum shareholding requirement	10 years
	17/02/2017	1.9		
	09/02/2016	2.0		
SAYE (UK)	04/04/2018	0.5	Three years' service	N/A
	13/04/2017	0.6		
	09/05/2016	0.5		
SAYE (US)	01/06/2018	0.1	Two years' service	N/A
	01/06/2017	0.1		
SAYE (Others)	09/05/2016	0.1	Three years' service	N/A
Total share options outstanding		16.5		

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;
- ROE – return on equity, based on the average marine divisional pre-tax return on equity (ROE) over the performance period; 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.

23 Equity compensation plans *continued*

Further details of equity compensation plans can be found in the directors' remuneration report on pages 101 to 120. The total gain on directors' exercises of share-option plans during the period was £6.3m.

The number and weighted average exercise prices of share options are as follows:

	2018		2017	
	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	34.6	18.0	27.8	19.6
Forfeited during the year	122.0	(0.5)	68.6	(0.6)
Exercised during the year	28.5	(5.0)	35.7	(5.7)
Granted during the year	80.0	4.0	71.1	4.7
Outstanding at 31 December	44.7	16.5	34.6	18.0
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:

	2018 \$m	2017 \$m
Share options charge to employee share options reserve	17.7	21.1
Weighted average share price (pence per option)	404.0	333.4
Weighted average exercise price (pence per option)	44.7	34.6
Average expected life of options	4.4 yrs	4.3 yrs
Expected volatility	23.5%	24.4%
Expected dividend yield	1.3%	1.9%
Average risk-free interest rate	0.9%	1.1%

The expected volatility is based on historic volatility over a period of at least two years.

24 Insurance liabilities and reinsurance assets

	2018 \$m	2017 \$m
Gross		
Claims reported and loss adjustment expenses	1,171.2	1,056.3
Claims incurred but not reported	2,869.5	2,852.3
Gross claims liabilities	4,040.7	3,908.6
Unearned premiums	1,415.5	1,259.2
Total insurance liabilities, gross	5,456.2	5,167.8
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	231.9	219.4
Claims incurred but not reported	719.8	773.8
Reinsurers' share of claims liabilities	951.7	993.2
Unearned premiums	241.1	237.9
Total reinsurers' share of insurance liabilities	1,192.8	1,231.1

Notes to the financial statements *continued*24 Insurance liabilities and reinsurance assets *continued*

	2018 \$m	2017 \$m
Net		
Claims reported and loss adjustment expenses	939.3	836.9
Claims incurred but not reported	2,149.7	2,078.5
Net claims liabilities	3,089.0	2,915.4
Unearned premiums	1,174.4	1,021.3
Total insurance liabilities, net	4,263.4	3,936.7

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*

	2018			2017		
	Gross \$m	Reinsurance \$m	Net \$m	Gross \$m	Reinsurance \$m	Net \$m
Claims reported and loss adjustment expenses	1,056.3	(219.4)	836.9	949.5	(201.8)	747.7
Claims incurred but not reported	2,852.3	(773.8)	2,078.5	2,567.4	(652.1)	1,915.3
Balance at 1 January	3,908.6	(993.2)	2,915.4	3,516.9	(853.9)	2,663.0
Claims paid	(1,301.1)	261.5	(1,039.6)	(1,028.2)	179.1	(849.1)
Increase in claims						
– Arising from current year claims	1,844.7	(501.9)	1,342.8	1,737.4	(457.8)	1,279.6
– Arising from prior year claims	(380.8)	265.8	(115.0)	(349.4)	145.5	(203.9)
Net exchange differences	(30.7)	16.1	(14.6)	31.9	(6.1)	25.8
Balance at 31 December	4,040.7	(951.7)	3,089.0	3,908.6	(993.2)	2,915.4
Claims reported and loss adjustment expenses	1,171.2	(231.9)	939.3	1,056.3	(219.4)	836.9
Claims incurred but not reported	2,869.5	(719.8)	2,149.7	2,852.3	(773.8)	2,078.5
Balance at 31 December	4,040.7	(951.7)	3,089.0	3,908.6	(993.2)	2,915.4

b) *Unearned premiums reserve*

	2018			2017		
	Gross \$m	Reinsurance \$m	Net \$m	Gross \$m	Reinsurance \$m	Net \$m
Balance at 1 January	1,259.2	(237.9)	1,021.3	1,140.8	(228.2)	912.6
Increase in the year	2,615.3	(375.6)	2,239.7	2,343.8	(375.4)	1,968.4
Release in the year	(2,459.0)	372.4	(2,086.6)	(2,225.4)	365.7	(1,859.7)
Balance at 31 December	1,415.5	(241.1)	1,174.4	1,259.2	(237.9)	1,021.3

24 Insurance liabilities and reinsurance assets *continued*

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 also commissions an annual independent review to ensure that the reserves established are reasonable or within a reasonable range.

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

Actuarial assumptions

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

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

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

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

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

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

Where significant large losses impact an underwriting year (e.g. the events of 11 September 2001, the hurricanes in 2004, 2005, 2008, 2012, 2017 and 2018 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.

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

b) Major assumptions

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

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

c) Changes in assumptions

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



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.

d) Claims reserve strength analysis

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

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

Since year end 2004, we have identified a range of possible outcomes for each class and underwriting year combination directly from our internal model (previously our individual capital assessment (ICA)) process. Comparing these with our pricing assumptions and reserving estimates gives our management team increased 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 five segments – marine, political, accident & contingency, property, reinsurance and specialty lines. The tables are by underwriting year which in our view provides the most transparent reserving basis. We have supplied tables for both ultimate gross claims and ultimate net claims.

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

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of these financial statements are cautioned against extrapolating past redundancies or deficiencies on current claims liabilities. The group believes that the estimate of total claims liabilities as at 31 December 2018 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	2008 ae %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %
Marine											
12 months		54.2	50.4	54.6	55.9	56.5	57.5	56.7	59.5	68.1	61.9
24 months		50.8	49.7	47.3	46.3	52.0	46.8	54.0	70.4	62.6	
36 months		44.0	44.0	38.9	34.7	44.4	47.1	47.3	65.6		
48 months		40.5	42.3	33.6	32.2	42.8	46.6	45.4			
60 months		40.2	40.3	35.3	31.4	42.1	55.5				
72 months		48.5	40.1	31.6	30.6	41.5					
84 months		47.7	42.1	30.8	29.9						
96 months		49.0	40.6	29.3							
108 months		48.9	41.0								
120 months		40.2									
Political, accident & contingency											
12 months		58.4	57.7	57.5	60.0	59.2	59.2	59.8	61.3	57.9	59.1
24 months		43.4	44.7	44.5	54.4	49.4	51.2	58.8	54.3	49.3	
36 months		37.9	39.0	44.1	51.3	45.0	46.9	57.0	49.3		
48 months		33.7	32.4	39.3	48.9	43.9	50.1	57.7			
60 months		29.3	31.5	37.5	45.8	46.0	51.5				
72 months		24.9	30.3	35.4	45.1	45.8					
84 months		25.1	29.3	35.0	44.2						
96 months		25.1	29.5	35.1							
108 months		25.3	27.4								
120 months		24.8									
Property											
12 months		53.6	57.7	58.1	55.4	55.1	53.2	55.0	58.9	72.5	63.4
24 months		41.5	60.3	50.3	47.4	49.1	47.7	49.0	68.4	88.7	
36 months		36.3	58.3	47.7	39.7	45.7	41.3	45.9	71.3		
48 months		35.1	55.6	46.0	36.6	45.7	40.6	44.8			
60 months		34.1	52.9	45.1	36.1	45.6	39.7				
72 months		33.1	51.9	43.9	35.5	47.3					
84 months		32.5	51.0	43.4	35.4						
96 months		32.1	50.8	43.1							
108 months		31.9	50.7								
120 months		31.8									

Notes to the financial statements *continued*24 Insurance liabilities and reinsurance assets *continued*

	2008 ae	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
Gross ultimate claims	%	%	%	%	%	%	%	%	%	%	%	
Reinsurance												
12 months		60.7	68.0	79.1	62.9	59.1	61.5	65.8	66.8	124.6	95.3	
24 months		48.1	140.7	77.7	37.5	45.3	33.6	33.7	41.4	117.3		
36 months		40.0	127.4	69.5	32.1	42.7	31.0	25.7	40.3			
48 months		39.4	119.7	65.7	31.2	41.4	27.8	25.5				
60 months		35.2	123.1	62.9	31.2	38.4	27.6					
72 months		32.4	121.8	62.7	31.0	38.1						
84 months		31.7	121.8	57.9	31.0							
96 months		31.8	120.8	58.0								
108 months		31.6	118.6									
120 months		31.0										
Specialty lines												
12 months		72.5	73.7	75.4	73.9	73.4	68.5	67.4	65.3	63.1	65.7	
24 months		72.4	73.8	75.5	74.0	73.2	68.4	67.8	65.1	63.2		
36 months		71.6	72.8	76.5	72.1	72.9	65.0	64.6	62.1			
48 months		71.3	73.3	75.5	70.2	69.3	63.4	62.0				
60 months		71.6	69.6	74.2	67.3	65.4	63.6					
72 months		68.7	69.7	69.4	65.8	62.7						
84 months		69.8	69.4	68.2	65.1							
96 months		70.4	66.3	67.8								
108 months		69.1	63.5									
120 months		69.2										
Total												
12 months		62.8	64.4	67.2	64.6	63.8	62.2	62.7	63.3	70.5	67.0	
24 months		56.9	71.3	62.7	58.2	59.3	55.8	58.4	62.9	71.2		
36 months		53.0	67.3	60.4	53.2	56.4	52.5	54.5	60.6			
48 months		51.6	65.2	57.8	51.0	54.4	51.5	52.4				
60 months		50.7	63.0	56.9	49.1	52.5	52.7					
72 months		49.8	62.5	53.7	48.1	51.6						
84 months		49.9	62.4	52.5	47.4							
96 months		50.3	60.8	52.2								
108 months		49.7	59.7									
120 months		48.7										
Estimated total ultimate losses (\$m)	6,508.5	1,003.0	1,232.5	997.5	942.9	1,115.4	1,218.8	1,265.5	1,570.8	2,000.1	1,834.2	19,689.2
Less paid claims (\$m)	(6,262.5)	(900.9)	(1,153.9)	(888.1)	(823.7)	(909.1)	(882.2)	(791.5)	(728.4)	(641.2)	(126.6)	(14,108.1)
Less unearned portion of ultimate losses (\$m)	-	-	-	-	-	-	-	-	-	(35.3)	(738.8)	(774.1)
Gross claims liabilities (100% level) (\$m)												
	246.0	102.1	78.6	109.4	119.2	206.3	336.6	474.0	842.4	1,323.6	968.8	4,807.0
Less non-group share (\$m)	(43.3)	(15.3)	(14.3)	(19.8)	(21.4)	(35.0)	(55.1)	(79.8)	(121.7)	(206.9)	(153.7)	(766.3)
Gross claims liabilities, group share (\$m)												
	202.7	86.8	64.3	89.6	97.8	171.3	281.5	394.2	720.7	1,116.7	815.1	4,040.7

24 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2008 ae %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %
Marine											
12 months		53.1	52.0	55.5	55.4	56.1	56.4	56.7	56.7	57.6	59.4
24 months		47.5	49.2	47.5	46.0	53.2	48.4	52.5	62.6	61.7	
36 months		38.7	44.7	38.5	37.4	47.5	46.5	47.1	61.7		
48 months		35.0	42.6	34.3	35.0	45.9	45.5	46.7			
60 months		34.8	41.0	35.4	33.9	45.3	46.7				
72 months		38.4	40.0	32.1	33.2	44.7					
84 months		37.7	42.2	31.2	32.8						
96 months		37.0	40.6	30.1							
108 months		36.8	41.1								
120 months		32.7									
Political, accident & contingency											
12 months		56.4	54.4	54.8	58.6	58.6	56.9	57.5	60.2	56.9	58.3
24 months		41.5	43.6	45.1	52.5	50.9	49.8	56.1	53.2	48.6	
36 months		36.5	39.6	45.4	49.9	47.4	44.9	55.2	49.7		
48 months		33.6	33.2	42.1	46.9	44.8	49.9	54.6			
60 months		29.7	32.3	40.1	43.7	45.3	50.3				
72 months		26.1	31.1	38.0	42.9	45.5					
84 months		26.3	29.6	37.4	42.4						
96 months		26.3	30.2	37.5							
108 months		26.4	28.2								
120 months		26.1									
Property											
12 months		53.3	58.8	60.2	58.6	56.7	54.5	55.0	57.6	76.5	64.5
24 months		47.2	64.9	57.6	52.9	56.3	51.1	50.2	69.6	93.9	
36 months		43.6	65.6	53.5	45.9	52.2	44.2	46.8	71.4		
48 months		41.4	59.7	50.3	41.2	50.1	42.8	44.7			
60 months		40.8	57.5	48.9	40.6	49.9	41.9				
72 months		39.5	56.5	47.8	40.2	51.6					
84 months		39.0	56.0	47.5	39.9						
96 months		38.8	55.7	47.3							
108 months		38.6	55.7								
120 months		38.5									

Notes to the financial statements *continued*24 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2008 ae %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %
Reinsurance											
12 months		55.5	76.7	89.9	67.0	57.1	58.9	61.4	60.3	107.0	84.5
24 months		52.7	124.6	87.9	45.5	52.0	37.5	34.1	38.6	93.6	
36 months		46.9	114.8	80.2	39.1	48.6	33.6	24.2	38.0		
48 months		46.1	108.7	74.7	37.7	47.1	30.7	24.0			
60 months		41.3	118.5	72.4	37.7	43.5	30.5				
72 months		38.0	112.6	72.3	37.4	43.2					
84 months		37.2	112.6	67.1	37.5						
96 months		37.2	112.1	67.1							
108 months		37.0	108.9								
120 months		36.3									
Specialty lines											
12 months		69.5	70.9	72.4	71.0	69.5	66.0	63.6	62.9	61.4	63.5
24 months		69.3	71.0	72.4	70.6	69.0	65.9	63.9	62.8	61.6	
36 months		68.7	70.5	71.7	68.7	68.5	63.6	60.8	59.0		
48 months		65.8	69.5	69.6	65.8	63.5	60.4	55.6			
60 months		65.8	68.9	70.1	63.9	59.7	60.5				
72 months		64.9	69.0	68.9	63.2	57.8					
84 months		65.5	68.9	67.8	62.8						
96 months		65.4	66.5	67.5							
108 months		64.6	63.7								
120 months		64.3									
Total											
12 months		60.5	64.2	67.0	64.0	62.2	60.7	60.1	60.7	66.2	64.2
24 months		56.5	68.3	63.6	58.3	60.2	56.1	56.5	61.0	68.1	
36 months		52.8	65.9	60.1	53.7	57.4	52.5	52.7	58.8		
48 months		50.3	62.8	57.0	50.7	54.2	50.9	49.8			
60 months		49.3	62.8	56.7	49.3	52.1	51.1				
72 months		48.6	61.7	55.1	48.6	51.5					
84 months		48.5	61.7	53.9	48.3						
96 months		48.3	60.4	53.5							
108 months		47.9	58.8								
120 months		47.0									
Estimated total ultimate losses (\$m)	4,456.5	759.5	1,011.3	857.1	819.7	945.7	1,008.1	1,018.3	1,273.5	1,616.1	1,516.3 15,282.1
Less paid claims (\$m)	(4,298.6)	(698.4)	(949.0)	(769.7)	(716.8)	(775.6)	(752.8)	(661.5)	(629.1)	(550.7)	(132.5)(10,934.7)
Less unearned portion of ultimate losses (\$m)	-	-	-	-	-	-	-	-	-	(33.0)	(644.2) (677.2)
Net claims liabilities (100% level) (\$m)	157.9	61.1	62.3	87.4	102.9	170.1	255.3	356.8	644.4	1,032.4	739.6 3,670.2
Less non-group share (\$m)	(28.6)	(9.0)	(11.5)	(15.7)	(17.3)	(29.0)	(39.4)	(59.1)	(93.8)	(160.9)	(116.9) (581.2)
Net claims liabilities, group share (\$m)	129.3	52.1	50.8	71.7	85.6	141.1	215.9	297.7	550.6	871.5	622.7 3,089.0

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 2018 for each underwriting year.

Marine

There have been reserve releases in the energy book in the 2009 underwriting year following the improvement of a specific claim. The 2010 and 2014 underwriting years have been impacted by specific claims in energy and hull respectively. The 2018 underwriting year has been opened higher than previous years to allow for the recent increased claims activity.

Political, accident & contingency

The 2017 underwriting year has reduced supported by benign claims activity on the terrorism book, and a number of older years of the political risks account have contributed small claims recoveries.

Property

Minor releases have been seen on a number of underwriting years, with one claim on the commercial property book leading to a small strengthening in 2013. The recent years have been significantly impacted by higher attritional claims, as well as some strengthening on the 2017 catastrophe estimates during the year.

Reinsurance

The 2017 underwriting year is showing improvement generated by redundancy in the 2017 catastrophe estimates.

Specialty lines

Releases have been made from underwriting years as they mature and claims crystallise. The more recent years have also benefited from the release of cyber catastrophe margin. The most recent underwriting year has been opened slightly higher in order to maintain margin.

Notes to the financial statements *continued***24 Insurance liabilities and reinsurance assets** *continued***Claim releases**

The table below analyses our net claims between current year claims and adjustments to prior year net claims reserves. These have been broken down by segment and underwriting year. Beazley's reserving policy is to maintain catastrophe reserve margins either until the end of the exposure period or until catastrophe events occur. Therefore margins have been released from prior year reserves where risks have expired during 2018.

Reserve releases during the year totalled \$115.0m (2017: \$203.9m). The net of reinsurance estimates of ultimate claims costs on the 2016 and prior underwriting years have improved by \$133.5m during 2018, while 2017 underwriting year strengthened by \$18.5m driven by the deterioration of catastrophe and attritional claims in our property division.

The movements shown on 2015 and earlier are absolute claim movements and are not impacted by any current year movements in premium on those underwriting years.

	Marine \$m	Political, accident & contingency \$m	Property \$m	Reinsurance \$m	Specialty lines \$m	Total \$m
2018						
Current year	146.5	105.0	242.1	121.5	727.7	1,342.8
Prior year						
– 2015 underwriting year and earlier	(11.6)	0.4	(2.9)	(5.2)	(88.4)	(107.7)
– 2016 underwriting year	(2.2)	(7.9)	7.4	(0.7)	(22.4)	(25.8)
– 2017 underwriting year	1.3	(7.3)	42.8	(17.9)	(0.4)	18.5
	(12.5)	(14.8)	47.3	(23.8)	(111.2)	(115.0)
Net insurance claims	134.0	90.2	289.4	97.7	616.5	1,227.8
	Marine \$m	Political, accident & contingency \$m	Property \$m	Reinsurance \$m	Specialty lines \$m	Total \$m
2017						
Current year	135.4	100.1	264.8	152.2	627.1	1,279.6
Prior year						
– 2014 underwriting year and earlier	(5.8)	5.8	(6.3)	(16.1)	(91.1)	(113.5)
– 2015 underwriting year	(9.3)	(3.5)	(9.1)	(12.6)	(30.5)	(65.0)
– 2016 underwriting year	4.4	(6.2)	2.2	(26.0)	0.2	(25.4)
	(10.7)	(3.9)	(13.2)	(54.7)	(121.4)	(203.9)
Net insurance claims	124.7	96.2	251.6	97.5	505.7	1,075.7

25 Borrowings

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

	Subordinated debt \$m	Tier 2 subordinated debt \$m	Retail bond \$m	Total \$m
Carrying value				
Balance at 1 January 2018	18.0	248.5	99.5	366.0
Interest expensed	1.0	14.7	5.4	21.1
Interest paid	(1.0)	(14.7)	(5.4)	(21.1)
Debt redemption	(18.0)	-	-	(18.0)
Amortisation of capitalised borrowing costs	-	0.2	0.2	0.4
Foreign exchange gain	-	-	(4.1)	(4.1)
Balance at 31 December 2018	-	248.7	95.6	344.3
Fair value				
Balance at 1 January 2018	18.0	266.6	104.1	388.7
Change in fair value	(18.0)	(17.2)	(5.9)	(41.1)
Balance at 31 December 2018	-	249.4	98.2	347.6

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

In November 2004, the group issued subordinated debt of \$18m to JPMorgan Chase Bank, N.A., JPMorgan. The loan is unsecured and interest is payable at the USD London interbank offered rate (LIBOR) plus a margin of 3.65% per annum. In October 2018, the group exercised its call option and redeemed the full nominal amount of debt of \$18.0m on 26 November 2018. Please refer to note 8 for further detail on debt buyback.

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

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

In addition to these borrowings we operate a syndicated short term banking facility, managed through Lloyds Banking Group plc. In July 2017 we renewed our syndicated short term banking facility led by Lloyds Banking Group plc. The facility provides potential borrowings up to \$225m. The agreement is based on a commitment fee of 0.385% per annum and any amounts drawn are charged at a margin of 1.1% per annum. The cash element of the facility will last for three years, expiring on 31 July 2019, whilst letters of credit issued under the facility can be used to provide support for the 2017, 2018 and 2019 underwriting years. The facility is currently unutilised.

26 Other payables

	2018 \$m	2017 \$m
Group		
Reinsurance premiums payable	183.8	182.8
Accrued expenses including staff bonuses	138.3	165.7
Other payables	48.4	100.1
Deferred consideration payable on acquisition of MGAs	-	0.3
Due to syndicate 623	5.0	-
Due to syndicate 6107	65.1	52.2
Due to syndicate 6050	0.4	11.4
Due to syndicate 5623	1.6	-
	442.6	512.5
Company		
Other payables	6.0	0.4
	6.0	0.4

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

Notes to the financial statements *continued*

27 Retirement benefit obligations

	2018 \$m	2017 \$m
Present value of funded obligations	47.0	55.9
Fair value of plan assets	(44.6)	(53.6)
Retirement benefit liability in the statement of financial position	2.4	2.3
Amounts recognised in the statement of profit or loss		
Interest cost	1.3	1.4
Expected return on plan assets	(1.3)	(1.3)
	-	0.1

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

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

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

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

Contributions to the scheme are determined by a qualified actuary using the projected unit credit method as set out in the scheme rules and the most recent valuation was at 31 December 2018. According to the Schedule of Contributions, the group expects to contribute approximately \$1.3m in each of the next two years.

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.

	2018 \$m	2017 \$m
Movement in present value of funded obligations recognised in the statement of financial position		
Balance at 1 January	55.9	48.2
Interest cost	1.3	1.4
Actuarial (gain)/loss	(6.8)	4.2
Benefits paid	(1.1)	(0.4)
Foreign exchange (gain)/loss	(2.3)	2.5
Balance at 31 December	47.0	55.9

27 Retirement benefit obligations *continued*

	2018 \$m	2017 \$m
Movement in fair value of plan assets recognised in the statement of financial position		
Balance at 1 January	53.6	42.0
Expected return on plan assets	1.3	1.3
Actuarial (loss)/gain	(8.0)	4.2
Employer contributions	1.0	4.4
Benefits paid	(1.1)	(0.4)
Foreign exchange (loss)/gain	(2.2)	2.1
Balance at 31 December	44.6	53.6
Plan assets are comprised as follows:		
Equities	44.4	34.5
Bonds	-	8.6
Cash	0.2	3.4
UCITS funds	-	7.1
Total	44.6	53.6

The actual loss on plan assets was \$6.8m (2017: gain of \$5.5m).

	2018 \$m	2017 \$m
Principal actuarial assumptions		
Discount rate	2.8%	2.4%
Inflation rate	3.5%	3.4%
Expected return on plan assets	2.8%	2.4%
Future salary increases	3.5%	3.4%
Future pensions increases	3.0%	3.3%
Life expectancy for members aged 60 at 31 December	90 years	90 years
Life expectancy for members aged 40 at 31 December	93 years	93 years

At 31 December 2018, the weighted-average duration of the defined benefit obligation was 8.8 years (2017: 9.7 years).

Sensitivity analyses

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

	Increase \$m	Decrease \$m
31 December 2018		
Discount rate (0.5% decrease)	6.0	-
Inflation rate (0.3% decrease)	-	(2.2)
Future salary changes (0.5% decrease)	-	(0.5)
Life expectancy (1 year increase)	1.6	-
31 December 2017		
Discount rate (0.5% decrease)	7.7	-
Inflation rate (0.3% decrease)	-	(1.1)
Future salary changes (0.5% decrease)	-	(0.7)
Life expectancy (1 year increase)	2.0	-

Notes to the financial statements *continued*

28 Deferred tax

	2018 \$m	2017 \$m
Deferred tax asset	28.9	6.9
Deferred tax liability	(9.1)	(9.9)
	19.8	(3.0)

The movement in the net deferred income tax is as follows:

Balance at 1 January	(3.0)	(1.8)
Income tax charge	18.8	(3.2)
Amounts recorded through equity	4.2	2.2
Foreign exchange translation differences	(0.2)	(0.2)
Balance at 31 December	19.8	(3.0)

	Balance 1 Jan 18 \$m	Recognised in income \$m	Recognised in equity \$m	FX translation differences \$m	Balance 31 Dec 18 \$m
Plant and equipment	0.3	(0.2)	–	–	0.1
Intangible assets	(1.1)	(1.0)	–	–	(2.1)
Underwriting profits	(16.7)	14.8	–	–	(1.9)
Deferred acquisition costs	6.8	(9.3)	–	–	(2.5)
Tax losses carried forward	–	10.0	–	–	10.0
Share based payments	9.6	0.2	4.2	(0.1)	13.9
Other	(1.9)	4.3	–	(0.1)	2.3
Net deferred income tax account	(3.0)	18.8	4.2	(0.2)	19.8

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

The group has tax adjusted losses carried forward giving rise to a deferred tax asset of \$1.2m, measured at the UK corporation tax rate of 17%. The deferred tax asset has not been recognised on the group statement of financial position in the current year as losses are not expected to be utilised in the foreseeable future based on the current taxable profit estimates and forecasts of the underlying entity in question.

29 Operating lease commitments

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

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

	2018 \$m	2017 \$m
No later than one year	9.8	10.3
Later than one year and no later than five years	16.6	26.9
Later than five years	6.5	8.5
	32.9	45.7

30 Related party transactions

The group and company have related party relationships with syndicates 623, 6107, 6050, 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:

	2018 \$m	2017 \$m
Written premium ceded to syndicates	65.0	66.1
Other income received from syndicates	29.0	35.7
Services provided	36.3	38.6
Balances due:		
Due (to)/from syndicate 623	(5.0)	30.6
Due to syndicate 6107	(65.1)	(52.2)
Due to syndicate 6050	(0.4)	(11.4)
Due to syndicate 5623	(1.6)	–

30.2 Key management compensation

	2018 \$m	2017 \$m
Salaries and other short term benefits	11.8	16.4
Post-employment benefits	0.5	0.6
Share based remuneration	5.9	9.8
	18.2	26.8

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 8.4m. 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 101 to 120.

30.3 Other related party transactions

At 31 December 2018, the group had purchased services from the associate of \$2.3m (2017: \$2.5m) throughout the year. All transactions with the associate and subsidiaries are priced on an arm's length basis.

Notes to the financial statements *continued***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 2018:

	Country of incorporation	Ownership interest	Nature of business	Functional currency	Beazley plc direct investment in subsidiary (\$m)
Beazley Ireland Holdings plc	Jersey	100%	Intermediate holding company	USD	724.6
Beazley Group Limited	England	100%	Intermediate holding company	USD	
Beazley Furlonge Holdings Limited	England	100%	Intermediate holding company	USD	
Beazley Furlonge Limited	England	100%	Lloyd's underwriting agents	GBP	
Beazley Investments Limited	England	100%	Investment company	USD	
Beazley Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Management Limited	England	100%	Intermediate management company	GBP	
Beazley Staff Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Solutions Limited	England	100%	Insurance services	GBP	
Beazley Underwriting Services Limited	England	100%	Insurance services	GBP	
Beazley 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	USD	
Beazley Underwriting Pty Ltd	Australia	100%	Insurance services	AUD	
Beazley USA Services, Inc.*	USA	100%	Insurance services	USD	
Beazley Holdings, Inc.*	USA	100%	Holding company	USD	
Beazley Group (USA) General Partnership**	USA	100%	General partnership	USD	
Beazley Insurance Company, Inc.***	USA	100%	Underwriting admitted lines	USD	
Beazley America Insurance Company, Inc.***	USA	100%	Underwriting admitted lines	USD	
Lodestone Securities LLC****	USA	100%	Consultancy services	USD	
Beazley Limited	Hong Kong	100%	Insurance services	HKD	
Beazley Pte. Limited	Singapore	100%	Underwriting at Lloyd's	SGD	
					724.6

Please see page 197 for registered addresses.

31 Parent company and subsidiary undertakings *continued*

The following is a list of group registered office locations:

Address	City	Postcode	Country
United Kingdom and Continental Europe			
60 Great Tower Street	London	EC3R 5AD	England
2 Northwood Avenue	Dublin	D09 X5N9	Ireland
22 Grenville Street	Saint Helier	JE4 8PX	Jersey
North America			
1209 Orange Street*	Wilmington, Delaware	19801	USA
2711 Centerville Road Suite 400**	Wilmington, Delaware	19808	USA
30 Batterson Park Road***	Farmington, Connecticut	06032	USA
160 Greentree Drive, Suite 101****	Dover, Delaware	19904	USA
55 University Avenue, Suite 550	Toronto, Ontario	M5J 2HJ	Canada
Asia			
138 Market Street, 03-04 Capita Green	Singapore	048946	Singapore
36/F., Tower Two, Times Square, 1 Matheson Street, Causeway Bay	Hong Kong	-	Hong Kong
Australia			
Level 15, 1 O'Connell Street	Sydney	NSW 2000	Australia

32 Contingencies

Funds at Lloyd's

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

	Underwriting year 2019 £m	Underwriting year 2018 £m	Underwriting year 2017 £m
Debt securities and other fixed income securities	720.4	733.2	656.9

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

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

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:

	2018		2017	
	Average	Year end spot	Average	Year end spot
Pound sterling	0.75	0.78	0.78	0.75
Canadian dollar	1.29	1.36	1.30	1.29
Euro	0.84	0.87	0.89	0.85

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 and investment return, are not defined under IFRS. The group is of the view that the use of these measures enhances the usefulness of the financial statements. Definitions of key APMs are included within the glossary.

A.M. Best

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

Binding authority

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

Capacity

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

Capital growth assets

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

Catastrophe reinsurance

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

Claims

Demand by an insured for indemnity under an insurance contract.

Claims ratio

Ratio, in percentage terms, of net insurance claims to net earned premiums. The calculation is performed excluding the impact of foreign exchange. In 2018, this ratio was 59% (2017: 58%). This represented total claims of \$1,227.8m (2017: \$1,075.7m) divided by net earned premiums of \$2,084.6m (2017: \$1,869.4m).

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 2018, this ratio was 98% (2017: 99%). This represents the sum of net insurance claims of \$1,227.8m (2017: \$1,075.7m), expenses for acquisition of insurance contracts of \$561.9m (2017: \$519.7m) and administrative expenses of \$250.7m (2017: \$254.7m) to net earned premiums of \$2,084.6m (2017: \$1,869.4m). This is also the sum of the expense ratio 39% (2017: 41%) and the claims ratio 59% (2017: 58%).

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 2018, the expense ratio was 39% (2017: 41%). This represents the sum of expenses for acquisition of insurance contracts of \$561.9m (2017: \$519.7m) and administrative expenses of \$250.7m (2017: \$254.7m) to earned premiums of \$2,084.6m (2017: \$1,869.4m).

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.

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 2018, this was calculated as net investment income of \$41.1m (2017: \$138.3m) divided by average financial assets at fair value, including cash, of \$4,971.4m (2017: \$4,796.4m).

Lead underwriter

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

Line

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

Managing agent

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

Managing general agent (MGA)

An insurance intermediary acting as an agent on behalf of an insurer.

Medium tail

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

Net assets per share

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

Net premiums written

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

Private enterprise

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

Provision for outstanding claims

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

Rate

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

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.

Glossary *continued*

Reinsurance to close (RITC)

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

Retention limits

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

Retrocessional reinsurance

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

Return on equity (ROE)

Ratio, in percentage terms, calculated by dividing the consolidated profit after tax by the average daily total equity. In 2018, this was calculated as profit after tax of \$68.2m (2017: \$130.0m) divided by average equity of \$1,444.8m (2017: \$1,429.5m).

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

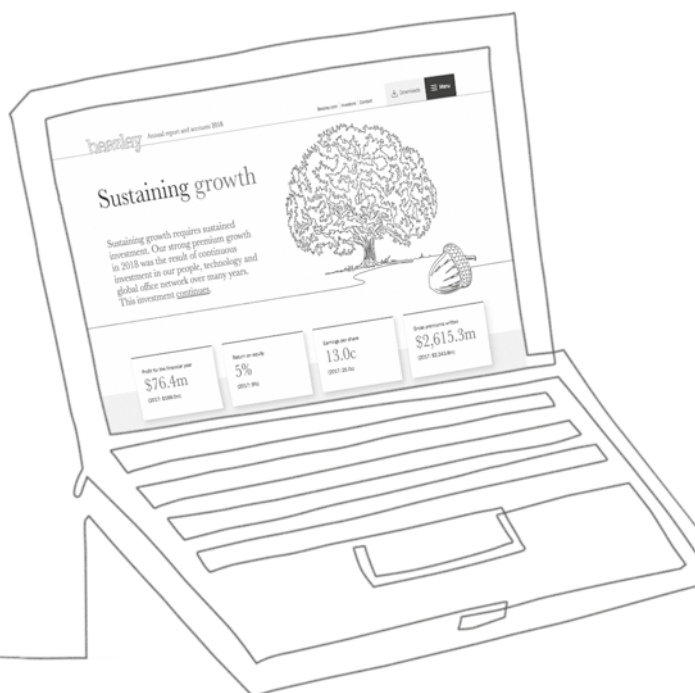
A reinsurance contract under which the reinsurer agrees to offer and to accept all risks of a certain size within a defined class.

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.

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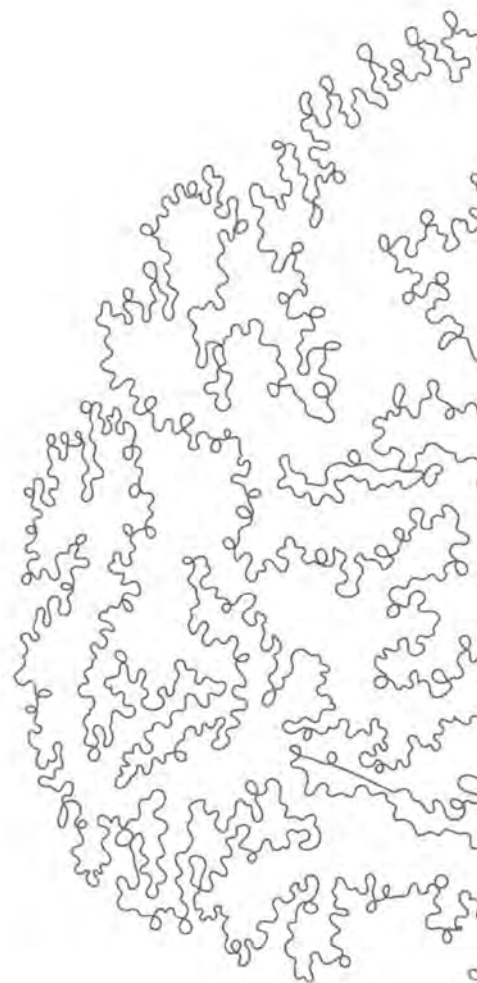
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