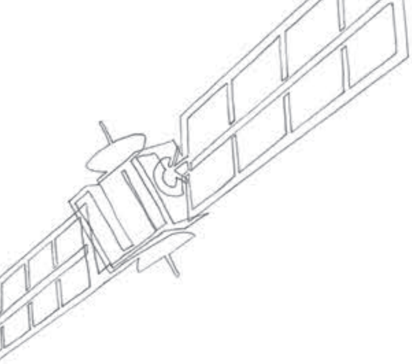
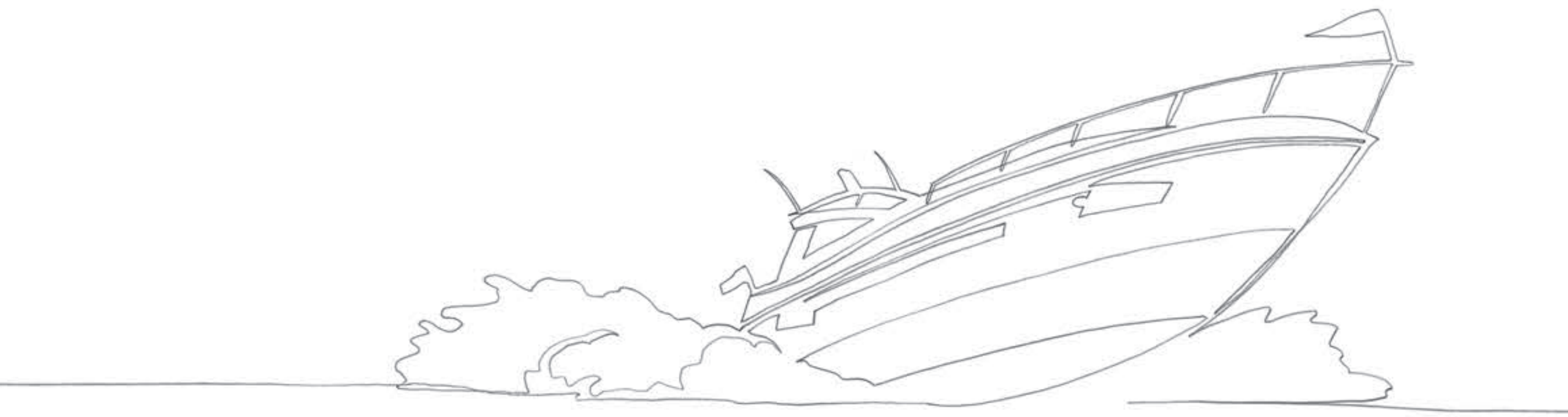


Beazley plc | Annual report and accounts 2015

Charting our course



Charting our course

Charting the right course in today's insurance market is becoming increasingly challenging. In 2015, the course charted by Beazley enabled the company to grow while continuing to generate strong profits for shareholders.

Part of our growth derived from new products, two of which are referenced in our cover illustration. We began underwriting satellite insurance in 2014 and insurance for pleasure craft in 2015.

Profit before income tax
$284.0m
(2014: $261.9m)
Find out more on page 113

Combined ratio
87%
(2014: 89%)
Find out more on page 140

Return on equity
19%
(2014: 17%)

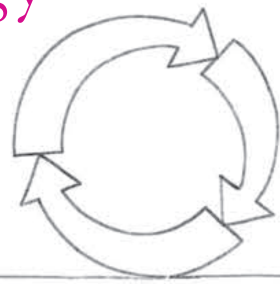
Strategic report

Governance

Financial statements

Please turn overleaf for our business model and strategy, and our key performance indicators

Our business model and strategy



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
- We transact business through brokers and work with selected managing general agencies and managing general underwriters to improve distribution in specialist niches

Our strategy

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

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

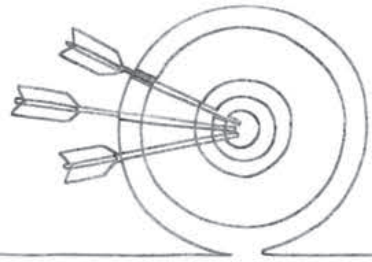
Risks

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

Our approach to managing these and other risks is described in detail on page 52

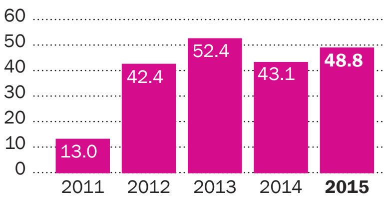
Our key performance indicators



KPIs

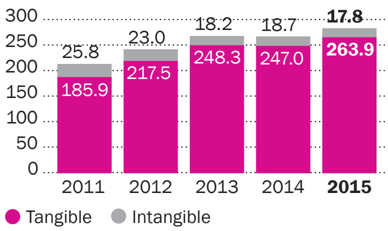
Financial highlights

Earnings per share (c)



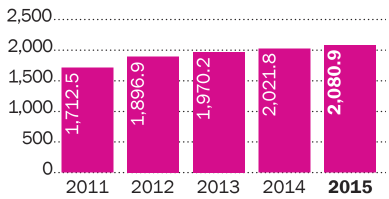
EPS is at 1.1x total dividend cover for 2015.

Net assets per share (c)



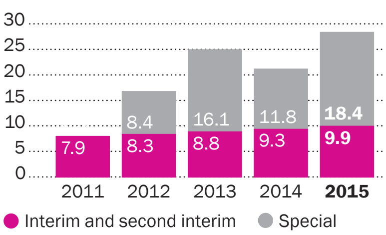
Net assets per share growth reflective of increased profit after tax.

Gross premiums written ($m)



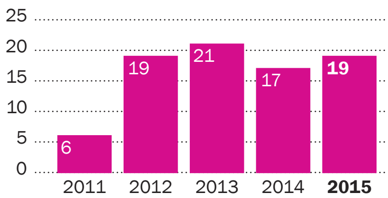
Growth of 3% in 2015 and 22% since 2011.

Dividends per share (p)



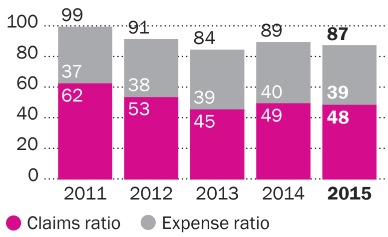
The second interim dividend in 2015 is in line with our dividend strategy and has grown by 6%. In addition we are paying a special dividend of 18.4p.

Return on equity (%)



Cumulative five year return on equity of 82%.

Combined ratio (%)



Our combined ratio has averaged 90% over five years.

Find out more on page 112

Our key differentiators

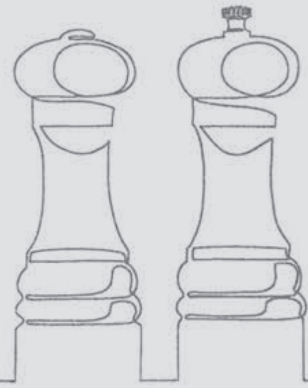
We seek to differentiate ourselves from our competitors in three key ways, all of which are important value drivers for Beazley.

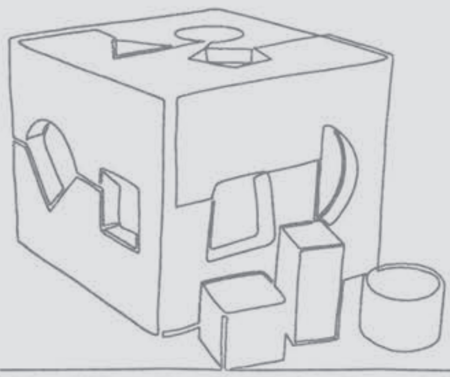
Entrepreneurial spirit

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

Strong partnerships

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





Diversified business

We target a balanced portfolio spanning specialist classes driven by different cycles.

Entrepreneurial spirit

Corporate culture matters. Our open, collegial and collaborative culture means our clients and brokers interact with entrepreneurial underwriters who give straight answers and make decisions quickly.

For us entrepreneurial spirit has a very specific meaning, a meaning that guides us in evaluating new hires to our underwriting teams around the world. We look for individuals who have a strong sense of ownership for the business that they underwrite and are willing – indeed keen – to be accountable for their underwriting decisions. We also look for individuals who have a broad understanding of the ways in which economic, political and social changes can impact their book.

Entrepreneurial spirit is clearly an important part of the psychology of the successful Beazley underwriter. However, a combination of specialist skills and an ability to see the bigger picture also distinguishes Beazley employees in other areas, including claims management and operations.

Many of our employees have a single focus. They possess deep expertise in a particular field and appreciate the opportunity to put it to good use. Other employees might be seen, in career terms, as 'serial entrepreneurs'. In other words they look for opportunities to work in a range of different fields – and often geographies – during their time at Beazley.

As Beazley has grown – the company's workforce has more than doubled in size since 2007 – our ability to invite high performing employees to obtain experience in different roles and geographies has also grown. On the page opposite we profile three individuals who have chosen varied career paths at Beazley.

Career pathways

Reid Jaffe

I joined Beazley in the summer of 2007 straight out of university. I was Beazley's 101st employee in the US – we're now at more than 400. My first job was with the high value homeowners team in Ponte Vedra Beach, Florida. Within two years I was given an opportunity to join the commercial property team as an underwriting assistant.

In 2009 that team of four expanded ten-fold with the acquisition of First State Management Group, a specialist excess and surplus lines (E&S) property insurer, from the Hartford. Shortly after the merger I moved to Atlanta where I was promoted to underwriter. I spent five years in Atlanta with a short stint in New York.

In 2014 I moved to San Francisco as lead underwriter for the West Coast. After a little more than a year, I returned to Atlanta – our biggest office for property insurance – as the focus group leader for E&S Property in the Southeast.

Beazley has offered me career opportunities I would never have envisaged when I joined the company fresh from college. I love the culture here – people are encouraged to ask questions, take risks, and think unconventionally.

Olivia Stafford

After 11 years working in the London insurance market – initially in underwriting but latterly in finance roles – I joined Beazley's finance department in 2006. My timing was good: Beazley has grown strongly since, supported by a £150m rights issue in 2009.

I was promoted twice, assuming in 2010 responsibility for all external financial reporting at Beazley. I am proud that Beazley has built a reputation for high quality, transparent reporting to investors.

In October 2015 I moved out of the finance department, accepting the role of head of data management. Reliable and timely data is fundamental to running an organisation such as ours and is key for decision making capability.

There are major changes taking place in the ways in which data is used by insurers. At Beazley, we are at the beginning of a journey to capture and capitalise on proprietary data, improving both our risk selection and operational capabilities. It's very exciting.

"I love the culture here – people are encouraged to ask questions, take risks, and think unconventionally."

Gavin Hayes

I joined Beazley in 2004 after eight years at another Lloyd's syndicate, where I focused mainly on D&O insurance.

At Beazley I joined the large risk E&O team. This was before we had the different sub teams we have now focusing on particular E&O lines. We all just worked on the renewals that came in, whether they be lawyers' professional indemnity, tech E&O, or architects' and engineers' professional indemnity.

In 2007 I was asked if I would join the healthcare team, which was expanding. I received great support in learning the ropes of this quite technically complex class of business and became focus group leader for the US hospitals professional liability book, then the largest in the London market. All my travel was to the US.

Meanwhile, Beazley had identified Singapore as the principal hub for the development of our business in the Asia/Pacific region. In 2014 I was approached to consider moving to Singapore to lead our strategic growth initiative there. I was unfamiliar with the market but reassured that we already had numerous locally recruited, seasoned underwriters in place.

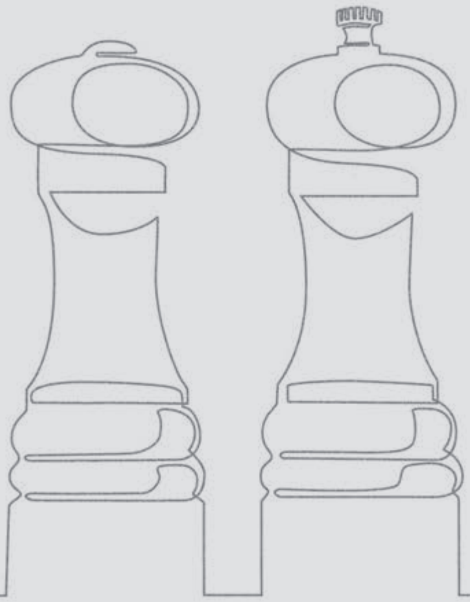
I moved to Singapore in March 2015. I now work with multiple trading teams focusing on a wide spread of the specialist business classes for which Beazley is well known globally. My role encompasses broker relations, marketing, and optimising our infrastructure to enable us to write all our target classes of business efficiently and to high service standards.

Strong partnerships

Our business is not conducted through anonymous transactions – we rely on strong relationships with both brokers and insureds. The reciprocity of these relationships matters. Strong partnerships with insureds are based on the expectation that Beazley will be prepared to provide continuity of coverage over the years.

Our insureds understand that, for us to deliver on this expectation, we need to charge a fair premium to cover the risk even if, for a time, a competitor may be willing to write the same risks for less. By adopting this approach, we have been able to provide insureds with reliable cover, year after year.

We believe that brokers add enormous value to insureds in the purchase of insurance and reinsurance in the areas in which we specialise. All of our underwriters work constantly to strengthen their personal relationships with brokers and our broker relations team, headed by Dan Jones, keeps a close watch on our corporate broker relationships. We understand that the best insurance products in the world will not realise their potential without the support and advocacy of well informed brokers.



A strong focus on service

"Many brokers tell us they love our service – the speed with which they can get a response from a Beazley underwriter, the effort we put into resolving a complex claim. Our sales and service initiative is designed to build on these foundations to strengthen our broker relationships still further."

Dan Jones
Head of broker relations

The sales and service strategic initiative was launched in the summer of 2015. On the sales side, it aims to significantly improve our ability to deliver profitable top-line growth, achieving a higher 'close rate' on opportunities and better retention rates using enhanced sales skills.

On the service side, we are targeting best in class service evaluations from our brokers across all geographies and product lines. This encompasses the service we provide to our insureds as well, because exceptional service for an insured should help the broker retain the business, even in the face of stiff price competition. Service to insureds is therefore a major component of broker service.

A strong focus on service is well suited to our specialist business. By definition, as a specialist insurer we seek lines of business that are not commoditised, where we can add value through more than keen pricing. In recent years, we have expanded the scope of our service to insureds in important ways, beyond the traditional provision of indemnity-based insurance, to provide expert risk management and incident response services.

Our broker relations team works to strengthen broker relationships globally. From left: Ricardo Ortega (Rio de Janeiro), Rachel Hallett (London), and Will Roscoe (London).

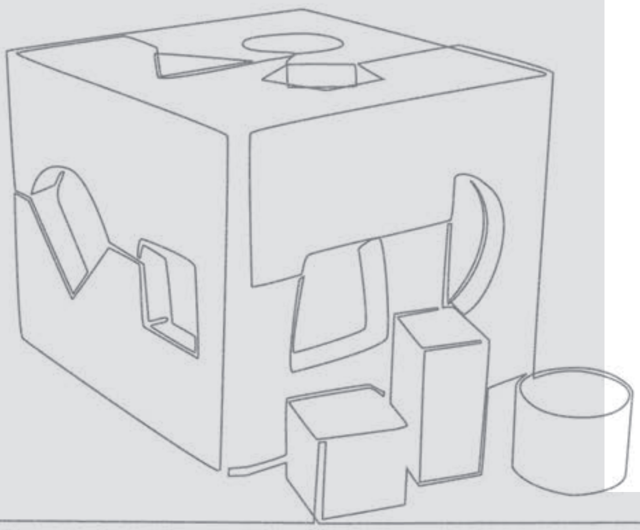
Diversified business

For our shareholders, Beazley aims to deliver sector leading returns on equity with relatively low volatility. The key to this performance over time is the balance of Beazley's portfolio across specialist classes driven by different cycles.

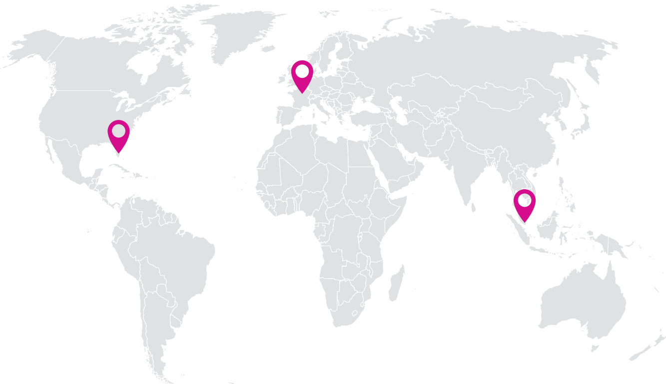
Our diversified portfolio allows us to implement efficient cycle management and to underwrite more premium and have more invested assets per dollar of capital than our peers. We assess the merits of writing a new line of business very carefully with an eye to the effect on the diversification of our portfolio.

Our approach goes well beyond diversification by line of business. We also diversify by geography and size of clients (smaller risks are often less volatile over the insurance cycle than larger risks). In addition, our business is a balance of 'short-tail', meaning that claims usually emerge within a year of the policy's inception, and 'medium-tail', which means that claims on average take up to six years to crystallise fully.

The evolution of our portfolio by line of business and the impact this diversification has had on our combined ratio over the past five years can be seen in the chart on the next page.



Growth in the global market: a tale of three cities



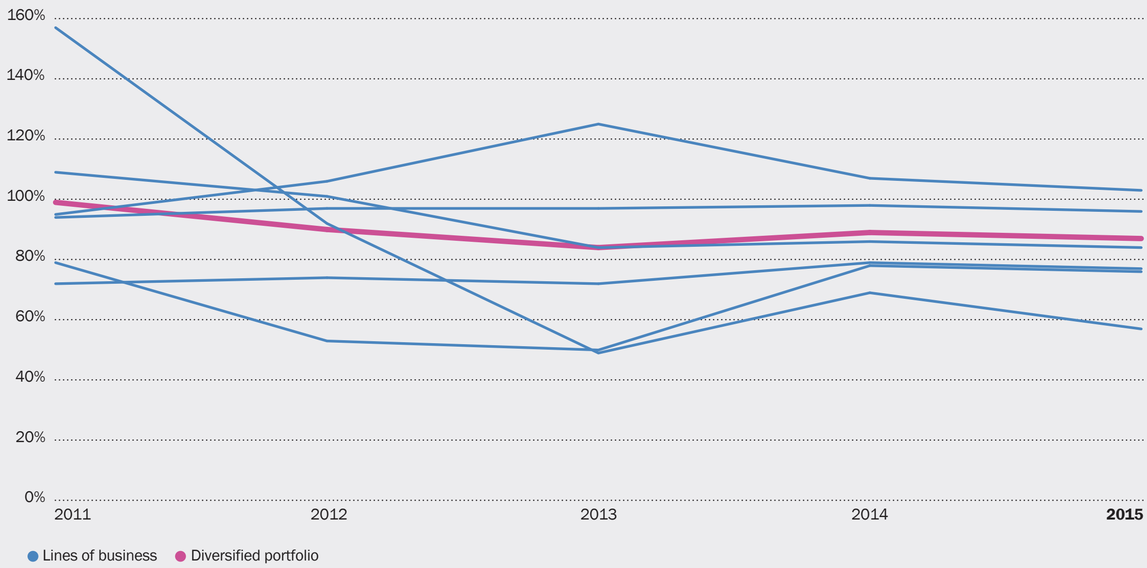
The first decision for Beazley in expanding internationally is: Can we write this business out of London? Lloyd's remains by far the world's largest and most vibrant wholesale and reinsurance market and most large risk business can readily be transacted there.

However other regional markets are growing and, particularly for smaller and less complex risks, it often makes sense to have a local underwriting presence. In Singapore, Paris and Miami, Beazley underwriters have been able to access profitable business that they would not have seen at the box at Lloyd's.

Our Singapore office opened in 2006 and Beazley is now one of a number of Lloyd's insurers writing a wide range of business lines in the region's leading insurance hub. Beazley's Paris office celebrates its tenth anniversary this year: in 2015 we continued to build our local team, recruiting French underwriters to write treaty reinsurance and small scale professional indemnity business. The newest of the three offices – Miami – opened in July 2013 and the city's strategic value as a hub for Latin American insurance and reinsurance business is becoming increasingly clear.

In these cities and in other locations around the world where Beazley has put down roots, our approach is not to make large acquisitions that present complex integration challenges. Instead we aim to hire seasoned professional underwriters who know the market well and possess strong broker relationships. It takes longer to grow this way but it is safer and, we have found, more effective in growing profitably.

Diversified portfolio achieves consistent combined ratio through market cycles



Managed gross premiums growth by division $m

Life, accident & health

With an experienced team of leading underwriters who have been together since the early 1990s, our personal accident and specialty life business is written on both an insurance and reinsurance basis and covers a number of niche classes, including sports disability. The business was acquired by Beazley in 2008 and has grown since then organically and through further acquisition.

Find out more on page 26

Marine

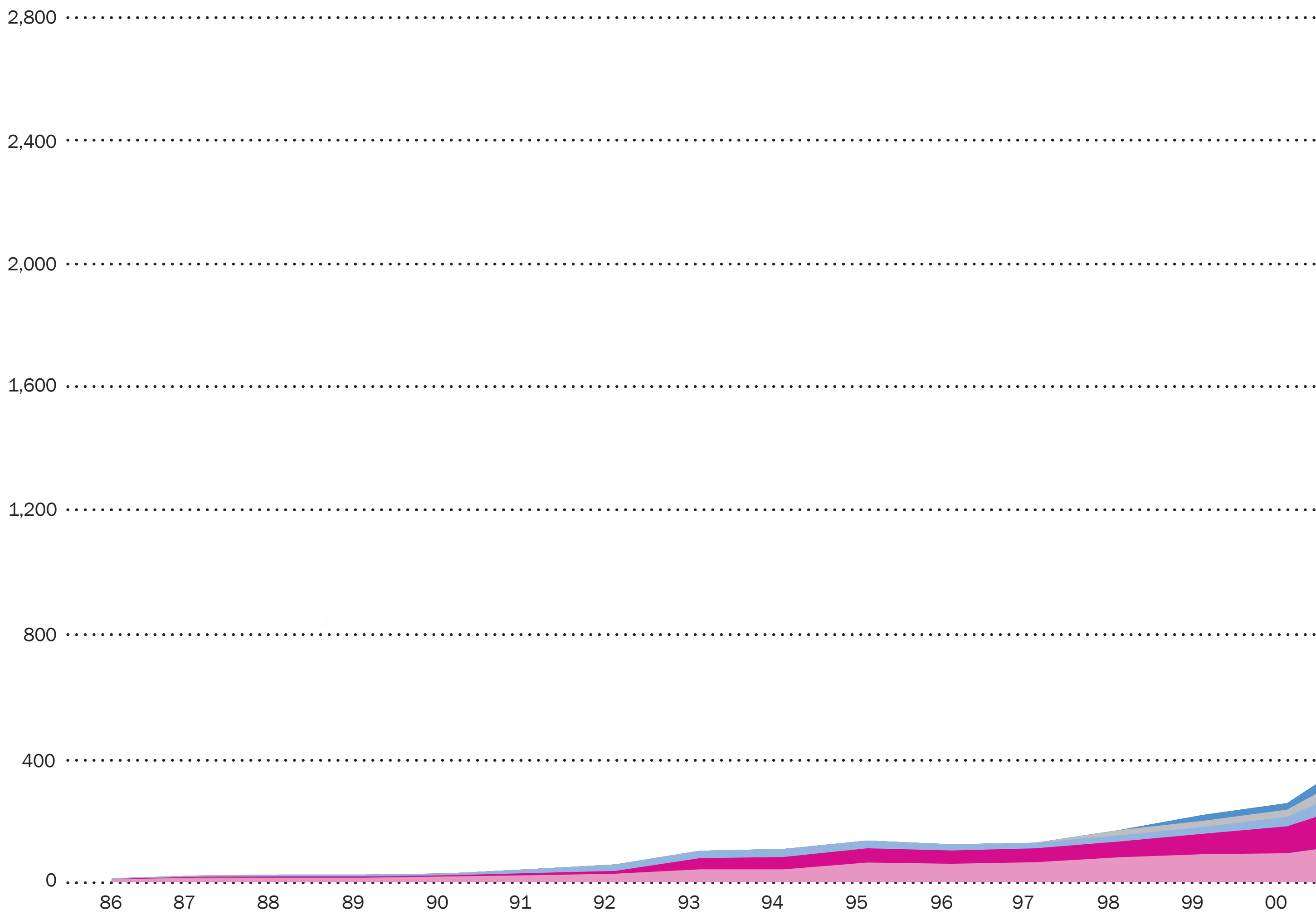
We help insure in excess of 20% of the world's ocean-going tonnage and are the pre-eminent leader of voyage and tow business in the London market. We insure 30% of the top 200 oil and gas companies and are a major lead for upstream energy clients. We have extensive experience insuring a wide variety of cargoes including project, fine art and specie.

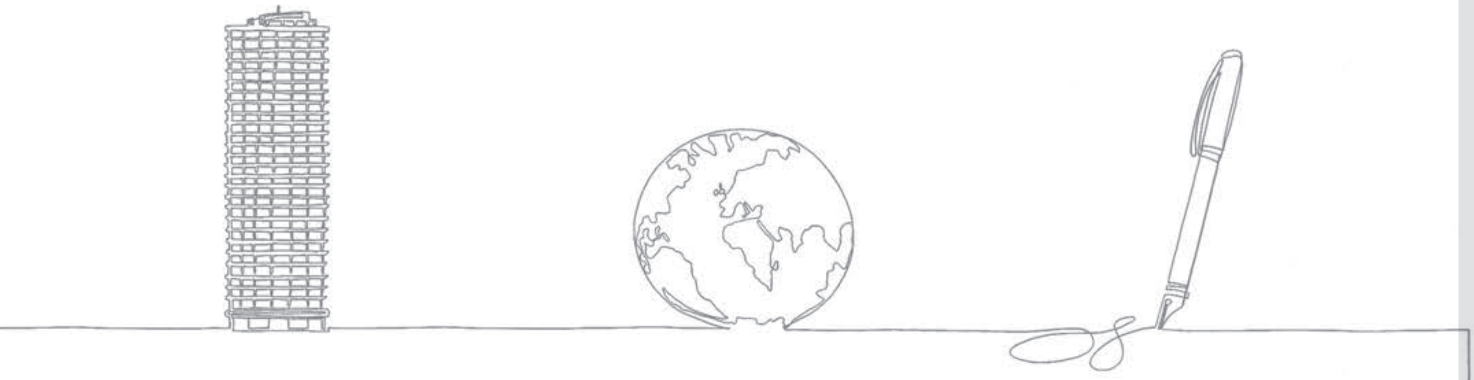
Find out more on page 28

Political risks & 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 contingency team is one of the strongest in the London market. We also specialise in event cancellation – writing everything from weddings to World Cups.

Find out more on page 30





Property

We've protected clients ranging from Fortune 1000 companies to homeowners through 23 years of natural and man-made catastrophes. We underwrite this business through three platforms; Lloyd's, the US and Singapore, with a business focus on commercial property, engineering and construction risks and select homeowners' business.

Find out more on page 32

Reinsurance

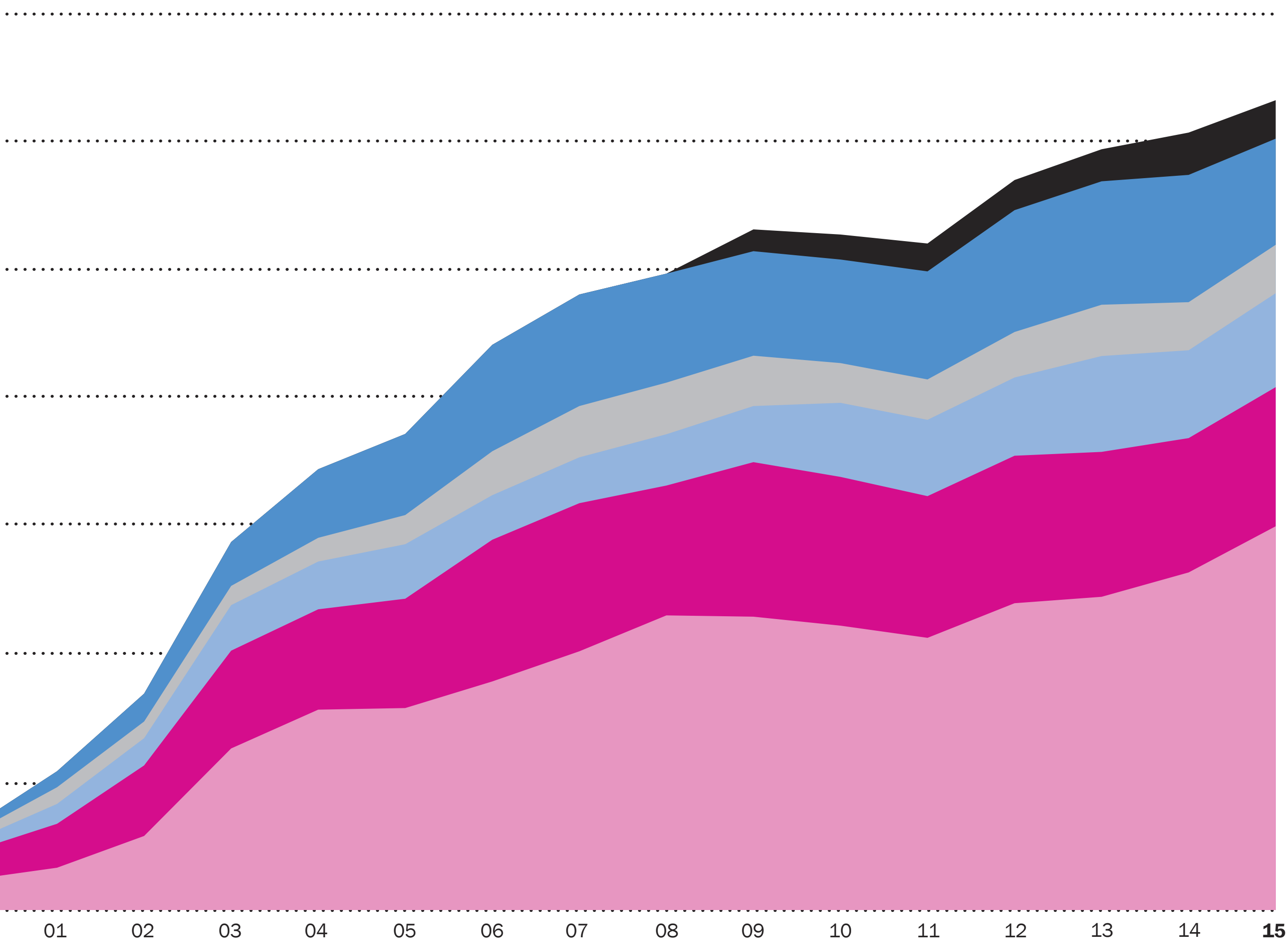
The reinsurance team specialises in writing worldwide property catastrophe; per risk; aggregate excess of loss and pro-rata business; and casualty clash. Approximately 80% of our top clients have reinsured with us for 20 years or more.

Find out more on page 34

Specialty lines

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

Find out more on page 36



The moment of truth

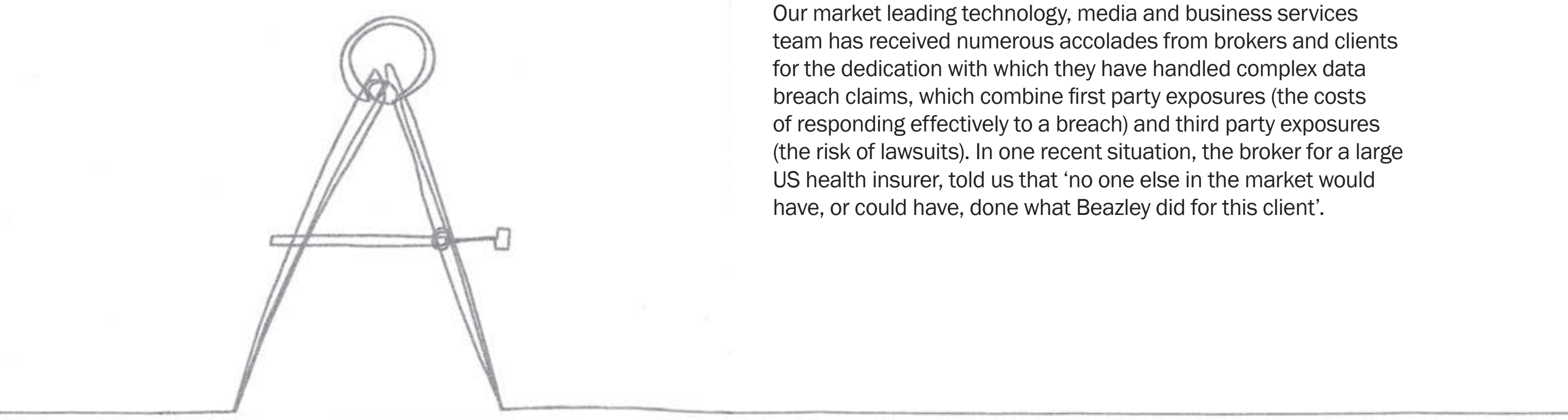
A claim is a moment of truth for both the insurer and the insured. Will the insurer possess the expertise, the capacity and the desire to resolve the claim fairly and expeditiously, supporting the insured through what may well be a stressful time?

At Beazley we believe that claims service should be a positive differentiator in carrier selection by insureds, and we know that, for us, it frequently is. Proactive claims management should also inspire confidence among shareholders and regulators, as should our prudent, timely and consistent approach to establishing claims reserves.

Our team

Beazley's claims team comprises over 120 claims managers, based in London, the United States and Australia. We organise ourselves along product lines rather than territories: we believe that this ensures a thorough understanding of the products we sell, enabling us to take a consistent and fair approach with our clients in the application of policy wordings and to support them effectively through the claims process. We currently manage open reserves of over $3bn, gross, and have around 125,000 open claims.

The claims team retains complete independence on claims decisions but a key part of our philosophy is to ensure that claims managers and underwriters work closely together. Claims managers thereby fully understand the product being sold and can ensure that the breadth of coverage intended is respected. In addition, it ensures that emerging claims trends or issues that might have an impact on the book of business beyond the individual claims themselves are flagged promptly and reflected in underwriters' rating and risk appetite. This is of particular value on longer tail business where the root causes of trends can take time to manifest themselves.



Differentiation through service

Brokers have told us they value four key service attributes: expertise, responsiveness, commerciality, and access to empowered claims managers. We focus on these and closely monitor brokers' opinions of our service.

Following us winning the 2013 Cuthbert Heath Claims team award from Insurance Insider for our handling of the New York Marathon cancellation in the wake of Superstorm Sandy, we were shortlisted again this year for our handling of claims following the Hatton Garden vault theft, the most ambitious heist in the UK since the Great Train Robbery in 1963. Our team was recognised for its ability to evaluate a complex scenario quickly and then adjust and settle the many individual claims very promptly.

Differentiation through specialism

Claims management is a multi-faceted activity for a specialist insurer with a diverse portfolio such as Beazley, and the skills and knowledge relevant to one line may not apply to another.

We hire seasoned professionals, but we also recognise the need to continue to invest in the skills of our people after they have joined Beazley. To this end, we have over the last 18 months placed an increased focus on our team members' personal development by developing a claims specific training curriculum. The result is a wide cross-section of specialists who are able to use their skills to make a real difference on claims.

For example, our healthcare claims team is relied upon by major US hospitals confronting multi-million dollar lawsuits. Our claims managers are accordingly sourced from top healthcare defence liability firms, usually possessing six to ten years of litigation experience. (The benefits that this level of expertise can confer in individual claims is illustrated in the case study, see facing page).

Our market leading technology, media and business services team has received numerous accolades from brokers and clients for the dedication with which they have handled complex data breach claims, which combine first party exposures (the costs of responding effectively to a breach) and third party exposures (the risk of lawsuits). In one recent situation, the broker for a large US health insurer, told us that 'no one else in the market would have, or could have, done what Beazley did for this client'.

Building a defence case for our clients

Our insured was a developer of solutions for electronic health records (EHR). The insured's customer, a healthcare institution, sued for breach of contract for failure to properly implement an EHR solution.

In discovery, we learned that the plaintiff had obtained significant sums from the US federal government as part of a program that incentivises the healthcare sector to implement EHR technology. During mediation, we found the customer's signed an application for these payments online and we confronted the plaintiff with this application – part of which certified to the federal government that certain EHR solutions were in place.

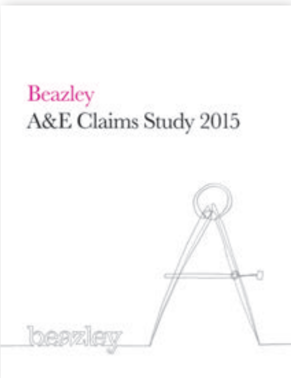
We argued that if statements in the application were true, then certain allegations against the insured could not be true. In conjunction with defence counsel were able to use the statements in the application to persuade the plaintiff to lower its settlement demand from several million dollars to the low six figures.

Beazley has successfully used the same strategy in similar claims. On one occasion our insured sued for failure to pay $1m in back fees, but was counter sued for $13m. After we showed the claimant the incompatibility of its countersuit with its application for federal dollars to implement EHR technology, the claimant dropped its suit and we ultimately negotiated a payment to our insured.

For first party insurance, such as marine insurance, different skills are required. Our marine team includes a full time marine surveyor who is a qualified engineer. By deploying our own marine engineer to the scene of a casualty we can normally respond far more quickly to the client's needs and settle the claim rapidly. This approach differentiates Beazley from most of its peers. In a recent case our surveyor flew to South America to negotiate repair costs to a damaged vessel and, to the benefit of all concerned, managed to reduce costs from an estimated $11m to less than $2m and ensured that repairs could be completed swiftly.

In cases such as this, swift claims settlement is a win-win for the client and for Beazley: the longer claims drag out, the more they tend to cost. However, the same is not always true of professional liability claims, where patience can be a virtue. In the case of architects' and engineers' (A&E) claims, the length of the 'tail' – the period between when cover was underwritten and claims typically are closed – now averages 3.5 years, reflecting the fact that there can often be significant delays between the notification of a circumstance by an insured (namely the possibility of there being a claim) and the time when a claimant proactively pursues its claim.

For A&E claims, our clients look to Beazley as a source of sound advice, backed by our three decades of experience in this class of business. We share our claims data with our clients, enabling them to benchmark themselves against their peers and strengthen their risk management defences where needs be.



Beazley has been underwriting architects' and engineers' professional indemnity risks for 30 years, so we have rich claims data to help clients identify trends.

Maintaining our competitive edge

While our claims volume has continued to grow broadly in line with premium growth, the nature of the claims we handle continues to evolve, due to a number of factors. First, we have expanded our existing product suites in certain territories, such as France and Singapore. Secondly, our onshore US business has grown rapidly. Finally, the nature of the claims themselves is changing because our small and mid sized risk business has grown faster than our large risk books.

These changes are increasing the need for greater scalability and flexibility of our claims resource. We have accordingly created a new portfolio claims team to sit alongside our existing global product teams. Specialist managers will still focus on defined product areas but this change will introduce more cross-team and cross-product working, thus allowing us to flex our resources more easily.

Obstetrics claims show value of experience

In a recent birth injury claim, our healthcare team found the hospital's normal defence counsel endorsing a settlement – $10m to $14m – that in our view was far too high and would raise the floor on any subsequent birth injury settlements. Defence counsel further opined that a plaintiffs' verdict was likely and estimated the verdict value at $25m or more.

At our instigation, the client agreed to our bringing in specialist trial counsel with long experience of defending medical malpractice claims involving catastrophic injuries. Our counsel strengthened possible liability and causation defences and, more importantly, conveyed the position that we were prepared to go to trial. At mediation we were able to settle the insured's liability for $6m, well below original counsel's settlement valuation and for a small fraction of the plaintiffs' original demand of $45m.

Steve Chang
Head of healthcare claims

30 years of profitable growth

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

2006

$1,762.0m
Managed gross premiums

$1,371.0m
Group share

Beazley in Hong Kong takes full ownership of APUA and renames it Beazley Limited

Expansion of construction & engineering team into Singapore

Beazley opens new office in Paris

Lloyd's active members: 2,211

Capacity: £14.8bn

Syndicates: 65

2007

$1,919.6m
Managed gross premiums

$1,561.0m
Group share

2008

$1,984.9m
Managed gross premiums

$1,620.0m
Group share

Beazley opens new office in Munich

Political risks & contingency group formed as new division

Acquisition of Momentum Underwriting Management

Accident & life formed as a new division

US hurricane Ike $20bn

2009

$2,121.7m
Managed gross premiums

$1,751.3m
Group share

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

$2,108.5m
Managed gross premiums

$1,741.6m
Group share

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

1986 → 1991

Trading began 1986

1986: $13.4m
Managed gross premiums

1991: $42.5m
Managed gross premiums

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

1992 → 1997

1992: $58.8m
Managed gross premiums

1997: $128.4m
Managed gross premiums

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

US hurricane Andrew $17bn

UK Bishopsgate explosion $750m

US Northridge earthquake $12.5bn

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.

2011

$2,079.2m
Managed gross premiums

$1,712.5m
Group share

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

$2,278.0m
Managed gross premiums

$1,895.9m
Group share

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

$2,373.0m
Managed gross premiums

$1,970.2m
Group share

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

$2,424.7m
Managed gross premiums

$2,021.8m
Group share

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

$2,525.6m
Managed gross premiums

$2,080.9m
Group share

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

Versatile specialists since 1986

1998 → 2000

1998: $168.8m
Managed gross premiums

2000: $256.1m
Managed gross premiums

Recall, contingency and political risks accounts started

Marine account started

European storms $12bn

2001 → *Flotation 2002* → 2005

2001: $431.6m
Managed gross premiums

2005: $1,485.1m
Managed gross premiums

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

Established local representation 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

Chairman's statement

The board is pleased that Beazley's execution of its strategy continues to help us deliver strong shareholder value.

Dennis Holt
Chairman

Your company once again performed very strongly in 2015, generating a return on average shareholders' equity of 19% (2014: 17%) and growing premiums by 3% in a market largely characterised by continuing competition and, for some insurers, anaemic or no growth.

For the third year in a row, Beazley achieved a combined ratio below 90%, recording 87% in 2015 (2014: 89%). The quality of the company's underwriting returns supported earnings per share of 48.8c (2014: 43.1c) and net tangible assets per share of 263.9c (2014: 247.0c).

The board is pleased to announce a second interim dividend of 6.6p per ordinary share plus a special dividend of 18.4p per ordinary share. Together with the first interim dividend of 3.3p this takes the total dividends declared in respect of 2015 to 28.3p per ordinary share (2014: first interim dividend of 3.1p, second interim dividend of 6.2p plus a special dividend of 11.8p, totalling 21.1p).

During 2015, the board has considered the feasibility of a movement in the location of the group's management from Ireland to the UK. Having considered the options, the board will present a proposal to the shareholders at the company's AGM in March 2016 to effect such a change via the creation of a new UK domiciled holding company. The board believes that this change will increase the operational efficiency of the group.

Beazley has a proven record of capital management. We constantly identify the investments required to support profitable growth opportunities, but capital that is not thus deployed is returned to shareholders, subject to maintaining a prudent buffer. Our total shareholder return, which cumulatively exceeds 397% over the past five years, reflects this approach.

Beazley maintains an underwriting portfolio that is diversified by geography, product, size of risk, and the duration of the tail on the policies we underwrite. We constantly refine and adjust this portfolio to optimise profitability. For the past two years now we have curtailed our treaty reinsurance underwriting in the face of steeply falling premiums: net of reinsurance, this business accounted for less than 8% of our total premiums in 2015, down from over 10% in 2013. Conversely, we have significantly expanded our locally underwritten US business – focusing mainly on mid-sized professional indemnity, management liability and property risks. This accounted for 19% of our business in 2013 and 26% two years later.

In terms of geography, the US is our largest market, accounting for 58% of our total business, written both locally and in London. This served us well in 2015 as the US economy performed better than most other developed economies. However, we see attractive growth opportunities in other markets, notably Singapore and, selectively, in Europe. By the nature of their business, two of our divisions – marine and political risks and contingency – are extremely well diversified geographically, whereas our largest division – specialty lines – has a stronger US focus.

The relatively weak condition of the global economy and a glut of capital for catastrophe exposed lines of insurance helped prompt a series of mergers and acquisitions among insurers in 2015. We see much of this consolidation as defensive in nature, reflecting the challenge of achieving growth. Beazley is of course not immune to these challenges, but has demonstrated an ability to achieve acceptable growth with strong profitability in current market conditions. As such, we remain confident in the continuing viability of our business model.

A talent for innovation – and the skills and resources to commercialise promising innovations – are key to our value proposition in the eyes of brokers. New forms of cover offer brokers the opportunity to address the emerging risks that concern their clients, as well as making incremental sales in a market where many brokers, like many carriers, have found growth hard to achieve.

A number of the innovative products Beazley has developed entail partnering with service providers to implement a more comprehensive solution to address clients' needs. This partly underlies the success of our data breach response product, Beazley Breach Response (BBR), which depends not only on an insurance policy but leverages a network of relationships with specialist service providers to help clients respond effectively to a data breach. These services are expertly coordinated by a dedicated business unit, BBR Services.

Operational excellence also remains a key focus, ranging from underwriting discipline to high quality and efficient processing. In this, we place the clients' needs to the fore in all we do.

The role of the Beazley plc board is to approve and oversee the strategy developed by the company's executive committee, bringing a diverse range of perspectives and experience to bear on our analysis. Regulatory scrutiny of our industry is extensive. In areas such as conduct risk – addressed by Andrew Horton in his statement on page 16 – and in Beazley's adoption of the capital and other requirements prescribed under the European Union's Solvency II directive, the board is committed to the maintenance of the highest standards.

One of Beazley's longest serving employees retired during the year, with Jonathan Gray leaving in June. Jonathan made an immeasurable impact at Beazley, particularly in our property division which he established in 1992. The board is immensely grateful to Jonathan for his contribution to the company over the past 23 years.

The development of Beazley's US business in recent years has been a major focus of the board's attention and in this we have benefited greatly from the knowledge and insights of Ken Sroka, who stepped down in December as a non-executive director after almost five years on the board to take on a full time executive role. I am grateful to Ken for his many contributions to our work, including his participation on the remuneration and nomination committees.

In March Padraic O'Connor will also be stepping down from the board after seven years. His wisdom and experience have been greatly valued by all of us, as has his work chairing both the remuneration committee and the board of our material subsidiary, Beazley Re.

Rolf Tolle has informed the board that he will not be seeking reelection at the forthcoming AGM on 24 March 2016. He has served for more than five years on the board and audit and risk committee as well as on the board and audit and risk committees of our managing agency, Beazley Furlonge Limited. Rolf's extensive knowledge of the insurance market has been a great asset to the group and his contribution has been highly valued.

In January 2016 we welcomed Catherine Woods to the board as a non-executive director. Catherine served for nearly 20 years in an executive capacity at JP Morgan and 17 years in private, public and pro-bono non-executive director positions. I am sure she will make a significant contribution to the board.

Dividend policy and capital requirements

The board's strategy is to grow the dividend by between 5% and 10% per year and this has always been achieved. In addition, our capital management strategy is to carry some surplus capital to enable us to take advantage of growth opportunities that may arise; this is further supported by our fully undrawn banking facility. We continue to manage our capital actively and to the extent that we have surplus capital outside of this range the board will consider means to return this capital to shareholders, as demonstrated once more through the announcement of a special dividend in 2015.

Outlook

We expect the tough market conditions experienced in 2015, particularly in large risk markets, to continue in 2016. There is today a strong consensus in our industry that it would take a catastrophe, or series of catastrophes, on a very large scale to materially turn the market for short tail lines of business and set rates on a sustained upward course. The high aggregation of coastal exposures in the US and other developed markets is one reason why such massive dislocations cannot be ruled out; another, sadly, is the growing threat of man-made catastrophes occurring either by accident or malevolent design.

In this environment, insurers' best defence is the speed of response they can muster to rapidly changing market conditions – a talent that Beazley's underwriters have shown they possess. It is against this readiness, as well as a consistent strategy that has proven its worth across market cycles, that Beazley's aspiration to become and be recognised as the highest performing specialist insurer should be judged.

Dennis Holt
Chairman

3 February 2016

Chief executive's statement

Our balanced portfolio was a key factor in achieving both modest growth and an improved combined ratio.

Andrew Horton
Chief executive

Beazley delivered another excellent performance in 2015, generating a profit before income tax of $284.0m (2014: $261.9m) on gross premiums that rose by 3% to $2,080.9m (2014: $2,021.8m). Our combined ratio of 87% was slightly lower than our average for the prior five years, reflecting the risk assessment skills of our underwriters at a time of widely declining premium rates, as well as a benign claims environment.

I am particularly pleased that Beazley succeeded in achieving moderate growth in 2015 in a market that denied many insurers the opportunity to grow without sacrificing profitability. In this we were once again supported by our US operations, where premiums rose 21%. This was buoyed by continuing strong demand for data breach insurance, but other specialist management liability and professional liability lines of business have also responded well to the strength of the US economy.

We have now had a local underwriting presence in the US for 11 years and our locally underwritten US premiums accounted for 26% of our total business in 2015, up from 17% five years ago. However, it would be misleading to read the success of our US business as an achievement that is independent of our London operations. We rely on many of the same broker relationships to sustain both our London and US business and most of the lines we offer in the US are underwritten – usually for larger clients – by our London underwriters. Most of our underwriting and claims teams operate on a global basis, sharing knowledge constantly and moving personnel frequently. London continues to serve as a laboratory for innovation in global insurance and reinsurance and that will continue to benefit all our underwriters, wherever they are located.

In 2015, the market trends affecting our six divisions continued, broadly, to follow the trajectories established in recent years. Large, short-tail risks with significant catastrophe exposures faced the toughest market conditions, with rates for energy risks falling by 17%, marine hull risks by 6%, and large scale property risks by 8%. Our reinsurance division saw renewal rates fall by 7%, slightly less than we had expected because demand for US windstorm cover was stronger than anticipated. Competitive pressures were also severe for large scale professional liability risks for clients such as global law firms and major US hospitals and hospital systems.

By contrast, competition for smaller professional liability and management liability business in the US was less intense, and this was our main engine of growth. Overall, we have seen the balance of our portfolio tilt more towards small and mid-sized risks in recent years as profitable growth opportunities in these segments have been more numerous. Rates across our largest division, specialty lines, rose 2% in 2015 while rates fell across our other five divisions. For Beazley as a whole rates on renewal business fell by 2% year on year.

Prior year reserve releases amounted to $176.3m, up 12% (2014: $158.1m). For our short-tail business, this reflected the benign claims environment we have seen in recent years. Our conservative approach to reserving normally permits us to make reserve releases as the ultimate level of claims becomes clear. In the case of our specialty lines business, which we categorise as 'medium-tail', reserve releases generally become available three to six years after the business was underwritten.

Find out more on page 169

Claims activity

Catastrophe claims were once again subdued in 2015. An exception was the Tianjin warehouse explosion in China in August, which killed 173 and generated insurance losses currently expected to exceed $3bn. Beazley has seen no significant loss from this event.

The economy in our principal market, the US, continues to rebound from the economic downturn, easing claims activity on our professional liability and management liability books. These claims tend to increase at times of economic stress as potential plaintiffs become more litigious. In our largest line of business, data breach insurance, we have seen an increase in claims driven by hacking and malware attacks. We have been able to address this by raising premium rates selectively, while maintaining high client retention levels. Our data breach business is largely focused on small and mid sized firms, with a relatively low exposure to the large scale breaches that trigger the largest class action lawsuits.

Outside the US, the economic picture was more mixed and this had some repercussions for the frequency of claims notifications. With commodity prices depressed, our political risks underwriters have seen an uptick in trade credit notifications relating to mining companies, but the severity of such claims looks modest and well within existing reserves.

Our global claims team, under the leadership of Anthony Hobkinson, continues to grow in size and expertise. In alternate years, we hold an 'expert retreat' for the large architect and engineering (A&E) firms that have been a mainstay of our professional liability business since Beazley was founded in 1986. This took place in Montreal in May this year, enabling our A&E claims team to analyse complex claims scenarios with our defence law firm partners and longstanding clients. Events of this kind, described in more detail on pages 10 to 11, offer our claims professionals additional opportunities to add value to our client relationships.

Investment performance

Our investment portfolio as a whole returned 1.3% during 2015 (2014: 1.9%). This is a good outcome in the context of low interest rates and volatile risk asset markets, particularly in the second half of the year. All components of our investment portfolio generated positive returns for the year. Stuart Simpson now takes on the role of chief investment officer, following Philip Howard's decision to step down from this role at the end of 2015. Stuart's team is responsible for developing our investment strategy, subject to a defined risk appetite and the oversight of the investment committee and board. On page 130 to the financial statements, we have included new disclosures about our approach to investment risk.

Risk management

Our biggest risk management focus – given our business – derives from the possibility of our mispricing insurance on a large scale. This is mitigated by the diversification of our portfolio and by the depth of our underwriters' experience in core lines of business, which means that we have weathered multiple market cycles and are well aware of the perils of a soft market.

Growth of locally underwritten US premiums
21%
(2014: 19%)

This awareness is reinforced by our underwriting standards, which our risk management team, led by our chief risk officer Andrew Pryde, reviewed in detail in 2015. We found the standards to be effective in the current soft market conditions.

We also conducted a detailed review of our data breach and cyber portfolio, which now represents our largest single line of business. Our portfolio is well diversified across industry segments and the short tail nature of data breach claims allows for rapid adjustment of terms and conditions in the event of changes in claim frequency. Nevertheless we continue to model aggregation scenarios carefully (including developing a cyber realistic disaster scenario (RDS)) and cover peak exposures with reinsurance. For further details on this please refer to page 128 in note 2 to the financial statements.

Conduct risk is a focus for regulators in our industry. This relates essentially to ensuring we sell appropriate products, to the right customers and that these products achieve a fair outcome for them. For us this is more than a purely regulatory concern – it is an expression of Beazley's culture and values.

In December, we were delighted to receive confirmation that our Solvency II internal model application was approved by the Central Bank of Ireland (CBI). This represents a key achievement for the group and demonstrates that the significant level of our investments in people, systems and processes over a number of years are bearing fruit.

Growth opportunities

Opportunities for growth are naturally constrained in an insurance market that remains awash with capacity, particularly for lines of business that can readily be modelled and are therefore attractive to new capital providers such as pension funds. In this environment, Beazley has four advantages that are not available to all of our competitors.

The first and most important of these is the expertise of our underwriters in identifying profitable market niches that present attractive growth potential. We see significant growth opportunities for our environmental risk underwriters, particularly in the US, in the year ahead. We have also seen strong growth in demand for professional liability and other liability covers for healthcare providers that are not hospitals or physicians (a varied market segment known in our industry as miscellaneous medical or allied health), and we expect this to continue.

A second advantage is our track record of innovation, which continues to attract brokers with new or hard-to-place risks to the Beazley box at Lloyd's and to our underwriters around the world. Our innovations often take the form of one-off manuscripted policy wordings to address unique client needs, but we also continue to design innovative products to tap broader market demand.

New products often take time to gain traction, given the limited flexibility of clients' insurance budgets. An example is regulatory liability insurance for hospitals and other healthcare providers, which we first launched in 2012 and embedded in a comprehensive management liability policy for healthcare providers, Beazley Remedy, last year. This insurance protects healthcare providers against the costs and consequences of erroneously billing US federal benefit programmes like Medicare or Medicaid for patient treatment. The rules governing this are extremely complex, presenting real jeopardy for hospitals. We expect demand for this product to increase significantly in 2016.

A third advantage for Beazley in pursuing growth opportunities is our attractiveness to talented underwriters, who bring us new broker relationships and income streams. In this way, Simon Jackson and John Brown, who joined our open market property team in London at the beginning of last year, succeeded in reversing what would otherwise likely have been a shrinkage in our large risk property business under the pressure of falling premium rates. In the event, this book grew modestly in 2015.

Our fourth advantage is our widely recognised position as a leader in the provision of both indemnity cover and response services to companies that fall victim to data breaches. This is both a fast growing and a large market, relevant to any business that holds large volumes of personally identifiable customer information. Already a well-established line of business in the US, data breach insurance is now generating increasing demand in Europe under the influence of high profile data breaches and impending tighter regulation. We are working closely with other Lloyd's insurers to promote the Lloyd's market as Europe's leading hub for cyber insurance.

While seeking to exploit all of these assets, we have also sought to expand our knowledge of promising markets that we know less well. This was part of the rationale for our partnership with Korean Re, announced in March. Korean Re is a top ten global reinsurer, the dominant reinsurer in South Korea and an excellent partner for distributing Beazley products in Asia. We hope this collaboration will enable Beazley to write more business in Asia while we, in turn, help Korean Re to develop a track record at Lloyd's.

Investing in our business

To capitalise on all of these advantages we are continuing to invest heavily in the people and the infrastructure our business requires. Our headcount in the US, where we expect to continue to grow strongly this year, rose from 384 to 421 last year as we continued to build on our successful strategy to equip our offices in six hub cities – New York, Chicago, San Francisco, Los Angeles, Dallas and Atlanta – with the underwriting and claims expertise to offer our brokers a full product range.

Technology plays a major, and growing, role in enhancing the productivity of our people and making it easier for brokers to do business with us. We raised our level of technology investment in 2015. Among an array of initiatives, we upgraded our IT data centres to provide a more scalable infrastructure, with particular emphasis on ensuring we can support long term growth in the US market. We have also invested in increasing the resilience of our data centres so that we minimise downtime, should a business continuity event occur.

In November, we were delighted to win a *Lloyd's Innovation Award* for myBeazley, our etrading system for brokers which launched in the UK and France in 2014. We have continued to broaden the range of small business products available to brokers through myBeazley and we plan to make the system available to US brokers in 2016.

The myBeazley system exemplifies our approach to innovation in technology as well as in product design. The system was designed in the light of exhaustive research with brokers into their needs and preferences.

Attracting talent

We have found that a market in which most insurers struggle to grow has been, for us, a fertile market for talent. The wave of mergers and acquisitions that continues to sweep through our industry has contributed, I believe, to our appeal to individuals with a strong entrepreneurial streak who are dismayed at the prospect of working for far larger insurance companies.

In attracting such individuals our strong financial track record is clearly an asset, but I believe the attitude of our existing employees is even more important. In June, we engaged with Aon Hewitt to survey our employees with a view to establishing levels of employee engagement across the company – a metric that is closely correlated to positive business outcomes such as talent retention, customer satisfaction and long term financial performance. The survey was taken by 89% of our employees and positioned Beazley in the top quartile of companies surveyed in terms of employee engagement.

The opinions of our people, as well as the confidence of our brokers and clients, matter more to us than the plaudits of our peers. Nevertheless, we were gratified to receive three accolades as insurance company of the year from *Reactions* magazine, the *Insurance Insider*, and *Insurance Day*.

Outlook

Commoditisation is a constant challenge for a specialist insurer, as capital moves ever faster into niche areas, depressing prices. There is clearly a large surfeit of capital relative to demand in many parts of today's commercial lines insurance market. In the absence of capital-depleting catastrophe losses, it is unrealistic to suppose that even the most nimble and resourceful insurers can maintain the returns on equity that they have achieved in recent years.

Service is a differentiator that may come more to the fore in this environment, when the temptation is to cut back on service levels to save on costs. We are doing the opposite, seeking to deliver a standard of service to our clients and brokers that is appreciably superior to our competitors.

The chairman highlighted that we will be asking shareholders to vote in March 2016 on a scheme of arrangement that will allow us to run the group from the UK going forward. This will simplify the management and decision making of the group and allow the company's shareholders to access a UK dividend stream and I would thus ask our shareholders to support this change.

Our vision at Beazley is anchored to our performance relative to the best of our peers in the industry. It is to become, and be recognised as, the highest performing specialist insurer. Against this yardstick, our strategy is working.

Andrew Horton
Chief executive

3 February 2016

Q&A with the chief executive

Andrew Horton reviews Beazley's performance and describes the risks and opportunities he foresees in 2016.

Andrew Horton
Chief executive

Q Beazley received internal model approval in December. How significant an achievement is this for the group?

A We're delighted the Central Bank of Ireland approved our internal model. It is the culmination of many years of hard work and is testament to the quality embedded in every aspect of Beazley's operations. Not all the firms that started out on this journey have completed it yet and it is reassuring to be in the first wave of companies to obtain approval. We operate in a world of ever increasing regulatory complexity and achievements like this help build the confidence of our customers, partners and regulators.

Q What effects do you see portfolio underwriting arrangements negotiated between brokers and certain carriers having on the Lloyd's market? Would Beazley consider entering into such arrangements?

A For us, underwriting is an active, not a passive, activity. We select our risks carefully, often as the lead underwriter setting the terms and conditions for subscription business at Lloyd's. This of course is the antithesis of some of the quota share deals that we have seen covering entire classes of business in the London market.

So deals of that kind are not of interest to us. However, we are happy to talk to brokers about panels and facilities, whereby brokers place the bulk of their business in a specialist line with pre-selected insurers that have a high level of expertise in the line in question. We participate in a number of these.

Q Where do you see the strongest growth opportunities for Beazley in the year ahead?

A In a global economy that is stuttering, the US economy continues to perform strongly and that is where we expect to see the strongest growth in the year ahead. Our US operations grew 19% in 2014 and 21% in 2015. We expect to continue on the same trajectory in 2016.

Starting from a smaller base, we also expect our operations in Europe and Singapore, where we are recruiting new underwriters, to grow quite strongly in 2016.

The challenge remains, of course, large scale catastrophe exposed risks underwritten at Lloyd's. There are some bright spots in our Lloyd's business – we are continuing to see growth in reps and warranties business for M&A transactions and Lloyd's is a major hub for European cyber business. Overall we expect our growth to be modest in 2016 because – barring major catastrophe activity – rates will continue to fall for large risk business.

Q The London market has ambitious plans to modernise its processes through the London Market Target Operating Model initiative. Is this something you support?

A Definitely. I am on the board of the London Market Group and many of my colleagues, including our chief operating officer Ian Fantozzi, are engaged in this initiative. The idea behind it is simple: more efficient processing supported by electronic data capture for all stages of the journey taken by a piece of business, from placement, through claims, to renewal.

The idea is simple but of course its implementation in a £45bn insurance market will be far from easy. However, there is universal agreement by brokers and insurers on the need to get this done and we are keen to support it.

Q What is a realistic return for investors to look for in a specialist insurer such as Beazley in the current market environment?

A Over the past five years, our annual return on shareholders' equity (ROE) has averaged 16% in an environment of low investment returns. This includes 2011, the worst year on record for insured natural catastrophes, in which our ROE was 6%.

In recent years we have experienced a relatively benign claims environment, coupled with a major influx of capital into the catastrophe exposed large risks market. We have accordingly seen premium rates fall sharply in these classes and we expect them to fall further.

In these circumstances it is not realistic to expect specialist insurers' returns to defy gravity and a strong – top quartile – ROE would likely be in the low double digits. Our focus at Beazley will remain on achieving consistently good returns relative to the overall market.

Q What impact do you see recent M&A activity at Lloyd's and in the broader insurance market having on Beazley?

A I see it having little impact, except potentially in one area. The key for us is that we are relevant to clients and brokers in our chosen lines of business and that we can return a good profit on the portfolio we underwrite. If we meet both these criteria – which I believe we do – then we see no reason to get involved in the hazardous business of large scale M&A.

However, there is one respect in which the recent wave of M&A in our market may be helpful to Beazley. Our growth relies in part on our being able to attract talented individuals or teams of individuals who like the idea of building a career at Beazley. Working for a large insurance group is not to everyone's taste so we think that more talent may be available to us in the wake of these mergers.

Q Why should an ambitious individual looking to build a career in today's insurance market consider joining Beazley?

A One of our differentiators, which really dates back to the founding of the company 30 years ago, has been that Beazley provides an attractive home for people with entrepreneurial spirit. Clearly by definition Andrew Beazley and Nick Furlonge, who founded the company together in 1986, were entrepreneurs. Since then many of the people we've hired, and continue to hire, are animated by the same ambition to build a highly successful, sustainable business.

I think Beazley has a lot to offer such people. We are large enough to compete in our markets but not too large to act swiftly. We have a flat organisational structure and open lines of communication and as we've grown, both geographically and into new lines of business, we've been able to offer talented, versatile people more varied career paths. Some of these individuals are profiled on page 3 of this report.

In a nutshell, I'd say that an ambitious individual who wants to make a real contribution to our vision of building the world's highest performing specialist insurer, should consider joining Beazley. You will make a difference.

Q How close do you think Beazley is to achieving its vision?

A Our vision – to become and be recognised as the world's highest performing specialist insurer – serves Beazley well because it provides a yardstick against which we can measure ourselves. I think it's clear that we have been making good progress against this yardstick in recent years.

The metrics people often think of first relate to our financial performance but, although these are important, they are the result of success in other areas – particularly in providing a first class underwriting and claims service to our clients and brokers. So we measure our performance in these areas closely and have a strategic initiative devoted to identifying how we can continue to improve our performance on service and sales.

With regard to our financial performance, the key performance indicators on the pull out of this report tell a clear and positive story, although we are not complacent. The markets we operate in are dynamic – who could have foretold a decade ago that cyber insurance would be a business worth more than $200m in premium for Beazley in 2015? If we can continue to spot such opportunities and capitalise on them, we will continue to make progress towards achieving our vision.

Chief underwriting officer's report

Disciplined underwriting across a diverse portfolio.

Neil Maidment
Chief underwriting officer

We are pleased to have achieved a strong underwriting result in 2015, delivering a combined ratio of 87% (2014: 89%) with gross premiums written increasing by 3% to $2,080.9m (2014: $2,021.8m). While the market continued to soften in 2015, resulting in further reductions in premium rates across most lines of business, Beazley was fortunate to identify opportunities for profitable growth. This was particularly the case in our largest division, specialty lines, where gross premiums written increased by 13% year on year.

This growth in specialty lines has helped offset the more difficult market conditions experienced in our short-tail, catastrophe-exposed, lines of business such as marine and reinsurance. We continue to employ a disciplined approach to our underwriting across all divisions, particularly where we are experiencing rating pressure.

Rating environment

Premium rates on renewal business across our portfolio as a whole fell by an average of 2% during 2015 (2014: a decrease of 2%). Specialty lines, our largest division, saw rates increase by 2% year on year, while our life, accident and health division saw rates drop by only 1%. In our other divisions, rates declined by varying degrees: 4% for property business; 8% for our marine division, 6% for our political risks & contingency division; and 7% for reinsurance.

Premium retention rates

Retention of business from existing brokers and clients continues to be a key feature of Beazley's strategy. It enables us to develop a deep understanding of our clients' businesses and requirements, affording greater insight into the risks involved in each policy we write and enabling us to price risk substantially. The table below shows our retention rates by division compared to 2014.

Retention rates*	2015	2014
Life, accident & health	92%	86%
Marine	84%	85%
Political risks & contingency	72%	76%
Property	78%	77%
Reinsurance	85%	81%
Specialty lines	84%	82%
Overall	83%	81%

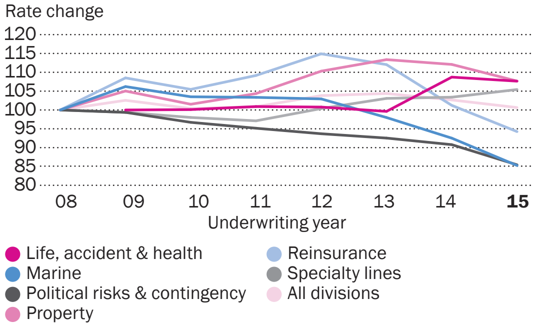
* Based on premiums due for renewal in each calendar year.

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

Divisional commentary

Specialty lines, our largest division, wrote gross premiums of $1,015.2m in 2015 (2014: $895.7m), representing growth of 13% over the prior year. A key contributor to this growth was the continued development of our US platform, where growth was particularly evident in our cyber, management liability and miscellaneous medical product lines. In recent years, we have strengthened our distribution channels for small and mid-sized businesses and, during 2015, we found that these clients often provided us with the best opportunities for growth.

Cumulative renewal rate changes since 2008 (%)



While the US was the main growth market for specialty lines in 2015, we did see modest growth in London as well. Demand for data breach and cyber cover and response services have increased in Europe and we were delighted to partner with other Lloyd's syndicates to form the Lloyd's cyber consortium, targeting large scale European risks, in September. We also established a European media team to complement the strong media errors and omissions capability we have long had in the US.

The performance of our life, accident & health division continued to improve in 2015, with the division returning a modest profit in the past year (2014: an operating loss of $5.8m). The key drivers of this improved result were a significant increase in US gross premiums written from $3.1m in 2014 to $14.8m in the current year, and an improved distribution model in Australia. Overall, gross premiums written by the division in 2015 fell by approximately 9% compared to the prior year, although much of this premium reduction was due to sterling and Australian dollar exchange rate movements. We continue to see significant growth potential in the US for the 'gap protection' medical cover that employers are increasingly purchasing to supplement standard employee benefits. This cover helps people protect themselves against the risk of out of pocket medical expenses.

Our property division performed well in 2015, achieving a combined ratio of 84% (2014: 86%) on gross premiums of $353.1m (2014: $344.7m). Demonstrating our focus on segmenting our portfolio, the fastest growing segment of our property portfolio was the division's small business unit, which derives most of its business from Lloyd's coverholders around the world. This grew by 3% to $123.7m (2014: $120.3m) and retains, we believe, further growth potential for 2016. We were also pleased to be able to deliver modest growth in our large risk business seen at Lloyd's, despite seeing rates on renewal business fall by 8% on this business.

Market conditions were markedly tougher for much of our marine division, which in addition to a broad range of marine covers also underwrites energy, aviation and – since 2013 – satellite business. A number of factors, including the absence of material large loss activity and the falling price of oil have led to significant pressure on premium rates. The strongest downward rating pressure was felt by our energy team, where rates declined by 17%. The division nevertheless made another substantial contribution to Beazley's overall result, with a combined ratio of 77% (2014: 78%) on gross premiums of $269.3m (2014: $325.2m).

Our political risks and contingency division underwrites three main categories of business: political risks and trade credit; terrorism and political violence; and contingency. Despite significant pressure on premium rates, the division achieved a strong result in 2015, delivering a combined ratio of 76% (2014: 78%). We continue to invest in new opportunities and products such as the launch of our Beazley Weather Guard product in Australia and our participation in a Lloyd's terrorism consortium which commenced in early 2015. While we continue to commit capital cautiously, our wide geographic footprint leaves us well placed to take advantage of profitable growth opportunities where they arise.

The same is true of our reinsurance business, which saw premium rates on renewal business fall by 7% in 2015. Aided by a relatively benign claims environment, our reinsurance team nonetheless achieved a combined ratio of 57% in 2015 on gross premiums of $199.9m (2014: $200.8m). During the year, the team continued to improve our access to business that we might not otherwise see in London by recruiting a new underwriter in Paris and by nominating Tom Yang as an underwriter for the Beazley Underwriting Division of Lloyd's China to facilitate the placement of business through the Lloyd's China platform. In addition, we agreed to provide reinsurance to Korean Re, a top ten global reinsurer, as part of a reinsurance swap and we expect that this collaboration will provide us with opportunities to write more business in Asia in the coming years.

Outlook

We expect the highly competitive market conditions experienced in 2015, particularly in relation to large risk business, to continue in 2016. In the current environment, segmenting our portfolio will become increasingly important in delivering strong underwriting results.

Beazley benefits from a well-diversified portfolio which has allowed us to exercise efficient cycle management. We proactively adjust our risk appetite both in areas where we find premium rates have contracted so that certain risks are underpriced, and in markets where we encounter less competitive pressures. The emphasis on disciplined underwriting in areas where competition is greatest will remain a key part of our underwriting strategy as we continue to identify areas of our portfolio where we see the best opportunities for profitable growth.

Neil Maidment
Chief underwriting officer

3 February 2016

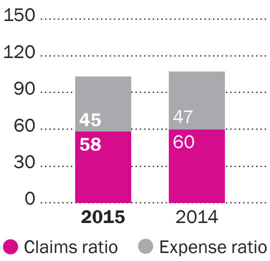
Performance by division

A strong underwriting performance with improved combined ratios in all six divisions.

Life, accident & health

Christian Tolle
Head of life, accident & health

Combined ratio (%)



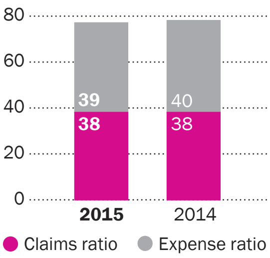
	2015 $m	2014 $m
Gross premiums written	119.8	132.2
Net premiums written	106.6	113.7
Results from operating activities	0.4	(5.8)
Claims ratio	58%	60%
Expense ratio	45%	47%
Combined ratio	103%	107%
Rate change	(1%)	9%

Find out more on page 26

Marine

Clive Washbourn
Head of marine

Combined ratio (%)



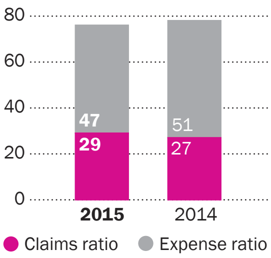
	2015 $m	2014 $m
Gross premiums written	269.3	325.2
Net premiums written	239.5	289.9
Results from operating activities	66.9	71.1
Claims ratio	38%	38%
Expense ratio	39%	40%
Combined ratio	77%	78%
Rate change	(8%)	(6%)

Find out more on page 28

Political risks & contingency

Adrian Lewers
Head of political risks & contingency

Combined ratio (%)



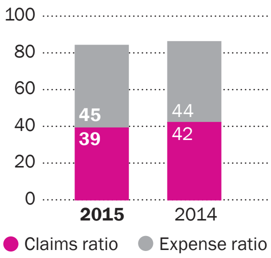
	2015 $m	2014 $m
Gross premiums written	123.6	123.2
Net premiums written	105.0	101.2
Results from operating activities	29.0	26.2
Claims ratio	29%	27%
Expense ratio	47%	51%
Combined ratio	76%	78%
Rate change	(6%)	(2%)

Find out more on page 30

Property

Mark Bernacki
Head of property

Combined ratio (%)



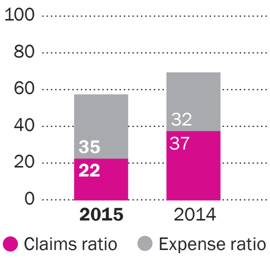
	2015 $m	2014 $m
Gross premiums written	353.1	344.7
Net premiums written	304.8	297.6
Results from operating activities	59.7	54.3
Claims ratio	39%	42%
Expense ratio	45%	44%
Combined ratio	84%	86%
Rate change	(4%)	(1%)

Find out more on page 32

Reinsurance

Patrick Hartigan
Head of reinsurance

Combined ratio (%)



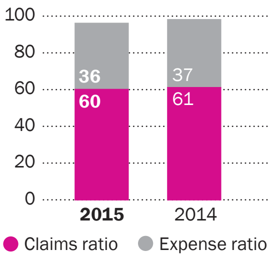
	2015 $m	2014 $m
Gross premiums written	199.9	200.8
Net premiums written	132.0	153.8
Results from operating activities	66.3	60.0
Claims ratio	22%	37%
Expense ratio	35%	32%
Combined ratio	57%	69%
Rate change	(7%)	(10%)

Find out more on page 34

Specialty lines

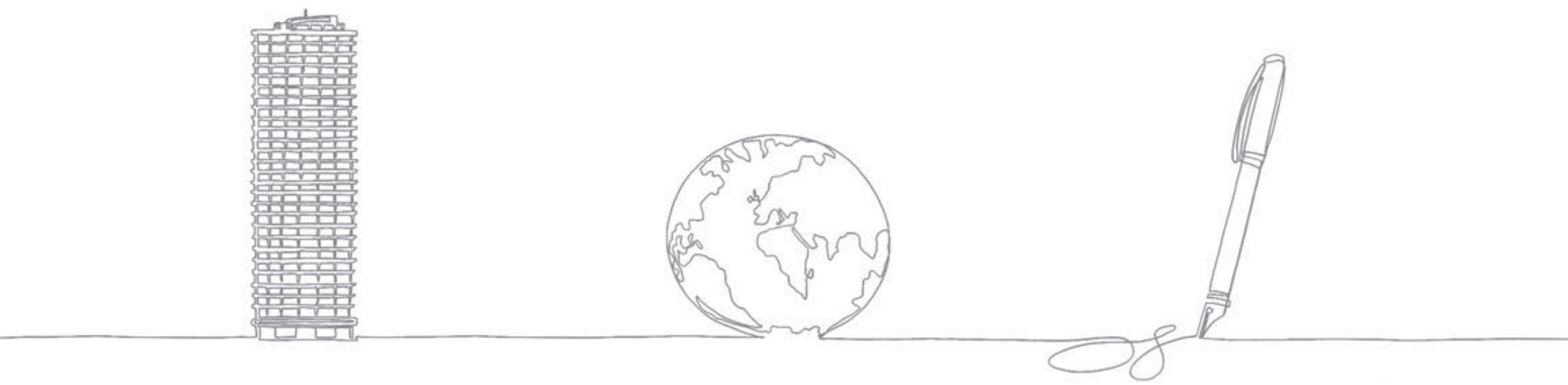
Adrian Cox
Head of specialty lines

Combined ratio (%)



	2015 $m	2014 $m
Gross premiums written	1,015.2	895.7
Net premiums written	825.2	776.5
Results from operating activities	77.0	72.5
Claims ratio	60%	61%
Expense ratio	36%	37%
Combined ratio	96%	98%
Rate change	2%	–

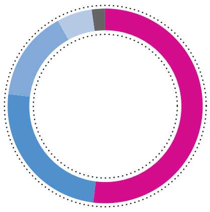
Find out more on page 36

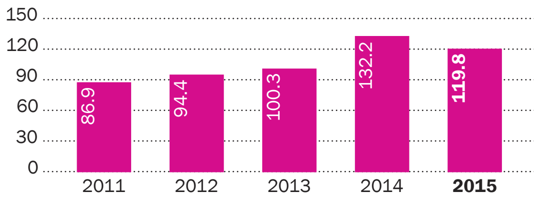


Life, accident & health

Improved result as US strategy bears fruit.

Christian Tolle
Head of life, accident & health





$119.8m
Gross premiums written

The performance of the life, accident & health division continued to improve in 2015 as our US business development strategy began to bear fruit. We achieved a combined ratio of 103% (2014: 107%) on premiums of $119.8m (2014: $132.2m).

The division operates through experienced teams located in London, Australia and the US. The main operational challenge we have faced in recent years has been weak premium flow in the US to cover the investments we have made there to build a strong accident and health business. That began to change in 2015 with $10.9m of new premium on our books in the first month of the year – an upward trend that has continued in January 2016. Our premium base in the US is now expanding steadily to take advantage of the operations and distribution capabilities that we have established.

We see great potential for our US business. We offer 'gap medical protection' cover to individuals through their employers to supplement the cover provided by those employers under standard benefit plans. This protection helps people to guard against the financial risks associated with paying out of pocket medical expenses. With healthcare costs continuing to rise (US healthcare spending topped $3 trillion in 2014 according to the Centers for Medicare and Medicaid Services), we expect employers to continue to trim benefits packages and offer employees gap protection products.

We are relying on a variety of distribution channels to offer our gap protection products. One of the most promising is through agreements with large insurers currently offering other lines of business to our target customers. We have entered into distribution agreements with two major insurers to expand our reach.

Our Australian business saw premiums fall in US dollar terms in 2015 due to the depreciation of the Australian dollar. Under the leadership of Suzie White, we have also been expanding our open market personal accident business through brokers, supplementing the large scale superannuation fund business we already hold. (Australian superannuation funds are government supported retirement funds that also offer disability insurance).

Well designed new products are critical to our ambitions to broaden our appeal to brokers in Australia. In July we launched expatriate medical and corporate travel products, both of which combine elements of health and travel insurance to comprehensively cover expats based overseas for both short and long-term assignments.

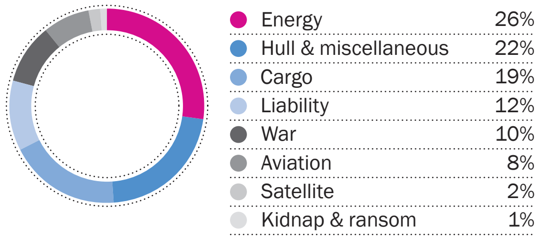
In London, home to our largest underwriting team, we delivered another strong performance in very competitive market conditions. We underwrite non standard personal accident business on both a reinsurance and a direct basis through well established broker relationships. There have been numerous new entrants into this market in recent years and competition is accordingly intense.

Marine

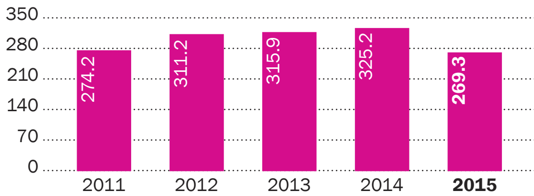
Strong profitability in challenging market conditions.

Clive Washbourn
Head of marine

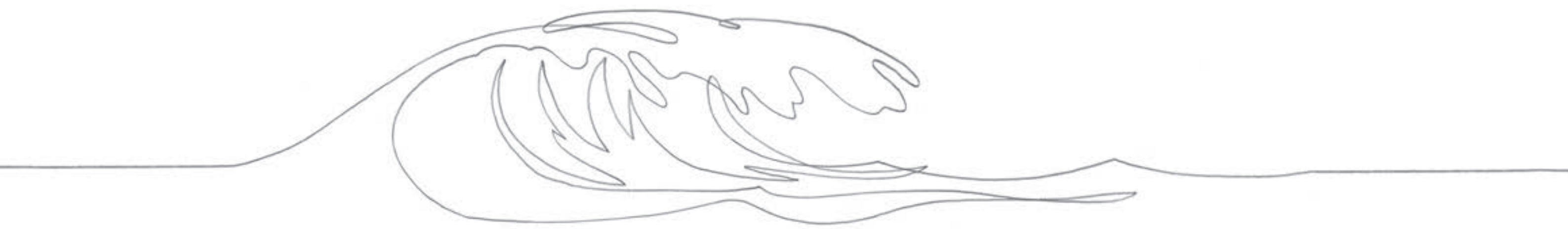
Portfolio mix



Gross premiums written ($m)



$269.3m
Gross premiums written



The marine division made a further significant contribution to Beazley's profits in 2015, achieving a combined ratio of 77% (2014: 78%) on premiums of $269.3m (2014: $325.2m). However, reserve releases from prior years played a role in this result and we adopted a cautious approach to new business in the light of steep rate declines across many classes.

Beazley underwrites a broad mix of marine, energy, aviation and satellite business within the marine division. Our underwriters have an unparalleled track record within the Lloyd's market for identifying profitable business in these classes. The experience of our underwriters is matched by our claims team, who deliver a swift and supportive claims service to clients whose cash flow can often be seriously affected by a major loss.

The steepest rate declines we saw in 2015 related to our energy account, where rates fell by 17%. This was the division's largest single book in 2014, but last year it contracted by 28% to $68.1m. However, we have had a long run of highly profitable years for energy business and it was inevitable that in the absence of major catastrophe losses competition would grow.

Marine war risks is another line that has been subject to strong competition. Here claims have fallen very rapidly in recent years, due primarily to improved security on vessels plying the waters off the Horn of Africa, and our book has accordingly contracted.

We also underwrite a modest aviation war risks account, where rates are slightly firmer, due to recent losses This has unfortunately had negligible knock-on effect on the broader aviation market, where rates remain extremely depressed.

The explosions in the Chinese port of Tianjin in August are expected to generate some of the largest cargo losses on record, variously estimated at between $1.5bn and $3.3bn. Beazley currently have no notified claims in relation to this event, which is a strong testament to the quality of the underwriting.

The London market remains the unchallenged leader in providing flexible cover with large limits for marine, aviation, energy and satellite risks. Nevertheless, as is the case for other divisions of Beazley, we have found that there are often growing pockets of profitable business – generally for smaller scale risks – that are only accessible to local underwriters. In our case that is true of UK regional marine business, which we access through a network of offices around the UK; Scandinavian energy business, which we access through our Oslo office; and a growing volume of hull and cargo business in Asia, which we access from Singapore.

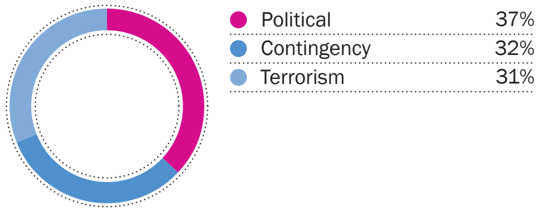
Building a strong presence in these local markets takes time. In recent years, the strength of our Lloyd's business has bought us this time, enabling us to take a long term view of our regional and international investments. Our UK regional marine business, led by Steve Smyth, is now performing strongly, generating premium of $15.3m in 2015 (2014: $11.4m). We expanded our appetite for UK regional business in the course of the year, starting a yacht and pleasure craft account for vessels of up to $8.5m in value.

Political risks & contingency

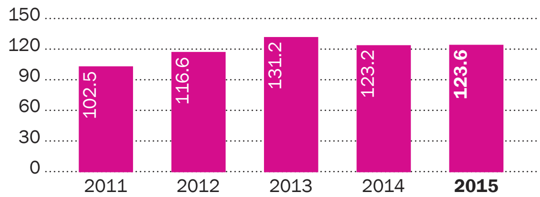
Strong growth in contingency business balances continued rating pressure in terrorism.

Adrian Lewers
Head of political risks & contingency

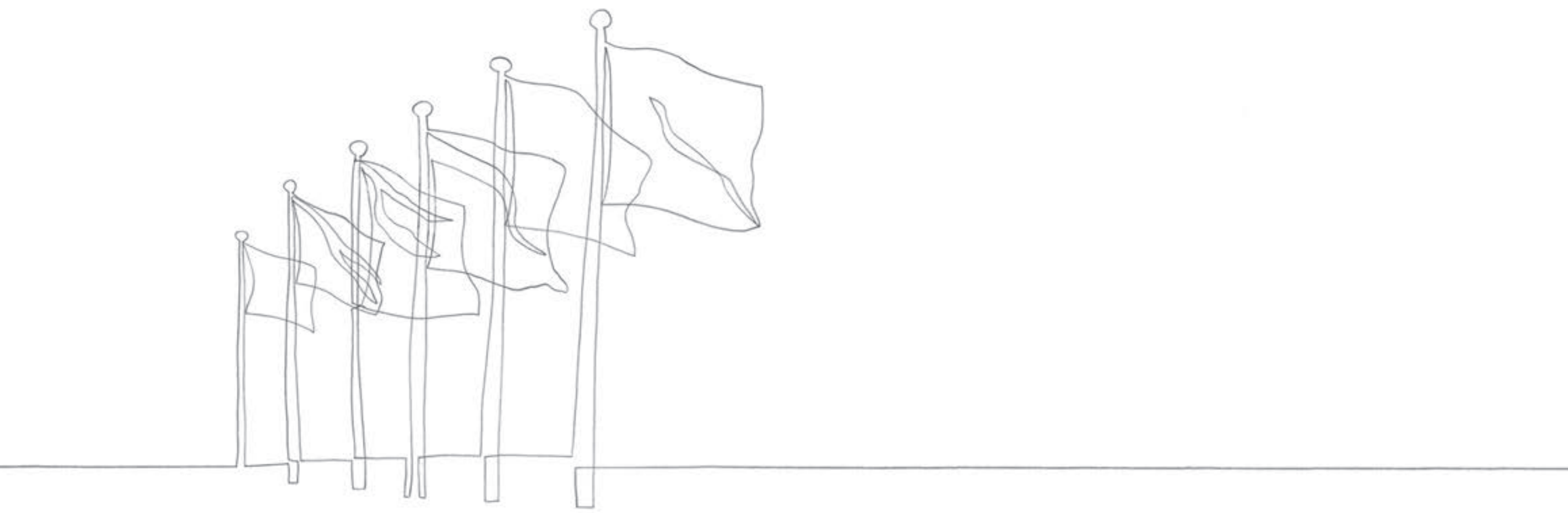
Portfolio mix



Gross premiums written ($m)



$123.6m
Gross premiums written



In a rating environment that was challenging for both our political risks and terrorism teams, our contingency team – focusing largely on event cancellation cover – saw strong growth. The division as a whole achieved a healthy combined ratio of 76% (2014: 78%) on premiums that were, overall, flat in relation to 2014.

We underwrite three main categories of business: political risks and trade credit; terrorism and political violence; and contingency – predominantly event cancellation cover for trade fairs and conferences and major sporting events. In terms of our geographic footprint, the division is one of the most diversified at Beazley, with underwriters in six countries: the UK, US, France, Australia, Singapore and the United Arab Emirates (UAE).

Clearly the world did not become a safer place in 2015, either for businesses or their employees, although claims remained subdued for both our political risks and terrorism accounts. In the trade credit segment of our political risks business, we saw an increase in claims notifications – principally relating to mining businesses pressured by falling commodity prices – but claims severity remained well below the level we saw in 2009. Reserve releases from prior years were slightly down at $18.1m (2014: $20.1m).

With a sharp decline in the level of investment in, and trade with, Russia we saw a significant decline in demand for political risks cover for a market that has historically been significant for Lloyd's underwriters. Competition for the business that remained was challenging, particularly at Lloyd's. Our operations in Singapore, Paris and, most recently, in the UAE (where we opened an office in Dubai in November 2014) performed well, validating our expectation that there was attractive local business to be underwritten outside London.

Our terrorism account continued the long slide in rates that we have seen since 2001, with rates last year falling by 9%. Awareness of the terrorism threat unquestionably grew in 2015, but the main targets of the attacks we have seen have – tragically – been people rather than property.

There is still business to be underwritten at reasonable rates in the terrorism market, and early in the year we joined a Lloyd's terrorism consortium focused on providing substantial capacity for terrorism risks to businesses in Europe. Despite this attractive business has been shrinking and we are determined not to chase the market down. We accordingly undershot our budget for terrorism business by 28% in 2015.

By contrast, our contingency business grew by 61% to $40.5m. Rates in this market held more firmly than we had anticipated and our team, led by Chris Rackliffe, was also successful in winning a number of major accounts. Our US contingency team, established in 2012, had a particularly good year, writing $8.9m, up 180% on 2014.

We have seen strong demand in the US and UK for Beazley Weather Guard, our product to protect businesses such as hotels and golf courses from revenue losses due to poor weather. We launched this product in Australia towards the end of the year.

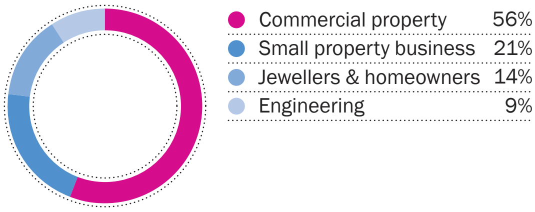
Strong broker relationships are key to our success, as they are to other teams within Beazley. We worked hard to foster these relationships, across our global offices, in 2015. In some cases these relationships will only generate a significant return when market conditions improve, but we can afford to be patient.

Property

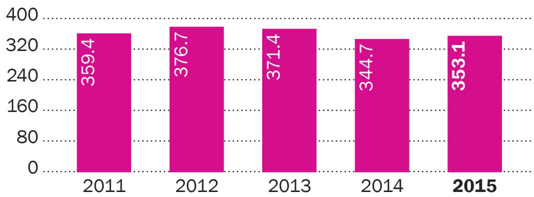
Small business shows strongest growth in diversified portfolio.

Mark Bernacki
Head of property

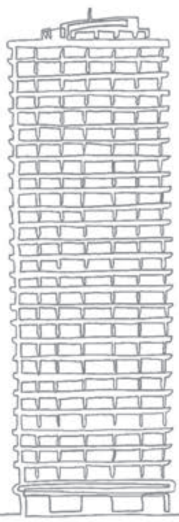
Portfolio mix



Gross premiums written ($m)



$353.1m
Gross premiums written



The property division delivered another strong performance in 2015, making the second largest contribution to group profits in our history, despite continuing rating pressure affecting the large risks business we underwrite at Lloyd's.

In recent years, the balance of our book has evolved as we have expanded in market segments that afford profitable growth opportunities and exercised discipline in segments exposed to intense competition. This has resulted in our small business unit, led by Paul Bromley, becoming the largest single segment of our portfolio.

Nevertheless, all of our teams performed well in 2015 and, should market conditions change, we are well positioned to adjust our underwriting appetite accordingly. Such changes can happen swiftly, as we saw in 2012 when rates were strongest for large risks, rising 8%.

However, it was our small business unit that made most of the running last year, growing to $123.7m (2014: $120.3m). The unit comprises various books of business, the largest of which derives from Lloyd's coverholders, mostly located in the US, who underwrite risks for us under delegated authorities. The key to success in this market segment is to work collaboratively with coverholders and Lloyd's brokers and monitor their performance closely, which Paul Bromley and his colleagues do particularly well.

A fast growing segment of our small business book is homeowners' insurance for properties located both in the UK and the US: this book grew 25% to $64.9m last year.

Also within the small business unit is our jewellers' block business, one of the lines of business Beazley is best known for at Lloyd's. We were able to show the value of our service in April when, following an audacious heist in Hatton Garden, the centre of London's jewellery trade, we settled our policyholders' claims within a month. Our jewellers' block business grew moderately in 2015, boosted by us winning a number of international accounts.

While the rating environment for all these lines of business was favourable for modest growth, with rates broadly stable, the same cannot be said of the large risk open market property risks we saw at the Beazley box at Lloyd's. Renewal rates on this business were on average down by 8%. We were still able to grow the book slightly however, to $98.1m (2014: $96.8m), due to new relationships that Simon Jackson and John Brown, two senior underwriters who joined us in January, brought to Beazley. Simon succeeded Jonathan Gray as head of the open market property team in June.

In the US we also welcomed a senior new hire last year: Ron Beauregard, a highly experienced executive with a strong track in building profitable surplus lines property businesses, joined us in April to head our excess and surplus lines (E&S) property team. We see potential growth opportunities in this area of our business, which focuses on mid-sized commercial lines business with some catastrophe exposures.

Our construction and engineering insurance business had a good year. We focus on all types of construction risks, written out of London, Singapore and the US. (The US business is commonly known as builders' risk). The growth of the US economy spurred demand for our products and our Singapore business continued to benefit from the growing strength of Lloyd's franchise in the region and is one of the few places in the world, outside London, where Lloyd's underwriters are located under one roof.

We enjoy strong relationships with the other Lloyd's syndicates specialising in construction and engineering risks and have formed a consortium in London and Singapore, the Construction Consortium at Lloyd's, to ensure that we can compete head to head with the largest non Lloyd's insurers. Both of these ventures performed well in 2015.

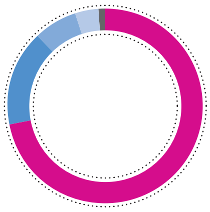
Looking ahead, we will continue to seek out growth opportunities in the face of market conditions that we expect to remain challenging. We were gratified to be recognised as 'insurance team of the year' by *Reactions* magazine in June: it's a designation we will strive to merit every year.

Reinsurance

Disciplined underwriting in market oversupplied with capacity.

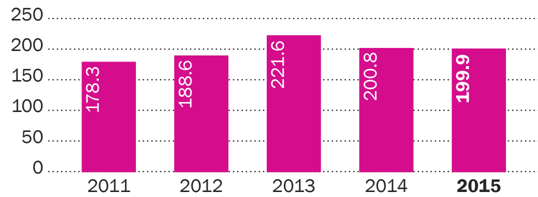
Patrick Hartigan
Head of reinsurance

Portfolio mix



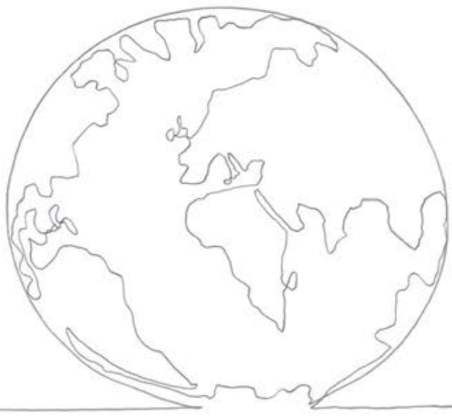
Property catastrophe	72%
Property risk	16%
Korean RE	7%
Miscellaneous	4%
Casualty clash	1%

Gross premiums written ($m)



$199.9m

Gross premiums written



Our reinsurance underwriters exercised restraint in 2015 in a market that continued to be oversupplied with capacity. Claims were subdued and we achieved a combined ratio of 57% (2014: 69%) on premiums of $199.9m (2014: $200.8m).

However, our premiums were boosted by a $20m quota share from Korean Re under a partnership we entered into with the company last March. Since this was part of a reinsurance swap, under which Korean Re's new Lloyd's syndicate wrote an equivalent quota share of Beazley managed syndicates 623 and 2623, it should not be considered net new premium to Beazley.

Many reinsurance executives have talked about the need to maintain underwriting discipline in the current market, characterised by a large influx of pension fund money seeking returns uncorrelated with other asset classes. At Beazley we have acted, reducing the size of our book by 10% in 2014 and a further 8% last year (excluding the Korean Re transaction).

At the same time, we have continued to adjust the geographic balance of our book to take advantage of untapped opportunities in Europe and elsewhere. To achieve this, we have been locating underwriters in reinsurance hubs around the world, where they can access business that would not normally be seen by our underwriters in London. We now underwrite around 20% of our total book outside London. In September we appointed Benoit Goureau to lead the development of our business in France and Belgium, following on from the success of our Munich office established in 2008. Benoit's strategy will be similar to the one we have pursued in Munich, focusing on building long term relationships with local cedents – many of them small mutual insurers – and brokers.

On the other side of the world, we nominated Tom Yang as an underwriter for the Beazley Underwriting Division of Lloyd's China to facilitate the placement of business through the Lloyd's China platform. He knows the local market well and will help us ascertain the scale of local opportunities for Beazley.

Latin America is another market that presents growth opportunities. We see much of this business at the Beazley box at Lloyd's, but we also have a presence in Miami, which continues to grow as a hub for Latin American reinsurance business. We underwrote $7m in premium last year in Miami, up from $4.7m the year before.

In the US, still by far our largest market, accounting for 52% of the division's premiums, we saw rates decline overall a littleless rapidly than originally anticipated. This was largely because a number of major cedents in Florida increased their reinsurance purchases.

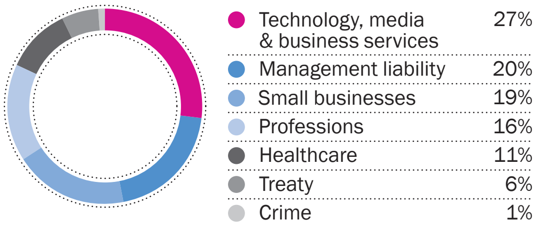
In the absence of a major natural or man-made catastrophe, we do not expect to see material changes in the market rating environment in 2016. Underwriting is challenging in such an environment but our underwriters have the skills needed.

Specialty lines

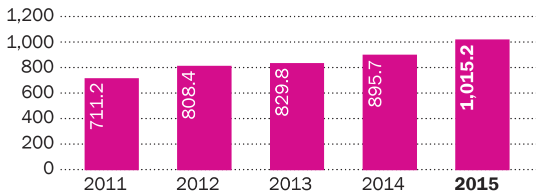
Strong US demand for specialist products fuels third year of growth.

Adrian Cox
Head of specialty lines

Portfolio mix

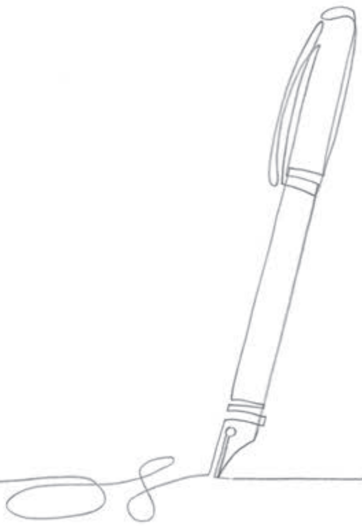


Gross premiums written ($m)



Specialty lines, Beazley's largest division, grew for the third consecutive year in 2015, writing gross premiums of $1,015.2m (2014: $895.7m). Most of this growth derived from the US, where we have been building momentum since the end of the recession.

Our focus in specialty lines is on professional and management liability business that demands strong underwriting skills and high standards of claims service. Our clients want to know that they have a seasoned and knowledgeable insurer in their corner in the event of being sued. We deliver on this requirement, having specialised in this business since the company was founded in 1986.



$1,015.2m
Gross premiums written

Most of the business we underwrite takes some time to generate claims and we therefore frequently have an opportunity to release prior year reserves into our earnings as claims crystallise. These reserve releases contributed $38.7m to our result in 2015 (2014: $29.7m).

In recent years, we have expanded our capabilities in serving two of the largest and fastest growing industries in the US, technology and healthcare. In the technology sector, we have long been recognised as a leading provider of technology errors and omissions insurance for software services companies, including many of the world's largest. We are now also recognised as a pioneer and market leader in data breach insurance.

In the healthcare market, we insure many of the largest hospitals in the US and around the world. In recent years, we have also developed a fast growing business as a miscellaneous medical insurer of the wide array of healthcare providers that are neither hospitals nor physicians. This business grew by 27% in 2015 to $51.3m, buoyed by continued growth in US healthcare spending that outstripped growth in the broader economy.

Our management liability team confronted a more challenging rating environment in 2015, with competition for large public company directors' and officers' (D&O) risks being particularly fierce. However, in this area we have a number of strings to our bow, and demand for employment practices liability (EPL) and private company D&O insurance was strong. EPL claims are very sensitive to the broader economic environment and we have seen claims levels decline steadily since the recession.

Our professions team insures nearly half of the AmLaw 100 list of the largest US law firms and more than half of the top 50 US architectural and engineering design firms, as ranked by *Engineering News-Record*. In common with other large risks, competition for this business – which we underwrite out of London – was intense in 2015. Nevertheless our underwriters have weathered soft market conditions before and we were gratified by the loyalty of clients who value the quality of our risk management and claims service.

One other business line that we bracket within our professions team also enjoyed robust growth in 2015. This was our environmental practice, led by Jayne Cunningham, which grew by 40% to $25.9m. The team provides fixed site pollution liability cover to property owners and developers as well as professional liability cover and other forms of protection for environmental services firms. This line of business has been another beneficiary of the recovering US economy, which we underwrite on both our US and Lloyd's platforms.

Our largest single business line – data breach insurance – continued to grow strongly in 2015. Across all our teams, we increased the amount of data breach and cyber liability business we underwrote in 2015 by 52% compared to 2014. 2015 was notable for two developments: a continued increase in the number of data breaches attributable to hacking or malware, and a strong uptick in demand for cover outside the US.

Hacking and malware accounted for 32% of the breach notifications we received in 2015, up from 18% in 2014 and 10% in 2013. We have been able to address this with premium rate rises where appropriate and have not found our client retention levels appreciably affected. This is in part because the market as a whole has been raising rates but also, we believe, because our comprehensive service proposition continues to be highly valued by clients and brokers.

Our Beazley Breach Response (BBR) Services team, the dedicated business unit that helps our clients manage data breaches effectively, has now helped clients handle more than 3,000 data breaches.

We believe this experience will increasingly be relevant to clients in Europe and elsewhere outside the US. Privacy regulation is tightening around the world, although it may never prove quite as complex to navigate as in the US, where 47 states now have their own data breach regulations. We expect to see particularly strong growth in the European Union, where an EU-wide regulation threatens to add steep financial penalties to the already high reputational risks of mishandling a data breach. We were delighted to launch the cyber consortium at Lloyd's in partnership with syndicates managed by Brit and Aspen. The consortium will focus on providing cover to large businesses domiciled outside the US, bringing additional premium capacity of up to $60m to this market.

Although market conditions are challenging for many of the large risk classes of business underwritten at Lloyd's, we saw growth in our Lloyd's business in 2015.

The past year was an excellent year for product development at Beazley. In specialty lines, we launched new products to meet the specific needs of nutraceutical manufacturers; provide 'wage and hour' cover for US employers who fall foul of complex and evolving labour laws; enhance the management liability and cyber liability protection afforded to US law firms; and protect companies from fraudulent instruction – the risk of theft from fraudsters posing as vendors, clients or authorised employees.

In all of these areas we rely heavily on strong broker and client relationships to help us identify the pain points that demand effective solutions. We then put considerable effort into designing cover that effectively addresses the risk, frequently partnering with specialist external service providers to provide risk management or event response services.

Product innovation of this kind is frequently initially most appealing to the larger clients employing risk managers who are most sensitive to the potential impact of emerging risks. For smaller business, and particularly for the brokers that serve them, the most valuable innovations frequently takes the form of technologies that make it easier to do business. We were particularly pleased to win in November an innovation award from Lloyd's for myBeazley, our etrading platform for brokers to access our broadening range of specialist products tailored to the needs of small businesses.

Financial review
Group performance

It was particularly pleasing to see both the claims and expense ratios improving in 2015 in what was another year of strong performance by the company.

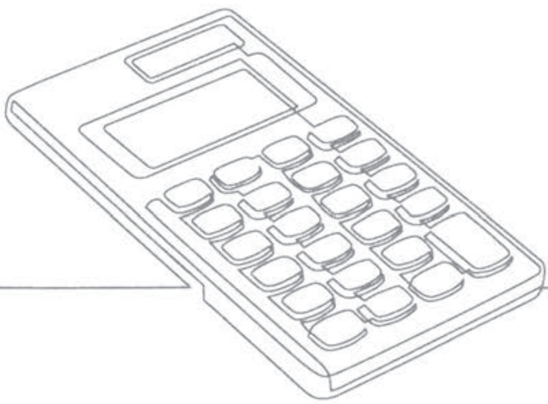
Martin Bride
Finance director

Statement of profit or loss

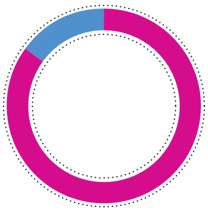
	2015 $m	2014 $m	Movement %
Gross premiums written	2,080.9	2,021.8	3%
Net premiums written	1,713.1	1,732.7	(1%)
Net earned premiums	1,698.7	1,658.9	2%
Net investment income	57.6	83.0	(31%)
Other income	30.9	26.6	16%
Revenue	**1,787.2**	**1,768.5**	**1%**
Net insurance claims	813.9	817.9	–
Acquisition and administrative expenses	663.8	658.9	1%
Foreign exchange loss	9.7	12.3	
Expenses	**1,487.4**	**1,489.1**	**–**
Share of loss of associates	(0.5)	(1.1)	
Finance costs	(15.3)	(16.4)	
Profit before tax	**284.0**	**261.9**	**8%**
Income tax expense	(35.0)	(44.1)	(21%)
Profit after tax	**249.0**	**217.8**	**14%**
Claims ratio	48%	49%	
Expense ratio	39%	40%	
Combined ratio	87%	89%	
Rate decrease	(2%)	(2%)	
Investment return	1.3%	1.9%	

Profit

Profit before tax is up 8% in 2015 to $284m (2014: $261.9m). This increase in profit was driven by an improved combined ratio aided by an increase in releases from prior year claim reserves as well as experiencing a smaller foreign exchange loss in 2015 relative to the prior year, which had a favourable impact on profit of $2.6m. These effects more than compensated for the lower investment return.

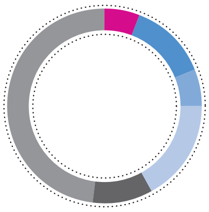


Insurance type



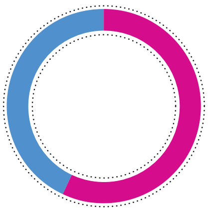
Insurance	85%
Reinsurance	15%

Business by division



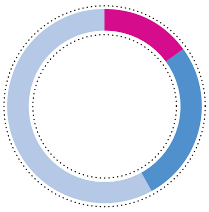
Life, accident & health	6%
Marine	13%
Political risks & contingency	6%
Property	17%
Reinsurance	10%
Specialty lines	48%

Premium written by claim settlement term



Short tail	57%
Medium tail	43%

Geographical distribution



Europe	15%
Worldwide	27%
USA	58%

Premiums

Gross premiums written have increased by 3% in 2015 to $2,080.9m. Rates on renewal business on average decreased by 2% across the portfolio. We have continued to adjust our underwriting appetite in areas where competition is most intense.

Our portfolio by business division has remained broadly unchanged from 2014. We continue to operate a diversified portfolio by type of business and geographical location, and have grown our business across three of the six divisions during 2015.

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

Reinsurance purchased

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

The amount the group spent on reinsurance in 2015 was $367.8m (2014: $289.1m). The increased purchases in 2015 reflects Beazley's strategy of implementing reductions in risk appetite by increasing reinsurance rather than reducing our market profile via lower gross writings.

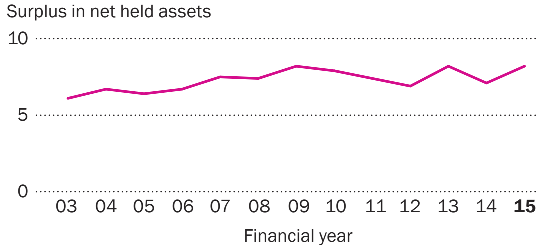
Combined ratio

The combined ratio of an insurance company is a measure of its operating performance and represents the ratio of its total costs (including claims and expenses) to total net earned premium. A combined ratio under 100% indicates an underwriting profit. Consistent delivery of operating performance across the market cycle is clearly a key objective for an insurer. Beazley's combined ratio has decreased in 2015 to 87% (2014: 89%), maintaining our five year historic average of 90%. It is worth pointing out that the calculation of the combined ratio for Beazley includes all claims and other costs to the group but excludes foreign exchange gains or losses. We believe this represents the most transparent and useful measure of operating performance as it ensures that all of the costs of being in business are captured, whether directly linked to underwriting activity or not.

Financial review continued

Group performance *continued*

Whole account reserve strength within our target range (%)



Claims

Overall, claims have developed favourably during 2015, with claims notifications at normalised levels. There has been minimal exposure to natural catastrophes throughout the year.

Reserve releases

Beazley has a consistent reserving philosophy, with initial reserves being set to include risk margins that may be released over time as and when any uncertainty reduces. Historically these margins have given rise to held reserves within the range 5-10% above the actuarial estimates, which themselves include some margin for uncertainty. The margin held above the actuarial estimate was 8.2% at the end of 2015 (2014: 7.1%). This margin has remained stable over time and is a lead indicator for the sustainability of reserve releases. However, it is important to recognise that claims reserve uncertainty is significant for Beazley and a positive lead indicator will not always equate to future releases.

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

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

	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	5 year average $m
Life, accident & health	4.5	0.5	(4.6)	4.4	5.6	2.1
Marine	39.9	27.7	47.3	40.2	31.2	37.3
Political risks & contingency	22.1	33.1	39.4	20.1	18.1	26.6
Property	20.2	6.2	33.7	35.9	37.8	26.8
Reinsurance	38.0	7.0	55.6	27.8	44.9	34.7
Specialty lines	61.8	51.5	46.6	29.7	38.7	45.7
Total	**186.5**	**126.0**	**218.0**	**158.1**	**176.3**	**173.2**
Releases as a percentage of net earned premium	13.5%	8.5%	13.7%	9.5%	10.4%	11.1%

The reserve releases in 2015 totalled $176.3m. There was an overall increase in reserve releases in 2015 compared to 2014. This was driven by the reinsurance division experiencing a benign claims environment in both 2014 and 2015, thus allowing further reserves to be released. The increase was also attributable to our specialty lines division increasing their reserve releases as the post recession portfolio from 2012 onwards matures; a trend which we expect to see continuing.

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

Acquisition costs and administrative expenses

Business acquisition costs and administrative expenses increased during 2015 to $663.8m from $658.9m in 2014. The breakdown of these costs is shown below:

	2015 $m	2014 $m
Brokerage costs	362.8	349.7
Other acquisition costs	85.8	91.5
Total acquisition costs	**448.6**	**441.2**
Administrative expenses	215.2	217.7
Total acquisition costs and administrative expenses	**663.8**	**658.9**

Brokerage costs are the premium commissions paid to insurance intermediaries for providing business. As a percentage of net earned premium they remain consistent at 21% year on year. Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with accounting standards.

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.

In 2015 the expense ratio reduced for the first time for a number of years. Exchange rates helped, but not withstanding that, this was a testament to the company's expense control and was achieved despite increasing the level of investment in the business.

Foreign exchange

The majority of Beazley's business is transacted in US dollar which is the currency we have reported in since 2010 and the currency in which we hold the company's net assets. Changes in the US dollar exchange rate with sterling, the Canadian dollar and the euro do have an impact as we receive premiums in those currencies and the majority of our staff still receive their salary in sterling. Part of this impact, generated by IFRS's treatment of the unearned premium reserve as a non-monetary item, is purely timing with FX profits and losses which unwind in the subsequent period. Beazley's FX loss taken through the profit and loss in 2015 was $9.7m (2014: $12.3m).

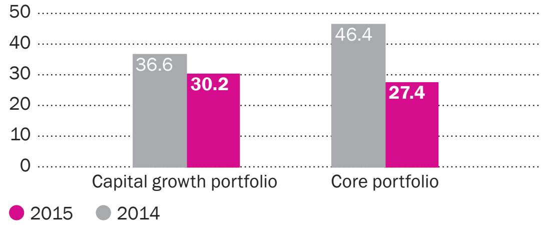
Investment performance

Financial markets saw significant volatility in 2015, influenced by slowing economic growth in China, and emerging markets more generally, as well as the associated fall in commodity, and particularly energy, prices. The prospects for an increase in US interest rates, which eventually happened in December, also affected markets throughout the year. Against this background global equities, in local currency terms, ended 2015 just 1.3% higher, having been down more than 6% earlier in the year. Credit spreads on corporate debt widened significantly, particularly at lower credit ratings, where deteriorating conditions for energy related issuers had a significant effect. Risk free yields in the US also moved higher, with shorter maturities most impacted as the yield curve flattened in anticipation of higher interest rates.

Financial review continued

Group performance *continued*

Comparison of returns – major asset classes ($m)



Rising yields and higher credit spreads resulted in modest, but still positive, returns on the fixed income investments which form the largest part of our investment portfolio. These assets returned 0.7% in 2015, helped by having no material exposure to the worst affected high yield debt issuers. An element of our assets is invested in more volatile asset classes, seeking to generate additional return in the medium term. This part of our portfolio performed well in 2015 as equity linked investments returned 4.5% and significantly outperformed the global equity market, while our hedge fund portfolio produced a strong 7.2% return. Our illiquid credit investments have grown, but remain limited, at 2% of portfolio value. They returned 1.4% in this period. Our overall investment return for the year ended 31 December 2015 was 1.3%, or $57.6m (2014: $83.0m; 1.9%). Although the contribution from investments is lower than last year, we believe this is a good outcome in the context of difficult investment conditions.

At 31 December 2015, the weighted average duration of our fixed income investments was 1.7 years (2014: 1.8 years).

Looking ahead to 2016, available yields on high quality debt investments remain low, but are generally expected to rise, whilst ongoing concerns about the prospects for global economic growth will create continuing headwinds for equity and corporate debt investments. In this environment it will remain very difficult to generate significant investment returns.

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

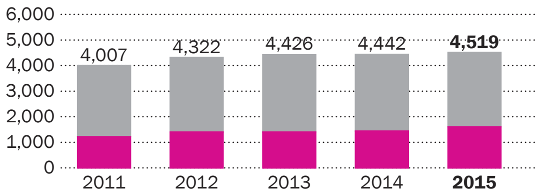
	31 Dec 2015		31 Dec 2014	
	$m	%	$m	%
Cash and cash equivalents	676.9	15.0	364.2	8.2
Fixed and floating rate debt securities				
– Government, quasi-government and supranational	1,857.1	41.1	1,845.6	41.6
– Corporate bonds				
– Investment grade	1,215.8	26.9	1,111.5	25.0
– High yield	68.3	1.5	80.1	1.8
– Senior secured loans	114.9	2.5	101.5	2.3
– Asset backed securities	12.7	0.3	378.6	8.5
Derivative financial instruments	4.6	0.1	1.3	–
Core portfolio	3,950.3	87.4	3,882.8	87.4
Equity linked funds	147.5	3.3	145.9	3.3
Hedge funds	329.0	7.3	367.0	8.3
Illiquid credit assets	92.3	2.0	45.9	1.0
Total capital growth assets	568.8	12.6	558.8	12.6
Total	**4,519.1**	**100.0**	**4,441.6**	**100.0**

Comparison of return by major asset class:

	31 Dec 2015		31 Dec 2014	
	$m	%	$m	%
Core portfolio	27.4	0.7	46.4	1.2
Capital growth assets	30.2	5.4	36.6	6.8
Overall return	**57.6**	**1.3**	**83.0**	**1.9**

In 2015, the funds managed by the Beazley group remained in line with the prior year, with financial assets at fair value and cash and cash equivalents of $4,519.1m at the end of the year (2014: $4,441.6m). The chart on page 43 shows the increase in our group funds since 2011.

Beazley group funds ($m)



● Group funds including funds at Lloyd's
● Syndicates 2623, 3623 and 3622
Figures are taken from December of each year.

Beazley sold most of its asset backed securities during 2015 in preparation for revised regulatory requirements under Solvency II. The significant increase in the cash and cash equivalent position of $676.9m (2014: $364.2m) is temporary and was the result of some movements of funds between Beazley Re and Beazley plc in December in preparation for Solvency II going live on 1 January 2016. We expect the cash position to reduce back towards normal levels during 2016 following the significant special dividend payment and the reinvestment of the asset backed securities proceeds.

Tax

Beazley is liable to corporation tax in a number of jurisdictions, notably the UK and Ireland. Our effective tax rate is thus a composite tax rate driven by the Irish and UK tax rates. Our effective tax rate for the year was 12.3% (2014: 16.9%). The reduction compared to 2014 was due to a number of prior year tax adjustments in 2015 that were all in the group's favour where as in 2014 the reverse was true.

In 2015, it was announced that the UK corporation tax rate will be reduced to 18% by 2020. This reduction in the UK tax rate will reduce the group's future current tax charge. The UK government also passed the diverted profits tax early in 2015. We have considered the implication of this and are of the view that this tax should not apply to Beazley (see note 9).

Summary statement of financial position

	2015 $m	2014 $m	Movement %
Intangible assets	91.0	94.6	(4%)
Reinsurance assets	1,099.7	1,053.2	4%
Insurance receivables	732.7	587.0	25%
Other assets	302.9	266.3	14%
Financial assets at fair value and cash and cash equivalents	4,519.1	4,441.6	2%
Total assets	**6,745.4**	**6,442.7**	**5%**
Insurance liabilities	4,586.7	4,547.4	1%
Financial liabilities	247.3	256.8	(4%)
Other liabilities	470.0	295.8	59%
Total liabilities	**5,304.0**	**5,100.0**	**4%**
Net assets	**1,441.4**	**1,342.7**	**7%**
Net assets per share (cents)	**281.7c**	**265.7c**	**6%**
Net tangible assets per share (cents)	**263.9c**	**247.0c**	**7%**
Net assets per share (pence)	**186.5p**	**170.3p**	**10%**
Net tangible assets per share (pence)	**174.8p**	**158.3p**	**11%**
Number of shares*	**511.7m**	**505.3m**	**1%**

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

Strategic report

Financial review continued

Balance sheet management

Intangible assets

Intangible assets consist of goodwill on acquisitions of $62m, purchased syndicate capacity of $10.7m, US admitted licences of $9.3m and capitalised expenditure on IT projects of $9m.

Reinsurance assets

Reinsurance assets represent recoveries from reinsurers in respect of incurred claims of $868.4m, and the unearned reinsurance premiums reserve of $231.3m. The reinsurance receivables from reinsurers are split between recoveries on claims paid or notified of $210.3m and an actuarial estimate of recoveries on claims that have not yet been reported of $658.1m. The group's exposure to reinsurers is managed through:

- minimising risk through selection of reinsurers who meet strict financial criteria (e.g. minimum net assets, minimum 'A' rating by S&P). These criteria vary by type of business (short vs medium tail). The chart on page 45 shows the profile of these assets (based on their S&P rating) at the end of 2015;
- 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 2015 our provision had reduced to $13.7m (2014: $14.1m) in respect of reinsurance recoveries, following a partial recovery during the year in relation to Lehman Re.

Insurance receivables

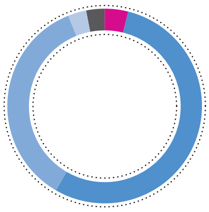
Insurance receivables are amounts receivable from brokers in respect of premiums written. The balance at 31 December 2015 was $732.7m (2014: $587m). In order to meet with the accelerated regulatory reporting deadlines under Solvency II, Beazley now makes an earlier determination of how much of written premiums are received versus receivable. As a result, our premium receivables have grown by 25% year on year whilst gross premiums written have only grown 3% relative to the prior year.

Other assets

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

- deferred acquisition costs of $226.2m;
- profit commissions of $12.6m; and
- deferred tax assets available for use against future taxes payable of $7.1m.

Reinsurance debtor credit quality



AA+	4%
AA-	54%
A+	35%
A	3%
Collateralised	3%

Insurance liabilities

Insurance liabilities of $4,586.7m consist of two main elements, being the unearned premium reserve (UPR) and gross insurance claims liabilities.

Our UPR has increased by 4% to $1,060.8m. The majority of the UPR balance relates to current year premiums that have been deferred and will be earned in future periods. Current indicators are that this business is profitable.

Gross insurance claims reserves are made up of claims which have been notified to us but not yet paid of $937.5m and an estimate of claims incurred but not yet reported (IBNR) of $2,588.4m. These are estimated as part of the quarterly reserving process involving the underwriters and group actuary. Gross insurance claims reserves are broadly unchanged from 2014 at $3,525.9m.

Financial liabilities

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

- in 2006 we raised £150m of lower tier 2 unsecured fixed rate debt that is payable in 2026 and callable in 2016. In 2012, we bought back a total of £47.3m in two tranches. In 2013 we bought back £26.2m of this debt. The initial interest rate payable is 7.25% and the nominal value of this debt as at 31 December 2015 is £76.5m (2014: £76.5m);
- a US$18m subordinated debt facility raised in 2004. This loan is also unsecured and interest is payable at the US$ London interbank offered rate (LIBOR) plus 3.65%. These subordinated notes are due in 2034 and have been callable at the group's option since 2009; and
- 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.

A syndicated short term banking facility led by Lloyds Banking Group plc provides potential borrowings up to $225m. Under the facility $225m may be drawn as letters of credit to support underwriting at Lloyd's. Of this, 75% may be advanced as cash under a revolving facility. The cost of the facility is based on a commitment fee of 0.4375% per annum and any amounts drawn are charged at a margin of 1.25% per annum. The cash element of the facility will expire on 31 July 2017, whilst letters of credit issued under the facility can be used to provide support for the 2015, 2016 and 2017 underwriting years. The facility is currently unutilised.

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) Insurance Groups Directive (IGD). We comply with all IGD requirements. These requirements will be replaced by Solvency II for year end 2016.

Further capital requirements come from rating agencies who provide ratings for Beazley Insurance Company Inc. 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 on going basis in light of the current regulatory framework, (and the changes in regulation currently taking place, i.e. Solvency II) and opportunities for organic or acquisitive growth and a desire to maximise returns for investors.

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

In 2015, Beazley acquired 0.8m of its own shares into the employee benefit trust. These were acquired at an average price of 326p and the cost to the group was £2.6m.

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

	2015 $m	2014 $m
Shareholders' funds	1,441.4	1,342.7
Tier 2 subordinated debt (2026)	116.9	122.5
Retail bond (2019)	112.3	115.8
Long term subordinated debt (2034)	18.0	18.0
	1,688.6	**1,599.0**

Our funding comes from a mixture of our own equity (on a Solvency II basis) alongside $116.9m of tier 2 subordinated debt, $18m subordinated long term debt, a $112.3m retail bond and an undrawn banking facility of $225m.

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

	2015 $m	2014 $m
Lloyd's economic capital requirement (ECR)	1,326.9	1,359.0
Capital for US insurance company	107.7	107.7
	1,434.6	**1,466.7**

At 31 December 2015, we have surplus capital of 49% of ECR, including Solvency II adjustments. Following payment of the second interim dividend of 6.6p and special dividend of 18.4p, this surplus reduces to 35% compared to our current target range of 15% to 25% of ECR.

Individual capital assessment

The group is required to produce an individual capital assessment (ICA) which sets out the amount of capital that is required to reflect the risks contained within the business. Lloyd's reviews this assessment to ensure that ICAs are consistent across the market.

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

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

Solvency II

The Solvency II regime was implemented on 1 January 2016. During 2015 Beazley obtained approval from the Central Bank of Ireland to calculate the Solvency Capital Requirement at a group level and for Beazley Re dac using our internal model. This model is also used to calculate the Solvency Capital Requirement on an ultimate basis for our managed syndicates, as required for Lloyd's capital setting. The Prudential Regulatory Authority has also approved the Lloyd's internal model.

Beazley's programme to prepare for Solvency II began in 2008 and is now substantially complete. Our project to prepare for the pillar 3 reporting requirements is ongoing and will remain in place until annual reporting for 31 December 2016 is complete. We believe we are strongly positioned to meet all the reporting requirements.

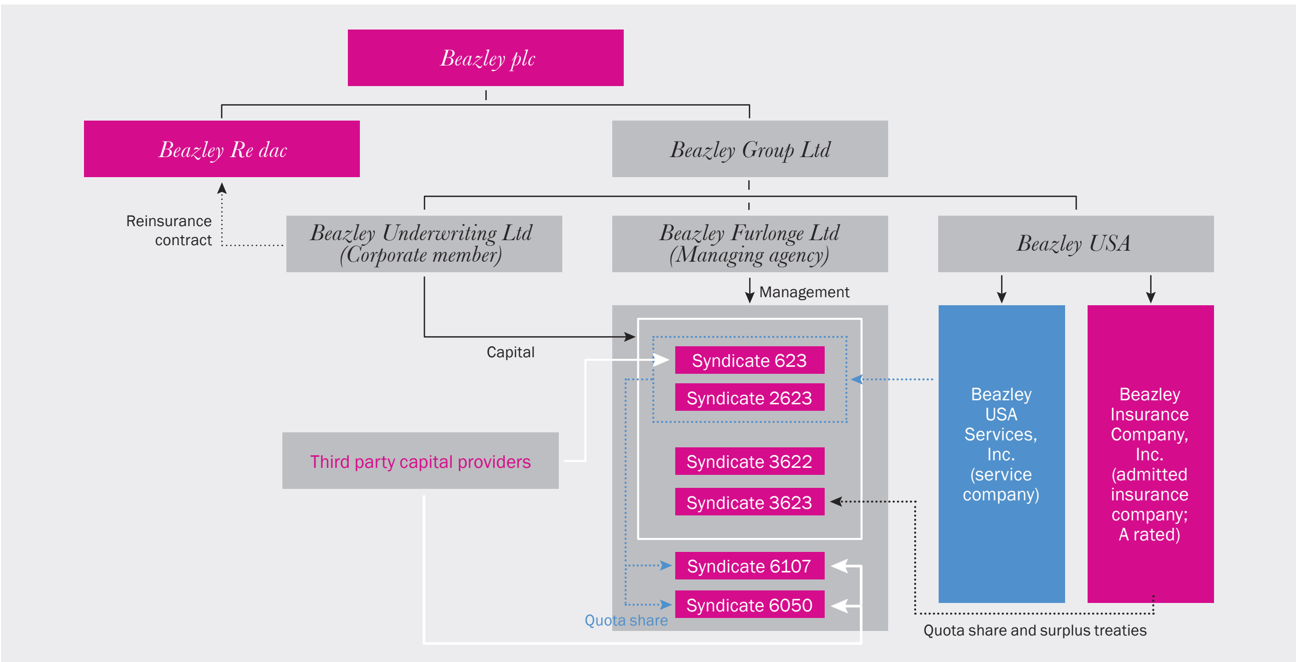
Financial review continued

Capital structure *continued*

Group structure

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

- Beazley plc – group holding company and investment vehicle, quoted on the London Stock Exchange;
- Beazley Underwriting Limited – corporate member at Lloyd's writing business through syndicates 2623, 3622 and 3623;
- Beazley Furlonge Limited – managing agency for the six syndicates managed by the group (623, 2623, 3622, 3623, 6107 and 6050);
- Beazley Re dac – reinsurance company that accepts reinsurance premiums ceded by the corporate member, Beazley Underwriting Limited;
- Syndicate 2623 – corporate body regulated by Lloyd's through which the group underwrites its general insurance business excluding accident and life. Business is written in parallel with syndicate 623;
- Syndicate 623 – corporate body regulated by Lloyd's which has its capital supplied by third-party names;
- Syndicate 6107 – special purpose syndicate writing reinsurance business on behalf of third-party names;
- Syndicate 3622 – corporate body regulated by Lloyd's through which the group underwrites its life insurance and reinsurance business;
- Syndicate 3623 – corporate body regulated by Lloyd's through which the group underwrites its personal accident and BICI reinsurance business;
- Syndicate 6050 – special purpose syndicate which has its capital provided by third-party names and providing reinsurance to syndicates 623 and 2623;
- Beazley Insurance Company, Inc. (BICI) – insurance company regulated in the US. Licensed to write insurance business in all 50 states; and
- Beazley USA Services, Inc. (BUSA) – managing general agent based in Farmington, Connecticut. Underwrites business on behalf of Beazley syndicates and BICI.



Operational update

Technology and operational capability are transforming the way we transact business.

Ian Fantozzi
Chief operating officer

Beazley continues to demonstrate profitable growth, and we have developed a diversified underwriting portfolio that distributes globally, through 25 offices. To support this growth we have developed a scalable and efficient operating platform that through focused investment has become an important competitive advantage.

We are a specialist insurer and our success relies heavily upon the expertise of our underwriters and claims managers and their ability to move quickly to meet client needs. A vital role of operations is to give our underwriters and claims professionals the tools and the support to do this job. Equally, we want to ensure that our brokers can access this expertise and our insurance products as easily and efficiently as possible. In view of this, much of our focus in the last year has been on increasing our distribution through the use of technology, whilst capturing valuable data on how our business is transacted. This data can then be used to modify both our products and our services to best meet market demand.

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 has five areas of focus:

Supporting growth initiatives

In support of our strategic growth initiatives such as in the US, Europe, and Asia Pacific, we have continued to enhance our infrastructure so that we can bring attractive new products to market as efficiently as possible – Beazley best practice protect, and marine pleasure craft are examples of two new types of insurance product that we launched in 2015.

We also continue to explore new ways to improve access to our specialist products. This year we launched a new technology solution called myRate. This is a global rating solution that we are rolling out to our underwriters, starting with our Employment Practices Liability team. This differs from other pricing tools, in its potential to be made ‘outwards facing’ and allow not just underwriters but also brokers and coverholders to access the tool directly – significantly reducing the time taken for them to produce a quote. The myRate technology also underpins another innovative solution that went from strength to strength this year – myBeazley. Now in its second year, we continue to broaden the product set available on the platform. myBeazley was very much designed with ease of use in mind, and we were pleased to receive the *Lloyd’s Innovation Award* for myBeazley in November 2015.

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. Our offices are open plan, bright and airy with a style and consistency that supports our global brand. We strive to get the best quality working space at the best lease and facility cost. In 2015, we opened a new office in Los Angeles, and relocated to larger offices in Sydney and Singapore – further improving market access for our underwriters geographically. We have also increased the size of our global processing and support centre based in Farmington, Connecticut, US – a location that benefits from good access to local insurance operations talent.

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 been centralising operations support or outsourcing 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. In 2015, we centralised support for our global claims team as we have already done for our underwriting support. This addition to central operations support further enhances our ability to seek economies of scale, and balance support across different functions of the business. Being able to scale up through outsourcing is increasingly important as we further diversify into higher volume market segments, notably via our small business products in the US and Europe. In 2015, we agreed new outsourcing agreements that allow us to more efficiently scale our operational platform whilst maintaining a balance with our in-house expertise.

This year we continued to increase the amount of process automation in our back-office for our higher volume products in the US and Europe. Our investment in process automation is key to supporting increased transaction volumes and revenue, without having to scale up our expense base.

Managing operational risk effectively

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

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

An area of heightening operational risk for the financial services industry is information security and the risk of a cyber attack. We have a dedicated in-house information security team, which is integrated with our Beazley breach response team. We apply rigour to our information security environment with our infrastructure and controls organised around four key pillars: – Prepare, Protect, Detect, and Improve. We also work closely with a number of industry specialists both to bring additional expertise to our in-house team, and keep us abreast of potential new threats in this rapidly changing landscape.

With each year, we transact more business electronically in our markets. This brings greater efficiency but also places more emphasis on the need to have a scalable and resilient technology infrastructure. In 2015, we upgraded our global IT data centres to ensure a system with further resilience and scalability.

Enabling product and service innovation

Our strategy focuses on two types of innovation. Firstly, there is insurance product innovation, which requires an operational platform that facilitates an efficient product pipeline – from idea development through to product launch. Secondly, there is the development of new or enhanced tools and support services that enable our employees to perform optimally in their roles.

A continuing focus for us has been strengthening our ability to take new product ideas more quickly from the drawing board to the underwriting stamp. We have built dedicated teams in both London and the US to co-ordinate the product innovation process, and then to bring all the operational components together for a successful market launch.

In 2015, we were able to offer a new type of electronic distribution channel to our UK brokers. Termed business-to-business-to-customer or 'B2B2C'. Using the myBeazley platform, our UK brokers can now deliver electronic insurance risk submission and pricing screens straight to the customer. This interfaces directly with our internal IT platforms, creating a highly efficient model for our brokers and also for our own internal processing. In parallel, we are able to track data about how our products are selling and make adjustments with great speed.

Managing for performance

A market differentiator for Beazley is the high level of experience that we have built within our global operations team. Whether providing support services or delivering large projects, we know what works and what does not. The operations team and the underwriting teams have developed strong working relationships over the years, and collectively we have developed considerable expertise in bringing new products and distribution channels to fruition.

As with all Beazley talent we recognise the importance of developing attractive career paths. We want to equip our operations team with the right skills for the job. We routinely review our talent for potential skills gaps and then provide the most relevant training to ensure a high standard of service provision.

Growing across different markets entails greater operational complexity and a requirement for additional skills in our staff. We do not want to be limited to specific geographic pools of skilled individuals, such as project managers, IT specialists and business analysts. Some locations such as London also have higher unit costs both to hire and to accommodate employees. With this in mind, we continue to improve our sourcing channels to tap into different skilled resource pools. Where possible, if we can deliver a service competently from a remote location, we will aim to do so – better leveraging our more operationally oriented locations, notably Farmington, Connecticut and from 2015, Atlanta.

Looking ahead

Two areas of focus for 2016, are firstly, continuing to increase our ability to efficiently scale up operational support in areas where we see greatest growth potential and margin, such as in the US market. Secondly, continuing to research and develop innovative ways to get our products to the customer. Working closely with our broker partners, we want to continue to make best use of technology and data insight to maximise the efficiency of getting the most appropriate insurance cover for our customers.

We place great importance on maintaining consistency in our approach to delivering high quality service and continually improving operational efficiency. We have a highly experienced operations team to deliver on the above strategic objectives and we take great pride in our ability to create competitive advantage through operational service provision and in our ability to react quickly and efficiently to new business opportunities.

Risk management

Andrew Pryde
Chief risk officer

Charting our risks to chart our course

Although the art of navigation has evolved significantly over time, from the early explorers using rudimentary instruments and celestial bodies through to the current sophisticated suite of integrated electronic and GPS systems, its purpose is unchanged – to travel safely and efficiently. An important navigation system for an insurance company is the risk management framework, combining a number of elements to provide a thorough view of our course. For example:

- like the use of radar, the emerging and strategic risk review looks over the horizon to identify risks that may impact the course of the company in future years;
- like the use of binoculars, the biannual risk reviews seek to identify those risks that are too close for radar to provide meaningful information, but which are still far away;
- like the use of one's own eye, the consolidated assurance report provides detailed information of the immediate surroundings so that precise manoeuvres can be made; and
- like the use of hindsight, reviewing risk incidents allows us to learn from our mistakes and use experience to improve future navigation.

In today's turbulent world, perhaps being able to identify, understand and adapt to risks that arise along the journey is just as important as knowing our destination.

This year's journey

As at 31 December 2015, all entities in the Beazley group are operating within risk appetite as set by the board. There have been no new risk areas identified and no major shifts in existing risks. In addition, the control environment has not identified any significant failings or weaknesses in key processes.

Risk management has undertaken two key risk profile reviews. The first was to review the design and operation of the underwriting standards, particularly in soft market conditions. Whilst the conclusion was that the underwriting standards remain appropriately designed, we have increased the focus on oversight of policy wordings (which can become a target in a soft market) and monitoring more closely the 28 new underwriters who have joined Beazley in 2015. The second risk profile review was an annual review of Beazley's cyber exposure with the aim of improving our understanding of how an aggregation of claims across a number of policies could be triggered by a single cause or event. We used external technical expertise to benefit from the latest thinking on what is possible, which has led to the development of five new realistic disaster scenarios that will be monitored. We have also developed a cyber risk budget which the new scenarios will be compared against to assist the board in overseeing the growth of our cyber premium.

Risk appetite sets the navigational parameters and so supports board discussion. For example, because asset risk appetite is based on how much earnings volatility the board is prepared to tolerate, it is set with consideration of the insurance conditions in mind rather than the asset environment alone. This tempers the amount of asset risk taken in soft insurance market conditions when the initial reaction may be to take on more asset risk to make up for an expectation of reduced insurance profits.

We have also complemented our quantitative risk appetite measures by developing qualitative statements which guide on what type of activity would be outside risk appetite using relevant language for that part of the business. This has helped to improve the understanding across the business of how the board expects the company to operate.

In 2015, we reviewed the way we manage conduct risk. Conduct risk describes Beazley's behaviour that aims to provide appropriate products to the right group of consumers that achieve fair outcomes. Beazley's approach starts with culture. The Professional and Integrity elements of our PIED values and the Honourable and Deliver elements of Being Beazley mean we consider and understand the needs of our customers and form an important cultural base to getting this right. This is supported by product specific activity dependent on the type of customer. From a risk management perspective, we facilitated the development of the conduct objective, the conduct risk appetite and the standards required to remain within this risk appetite.

We are able to extract conduct related controls from the risk register to provide the board with assurance that the expected behaviours towards customers are being demonstrated.

Risk management facilitated the discussion of emerging and strategic risks at the board strategy day in May 2015. The discussion focused on four strategic risks; a deterioration of relationships between some of the G20 countries, failure to harness the benefit of technological advances, the commoditisation of specialist insurance products and the operational consequences if premium income were to reduce materially.

The quarterly Own Risk and Solvency Assessment (ORSA) report captures and explains the current and prospective risks and associated capital requirements. Since 2010, the board has received 20 regular quarterly ORSAs and three ad hoc transactional ORSAs and these reports have proved to be one of the key benefits arising from the introduction of the Solvency II regime.

There is widespread belief that the approach to remuneration is a key determinant of a business's success or failure. As such, this is now the fifth year that the chief risk officer has provided a detailed report to the remuneration committee to provide assurance that the design of the remuneration structure drives the intended behaviours not only over the next year but also over the next three to five years. Members of the risk management team have visited Beazley offices in the US, Europe, Asia and Australia to identify how we can improve what we do and to observe how consistently the Beazley culture ensures our staff do the right thing.

Turning to capital, we have continued to make minor changes to the internal model during 2015, the last year before the Solvency II regime goes live. Some changes have been in response to regulatory review to ensure that the internal model completely meets all the requirements. Other changes have been made to ensure that the internal model remains aligned to Beazley's risk profile. We have observed that there is increasing interest across the market in utilising a 'drivers of risk' approach, which is used by Beazley to describe how risks interact rather than using a statistical correlation matrices approach. Since we implemented such an approach in 2004, we have found that a 'drivers of risk' approach leads to a more informed discussion given the more intuitive approach to aggregating risk. Our focus in 2015 has been on reviewing the universe of risk drivers to ensure that all appropriate drivers have been included in the model and that the emergence of future drivers will be incorporated as necessary.

The board has received a detailed validation report to provide assurance that the model design and its output are appropriate. This report, coupled with a programme of regular and tailored director briefings called "KRAM", ensure that the internal model is widely understood and actively used.

Beazley received approval for its Solvency II internal model from the Central Bank of Ireland in December 2015. This ensures that Beazley's capital efficiency is maintained as the company will continue to use a model that more accurately reflects its risk profile to set capital requirements, rather than having to use the standard formula which typically generates higher capital requirements.

Preparing for the future

Beazley's current risk management framework has been successfully operating over the last five years. Although we have continued to enhance the framework during that period, we have undertaken a detailed review in the second half of 2015 of the operation of the risk register and associated reporting. This review has made use of our experiences of operating the framework during that period and has considered how market best practice has developed. We will be implementing changes in the first half of 2016 with the aim of ensuring that the next evolution of the risk management framework is up to the challenge of helping Beazley navigate the next five years.

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 continued

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 established a board risk committee.

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

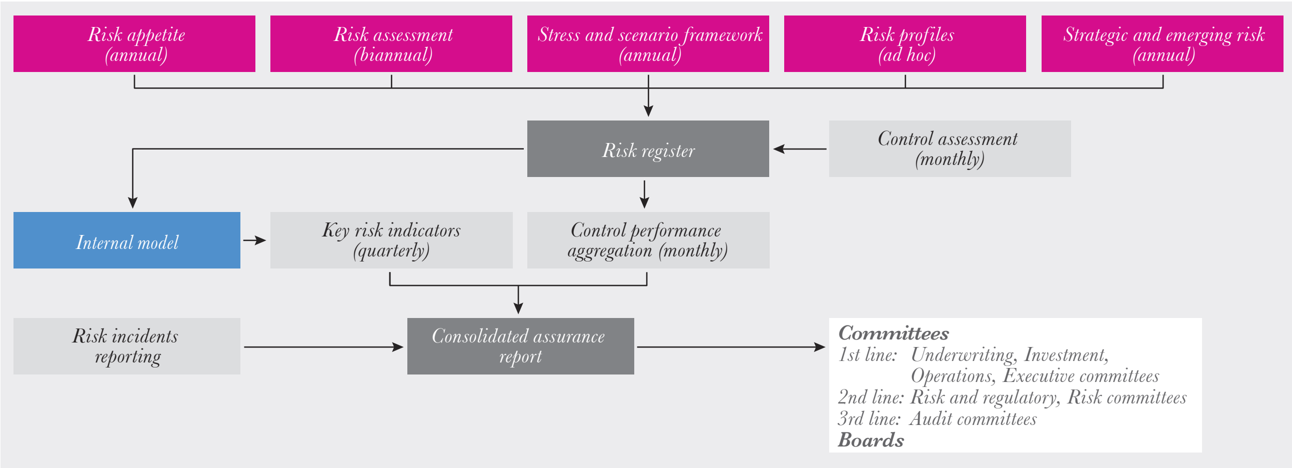
In addition, the following risk management principles have been adopted:
- risk management is a part of the wider governance environment;
- techniques employed are fit for purpose and proportionate to the business;
- it is a core capability for all employees;
- risk management is embedded in day-to-day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

Risk management framework

Beazley has adopted the ‘three lines of defence’ framework: namely business risk management, the risk management function and the internal audit function. Within business risk management, there are two defined risk and control roles: risk owner and control reporter. Each risk event is owned by the risk owner who is a senior member of staff. Risk owners, supported by the risk management team, formally perform a risk assessment twice a year, including an assessment of heightened and emerging risks.

Business risk management *Risk ownership*	*Risk management* *Risk oversight*	*Internal audit* *Risk assurance*
– Identifies risk *– Assesses risk* *– Mitigates risk* *– Monitors risk* *– Records status* *– Remediates when required*	*– Are risks being identified?* *– Are controls operating effectively?* *– Are controls being signed off?* *– Reports to committees and board*	*– Independently tests control design* *– Independently tests control operation* *– Reports to committees and board*

The risk management framework comprises a number of risk management components, which when added together describe how risk is managed on a day to day basis. The framework includes a risk register that captures the risk universe (55 risk events grouped into eight risk categories: insurance, market, credit, liquidity, operational, regulatory and legal, group and strategic), the risk appetite set by the Beazley plc board, and the control environment that is operated by the business to remain within the risk appetite. The following diagram illustrates the components of the risk management framework.



In summary, the board identifies risk, assesses risk and sets risk appetite. The business then implements a control environment which describes how the business should operate to stay within risk appetite. Risk management then reports to the board on how well the business is operating using a consolidated assurance report. For each risk, the consolidated assurance report brings together a view of how successfully the business is managing risk, qualitative commentary from the assurance function and whether there have been any events that we can learn from (risk incidents). Finally, the framework is continually improved, through the consideration of stress and scenario testing, themed reviews using risk profiles and an assessment of strategic and emerging risks.

A suite of risk management reports are provided to the boards and committees to assist senior management and board members to discharge their oversight and decision making responsibilities. The risk reports include the risk appetite statement, the consolidated assurance report, risk profiles, stress and scenario testing, reverse stress testing, an emerging and strategic report, a report to the remuneration committee and the ORSA report.

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

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 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 and 57.

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 cashflows 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 report 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.

Risk management continued

The risks to financial performance

The board monitors and manages risks grouped into eight categories, which cover the universe of risk that could affect Beazley. There have been no new risk areas identified and no major shifts in existing risks. The board considers the following two 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 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. 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 and conservative 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 35 senior individuals from across different disciplines at Beazley).
- **Environment:** There is a risk that the chosen strategy cannot be executed because of the current environmental conditions within which Beazley operates, thereby delaying the timing of the strategy.
- **Communication:** Having the right strategy and environment is of little value if it is not communicated internally so that the whole group is heading in the same direction, or if key external stakeholders are not aware of Beazley's progress against its strategy.

- **Senior management performance:** There is a risk that senior management is overstretched or does not perform, which would have a detrimental impact on the group's performance. The performance of the senior management team is monitored by the CEO 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 (one of seven ingredients of Being Beazley) by doing the right thing.
- **Flight risk:** There is a risk that Beazley is 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 undertakes a corporate transaction which does 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 monitors five categories of emerging and strategic risk on a quarterly basis, namely; socio-political risk, distribution, market conditions, talent and regulation.

Other risks

The remaining six risk categories monitored by the board are:

- **Market (asset) risk:** This is the risk that the value of investments is 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.
- **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 does not operate in line with the relevant regulatory framework in the territories where it operates. Of the eight risk categories, the board has the lowest tolerance for this risk.
- **Liquidity risk:** This is the risk that the group does 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 operates to the detriment of another group entity or entities. Although this risk is currently small, the Beazley plc board monitors this risk through the reports it receives from each entity.

Responsible business

Our vision is to use our expertise, influence and passion as a force for good in our local communities and the wider world.

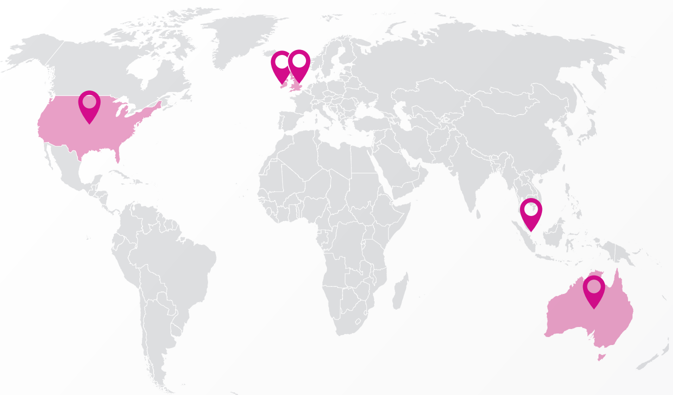
Eighty-nine percent of our employees completed our employee engagement survey this year. They told us that our being a responsible business was of overriding importance to them – a finding strongly reinforced by the high level of employee participation in charitable and community outreach efforts around the world in the course of 2015.

Our aim for 2016 is to continue to build on the initiatives described in the pages that follow. Our responsible business committee, chaired by Pippa Vowles with Clive Washbourn as executive sponsor, sets our global strategy, focusing on:

- support for our charity partners;
- our role in the communities where our people live and work;
- the environmental sustainability of our business;
- our beneficial influence in the markets in which we operate;
- our people's health, wellbeing and safety; and
- the diversity and inclusion of our workforce.

Make a difference 2015

A third of our employees around the world volunteered to help in over 30 projects in Australia, Ireland, Singapore, the UK and US, making a positive difference in their communities.



Supporting our communities

Our goal is to increase the skills and expertise of children and young people (six years old to graduate level) from lower socio-economic backgrounds, with an emphasis on helping school leavers and graduates enter the workforce. By community, we mean the cities where we have offices, and within those cities we then identify particular communities/suburbs that most need our support. We've found this not only has a positive impact on our communities but also our employees have told us it builds pride in working for Beazley, enhances their skills and builds motivation.

Women in the workplace
Beazley volunteers led workshops to help 90 young adults consider their career options and showcase what roles are available in insurance.

Greater Chicago Food Depository
Beazley volunteers sorted donated food at Greater Chicago Food Depository, ready to be distributed for people in need.

Oz Harvest
Beazley volunteers prepared hot meals for the vulnerable in their community.

Make a difference 2015 *continued*

Dragon Award finalist

We entered our community efforts in the Lord Mayor's Dragon Awards this year in the *Best New Community Programme* category and were proud of our people's efforts to be shortlisted in this category.

THE LORD MAYOR'S 2015
HEART OF THE CITY AWARD
FOR BEST NEW COMMUNITY PROGRAMME
FINALIST

Recognising Community Engagement in London

Certificate hereby awarded to:

Beazley Group
Make a Difference

In recognition of excellence

The Rt. Hon. The Lord Mayor of London,
Alderman Alan Yarrow

CITY LONDON

Teesdale & Hollybush Tenants and Resident Association (TRA)

The TRA is made up of 13 estates in East London. Beazley volunteers helped with maintenance projects around the estates.

#CGD

LORD MAYOR'S CITY GIVING DAY 30 SEPT 2015

In partnership with CITY A.M.

Recently joined City Giving Day

beazley

Why are you supporting City Giving Day?
Each September our employees volunteer in our communities around the world, so City Giving Day gives us the opportunity to join up with other organisations on 30th September and make an even greater positive impact in London. Enterprise volunteer day.

Which charities or communities do you support?
We partner with Shelterbox and World Child Cancer to support those affected by natural disasters and children suffering from cancer. We also work closely with several community partners to address the persistent lack of youth employment opportunities in east London, close to our City offices, and the need for more continuity of support for young people all along their career journey.

How will you celebrate CGD?
Our aim is to increase the skills and expertise of disadvantaged children and young people with an emphasis on helping school leavers and graduates enter the workforce. So we are hosting a workshop at Beazley for thirty young women from east London to inspire interest in the insurance market.

CHARITY IN ACTION

Our partnership with Brokerage Citylink gives inner London students the chance to work with Beazley for six to 13 weeks during the summer. They are given real responsibility so that they can come away with a true understanding of office life and career options.

"I've learned so much and grown an incredible amount, in confidence and knowledge. Working in insurance has given me fantastic exposure to a potential career that I had never considered before"
Nikita Oppan, Brokerage Citylink

City Giving day

We took part in City Giving day in London, to join other organisations in making an even bigger impact in London.

Internships and work experience

We want to provide talented individuals who would not normally have access to jobs in the cities where we work, the chance to gain work experience with us. This year we increased the number of interns at Beazley through our partnership with the charity, The Brokerage CityLink, from six to nine.

We also extended our internships this year to include our New York and San Francisco offices as well as London, employing three more interns. The 12 internships last around ten weeks and give the students access to the corporate environment, an insight into the insurance world and the opportunity to learn vital business skills.

Our aim is to introduce this to even more of our offices globally next year.

Beazley interns

The City of London recognised our leadership and partnership with the Brokerage CityLink by awarding Beazley the *Employer of the Year* in September.

Building partnerships with charities

Our passionate employees on our charity committees in the UK and the US are responsible for encouraging and supporting employees to participate in charitable and community activities; managing Beazley's corporate charitable partnerships and overseeing Beazley's response to large scale disasters.

We donated over $360,000 to charities this year and we continued our partnerships with World Child Cancer, Shelterbox, Feeding America, The Conservation Fund and the Cancer Research Institute in the US. Our focus has been to build strong partnerships that go beyond donating funds and where we can offer our skills and expertise.

ShelterBox app

As one of the leading speciality insurers in data breach response insurance we know the importance of data. We supported Shelterbox to develop an app, which helps to transform data capture and analyse operational information. The app helps measure impact of disasters, allowing Shelterbox to improve on future disaster relief operations.

Employee fundraising

Throughout the year our employees have given their time to fundraise for charities raising cash which Beazley has match funded to recognise their efforts.

Natural disaster relief

Beazley donated over $10,000 to relief work after natural disasters this year, including the Vanuatu and Nepal earthquakes and flooding in Texas.

Responsible business *continued*

Sustainability

Our strategy focuses on three key areas:

- Our offices: ensuring the environmental impact from our offices is minimal and finding ways to enhance them so they have a more positive impact
- Our procurement: leveraging our buying power and working with suppliers to make a positive environmental impact
- Our people and communications: engaging our people to help achieve our goals, consider their environmental approach outside work and keep them informed of what we are doing.

Beazley are tenants in all our buildings globally and we work closely with our landlords to lead and support on environmental initiatives in our offices.

Every day our people do a range of things to reduce our carbon footprint – from using public transport on business trips to booking Addison Lee (who have acquired Climatecars), who provides electric and hybrid vehicles and is our preferred car transportation company in the UK. Our latest greenhouse gas (GHG) emissions report, from 2014, showed that in the UK we decreased our emissions by 6% compared to 2013 which is due to decreased air travel and taxi use. In the US we increased our emissions by 6% compared to 2013. This is largely attributable to increased air travel due to growth in office locations. We held our annual strategy event in-house in each of our offices, reducing the necessity for travel.

We have also undertaken initiatives such as arranging presentations from local recycling companies. These presentations involved outlining the recycling and composting process to create a greater understanding among our employees of what can be recycled. We have decreased the number of stationery deliveries across the US and London, reduced the monitor power output on PC's and ensured LED lighting is installed in our new offices to reduce emissions.

Our strategy for 2016 is to continue the momentum and create clear targets for what we want to achieve in the future.

Last year we joined the London Living Wage Foundation and we continue to be a member this year, ensuring we pay a minimum wage beyond the legal requirements for all our employees, contractors and third party employees.

Green office programme ▸
This year our San Francisco team worked with their building management company to put forth a voluntary 'Green Office' programme for all tenants in the building.

London Living Wage Employer

Marketplace

The products we offer and the way we do business also have an impact on our partners and peers. Our aim is to identify and increase the ways in which we can influence others to do the right thing through our business activities.

We are well known in the healthcare sector for encouraging safe behaviour and processes. We are taking that one stage further in conjunction with Palo Alto Research Center (PARC) doing analysis of large data sets with a view to improve loss avoidance and share best practice amongst our insureds.

We have influence in other sectors in different ways; insurance contracts can include incentives to improve risk including imposing contractual obligations on the insured and requiring compliance with laws and good practice. For example, we include technical requirements for our insured to increase safety in products lines including airlines, marine, personal accident and construction and engineering. In terms of social welfare and employee safeguarding, our Employment Practices Liability cover gives a helpline for SME employers and victim support service.

We are part of the Lloyd's Disaster Relief Finance working group, providing $400m of new insurance capacity to help developing economies tackle underinsurance and increase their resilience against the economic impact of natural catastrophes.

Within our daily activities we always look for options that generate additional benefits from our spending, for example by choosing conferencing or entertainment venues that support charities and local communities.

Our two main aims for 2016 are:

- continued development of products that have a greater positive impact than simply risk transfer; and
- focus on the healthcare, management liability and employment practice sectors to drive positive behaviours.

Human rights

Matters that are deemed to be material in relation to human rights are reflected in a number of our group policies, our values, and our code of conduct.

Health, wellbeing and safety

We continue to ensure all employees, contractors and visitors are given an induction, training and supervision in aspects of health and safety, ensuring we are up-to-date and compliant with current laws. We also conduct risk assessments in all offices.

In 2015 we launched our on-going Health & Wellbeing initiative, designed to:
- raise awareness about the wellbeing benefits we offer to our employees; and
- promote a healthy lifestyle.

We have health and wellbeing champions across Beazley globally who design a programme of topics to focus on each month.

Focus on health and wellbeing
Colleagues take part in various challenges.

Diversity and inclusion

We are an equal opportunities employer, ensuring we offer equal treatment to employees and prospective employees. We treat all employees fairly, with dignity and respect.

We value diversity and inclusion because it leads to a more dynamic, innovative, responsive organisation. It allows us to fully represent our existing client base and better connect with different communities of potential customers.

Our aim is to build an open and collaborative culture generating contagious energy and a real sense of creativity. In 2015 our focus on diversity and inclusion was rated one of our strengths in the employee survey, with 80% of our people agreeing we have a work environment that is open and accepts individual differences.

This year we established women's networking forums in the US and UK, which are open to everyone to attend. The forums provide a chance for a cross section of employees to meet monthly to discuss development and hear from external speakers. We will continue to establish further networks as our people request them.

In addition, we provided training to managers on leading a multi-generational and diverse workforce and created an interactive online portal for people to collaborate and share ideas on diversity.

We are actively implementing our diversity strategy to increase all aspects of diversity across the organisation. In particular we have focused on gender diversity in areas such as underwriting and claims that have traditionally not been as gender diverse as other areas of the business. As a result of these efforts we are pleased that the number of female underwriters employed by the group has increased by 17% and the number of female claims managers has increased by 14% during the course of the year.

The group has agreed to establish goals for gender diversity for both the board and broader organisation. The board approved the goals for gender diversity of the Beazley plc board containing two female members by AGM 2016, and a third female member by AGM 2017.

Employee diversity by gender

	Beazley plc board	Beazley executive committee
Male	11	10
Female	1*	2
	Total 2015 – 12	**Total 2015 – 12**

	Senior management	All employees
Male	53	546
Female	9	474
	Total 2015 – 62	**Total 2015 – 1,020**

* Catherine Woods joined the board on 1 January 2016, raising the quotient of female board members at the date of approval of this report to two.

Directors' report

The directors have pleasure in presenting their report and the audited financial statements of the group for the year ended 31 December 2015.

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 and Beazley Insurance Company, Inc., a US admitted carrier, in the US.

Management report

The directors' report, together with the strategic report on pages 1 to 64, 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 107.

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 2015 amounted to $284m (2014: $261.9m).

The directors announce both a second interim dividend of 6.6p per ordinary share (2014 second interim dividend: 6.2p) and a special dividend of 18.4p per ordinary share (2014 special dividend: 11.8p per ordinary share). These dividends, together with the first interim dividend of 3.3p per ordinary share (2014 first interim dividend: 3.1p), give a total of 28.3p (2014: 21.1p).

The aforementioned second interim and special dividends will be paid on 31 March 2016 to shareholders on the register on 26 February 2016 (save to the extent that shareholders on the register of members on 26 February 2016 are to be paid a dividend by a subsidiary of the company (being Beazley DAS Limited) resident for tax purposes in the United Kingdom pursuant to elections made or deemed to have been made and such shareholders shall have no right to this second interim dividend).

Going concern and viability statement

A review of the financial performance of the group is set out on pages 38 to 48. 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 at page 55.

Directors

The directors of the company who served during 2015 and/or to the date of this report were as follows:

Dennis Holt	Non-executive chairman
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
Sir John Andrew Likierman	Non-executive director (appointed 25/03/2015)
Neil Patrick Maidment	Director
Padraic Joseph O'Connor	Non-executive director
Vincent Joseph Sheridan	Non-executive director
Kenneth Paul Sroka	Non-executive director (resigned 04/12/2015)
Rolf Albert Wilhelm Tolle	Non-executive director
Clive Andrew Washbourn	Director
Catherine Marie Woods	Non-executive director (appointed 01/01/2016)

The board is complying with the provision on annual re-election of all directors introduced by the UK Corporate Governance Code.

On 3 February 2016 the board approved, after rigorous review by the nomination committee, that Angela Crawford-Ingle and George Blunden stand for re-election at the forthcoming AGM for three years, and that Vincent Sheridan stand for re-election for one year.

Further information can be found in the statement of corporate governance on page 73.

Directors' interests

The directors' interests in shares of the company, 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 page 85.

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's compliance with corporate governance is disclosed in the statement of corporate governance on pages 73 to 76.

Corporate, social and environmental responsibility

The company's corporate, social and environmental policy is disclosed on pages 58 to 63.

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 52 to 57 and further detail is contained in note 2 to the financial statements on pages 128 to 139.

Substantial shareholdings

As at 3 February 2016, 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	%
Invesco Perpetual	101,400,652	19.4
MFS Investment Management	49,623,657	9.5
Woodford Investment Management	24,859,717	4.8
Dimensional Fund Advisors	23,111,889	4.4
Standard Life Investments	19,612,425	3.8
BlackRock	19,164,524	3.7
Legal & General Investment Management	15,729,547	3.0

Recent developments and post balance sheet events

Recent developments and post balance sheet events are given in note 34 in the financial statements on page 176.

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.

Greenhouse gas emissions

Information relating to greenhouse gas emissions can be found in the responsible business section on page 62.

Diversity and inclusion

Information concerning diversity and inclusion can be found in the responsible business section on page 63 and in the statement on corporate governance on page 74.

Authority to purchase own shares

On 25 March 2015 shareholders approved an authority, which will expire on 25 June 2016 or, if earlier, at the conclusion of the 2016 AGM for the company to repurchase up to a maximum of 52,143,943 ordinary shares (representing approximately 10 per cent of the company's issued ordinary share capital). During the year, Beazley acquired 0.8m of its own shares into the employee benefit trust. The board continues to regard the ability to repurchase issued shares in suitable circumstances an important part of the financial management of the company. A resolution will be proposed at the 2016 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.

Share capital
The company has ordinary shares in issue. Ordinary shares therefore represent 100% of the total issued share capital as at 31 December 2015 and 3 February 2016. Details of the movement in ordinary share capital during the year can be found in note 21 on page 157.

As at 3 February 2016 there were outstanding options to subscribe for 19.5m ordinary shares pursuant to employee share schemes, representing 3.7% of the issued share capital. If the authority to purchase shares were exercised in full, these options would represent 3.7% of the enlarged issued share capital.

Annual general meeting
The annual general meeting of the company will be held at 12:00hrs on Thursday 24 March 2016 at 2 Northwood Avenue, Santry, Dublin. The notice of the AGM details the business to be put to shareholders.

Auditors
KPMG have indicated their willingness to continue in office. Accordingly, a resolution to reappoint KPMG as auditors of the company will be proposed at the annual general meeting.

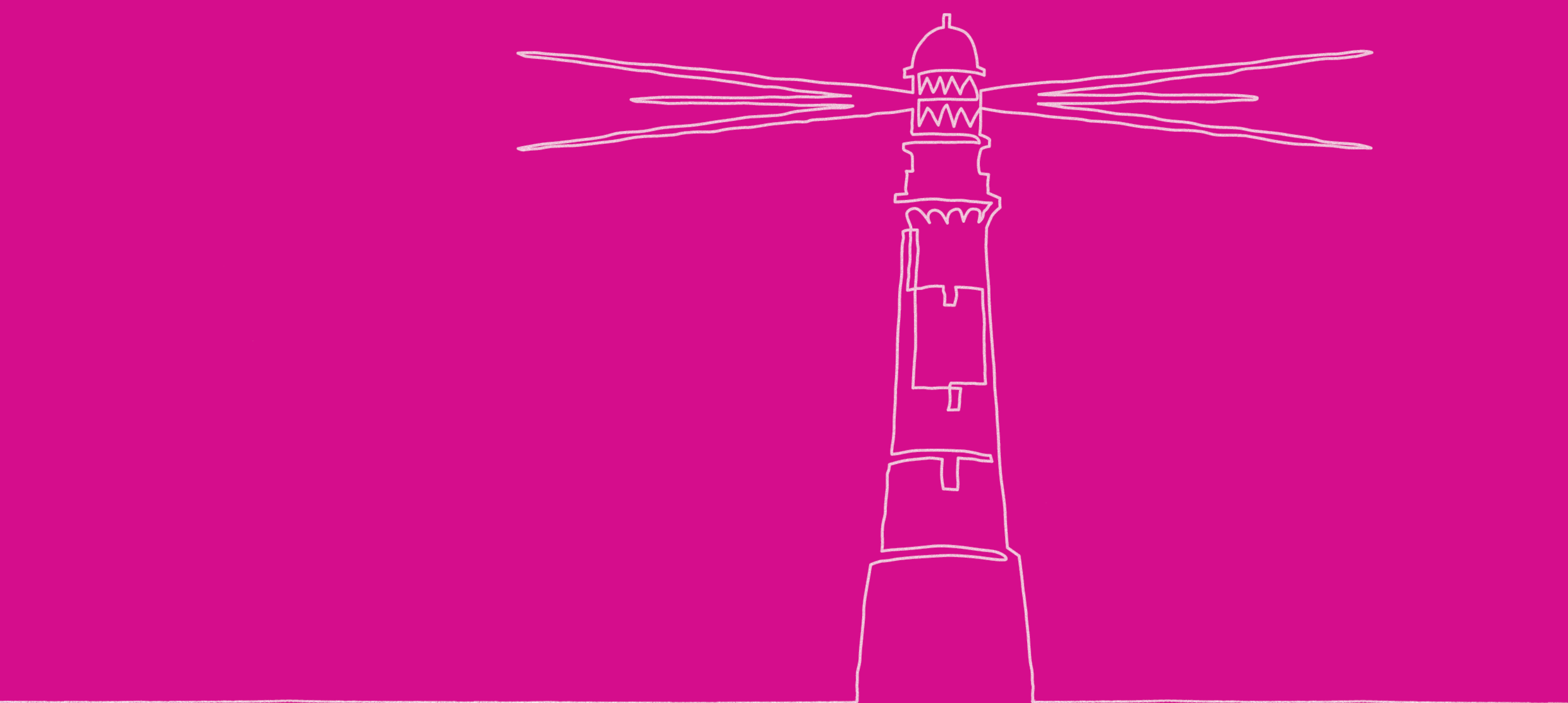
Disclosure of information to auditors
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he or she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

S A Coope
Company secretary
2 Northwood Avenue
Northwood Park
Santry Demense
Santry
Dublin 9

3 February 2016

Governance



Letter from our chairman

The company continues to be committed to the highest standards of corporate governance and the group's robust system of governance has been designed to establish, implement and maintain effective controls, internal reporting and communication of information across all levels within the group. We believe these to be fundamental to the long term success of the company.

The board's role is to set the company's strategic aim, scrutinise management's performance and ensure that the necessary financial and human resources are in place for the company to meet its objectives. The board met regularly through the year, set direction and risk appetite and provided oversight and control of management in the day-to-day running of the business. As chairman, I seek to ensure open and collective discussion and debate of significant issues is achieved, that appropriate decisions are then reached, and that we empower management to then execute those decisions, with our on-going oversight and support. In May, we held a board strategy day and reviewed the current and expected business conditions against our strategic objectives and long term plan.

The board and its committees met regularly during the year with near 100% attendance from all members. We promote a culture of openness and debate at each meeting and seek to receive constructive challenge from the non-executive directors to help develop proposals on strategy and other matters. Each of the strategic initiatives has been assigned a non-executive sponsor.

During 2015, we welcomed Sir Andrew Likierman to the board and appointed Catherine Woods to the board with effect from 1 January 2016. Details of the search process are set out in the nomination committee report. Ken Sroka left the board in December, and we would like to thank him for his valuable contribution during his time on the board.

The group recognises the value from regularly reviewing the effectiveness of the board. We commissioned an external review of the effectiveness of the board and its committees in 2015. Deloitte LLP conducted the review which included interviews and observation of board and committee meetings. Whilst there are no matters of significance to report, we have developed some actions to support continuous improvement in our governance processes. Details of Deloitte LLP's other connections with the company is explained in the directors' remuneration report on page 99.

We ensure directors continually update their skills through individual development plans and board training. Talent development and succession planning are critical components of sustainable success and this starts at the very top, in the boardroom. It is vital that we have on the board the right balance and diversity of expertise, skills, experience and perspectives, in addition to independence of thought and action.

The group believes in the importance of diversity for board and group effectiveness and has developed a diversity strategy to support our commitment to being an equal opportunities employer. During 2015, we set gender diversity goals for the group and board. Of the last three appointments to the plc board, two were made to female non-executive directors. We are committed to ensuring appointments are made on merit against selection criteria. Further details of our policy and goals are set out in the nomination committee report.

The provision of timely, accurate and appropriate information to the board and committees is key to good governance. We regularly review the board information to ensure it is in a form, and of a quality to enable the board to discharge its duties.

I am pleased to confirm the company has complied with the principles and provisions set out in the UK Corporate Governance Code throughout the year ended 31 December 2015 and explained the independence of Rolf Tolle on page 73. The appointment of George Blunden and Vincent Sheridan for terms of longer than six years is explained on page 73. Details of the activities of the board and its committee also are set out on pages 70 to 71.

Dennis Holt
Chairman

Board of directors

Andrew Horton
Chief executive officer

Appointed: 12 June 2003*
Experience: Andrew joined Beazley in June 2003 as finance director. 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 (chair)

Martin Bride
Group finance director

Appointed: 5 May 2009*
Experience: Martin joined Beazley in May 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, before pursuing a career in the composite insurance sector with Aviva and Zurich Financial Services. His experience spans personal and commercial lines general insurance, the London market, life insurance and asset management in both the UK and France.
Committee: Executive committee

Neil Maidment
Chief underwriting officer

Appointed: 15 March 2001*
Experience: Neil joined Beazley in 1990 and was appointed to the board in 1993. He has over 30 years of Lloyd's experience and, in 2011, joined the board of the Lloyd's Market Association, becoming chairman on 1 January 2016. Neil was elected to the Council of Lloyd's with effect from 1 February 2016.
Committee: Executive committee

Adrian Cox
Head of specialty lines

Appointed: 6 December 2010
Experience: Adrian joined Beazley in June 2001. Prior to this, Adrian was at General Re for eight years, writing both treaty and facultative business. Since 2001 his responsibilities have included the casualty treaty portfolio and the SME and large risks portfolios, before being promoted to head of specialty lines in 2008.
Committee: Executive committee

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, 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.

Find out more on pages 77 to 82

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 Dennis Holt.

Remuneration committee

The remuneration committee is chaired by Padraic O'Connor.

Executive committee

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

Clive Washbourn
Head of marine

Appointed: 04 December 2006*
Experience: Clive has over 30 years' experience in the marine insurance industry and actively underwrites marine hull, marine liability and marine war risks.
Committee: Executive committee

* Where the appointment date of a director pre-dates 9 June 2009 (being the date that Beazley plc became the holding company of Beazley Group) this appointment date refers to their representation on the Beazley Group Limited board (formerly Beazley Group plc).

Dennis Holt
Chairman

Appointed: 21 July 2011
Experience: Dennis has more than 45 years' experience in financial services markets. He was formerly a main board executive director at Lloyds TSB (2000-2001), chief executive of AXA UK and a member of AXA's Global executive committee (2001-2006). He has been chairman of Liverpool Victoria and deputy chairman of Bank of Ireland. Dennis was appointed chairman of The Co-operative Bank plc in 2014.
Committee: Nomination committee (chair)

Vincent Sheridan
Non-executive director

Appointed: 9 June 2009
Experience: Vincent is currently chairman of Mercer (Ireland) Limited and Mercer Global Investments Europe Limited. He is also a director of FBD Insurance plc, Canada Life Assurance Europe Limited, Canada Life International Assurance Limited and a number of other companies. He retired as chief executive of Vhi Healthcare in 2008 and, prior to that, was group chief executive of the Norwich Union Insurance Group in Ireland for ten years from 1991 to 2001. He is a past president of the Institute of Chartered Accountants in Ireland and a former director of the Irish Stock Exchange.
Committee: Audit and risk committee

Padraic O'Connor
Non-executive director

Appointed: 13 March 2009*
Experience: Padraic is chairman of the Irish Stock Exchange as well as a non-executive director of Rabobank Ireland plc and a number of other companies. He was managing director of NCB Group between 1991 and 1999, prior to which he was chief economist at the firm. Before joining NCB, Padraic worked at the Department of Finance and the Central Bank of Ireland. He holds primary and postgraduate degrees in economics from University College Dublin.
Committee: Remuneration committee (chair)

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, Seccombe, 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

Rolf Tolle
Non-executive director

Appointed: 6 December 2010
Experience: Rolf joined the board of Beazley Furlonge Limited in June 2010. He retired as franchise performance director at Lloyd's in December 2009 after nearly seven years in the role, during which time he was widely credited with establishing a new and successful partnership between the Corporation of Lloyd's and the market. Prior to that, he served as chief underwriting officer of Faraday Group, General Re's Lloyd's insurance and reinsurance operation.
Committee: Audit and risk committee

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 (chair)

Catherine Woods
Non-executive director

Appointed: 1 January 2016
Experience: Catherine is the senior independent non-executive director and audit committee chairman of AIB plc, a non-executive director of AIB Mortgage Bank and chairman of EBS Limited. She is the finance expert on the adjudication panel established by the Irish Government to oversee the rollout of the national broadband scheme and is a former vice president and head of the European Banks equity research team at JP Morgan. Catherine is a former director of An Post, and a former member of the Electronic Communications Appeals Panel.

Sir Andrew Likierman
Non-executive director

Appointed: 25 March 2015
Experience: Andrew is dean of London Business School. He was founding director of the Executive MBA programme and has been a professor at the School for many years. His research interests are in the field of the measurement of performance. Andrew's career has spanned the public and private sectors: he has run a textile plant in Germany, been head of the Government Accountancy Service and was managing director of the UK Treasury.
Committees: Remuneration committee, nomination committee

Investor relations

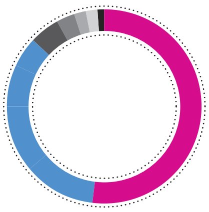
We place great importance on communication with shareholders. The annual report and accounts and the interim report are available to shareholders on the company's website (www.beazley.com). A mailed copy of the accounts is also available on request. The company responds to individual letters from shareholders 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' syndicate 623 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 a regular dialogue with institutional shareholders, as well as general presentations after the preliminary and interim results. The board is advised of any specific comments from institutional investors, to enable it to develop an understanding of the views of major shareholders. All shareholders have the opportunity to put questions at the company's annual general meeting.

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

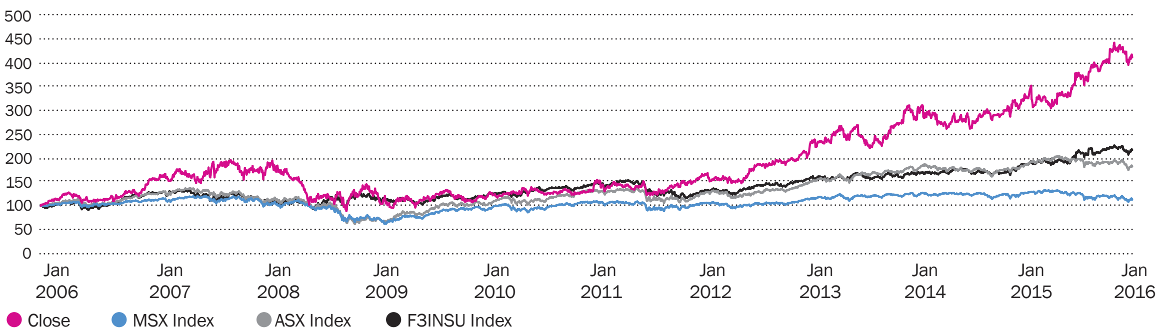
Shareholding by type of investor



Mutual funds	52%
Retail	12%
Pensions	11%
Insurance	7%
Investment trusts	5%
Sovereign wealth funds	5%
Trading	3%
Directors	2%
Other	2%
Charities	1%

There are currently 13 analysts publishing research notes on the group. In addition to research coverage from Numis and JP Morgan, the company's joint corporate broker, coverage is provided by Nomura, Keefe Bruyette & Woods, Peel Hunt, Shore Capital, Espirito Santo Investment Bank Research, Cannaccord, Sanford Bernstein, Collins Stewart, Stockdale Securities, UBS and RBC.

Share price performance



Financial calendar

26 February 2016	Second interim dividend and special dividend record date
24 March 2016	Annual general meeting
31 March 2016	Second interim dividend and special dividend payment date for the six months ended 31 December 2015
22 July 2016	First interim dividend announcement for the six months ended 30 June 2016

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 2014 version of the Financial Reporting Council's UK Corporate Governance Code throughout the year ended 31 December 2015 and have explained the independence of Rolf Tolle in the board review section below.

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 UK Corporate Governance Code have been applied by the group.

The board

The board consists of a non-executive chairman, Dennis Holt, together with five independent non-executive directors, of whom George Blunden is the senior independent non-executive director, and five executive directors, of whom Andrew Horton is chief executive. The non-executive directors, who have been appointed for specified terms, are considered by the board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement.

The board extended the appointments of two directors who would be serving terms in excess of six years from the 2016 AGM. George Blunden continues to bring strong challenge to the board and its committees and his appointment has been extended for a further three years, 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. Vincent Sheridan joined the board in 2009, and his appointment has been extended for a further one year term to ensure continuity across its board and committees.

Rolf Tolle has informed the board that he will not be seeking reelection at the forthcoming AGM. The following paragraph explains the reasons for the board's assessment of Rolf Tolle's independence for the purposes of the UK Corporate Governance Code.

Rolf Tolle was appointed as a non-executive director in December 2010. With his considerable market experience, Rolf has performed a valuable role in bringing challenge to the boardroom based on his in depth understanding of the key drivers and challenges faced by the group. Rolf Tolle's son, Christian Tolle, joined the company in 2009, and is head of life, accident and health. Christian reports to the chief underwriting officer and does not currently sit on the executive committee. The board values the independence of its non-executive directors and considered carefully the appointment of Rolf Tolle, acknowledging that his relationship with his son could call his independence into question. The board believes that the position that his son holds within Beazley does not impact Rolf's independence of judgement. The board meets the independence criteria for Rolf Tolle by ensuring that when life, accident & health is a specific board matter Rolf Tolle excuses himself from the discussion and any board or committee decision. This occurs less than 5% of the time set aside for board meetings. The board believes that this practice is consistent with the spirit of the UK Corporate Governance Code and the principle of independence. The chairman oversees this potential conflict of interest and ensures that the matter is revisited annually as part of the board effectiveness review.

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.

The full board meets at least five times each year and more frequently where business needs require. The board has a schedule of matters reserved for its decision. This includes: inter alia, strategic matters; statutory matters intended to generate and preserve value over the longer term; approval of financial statements and dividends; appointments and terminations of directors, officers and auditors; and appointments of committees and setting of their terms of reference. It is responsible for: the review of group performance against budgets; approving material contracts; determining authority levels within which management is required to operate; reviewing the group's annual forecasts; and approval of the group's corporate business plans, including capital adequacy and the Own Risk Solvency Assessment. The board is responsible for determining the nature and extent of the principal risks it is willing to take in pursuing its strategic objectives. To this end, the board is responsible for the capital strategy, including the group's Solvency II internal model which received regulatory approval in December 2015.

The board has also appointed an executive committee with delegated responsibility for particular matters such as considering the business plan, underwriting, risk and regulations (including the effectiveness of the internal control and risk management systems), investments and operations.

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

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 2015 the board continued to support the maintenance and development of Beazley's information security programme to address changing and emerging cyber security threats. 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 meet what is expected of them. The nomination committee actively reviews the activities and time commitments of members and any changes to other significant commitments of the chairman and the non-executive directors would be reported to the board as they arose.

The composition of, and appointments to, the board of both executive and non-executive directors are considered by the nomination committee. The recommendations of the nomination committee are ultimately made to the full board, which considers them before any change is made. All directors receive a full, formal and tailored induction on joining the board and the chairman regularly reviews and agrees with each director their training needs to ensure that they continually update their skills, knowledge and familiarity with the company, as required to fulfil their role both on the board and on any board committee of which they are a member. The remuneration committee considers any remuneration package of executive directors before it is offered to a potential appointee.

Full details of directors' remuneration and a statement of the company's remuneration policy are set out in the directors' remuneration report.

Meetings with non-executive directors
The chairman holds meetings as required with the non-executive directors without the executive directors being present.

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 for this to be externally facilitated every three years. The board confirms that the recommendations from the 2014 self-assessment have been implemented. In 2015 an assessment of the effectiveness of the board and its committees was externally facilitated by Deloitte LLP. The board considered the results of the assessment and confirmed that there were no significant matters to be addressed. Further details of the review are included in the nomination committee report.

Individual attendance by directors at regular meetings of the board and of committees

In addition to the five regular board meetings, there were further meetings to consider the Q3 2015 interim statement and director changes. Attendance at the meetings was high. 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.

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

	Board		Audit and risk committee		Remuneration committee		Nomination committee	
Director	No. of meetings	No. attended	No. of meetings	No. attended	No. of meetings	No. attended	No. of meetings	No. attended
George P Blunden	5	5	6	6	5	5	5	5
Martin L Bride	5	5	–	–	–	–	–	–
Adrian P Cox	5	5	–	–	–	–	–	–
Angela D Crawford-Ingle	5	5	6	6	–	–	–	–
Dennis Holt*	5	5	–	–	2	2	5	5
D Andrew Horton	5	5	–	–	–	–	–	–
Sir J Andrew Likierman*	4	4	–	–	3	3	–	–
Padraic J O'Connor	5	5	–	–	5	5	–	–
Neil P Maidment	5	5	–	–	–	–	–	–
Vincent J Sheridan**	5	4	6	5	–	–	–	–
Kenneth P Sroka*	5	5	–	–	5	5	5	5
Rolf A W Tolle	5	5	6	6	–	–	–	–
Clive A Washbourn	5	5	–	–	–	–	–	–

* Kenneth Sroka resigned from the board effective 4 December 2015. On 25 March 2015 Sir Andrew Likierman was appointed to the board and to the remuneration committee on 7 May 2015. On 4 December 2015 he was appointed to the nomination committee. Dennis Holt resigned from the remuneration committee on 7 May 2015. 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.

** Vincent Sheridan's absence from the board meeting and audit and risk committee meeting on 3 December 2015 was due to illness.

Audit and internal control

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.

The board agreed the 2015 risk appetite for the group at the end of 2014 and, throughout 2015, the board has considered and acted upon the information presented to it in order to make risk based decisions against the 2015 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'.

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 this 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 2015, 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.

Further information on the role of the audit and risk committee is set out on page 77 and further information on risk management at Beazley is set out in the risk management report.

Shareholder communication

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.

Board committees

The group has established properly constituted audit and risk, remuneration and nomination committees of the board. There are terms of reference for each committee and details of their main responsibilities and activities in 2015 are set out on pages 77 to 82.

Audit and risk committee

Angela Crawford-Ingle

The board has delegated oversight of audit and risk matters to the audit and risk committee which currently comprises Angela Crawford-Ingle (committee chairman), Vincent Sheridan, George Blunden and Rolf Tolle.

Since my appointment to the committee in 2013, I have worked collaboratively with the committee members, management and both internal and external assurance providers to make an effective assessment of the way in which governance operates, risks are assessed and managed and financial reporting or control matters are dealt with. The audit committee plays an integral role in the monitoring, review and challenge of the controls, processes and conduct of the group's management and external auditor. All committee members are independent non-executives and, in the opinion of the board, have recent and relevant financial experience to carry out this role effectively.

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, such as our interim statement released in July 2015, relating to the group's financial performance and to review significant financial reporting judgements. In light of the changes to the UK Corporate Governance Code in 2014, 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. Set out in this section are the detailed responsibilities of the committee, as well as the specific considerations that have been on our agenda for 2015.

Responsibilities of the committee

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

- 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, regulations and governance codes applicable to the financial statements. In the past year, the committee has also reviewed the viability statement prepared by the group along with the analysis and evidence supporting this statement;
- review the company's internal financial controls and the company's internal control and risk management systems;
- approve the appointment or termination of the appointment of the head of internal audit and monitor and review the effectiveness of the company's internal audit function;
- 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; and
- recommend to the board of directors the appointment, reappointment and termination of external auditors and approve their remuneration and terms of engagement.

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

- 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;
- 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; and
- provide oversight of the output of the Beazley plc capital model.

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

The principal activities undertaken by the committee in discharging its responsibilities in 2015 are described below.

Significant financial statement reporting issues for the 2015 year

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.

a) 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. 2015 has seen a number of individual risk losses but has otherwise been a relatively benign year. Our consideration of catastrophe losses has therefore been restricted to developments in relation to the more significant catastrophes of previous years.

The audit 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 Q3 peer review process, which the committee considers to be a key control as it 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, which formed the basis for a robust discussion. 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 none of the committee's other enquiries identified any errors or inconsistencies that were material in the context of the financial statements as a whole.

The external auditor have also used the group's data to re-project the reserves using their own methodologies and the comparison presented to the committee has provided an additional level of challenge to the result. On the basis of their audit work, the auditor reported no inconsistencies or misstatements that were material in the context of the financial statements as a whole.

On the basis of the information provided by the group actuary throughout the year and at the year end, the consistent application on Beazley's reserving philosophy, and the review work carried out by our external auditor, the committee is satisfied that the reserves held on the group statement of financial position at 31 December 2015 are reasonable.

b)Written premium estimates

Written premiums for business incepting in 2015 are based on underwriting estimates on a risk by risk basis and actuarial premium projections based on signed premium information. In addition actuarial projections are used to validate the aggregate risk by risk estimations provided by our underwriters. This actuarial review takes place as part of the quarterly peer review process.

The audit committee receives summarised reporting from the group actuary in respect of these premium projections and related monitoring activity. In this regard, the audit committee is satisfied that the written premiums recognised in the financial statements are materially correct.

c) Valuation of financial assets at fair value

As more fully explained in note 16, the total carrying amount of financial assets at fair value (investments) at 31 December 2015 is $3,842.2m.

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 (CIO). The committee are aware of the new holdings in illiquid credit assets entered into in the latter part of 2014, and remain satisfied that there is no increased level of valuation risk at this time. The committee receives reporting from the CIO via the finance director and it has reported for 2015 that the investment portfolio is in line with the board approved risk appetite and that carrying values of the portfolio as at 31 December 2015 are appropriate. The committee has monitored the change in the investment management arrangements through regular discussion with management, reviews undertaken by internal audit and has ensured that the external audit approach has responded to this change.

The auditor explained the results of their work on financial instruments, including testing of their existence and valuation. On the basis of their audit work, no misstatements that were material in the context of the financial statements as a whole were identified.

d) Recoverability of insurance receivables

As detailed in note 18, the value of insurance receivables at 31 December 2015 is $732.7m. Aged debt analysis provided by the company was enhanced during 2015 and is reviewed as part of the audit process at key reporting periods. The analysis reviewed in 2015 did not identify any material instances of default in relation to our insurance debtors.

On this basis, the committee is satisfied that the insurance receivables of $732.7m are materially correct and that no adjustment is required to this balance at 31 December 2015.

e) 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. The external auditor has reported on the output of their work over assessing the recoverability of the group's reinsurance assets. The committee is comfortable that the judgements applied by management in making provision for bad debts is appropriate.

Other updates
During 2015, 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;
- updates on the group's Solvency II internal model application, which resulted in the approval of the internal model in December 2015;
- overview of key reporting and regulatory updates, including updates on accounting standards, changes in tax legislation, tax uncertainties and changes in regulatory requirements;
- potential enhancements to key reconciliation and review procedures, in particular in relation to technical balances due to/from internal coverholders; and
- the consolidation of emerging risks and the processes and controls in place to mitigate these risks.

Internal audit
The Beazley plc board has delegated oversight of the group's internal audit function and its work to the audit and risk committee; the function reports directly to the committee. The committee's terms of reference include approving the appointment or termination of appointment, of the head of internal audit and monitoring and reviewing the effectiveness of the company's internal audit function. In reviewing the effectiveness of the function the audit and risk committee remained satisfied that the internal audit function had sufficient resources during the year to undertake its duties.

During 2015, the committee:
- considered and appointed a new head of internal audit;
- considered the results of all internal audit reports and monitored the progress of the business in addressing the findings of internal audit;
- monitored the implementation of the 2015 internal audit plan and approved the 2016 internal audit plan;
- reviewed and approved the internal audit charter;
- oversaw the implementation of recommendations from the external quality assessment undertaken in 2014; and
- monitored ongoing amendments to the internal audit function's activities in light of emerging best practice in the financial sector.

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 with our auditors.

These considerations are taken to account by the committee when determining whether to reappoint the external auditor. Appointment of the external auditor is conducted through a tendering process. The current firm's tenure commenced in 2002.

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 auditors. 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 auditors, such as bookkeeping and accounting services, internal actuarial services and executive remuneration services. The policy requires 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 twice 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 the 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. None of the non-audit services provided are considered by the audit and risk committee to affect the auditors' independence or objectivity.

Risk management

The Beazley plc board has delegated oversight of the risk management framework to the audit and risk committee. 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 2015 and can confirm that Beazley plc has been operating within risk appetite. The committee has also reviewed the proposed 2016 risk appetite and commended it to the Beazley plc board for approval;
- risk assessment: The committee has performed a review of the group's risk profile to ensure it covers the complete universe of risk and that all 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 2015, the committee received a review of the underwriting standards to ensure that they remained robust in soft market conditions. The committee also received an update on the annual cyber review, focussing this year on how exposure could aggregate from a single event. There were also a number of other operational risk profiles presented which supported the committee's oversight of the ongoing business processes;
- emerging risk: The committee supported the identification of strategic and emerging risks which were discussed at the board meeting in May 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;
- 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. 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.

Remuneration committee

Padraic O'Connor

Currently the membership of the remuneration committee comprises Padraic O'Connor (chairman), George Blunden and Sir Andrew Likierman.

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 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 2015

During 2015 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 on the remuneration policy, which confirmed that the remuneration arrangements are consistent with, and promote, effective risk management throughout the organisation through the consideration of remuneration design, performance of the control environment, profit related pay targets, calculation of the bonus pool, and share plan awards;
- ensured incentives continued to be appropriate and to align company and shareholders;
- approved the grant of share awards under the group's deferred, retention and LTIP plans;
- considered the salary and bonus awards for 2015 for executive directors, heads of control functions, material risk takers and other officers;
- reviewed remuneration policies in light of emerging requirements for Solvency II;
- approved the chairman's fees; and
- reviewed the executive director employment contracts.

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

Statement of corporate governance continued

Nomination committee

Dennis Holt

The nomination committee is chaired by Dennis Holt and currently comprises George Blunden and Sir Andrew Likierman.

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 of 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;
- ensure the directors have the required skills and competence;
- 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 with 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 approved goals for gender diversity for the Beazley plc board of two female members by AGM 2016, and a third female member by AGM 2017. The initial goal has been achieved through the recent appointment of Catherine Woods. The committee reviewed progress against the group's 2020 goals for increasing diversity across the wider organisation through a series of initiatives looking at recruitment, development and succession.

Key activities in 2015

The 2015 board review was overseen by the committee and was facilitated by Deloitte LLP. No material matters were identified and the committee will oversee the implementation of an action plan to strengthen the board's overall effectiveness in 2016. Tasks which the committee carried out in 2015 were to:

- search for additional non-executive directors which resulted in the nomination committee's recommendation that Sir Andrew Likierman and Catherine Woods be appointed to the board. The appointments to the board were made on merit and against objective criteria. The nomination committee engaged the specialist search firm Zygos to support the search for directors. Zygos is wholly independent of the company and of the group;
- 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 all directors, ensuring that the proposed reappointment of two directors for a term beyond six years was robustly reviewed and challenged;
- ensure that director development plans were implemented and that the board collectively received relevant training; and
- ensure board members were able to allocate sufficient time to the company to discharge their responsibilities effectively.

Letter from the chairman of our remuneration committee

Dear shareholder

In the following pages we set out the directors' remuneration report for 2015.

The importance of talent at Beazley
Talent management remains one of the cornerstones of Beazley's business success, as we seek to recruit and retain people who rank among the best insurance professionals in the world. The main focus of our retention strategy is through our culture and shared values. Ensuring Beazley has a competitive remuneration mix that rewards sustainable performance remains important to our future success.

Remuneration policy and link to strategy
Our executive remuneration policy is governed by two guiding principles – alignment to shareholders' interests and performance of the group. The following are some of the key features of our policy and the way that it is aligned to our strategy:
- NAVps growth – growth in NAVps is a key performance indicator for Beazley, and is the measure used for our LTIP. The framework is simple and aligned to shareholders' interests. For maximum awards to vest NAVps growth of 15% above the risk-free return must be sustained for five years;
- Five year performance – for a number of years now we have operated an LTIP where performance is measured over five years as well as three years. This longer term performance period means that out-turns are aligned with the long term performance of the business; and
- Risk – our remuneration structure incorporates a number of features which are aligned with risk. These include longer time horizons, deferral of bonus into shares and 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.

The committee considers the overall package to be appropriate, responsible and balanced.

DRR reporting and operation of our policy
In the interests of succinct reporting we have not reproduced the full policy report. The approved policy table is included at the end of this report for ease of reference. The full policy report can be found on our website.

There are no significant changes to the operation of our policy this year.

Culturally, one of Beazley's strengths is teamwork at every level. Our approach to the annual bonus reflects this culture through the operation of our bonus pool. The pool is based on profit before tax and ROE out-turns and is strongly aligned to outcomes for shareholders. A broad senior management team, beyond executive directors, is then made awards from the pool. This reinforces the collegiate culture at Beazley.

As demonstrated by historic bonus payments, our bonuses are strongly aligned with ROE performance. Individual allocations for the senior team are based upon their contribution and performance during the course of the year, not through any pre-determined formula.

Last year we significantly increased the disclosure of our annual bonus performance framework and targets. We provide full details of the ROE targets underpinning our bonus approach along with the guideline levels which are used by the committee in their determination for each executive director. We hope that shareholders continue to find this helpful in demonstrating the link between pay and performance.

Letter from the chairman of our remuneration committee

Salary increases

The average salary increase for 2016 for executive directors was 1%, which was below the average increase throughout the organisation.

Performance out-turns

Beazley sustained strong performance in 2015 with a pre-tax profit of $284m and ROE of 19%. The remuneration out-turns, as reported in the single total figure of remuneration, reflect that performance. Bonus out-turns were comparable to last year reflecting the sustained performance year on year. This is in line with our bonus framework. In terms of LTIP out-turns, the second tranche of our five year LTIP is due to vest during 2016, reflecting an excellent sustained NAVps outcome for shareholders of 16.80% p.a.

Shareholders

Each year the committee pays careful attention to shareholders' views, not only in terms of developing best practice, but also by considering the views and voting of our shareholders on director remuneration at Beazley. We continue to welcome our shareholders' views on our remuneration policies and practices.

Padraic O'Connor
Remuneration committee chairman

Directors' remuneration report

The symbol ▪ by a heading indicates that the information in that section has been audited.

Annual remuneration report

The annual remuneration report sets out the remuneration out-turns for 2015 (and how these relate to our performance in the year) and details of the operation of our policy for 2016.

Remuneration principles

The remuneration committee has oversight of the remuneration policy. The general philosophy underlying the reward strategy for executive directors is the same as that applied to all other employees. Pay and employment conditions elsewhere in the company and data on comparable positions in other similar organisations are taken into consideration when determining executive directors' remuneration. The main aim of the policy is to ensure that management and staff are remunerated fairly and in such a manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel.

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 should be appropriately balanced against risk considerations;
- the structure of packages should support meritocracy, an important part of Beazley's culture;
- reward potentials should be market-competitive; and
- executives' pay should include an element of downside risk.

Elements of remuneration

Element	Deferral	Details
Base salary		• Salary increases generally in line with all-employee increases
Benefits		• Benefits include private medical insurance, travel insurance, and company car or monthly car allowance
Pension		• Defined contribution pension plan or cash equivalent
Annual bonus	Deferral into shares Deferral into underwriting	• Discretionary annual bonus from an incentive pool generated by reference to ROE and awarded based on individual performance
Long term incentive plan		• Three and five year LTIP time horizons • Performance against long term NAVps targets
Shareholding guidelines		• LTIP awards may be forfeited if shareholding guidelines are not met

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.

Directors' remuneration report continued

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.
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, clawback provisions also apply.

Single total figure of remuneration ▪

The table below sets out the single figure of total remuneration for executive directors for the financial years ending 31 December 2015 and 31 December 2014.

Executive directors

		Fixed pay			Pay for performance				
£		Salary	Benefits	Pension	Cash bonus	Bonus deferred into shares	Total annual bonus	LTI	Total remuneration[1]
Martin L Bride	2015	310,000	11,779	46,500	560,000	240,000	800,000	948,060	2,116,339
	2014	306,000	11,413	45,900	560,000	240,000	800,000	926,938	2,090,251
Adrian P Cox[2]	2015	332,800	119,600	49,920	700,000	300,000	1,000,000	975,446	2,477,766
	2014	329,500	181,048	49,425	700,000	300,000	1,000,000	926,938	2,486,911
D Andrew Horton[3]	2015	443,500	17,667	66,525	910,000	390,000	1,300,000	1,932,155	3,759,847
	2014	439,110	17,179	65,867	910,000	390,000	1,300,000	1,923,833	3,745,989
Neil P Maidment	2015	332,800	16,811	49,920	700,000	300,000	1,000,000	1,087,010	2,486,541
	2014	329,500	16,467	49,425	700,000	300,000	1,000,000	1,098,690	2,494,082
Clive A Washbourn[4]	2015	332,800	13,502	50,243	700,000	300,000	1,000,000	2,951,010	4,347,555
	2014	329,500	12,188	49,717	700,000	300,000	1,000,000	1,098,690	2,490,095

1 A significant portion of the single figure values shown arises due to the substantial share price appreciation over the period. The share price at the time LTI awards were made was 132.7p for the 2011 award and 204.2p for the 2013 award, while the average share price in the last three months of 2015 was 372.8p. This represents share price growth of 180% and 83% over the five and three year periods respectively.

2 Benefits for Adrian Cox included an allowance of £95,335 in respect of his secondment in the US. This included housing allowance of £38,869 and tax gross up of the benefit of £47,471.

3 £1,093,657 of the single figure for Andrew Horton is a direct result of the significant share price appreciation over the LTI periods, which is directly aligned to shareholders' experience.

4 The LTI figure for Clive Washbourn includes the vesting of the first tranche of the MSIP award granted in 2013 to address a commercial risk to the business. This was an award, approved by shareholders, with performance conditions which required sustained exceptional divisional performance. The marine division achieved average ROE results of 53.1% as compared with a group average of 19% over the period and the first tranche vested in full. For Clive Washbourn, £1,390,260 of the single figure is also as a direct result of the significant share price appreciation, which is directly aligned to shareholders' experience.

The figures in the preceding table reflect the following:
- salaries for 2015 increased by an average of 1.1%, which was below the average increase for all-employees;
- annual bonus out-turns were similar to last year, with Beazley delivering another strong performance in 2015; and
- LTI out-turns reflect that the LTI performance targets were met in full. Beazley achieved sustained NAV growth of 20.14% per annum and 16.80% 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	2015	79,250
	2014	77,750
Angela D Crawford-Ingle	2015	88,750
	2014	87,250
Dennis Holt	2015	164,730
	2014	161,500
Sir J Andrew Likierman[2]	2015	42,885
	2014	–
Padraic J O'Connor[3]	2015	68,613
	2014	74,395
Vincent J Sheridan[3]	2015	55,474
	2014	60,081
Kenneth P Sroka[4]	2015	51,747
	2014	54,750
Rolf A W Tolle	2015	80,500
	2014	79,000

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 Re dac and the chairmanship of the BFL risk committee.

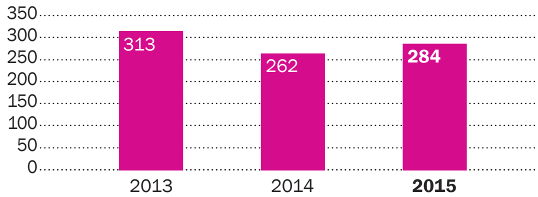
2 Sir Andrew Likierman was appointed to the board on 25 March 2015 and the figure in the table above represents his fees from this date.

3 For Padraic O'Connor and Vincent Sheridan, their non-executive director fee was based on €94,000 (2014: €92,250) and €76,000 (2014: €74,500) respectively and has been converted into sterling for this table at the average exchange rate of 1.37 (2014: the fee was converted into £74,395 and £60,081 respectively at the average exchange rate in 2014 of 1.24).

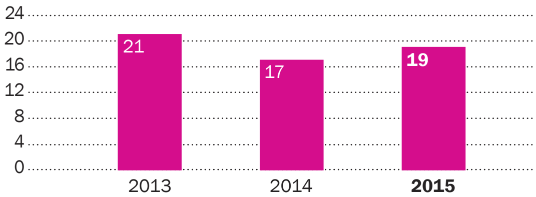
4 Kenneth Sroka stepped down as a non-executive director on 4 December 2015 and the figure in the table above represents his fees to this date.

Performance charts

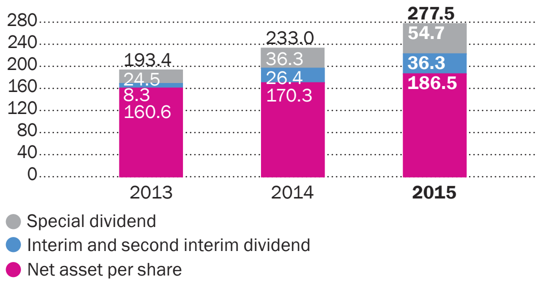
Profit before tax ($m)



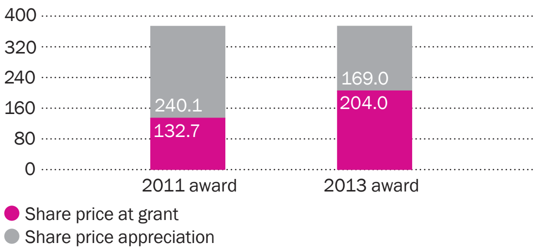
Return on equity (%)



Net assets and cumulative dividend per share (p)



Share price (p)



Governance

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 2016, the average salary increase for executive directors is 1.0%, which was below the average salary increase across the group.

The base salaries for the executive directors in 2015 and 2016 are as set out below:

	2015 base salary £	2016 base salary £	Increase %
Martin L Bride	310,000	313,100	1.0%
Adrian P Cox	332,800	336,200	1.0%
D Andrew Horton	443,500	448,000	1.0%
Neil P Maidment	332,800	336,200	1.0%
Clive A Washbourn	332,800	336,200	1.0%

Benefits ▪

Benefits include private medical insurance for the director and his 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. Adrian Cox was on secondment in the US until 30 June 2015 and his benefits also included relocation and expatriate benefits in the year to that date.

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.

The framework for determining bonuses is as follows:
- a percentage of profit is allocated to a bonus pool subject to a minimum group return on equity; 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.

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).

For heads of divisions a bonus may be awarded outside of the incentive pool in circumstances where the performance of a division in relation to the group is very strong.

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.

Performance out-turn for 2015

The process for determining 2015 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.

- ROE for 2015 was 19% and the overall enterprise bonus pool (in which executive directors as well as other senior employees participate) was calculated based on this. The risk-free return (RFR) was set at 1% taking into account the yield on US treasuries of two to five year maturities;
- the committee then considered the individual bonus award for the executive directors and other senior employees within the committee's remit. In determining the bonus award for each individual the committee took into account the individual's contribution including, where relevant, the performance of their division; and
- in considering individual awards in respect of executive directors for 2015, the committee had regard to the following broad framework:

ROE performance hurdles	Guideline/illustrative bonus award as a % of maximum	
RFR	0%	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.
RFR +3%	12.5%	
RFR +10%	37.5%	
RFR +17.5%	75%	
RFR +25%	100%	

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.

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

- the delivery of profit after tax of $249m, and the return of $219.5m to shareholders by way of dividends;
- delivery of growth in our gross premiums written of 3% in a market where premium rates were under increasing pressure;
- continued acceleration of growth in the US in line with our strategic objective, where gross premiums written grew 21% in 2015; and
- continued focus on attracting and retaining the best talent, including strengthening our Asia based underwriting team to support our Asia Pacific growth.

While the specific individual objectives of the executive directors are considered commercially sensitive, the following provides details of some of the executive director achievements which the committee took into account:

- the continued growth of our onshore US platform where premiums grew by 21% year on year;
- approval of our Solvency II model by the Central Bank of Ireland (CBI);
- growth in both our Paris and Singapore offices in terms of premiums and people;
- the continued recruitment and retention of high calibre staff despite challenging market conditions, including mergers and acquisitions taking place in our sector;
- the return of our life, accident & health division to a small profit;
- the establishment of our partnership with Korean Re; and
- continued focus on our employee engagement, being positioned as a top quartile employer in our employee survey.

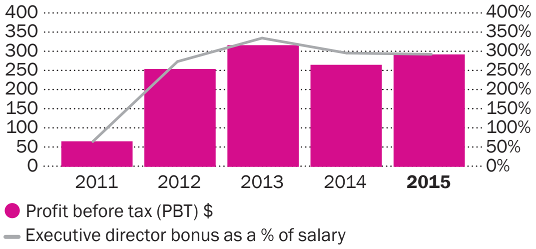
Directors' remuneration report continued

The resultant bonuses were as follows:

	Bonus (delivered as a mix of cash and deferred shares)	% of salary
Martin L Bride	£800,000	258%
Adrian P Cox	£1,000,000	300%
D Andrew Horton	£1,300,000	293%
Neil P Maidment	£1,000,000	300%
Clive A Washbourn	£1,000,000	300%

The following graph and table sets out the out-turn for 2015 against performance and illustrates the way in which bonuses over time reflect profit and ROE performance.

Average executive director bonus (% of salary)



	Pre-tax profit	Post-tax ROE	Average executive director bonus as a percentage of salary
2015	**$284m**	**19%**	**c.291%**
2014	$262m	17%	c.294%
2013	$313m	21%	c.333%
2012	$251m	19%	c.272%
2011	$63m	6%	c.64%
2010	$217m	19%	c.230%

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 2015 (see investment in underwriting on page 93 for further details).

For 2015, the portion of each director's annual bonus deferred into shares was as follows:

	Deferred into shares
Martin L Bride	£240,000
Adrian P Cox	£300,000
D Andrew Horton	£390,000
Neil P Maidment	£300,000
Clive A Washbourn	£300,000

Long term incentive plan (LTIP) ▪

Under the LTIP, executive directors, senior management and 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 ten-year term; and
- 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.

Given the five year performance period for 50% of the award, as well as the significant shareholding requirement and additional clawback provisions (which extend to seven years from date of award), the committee considers that the LTIP is significantly aligned to long term performance. Against that background it does not consider that further holding periods are required.

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. The targets are equivalent to those that applied in 2012.

LTIP awards vesting in respect of the year ▪

The LTIP awards shown in the single total figure of remuneration for 2015 include:

- the second tranche of awards granted on 14 February 2011. These are due to vest on 14 February 2016, subject to the achievement of a NAVps growth performance condition over the five years ended 31 December 2015; and
- the first tranche of awards granted on 13 February 2013. These are due to vest on 13 February 2016, subject to the achievement of a NAVps growth performance condition over the three years ended 31 December 2015.

The results were independently calculated by Deloitte LLP.

The NAVps performance conditions for these awards are as follows:

2011 awards – second tranche (five years)

NAVps performance	% of award vesting
NAVps growth < risk-free rate +10% p.a.	0%
NAVps growth = risk-free rate +10% p.a.	25%
NAVps growth = risk-free rate +15% p.a.	100%
Straight-line vesting between points	

Actual NAVps growth achieved in the five years to 31 December 2015 was 16.80% p.a. which resulted in 100% of awards vesting.

2013 awards – first tranche (three years)

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 = risk-free rate +15% p.a.	100%
Straight-line vesting between points	

Actual NAVps growth achieved in the three years to 31 December 2015 was 20.14% p.a. which resulted in 100% of awards vesting.

Directors' remuneration report continued

MSIP award vesting in respect of the year

The MSIP award shown in the single total figure of remuneration for 2015 includes:

- the first tranche of the award granted on 5 April 2013. This is due to vest on 5 April 2016, subject to pre-tax divisional ROE performance over the three years ended 31 December 2015.

The ROE performance condition for this award is as follows:

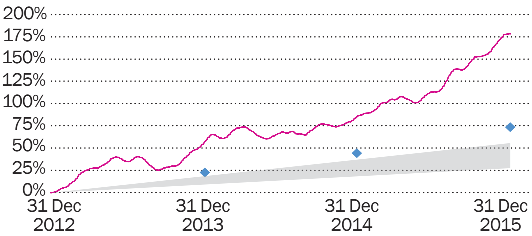
2013 award – first tranche (three years)

Average annual pre tax ROE performance	% of award vesting
Average annual pre tax ROE <15% p.a.	0%
Average annual pre tax ROE =15% p.a.	20%
Average annual pre tax ROE =25% p.a.	100%
Straight-line vesting between points	

Actual ROE achieved in the three years to 31 December 2015 was 53.0% which resulted in 100% of the award vesting.

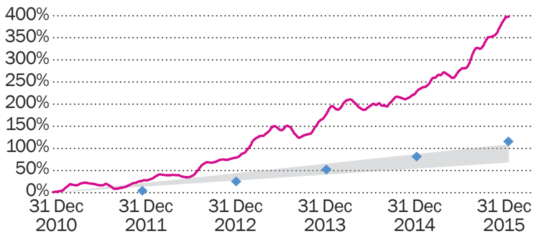
The graph below illustrates Beazley's NAVps and TSR performance over the period, where the shaded area represents the LTIP NAVps growth target range for awards to vest.

LTIP performance 2012-2015 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 2010-2015 NAV and TSR growth



- NAV target range (RFR +10% p.a. to RFR +15% p.a.)
- TSR growth (1 month average)
- NAV growth (including dividends)

Awards for 2015

During 2015 the LTIP awards with a face value equal to 150% of salary were granted to executive directors (200% for CEO), as shown in the table below.

Awards for 2016

It is intended that the LTIP awards for 2016 will be in line with those granted in 2015 (see above).

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%)	Performance period end: Five years (50%)
LTIP							
Martin L Bride	Nil cost option (LTIP)	150% of salary	157,238	465,000	10%	31/12/2017	31/12/2019
Adrian P Cox	Nil cost option (LTIP)	150% of salary	168,802	499,200	10%	31/12/2017	31/12/2019
D Andrew Horton	Nil cost option (LTIP)	200% of salary	299,935	887,000	10%	31/12/2017	31/12/2019
Neil P Maidment	Nil cost option (LTIP)	150% of salary	168,802	499,200	10%	31/12/2017	31/12/2019
Clive A Washbourn	Nil cost option (LTIP)	150% of salary	168,802	499,200	10%	31/12/2017	31/12/2019
Deferred bonus *(in respect of 2014 bonus)*							
Martin L Bride	Deferred shares	Proportion of 2014 annual bonus	81,155	240,000	–	–	–
Adrian P Cox	Deferred shares		101,443	300,000	–	–	–
D Andrew Horton	Deferred shares		131,877	390,000	–	–	–
Neil P Maidment	Deferred shares		101,443	300,000	–	–	–
Clive A Washbourn	Deferred shares		101,443	300,000	–	–	–

1 The face value of shares awarded was calculated using the three day average share price prior to grant, which was 295.73p.

The performance condition for LTIP awards was as follows:

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	

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 ten-year period.

Following the adoption of the 2012 LTIP, the company adheres to a dilution limit of 5% in a ten year period for executive schemes.

Investment in underwriting ▪

Traditionally, Lloyd's underwriters contributed their personal capital to syndicates in which they worked. With the move to corporate provision of capital, individual membership of Lloyd's has declined significantly. The committee feels that having personal capital at risk in the syndicate is an important part of the remuneration policy and provides a healthy counterbalance to incentivisation through bonuses and long term incentive awards. The company has operated the Beazley staff underwriting plan for this purpose since 2004 and executive directors and other selected staff are invited to participate through bonus deferral with an element of their cash incentives 'at risk' as capital commitments. These capital commitments can be lost in full if underwriting performance is poor.

The group funds the capital for the plan. The individual capital commitment is then funded through individual bonus deferral. The aim is for individuals to fund their capital within three years.

To date over 200 employees of the group have committed to put at risk £10.1m of bonuses to the underwriting results of syndicate 623. Of the total at risk, £9.3m has already been deferred from the bonuses awarded.

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

	Total bonuses deferred £	2014 year of account underwriting capacity £	2015 year of account underwriting capacity £	2016 year of account underwriting capacity £
Martin L Bride	199,000	400,000	400,000	400,000
Adrian P Cox	199,000	400,000	400,000	400,000
D Andrew Horton	199,000	400,000	400,000	400,000
Neil P Maidment	199,000	400,000	400,000	400,000
Clive A Washbourn	199,000	400,000	400,000	400,000

The executive directors are currently fully funded in the plan and no further bonus deferral was made in 2015. Funding of £7,400 is no longer at risk from 31 December 2015 following the close of the 2013 year of account and will be released to participants. The remaining portion of total bonuses deferred is at risk of the underwriting performance of the years of account as listed in the table above.

Malus and clawback

For incentives in respect of 2015 clawback provisions will operate. 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; or
- factual error in calculating vesting or award.

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 the notional investment where the bonus is voluntarily deferred as notional capital into the investment in the 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 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 2015 £	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 2015 £	Increase in transfer value less directors' contributions £	Normal retirement date
Adrian P Cox	12,293	–	161	–	278,326	(45,609)	12 Mar 2031
Neil P Maidment	41,965	–	550	–	1,032,630	(216,014)	21 Oct 2022
Clive A Washbourn	18,651	–	244	–	472,962	(114,889)	26 Oct 2020

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.

Payments for loss of office

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

Jonathan Gray was an executive director of Beazley plc until 30 June 2013, when he stepped down from the board. He remained in employment with the group, leading the open market property underwriting team and serving on the board of Beazley's subsidiary, Beazley Furlonge Limited. On 30 June 2015 he retired from the group. No loss of office payments were made. As a good leaver, the treatment of previous share awards and deferral into the staff underwriting plan was as follows:
- deferred shares awards were pro-rated for time. 38,810 shares vested;
- LTIP awards were pro-rated for time and performance. For the 2012 and 2013 LTIP awards, the committee determined that performance be measured at the time of retirement, in line with the treatment for the 2011 LTIP awards. Calculations were performed independently by Deloitte LLP. In aggregate 420,575 shares vested; and
- notional capital which was voluntarily deferred into the staff underwriting plan will continue until the closure of the relevant underwriting years, when he will receive repayment of notional capital, along with any profit results payable or reduction for any loss result.

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 were £80,000.

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 in addition 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.

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.

Beazley operates across Lloyd's 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 Re dac, our reinsurance company. 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.

Non-executive directors' service contracts ▪

Details of the non-executive directors' terms of appointment are set out below:

	Commencement date of appointment	Expires
George P Blunden	1 Jan 2010	AGM 2019
Angela D Crawford-Ingle	27 Mar 2013	AGM 2019
Dennis Holt	21 Jul 2011	AGM 2018
Sir J Andrew Likierman	25 Mar 2015	AGM 2018
Padraic J O'Connor	20 Mar 2009	AGM 2016
Vincent J Sheridan	9 Jun 2009	AGM 2017
Rolf A W Tolle	6 Dec 2010	AGM 2017
Catherine M Woods	1 Jan 2016	AGM 2019

With effect from 2012 the standard approach for non-executive director appointments is that the appointment expires at the AGM following the end of the three year term, notwithstanding the fact that each non-executive director is subject to annual re-election at each AGM.

For executive directors there is no unexpired term as each of the executive directors' contracts is on a rolling basis.

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.

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.

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 2014 to 31 Dec 2015		
	Percentage change in base salary %	Percentage change in benefits %	Percentage change in annual bonus %
CEO	1.0%	1.4%	0%
All employees	2.9%	5.5%	7.1%

Note: Salary and bonus is 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' shareholding 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.

The table below shows the total number of directors' interests in shares as at 31 December 2015 or date of cessation as a director.

		Unvested awards			Vested awards	
Name	Number of shares owned (including by connected persons)	Conditional shares not subject to performance conditions (deferred shares and retention shares)	Nil cost options subject to performance conditions (LTIP and MSIP awards)	Options over shares subject to savings contracts (SAYE)	Unexercised nil cost options	Options exercised in the year
George P Blunden	50,000	–	–	–	–	–
Martin L Bride	321,400	267,059	830,966	9,665	–	365,772
Adrian P Cox	758,047	328,812	870,128	–	–	328,272
Dennis Holt	50,000	–	–	–	–	–
D Andrew Horton	1,597,125	499,933	1,643,404	8,154	–	681,051
Angela D Crawford-Ingle	20,850	–	–	–	–	–
Sir J Andrew Likierman	10,000	–	–	–	–	–
Neil P Maidment	2,907,523	380,116	924,687	9,665	–	388,136
Padraic J O'Connor	30,000	–	–	–	–	–
Vincent J Sheridan	20,000	–	–	–	–	–
Kenneth P Sroka	–	–	–	–	–	–
Rolf A W Tolle	60,000	–	–	–	–	–
Clive A Washbourn	461,346	424,191	1,924,687	4,354	–	396,236

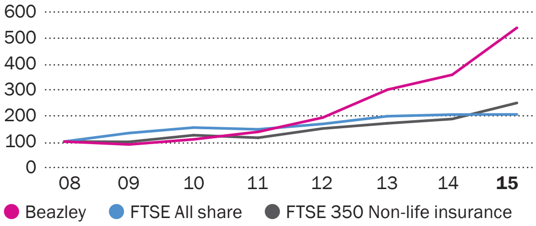
No changes in the interests of directors have occurred between 31 December 2015 and 3 February 2016.

CEO pay versus performance

The following graph sets out Beazley's seven year total shareholder return performance to 31 December 2015, compared with the FTSE All Share and FTSE 350 Non-Life Insurance indices. These indices were chosen as comparators as they comprise of 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



Historical CEO payouts

Year	CEO single figure of total remuneration	Annual variable award (% of maximum opportunity)*	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	£3,759,847	73%	100%

* Note: 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 graphs assume that a maximum annual variable award of 400% of salary also applied for years prior to 2013. £1,093,657 of the single figure for 2015 is a direct result of the significant share price appreciation over the LTI periods, which is directly aligned to shareholders' experience.

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)
2014	$199.2m	$167.9m
2015	**$208.7m**	**$219.5m**

Remuneration committee

The committee consists of only non-executive directors and during the year the members comprise of Padraic O'Connor (chairman), George Blunden, Dennis Holt (resigned 7 May 2015), Kenneth Sroka (resigned 4 December 2015) and Sir Andrew Likierman (appointed 7 May 2015). The board views each of these directors as independent. The committee met six times during the year.

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. During the year the committee was advised by remuneration consultants from Deloitte LLP. Total fees in relation to executive remuneration consulting were £103,750. Deloitte LLP also provided advice in relation to tax, assurance support and share schemes.

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.

Statement of shareholder voting

The voting outcome of the remuneration related shareholder vote at the 2015 AGM was as follows:

	Votes for	% for	Votes against	% against	Total votes cast	Votes discretionary	Votes withheld (abstentions)
2014 annual remuneration report	390,413,348	96.7%	13,345,945	3.3%	403,789,314	30,021	6,164,564

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 2015	Options granted	Options exercised	Lapsed unvested	Outstanding options at 31 Dec 2015	Closing share price on date of exercise (£)	Earliest exercise date	Expiry date
Martin L Bride								
Deferred bonus:								
13 Feb 2012	12,181	–	12,181	–	–	2.9400	13/02/2015	13/03/2015
13 Feb 2013	88,149	–	–	–	88,149	–	13/02/2016	13/03/2016
11 Feb 2014	97,755	–	–	–	97,755	–	11/02/2017	11/03/2017
10 Feb 2015	–	81,155	–	–	81,155	–	10/02/2018	10/03/2018
LTIP (see notes):								
18 Feb 2010 – 5 year	174,907	–	174,907	–	–	3.0050	18/02/2015	18/02/2020
14 Feb 2011 – 5 year	144,122	–	–	–	144,122	–	14/02/2016	14/02/2021
30 Mar 2012 – 5 year	141,183	–	–	–	141,183	–	30/03/2017	30/03/2022
30 Mar 2012 – 3 year	141,184	–	141,184	–	–	2.8930	30/03/2015	30/03/2022
13 Feb 2013 – 5 year	110,186	–	–	–	110,186	–	13/02/2018	13/02/2023
13 Feb 2013 – 3 year	110,186	–	–	–	110,186	–	13/02/2016	13/02/2023
11 Feb 2014 – 5 year	84,026	–	–	–	84,026	–	11/02/2019	11/02/2024
11 Feb 2014 – 3 year	84,025	–	–	–	84,025	–	11/02/2017	11/02/2024
10 Feb 2015 – 5 year	–	78,619	–	–	78,619	–	10/02/2020	10/02/2025
10 Feb 2015 – 3 year	–	78,619	–	–	78,619	–	10/02/2018	10/02/2025
Conditional share awards:								
27 Apr 2009	37,500	–	37,500	–	–	2.8520	27/04/2012	27/05/2015
SAYE:								
2013	5,311	–	–	–	5,311	–	01/07/2016	01/01/2017
2014	4,354	–	–	–	4,354	–	01/07/2017	01/01/2018
Adrian P Cox								
Deferred bonus:								
13 Feb 2012	12,181	–	12,181	–	–	2.9400	13/02/2015	13/03/2015
13 Feb 2013	117,532	–	–	–	117,532	–	13/02/2016	13/03/2016
11 Feb 2014	109,837	–	–	–	109,837	–	11/02/2017	11/03/2017
10 Feb 2015	–	101,443	–	–	101,443	–	10/02/2018	10/03/2018
LTIP (see notes):								
18 Feb 2010 – 5 year	174,907	–	174,907	–	–	3.0050	18/02/2015	18/02/2020
14 Feb 2011 – 5 year	144,122	–	–	–	144,122	–	14/02/2016	14/02/2021
30 Mar 2012 – 5 year	141,183	–	–	–	141,183	–	30/03/2017	30/03/2022

Directors' remuneration report continued

	Outstanding options at 1 Jan 2015	Options granted	Options exercised	Lapsed unvested	Outstanding options at 31 Dec 2015	Closing share price on date of exercise (£)	Earliest exercise date	Expiry date
30 Mar 2012 – 3 year	141,184	–	141,184	–	–	2.8930	30/03/2015	30/03/2022
13 Feb 2013 – 5 year	117,532	–	–	–	117,532	–	13/02/2018	13/02/2023
13 Feb 2013 – 3 year	117,532	–	–	–	117,532	–	13/02/2016	13/02/2023
11 Feb 2014 – 5 year	90,479	–	–	–	90,479	–	11/02/2019	11/02/2024
11 Feb 2014 – 3 year	90,478	–	–	–	90,478	–	11/02/2017	11/02/2024
10 Feb 2015 – 5 year	–	84,401	–	–	84,401	–	10/02/2020	10/02/2025
10 Feb 2015 – 3 year	–	84,401	–	–	84,401	–	10/02/2018	10/02/2025
D Andrew Horton								
Deferred bonus:								
13 Feb 2012	16,918	–	16,918	–	–	2.9400	13/02/2015	13/03/2015
13 Feb 2013	176,298	–	–	–	176,298	–	13/02/2016	13/03/2016
11 Feb 2014	191,758	–	–	–	191,758	–	11/02/2017	11/03/2017
10 Feb 2015	–	131,877	–	–	131,877	–	10/02/2018	10/03/2018
LTIP (see notes):								
18 Feb 2010 – 5 year	363,207	–	363,207	–	–	3.0050	18/02/2015	18/02/2020
14 Feb 2011 – 5 year	307,460	–	–	–	307,460	–	14/02/2016	14/02/2021
30 Mar 2012 – 5 year	292,825	–	–	–	292,825	–	30/03/2017	30/03/2022
30 Mar 2012 – 3 year	292,826	–	292,826	–	–	2.8930	30/03/2015	30/03/2022
13 Feb 2013 – 5 year	210,823	–	–	–	210,823	–	13/02/2018	13/02/2023
13 Feb 2013 – 3 year	210,822	–	–	–	210,822	–	13/02/2016	13/02/2023
11 Feb 2014 – 5 year	160,770	–	–	–	160,770	–	11/02/2019	11/02/2024
11 Feb 2014 – 3 year	160,769	–	–	–	160,769	–	11/02/2017	11/02/2024
10 Feb 2015 – 5 year	–	149,968	–	–	149,968	–	10/02/2020	10/02/2025
10 Feb 2015 – 3 year	–	149,967	–	–	149,967	–	10/02/2018	10/02/2025
SAYE:								
2012	8,100	–	8,100	–	–	3.4090	01/07/2015	01/01/2016
2014	4,354	–	–	–	4,354	–	01/07/2017	01/01/2018
2015	–	3,800	–	–	3,800	–	01/07/2018	01/01/2019

	Outstanding options at 1 Jan 2015	Options granted	Options exercised	Lapsed unvested	Outstanding options at 31 Dec 2015	Closing share price on date of exercise (£)	Earliest exercise date	Expiry date
Neil P Maidment								
Deferred bonus:								
13 Feb 2012	13,534	–	13,534	–	–	2.9400	13/02/2015	13/03/2015
13 Feb 2013	132,223	–	–	–	132,223	–	13/02/2016	13/03/2016
11 Feb 2014	146,450	–	–	–	146,450	–	11/02/2017	11/03/2017
10 Feb 2015	–	101,443	–	–	101,443	–	10/02/2018	10/03/2018
LTIP (see notes):								
18 Feb 2010 – 5 year	209,888	–	209,888	–	–	3.0050	18/02/2015	18/02/2020
14 Feb 2011 – 5 year	172,946	–	–	–	172,946	–	14/02/2016	14/02/2021
30 Mar 2012 – 5 year	164,714	–	–	–	164,714	–	30/03/2017	30/03/2022
30 Mar 2012 – 3 year	164,714	–	164,714	–	–	2.8930	30/03/2015	30/03/2022
13 Feb 2013 – 5 year	118,634	–	–	–	118,634	–	13/02/2018	13/02/2023
13 Feb 2013 – 3 year	118,634	–	–	–	118,634	–	13/02/2016	13/02/2023
11 Feb 2014 – 5 year	90,479	–	–	–	90,479	–	11/02/2019	11/02/2024
11 Feb 2014 – 3 year	90,478	–	–	–	90,478	–	11/02/2017	11/02/2024
10 Feb 2015 – 5 year	–	84,401	–	–	84,401	–	10/02/2020	10/02/2025
10 Feb 2015 – 3 year	–	84,401	–	–	84,401	–	10/02/2018	10/02/2025
SAYE:								
2013	5,311	–	–	–	5,311	–	01/07/2016	01/01/2017
2014	4,354	–	–	–	4,354	–	01/07/2017	01/01/2018
Clive A Washbourn								
Deferred bonus:								
13 Feb 2012	13,534	–	13,534	–	–	2.9400	13/02/2015	13/03/2015
13 Feb 2013	176,298	–	–	–	176,298	–	13/02/2016	13/03/2016
11 Feb 2014	146,450	–	–	–	146,450	–	11/02/2017	11/03/2017
10 Feb 2015	–	101,443	–	–	101,443	–	10/02/2018	10/03/2018
LTIP (see notes):								
18 Feb 2010 – 5 year	209,888	–	209,888	–	–	3.0050	18/02/2015	18/02/2020
14 Feb 2011 – 5 year	172,946	–	–	–	172,946	–	14/02/2016	14/02/2021
30 Mar 2012 – 5 year	164,714	–	–	–	164,714	–	30/03/2017	30/03/2022
30 Mar 2012 – 3 year	164,714	–	164,714	–	–	2.8930	30/03/2015	30/03/2022
13 Feb 2013 – 5 year	118,634	–	–	–	118,634	–	13/02/2018	13/02/2023
13 Feb 2013 – 3 year	118,634	–	–	–	118,634	–	13/02/2016	13/02/2023
11 Feb 2014 – 5 year	90,479	–	–	–	90,479	–	11/02/2019	11/02/2024
11 Feb 2014 – 3 year	90,478	–	–	–	90,478	–	11/02/2017	11/02/2024
10 Feb 2015 – 5 year	–	84,401	–	–	84,401	–	10/02/2020	10/02/2025
10 Feb 2015 – 3 year	–	84,401	–	–	84,401	–	10/02/2018	10/02/2025
MSIP:								
5 Apr 2013 – 5 year	500,000	–	–	–	500,000	–	05/04/2018	05/04/2023
5 Apr 2013 – 3 year	500,000	–	–	–	500,000	–	05/04/2016	05/04/2023
SAYE:								
2012	8,100	–	8,100	–	–	3.4090	01/07/2015	01/01/2016
2014	4,354	–	–	–	4,354	–	01/07/2017	01/01/2018

Directors' remuneration report continued

Notes to share plan interests table

1 2010 LTIP award details. Awards were made on 18 February 2010 at a mid-market share price of 107.2p (110.13p D A Horton only). 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. The 50% remaining award is measured over a five year period. NAVps < RFR +10% p.a. equates to 0% 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.

2 2011 LTIP award details. Awards were made on 14 February 2011 at a mid-market share price of 132.7p. 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 +10% p.a. equates to 0% 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.

3 2012 LTIP award details. Awards were made on 30 March 2012 at a mid-market share price of 143.43p. 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.

4 2013 LTIP award details. 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.

5 Shareholding requirements (as part of the LTIP) of 200% of salary for CEO and 150% of salary for other executive directors. To be built up over three years. LTIP awards may be forfeited if shareholding requirements are not met. Executive directors have met the shareholding requirements in respect of all unexercised share options.

6 Conditional awards were made on 27 April 2009 at the time of M L Bride's recruitment. The 150,000 shares will vest in four equal tranches on each of the third, fourth, fifth and sixth anniversaries of the date of grant.

7 MSIP awards were made on 5 April 2013 to C A Washbourn. Details of the plan are set out in the policy report, under 'legacy matters' in the remuneration policy table.

8 2014 LTIP award details. 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.

9 2015 LTIP award details. 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.

10 Share prices. The market price of Beazley ordinary shares at 31 December 2015 was 390.7p and the range during the year was 273.6p to 398.9p.

Annual general meeting

At the forthcoming annual general meeting to be held on 24 March 2016, 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 on remuneration issues generally, either by writing to me at the company's head office or by email through Sian Coope at sian.coope@beazley.ie.

By order of the board

Padraic J O'Connor
Chairman of the remuneration committee

3 February 2016

Appendix: Extract from the directors' remuneration policy approved by shareholders at the 2014 AGM

The following table sets out descriptions of each component of executive director remuneration packages comprised in the Beazley directors' remuneration policy, and, at the bottom of the table, the policy for non-executive directors, for reference. To provide consistency with the remainder of the directors' remuneration report, salaries shown are 2016 salaries. Since the policy report was approved by shareholders Beazley has introduced additional reclaim provisions and these are detailed in the annual remuneration report.

A full copy of the Beazley directors' remuneration policy is contained within the company's 2015 annual report, which can be found on the company's website at www.beazley.com.

Executive directors

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Base salary	Salaries are set at a level to appropriately recognise responsibilities and to be broadly market competitive.	Salaries are normally reviewed annually. Salaries for 2016 are: • D Andrew Horton: £448,000 • Martin L Bride: £313,100 • Adrian P Cox: £336,200 • Neil P Maidment: £336,200 • Clive A Washbourn: £336,200	There is no maximum salary opportunity. Any salary increases will generally reflect our standard approach to all-employee salary increases across the group. Higher increases may be made in a range of circumstances where the committee considers that a larger increase is appropriate, including (but not limited to): • a new appointment • a change in role or adoption of additional responsibilities • development of the individual in the role • alignment to market levels.	None.

Directors' remuneration report continued

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Annual bonus	To link reward to short term financial performance and individual contribution. Additional alignment with shareholders' interests through the operation of bonus deferral.	Discretionary annual bonus to individuals. An incentive pool is generated by reference to group return on equity and awards are based upon individual performance. Portion generally deferred into shares for three years (between 0% and 37.5% of bonus) dependent on level of bonus. Deferred shares may have dividend equivalents until vesting. Deferred share awards are subject to a malus provision, whereby the committee may determine that unvested shares will be forfeited in certain circumstances, such as a material misstatement of accounts or a significant adverse group development.	An individual overall cap of 400% of salary will apply. Cash bonuses will normally be capped at 250% of salary with any amount above this deferred into shares.	An incentive pool is calculated as a percentage of profit subject to a minimum return on equity. Individual payouts to executive directors are discretionary and take into account the individual's contribution and, where relevant, the performance of their division. For heads of divisions, a bonus may be awarded outside the incentive pool in circumstances where the performance of a division in relation to the group is very strong. While bonus awards are determined by reference to the profit pool, the bonus plan is discretionary and the committee may take into account any other factors it considers appropriate.
LTIP	To align the senior management team's interests to the long term performance of the group by setting performance targets over the longer term.	Awards of shares with performance conditions. Awards are normally in the form of nil-cost options with a ten-year term, but may also be in the form of a conditional award. LTIP shares may have dividend equivalents until vesting. Normally LTIP awards are subject to shareholding requirements to be built up over three years. LTIP awards may be forfeited if shareholding requirements are not met. LTIP awards from 2012 are subject to a malus provision. The committee may determine that unvested shares will be forfeited in certain circumstances, such as a material misstatement of accounts or a significant adverse group development.	Awards of up to 200% of salary. For 2014, awards of 200% of salary for the CEO and 150% of salary for other executive directors.	Vesting of LTIP awards is dependent on net asset value per share (NAVps) performance against the risk-free rate of return. No more than 25% of the award may vest for threshold performance. A portion of the award is subject to performance over three years and a portion over five years.

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Investment in underwriting	To align personal capital with underwriting performance.	Under the plan executive directors and selected staff may voluntarily defer part of their bonus into an underwriting syndicate. Capital commitments can be lost if underwriting performance is poor.	Payments are limited to the returns on the investment in the underwriting syndicate. The level of capital commitment is limited by the bonus opportunity.	The plan mirrors investment in an underwriting syndicate.
Benefits	To provide market levels of benefits.	Benefits include, but are not limited to, a company car or car allowance, season ticket, private medical insurance, death in service benefit and income protection insurance. Further benefits may be provided if the committee considers it appropriate. Tax equalisation policies may apply.	There is no overall maximum as the cost of insurance benefits will vary depending on the individual's circumstances and the cost of relocation will vary depending upon the jurisdiction.	None.
Relocation benefits	To support Beazley's growth as an international business.	Benefits in the event of relocation may include, but are not limited to, relocation allowance, housing allowance and school fees.		
Pension	To provide market levels of pension provision.	Current policy is to contribute to a defined contribution pension plan. An equivalent cash alternative may be offered. Legacy defined benefit pension arrangements are in place for certain executives (Adrian P Cox, Neil P Maidment and Clive A Washbourn). Further service accruals ceased on 31 March 2006.	For defined contribution plans, maximum company contribution of 15% of salary. Legacy defined benefit pension arrangements will be honoured.	None.
SAYE	To create staff alignment with the group and promote a sense of ownership.	HMRC-approved monthly savings scheme facilitating the purchase of shares at a discount.	Monthly contribution limit up to the HMRC approved limit.	None.
US SAYE	To create staff alignment with the group and promote a sense of ownership.	US version of the SAYE, for US employees.	Monthly contribution limit at a level that is broadly in line with the UK SAYE plan.	None.
Other HMRC all-employee approved plans	To create staff alignment with the group and promote a sense of ownership.	Executive directors may participate in any all-employee HMRC approved share plans adopted by the company. Executive directors would participate on the same terms as all employees.	Limits in line with HMRC approved limits.	None.

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Legacy matters				
Payments can also be made to executive directors under the following legacy remuneration arrangements. It is not intended that these components of remuneration policy will be used to grant any future awards.				
Marine share incentive plan (MSIP)	To align the head of the marine division with the sustained outstanding performance of the marine division.	A share award in 2013 for the head of marine made in two tranches: • 500,000 shares to vest after three years • 500,000 shares to vest after five years. Shares under award may have dividend equivalents until vesting. Awards are subject to a malus provision. The committee may determine that unvested shares will be forfeited in certain circumstances, such as a material misstatement of accounts or a significant adverse group development.	1,000,000 shares.	The award is subject to pre-tax divisional return on equity (ROE) performance and continued employment, measured over three years (50%) and five years (50%): 20% vesting for 15% divisional ROE performance, 100% vesting for 25% divisional ROE performance, with straight line vesting between points.
Conditional awards	Conditional awards were made on 27 April 2009 at the time of M L Bride's recruitment. The 150,000 shares vest in four equal tranches on each of the third, fourth, fifth and sixth anniversaries.			

Non-executive directors

Non-executive directors' fees comprise payment of an annual basic fee and additional fees to reflect specific responsibilities, where applicable. No non-executive director participates in the group's incentive arrangements or pension plan.

Basic fee	Payment of a basic annual fee
Additional fees	Additional fees are paid to reflect additional responsibilities of certain non-executive directors, as follows: – senior independent director – audit and risk committee chairman – remuneration committee chairman – subsidiary board membership and chairmanship fees. Expenses incurred in the performance of non-executive duties for the company may be reimbursed or paid for directly by the company, including any tax due on the expenses. Total fees paid to non-executive directors will remain within the limit stated in the articles of association.

Statement of corporate governance

Statement of directors' responsibilities in respect of the annual report and the 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 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 and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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 (Jersey) Law 1991. They 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 and Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

D Holt
Chairman

M L Bride
Finance director

3 February 2016

Independent auditor's report

Independent auditor's report to the members of Beazley plc

Opinions and conclusions arising from our audit

Our opinion on the financial statements is unmodified

We have audited the financial statements of Beazley plc ('Beazley') for the year ended 31 December 2015 which comprise the consolidated statement of profit or loss, the consolidated and parent company statements of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of cash flows, the consolidated and parent company statements of changes in equity and the related notes. Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK and Ireland).

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 2015 and of the group's profit for the year then ended;
- the group and company financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the group and company financial statements have been prepared in accordance with the Companies (Jersey) Law 1991.

Our assessment of risks of material misstatement

The risks of material misstatement detailed in this section are those risks that we have deemed, in our professional judgment, to have had the greatest effect on: the overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team. Our audit procedures relating to these risks were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of these risks, and we do not express an opinion on these individual risks.

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows :

Valuation of insurance liabilities ($4,586.7m gross, $3,487.0m net; 2014: $4,547.4m gross, $3,494.2m net)

Refer to page 77 (audit committee report), pages 118 to 127 (accounting policy) and pages 112 to 176 (financial disclosures).

The risk	Our procedures to address this risk
86% of the group's liabilities relate to insurance liabilities (2014: 89%). The valuation of insurance liabilities remains the most significant inherent risk in our audit. Management apply judgement to determine reserves which include a prudential margin above the actuarial best estimate to account for estimation uncertainty. The most critical estimate included in insurance liabilities is the estimate for insurance losses incurred but not reported, for which the estimate gross of reinsurance is $2,588.4m (31 December 2014: $2,540.2m) and the estimate net of reinsurance is $1,930.3m (31 December 2014: $1,874.5m) at 31 December 2015. The level of subjectivity in the estimated impact of uncertain or unknown future events; the diversity of risks written by Beazley, and therefore the granular level of reserving that occurs at class of business level; the nature of the specialist classes of business that Beazley underwrites; and particular uncertainty as regards the exposure to extreme losses in the catastrophe book, reserving for new products and continued growth within US specialty lines all serve to increase the level of judgement required and subjectivity inherent in the estimation of insurance liabilities. These judgements and uncertainties are significant to the earnings of the group.	• Evaluation and testing of key controls around the actuarial reserving process and the data used to determine the quantum of both gross and net insurance liabilities. This included controls over the extraction of data from the underlying systems and considerations of matters raised in reserving and underwriting committee meetings; • use of our own actuarial specialists to support us in our evaluation of insurance liabilities and in particular the estimate for insurance losses incurred but not reported, as well as the evaluation of management's methodology against market practice based on our market knowledge and industry data, where available, and our conclusions over whether the amount calculated by the group lies within an acceptable range; • in 2015, we increased our focus on US specialty lines in consideration of the continued growth and relative immaturity of parts of this line of business; • use of our own actuarial specialists to help us with re-projections on a gross and net basis (based on quarter 3 data then rolled forward for quarter 4) using our own models for selected significant classes of business, including marine, property and specialty (including a disaggregated analysis on US specialty lines). We also considered the consistency of the basis for the margin applied to the actuarial estimate year-on-year; • discussion and consideration of the reserving assumptions and methodology applied for prudence and consistency, and benchmarking to identify any outliers against our experience of similar accounts in the market place. Any outliers were then followed up through discussions with the Chief Actuary, the Finance Director and the Audit and Risk Committee; • consideration of the quality of historic reserving exercises by tracking the outcome of prior years' liabilities provisions by reference to subsequent out-turn; and • in light of our work above we also considered the adequacy of the judgements and uncertainties being made by the directors in the insurance risk note 2.

Existence and valuation of investments (financial assets at fair value ($3,842.2m; 2014: $4,077.4m))

Refer to page 77 (audit committee report), pages 118 to 127 (accounting policy) and pages 112 to 176 (financial disclosures).

The risk	Our procedures to address this risk
The group holds and manages a significant investment portfolio to meet its obligations under insurance contracts and for shareholder investment purposes. The size of the portfolio; the exposure to hedge funds; and the strategy employed to increase the allocation of assets with a higher credit risk to improve investment return all contribute to making the existence and valuation of investments key areas of focus within our audit. The use and oversight of outsourced service providers remains an element of the group's approach to investment management. Continuing the trend from 2015, Beazley continued to expand its portfolio of assets with a higher credit risk which includes investments subject to greater complexity of valuation including private equity and structured credit positions.	• Understood, assessed and tested the group's controls for the investment valuation process, monitoring performance of investments and the data integrity of the investment records; • assessment of the identification and subsequent resolution of differences in custodian reconciliations; • receipt of external confirmations from custodians of the investment portfolio and agreement to company records; • performance and evaluation of independent pricing and credit rating checks by our valuation specialists; • assessment of the valuation methodology for the portfolio of assets with a higher credit risk and testing of the year end valuations; • inspection of the hedge fund managers' valuation reports and consideration of the historical accuracy of these pricing estimates by reference to realized amounts. We discussed any potential valuation issues with management; • assessment of the management monitoring of the outsourced service providers; and • assessment of the allocation of assets into the fair value hierarchy as disclosed in note 16, placing specific emphasis on the classification of hedge funds and higher credit risk assets where a greater degree of judgment is required.

Valuation of other assets (reinsurance assets ($1,099.7m, 2014: $1,053.2m), insurance receivables ($732.7m, 2014: $587.0m), and premium estimates ($2,080.9m, 2014: $2,021.8m))

Refer to page 77 (audit committee report), pages 118 to 127 (accounting policy) and pages 112 to 176 (financial disclosures).

The risk	Our procedures to address this risk
The risks in these areas include the valuation of reinsurance assets and insurance receivables, being the recoverability of insurance and reinsurance debtors (notes 18, 19 and 24) and the appropriateness of premium estimates (note 3). All of these balances require judgement to be applied by the group to the valuation and, in terms of processing, require manual adjustments to be made, which we consider on a substantive basis.	*Reinsurance assets and insurance receivables* • Evaluation and testing of key controls over the processes designed to record and monitor insurance and reinsurance debtors; • inspection of management's aged analysis for recoveries as at 31 December 2015; • understanding the terms of the reinsurance programmes in place and conducting relevant substantive procedures and substantive analytical procedures to assess the reasonableness of the reinsurance assets relative to gross provisions; • considering credit ratings for reinsurers; • benchmarking with other market participants where possible (e.g. to consider the bad debt provision percentages applied to counterparties) and against past experience; and • testing of the manual adjustments on a sample basis by tracing back to supporting documentation. *Premium estimates* • Evaluation of controls around premium estimates across all lines of business; • assessment of the internal peer review process in place at Beazley to challenge the premium estimates established and the timeliness of updates; • testing by our actuarial specialists in assessing these amounts where the nature or calculation of the amounts is complex and/or judgmental; • critical assessment of the estimates involved in recording business written by binders to ensure the methodology was appropriate in the context of the timing of business written throughout the year; and • testing of the manual adjustments on a sample basis by tracing back to supporting documentation.

For all of the risk areas set out above, we have assessed whether the group's disclosures about the sensitivities of the relevant financial statement items to changes in the respective key assumptions appropriately reflect the associated risks and comply with the requirements of the relevant accounting standards.

Independent auditor's report continued

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

The materiality for the group financial statements as a whole was set at $20m (31 December 2014: $20m). This has been calculated with reference to a benchmark of group gross written premiums (of which it represents 1%) which we have determined, in our professional judgment, to be one of the principal considerations for members of the company in assessing the financial performance of the group. In addition, we applied materiality of $10m (31 December 2014: $10m) for balances other than the insurance and reinsurance technical balances, 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.

We report to the audit and risk committee all corrected and uncorrected misstatements we identified through our audit with an individual value in excess of $1m ($0.5m for non-technical) (31 December 2014: $1m ($0.5m for non-technical)) in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audit work to support this opinion is directed by the engagement partner, who signs this report on behalf of the firm, and in the light of the extent of the group's activities in London, is undertaken primarily by an audit team in London. Of the group's two reporting components, we subjected Beazley Furlonge Limited and the syndicates to an audit for group reporting purposes and Beazley Insurance Company Incorporated to specified risk-focused audit procedures. The latter was not individually financially significant enough to require an audit for group reporting purposes, but did present specific individual risks that needed to be addressed and reported to the group and component auditor. The group audit team instructed the audit team in London 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 also determined the component's materiality.

Where the work was performed by component auditors, we determined the level of involvement we need to have in the audit work in order to conclude whether sufficient audit evidence has been obtained as a basis for our opinion on the group financial statements as a whole. This involvement included the group team visiting the component audit team in London in order to assess the audit risk and strategy and work undertaken. Telephone conferences and on site meetings were also held with the component auditors.

At these meetings, the findings reported to the group audit team were discussed in more detail and any further work required by the Group audit team was then performed by the component auditors.

The audit work performed by the group and component auditors covered 99.7% of group revenue, 99.9% of profit before tax and 96.8% of group total assets.

Our opinion on other matters prescribed under the terms of our engagement is unmodified

In addition to our audit of the financial statements, the directors have engaged us to audit the information in the directors' remuneration report that is described as having been audited, which they have decided to prepare as if the company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the UK Companies Act 2006.

In our opinion the directors' remuneration report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as if those requirements were to apply to the company.

We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:
- the directors' statement of viability on pages 55 to 57 concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the 3 years to 2018; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

We have nothing to report in respect of matters on which we are required to report by exception

ISAs (UK and Ireland) require that we report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:
- we have identified material inconsistencies between the knowledge we acquired during our 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 performance, business model and strategy; or
- the statement of corporate governance does not appropriately address matters communicated by us to the audit and risk committee.

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company;
- returns adequate for our audit have not been received from branches not visited by us;
- the parent company financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

The Listing Rules require us to review:
- the directors' statement, set out on page 107, in relation to going concern and long term viability on page 55; and
- the part of the corporate governance statement on page 73 relating to the parent company's compliance with the provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Responsibilities of our report, responsibilities and restriction on use

As explained more fully in the directors' responsibilities statement set out on page 107, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group and parent company financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK & Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK & Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Whilst an audit conducted in accordance with ISAs (UK & Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of the accounting and reporting.

Our report is made solely to the parent company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Hubert Crehan
for and on behalf of
KPMG Chartered Accountants and Recognised Auditors
1 Harbourmaster Place
International Financial Services Centre
Dublin 1
Ireland

3 February 2016

Financial statements

Consolidated statement of profit or loss

for the year ended 31 December 2015

	Notes	2015 $m	2014 $m
Gross premiums written	3	2,080.9	2,021.8
Written premiums ceded to reinsurers		(367.8)	(289.1)
Net premiums written	3	**1,713.1**	**1,732.7**
Change in gross provision for unearned premiums		(57.4)	(67.9)
Reinsurer's share of change in the provision for unearned premiums		43.0	(5.9)
Change in net provision for unearned premiums		**(14.4)**	**(73.8)**
Net earned premiums	3	**1,698.7**	**1,658.9**
Net investment income	4	57.6	83.0
Other income	5	30.9	26.6
		88.5	**109.6**
Revenue		**1,787.2**	**1,768.5**
Insurance claims		974.1	899.5
Insurance claims recoverable from reinsurers		(160.2)	(81.6)
Net insurance claims	3	**813.9**	**817.9**
Expenses for the acquisition of insurance contracts	3	448.6	441.2
Administrative expenses	3	215.2	217.7
Foreign exchange loss	3	9.7	12.3
Operating expenses		**673.5**	**671.2**
Expenses	3	**1,487.4**	**1,489.1**
Share of loss in associates	14	(0.5)	(1.1)
Results of operating activities		**299.3**	**278.3**
Finance costs	8	(15.3)	(16.4)
Profit before income tax		**284.0**	**261.9**
Income tax expense	9	(35.0)	(44.1)
Profit for the year attributable to equity shareholders		**249.0**	**217.8**
Earnings per share (cents per share):			
Basic	10	48.8	43.1
Diluted	10	47.2	41.8
Earnings per share (pence per share):			
Basic	10	31.9	26.1
Diluted	10	30.9	25.3

Statement of comprehensive income

for the year ended 31 December 2015

	2015 $m	2014 $m
Group		
Profit for the year attributable to equity shareholders	249.0	217.8
Other comprehensive income		
Items that will never be reclassified to profit or loss:		
Gain/(loss) on remeasurement of retirement benefit obligations	0.3	(1.6)
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange translation differences	(1.6)	(2.6)
Total other comprehensive income	(1.3)	(4.2)
Total comprehensive income recognised	**247.7**	**213.6**

Statement of comprehensive income

for the year ended 31 December 2015

	2015 $m	2014 $m
Company		
Profit for the year attributable to equity shareholders	379.7	207.8
Total comprehensive income recognised	**379.7**	**207.8**

Statement of changes in equity

for the year ended 31 December 2015

	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 2014		**41.6**	**12.0**	**(83.1)**	**(37.8)**	**1,406.0**	**1,338.7**
Total comprehensive income recognised		–	–	(2.6)	–	216.2	213.6
Dividends paid	11	–	–	–	–	(212.6)	(212.6)
Equity settled share based payments	22	–	–	–	15.3	0.6	15.9
Acquisition of own shares in trust	22	–	–	–	(12.5)	–	(12.5)
Transfer of shares to employees	22	–	–	–	2.9	(3.3)	(0.4)
Balance at 31 December 2014		**41.6**	**12.0**	**(85.7)**	**(32.1)**	**1,406.9**	**1,342.7**
Total comprehensive income recognised		–	–	(1.6)	–	249.3	247.7
Dividends paid	11	–	–	–	–	(164.2)	(164.2)
Equity settled share based payments	22	–	–	–	17.5	–	17.5
Acquisition of own shares in trust	22	–	–	–	(3.9)	–	(3.9)
Transfer of shares to employees	22	–	–	–	9.8	(8.2)	1.6
Balance at 31 December 2015		**41.6**	**12.0**	**(87.3)**	**(8.7)**	**1,483.8**	**1,441.4**

Statement of changes in equity

for the year ended 31 December 2015

	Notes	Share capital $m	Share premium $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Company							
Balance at 1 January 2014		**41.6**	**12.0**	**(35.9)**	**(47.0)**	**703.0**	**673.7**
Total comprehensive income recognised		–	–	–	–	207.8	207.8
Dividends paid	11	–	–	–	–	(212.6)	(212.6)
Equity settled share based payments	22	–	–	–	15.3	0.6	15.9
Acquisition of own shares in trust	22	–	–	–	(12.5)	–	(12.5)
Transfer of shares to employees	22	–	–	–	2.9	(3.3)	(0.4)
Balance at 31 December 2014		**41.6**	**12.0**	**(35.9)**	**(41.3)**	**695.5**	**671.9**
Total comprehensive income recognised		–	–	–	–	**379.7**	**379.7**
Dividends paid	11	–	–	–	–	(164.2)	(164.2)
Equity settled share based payments	22	–	–	–	17.5	–	17.5
Acquisition of own shares in trust	22	–	–	–	(3.9)	–	(3.9)
Transfer of shares to employees	22	–	–	–	9.8	(8.2)	1.6
Balance at 31 December 2015		**41.6**	**12.0**	**(35.9)**	**(17.9)**	**902.8**	**902.6**

Statements of financial position

as at 31 December 2015

	Notes	2015 Group $m	2015 Company $m	2014 Group $m	2014 Company $m
Assets					
Intangible assets	12	91.0	–	94.6	–
Plant and equipment	13	4.5	0.7	3.9	0.9
Deferred tax asset	28	7.1	–	9.0	–
Investment in subsidiaries	31	–	747.2	–	747.2
Investment in associates	14	10.0	–	10.5	–
Deferred acquisition costs	15	226.2	–	222.7	–
Reinsurance assets	19, 24	1,099.7	–	1,053.2	–
Financial assets at fair value	16	3,842.2	–	4,077.4	–
Insurance receivables	18	732.7	–	587.0	–
Other receivables		31.5	249.9	20.2	40.4
Current income tax asset		23.6	–	–	–
Cash and cash equivalents	20	676.9	18.4	364.2	1.2
Total assets		**6,745.4**	**1,016.2**	**6,442.7**	**789.7**
Equity					
Share capital	21	41.6	41.6	41.6	41.6
Share premium		12.0	12.0	12.0	12.0
Foreign currency translation reserve		(87.3)	(35.9)	(85.7)	(35.9)
Other reserves	22	(8.7)	(17.9)	(32.1)	(41.3)
Retained earnings		1,483.8	902.8	1,406.9	695.5
Total equity		**1,441.4**	**902.6**	**1,342.7**	**671.9**
Liabilities					
Insurance liabilities	24	4,586.7	–	4,547.4	–
Financial liabilities	16, 25	247.3	112.3	256.8	115.8
Retirement benefit liability	27	0.7	–	2.6	–
Deferred tax liabilities	28	6.0	–	8.5	–
Current income tax liability		–	–	29.2	–
Other payables	26	463.3	1.3	255.5	2.0
Total liabilities		**5,304.0**	**113.6**	**5,100.0**	**117.8**
Total equity and liabilities		**6,745.4**	**1,016.2**	**6,442.7**	**789.7**

The financial statements were approved by the board of directors on 3 February 2016 and were signed on its behalf by:

D Holt
Chairman

M L Bride
Finance director

3 February 2016

Statements of cash flows

for the year ended 31 December 2015

		2015		2014	
	Notes	Group $m	Company $m	Group $m	Company $m
Cash flow from operating activities					
Profit before income tax		**284.0**	**379.7**	**261.9**	**207.8**
Adjustments for:					
Amortisation of intangibles	12	5.0	–	4.6	–
Equity settled share based compensation	22	17.5	17.5	15.3	15.3
Net fair value loss on financial assets		3.0	–	25.6	–
Share of loss in associates	14	0.5	–	1.1	–
Depreciation of plant and equipment	13	2.1	0.2	2.4	0.2
Impairment of reinsurance assets recognised/(written back)	6	–	–	(0.4)	–
Increase/(decrease) in insurance and other liabilities		235.7	(4.2)	(103.3)	(7.0)
(Increase)/decease in insurance, reinsurance and other receivables		(203.5)	(209.5)	177.6	8.8
Increase in deferred acquisition costs		(3.5)	–	(16.7)	–
Financial income	4	(70.8)	–	(67.7)	–
Financial expense	8	15.3	6.8	16.4	6.7
Income tax paid		(89.8)	–	(89.7)	–
Net cash from operating activities		**195.5**	**190.5**	**227.1**	**231.8**
Cash flow from investing activities					
Purchase of plant and equipment	13	(2.5)	–	(0.4)	–
Expenditure on software development	12	(5.0)	–	(5.3)	–
Purchase of investments		(3,659.7)	–	(2,832.7)	–
Proceeds from sale of investments		3,892.2	–	2,773.3	–
Investment in associate	14	–	–	(3.2)	–
Interest and dividends received	4	70.8	–	67.7	–
Net cash from/(used in) investing activities		**295.8**	**–**	**(0.6)**	**–**
Cash flow from financing activities					
Acquisition of own shares in trust	22	(3.9)	(3.9)	(12.5)	(12.5)
Repayment of borrowings	25	–	–	–	–
Interest paid		(15.3)	(6.8)	(14.8)	(6.7)
Dividends paid		(164.2)	(164.2)	(212.6)	(212.6)
Net cash used in financing activities		**(183.4)**	**(174.9)**	**(239.9)**	**(231.8)**
Net increase/(decrease) in cash and cash equivalents		307.9	15.6	(13.4)	–
Cash and cash equivalents at beginning of year		364.2	1.2	382.7	1.2
Effect of exchange rate changes on cash and cash equivalents		4.8	1.6	(5.1)	–
Cash and cash equivalents at end of year	20	**676.9**	**18.4**	**364.2**	**1.2**

Notes to the financial statements

1 Statement of accounting policies

Beazley plc is a company incorporated in Jersey and domiciled in Ireland. The group financial statements for the year ended 31 December 2015 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 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 income statement 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 2015.

The group has applied the amendments to IFRSs included in the annual improvements to IFRS: 2011-2013 cycle for the first time in the current year. The amendments include minor changes to the following standards:
- IFRS 1: 'First time adoption';
- IFRS 3: 'Business combinations' on clarification regarding joint arrangements;
- IFRS 13: 'Fair value measurement' on clarification of the portfolio exemption in IFRS 13; and
- IAS 40: 'Investment property' on clarification that IAS 40 and IFRS 3 are not mutually exclusive.

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

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 (IASB effective date: 1 January 2018);
- IFRS 11: Amendment: Accounting for acquisitions on interests in joint operations (EU effective date: 1 January 2016)*;
- IFRS 14: Regulatory deferral accounts (IASB effective date: 1 January 2016);
- IFRS 15: Revenue from contracts with customers (IASB effective date: 1 January 2018);
- IAS 1: Amendment: Disclosure Initiative (EU effective date: 1 January 2016)*;
- IAS 16: Amendment: Clarification of acceptable methods of depreciation and amortisation (EU effective date: 1 January 2016)*;
- IAS 19: Amendments: Defined benefits plans (EU effective date: 1 February 2015)*;
- IAS 27: Amendment: Equity method in separate financial statements (EU effective date: 1 January 2016)*;
- IAS 38: Amendment: Clarification of acceptable methods of depreciation and amortisation (EU effective date: 1 January 2016)*;
- annual improvement to IFRSs – 2010-2012 cycle (EU effective date: 1 February 2015)*;
- annual improvement to IFRSs – 2012-2014 cycle (EU effective date: 1 January 2016)*.

* standards that have been endorsed by the EU.

Of the upcoming accounting standard changes that we are aware of, we anticipate that IFRS 4 Phase II, IFRS 9 and IFRS 15 will have the most material impact to the financial statements presentation and disclosures. The accounting developments and implementation timelines of these standards are being closely monitored and the impacts of the standards themselves are being monitored. Full impact analysis in respect of these standards is expected to be completed at least 12 months prior to the effective date of each standard. A brief overview of these standards is provided below;
- IFRS 4 Phase II will replace IFRS 4 Phase I (An interim standard that allows insurers to continue to use various accounting practices already in place) with a single principle based accounting framework applicable to all types of insurance contracts (including reinsurance contracts);
- IFRS 9 provides a reform of financial instruments accounting to supersede IAS 39 financial instruments: recognition and measurement. The standard contains the requirements for a) the classification and measurement of financial liabilities; b) a new impairment methodology and c) general hedge accounting. EU endorsement of IFRS 9 may continue to be delayed for insurers to align better with the release and adoption of IFRS 4 Phase II; and

1 Statement of accounting policies *continued*

- IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue from contracts with customers. Revenue from contracts accounted for under IFRS 4 is outside the scope of IFRS 15 however the group will have to apply the new revenue recognition standard to non-insurance contracts. Furthermore, the group may have to apply the new standard to non-insurance components of contracts traditionally considered to be insurance contracts. The new standard's requirement for accounting for variable consideration could change the timing of revenue recognition for non-insurance contracts issued by the group.

Basis of presentation

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

The financial statements of Beazley plc have been prepared on a going concern basis. The directors of the company have a reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future.

In accordance with the requirements of IAS 1 the financial statements assets and liabilities have been presented based on order of liquidity which provides information that is more reliable and relevant for a financial institution.

Use of estimates and judgements

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in this statement of accounting policies and specifically in the following notes:

- note 1a: accounting treatment for group's interest in managed syndicates;
- note 12: intangible assets including goodwill (assumptions underlying recoverable amounts);
- note 16: financial assets and liabilities (valuations based on models and unobservable inputs);
- note 23: equity compensation plans (assumptions used to calculate fair value of share options granted);
- note 24: insurance liabilities and reinsurance assets (estimates for losses incurred but not reported); and
- note 27: retirement benefit obligations (actuarial assumptions).

The most critical estimate included within the group's financial position is the estimate for insurance losses incurred but not reported. The total estimate net of reinsurers' share as at 31 December 2015 is $1,930.3m (2014: $1,874.5m) and is included within total insurance liabilities and reinsurance assets in the statement of financial position.

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.

1 Statement of accounting policies *continued*

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.
(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 they are entitled. This judgement will be kept under review at each reporting date.

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.

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) Group companies

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;

1 Statement of accounting policies *continued*

- 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.

Deferred acquisition costs (DAC)

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

Claims

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

The IBNR amount is based on estimates calculated using widely accepted actuarial techniques which are reviewed quarterly by the group actuary and annually by Beazley's independent syndicate reporting actuary. The techniques generally use projections, based on past experience of the development of claims over time, to form a view on the likely ultimate claims to be experienced. For more recent underwriting years, regard is given to the variations in the business portfolio accepted and the underlying terms and conditions. Thus, the critical assumptions used when estimating provisions are that past experience is a reasonable predictor of likely future claims development and that the rating and business portfolio assumptions are a fair reflection of the likely level of ultimate claims to be incurred for the more recent years.

Liability adequacy testing

At each reporting date, liability adequacy tests are performed 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 as well as 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 with 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.

1 Statement of accounting policies *continued*

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 and managing agent's 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, and approved by the group's shareholders at the group's annual general meeting.

Plant and equipment

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

Fixtures and fittings	Three to ten years
Computer equipment	Three years

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

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

Intangible assets

a) Goodwill

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

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

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

b) Syndicate capacity

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

c) Licences

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

d) IT development costs

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

1 Statement of accounting policies *continued*

e) Renewal rights

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

Financial instruments

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

a) Financial assets

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

b) Financial assets at fair value through profit or loss

Except for derivative financial instruments and other financial assets listed in policies (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.

Notes to the financial statements continued

1 Statement of accounting policies *continued*

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

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

e) Hedge funds, equity linked funds and illiquid credit assets

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

f) Insurance receivables and payables

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

g) Other receivables

Other receivables categorised as loans and receivables and 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 accrued 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.

1 Statement of accounting policies *continued*

k) Hedge accounting and derivative financial instruments

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

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

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

l) Impairment of financial assets

The group considers evidence of impairment for financial assets measured at amortised cost at both a specific asset and 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 Lloyds 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.

1 Statement of accounting policies *continued*

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

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

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

Past service costs are recognised immediately in the statement of profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the 'vesting period'). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

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

Income taxes

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

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

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

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

1 Statement of accounting policies *continued*

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.

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

The 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.

2 Risk management *continued*

Our underwriters calculate premiums for risks written based on a range of criteria tailored specifically to each individual risk. These factors include but are not limited to the financial exposure, loss history, risk characteristics, limits, deductibles, terms and conditions and acquisition expenses.

The group also recognises that insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

To address this, the group sets out the exposure that it is prepared to accept in certain territories to a range of events such as natural catastrophes and specific scenarios which may result in large industry losses. This is monitored through regular calculation of realistic disaster scenarios (RDS). The aggregate position is monitored at the time of underwriting a risk, and reports are regularly produced to highlight the key aggregations to which the group is exposed.

The group uses a number of modelling tools to monitor its exposures against the agreed risk appetite set and to simulate catastrophe losses in order to measure the effectiveness of its reinsurance programmes. Stress and scenario tests are also run using these models. The range of scenarios considered includes natural catastrophe, cyber, marine, liability, political, terrorism and war events.

One of the largest types of event exposure relates to natural catastrophe events such as windstorm or earthquake. Where possible the group measures geographic accumulations and uses its knowledge of the business, historical loss behaviour and commercial catastrophe modelling software to assess the expected range of losses at different return periods. Upon application of the reinsurance coverage purchased, the key gross and net exposures are calculated on the basis of extreme events at a range of return periods.

The group's high-level catastrophe risk appetite is set by the board and the business plans of each team are determined within these parameters. The board may adjust these limits over time as conditions change. In 2015 the group operated to a catastrophe risk appetite for a probabilistic 1-in-250 years US event of $462.0m net of reinsurance. This represented a reduction in our catastrophe risk appetite of 13% compared to 2014.

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 2014 and 2015 are:

Unaudited

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

Unaudited

	2014	
Lloyd's prescribed natural catastrophe event	Modelled PML (before) reinsurance) $m	Modelled PML (after) reinsurance) $m
Los Angeles quake (2014: $78.0bn)	575.1	229.5
Gulf of Mexico windstorm (2014: $112.0bn)	562.9	241.9
US Northeast windstorm (2014: $78.0bn)	497.2	243.9

The net of reinsurance exposures to the above Lloyd's RDS events have reduced during 2015 mainly due to additional reinsurance being purchased in the reinsurance division. In the property division, there has been growth in exposure in some regions which has led to an increase in the gross losses for the Los Angeles quake and Gulf of Mexico windstorm scenarios.

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

2 Risk management *continued*

The board has also established a risk budget for the aggregation of data breach exposure arising from our cyber policies. This risk budget is monitored by reference to the largest of seven realistic disaster scenarios which are run to estimate the total loss arising from specified scenarios including; the failure of a data aggregator, the failure of a shared hardware or software platform and the failure of a cloud provider. Whilst the development of this analysis is still in its infancy, given the scarcity of actual events observed against which to calibrate, it starts to provide an objective mechanism for the board to understand, monitor and manage the risk of aggregated losses from this peril

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 2015, 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.

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 2015, the group's business consisted of six operating divisions. The following table provides a breakdown of gross premiums written by division, and also provides a geographical split based on placement of risk.

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

2014	UK (Lloyd's)	US (non-Lloyd's)	Total
Life, accident & health	7%	–	7%
Marine	16%	–	16%
Political risks & contingency	6%	–	6%
Property	17%	–	17%
Reinsurance	10%	–	10%
Specialty lines	35%	9%	44%
Total	**91%**	**9%**	**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 134.

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.

2 Risk management *continued*

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

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' broader interests. Prompt and accurate 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, the US, Europe, South America, Asia, Australia and the Middle East, management stretch may make the identification, analysis and control of group risks more complex.

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

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 2015, this permitted variance from the forecast investment return was set at $120.0m. For 2016, the permitted variance will be similar. Investment strategy is developed to be consistent with this limit and investment risk is monitored on an ongoing basis, using outputs from 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.

2 Risk management *continued*

a) Foreign exchange risk

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

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

In 2015, 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 all 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 subsidiaries 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 subsidiaries. It also gives rise to a currency translation exposure for the group to sterling, Singapore dollars and Australian dollars on translation to the group's presentational currency, although these exposures are minimal.

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

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

31 December 2014	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	860.5	118.8	324.4	1,303.7	5,139.0	6,442.7
Total liabilities	(834.6)	(110.8)	(312.1)	(1,257.5)	(3,842.5)	(5,100.0)
Net assets	**25.9**	**8.0**	**12.3**	**46.2**	**1,296.5**	**1,342.7**

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 current information.

	Impact on profit after tax for the year ended		Impact on net assets	
Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar	2015 $m	2014 $m	2015 $m	2014 $m
Dollar weakens 30% against other currencies	(12.3)	11.9	(25.7)	22.8
Dollar weakens 20% against other currencies	(8.2)	7.9	(17.1)	15.2
Dollar weakens 10% against other currencies	(4.1)	4.0	(8.6)	7.6
Dollar strengthens 10% against other currencies	4.1	(4.0)	8.6	(7.6)
Dollar strengthens 20% against other currencies	8.2	(7.9)	17.1	(15.2)
Dollar strengthens 30% against other currencies	12.3	(11.9)	25.7	(22.8)

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 interest rate futures contracts to manage the interest rate risk on bond portfolios.

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

Duration 31 December 2015	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	1,246.5	600.7	465.3	422.0	322.6	211.7	–	3,268.8
Cash and cash equivalents	676.9	–	–	–	–	–	–	676.9
Derivative financial instruments	4.6	–	–	–	–	–	–	4.6
Borrowings	(116.9)	–	–	(112.3)	–	–	(18.0)	(247.2)
Total	**1,811.1**	**600.7**	**465.3**	**309.7**	**322.6**	**211.7**	**(18.0)**	**3,703.1**

31 December 2014	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	1,531.7	765.6	558.0	269.5	254.7	137.8	–	3,517.3
Cash and cash equivalents	364.2	–	–	–	–	–	–	364.2
Derivative financial instruments	0.8	–	–	–	–	–	–	0.8
Borrowings	–	(122.5)	–	–	(115.8)	–	(18.0)	(256.3)
Total	**1,896.7**	**643.1**	**558.0**	**269.5**	**138.9**	**137.8**	**(18.0)**	**3,626.0**

Borrowings include tier 2 subordinated debt that is due in October 2026 with a first call at the group's option in October 2016. If the debt is settled when due in October 2026 the duration of the debt falls within the >10 yrs category. If the debt is called in October 2016, the duration of the debt falls within the <1 yr (2014: 1-2 yrs) category. Also included in borrowings is $18m of a subordinated debt facility raised in 2004 which is unsecured. The subordinated notes are due in 2034 and have been callable at the group's option since 2009.

Sensitivity analysis

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

	Impact on profit after income tax for the year		Impact on net assets	
	2015 $m	2014 $m	2015 $m	2014 $m
Shift in yield (basis points)				
150 basis point increase	(73.4)	(81.2)	(73.4)	(81.2)
100 basis point increase	(48.9)	(54.1)	(48.9)	(54.1)
50 basis point increase	(24.5)	(27.1)	(24.5)	(27.1)
50 basis point decrease	24.5	27.1	24.5	27.1
100 basis point decrease	48.9	54.1	48.9	54.1

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

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

	Impact on profit after income tax for the year		Impact on net assets	
	2015 $m	2014 $m	2015 $m	2014 $m
Change in fair value of hedge funds, equity linked funds and illiquid credit assets				
30% increase in fair value	149.5	143.4	149.5	143.4
20% increase in fair value	99.7	95.6	99.7	95.6
10% increase in fair value	49.8	47.8	49.8	47.8
10% decrease in fair value	(49.8)	(47.8)	(49.8)	(47.8)
20% decrease in fair value	(99.7)	(95.6)	(99.7)	(95.6)
30% decrease in fair value	(149.5)	(143.4)	(149.5)	(143.4)

d) Investment risk

Managing investment risk is central to the operation and development of our investment strategy. Our internal model includes an asset risk module, which uses an Economic Scenario Generator (ESG) to simulate multiple simulations of financial conditions, to support stochastic analysis of investment risk. We use internal model outputs to assess the Value at Risk (VAR) of our investments, at different confidence levels, including '1 in 200', which reflects Solvency II modelling requirements, and '1 in 10', identifying a level of investment losses which are more likely to occur in practice. Risk is typically considered to a 12 month horizon. It is assessed for investments in isolation and also in conjunction with net present value of our insurance liabilities, to help us monitor and manage market risk across both sides of the balance sheet.

Our investment strategy is developed by reference to an investment risk budget, set annually by the board as part of the overall risk budgeting framework of the business. The internal model is used to monitor compliance with the budget. In 2015, the investment risk budget was set at a level such that investment losses should not cause the group financial result to deviate from the planned level by more than $120m, at the 1 in 10 confidence level, or $300m at the 1 in 200 confidence level. This compares to a planned investment result in the current low interest rate environment of 1.25% or $50m. The investment risk budget will be at a similar level in 2016. It is important to note that stochastic risk modelling is not a precise discipline. Our ESG outputs are regularly validated against actual market conditions, but we also use a number of other, qualitative, measures to support the monitoring and management of investment risk. These include stress testing, as well as selected historic and prospective scenario analysis.

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 – whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the group;
- brokers and coverholders – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the group;
- investments – whereby issuer default results in the group losing all or part of the value of a financial instrument and derivative financial instrument; and
- cash and cash equivalents.

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

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

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 (RSC), which also reviews arrangements with all existing reinsurers at least annually. Vulnerable or slow-paying reinsurers are examined more frequently.

To assist in the understanding of credit risks, A.M. Best, Moody's and Standard & Poor's (S&P) ratings are used. These ratings have been categorised below as used for Lloyd's reporting:

	A.M. Best	Moody's	S&P
Tier 1	A++ to A-	Aaa to A3	AAA to A-
Tier 2	B++ to B-	Baa1 to Ba3	BBB+ to BB-
Tier 3	C++ to C-	B1 to Caa	B+ to CCC
Tier 4	D, E, F, S	Ca to C	R, (U,S) 3

2 Risk management *continued*

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

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

31 December 2014	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	3,273.3	235.5	8.5	–	–	3,517.3
– equity linked funds	–	–	–	–	145.9	145.9
– hedge funds	–	–	–	–	367.0	367.0
– illiquid credit assets	–	–	–	–	45.9	45.9
– derivative financial instruments	–	–	–	–	1.3	1.3
Insurance receivables	–	–	–	–	587.0	587.0
Reinsurance assets	1,053.2	–	–	–	–	1,053.2
Other receivables	20.2	–	–	–	–	20.2
Cash and cash equivalents	364.2	–	–	–	–	364.2
Total	**4,710.9**	**235.5**	**8.5**	**–**	**1,147.1**	**6,102.0**

The largest counterparty exposure within tier 1 is $568.6m of US Treasuries (2014: $426.6m).

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

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

An analysis of the overall credit risk exposure indicates that the group has reinsurance assets that are impaired at the reporting date. The total impairment in respect of the reinsurance assets at 31 December 2015 was as follows:

	Individual impairment $m	Collective impairment $m	Total $m
Balance at 1 January 2014	4.5	10.0	14.5
Impairment loss (written back)/recognised	(1.0)	0.6	(0.4)
Balance at 31 December 2014	3.5	10.6	14.1
Impairment loss (written back)/recognised	(0.2)	0.2	–
Balance at 31 December 2015	**3.3**	**10.8**	**14.1**

2 Risk management *continued*

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

31 December 2015	Up to 30 days past due $m	30-60 days past due $m	60-90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance receivables	26.5	7.3	2.9	10.5	47.2
Reinsurance assets	2.8	2.9	0.2	19.6	25.5

31 December 2014	Up to 30 days past due $m	30-60 days past due $m	60-90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance receivables	25.1	7.2	3.1	9.6	45.0
Reinsurance assets	2.0	8.2	0.3	4.1	14.6

The total impairment provision in the statement of financial position in respect of reinsurance assets past due by more than 30 days at 31 December 2015 was $3.3m (2014: $3.5m).

The group believes that the unimpaired amounts that are past due more than 30 days are still collectable in full, based on historic payment behaviour and analyses of credit risk.

2.6 Regulatory and legal risk †

Regulatory and legal risk is the risk arising from not complying with regulatory and legal requirements. The operations of the group are subject to legal and regulatory requirements within the jurisdictions in which it operates and the group's compliance function is responsible for ensuring that these requirements are adhered to.

2.7 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The group is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business. In the majority of the cases, these claims are settled from the premiums received.

The group's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (details of the group's exposure to realistic disaster scenarios (RDS) are provided on page 128). 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 46 to 48.

2 Risk management *continued*

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

31 December 2015	Within 1 year $m	1-3 years $m	3-5 years $m	Greater than 5 years $m	Total $m	Weighted average term to settlement (years)
Life, accident & health	43.7	15.8	0.6	–	60.1	0.8
Marine	102.4	82.8	22.7	16.1	224.0	1.9
Political risks & contingency	32.8	32.7	9.4	7.4	82.3	2.0
Property	93.9	72.2	18.4	12.9	197.4	1.8
Reinsurance	66.4	57.0	18.4	16.5	158.3	2.2
Specialty lines	410.0	662.3	393.9	469.2	1,935.4	3.5
Net insurance liabilities	**749.2**	**922.8**	**463.4**	**522.1**	**2,657.5**	

* For a breakdown of net claims liabilities refer to note 24.

31 December 2014	Within 1 year $m	1-3 years $m	3-5 years $m	Greater than 5 years $m	Total $m	Weighted average term to settlement (years)
Life, accident & health	50.8	13.7	0.5	–	65.0	0.8
Marine	103.0	86.1	33.1	17.6	239.8	1.9
Political risks & contingency	49.8	28.2	10.5	3.5	92.0	1.5
Property	126.1	72.7	20.0	12.5	231.3	1.6
Reinsurance	95.3	62.0	16.8	11.2	185.3	1.7
Specialty lines	483.3	694.5	362.8	310.2	1,850.8	2.9
Net insurance liabilities	**908.3**	**957.2**	**443.7**	**355.0**	**2,664.2**	

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

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

31 December 2014	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Net insurance liabilities	908.3	957.2	443.7	355.0	2,664.2
Borrowings	–	122.5	115.8	18.0	256.3
Other payables	255.5	–	–	–	255.5

The group makes additional interest payments for borrowings. Further details are provided in notes 8 and 25.

Notes to the financial statements continued

2 Risk management *continued*

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

Maturity 31 December 2015	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	978.4	618.4	568.5	474.6	336.6	292.3	–	3,268.8
Derivative financial instruments	4.6	–	–	–	–	–	–	4.6
Cash and cash equivalents	676.9	–	–	–	–	–	–	676.9
Insurance receivables	732.7	–	–	–	–	–	–	732.7
Other receivables	31.5	–	–	–	–	–	–	31.5
Other payables	(462.6)	(0.7)	–	–	–	–	–	(463.3)
Borrowings	(116.9)	–	–	(112.3)	–	–	(18.0)	(247.2)
Total	**1,844.6**	**617.7**	**568.5**	**362.3**	**336.6**	**292.3**	**(18.0)**	**4,004.0**

31 December 2014	<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	805.6	833.1	690.2	395.6	370.3	422.5	–	3,517.3
Derivative financial instruments	0.8	–	–	–	–	–	–	0.8
Cash and cash equivalents	364.2	–	–	–	–	–	–	364.2
Insurance receivables	587.0	–	–	–	–	–	–	587.0
Other receivables	20.2	–	–	–	–	–	–	20.2
Other payables	(255.5)	–	–	–	–	–	–	(255.5)
Borrowings	–	(122.5)	–	–	(115.8)	–	(18.0)	(256.3)
Total	**1,522.3**	**710.6**	**690.2**	**395.6**	**254.5**	**422.5**	**(18.0)**	**3,977.7**

Borrowings include tier 2 subordinated debt that is due in October 2026 with a first call at the group's option in October 2016. If the debt is settled when due in October 2026 the maturity date of the debt falls within the >10 yrs category. If the debt is called in October 2016, the maturity date of the debt falls within the <1 yr (2014: 1-2 yrs) category.

Illiquid credit assets 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 the US, Europe, Asia, South America, Asia, Australia and the Middle East. The group's preference is to minimise reputation risks but where it is not possible or beneficial to avoid them, 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.

2 Risk management *continued*

The group has several requirements for capital, including:

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

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

The board's strategy is to grow the 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 2015, we have surplus capital of 49% of ECR, including Solvency II adjustments. Following payment of the second interim dividend of 6.6p per share and special dividend of 18.4p per share, the surplus reduces to 35% 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 company's exposure can be seen in section 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:

Life, accident & health

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

Marine

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

Political risks & contingency

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

Property

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

Reinsurance

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

Specialty lines

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

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

Notes to the financial statements continued

3 Segmental analysis *continued*

b) Segment information

2015	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Segment results							
Gross premiums written	119.8	269.3	123.6	353.1	199.9	1,015.2	2,080.9
Net premiums written	106.6	239.5	105.0	304.8	132.0	825.2	1,713.1
Net earned premiums	110.8	258.2	106.4	297.8	133.8	791.7	1,698.7
Net investment income	1.5	6.2	2.4	6.6	4.6	36.3	57.6
Other income	2.9	3.4	2.2	5.9	5.5	11.0	30.9
Revenue	**115.2**	**267.8**	**111.0**	**310.3**	**143.9**	**839.0**	**1,787.2**
Net insurance claims	64.3	97.8	30.6	117.1	29.4	474.7	813.9
Expenses for the acquisition of insurance contracts	35.0	68.9	32.1	91.0	32.8	188.8	448.6
Administrative expenses	15.2	32.7	18.5	40.9	13.9	94.0	215.2
Foreign exchange loss	0.3	1.5	0.4	1.6	1.5	4.4	9.7
Expenses	**114.8**	**200.9**	**81.6**	**250.6**	**77.6**	**761.9**	**1,487.4**
Share of loss of associates	–	–	(0.4)	–	–	(0.1)	(0.5)
Segment result	**0.4**	**66.9**	**29.0**	**59.7**	**66.3**	**77.0**	**299.3**
Finance costs							(15.3)
Profit before income tax							**284.0**
Income tax expense							(35.0)
Profit for the year attributable to equity shareholders							**249.0**
Claims ratio	58%	38%	29%	39%	22%	60%	48%
Expense ratio	45%	39%	47%	45%	35%	36%	39%
Combined ratio	103%	77%	76%	84%	57%	96%	87%
Segment assets and liabilities							
Segment assets	221.5	1,132.8	798.5	1,047.1	403.1	3,142.4	6,745.4
Segment liabilities	(195.1)	(739.6)	(650.1)	(830.7)	(242.4)	(2,646.1)	(5,304.0)
Net assets	**26.4**	**393.2**	**148.4**	**216.4**	**160.7**	**496.3**	**1,441.4**
Additional information							
Investment in associates	–	–	2.5	–	–	7.5	10.0
Impairment of non-financial assets	–	–	–	–	–	–	–
Capital expenditure	0.2	0.5	0.3	0.6	0.3	1.5	3.4
Amortisation and depreciation	(0.3)	(0.6)	(0.3)	(0.8)	(0.4)	(1.9)	(4.3)
Net cash flow	6.7	87.3	32.3	44.5	32.3	109.6	312.7

3 Segmental analysis *continued*

2014	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Segment results							
Gross premiums written	132.2	325.2	123.2	344.7	200.8	895.7	2,021.8
Net premiums written	113.7	289.9	101.2	297.6	153.8	776.5	1,732.7
Net earned premiums	103.0	282.6	96.9	287.9	160.1	728.4	1,658.9
Net investment income	1.0	8.9	3.8	10.2	7.8	51.3	83.0
Other income	1.0	3.4	1.8	6.6	3.8	10.0	26.6
Revenue	**105.0**	**294.9**	**102.5**	**304.7**	**171.7**	**789.7**	**1,768.5**
Net insurance claims	62.2	106.6	25.7	121.3	60.0	442.1	817.9
Expenses for the acquisition of insurance contracts	33.9	78.3	29.2	87.1	35.6	177.1	441.2
Administrative expenses	13.9	36.8	20.4	39.9	14.9	91.8	217.7
Foreign exchange loss	0.8	2.1	0.7	2.1	1.2	5.4	12.3
Expenses	**110.8**	**223.8**	**76.0**	**250.4**	**111.7**	**716.4**	**1,489.1**
Share of loss of associates	–	–	(0.3)	–	–	(0.8)	(1.1)
Segment result	**(5.8)**	**71.1**	**26.2**	**54.3**	**60.0**	**72.5**	**278.3**
Finance costs							(16.4)
Profit before income tax							**261.9**
Income tax expense							(44.1)
Profit for the year attributable to equity shareholders							**217.8**
Claims ratio	60%	38%	27%	42%	37%	61%	49%
Expense ratio	47%	40%	51%	44%	32%	37%	40%
Combined ratio	107%	78%	78%	86%	69%	98%	89%
Segment assets and liabilities							
Segment assets	216.8	1,048.9	767.9	999.1	372.1	3,037.9	6,442.7
Segment liabilities	(188.8)	(673.7)	(629.6)	(808.2)	(233.2)	(2,566.5)	(5,100.0)
Net assets	**28.0**	**375.2**	**138.3**	**190.9**	**138.9**	**471.4**	**1,342.7**
Additional information							
Investment in associates	–	–	2.8	–	–	7.7	10.5
Impairment of non-financial assets	–	–	–	–	–	–	–
Capital expenditure	0.3	1.1	0.5	0.9	2.0	0.9	5.7
Amortisation and depreciation	(0.4)	(1.3)	(0.6)	(1.1)	(1.1)	(2.5)	(7.0)
Net cash flow	(0.5)	(5.4)	(2.4)	(2.3)	(1.6)	(6.3)	(18.5)

Notes to the financial statements continued

3 Segmental analysis *continued*

c) Information about geographical areas

The group's operating segments are also managed geographically by placement of risk. UK earned premium in the analysis below represents all risks placed at Lloyd's and US earned premium represents all risks placed at the group's US insurance company, Beazley Insurance Company, Inc. An analysis of gross premiums written split geographically by placement of risk and by reportable segment is provided in note 2 on page 129.

	2015 $m	2014 $m
Net earned premiums		
UK (Lloyd's)	1,637.8	1,617.2
US (Non-Lloyd's)	60.9	41.7
	1,698.7	**1,658.9**

	2015 $m	2014 $m
Segment assets		
UK (Lloyd's)	6,409.3	6,133.0
US (Non-Lloyd's)	336.1	309.7
	6,745.4	**6,442.7**

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

	2015 $m	2014 $m
Capital expenditure		
Non-US	2.7	5.5
US	0.7	0.2
	3.4	**5.7**

4 Net investment income

	2015 $m	2014 $m
Interest and dividends on financial investments at fair value through profit or loss	70.3	67.1
Interest on cash and cash equivalents	0.5	0.6
Realised losses on financial investments at fair value through profit or loss	(18.5)	(16.3)
Net unrealised fair value gains on financial investments at fair value through profit or loss	15.5	41.9
Investment income from financial investments	**67.8**	**93.3**
Investment management expenses	(10.2)	(10.3)
	57.6	**83.0**

5 Other income

	2015 $m	2014 $m
Commissions received from Beazley service companies	16.4	14.2
Profit commissions from syndicates 623/6107	12.4	9.9
Agency fees from 623	1.9	2.3
Other income	0.2	0.2
	30.9	**26.6**

6 Operating expenses

	2015 $m	2014 $m
Operating expenses include:		
Amounts receivable by the auditor and associates in respect of:		
– the auditing of accounts of the company's subsidiaries	1.3	1.2
– taxation compliance services	0.1	0.1
– all other assurance services not included above	0.4	0.4
– all other non-audit services not included above	–	–
	1.8	1.7
Impairment loss recognised/(written back) on reinsurance assets	–	(0.4)
Operating leases	9.4	9.2

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

7 Employee benefit expenses

	2015 $m	2014 $m
Wages and salaries	123.6	120.7
Short term incentive payments	75.6	68.7
Social security	17.7	18.7
Share-based remuneration	17.5	15.6
Pension costs*	10.4	10.0
	244.8	233.7
Recharged to syndicate 623	(36.1)	(34.5)
	208.7	**199.2**

* Pension costs refer to the contributions made under the defined contribution scheme. Further information on the defined benefit pension scheme can be found in note 27.

8 Finance costs

	2015 $m	2014 $m
Interest expense	15.3	16.4
	15.3	**16.4**

9 Income tax expense

	2015 $m	2014 $m
Current tax expense		
Current year	44.6	95.6
Prior year adjustments	(8.8)	5.5
	35.8	101.1
Deferred tax expense		
Origination and reversal of temporary differences	(2.9)	(55.2)
Impact of change in UK tax rates	(0.2)	0.4
Prior year adjustments	2.3	(2.2)
	(0.8)	(57.0)
Income tax expense	**35.0**	**44.1**

	2015 $m	2014 $m
Profit before tax	**284.0**	**261.9**
Tax calculated at Irish rate	35.5	32.7
Rates applied	12.5%	12.5%
Effects of:		
– tax rates in foreign jurisdictions	7.7	4.9
– non-deductible expenses	0.8	3.5
– tax relief on share based payments – current and future years	(2.3)	(1.4)
– (over)/under provided in prior years	(6.5)	3.3
– change in UK tax rates*	(0.2)	0.4
– foreign exchange on tax	–	0.7
Tax charge for the period	**35.0**	**44.1**

The weighted average applicable tax rate was 15.2% (2014: 14.8%). This is the weighted average of the statutory tax rates applied to the profits earned in each country in which the group operates.

As noted on page 43, the group has assessed the potential impact of diverted profits tax for the current year and is of the view that no liability arises. The ultimate outcome may differ, however it is unlikely to have a material effect on the group's financial performance for the current year.

* The Finance Act 2015, which provides for reduction in the UK Corporation tax rate down to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020, was substantively enacted on 26 October 2015. These rate reductions to 19% and 18% will reduce the company's future current tax charge and have been reflected in the calculation of the deferred tax balance at 31 December 2015.

10 Earnings per share

	2015	2014
Basic (cents)	48.8c	43.1c
Diluted (cents)	47.2c	41.8c
Basic (pence)	31.9p	26.1p
Diluted (pence)	30.9p	25.3p

Basic

Basic earnings per share are calculated by dividing profit after tax of $249.0m (2014: $217.8m) by the weighted average number of shares in issue during the year of 510.4m (2014: 505.4m). The shares held in the Employee Share Options Plan (ESOP) of 9.7m (2014: 16.0m) 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 $249.0m (2014: $217.8m) by the adjusted weighted average number of shares of 527.3m (2014: 521.2m). 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 9.7m (2014: 16.0m) 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 6.6p per ordinary share (2014: 6.2p) and a special dividend of 18.4p (2014: 11.8p) will be payable on 31 March 2016 to Beazley plc shareholders registered at 5.00pm on 26 February 2016 in respect of the six months ended 31 December 2015. The company expects the total amount to be paid in respect of the second interim and special dividend to be approximately £127.9m. These financial statements do not provide for the second interim dividend and the special dividend as a liability.

Together with the interim dividend of 3.3p (2014: 3.1p) this gives a total dividend for the year of 28.3p (2014: 21.1p).

The aforementioned interim and special dividends will be payable on 31 March 2016 to shareholders registered at 5.00pm on 26 February 2016 (save to the extent that shareholders on the register of members on 26 February 2016 are to be paid a dividend by a subsidiary of the company (being Beazley DAS Limited) resident for tax purposes in the United Kingdom pursuant to elections made or deemed to have been made and such shareholders shall have no right to this second interim dividend).

Notes to the financial statements continued

12 Intangible assets

	Goodwill $m	Syndicate capacity $m	Licences $m	IT development costs $m	Renewal rights $m	Total $m
Cost						
Balance at 1 January 2014	72.0	10.7	9.3	62.2	17.0	171.2
Other additions	–	–	–	5.3	–	5.3
Foreign exchange loss	–	–	–	(0.8)	–	(0.8)
Balance at 31 December 2014	**72.0**	**10.7**	**9.3**	**66.7**	**17.0**	**175.7**
Balance at 1 January 2015	72.0	10.7	9.3	66.7	17.0	175.7
Other additions	–	–	–	5.0	–	5.0
Write off	–	–	–	(3.2)	–	(3.2)
Foreign exchange loss	–	–	–	(5.3)	–	(5.3)
Balance at 31 December 2015	**72.0**	**10.7**	**9.3**	**63.2**	**17.0**	**172.2**
Amortisation and impairment						
Balance at 1 January 2014	(10.0)	–	–	(52.6)	(17.0)	(79.6)
Amortisation for the year	–	–	–	(4.6)	–	(4.6)
Foreign exchange gain	–	–	–	3.1	–	3.1
Balance at 31 December 2014	**(10.0)**	**–**	**–**	**(54.1)**	**(17.0)**	**(81.1)**
Balance at 1 January 2015	(10.0)	–	–	(54.1)	(17.0)	(81.1)
Amortisation for the year	–	–	–	(5.0)	–	(5.0)
Write off	–	–	–	3.2	–	3.2
Foreign exchange gain	–	–	–	1.7	–	1.7
Balance at 31 December 2015	**(10.0)**	**–**	**–**	**(54.2)**	**(17.0)**	**(81.2)**
Carrying amount						
31 December 2015	**62.0**	**10.7**	**9.3**	**9.0**	**–**	**91.0**
31 December 2014	62.0	10.7	9.3	12.6	–	94.6

12 Intangible assets *continued*

Impairment tests

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

2015	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Goodwill	28.6	2.3	1.0	24.9	0.8	4.4	62.0
Capacity	0.3	1.6	0.7	2.5	0.8	4.8	10.7
Licences	–	–	–	1.9	–	7.4	9.3
Total	**28.9**	**3.9**	**1.7**	**29.3**	**1.6**	**16.6**	**82.0**

2014	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Goodwill	28.6	2.3	1.0	24.9	0.8	4.4	62.0
Capacity	0.3	1.6	0.7	2.5	0.8	4.8	10.7
Licences	–	–	–	1.9	–	7.4	9.3
Total	**28.9**	**3.9**	**1.7**	**29.3**	**1.6**	**16.6**	**82.0**

When testing for impairment, the recoverable amount of a CGU is determined based on value in use. Value in use is calculated using projected cash flows based on financial budgets approved by management covering a five-year period taking into account historic growth rates and expected future market conditions. A pre tax discount rate of 9% (2014: 10%) has been used to discount the projected cash flows of each CGU. The same discount rate has been applied to all operating segments as these segments all undertake underwriting activities supported by the same capital base. The discount rate of 9% (2014: 10%) reflects the group's expected return on equity and cost of borrowing and has been calculated using independent measures of the risk-free rate of return and the group's risk profile relative to the risk-free and market rates of return and, as such, is considered representative of the rate appropriate to the risk specific to the CGU.

The impairment tests have been performed assuming the group's operating segments are the CGUs to which the intangible assets have been allocated. As at 31 December 2015, the financial budgets for the life, accident & health segment, in particular, have been challenged in light of the losses incurred in the previous two years and management are comfortable the forecast profits are achievable, supporting the recoverability of the goodwill balance held. To test this segment's sensitivity to variances from forecast profits, the discount rate has been flexed to 10% above and 5% below the central assumption. Within this range, the recovery of goodwill remains supportable. Headroom was calculated in respect of the value in use of all the group's other intangible assets.

Notes to the financial statements continued

13 Plant and equipment

	Company	Group		
	Fixtures & fittings $m	Fixtures & fittings $m	Computer equipment $m	Total $m
Cost				
Balance at 1 January 2014	2.3	22.2	9.6	31.8
Additions	–	0.2	0.2	0.4
Foreign exchange (loss)/gain	0.1	(0.9)	(0.2)	(1.1)
Balance at 31 December 2014	**2.4**	**21.5**	**9.6**	**31.1**
Balance at 1 January 2015	**2.4**	**21.5**	**9.6**	**31.1**
Additions	–	1.1	1.4	2.5
Write off	–	(1.6)	(1.2)	(2.8)
Foreign exchange loss	–	(0.3)	–	(0.3)
Balance at 31 December 2015	**2.4**	**20.7**	**9.8**	**30.5**
Accumulated depreciation				
Balance at 1 January 2014	(1.2)	(17.6)	(8.2)	(25.8)
Depreciation charge for the year	(0.2)	(1.6)	(0.8)	(2.4)
Foreign exchange gain/(loss)	(0.1)	0.7	0.3	1.0
Balance at 31 December 2014	**(1.5)**	**(18.5)**	**(8.7)**	**(27.2)**
Balance at 1 January 2015	**(1.5)**	**(18.5)**	**(8.7)**	**(27.2)**
Depreciation charge for the year	(0.2)	(1.2)	(0.9)	(2.1)
Write off	–	1.6	1.2	2.8
Foreign exchange gain	–	0.4	0.1	0.5
Balance at 31 December 2015	**(1.7)**	**(17.7)**	**(8.3)**	**(26.0)**
Carrying amounts				
31 December 2015	**0.7**	**3.0**	**1.5**	**4.5**
31 December 2014	0.9	3.0	0.9	3.9

14 Investment in associates

Group	2015 $m	2014 $m
As at 1 January	**10.5**	**8.4**
Investment in Equinox Global Limited	–	1.6
Investment in Capson Corp. Inc	–	1.6
Share of loss after tax	(0.5)	(1.1)
As at 31 December	**10.0**	**10.5**

The group's investment in associates consists of:

	Country of incorporation	% interest held	Carrying value $m
2015			
Falcon Money Management Holdings Limited (and subsidiaries)	Malta	25%	–
Capson Corp., Inc. (and subsidiary)	USA	31%	7.5
Equinox Global Limited (and subsidiary)	UK	36%	2.5
			10.0

14 Investment in associates *continued*

The aggregate financial information for all associates (100%) is as follows:

	2015 $m	2014 $m
Assets	41.2	38.1
Liabilities	25.7	22.7
Equity	15.5	15.4
Revenue	21.9	24.0
Loss after tax	(1.1)	(2.3)
Share of other comprehensive income	–	–
Share of total comprehensive income	(1.1)	(2.3)

All of the investments in associates are unlisted and are equity accounted using available financial information as at 31 December 2015. Equinox Global Limited and Capson Corp Inc are both insurance intermediaries. Falcon Management Holdings Limited is an investment management company which also acts in an intermediary capacity.

The company's investment in associates consists of:

Company	Country of incorporation	% interest held	Carrying value $m
2015			
Falcon Money Management Holdings Limited (and subsidiaries)	Malta	25%	–

The aggregate financial information for the associate (100%) is as follows:

	2015 $m	2014 $m
Assets	4.5	8.2
Liabilities	2.5	4.6
Equity	2.0	3.6
Revenue	2.6	5.7
Profit after tax	–	–
Share of other comprehensive income	–	–
Share of total comprehensive income	–	–

The investment in the associate is unlisted and is equity accounted using unaudited financial information as at 31 December 2015.

15 Deferred acquisition costs

	2015 $m	2014 $m
Balance at 1 January	222.7	206.0
Additions	452.1	457.9
Amortisation charge	(448.6)	(441.2)
Balance at 31 December	**226.2**	**222.7**

16 Financial assets and liabilities

	2015 $m	2014 $m
Financial assets at fair value		
Fixed and floating rate debt securities:		
– Government issued	1,101.0	820.1
– Quasi-government	362.8	585.7
– Supranational	393.3	439.8
– Corporate bonds		
– Investment grade	1,215.8	1,111.5
– High yield	68.3	80.1
– Senior secured loans	114.9	101.5
– Asset backed securities	12.7	378.6
Total fixed and floating rate debt securities	3,268.8	3,517.3
Equity linked funds	147.5	145.9
Hedge funds	329.0	367.0
Illiquid credit assets	92.3	45.9
Total capital growth assets	568.8	558.8
Total financial investments at fair value through statement of profit or loss	**3,837.6**	**4,076.1**
Derivative financial assets	4.6	1.3
Total financial assets at fair value	**3,842.2**	**4,077.4**

Quasi-government securities include securities which are issued by government agencies or entities supported by government guarantees. Supranational securities are issued by institutions sponsored by more than one sovereign issuer. Investment grade credit assets are any corporate bonds rated as BBB-/Baa3 or higher by one or more major rating agency, while the remainder of our corporate bonds are rated as high yield. Asset-backed securities are backed by financial assets, including mortgage, credit card and auto loan receivables Equity linked funds are investment vehicles which are predominantly exposed to equity securities. Broadly speaking, we would expect the returns in our equity linked funds to track returns seen on worldwide, and particularly the US, stock markets. Our illiquid credit assets are described in further detail below. The fair value of these assets at 31 December 2015 excludes an unfunded commitment of $95.3m (2014: $89.8).

The amounts expected to mature within and after one year are:	2015 $m	2014 $m
Within one year	983.1	807.0
After one year	2,290.3	2,711.6
Total	**3,273.4**	**3,518.6**

Our capital growth assets have no defined maturity dates and have thus been excluded from the above maturity table. However, $122m (2014: $126m) of equity linked funds could be liquidated within two weeks and the balance within six months, $314.5m (2014: $317m) of hedge fund assets within six months and the remaining $14.5m (2014: $50m) of hedge fund assets within 18 months. Illiquid credit assets are not readily realisable and principal will be returned over the life of these assets, which may be up to ten years.

16 Financial assets and liabilities *continued*

Financial liabilities	2015 $m	2014 $m
Retail bond	112.3	115.8
Subordinated debt	18.0	18.0
Tier 2 subordinated debt	116.9	122.5
Derivative financial liabilities	0.1	0.5
Total financial liabilities	**247.3**	**256.8**

The amounts expected to mature before and after one year are:		
Within one year	117.0	0.5
After one year	130.3	256.3
	247.3	**256.8**

A breakdown of the group's investment portfolio is provided on page 42.
A breakdown of derivative financial instruments is disclosed in note 17.

As noted on page 124 consideration is also given when valuing the hedge funds to any restriction applied to distributions, the existence of side pocket provisions and the timing of the latest valuations. The adjustment to the underlying net asset value of the funds as a result of these considerations was $nil at 31 December 2015 (2014: $nil).

The retail bond was issued by the company in 2012. 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 and treasury bills of government and government agencies which are measured based on quoted prices in active markets.

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

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

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

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

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

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 (WM), 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 linked funds, the pricing and valuation of each fund is undertaken by administrators in accordance with each underlying fund's valuation policy. For the equity linked funds, the individual fund prices are published on a daily or weekly 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 linked 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 and equity linked funds. We identified that 68% (2014: 59%) 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 2015, 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.

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.

2015	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	1,091.0	10.0	–	1,101.0
– Quasi-government	205.0	157.8	–	362.8
– Supranational	393.3	–	–	393.3
– Corporate bonds				
– Investment grade	–	1,215.8	–	1,215.8
– High yield	–	68.3	–	68.3
– Senior secured loans	–	114.9	–	114.9
– Asset backed securities	–	12.7	–	12.7
Equity linked funds	–	147.5	–	147.5
Hedge funds	–	329.0	–	329.0
Illiquid credit assets	–	2.6	89.7	92.3
Derivative financial assets	4.6	–	–	4.6
Total financial assets measured at fair value	**1,693.9**	**2,058.6**	**89.7**	**3,842.2**
Financial liabilities measured at fair value				
Derivative financial liabilities	0.1	–	–	0.1
Financial liabilities not measured at fair value				
Retail bond	–	114.4	–	114.4
Tier 2 subordinated debt	–	119.7	–	119.7
Total financial liabilities not measured at fair value	–	**234.1**	–	**234.1**

2014	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	779.7	40.4	–	820.1
– Quasi-government	310.3	275.4	–	585.7
– Supranational	323.2	116.6	–	439.8
– Corporate bonds				
– Investment grade	48.2	1,063.3	–	1,111.5
– High yield	–	80.1	–	80.1
– Senior secured loans	–	101.5	–	101.5
– Asset backed securities	–	378.6	–	378.6
Equity linked funds	–	145.9	–	145.9
Hedge funds	–	367.0	–	367.0
Illiquid credit assets	–	7.9	38.0	45.9
Derivative financial assets	1.3	–	–	1.3
Total financial assets measured at fair value	**1,462.7**	**2,576.7**	**38.0**	**4,077.4**

16 Financial assets and liabilities *continued*

2014	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial liabilities measured at fair value				
Derivative financial liabilities	0.5	–	–	0.5
Financial liabilities not measured at fair value				
Retail bond	–	124.7	–	124.7
Tier 2 subordinated debt	–	127.1	–	127.1
Total financial liabilities not measured at fair value	**–**	**251.8**	**–**	**251.8**

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.

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 asset backed securities, as well as capital growth investments in equity linked 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 2015 the investments comprising the group's unconsolidated structured entities are as follows:

	2015 $m	2014 $m
Asset backed securities	12.7	378.6
Equity linked funds	147.5	145.9
Hedge funds	329.0	367.0
Illiquid credit assets	92.3	45.9
Investments through unconsolidated structured entities	**581.5**	**937.4**

Capital growth assets represent 98% of investments through unconsolidated structured entities as at 31 December 2015. The capital growth assets are held in investee funds managed by asset managers who apply various investment strategies to accomplish their respective investment objectives. The group's investments in investee funds are subject to the terms and conditions of the respective investee fund's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investee funds. Investment decisions are made after extensive due diligence on the underlying fund, its strategy and the overall quality of the underlying fund's manager and assets. All of 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 request redemption of investments in asset backed securities, equity linked 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.

16 Financial assets and liabilities *continued*

Transfers and level 3 investment reconciliations

There were no transfers in either direction between level 1, level 2 and level 3 in either 2014 or 2015.

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

	2015 $m	2014 $m
As at 1 January	38.0	–
Purchases	59.3	38.0
Sales	(11.0)	
Total net gains recognised in profit or loss	3.4	–
As at 31 December	**89.7**	**38.0**

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.

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

2015	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Financial assets at fair value						
Fixed and floating rate debt securities	261.6	140.7	142.5	544.8	2,724.0	3,268.8
Equity linked funds	32.0	–	30.2	62.2	85.3	147.5
Hedge funds	–	–	(0.4)	(0.4)	329.4	329.0
Illiquid credit assets	–	–	4.3	4.3	88.0	92.3
Derivative financial assets	–	–	–	–	4.6	4.6
Total	**293.6**	**140.7**	**176.6**	**610.9**	**3,231.3**	**3,842.2**

2014	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Financial assets at fair value						
Fixed and floating rate debt securities	307.3	155.4	182.3	645.0	2,872.3	3,517.3
Equity linked funds	53.1	–	54.7	107.8	38.1	145.9
Hedge funds	–	–	2.7	2.7	364.3	367.0
Illiquid credit assets	–	–	–	–	45.9	45.9
Derivative financial assets	–	–	0.1	0.1	1.2	1.3
Total	**360.4**	**155.4**	**239.8**	**755.6**	**3,321.8**	**4,077.4**

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

17 Derivative financial instruments

In 2015 and 2014 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:

	2015		2014	
Derivative financial instrument assets	Gross contract amount $m	Fair value of assets $m	Gross contract amount $m	Fair value of assets $m
Foreign exchange forward contracts	11.0	3.9	3.5	0.2
Bond future contract	(815.3)	0.7	128.0	1.1
	(804.3)	**4.6**	**131.5**	**1.3**

	2015		2014	
Derivative financial instrument liabilities	Gross contract amount $m	Fair value of liabilities $m	Gross contract amount $m	Fair value of liabilities $m
Foreign exchange forward contracts	131.0	0.1	44.6	0.4
Bond future contract	–	–	–	0.1
	131.0	**0.1**	**44.6**	**0.5**

Foreign exchange forward contracts

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

Bond future contract

The group entered in bond futures trades to manage the investment portfolio duration. The vast majority of the trades were executed in order to partially hedge the duration of fixed income securities held at the same time. Occasionally, bond future contracts were traded in order to gain interest rate duration exposure to certain areas of the yield curve.

18 Insurance receivables

	2015 $m	2014 $m
Insurance receivables	732.7	587.0
	732.7	**587.0**

These are receivable within one year and relate to business transacted with brokers and intermediaries. All insurance receivables are classified as loans and receivables and their carrying values approximate fair value at the reporting date. The balance at 31 December 2015 was $732.7m (2014: $587m). In order to meet with the accelerated regulatory reporting deadlines under Solvency II, Beazley now makes an earlier determination of how much of written premiums are received versus receivable. As a result, our premium receivables have grown by 25% year on year whilst gross premiums written have only grown 3% relative to the prior year.

19 Reinsurance assets

	2015 $m	2014 $m
Reinsurers' share of claims	882.1	874.8
Impairment provision	(13.7)	(14.1)
	868.4	860.7
Reinsurers' share of unearned premium reserve	231.3	192.5
	1,099.7	**1,053.2**

Further analysis of the reinsurance assets is provided in note 24.

20 Cash and cash equivalents

Group	2015 $m	2014 $m
Cash at bank and in hand	585.8	261.0
Short term deposits and highly liquid investments	91.1	103.2
	676.9	**364.2**

Total cash and cash equivalents include $56.2m (2014: $42.2m) 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	2015 $m	2014 $m
Cash at bank and in hand	18.4	1.2
	18.4	**1.2**

21 Share capital

	2015		2014	
	No. of shares (m)	$m	No. of shares (m)	$m
Ordinary shares of 5p each				
Authorised	700.0	55.8	700.0	55.8
Issued and fully paid	521.4	41.6	521.4	41.6
Balance at 1 January	**521.4**	**41.6**	**521.0**	**41.6**
Issue of shares	–	–	0.4	–
Balance at 31 December	**521.4**	**41.6**	**521.4**	**41.6**

Notes to the financial statements continued

22 Other reserves

	Merger reserve $m	Employee share options reserve $m	Employee share trust reserve $m	Total $m
Group				
Balance at 1 January 2014	**(15.4)**	**26.5**	**(48.9)**	**(37.8)**
Share based payments	–	15.3	–	15.3
Acquisition of own shares held in trust	–	–	(12.5)	(12.5)
Transfer of shares to employees	–	(11.6)	14.5	2.9
Balance at 31 December 2014	**(15.4)**	**30.2**	**(46.9)**	**(32.1)**
Share based payments	–	17.5	–	17.5
Acquisition of own shares held in trust	–	–	(3.9)	(3.9)
Transfer of shares to employees	–	(11.2)	21.0	9.8
Balance at 31 December 2015	**(15.4)**	**36.5**	**(29.8)**	**(8.7)**

	Merger reserve $m	Employee share options reserve $m	Employee share trust reserve $m	Total $m
Company				
Balance at 1 January 2014	**(35.4)**	**7.0**	**(18.6)**	**(47.0)**
Share based payments	–	15.3	–	15.3
Acquisition of own shares held in trust	–	–	(12.5)	(12.5)
Transfer of shares to employees	–	(11.6)	14.5	2.9
Balance at 31 December 2014	**(35.4)**	**10.7**	**(16.6)**	**(41.3)**
Share based payments	–	17.5	–	17.5
Acquisition of own shares held in trust	–	–	(3.9)	(3.9)
Transfer of shares to employees	–	(11.2)	21.0	9.8
Balance at 31 December 2015	**(35.4)**	**17.0**	**0.5**	**(17.9)**

The merger reserve has arisen as a result of historic Beazley group restructuring. The most significant item is the reverse acquisition that occurred in 2009.

The employee share option reserve is held in accordance with IFRS 2 share-based payment. For more information refer to note 23.2.

More information on the employee share trust reserve is included in note 23.

23 Equity compensation plans

23.1 Employee share trust

	2015		2014	
	Number (m)	$m	Number (m)	$m
Costs debited to employee share trust reserve				
Balance at 1 January	16.1	46.9	18.7	48.9
Additions	0.8	3.9	3.1	12.5
Transfer of shares to employees	(7.2)	(21.0)	(5.7)	(14.5)
Balance at 31 December	**9.7**	**29.8**	**16.1**	**46.9**

The shares are owned by the employee share trust to satisfy awards under the group's deferred share plan, retention plan and long term incentive plan. 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 to the sixth anniversary, and each year after that, 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), approved share option plan and 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
MSIP	04/04/2013	0.5	Three years' service + ROE	10 years
MSIP	04/04/2013	0.5	Five years' service + ROE	10 years
LTIP	10/02/2015 11/02/2014 13/02/2013 30/03/2012 14/02/2011	2.4 1.6 1.9 2.4 2.1	Five years' service + NAV + minimum shareholding requirement	10 years
LTIP	10/02/2015 11/02/2014 13/02/2013	2.4 1.6 1.9	Three years' service + NAV + minimum shareholding requirement	10 years
SAYE (UK)	07/05/2015 09/05/2014 10/04/2013	0.6 1.0 0.4	Three years' service	N/A
SAYE (US)	03/06/2015 03/06/2014	0.1 0.1	Two years' service	N/A
Total share options outstanding		**19.5**		

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;
- 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; and
- TSR comparator – the group's TSR growth is compared with that of members of the comparator group over a three-year period starting with the year in which the award is made.

23 Equity compensation plans *continued*

Further details of equity compensation plans can be found in the directors' remuneration report on pages 85 to 106. The number and weighted average exercise prices of share options are as follows:

	2015		2014	
	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	**17.9**	**21.0**	**9.4**	**19.6**
Forfeited during the year	61.3	(0.4)	143.0	(0.1)
Exercised during the year	14.1	(6.6)	13.2	(2.9)
Granted during the year	29.8	5.5	54.9	4.4
Outstanding at 31 December	**22.1**	**19.5**	**17.9**	**21.0**
Exercisable at 31 December	–	–	–	–

The share option programme allows 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:

	2015 $m	2014 $m
Share options charge to employee share option reserve	**17.5**	**15.3**
Weighted average share price (pence per option)	230.7	182.8
Weighted average exercise price (pence per option)	22.1	17.9
Average expected life of options	4.6yrs	4.7yrs
Expected volatility	25.0%	25.0%
Expected dividend yield	3.4%	3.8%
Average risk-free interest rate	2.1%	2.1%

The expected volatility is based on historic volatility over a period of at least two years.

24 Insurance liabilities and reinsurance assets

	2015 $m	2014 $m
Gross		
Claims reported and loss adjustment expenses	937.5	984.7
Claims incurred but not reported	2,588.4	2,540.2
Gross claims liabilities	3,525.9	3,524.9
Unearned premiums	1,060.8	1,022.5
Total insurance liabilities, gross	**4,586.7**	**4,547.4**
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	210.3	195.0
Claims incurred but not reported	658.1	665.7
Reinsurers' share of claims liabilities	868.4	860.7
Unearned premiums	231.3	192.5
Total reinsurers' share of insurance liabilities	**1,099.7**	**1,053.2**

24 Insurance liabilities and reinsurance assets *continued*

	2015 $m	2014 $m
Net		
Claims reported and loss adjustment expenses	727.2	789.7
Claims incurred but not reported	1,930.3	1,874.5
Net claims liabilities	2,657.5	2,664.2
Unearned premiums	829.5	830.0
Total insurance liabilities, net	**3,487.0**	**3,494.2**

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

	2015			2014		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
Claims reported and loss adjustment expenses	984.7	(195.0)	789.7	1,023.0	(253.7)	769.3
Claims incurred but not reported	2,540.2	(665.7)	1,874.5	2,597.5	(724.7)	1,872.8
Balance at 1 January	**3,524.9**	**(860.7)**	**2,664.2**	**3,620.5**	**(978.4)**	**2,642.1**
Claims paid	(916.1)	149.5	(766.6)	(924.8)	186.5	(738.3)
Increase in claims						
– Arising from current year claims	1,218.4	(228.3)	990.1	1,156.5	(180.5)	976.0
– Arising from prior year claims	(244.6)	68.3	(176.3)	(257.0)	98.9	(158.1)
Net exchange differences	(56.7)	2.8	(53.9)	(70.3)	12.8	(57.5)
Balance at 31 December	**3,525.9**	**(868.4)**	**2,657.5**	**3,524.9**	**(860.7)**	**2,664.2**
Claims reported and loss adjustment expenses	937.5	(210.3)	727.2	984.7	(195.0)	789.7
Claims incurred but not reported	2,588.4	(658.1)	1,930.3	2,540.2	(665.7)	1,874.5
Balance at 31 December	**3,525.9**	**(868.4)**	**2,657.5**	**3,524.9**	**(860.7)**	**2,664.2**

b) Unearned premiums reserve

	2015			2014		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
Balance at 1 January	**1,022.5**	**(192.5)**	**830.0**	**956.8**	**(199.8)**	**757.0**
Increase in the year	2,080.9	(371.5)	1,709.4	2,021.8	(297.9)	1,723.9
Release in the year	(2,042.6)	332.7	(1,709.9)	(1,956.1)	305.2	(1,650.9)
Balance at 31 December	**1,060.8**	**(231.3)**	**829.5**	**1,022.5**	**(192.5)**	**830.0**

24 Insurance liabilities and reinsurance assets *continued*

24.2 Assumptions, changes in assumptions and sensitivity analysis

a) Process used to decide on assumptions

The peer review reserving process

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

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

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

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

Actuarial assumptions

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

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

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

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

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

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

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

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

24 Insurance liabilities and reinsurance assets *continued*

b) Major assumptions

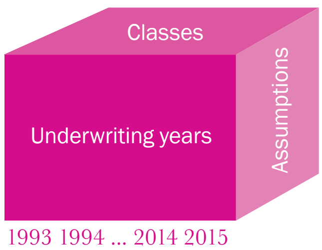
The main assumption underlying these techniques is that the group's past claims development experience (with appropriate adjustments for known changes) can be used to project future claims development and hence ultimate claims costs. As such these methods extrapolate the development of premiums, paid 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 combinations.

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



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

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

d) Sensitivity analysis

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

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

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

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

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

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of these financial statements are cautioned against extrapolating past redundancies or deficiencies on current claims liabilities. The group believes that the estimate of total claims liabilities as at 31 December 2015 is adequate. However, due to inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Notes to the financial statements continued

24 Insurance liabilities and reinsurance assets *continued*

Gross ultimate claims	2005 ae %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %
Life, accident & health											
12 months					53.0	52.8	56.0	56.7	63.3	64.4	67.3
24 months					52.7	52.6	52.4	68.2	64.7	66.7	
36 months					45.6	49.1	60.0	63.6	64.7		
48 months					43.7	48.1	57.1	63.0			
60 months					42.8	47.5	55.0				
72 months					41.8	46.5					
84 months					41.8						
96 months											
108 months											
120 months											
Marine											
12 months		57.3	58.6	69.3	54.5	50.6	55.0	56.0	56.5	57.5	56.8
24 months		42.2	60.3	65.2	50.9	49.8	47.7	46.2	51.9	47.1	
36 months		32.7	50.8	59.2	44.3	44.1	39.5	34.7	44.2		
48 months		28.9	48.3	63.1	40.7	42.4	34.2	32.2			
60 months		28.6	49.6	62.8	40.4	40.8	35.8				
72 months		26.3	50.1	59.1	48.7	40.7					
84 months		26.2	46.9	55.3	47.8						
96 months		25.6	44.1	54.7							
108 months		25.3	43.6								
120 months		24.7									
Political risks & contingency											
12 months		57.1	57.2	57.5	61.1	61.4	58.7	62.4	57.2	56.0	54.9
24 months		36.4	39.8	68.3	38.6	40.4	39.4	43.3	42.0	40.9	
36 months		32.3	56.5	75.0	34.7	33.1	34.3	39.6	35.3		
48 months		43.8	53.5	88.1	30.1	23.9	28.6	38.1			
60 months		39.8	53.8	72.9	24.2	22.6	27.1				
72 months		39.6	50.0	61.8	18.5	21.2					
84 months		36.6	47.4	58.7	18.8						
96 months		31.1	49.5	59.2							
108 months		28.4	45.4								
120 months		28.8									
Property											
12 months		58.4	58.2	71.1	53.9	58.5	59.0	55.7	55.3	53.2	54.9
24 months		43.8	56.2	65.8	42.2	61.7	51.2	47.8	49.2	47.8	
36 months		42.8	53.5	64.7	37.1	59.6	49.0	40.2	45.8		
48 months		50.1	54.0	62.8	36.0	56.9	47.1	37.0			
60 months		50.3	56.9	61.2	34.9	54.2	46.2				
72 months		50.1	65.9	60.2	33.9	53.2					
84 months		49.4	66.0	59.0	33.3						
96 months		47.3	65.3	58.4							
108 months		46.3	64.5								
120 months		44.8									

24 Insurance liabilities and reinsurance assets *continued*

Gross ultimate claims	2005 ae %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	
Reinsurance												
12 months		52.4	59.6	60.1	60.8	68.0	78.6	62.9	57.3	60.9	65.5	
24 months		25.5	25.2	53.1	47.6	150.0	77.7	36.5	43.5	32.8		
36 months		25.0	21.0	44.0	39.6	138.4	71.8	31.3	41.1			
48 months		23.5	19.5	40.7	39.2	132.4	68.0	30.3				
60 months		21.5	18.6	40.4	35.0	136.3	65.3					
72 months		21.3	18.5	40.5	32.2	134.8						
84 months		21.5	16.9	39.8	31.4							
96 months		21.0	16.1	39.5								
108 months		20.4	15.7									
120 months		20.2										
Specialty lines												
12 months		72.6	72.9	72.1	72.7	73.9	75.6	74.1	73.5	68.5	67.4	
24 months		72.7	72.4	72.0	72.7	74.0	75.7	74.1	73.2	68.4		
36 months		72.6	72.3	72.0	71.9	73.0	76.5	72.2	73.0			
48 months		73.0	72.4	72.2	71.5	73.4	75.5	70.2				
60 months		71.0	72.5	71.7	71.7	69.4	74.3					
72 months		65.9	72.2	72.1	68.2	69.4						
84 months		61.9	72.2	70.4	69.4							
96 months		58.2	71.3	73.8								
108 months		57.0	70.6									
120 months		54.6										
Total												
12 months		63.7	64.6	69.3	63.0	64.7	67.4	64.6	63.6	62.1	62.6	
24 months		53.9	60.1	67.8	57.1	72.7	63.0	58.2	59.1	55.7		
36 months		51.4	58.9	66.5	53.3	68.8	61.0	53.2	56.2			
48 months		53.4	58.4	67.8	51.8	66.9	58.4	51.0				
60 months		52.0	59.3	65.9	50.9	64.7	57.5					
72 months		49.3	61.0	64.3	49.8	64.1						
84 months		47.2	60.1	62.3	50.0							
96 months		44.6	59.2	63.7								
108 months		43.6	58.2									
120 months		42.1										
Total ultimate losses ($m)	3,898.5	692.7	1,046.4	1,222.4	1,057.4	1,305.2	1,108.0	1,024.1	1,262.5	1,283.6	1,501.1	15,401.9
Less paid claims ($m)	(3,754.5)	(616.1)	(911.3)	(1,030.0)	(784.4)	(1,042.1)	(765.7)	(616.1)	(560.3)	(310.3)	(49.9)	(10,440.7)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(12.9)	(730.8)	(743.7)
Gross claims liabilities (100% level) ($m)	**144.0**	**76.6**	**135.1**	**192.4**	**273.0**	**263.1**	**342.3**	**408.0**	**702.2**	**960.4**	**720.4**	**4,217.5**
Less unaligned share ($m)	(27.4)	(13.7)	(26.4)	(30.4)	(43.0)	(45.0)	(63.9)	(75.4)	(110.2)	(146.5)	(109.7)	(691.6)
Gross claims liabilities, group share ($m)	**116.6**	**62.9**	**108.7**	**162.0**	**230.0**	**218.1**	**278.4**	**332.6**	**592.0**	**813.9**	**610.7**	**3,525.9**

24 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2005 ae %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %
Life, accident & health											
12 months					51.7	51.5	55.1	58.0	65.6	62.7	65.2
24 months					51.0	52.3	54.5	65.2	68.3	64.6	
36 months					44.6	52.2	63.3	63.7	67.0		
48 months					45.6	51.2	60.2	57.1			
60 months					44.8	50.6	58.0				
72 months					43.7	49.5					
84 months					43.7						
96 months											
108 months											
120 months											
Marine											
12 months		54.3	55.8	61.5	53.6	52.2	56.0	55.5	56.0	56.4	56.9
24 months		42.1	56.8	56.8	47.7	49.3	48.0	46.0	53.0	48.8	
36 months		32.8	49.7	50.6	39.2	44.8	39.1	37.5	47.2		
48 months		31.2	46.8	47.5	35.5	42.9	34.9	35.0			
60 months		30.8	47.5	46.9	35.2	41.6	36.0				
72 months		29.0	47.5	46.4	38.8	40.7					
84 months		28.9	45.1	45.1	38.1						
96 months		28.3	43.1	44.7							
108 months		28.0	42.6								
120 months		27.4									
Political risks & contingency											
12 months		55.9	55.4	55.9	59.2	57.3	54.9	59.3	54.7	52.9	51.9
24 months		40.6	40.7	76.2	35.2	38.0	38.2	41.8	41.5	39.0	
36 months		36.6	55.2	77.7	32.2	30.7	32.6	38.3	36.1		
48 months		47.6	54.9	80.4	27.7	21.7	30.1	38.2			
60 months		41.8	52.7	70.1	22.1	20.5	28.3				
72 months		40.2	49.4	59.5	17.4	19.3					
84 months		40.1	47.2	56.1	17.7						
96 months		37.5	48.9	56.3							
108 months		34.0	45.4								
120 months		34.0									
Property											
12 months		61.1	61.0	67.4	53.6	59.0	60.5	58.7	56.8	54.6	55.1
24 months		48.5	59.3	67.3	48.0	66.1	57.8	53.1	56.2	51.3	
36 months		46.8	58.4	65.0	44.5	66.5	54.2	46.3	52.2		
48 months		50.5	58.5	64.0	42.3	60.7	51.0	41.5			
60 months		49.7	61.7	62.9	41.7	58.6	49.5				
72 months		49.8	61.9	61.6	40.4	57.5					
84 months		49.3	61.9	60.9	39.9						
96 months		47.7	61.5	59.9							
108 months		47.1	61.4								
120 months		45.7									

24 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2005 ae %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	
Reinsurance												
12 months		54.3	55.3	68.2	55.6	76.7	89.0	67.1	55.0	58.2	61.1	
24 months		37.2	29.3	59.6	51.9	136.2	88.0	44.1	49.8	36.2		
36 months		35.1	24.5	50.0	46.2	128.7	82.6	37.9	46.4			
48 months		32.9	22.5	48.0	45.6	124.1	77.0	36.5				
60 months		31.4	21.9	47.4	40.9	131.1	74.5					
72 months		31.5	21.8	47.6	37.5	127.8						
84 months		31.8	19.9	46.5	36.6							
96 months		31.1	18.9	46.2								
108 months		30.2	18.4									
120 months		30.0										
Specialty lines												
12 months		68.7	69.9	70.2	69.8	71.3	72.7	71.3	69.6	66.0	63.6	
24 months		68.5	68.7	70.2	69.7	71.3	72.8	70.8	69.0	66.0		
36 months		68.7	68.6	70.1	69.2	70.8	71.9	68.9	68.6			
48 months		68.0	67.6	68.8	66.1	69.8	69.8	65.9				
60 months		64.0	67.6	68.3	66.0	69.2	70.4					
72 months		57.7	67.5	68.2	64.9	69.2						
84 months		54.1	67.5	68.3	65.7							
96 months		50.7	67.3	70.4								
108 months		49.6	66.5									
120 months		48.7										
Total												
12 months		62.2	63.2	66.9	60.7	64.4	67.1	64.1	62.0	60.6	60.1	
24 months		54.3	59.3	66.8	56.7	69.9	63.8	58.2	59.9	56.0		
36 months		51.7	58.6	64.6	53.2	67.6	60.7	53.7	57.2			
48 months		52.5	57.6	63.5	50.6	64.7	57.6	50.7				
60 months		50.1	58.2	62.0	49.6	64.5	57.3					
72 months		47.0	57.9	60.8	48.8	64.2						
84 months		45.4	57.2	60.1	48.8							
96 months		43.3	56.7	60.9								
108 months		42.3	55.9									
120 months		41.4										
Total ultimate losses ($m)	2,349.2	559.8	864.4	950.0	799.0	1,061.1	917.2	866.5	1,062.4	1,082.9	1,191.0	11,703.5
Less paid claims ($m)	(2,244.5)	(503.9)	(763.2)	(820.0)	(648.6)	(871.5)	(670.7)	(523.4)	(484.2)	(300.3)	(44.0)	(7,874.3)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(18.3)	(628.0)	(646.3)
Net claims liabilities (100% level) ($m)	**104.7**	**55.9**	**101.2**	**130.0**	**150.4**	**189.6**	**246.5**	**343.1**	**578.2**	**764.3**	**519.0**	**3,182.9**
Less unaligned share ($m)	(19.8)	(10.7)	(17.3)	(20.8)	(28.5)	(34.0)	(46.9)	(56.5)	(88.8)	(121.0)	(81.1)	(525.4)
Net claims liabilities, group share ($m)	**84.9**	**45.2**	**83.9**	**109.2**	**121.9**	**155.6**	**199.6**	**286.6**	**489.4**	**643.3**	**437.9**	**2,657.5**

24 Insurance liabilities and reinsurance assets *continued*

Analysis of movements in loss development tables

We have updated our loss development tables to show the ultimate loss ratios as at 31 December 2015 for each underwriting year.

Life, accident & health

Most underwriting years have remained stable or have improved, with the exception of to 2014 which strengthened marginally following worse than anticipated experience on personal accident and income protection books.

Marine

Positive claims experience on all underwriting years has led to improvements on the majority of underwriting years, in particular the release on earned catastrophe margin on 2014 due to benign experience. 2011 strengthened due to an increase within the Energy book.

Political risks & contingency

The 2014 underwriting year saw a significant improvement as the experience on the terrorism book continues to be positive compared to the opening position. All other underwriting years remained stable or had slight improvements.

Property

There has been positive developments across all underwriting years, driven by better than expected claims experience, including relatively benign natural catastrophe experience on the 2014 underwriting year.

Reinsurance

Due to the continued benign catastrophe environment, 2014 saw a large improvement over the year. Other years improved where certainty increase on outstanding claims. Despite a gross release on the 2010 and 2011 underwriting years, the reinsurance on the large losses in these years lead to the net position remaining broadly stable in aggregate.

Specialty lines

2006 and prior underwriting years continued to improve as certainty on the remaining claims increased. The recession exposures underwriting years of 2007 to 2011 have remained stable, with small increases on the 2008 and 2009 underwriting years. 2012 has continued to release as this year matures, and 2013 onwards have remained stable.

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 department 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 2015.

The net of reinsurance estimates of ultimate claims costs on the 2014 and prior underwriting years have improved by $176.3m during 2015 (2014: $158.1m). This movement arose from a combination of better than expected claims experience coupled with small changes to the many assumptions resulting from the observed experience and anticipating any changes as a result of the new business written.

The movements shown on 2012 and earlier are absolute claim movements and are not impacted by any current year movements in premium on those underwriting years.

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

2014	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	66.6	146.8	45.8	157.2	87.8	471.8	976.0
Prior year							
– 2011 underwriting year and earlier	(3.8)	(15.0)	(12.8)	(19.6)	(9.1)	(18.3)	(78.6)
– 2012 underwriting year	(1.0)	(19.6)	(0.8)	(17.3)	(8.6)	(11.4)	(58.7)
– 2013 underwriting year	0.4	(5.6)	(6.5)	1.0	(10.1)	–	(20.8)
	(4.4)	(40.2)	(20.1)	(35.9)	(27.8)	(29.7)	(158.1)
Net insurance claims	**62.2**	**106.6**	**25.7**	**121.3**	**60.0**	**442.1**	**817.9**

25 Borrowings

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

Group	2015 $m	2014 $m
Carrying value		
Subordinated debt	18.0	18.0
Tier 2 subordinated debt	116.9	122.5
Retail bond	112.3	115.8
	247.2	**256.3**
Fair value		
Subordinated debt	18.0	18.0
Tier 2 subordinated debt	119.7	127.1
Retail bond	114.4	124.7
	252.1	**269.8**

Company	2015 $m	2014 $m
Carrying value		
Retail bond	112.3	115.8
Fair value		
Retail bond	114.4	124.7

The fair values of the tier 2 subordinated debt and retail bond are based on quoted market prices. For the subordinated debt that is not quoted, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

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

In October 2006, the group issued £150m of unsecured fixed/floating rate subordinated notes that are due in October 2026 with a first call at the group's option in October 2016. Interest of 7.25% per annum is paid annually in arrears for the period up to October 2016. From October 2016, the notes will bear annual interest at the rate of 3.28% above LIBOR.

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 addition to these borrowings we operate a syndicated short term banking facility, managed through Lloyds Banking Group plc. In July 2015 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 0.4375% per annum and any amounts drawn are charged at a margin of 1.25% per annum. The cash element of the facility will last for three years, expiring on 31 July 2017, whilst letters of credit issued under the facility can be used to provide support for the 2015, 2016 and 2017 underwriting years.
The facility is currently unutilised.

26 Other payables

Group	2015 $m	2014 $m
Reinsurance premiums payable	159.1	115.2
Accrued expenses including staff bonuses	142.3	111.9
Other payables	118.5	2.0
Deferred consideration payable on acquisition of MGAs	1.8	5.3
Due to syndicate 6107	34.8	21.1
Due to syndicate 623	2.9	–
Due to syndicate 6050	3.9	–
	463.3	**255.5**

Company	2015 $m	2014 $m
Other payables	1.3	2.0
	1.3	**2.0**

All other payables are payable within one year of the reporting date other than $0.7m of the deferred consideration which is payable after one year. The carrying value approximates fair values. The balance at 31 December 2015 was $463.3m (2014: $255.5m). In order to meet with the accelerated regulatory reporting deadlines under Solvency II, Beazley now makes an earlier determination of how much of reinsurance premium and claims creditors are payable rather than paid. While reinsurance purchased has increased materially in 2015, our Solvency II reporting changes have been a key contributor to the overall increase in other payables.

27 Retirement benefit obligations

	2015 $m	2014 $m
Present value of funded obligations	43.1	43.6
Fair value of plan assets	(42.4)	(41.0)
Retirement benefit liability in the statement of financial position	**0.7**	**2.6**
Amounts recognised in the statement of profit or loss		
Interest cost	1.4	1.7
Expected return on plan assets	(1.5)	(1.7)
	(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 chair, all of whom are governed by the scheme rules.

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

Contributions to the scheme are determined by a qualified actuary using the projected unit credit method as set out in the scheme rules and the most recent valuation was at 31 December 2015. The group expects to pay $1.5m in contributions to the scheme in 2015.

27 Retirement benefit obligations *continued*

	2015 $m	2014 $m
Movement in present value of funded obligations recognised in the statement of financial position		
Balance at 1 January	**43.6**	**39.9**
Interest cost	1.4	1.7
Actuarial (losses)/gains	(0.1)	5.2
Benefits paid	(0.4)	(0.4)
Foreign exchange gain	(1.4)	(2.8)
Balance at 31 December	**43.1**	**43.6**
Movement in fair value of plan assets recognised in the statement of financial position		
Balance at 1 January	**41.0**	**37.5**
Expected return on plan assets	1.5	1.7
Actuarial gains	0.2	3.2
Employer contributions	1.5	1.7
Benefits paid	(0.4)	(0.4)
Foreign exchange loss	(1.4)	(2.7)
Balance at 31 December	**42.4**	**41.0**
Plan assets are comprised as follows:		
Equities	21.0	20.3
Bonds	16.3	16.4
Cash	5.1	4.3
Total	**42.4**	**41.0**

The actual gain on plan assets was $1.7m (2014: $4.9m).

	2015 $m	2014 $m
Principal actuarial assumptions		
Discount rate	3.5%	3.4%
Inflation rate	3.1%	3.0%
Expected return on plan assets	3.5%	3.4%
Future salary increases	3.1%	3.0%
Future pensions increases	2.7%	2.6%
Life expectancy for members aged 60 at 31 December	90 years	90 years
Life expectancy for members aged 46 at 31 December	92 years	92 years

At 31 December 2015, the weighted-average duration of the defined benefit obligation was 11.4 years (2014: 12.4 years).

27 Retirement benefit obligations *continued*

Sensitivity analyses

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

31 December 2015	Increase $m	Decrease $m
Discount rate (0.5% increase)	5.9	–
Inflation rate (0.3% decrease)	–	(3.0)
Future salary changes (0.5% decrease)	–	(0.2
Life expectancy (1 year increase)	1.1	–

31 December 2014	Increase $m	Decrease $m
Discount rate (0.5% decrease)	5.9	–
Inflation rate (0.3% decrease)	–	3.1
Future salary changes (0.5% decrease)	–	0.2
Life expectancy (1 year increase)	1.1	–

28 Deferred tax

	2015 $m	2014 $m
Deferred tax asset	7.1	9.0
Deferred tax liability	(6.0)	(8.5)
	1.1	**0.5**

The movement in the net deferred income tax is as follows:		
Balance at 1 January	0.5	(56.3)
Income tax credit	0.8	57.0
Amounts recorded through equity	(0.1)	0.3
Foreign exchange translation differences	(0.1)	(0.5)
Balance at 31 December	**1.1**	**0.5**

	Balance 1 Jan 15 $m	Recognised in income $m	Recognised in equity $m	FX translation differences $m	Balance 31 Dec 15 $m
Plant and equipment	0.3	0.2	–	–	0.5
Intangible assets	1.3	(0.1)	–	–	1.2
Underwriting profits	(14.1)	0.7	–	–	(13.4)
Tax losses	8.9	(1.8)	–	–	7.1
Other	4.1	1.8	(0.1)	(0.1)	5.7
Net deferred income tax account	**0.5**	**0.8**	**(0.1)**	**(0.1)**	**1.1**

	Balance 1 Jan 14 $m	Recognised in income $m	Recognised in equity $m	FX translation differences $m	Balance 31 Dec 14 $m
Plant and equipment	0.5	(0.2)	–	–	0.3
Intangible assets	1.4	(0.1)	–	–	1.3
Underwriting profits	(69.1)	55.0	–	–	(14.1)
Tax losses	8.7	0.2	–	–	8.9
Other	2.2	2.1	0.3	(0.5)	4.1
Net deferred income tax account	**(56.3)**	**57.0**	**0.3**	**(0.5)**	**0.5**

28 Deferred tax *continued*

The group has tax adjusted losses carried forward giving rise to a deferred tax asset of $1.5m, measured at the UK corporation tax rate from 1 April 2015 of 20%. 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:

	2015 $m	2014 $m
No later than one year	8.3	8.5
Later than one year and no later than five years	31.1	32.6
Later than five years	3.2	14.5
	42.6	**55.6**

30 Related party transactions

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

30.1 Syndicates 623, 6107 and 6050

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

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

	2015 $m	2014 $m
Written premium ceded to syndicates	53.2	23.7
Other income received from syndicates	28.2	25.6
Services provided	39.2	41.0
Balances due:		
Due (to)/from syndicate 623	(2.9)	7.3
Due to syndicate 6107	(34.8)	(21.1)
Due to syndicate 6050	(3.9)	–

30.2 Key management compensation

	2015 $m	2014 $m
Salaries and other short term benefits	21.0	21.0
Post-employment benefits	0.7	0.9
Share-based remuneration	12.7	13.5
	34.4	**35.4**

Key management include executive and non-executive directors and other senior management.

Further details of directors' shareholdings and remuneration can be found in the directors' remuneration report on pages 85 to 106.

30 Related party transactions *continued*

30.3 Other related party transactions

At 31 December 2015, the group had a balance payable to an associate (Falcon Money Management Limited) of $0.1m (2014: payable $0.9m) and purchased services from the associate of $2.6m (2014: $9.4m) throughout the year. All transactions with the associate and subsidiaries are priced on an arm's length basis. During the year Beazley loaned $1.5m at an interest rate of 5.25% p.a to our associate Equinox Global Limited. The outstanding balance on this loan at 31 December 2015 is $1.5m and will be repayable by 2018. During 2014, Beazley invested $1.6m in Capson Corp inc and $1.6m in Equinox Global Limited (to support this associate's ongoing operations following a significant loss which occurred in late 2014).

31 Parent company and subsidiary undertakings

Beazley plc, a Jersey incorporated Irish domiciled company, is the ultimate parent and the ultimate controlling party within the group.

The following is a list of all the subsidiaries in the group:

	Country of incorporation	Ownership interest	Nature of business	Functional currency	Beazley plc direct investment in subsidiary ($m)
Beazley Group Limited*	England	100%	Intermediate holding company	USD	*
Beazley Furlonge Holdings Limited	England	100%	Intermediate holding company	USD	
Beazley Furlonge Limited	England	100%	Lloyd's underwriting agents	GBP	
Beazley Investments Limited	England	100%	Investment company	USD	
Beazley Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Management Limited	England	100%	Intermediate management company	GBP	
Beazley Staff Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Solutions Limited	England	100%	Insurance services	GBP	
Beazley Underwriting Services Limited	England	100%	Insurance services	GBP	
Beazley DAS Limited	England	100%	Dividend access scheme	GBP	
Beazley Corporate Member (No.2) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.3) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.4) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.5) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.6) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Re dac	Ireland	100%	Reinsurance of Lloyd's business	USD	747.2
Beazley Underwriting Pty Ltd	Australia	100%	Insurance services	AUD	
Australian Income Protection Pty Ltd	Australia	100%	Insurance services	AUD	
Beazley USA Services, Inc.	USA	100%	Insurance services	USD	
Beazley Holdings, Inc.	USA	100%	Holding company	USD	
Beazley Group (USA) General Partnership	USA	100%	General partnership	USD	
Beazley Insurance Company, Inc.	USA	100%	Underwriting admitted lines	USD	
First State Management Group, Inc.	USA	100%	Insurance services	USD	
Beazley Limited	Hong Kong	100%	Insurance services	HKD	
Beazley Middle East Limited	Dubai	100%	Insurance services	USD	
Beazley Pte. Limited	Singapore	100%	Underwriting at Lloyd's	SGD	
Swift No.1 Limited**	England	100%	Intermediate holding company	USD	
Swift No.2 Limited**	England	100%	Intermediate holding company	USD	
					747.2

* Beazley plc holds direct investment in Beazley Group Limited of $2.

** Swift No.1 Limited and Swift No.2 Limited were dissolved effective 5 January 2016.

32 Contingencies

32.1 Funds at Lloyd's

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

	Underwriting year 2016 £m	Underwriting year 2015 £m	Underwriting year 2014 £m
Debt securities and other fixed income securities	447.6	513.9	563.0

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.

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:

	2015		2014	
	Average	Year end spot	Average	Year end spot
Pound sterling	0.65	0.66	0.61	0.64
Canadian dollar	1.26	1.38	1.10	1.16
Euro	0.90	0.91	0.75	0.83

34 Subsequent events

As noted on pages 14 and 19, the board has agreed to present a proposal to the shareholders of the company at the AGM held in March 2016 to complete a return of management of the group to the UK. This would result in no change to the operating structure, expected profits or tax rates of the group.

There are no other 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.

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

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

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

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

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

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

Claims ratio
Ratio, in percentage terms, of net insurance claims to net earned premiums. The calculation is performed excluding the impact of foreign exchange.

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.

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

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

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

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

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

Expense ratio
Ratio, in percentage terms, of the sum of expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. The calculation is performed excluding the impact of foreign exchange on non-monetary items.

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

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

Glossary *continued*

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

Horizontal limits
Reinsurance coverage limits for multiple events.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Return on equity (ROE)
Ratio, in percentage terms, calculated by dividing the consolidated profit after tax by the average daily total equity.

Risk
This term may refer to:
a) the possibility of some event occurring which causes injury or loss;
b) the subject matter of an insurance or reinsurance contract; or
c) an insured peril.

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

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

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

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

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

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

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

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

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