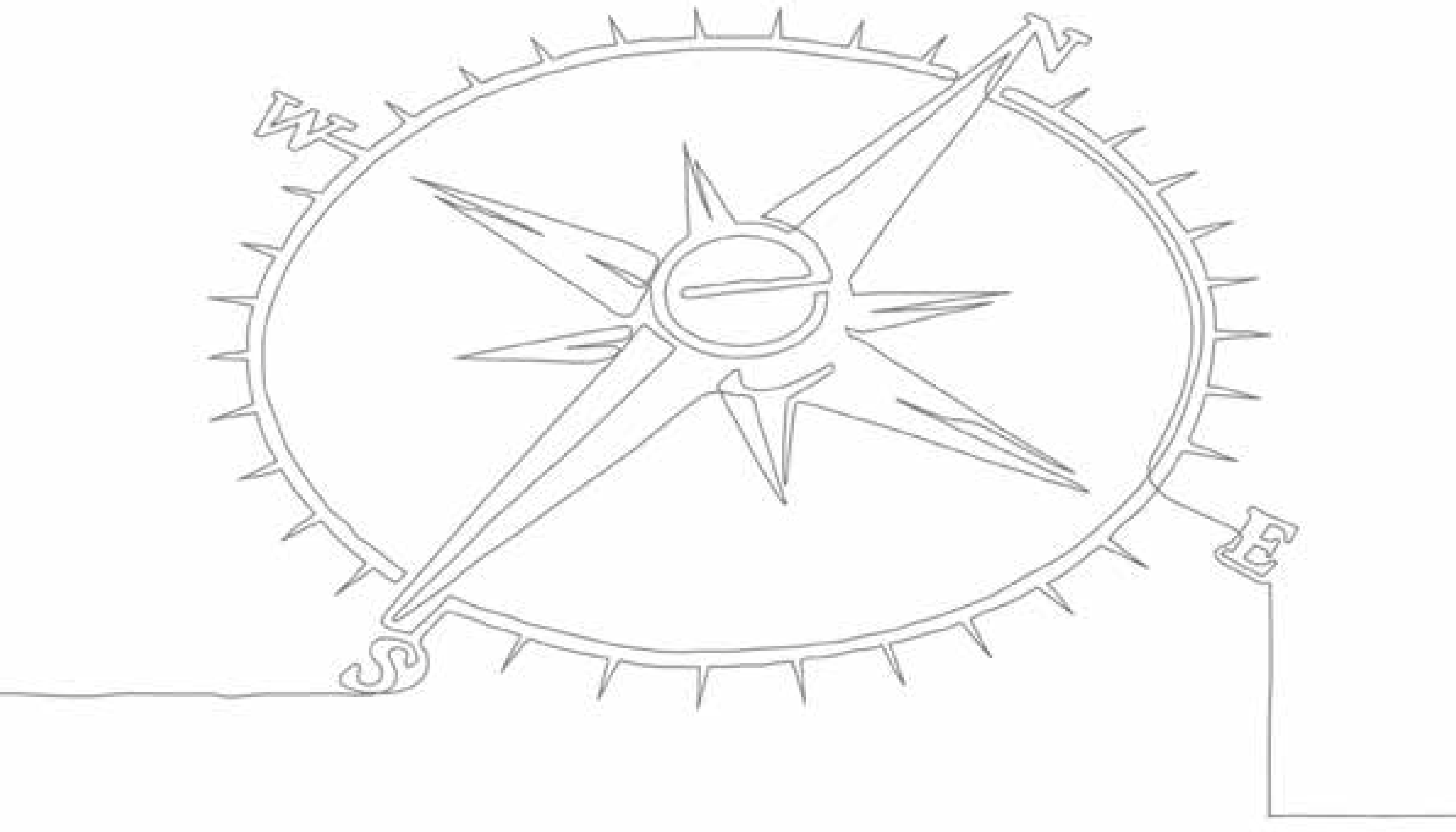
Navigating change



Navigating change

The world is constantly changing. From the Lloyd's market to climate change, internal structure to management succession, change is a constant and navigating these is something Beazley increased focus on in 2019. Change also brings opportunities and the steps we have taken in preparation over the last year mean we are ready to take advantage of these opportunities in 2020 and beyond.

You can find out about how we have navigated changes throughout 2019 wherever you see this symbol.

Find out more on pages 10 to 11

Strategic report

Governance

Financial statements

Please turn overleaf for our key performance indicators and highlights.

Highlights

Gross premiums written

$3,003.9m

(2018: $2,615.3m)

Net premiums written

$2,503.5m

(2018: $2,248.5m)

Net earned premiums

$2,347.0m

(2018: $2,084.6m)

Net investment income

$263.7m

(2018: $41.1m)

Cash and investments

$5,851.3m

(2018: $5,052.6m)

Investment return

4.8%

(2018: 0.8%)

Rate increase on renewals

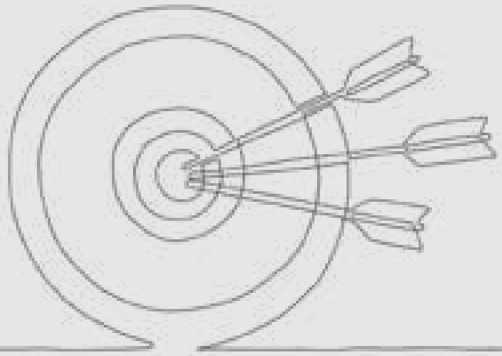
6%

(2018: 3%)

Profit before tax for the financial year

$267.7m

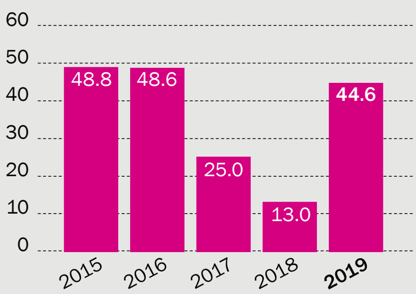
(2018: $76.4m)



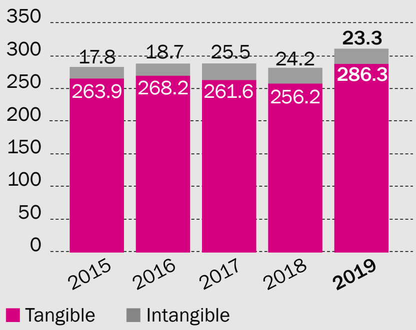
Key performance indicators

Financial highlights

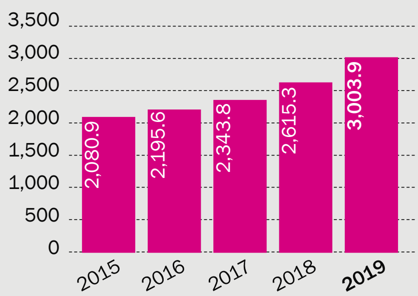
Earnings per share (c)



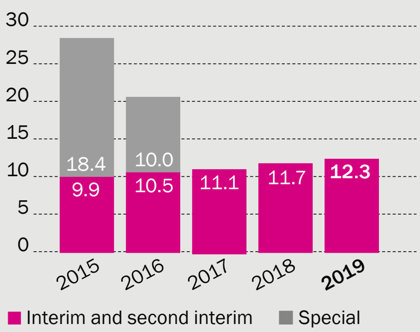
Net assets per share (c)



Gross premiums written ($m)

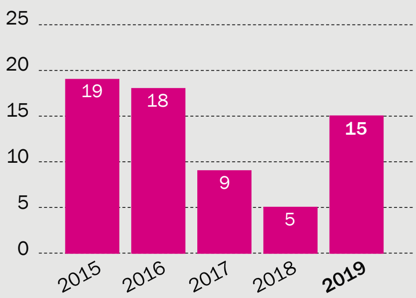


Dividends per share (p)



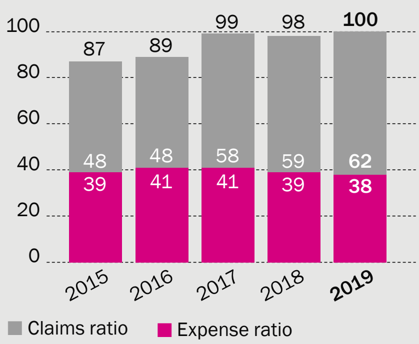
The interim and second interim dividend for 2019 has grown by 5%, which is in line with our dividend strategy.

Return on equity (%)



Average five year return on equity of 13%.

Combined ratio (%)



Our combined ratio has averaged 95% over five years.

The group is of the view that some of the above metrics constitute alternative performance measures (APMs). Further information on our APMs can be found in the financial review on page 33 and in the glossary on page 207.

Find out more within our financial statements on pages 136 to 206

Our key differentiators

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

Entrepreneurial spirit

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

Strong partnerships

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

Diversified business

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

Our key differentiators *continued*

Entrepreneurial spirit

As companies grow, they often find it harder to maintain the entrepreneurial flame that brought them success in their early days. Below are two ways Beazley has met the challenge of sustaining its entrepreneurial spirit.

First, by a strong cultural bias towards openness and transparency. Organisations in which information is shared reluctantly, if at all, cannot hope to maintain an entrepreneurial culture because new products and new ways of doing business almost invariably spring from people sharing ideas and insights. Transparency is deeply rooted in Beazley's culture, and information and ideas are widely shared.

One forum that exemplifies Beazley's commitment to openness is the NexCo, an alternative executive committee comprising high potential employees – usually at an early stage in their careers – from around the company. The NexCo meets monthly and reviews the same briefing papers as Beazley's executive committee. Its role is to exchange ideas, challenge the senior management team and suggest alternative strategic approaches. The NexCo was first established in 2018 and has made important contributions in a number of areas, including imagining the future skills needed for an underwriter in 2030 and what the roadmap looks like for how to move our talent from where it is today, to where we think it needs to be.

The second way in which Beazley encourages entrepreneurial spirit is by offering employees varied career paths. This has become easier as the company has grown around the world. Many Beazley employees have now worked for a duration of two years or more outside their home countries. This too supports the cross-fertilisation of ideas that characterises entrepreneurial companies.

'Our NexCo provides a platform for us to review the thoughts and views from a more diverse group of employees, enhancing entrepreneurial spirit, and allowing Beazley to make more informed decisions.'

Rachel Turk
Head of corporate development

Strong partnerships have underpinned Beazley's success since the company was founded in 1986.

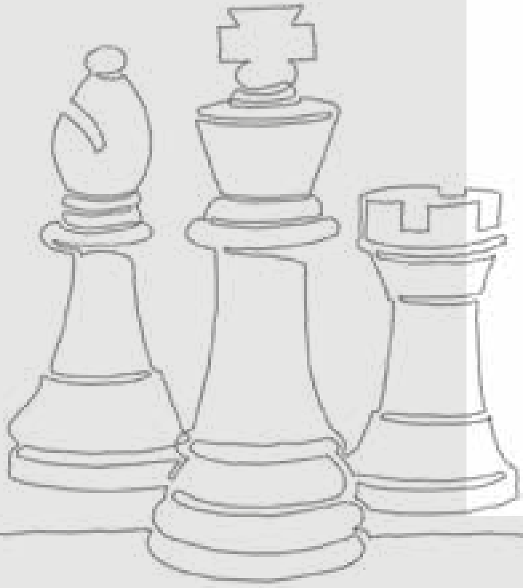
Strong partnerships

As a leading participant in the Lloyd's market, Beazley is constantly cooperating – as well as competing – with other Lloyd's syndicates. Sometimes these relationships are formalised into Lloyd's consortia or lineslip facilities, whereby syndicates allocate pre-determined capacity to particular classes of business. In 2019, Beazley partnered with other Lloyd's syndicates to form consortia focusing on reputational risk and technology-enhanced marine cargo insurance.

Beazley is also a founding member of the product innovation facility (PIF) at Lloyd's, launched in June 2019 by a number of syndicates to develop solutions for non-standard risks that might not suit the traditional market, such as risks relating to intangible assets and new technologies. The PIF launched its first product in September 2019.

Around the world, Beazley's partnerships with insurance brokers are also critical in securing access to high quality business. For smaller risks these relationships are increasingly dependent on online systems that allow brokers to place business with Beazley with minimal effort. A growing number of brokers have been gaining access to Beazley's award-winning e-trading platform, myBeazley, through application programming interfaces (APIs) that enable them to link their own trading platforms to ours.

'In 2019, we launched myBeazley in Germany and Spain and added new products to our offering in France and the UK. As the platform continues to grow it allows us to strengthen the partnerships we have and form new ones.'



Our key differentiators *continued*

Diversified business

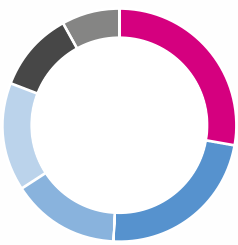
Beazley's diverse portfolio of business, combined with the risk selection skills of its underwriters, has been critical to the company's track record of profitability through widely varying market conditions.

In 2019, the mix of business underwritten by Beazley was particularly important as a succession of natural catastrophes in the US and Japan rocked the world's reinsurance markets and some lines of US liability business saw jury awards climb steeply. The latter mainly impacted Beazley's management liability book, comprising predominantly directors' & officers' (D&O) and employment practices liability (EPL) risks, as well as healthcare liability risks, particularly for large hospitals. Other lines of liability business have been less affected.

Each year we review the make up of our portfolio and assess which areas offer profitable growth opportunities and which require us to reduce our underwriting appetite.

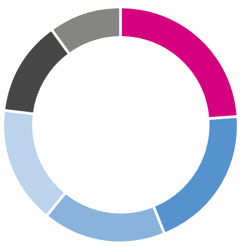
Every underwriting portfolio will have peaks and troughs and Beazley's underwriting profit was reduced to $4.8m in 2019. However, achieving an underwriting profit albeit small, is testament to the benefits of a carefully balanced portfolio of non-correlated lines of business that Beazley has built up over many years.

2009 gross premiums written



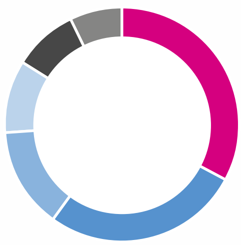
Specialty lines	28%
Property	23%
Cyber & executive risk	15%
Marine	15%
Political, accident & contingency	11%
Reinsurance	8%

2014 gross premiums written



Specialty lines	24%
Cyber & executive risk	20%
Property	17%
Marine	16%
Political, accident & contingency	13%
Reinsurance	10%

2019 gross premiums written

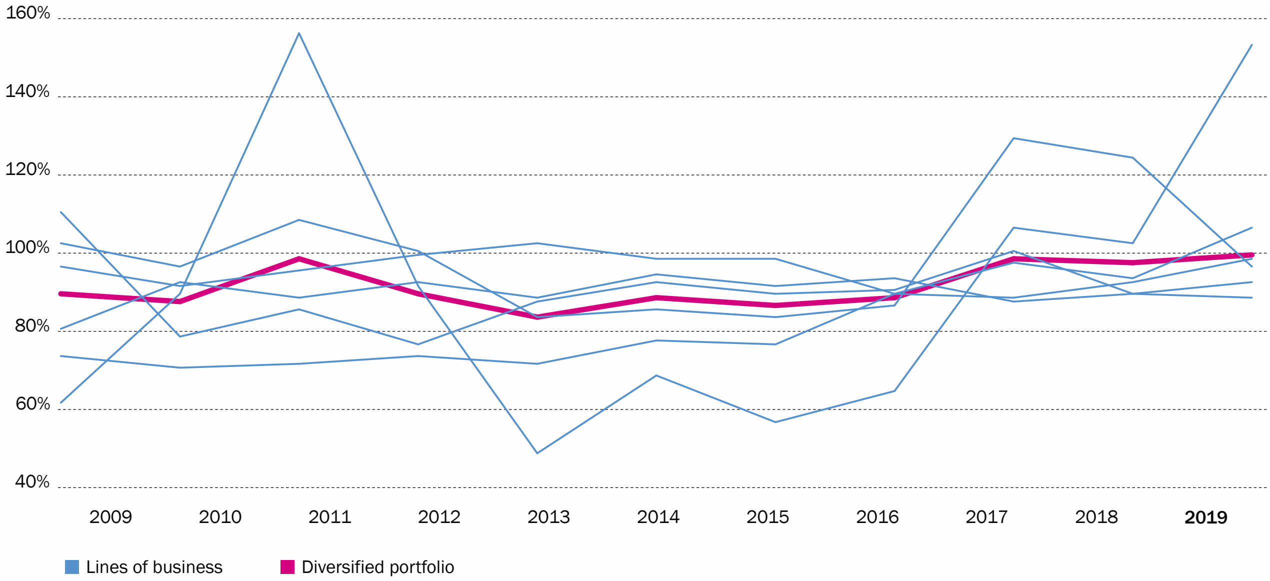


Specialty lines	33%
Cyber & executive risk	27%
Property	14%
Marine	10%
Political, accident & contingency	9%
Reinsurance	7%

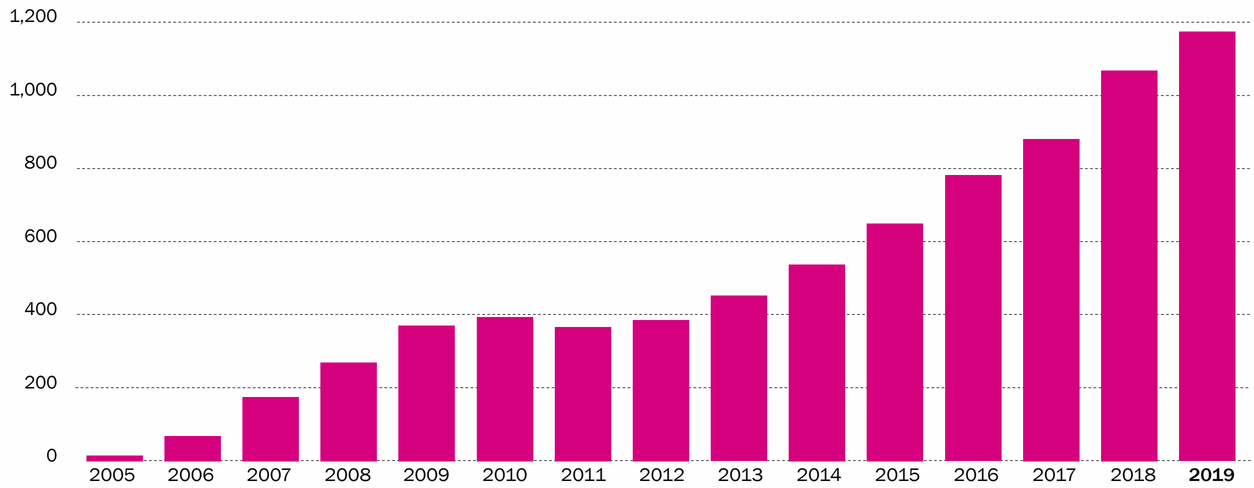
Diversified portfolio

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

Diversified portfolio achieves consistent combined ratio through market cycles



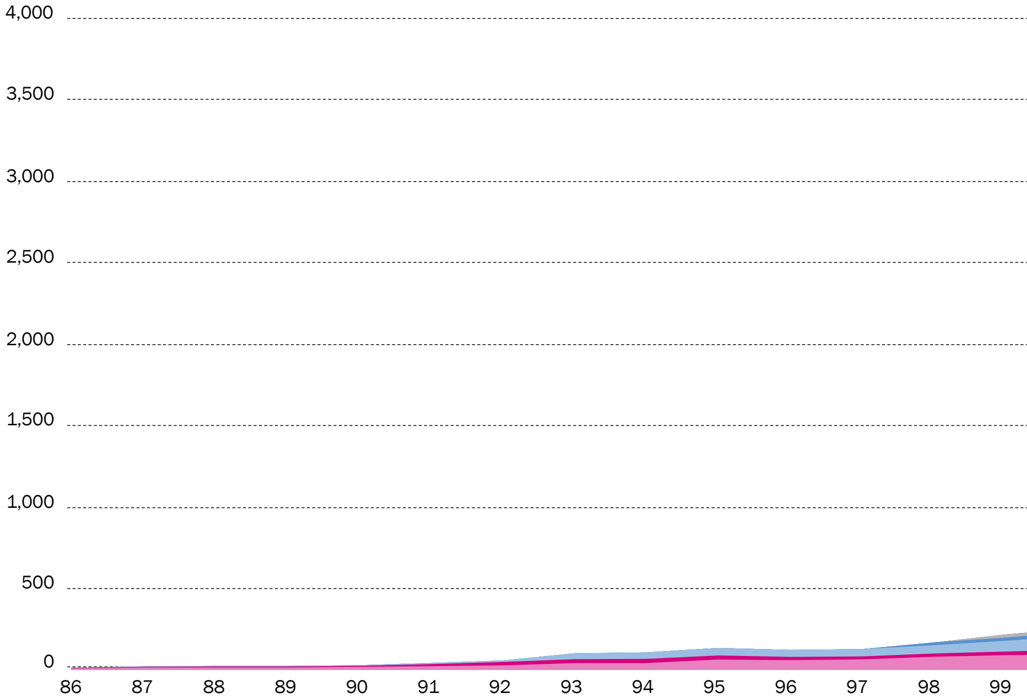
US managed gross premiums $m



Our key differentiators *continued*

Diversified business
continued

Growth of managed gross premiums by division $m



Cyber & executive risk

Our cyber & executive risk division comprises cyber and management liability cover for our clients. Our products range from our flagship cyber product, Beazley Breach Response (BBR), through to crime insurance and private and public directors' & officers' (D&O) insurance.

Find out more on page 25

Marine

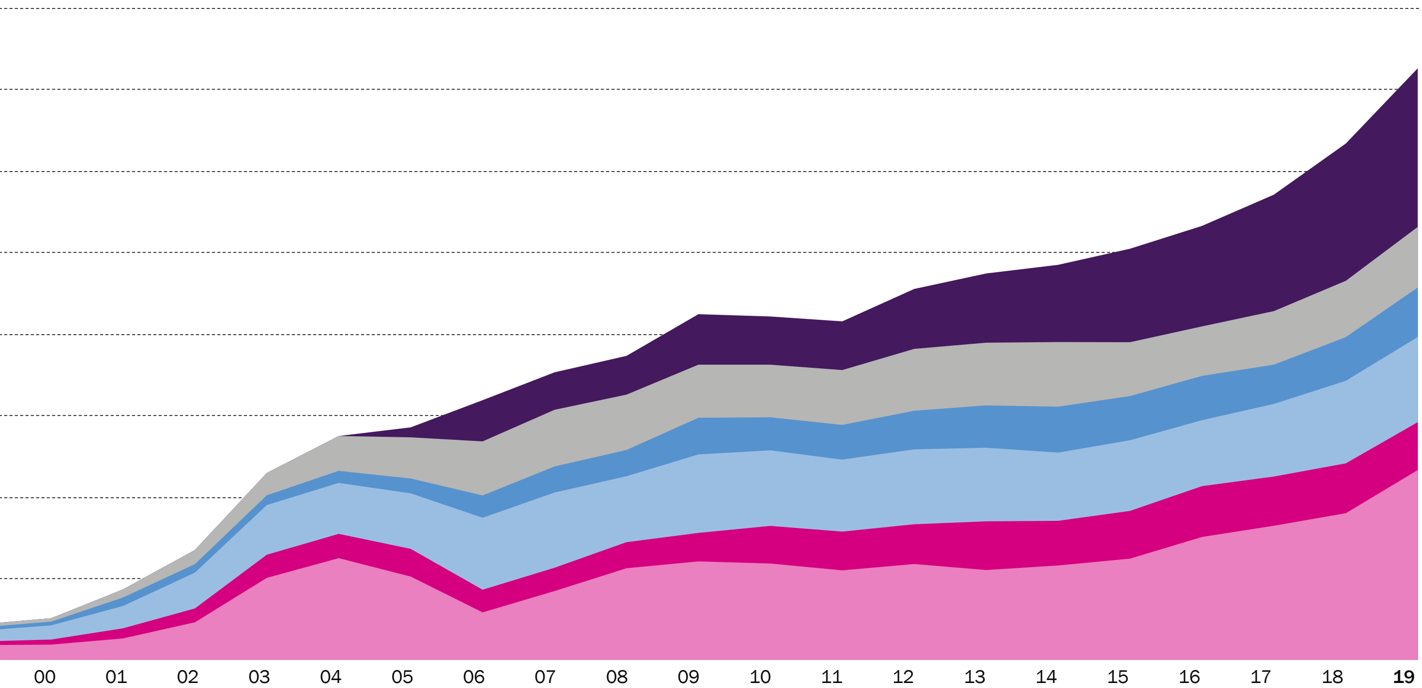
We help insure in excess of 20% of the world's ocean-going tonnage and are the pre-eminent leader of voyage and tow business in the London market. The aviation team provides cover for airlines and general aviation clients globally, ranging from start-up operations through to large commercial fleets.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

Find out more on page 26

Political, accident & contingency

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

Find out more on page 26



Property

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

Find out more on page 26

Reinsurance

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

Find out more on page 27

Specialty lines

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

Find out more on page 27

Our business model

Resources and inputs

The Beazley brand

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

Our people, culture and values

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

Financial strength

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

How we create value

Our approach

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

Find out more on pages 18 to 27

Our platforms

These platforms give us global reach, with each platform focused on a different market and offering different opportunities. Our US & European insurance companies complement our Lloyd's business well and ensure we can offer coverage across a wider distribution network.

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

Underpinned by a robust, consistent strategy

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

- Prudent capital allocation to achieve a well diversified portfolio 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 business

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

Our differentiators

Entrepreneurial spirit

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

Strong partnerships

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

Diversified business

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

Find out more on pages 01 to 07

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

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

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

Find out more in the chief executive's statement on pages 18 to 21

How we measure value creation

For shareholders

Earnings per share
44.6c

Net assets per share
309.6c

TSR since 1 January 2010
23.3% pa

Underpinning our strong results against all of these metrics has been our consistently strong underwriting performance, reflected in our combined ratio:

- 2019, a year of active claims environment: 100%
- Five year average up until 2019: 95%

For staff

We employ talented people and invest accordingly in expanding their skills and helping them build rewarding careers. We measure the impact of these investments in two main ways:

- Monitoring staff retention levels; and
- Employee engagement survey which we conduct every two years.

For customers

Nearly all business at Beazley comes through brokers. We monitor broker and client perceptions of our service in a variety of ways, including through a detailed annual broker survey. This is the third year Beazley has conducted a global survey and the number of brokers participating continues to increase, reflecting strong engagement.

Over 5,000 brokers provided feedback on our underwriting and claims service
5,000+

Navigating change

Risk is dynamic so, for any insurer, change is constant and inevitable. However, in 2019 changes came faster than usual, both for Beazley and the broader insurance industry.

For Beazley, the changes to be navigated took three main forms.

Market changes
The first was market changes as rates for many lines of business climbed steeply to address surging claims or prolonged underpricing and, in some cases, both.

Structural changes
The second was structural changes as insurers strove to put in place more efficient, innovative and client-friendly ways of doing business.

Management changes
The third set of changes for Beazley was those that inevitably occur when one generation of senior executives passes the baton to another.

Market changes
In the US rates for management liability lines such as directors' & officers' (D&O), and employment practices liability (EPL) rose steeply in response to an increase in the cost of the most severe claims. **"We've seen higher frequency of severe losses in common with other parts of the market"** says Mike Donovan, Beazley's head of cyber & executive risk. **"We might normally see a couple of big losses in a year and we saw four or five in the first six months of 2019."**

"International D&O rates are increasing faster than we have seen in many years" says James Eaton, head of Beazley's specialty lines division. **"This is being driven by a combination of losses and capacity withdrawals which we first saw in the London market in late 2018, and which has continued and spread across our regional offices in 2019."**

Speciality lines division brings growth
The specialty lines division also includes Beazley's healthcare liability practices, which have been a major area of growth in recent years and accounted for $198m in gross premiums written or approximately 20% of the division's premium in 2019. Healthcare and management liability business are the areas most affected by social inflation – a sharp uptick in jury awards resulting in multi-million dollar claims. The phenomenon has been most prevalent in the US, but is manifesting across the world.

What's driving social inflation
The causes of social inflation have been much debated. Generally, they have been attributed to the growing use of third party litigation funding, more aggressive attorney advertising and increasing antagonism from jurors towards organisations that are perceived as having let down their customers or investors. In cases where the victims have also been physically hurt – such as patients injured as a result of hospital errors – jury awards can be particularly heavy.

Adrian Cox, Beazley's chief underwriting officer, argues that social trends of this kind – which Beazley has witnessed several times in its 33 year history – are usually only resolved by government action, such as tort law reform. However, there is little impetus evident for tighter restrictions on jury awards in the US at present.

For a specialist insurer such as Beazley with a long track record in its selected lines of liability business, social inflation is a challenge but also an opportunity. It is a challenge to select risks that are adequately priced with appropriate terms and conditions – but a challenge that seasoned underwriters can handle. Also there is an opportunity, particularly for Beazley's claims professionals, to differentiate the service they provide from that of less experienced insurers.

"Our healthcare claims team comprises former defence attorneys who are not afraid to take a case to court if a plaintiff's demands are unreasonable," says Steve Chang, team leader for healthcare claims. **"We work closely with hospitals and other healthcare clients to identify the optimal defence strategy. In many cases, we may have seen similar claims play out in the past, whereas for our client it may well be the first time such an event has occurred."**

Many liability lines of business underwritten at Beazley have been less affected by social inflation and even in the affected lines, such as healthcare liability, the impact has varied by type of risk. Beazley underwrites a large and growing book of miscellaneous medical liability insurance, covering healthcare service providers of various kinds that are not hospitals or physicians, and many parts of this book have seen far lower claims activity than the large hospitals and health systems.

Some risks remain underpriced

In other parts of Beazley's business, rates have also been rising steeply after a prolonged period of rate erosion that drove prices down to uneconomic levels. In the marine, aviation and commercial property markets, the turnaround began in 2018 and continued through 2019. Nevertheless, some risks remain underpriced. **"We're fixated on risk quality and risk selection,"** says Richard Montminy, who took over the leadership of Beazley's property division in May 2019.

The market for large risk property business, which Beazley underwrites in London and New York, is **"very dynamic"** Montminy says, with rates rising on average by 18% in 2019. **"Brokers are looking for homes for clients. Whether or not we want to write them is the question. However, submission flow is strong."**

Against the backdrop of an often volatile rating environment, Beazley is also investing in operational change designed to increase the efficiency with which business is transacted and deliver an improved service to clients. Two strategic initiatives designed to drive change in this area align very closely with the approach laid out by Lloyd's in its Blueprint One plan published in October.

Reducing a high cost base

Lloyd's has divided the task of reducing the market's currently high cost base between two distinct but related initiatives. One, called the Lloyd's Risk Exchange, will focus on automating the transaction of relatively simple, high volume, low premium business – currently accounting for around half the risks placed at Lloyd's. The other, the Complex Risk Platform, will **"support the sourcing and efficient placing of complex risks,"** according to the Blueprint. The goal is to move to a "data first" digital model, and away from the current document-based model, with large efficiency gains in the process.

More than a year before the Lloyd's Blueprint was published, Beazley had adopted a similar approach to its business, with the Beazley Digital strategic initiative focusing on the automation of small, simple business and the Faster, Smarter Underwriting initiative focusing on larger and more complex risks.

Structural changes

myBeazley roll out

With the backing of the Beazley Digital team, the company has been rolling out its broker e-trading platform, myBeazley, across numerous markets. In 2019, myBeazley was launched in Spain and Germany and new products were added to the platform in France and the UK.

Announcing the launch of myBeazley in Spain in November, international financial lines regional manager Lorena Segovia said: **"Beazley has applied its expertise in management liability, professional indemnity and cyber insurance to create simple, specialist products that can be sold separately or as a package for brokers looking to work through an online channel to secure quick and efficient quotes."**

Historically Beazley underwriters have focused exclusively on a single line of business, but multiline underwriters are now increasingly common for small business. With myBeazley automating a large part of the placement process, underwriters can focus their attention on the more unusual risks that require human intervention.

Exploring new data sources

The team behind the Faster, Smarter Underwriting initiative, led by Adrian Cox and chief operating officer Ian Fantozzi, has also been looking to technology to improve the speed of transacting business. In addition, Beazley has been exploring new data sources that will permit existing risks to be written in new ways or enable entirely new risks to be insured.

Again, there is a clear connection between the priorities of Beazley and the ambition of Lloyd's, as set out in the Blueprint One, **"to combine data, technology and new ways of working with our existing strengths to transform ... everything we do."**

Beazley has been a strong supporter of the Lloyd's Lab, which was established in 2018 to help promising technology companies develop and test their solutions, mentored by underwriters and other insurance professionals within the Lloyd's market. In February 2019 Beazley teamed up with another Lloyd's insurer to form a new consortium to underwrite marine cargo business. The venture relies on data gathered by sensors installed by data science specialists Parsyl – a graduate of the Lloyd's Lab programme.

Management changes

The final set of changes that confronted Beazley in 2019 was internal. In the course of the year, three members of the executive team retired, while a fourth, Anthony Hobkinson, head of claims, is retiring in early 2020. These moves followed earlier changes in the chief underwriting officer role, with Adrian Cox succeeding Neil Maidment at the end of 2018, and in the head of talent management role, with Pippa Vowles succeeding Penny Malik in July 2018. In 2020, we also announced to employees that Mike Donovan will be retiring in June 2020.

Looking ahead

"An important test of a company is how it handles executive succession," says Beazley chief executive Andrew Horton. **"This is particularly so when a large number of senior executives retire at around the same time. Change of this kind can be unsettling but I believe the transition at Beazley has been smooth, aided by the fact that six of our eight new executives are internal hires."**

Looking ahead, Andrew Horton predicts more change to come in the markets in which Beazley operates. **"In addition to the natural ebb and flow of rates in response to claims and capacity, we can expect to see further significant changes stemming from the broader adoption of technology and the better use of data. We've really only just begun on that journey."**

Management changes

There have been many changes to the management of Beazley at both a board and executive committee level. On the executive committee there have been several changes, two from within Beazley and two external appointments. Here the new committee members discuss their prior experience and how they see Beazley changing over the next few years.

Sally Lake
Group finance director

"Change is all around us and we are embracing this in so many different ways."

What is your background?

I qualified as an actuary in 2004 and joined Beazley in 2006. I initially worked within the specialty lines claims team on analytics, and helped build the reserving process that the business continues to use today. Whilst the role was different compared to a traditional actuarial role, I loved the closeness to the claims managers and really getting a deep understanding of the drivers of reserves. I moved into the actuarial function in 2012 and there had the opportunity to gain a broader view of the entire business. I was group actuary prior to taking on the group finance director role in 2019.

What have you enjoyed in your first year being on the executive committee?

Too many to list, but I will name a few here. Spending more time on key decisions which will shape the business in the future. I have appreciated getting to know people in more depth, and being part of the new team who have fresh ideas and lots of energy to get things done. I enjoy the mix of colleagues I have worked with for many years, along with new faces like Lou Ann and Richard bringing in fresh ideas and different perspectives.

What changes would you like to see at Beazley over the next three years?

Change is all around us, and we are embracing this in so many different ways at Beazley. We continue to invest in new technology to enable efficiency, enhance our expert underwriting and get closer to our clients with our strategic initiatives. Our largest office, London, is going to move and continue our adoption of new ways of working. We have come so far from an inclusion and diversity perspective, but there is more to do and I would like us to capitalise on the positive momentum that has been created.

Lou Ann Layton
Group head of broker relations and marketing

"I would like to see us achieve a more diverse leadership team."

What is your background?

I began my career as a directors' & officers' (D&O) underwriter before joining Marsh. I left Marsh after a 31 year career to join Beazley. My first role at Marsh was as a D&O broker then leading the US FINPRO practice. I left FINPRO to take on P&L leadership roles in the Northwest and Southeast of the US.

What have you enjoyed in your first year being on the executive committee?

My executive role at Beazley has given me insights into aspects of an organisation that I had never been exposed to. I also appreciate having a voice in which I can share my thoughts and experiences about all parts of the company not just those that I have responsibility for.

What changes would you like to see at Beazley over the next three years?

One change that I would really like to see is an even more diverse leadership team. I believe achieving this lends itself to better outcomes. It is also important that we continue to innovate our existing products as well as create game changing new product offerings.

Management changes *continued*

Jerry Sullivan
Chair of the US management committee

"We must position the business to gain a competitive advantage by utilising various technological solutions."

What is your background?

My first job in the financial services industry was at Executive Risk, where I was underwriting directors' & officers' (D&O) and employment practices liability insurance (EPL). Soon after, I moved to Lexington Insurance Company as a multi-line underwriter.

After nine years and working my way up to the head of the architect & engineers (A&E) portfolio at Lexington, I was offered a role at Beazley, along with the chance to return to my family home state of Connecticut.

My Beazley career began in 2005, with responsibility for miscellaneous errors and omissions (E&O), tech E&O and A&E admitted business. A year later, I began to focus on building out A&E and in 2010 we launched our environmental focus area. In 2012, I took over the lawyers business and in 2019 I became chair of the US management committee.

What have you enjoyed in your first year being on the executive committee?

Our US business continues to outperform our expectations, so reporting our progress is a joy. I'm proud of what we have been able to achieve over the past 15 years, facing some challenges and coming out even stronger on the other side.

Being part of the committee means I'm able to learn about other areas of the business, such as capital raising, the evolution of Lloyd's and growing our European operations, to name a few.

One highlight of the year was hosting the Beazley plc board in Farmington. It was inspiring to hear the passion of our focus group leaders and teams, highlighting the successes and unique challenges to their business lines.

What changes would you like to see at Beazley over the next three years?

Technology is already impacting the insurance industry in a big way, and it will only continue year after year. We must position the business to gain a competitive advantage by utilising various technological solutions. Two of our strategic initiatives are focused on just this, which will inevitably transform the business.

We need to embrace this evolution instead of fighting against it. This will take strong, diligent leadership, who are open to change.

On the US side, we intend to achieve our goal of $2bn gross premiums written around three years from now. I'm excited to see us accomplish this milestone and am ready to take on the challenge to get us there.

Richard Montminy
Head of property

"We need to provide our underwriters with accurate real time risk data and insights."

What is your background?

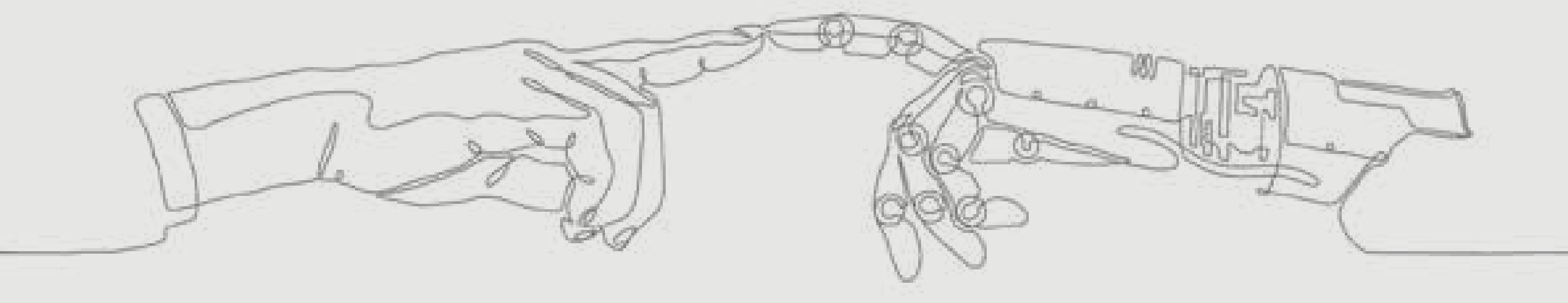
My career has spanned some 30 plus years. Having obtained an engineering degree, I had never planned to be in the insurance industry. Then like many I fell into this vast world of insurance. My work experience has included tenures on both the brokerage and carrier side of the business. This experience included loss prevention engineering, claims, account development, portfolio management, brokerage/placement, client executive and various levels of leadership roles for FM Global, Marsh, Zurich and now Beazley.

What have you enjoyed in your first year being on the executive committee?

My initial seven months with Beazley have flown by. The time has been both exciting and challenging learning the interworkings of a new company. I have most enjoyed working with and alongside people that are extremely passionate about not only being highly successful at what we do, but also truly valuing and caring about all the colleagues that help make us successful.

What changes would you like to see at Beazley over the next three years?

I believe that we all understand that efficiency and technology will continue to be key drivers of our productivity and profitability. Subsequently we need to adopt process change and improve technology to not only compete with but exceed our competitors. One of the key changes that would help drive success, would be to provide our underwriters with accurate real time risk data and insights on their computers to enable them to complete quicker, smarter analysis and make quicker, smarter decisions.



Statement of the chair

Beazley delivered strong growth in 2019, with premiums rising 15% to $3,003.9m (2018: $2,615.3m) in a market that saw rates respond sharply to heightened claims activity in many lines of business. Strong investment returns drove pre-tax profits up to $267.7m (2018: $76.4m) offsetting a combined ratio that deteriorated to 100% (2018: 98%). The company generated a return on average shareholders' equity of 15% (2018: 5%).

Higher return on shareholder equity despite elevated claims activity.

David Roberts
Chair

The board is pleased to announce a second interim dividend of 8.2p per ordinary share, in line with our strategy of delivering 5-10% dividend growth. Together with the first interim dividend of 4.1p this takes the total dividends declared for 2019 to 12.3p per ordinary share (2018: first interim dividend of 3.9p plus a second interim dividend of 7.8p, totalling 11.7p).

Beazley has a well-diversified portfolio of risks and we continue to take action to ensure we anticipate and respond to the challenges and opportunities arising from current market conditions.

Our deep experience in managing our portfolio of risks through differing market cycles tells us that preparation is critical for a turbulent market of the kind that we saw in 2019 and Beazley has been preparing for more than two years for such a market.

We withdrew from underwriting construction and engineering business in 2018 because it failed to meet our cross-cycle profitability requirements and took steps to strengthen our catastrophe reserves. In both 2018 and 2019 we opened our underwriting at historically high loss ratios to provide a strong reserve buffer against rising claims. We are now in a market in which rates are often adequate to achieve profitable growth but significant pockets of underpriced business remain. This plays to all of Beazley's traditional strengths as a company, in risk selection, reserving and claims management. Our diversified portfolio of business should also continue to stand us in good stead: only two of the liability classes we transact – management liability and healthcare liability – have been significantly exposed to social inflation, which has driven US jury awards up.

The role of the Beazley board is to challenge, support and advise Beazley's management as they navigate current market conditions and plan for profitable growth in the future. The board met for three days in the US in May to discuss the changes and disruptors that are reshaping our market and the company's readiness to adapt to these changes and prosper. We identified three main areas of focus: the impact of new technology and data-driven risk insights; Beazley's role in the changes taking place at Lloyd's; and the maintenance and development of the company's corporate culture, all of which aligns to our strategic initiatives.

Three strategic initiatives at Beazley are, in different ways, focused on operational efficiency and improving the client experience. Through our Closer to the Client initiative we are consulting closely with clients on their evolving needs. While our Faster, Smarter Underwriting and Beazley Digital initiatives are harnessing data and technology to provide an enhanced experience to our large risk clients and our small business clients respectively. The board considers all three initiatives to be well chosen given the winds of change that are blowing through our market.

These areas of focus are also priorities for the leadership of Lloyd's and are reflected in the Lloyd's Blueprint One published in September 2019. As a major participant in the Lloyd's market, writing 85% of our business on Lloyd's paper, Beazley has been actively involved in shaping the market's future plans. We are a strong supporter of the far-reaching reforms proposed in Lloyd's Blueprint One: our London Market strategic initiative is designed to ensure that Beazley can benefit to the fullest possible extent from the changes as they are implemented.

Finally, Beazley's transparent, supportive and collaborative culture has been one of the company's greatest assets since its earliest days: it has served as a magnet for talent in our market. The Lloyd's culture survey published last September revealed that high standards of behaviour have not been universally upheld across the market. The board strongly supports Beazley's management in its commitment to ensure no Beazley employee should ever hesitate to report unacceptable or inappropriate behaviour.

Board and management changes

To ensure the board remains able to challenge, support and advise Beazley's management, we constantly evaluate the mix of skills and experience the board possesses. In April 2019, we welcomed two new board members, Nicola Hodson and John Reizenstein, who added to the board's skillset in important ways.

Nicola has brought deep expertise in the areas of technology, data and operations to the board, developed in the course of a series of senior executive roles at Microsoft, including as chief operating officer of Microsoft UK. John was formerly chief financial officer of Direct Line Insurance Group, and the board has benefited from his extensive financial services experience across insurance, investment banking, and financial markets. He replaced Angela Crawford-Ingle as chair of Beazley's audit and risk committee following her retirement at the end of May 2019.

I am also delighted that so many of Beazley's recent senior executive appointments (six out of eight in the past two years) have been internal. This speaks well to the vibrancy of the company and its success in preparing talented individuals for senior roles.

Part of the board's role is to consider the interests of all stakeholders in the company. Beazley is a profit-making business that must meet, and if possible exceed, the expectations of investors. Nevertheless we also need to take a broader view of the role that insurance plays in society and in addressing the major challenges of our times.

2018 UK Corporate Governance Code

The introduction of the 2018 UK Corporate Governance Code reporting requirements has brought the discussion around how the board and its committees ensure Beazley brings value to its various stakeholders into the spotlight.

We believe understanding and reporting the needs and views of our various stakeholders is extremely important and we are always trying to enhance these relationships.

The new code's reporting requirements reflect this commitment which Beazley maintains with its various stakeholders and provides transparency to our policies and procedures.

Find out more on pages 79 to 93

Climate change is unquestionably one such challenge, and possibly the most important. Another is the vulnerability of our interconnected world to cyber attacks. At Beazley we are keen to ensure we are able to protect our insureds, and have developed products that address these cyber risks. We are also investigating products that address the effect of climate change. In both cases we can amplify our impact by collaborating with others. The Lloyd's market offers a tried and tested model for such collaboration and we will continue to work with other syndicates at Lloyd's to push forward the boundaries of insurable risk.

Beazley's immediate focus is to deploy its traditional underwriting strengths to navigate what remains a turbulent market. However, we are well aware that market conditions in the not too distant future will present very different challenges and require new strengths. I am confident that Beazley has the means and the will to adapt and navigate these changes.

David Roberts
Chair

Chief executive's statement

Double digit premium growth sets Beazley up well for the future.

Andrew Horton
Chief executive officer

Beazley achieved a second year of double digit premium growth in 2019, with gross premiums written increasing 15% to $3,003.9m (2018: $2,615.3m). Profit before income tax rose to $267.7m (2018: $76.4m), driven by a very strong investment return. Our combined ratio of 100% (2018: 98%) was impacted by intensifying claims across several lines of business and reduced reserve releases from prior years.

Natural catastrophes took a smaller toll on our business than in 2018, but nevertheless had a material impact with our estimated costs of Typhoons Faxai and Hagibis and Hurricane Dorian totalling approximately $80m net of reinsurance and reinstatement premiums. A number of our liability lines were also impacted by US jury awards that have been increasing for some time now, particularly affecting our management liability book and our large risk professional liability business for hospitals.

We have been taking action to address underperforming classes of business for several years and we have seen rates rise steadily as the market has responded to elevated claims. The claims that we have seen in these classes, combined with the continuing high incidence of natural catastrophe claims in recent years, reduced the contribution to profits from prior year reserve releases in 2019 to $9.5m (2018: $115.0m).

The insurance market has continued to respond strongly to this unsettled claims environment and we saw renewal rates rise by 6% on average across our business during the course of 2019. In the lines of business most affected by severe claims, we have seen much larger rate rises, as described in our chief underwriting officer's report on page 24.

Beazley benefits from a well-diversified underwriting portfolio that we have carefully constructed over the years to spread our exposures across geographies, classes of business and size of risk. Our property division, which incurred heavy underwriting losses in 2017 and 2018, returned to profit in 2019 with a combined ratio of 97%, and our political, accident & contingency division delivered a strong performance with a combined ratio of 89%. These results helped to balance deteriorating results in our reinsurance division (where the bulk of the natural catastrophe losses fell) and marine division.

During 2019 we also split what had previously been by far our largest division – specialty lines – into two. Both of the new divisions, one of which continues to be called specialty lines and the other cyber & executive risk, underwrite classes of business that were negatively affected by increased jury awards and settlements in 2019. However, many lines of business were unaffected and continued to show strong growth and profitability.

Growth opportunities

Rising premium rates were by no means solely responsible for the strong premium growth we saw in 2019. We have continued to grow in newer lines of business in our traditional markets and in long established lines in newer markets. As an example of the former, our accident and health team in the US – now renamed Beazley Benefits – saw premiums rise 20% to $24.7m. As an example of the latter, our cyber business grew by 26% outside the US in 2019, outstripping our cyber growth in the US, where demand for this form of insurance originated.

As by far the world's largest insurance market, the US continues to present many attractive growth opportunities for Beazley, but we are also seeing strong demand for many of our specialist products in Canada, Europe and Asia. In the course of 2019, we saw our European business grow by 17%, while the business we underwrote locally in the US grew by 13%.

Investing in innovation

Brokers around the world look to Beazley as a source of innovation in specialist insurance and we sought to build on this reputation in 2019. In the US our environmental team launched Beazley SLEAP (Site Lender Environment Asset Protection) to protect lenders from pollution risks that could impair the value of property used as collateral for commercial loans. In London our marine underwriters unveiled a new marine cyber insurance product to meet the rapidly developing needs of vessel owners and operators. Also in London our cyber & executive risk team launched a reputational risk product to protect businesses against a peril that is of huge and growing concern to senior executives at our client companies.

Product innovation, although important, is not the only form of innovation that benefits brokers and clients in our markets. The insurance industry has seen heavy investments in technologies designed to make business processes more efficient. Substantial sums have also been invested in harnessing new data sources to improve the speed and accuracy with which risk can be priced.

At Beazley we have two strategic initiatives focused on these issues. The first, which we call Faster, Smarter Underwriting, addresses the large and complex risks that have been the historic mainstay of our business. Improved technology can make the transaction of this business far more efficient, and we have identified several opportunities for underwriting productivity improvements, complementing – but not supplanting – the underwriter's skill and judgement.

Our strategic initiatives

Beazley Digital

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

Faster, Smarter Underwriting

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

Closer to the Client

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

London Market

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

Find out more on pages 41 to 50

Chief executive's statement *continued*

For smaller, simpler risks, the role of technology is even greater. Our Beazley Digital strategic initiative has identified significant scope for automation in this space, with the underwriter's day to day role limited to the pricing of unusual risks that fall outside the constraints programmed into our systems. In 2019, we launched our award-winning broker e-trading platform, myBeazley, in Spain and Germany. The platform, already in service for brokers in the UK and France, enables brokers to access Beazley's specialist insurance products online, including management liability, professional indemnity, and cyber cover.

Change at Lloyd's

The varying approaches that we are taking towards large complex risks on the one hand and smaller and simpler risks on the other are mirrored in Blueprint One, a programme of far-reaching reforms published by Lloyd's in September 2019. We strongly support the plan Lloyd's has put forward and, in particular, the goal of reducing the market's stubbornly high expense ratio. Beazley's expense ratio in 2019 was 38%, in line with the Lloyd's market average. We would like to see both come down materially.

In 2018, we launched a new Beazley managed syndicate, syndicate 5623, which focuses on writing market facilities business with the aim of reducing the cost of underwriting at Lloyd's. Underwriting for the account of third party investors, the syndicate aims to offer a low cost mechanism for placing follow business within the Lloyd's market. In 2019, we underwrote market facilities premiums of $36.0m through the syndicate, up 330% from the previous year.

Our participation in the Lloyd's market also gives our continental European clients a choice of options to access Beazley products. Business from continental Europe can be placed either with the Beazley Lloyd's syndicates through the Lloyd's platform in Brussels or with our European insurance company, Beazley Insurance dac, based in Dublin. We have continued to recruit underwriters across Europe, including in the UK regions, and saw our European business as a whole grow by 17% in 2019.

Climate change

As with any insurance company, climate change is going to be an area where we will expect to give greater focus to in the coming years. The perceived risks around climate change are great and should not be underestimated, but the opportunities around providing suitable cover, products and claims service to our insureds is something that aligns to Beazley's current service model. We have always prided ourselves on delivering on our promises to our insureds and these promises will become even more important as the potential severity of losses increases.

During 2019 our risk management team worked through a number of long term scenarios around the potential impact of climate change on Beazley. We have also continued to look at ways of acting more responsibly within our business, such as sourcing our office products locally. During 2019 our submission to Climatewise was benchmarked against the framework from the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) achieving a preliminary score of 39% (compared to the average score within the Lloyd's Market of 38%). It is clear from this score that we are at the same stage of our development on climate change as many others, but we know that more needs to be done. As such we are currently recruiting a sustainability officer who will oversee our strategy on climate change going forward while building on the progress made so far.

Executive changes

In 2019, we welcomed four new members to Beazley's executive committee. Two of these were individuals who have been with Beazley for more than a decade, and two were external hires. The internal promotions were Sally Lake, who succeeded Martin Bride as group finance director; and Jerry Sullivan, who heads our US management committee, both of which were mentioned in our 2018 annual report. We also announced in 2019 that Beth Diamond, who has recently succeeded Anthony Hobkinson as head of claims, will join the executive committee from 2020. We also announced to employees in early 2020 that Mike Donovan has decided to retire at the end of June 2020 and we will announce his successor in due course.

From outside the company, we recruited Lou Ann Layton, who succeeded Dan Jones as head of broker relations and marketing, and Richard Montminy, who succeeded Mark Bernacki as head of our property division.

I paid tribute to Martin, Dan and Mark at the half year for their enormous contributions to Beazley's success over the years. Here I would like to express my gratitude to Anthony, who has guided our claims function skilfully since 2011. In insurance, we offer clients a simple promise to pay. As our business has grown around the world, Anthony and his team have ensured that we fulfil these promises consistently and in a way that increases the loyalty of our clients. I have every confidence that Beth, who was the head of our third party complex claims team prior to succeeding Anthony, will ensure that world class claims service remains a differentiator for Beazley.

Investment performance

Beazley's financial assets have continued to grow in recent years, from $4.9bn in December 2017 to $5.9bn by December 2019. As a result, the returns we achieve on these assets are important to our overall performance. After a challenging year in 2018, financial market conditions in 2019 proved much more supportive and Beazley's financial assets returned $263.7m, or 4.8% in this period (2018: $41.1m, or 0.8%). The 2019 return is the highest in recent years, supported by falling yields, declining credit spreads and strong equity markets.

Our fixed and floating rate debt securities are the mainstay of our investment portfolio and represented 82.3% of our investment assets as at December 2019 (2018: 81.1%). These investments (including cash and cash equivalents and derivatives) returned 4.3% in 2019, (2018: 1.1%) well above the level of yields at the beginning of the period, as declining yields and narrowing credit spreads generated capital gains on these assets. We were able to take advantage of the conditions by increasing the duration of our portfolio, which was maintained at close to two years for much of the year.

Our capital growth assets also performed strongly, helped by rallying equities; returning 8.6% overall (2018: a loss of 1.0%). We took advantage of the strong market conditions by adding to more volatile asset classes earlier in the year, utilising nearly all of our current appetite for investment risk. However, a more cautious approach later in the year, as risk assets became increasingly expensive, meant that we did not capture all of the available return, as markets continued to rally. Looking ahead, and despite our limited appetite for investment risk, the material difference between outcomes in 2018 and 2019 highlights the dangers of forecasting investment returns in the short term. Notwithstanding, yields and credit spreads are much less attractive than they were and this leads us to expect a lower return in 2020.

Risk management

With the recent arrival of new executive committee members, we took the opportunity in 2019 to re-examine the risks we run in different parts of the business and enhance the control environment. As a result of this reassessment, our chief risk officer Andrew Pryde has taken over as chair of the risk and regulatory committee, which is the executive level committee that oversees how the business is managing risk. This has helped the committee to operate as an effective second line of defence to monitor and challenge risk owners across the organisation. Senior risk managers now also attend the committee, alongside risk owners.

As explained on pages 44 to 50, our risk management team works closely with others across the business to identify and manage emerging and strategic risks. In 2019, this included preparations to enable Beazley to continue to serve continental European clients and write EU business in the event of a hard Brexit.

The team also stress-tested a variety of long term climate change scenarios that could affect Beazley's business as a whole, as well as conducting a detailed pilot assessment of the impact of climate change on the liability lines offered by our US architects and engineers professional liability team. We are currently expanding upon this pilot exercise to other classes of business and have estimated that around a third of the group's 2019 premium arises from classes that have material exposure to climate change effects.

Outlook

For a company with an exceptional track record of underwriting profitability, 2019 was a difficult year.

However, although history never repeats itself exactly, we have seen market conditions similar to this in our 33 year history and know that early remedial action is critical in lines of business where the market as a whole has failed to make adequate provision for rising claims. We have been taking such action for several years now across a number of areas.

These measures should result in an improved underwriting performance in 2020, with further improvement expected in 2021. We have been reserving conservatively against business underwritten in 2018 and 2019 but it will take some time for claims against this business to crystallise. We therefore expect prior year reserve releases to be below average in 2020.

We are now part way through a broad-based turn in the market, with rates rising steeply across many lines of business. Over the past two years, we have seen premium rates on renewal business rise cumulatively by more than 10% for half of our book. We expect rates to continue to rise through 2020.

In this environment we will continue to grow our business prudently and anticipate achieving double digit premium growth once again in 2020. However, we continue to believe that some business remains underpriced, notably in the property and treaty reinsurance markets, and our underwriters will continue to walk away from business that does not meet our requirements.

The market conditions we witnessed in 2019 reaffirmed the importance of skilled underwriters capable of making prudent promises to our clients as well as resourceful claims professionals able to deliver swiftly on our promises. Technology will assist us, but these core skills should continue to underpin the profitable growth of our business in the years ahead.

Andrew Horton
Chief executive officer

Q&A with the chief executive

Q Beazley's combined ratio has been close to 100% for three years now. When do you expect it to improve?

A We ran combined ratios averaging below 90% from 2012 through 2016, during which time rates fell steadily in response to a generally benign claims environment and we saw a large influx of capital into parts of the market. We warned in 2016 that further declining rates and any rise in claims would make it harder for us to maintain these underwriting margins, and so it has proved.

With the sustained rate rises we have seen over the past two years, we expect to be able to achieve a combined ratio in the low 90s in the medium term (barring, of course, exceptional catastrophe losses). However, a combined ratio in the mid-90s is a more realistic expectation for 2020 subject to a more normalised claims environment.

Q How concerned are you about the increased jury awards and settlements that are pushing claims higher in many liability lines of business?

A They are a source of concern and are one of the reasons we opened our underwriting at a higher reserve position in 2018 and sustained that approach in 2019. It is important to note, however, that there are many parts of our liability book that have not been affected by this phenomenon, including our cyber business, our environmental business and our small risks business.

Various reasons have been proposed for social inflation, which bears no relation to inflation levels in the wider economy. These are discussed in our chief underwriting officer's report on page 24. It is a phenomenon we have seen before – indeed Beazley was founded at a time of sharply increasing jury awards that generated a crisis of capacity for many liability risks in the US. The situation is not currently so extreme and the market has been responding in an orderly manner to the claims inflation we have seen.

Andrew discusses key topics around performance and outlook

To take one example, we saw rates on our US directors' & officers' book increase by 30% in 2019.

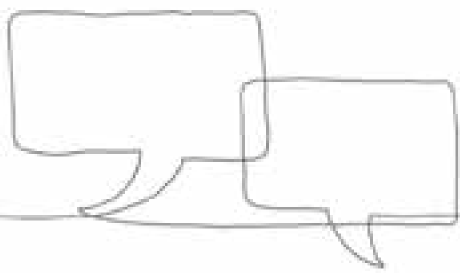
It is often a fine judgment for a company to decide whether to settle litigation or allow it to proceed to trial, and the stakes can be higher at times such as these. Our seasoned claims professionals are well equipped to help clients make these difficult decisions.

Q There have been several management changes at Beazley in the past two years. What principles have guided you in the new appointments you have made?

A We put a lot of effort into succession planning. Twice a year I go through with the board plans for my successor and other senior executive roles. There has been a significant generational shift at Beazley over the past two years as a number of senior executives have retired.

We have as a result welcomed eight new members of the executive committee over the past two years. Of these, six were internal appointments and two were external. All but one of the individuals appointed internally have been with Beazley for more than 10 years.

Our overriding principle of course is to secure the best available person for the job. Where this criterion can clearly be met through an internal hire, it brings a number of advantages. The individuals are very familiar with our culture and their promotion opens opportunities for talented individuals further down the organisation. I am very pleased that Beazley has had the bench strength to make so many internal appointments at all levels within the company.



No matter whether they are internal or external appointments, I have found that our new executive members have brought valuable fresh perspectives to our discussions. I believe firmly that a diverse executive team can only contribute to the quality of our decisions and I am pleased that we now have four female executive committee members, up from one two years ago. Our appointments are always made on merit but we ensure that we have a diverse roster of candidates from whom to choose.

Q How will the reforms put forward by Lloyd's in its Blueprint One document affect Beazley?

A Positively I believe. The costs of doing business at Lloyd's are too high and are denying attractive growth opportunities, for our market. We strongly support Lloyd's plans to lower expense ratios and this is something I have also championed in my time as chair of the London Market Group.

There is a remarkable degree of alignment between the four strategic initiatives that Beazley announced in 2018 and the six initiatives described in the Lloyd's Blueprint One last September. Like Lloyd's we have developed discrete approaches to our large, complex business and to our smaller and more standardised business. Also like Lloyd's we see more scope for automation – and thus cost reduction – for the smaller standardised business. However, we also see a significant role for technology and new data sources in pricing complex risks and in processing this business more efficiently.

Lloyd's has an unmatched record of settling valid claims stretching back more than three centuries. Nevertheless there is more that we can do to improve the speed and efficiency of claims settlement across the market. Colin Masson, from our claims team, was involved in the Lloyd's claims initiative up until October 2019, which also aligns closely with our own Closer to the Client strategic initiative to improve client service.

Q Do you believe that the natural catastrophe losses insurers have seen in recent years are due in part to climate change and, if so, how does this affect your underwriting strategy?

A Yes I do, but the extent to which climate change has aggravated these losses is difficult to assess given the limited data sets available. We have certainly seen increasing severity of weather-related events and in some cases the impact of climate change is not hard to discern. For example, warm air can hold more moisture than colder air, contributing to the severity of floods accompanying storms.

At Beazley we have begun to explore these connections and their impacts on our business, including the opportunity to underwrite new forms of cover. I believe that, broadly speaking, the insurance market can accommodate climate change, given our ability to reprice policies annually, but the costs to the most vulnerable communities may ultimately become unsustainable.

Q More generally, is climate change something that you are worried about for Beazley?

A The world is changing and Beazley has to be prepared to move with it. As described above we have taken action on our underwriting strategy in 2019, but we cannot be complacent as climate change has more far reaching impacts. In 2019, we continued our drive to increase recycling and reduce waste throughout the business. We also continue to look at the environmental impact of our suppliers and actively look to source our office products locally. However, climate change is not a short term problem and investment in long term solutions and policies are required. We are currently recruiting a sustainability officer to join Beazley who will lead our efforts on climate change and sustainability across the group, aligning the work done to date, and constructing our policy going forward.

Q Are there any areas of technological development that hold particular promise for Beazley?

A There are many, but one I would identify is the opportunity to connect our systems directly to those of our brokers via APIs or 'application programming interfaces'. We now have APIs in place in three markets – Canada, Spain and Australia – that enable brokers to enter risk submissions onto their own systems, which are then routed straight through into our systems.

We then automatically send back quotes and policy documentation in real time. We are working on several new opportunities with brokers to develop products that connect directly to Beazley via APIs. This approach brings many advantages – a low cost of submission processing, quicker service to clients, and greater Beazley product distribution potential.

Q What do you see as the biggest drivers of premium growth for Beazley in the years ahead?

A We expect to see further growth from rate rises in 2020. In addition, we still have a relatively small footprint in most of our target markets – both by product and geography – and therefore significant further scope to grow. We plan to grow as we always have done, by focusing on risks that we understand and in areas where we can attract high quality people.

I also believe strongly that we need to keep talking to our clients and designing new products to meet their changing needs. Not all products can cross borders unmodified, but where there is an underlying demand we can also look at adapting existing products for new markets. We have been doing this with our flagship cyber product, Beazley Breach Response, over the years and in 2019 we began to globalise our virtual care liability product for telemedicine providers.

Chief underwriting officer's report

Beazley's underwriters achieved strong premium growth of 15% to $3,003.9m (2018: $2,615.3m) in 2019 against a backdrop of increasingly severe claims in a number of lines of business. Although in absolute dollar terms we achieved an underwriting profit, our combined ratio rose to 100% (2018: 98%), due in large measure to a far smaller prior year reserve release than in 2018.

Strong premium growth while claims environment remained challenging.

Adrian Cox
Chief underwriting officer

The underwriting losses sustained by many insurers in recent years have driven rates up significantly for many lines of business, and the momentum shows no sign of slowing. Rates across our portfolio rose by 6% in 2019, on top of rises averaging 3% in 2018. This masked far steeper rises in lines such as directors' & officers' (D&O) (31%); hospital professional liability (15%); aviation (27%); and large risk property (18%).

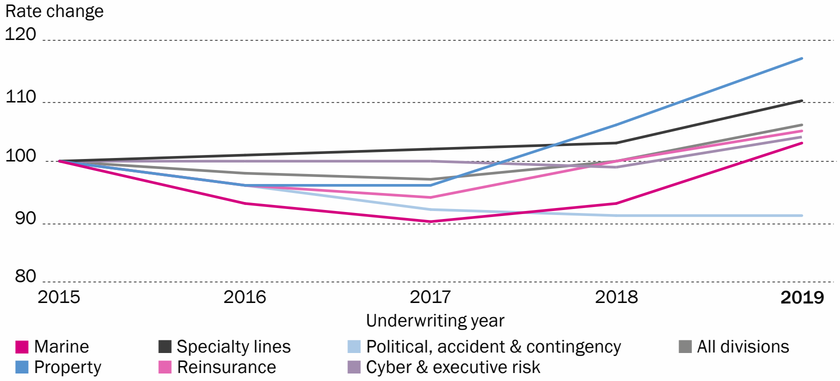
The drivers of rate change varied. In some markets, business had by the end of 2017 become significantly underpriced after a long period of rate erosion. Our marine division, which includes energy and aviation business, saw rates fall for five years in a row from 2012 through 2017. Our reinsurance division saw a similar decline while our property underwriters saw rates begin to fall in 2013 and continue to do so into 2017. The turn in property markets – both insurance and reinsurance – was initially spurred by the intense natural catastrophe experience of 2017 and sustained by further major events in the US and Japan during the course of the following two years.

In some but not all liability lines of business, we have been seeing a surge in US jury awards that has driven increased claims severity. The trend is particularly evident in claims from US hospitals. Between 2015 and 2018, the share of claims in excess of $5m within our total hospital claims rose by 68% compared to the years 2011 to 2014.

Various reasons have been proposed for the rise in large jury awards in the US. Evidence is certainly growing for a shift in sentiment against organisations that are perceived to have failed to protect customers or investors (or patients in the case of hospitals). At Beazley, we have seen the main impact of this trend in our healthcare and management liability books. Other lines of liability business, such as environmental and cyber, have been relatively unaffected.

Beazley has more than 30 years experience of underwriting large, complex risks and our underwriters are constantly scanning the horizon for opportunities and threats.

Cumulative renewal rate changes since 2015 (%)



Equipped with one of the market's largest claims databases, our healthcare underwriters saw the rise in large hospital claims early and have adjusted their underwriting accordingly. We have a diversified book of US healthcare business and have been able to grow in segments less impacted by social inflation.

The strong premium growth we saw in 2019 was thus not merely the effect of rate rises, but also reflected our success in targeting profitable growth opportunities around the world. Since 2017 we have been investing heavily in the growth of our business – particularly our liability business – outside the US. In many cases, we have been able to adapt products that have been road tested in the US for other markets in Europe, Asia and the Americas. Beazley Breach Response (BBR), our flagship cyber product, is now available in six countries including the US.

Profitability also depends on the efficiency with which we transact business. One of our strategic initiatives – Faster, Smarter Underwriting – has been targeting efficiency gains in the transaction of large, complex risks, with a focus in 2019 on cyber, D&O, commercial property and marine risks. Another strategic initiative – Beazley Digital – has concentrated on the smaller, more standardised risks that can be more fully automated: here our main focus has been on the continuing roll-out of our myBeazley e-trading platform for brokers around the world.

Historically, the slow pace of change in insurance markets has meant that insurers have not funded significant research and development budgets to implement new and promising technologies. This is now changing and at Beazley we have, through our targeted strategic initiatives, been investing more heavily and widely in research and development.

Lines of business long seen as more traditional are now seeing benefits from new technology and data sources: for example, in February we partnered with another Lloyd's insurer to establish a Lloyd's marine cargo consortium using technology from the Lloyd's Lab insurtech Parsyl to track cargo accumulation and collect data to assist in risk management and claims.

Cyber & executive risk

In its first year as a standalone division, Beazley's cyber & executive risk (CyEx) division, led by Mike Donovan, grew premiums by 15% and achieved a combined ratio of 93% (2018: 90%).

Market conditions affecting the division's two largest lines of business – cyber insurance and D&O liability insurance – were very different. The cyber market continues to grow and, although competition has been intensifying, claims have not been as heavy as in lines such as D&O that have borne the brunt of social inflation. We saw rates remain stable across our cyber book compared with rate rises for US D&O business of 30%.

The new division, which was formally launched in February 2019, has been very well received by brokers. Under the banner of 'protecting what matters most,' our cyber and management liability teams address major boardroom issues and purchasing patterns for their products overlap. We have made great strides in cross-selling products offered by the two teams.

Cyber insurance originated in the US in the years following the enactment of the first data breach regulation in California in 2002. Beazley's flagship cyber product, BBR, was launched in 2009 and, since then, most of the demand for cover has remained in the US. That began to change with the coming into force of the European Union's General Data Protection Regulation (GDPR) in May 2018 and with the passage of similar laws and regulations elsewhere in the world. In 2019, our international cyber business outside the US grew by 14% (albeit from a relatively low base) compared with growth of 9% for our more mature US business.

We still see considerable opportunities to grow our cyber business in the US where the increasingly sophisticated and frequent attacks, particularly on mid-sized companies, are still significantly underinsured. However, growth opportunities outside the US, where we have been investing for more than five years now, may well prove more significant in the years to come.

Our international cyber team, based in London, has bound risks in 55 countries and we have launched BBR in the UK, France, Italy, Spain and Canada.

The CyEx division offers a range of specialist products under the executive risk banner and many of these have been growing strongly. We saw rapid growth in transaction liability business, which protects the parties in mergers and acquisition deals, in 2019 and the team has also been growing, hiring underwriters in Germany and Singapore.

Chief underwriting officer's report *continued*

Marine

Most of the lines of business underwritten in our marine division, led by Tim Turner, have seen significant price erosion over a number of years and recent rate rises have not yet proved sufficient to reverse the damage. In 2019, the division recorded a combined ratio of 107% (2018: 94%) on premiums that increased by 8% to $306.4m (2018: $284.8m).

This increase in premium was due to the division increasing their indemnity appetite, notably in lines such as aviation and marine cargo.

The aviation market, which accounts for approximately 10% of the division's premiums, has seen the most dramatic rate rises over the past two years. Prices for the business Beazley writes have risen 39% since 2017 and we plan to increase our participation in this business significantly in 2020. Marine cargo rates also rose sharply – by 12% – in 2019, prompting us to re-forecast our underwriting for this class of business upwards during the course of the year.

The authorities at Lloyd's have been addressing the underperforming classes of business, with the marine classes of business being a particular area of focus. We have seen rates rise faster than would likely have been the case had Lloyd's not taken action, and the Lloyd's business planning process has allowed us to increase our underwriting appetite swiftly when market conditions warrant it.

Political, accident & contingency

Our political, accident & contingency (PAC) division under the leadership of Christian Tolle had a very good year with strong profitable growth generated by all major lines of business. The division's combined ratio was 89% (2018: 90%) on premiums that grew 14% to $272.7m (2018: $238.7m).

In a year in which some political risk underwriters sustained heavy credit losses, Beazley's business was largely unscathed and we made some recoveries from prior year claims.

In fact, both the political risk and contingency teams continued to successfully grow their portfolios in a controlled manner in competitive market conditions. Risk selection remains key in these markets and the teams have a proven track record.

On terrorism business, the rate declines that we have seen over the years were less steep in 2019. Civil unrest in Hong Kong, Lebanon and Chile contributed to nervousness in the market and – in the case of more than 100 Walmart stores damaged by arson and looting in Chile – to actual losses. Although Beazley was not exposed to these losses, we did have some exposure to the terrorist attack on the Shangri-La hotel in the Sri Lankan city of Colombo in April.

Our accident and health business in the US, now rebranded Beazley Benefits, had a very good year with premiums growing 20% to $24.7m – the fruits of sustained investment in our team and the operational infrastructure needed to compete in this business.

Our main growth has come from group limited medical indemnity business, which provided supplemental medical insurance for company employees with defined and pre-agreed medical limits. These plans have proven particularly attractive in the retail and hospitality industries, which employ large numbers of part time workers.

The pressures on US employers faced with rising employee healthcare costs show no sign of abating. We therefore see significant growth opportunities for companies such as Beazley that can offer well designed supplemental cover at affordable prices.

In London our personal accident team, which underwrites a diverse portfolio of risks, saw growth in US disability business in 2019. Personal accident is one of the classes of business in which the retrenchment of a number of Lloyd's syndicates has opened up some growth opportunities for Beazley.

Property

The property division under the leadership of Richard Montminy saw a return to underwriting profitability in 2019, generating a combined ratio of 97% (2018: 125%) after two years of heavy losses. Premiums increased by 3% to $428.7m (2018: $415.4m).

Rates across the portfolio rose strongly in 2019, up 10% for the mid-sized excess & surplus lines risks written locally in the US and 18% for the large risks business written predominantly in London. We see rate rises as still having further to run.

Submission flow to our property teams remains very strong but we are being selective in the business we underwrite, as by no means all the risks we see meet our underwriting requirements. 2019 was a quiet year for catastrophe losses affecting our property division (although not our reinsurance division) but we still see scope for improvement in our attritional loss ratios.

Most of our large risk business, categorised at Lloyd's as open market property, continues to be underwritten in London, but we have seen a very positive response from brokers to our decision to underwrite large risk property business in the US, originally taken in 2017. We added two new underwriters to the New York team in 2019.

The small property business we underwrite under binding authorities granted to Lloyd's coverholders around the world saw continued remediation in 2019 after performing poorly in 2018. In 2018, we cancelled a number of binders that failed to satisfy our cross cycle profitability requirements and this process continued in 2019. Our preference is to lead covers and we have been withdrawing from a number of accounts for which we only provided following capacity. We took action relatively early to tackle poor performance in this part of the market and have since seen a number of other Lloyd's insurers follow suit.

Our jewellers', fine art and specie book performed well in 2019. The business is currently largely concentrated in the UK where we are by some distance the leading insurer of jewellers' business, but we have also been investing in international growth opportunities. We hired a fine arts underwriter in Paris in May and an underwriter to write jewellers' and fine arts business via the Lloyd's China platform in December 2019.

Reinsurance

Catastrophe losses affecting our reinsurance division, led by Patrick Hartigan, were once again severe in 2019, the third year marked by heavy losses across the market. Rates have risen, but in many cases not as far as they need to in our estimation. Our underwriting stance for 2020 is therefore very cautious.

The business of our reinsurance division, which is almost entirely property-focused, generated a combined ratio of 154% in 2019 (2018: 103%) on gross premiums written of $206.0m (2018: $207.4m).

The most significant catastrophe losses for Beazley stemmed from Typhoons Faxai and Hagibis that hit Japan in September and October 2019. Our Japanese treaties include cover for flood, which was a major source of claims in the wake of Hagibis.

Beazley's share of the Japanese treaty market remains small at approximately 1% - the same level as a decade ago. However, we maintain our very long term relationships in this market, which have proven profitable over time.

Other sources of risk continue to present concerns. We have reduced our exposures to US wildfires following the very severe losses of 2017 and 2018. Claims were less severe in 2019, but the longer term weather patterns – with rising temperatures in California and other regions exposed to wildfires – are not encouraging.

Overall, reinsurance rates have yet to respond to recent catastrophe losses as strongly as rates in the primary property market or in the retrocession market. A good deal of reinsurance capital is now trapped following the Japanese catastrophe events and we may see a lower willingness to deploy surplus capital once these losses are fully realised, which will drive rates up further.

Specialty lines

Beazley's specialty lines division, led by James Eaton, saw stronger rate rises than anticipated in 2019, with the team renewing business at prices that were on average 6% higher than in 2018.

This reflected the increased severity of major losses that has affected parts of the market, feeding into a combined ratio of 99% (2018: 92%) on premiums that rose 28% to $967.1m (2018: $755.5m).

Specialty lines is one of the two new Beazley divisions created when we split the old specialty lines division at the start of 2019. It underwrites a mix of specialty liability insurance, including professional liability for hospitals, lawyers, and architects & engineers; environmental liability business; and management liability business outside the US. Beazley's private enterprise team, which offers a range of products including cyber insurance to small businesses, primarily in the US, also forms part of the division.

The strong premium growth that the division saw in 2019 was driven in large part by our non-US business, which has received steady investment in recent years. Since 2017, we have been building a diversified book of financial institutions business outside the US, particularly in continental Europe, as well as offering management liability and cyber cover to a broader clientele. In addition, the healthcare liability expertise that we have built over many years in the US has proved highly relevant to new markets outside the US: in 2019, we launched our virtual care product to meet the needs of telemedicine providers – a fast growing market – in the UK.

Parts of our specialty lines book have been affected by social inflation, most notably healthcare liability risks. In our hospitals professional liability (HPL) book we saw rates rise by 16% in 2019, spurred by a sharp increase in large claims over $5m referenced earlier. Even with these rate rises some hospital risks remain inadequately priced in our view and we have declined to underwrite them.

A significant growth area for Beazley in recent years has been environmental liability business, which we currently write in the US, London and Canada. In 2019, the team unveiled an innovative product, Beazley SLEAP (Site Lender Environmental Asset Protection), to cover lenders against their exposures to property assets that may subsequently be found to be contaminated.

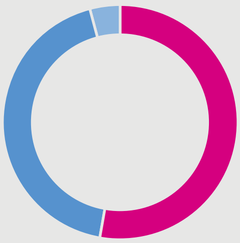
Adrian Cox
Chief underwriting officer

Performance by division

Cyber & executive risk

Mike Donovan
Head of cyber & executive risk

Portfolio mix



Cyber and technology	53%
Executive risk	43%
Fidelity and crime	4%

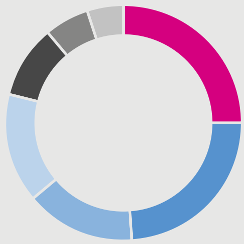
	2019 $m	2018 $m
Gross premiums written	823.0	713.5
Net premiums written	712.2	615.3
Results from operating activities	126.6	69.7
Claims ratio	61%	56%
Expense ratio	32%	34%
Combined ratio	93%	90%
Rate change	5%	(1%)

Find out more on page 25

Marine

Tim Turner
Head of marine

Portfolio mix



Cargo	25%
Hull & miscellaneous	24%
Energy	15%
Liability	15%
Aviation	10%
War	6%
Satellite	5%

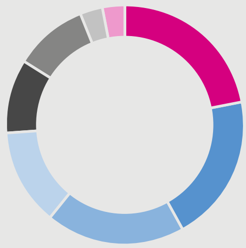
	2019 $m	2018 $m
Gross premiums written	306.4	284.8
Net premiums written	222.1	255.0
Results from operating activities	8.4	20.5
Claims ratio	57%	54%
Expense ratio	50%	40%
Combined ratio	107%	94%
Rate change	11%	3%

Find out more on page 26

Political, accident & contingency

Christian Tolle
Head of political, accident & contingency

Portfolio mix



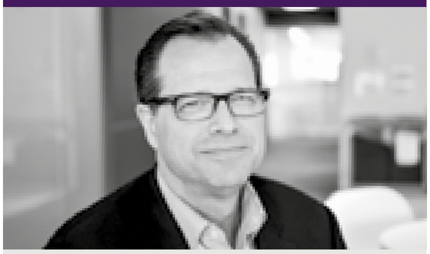
Political	22%
PA direct	20%
Contingency	19%
Stand alone terrorism	13%
Life direct	10%
PA reinsurance	10%
Sports	3%
Life reinsurance	3%

	2019 $m	2018 $m
Gross premiums written	272.7	238.7
Net premiums written	245.8	212.7
Results from operating activities	41.2	24.2
Claims ratio	47%	46%
Expense ratio	42%	44%
Combined ratio	89%	90%
Rate change	–	(1%)

Find out more on page 26

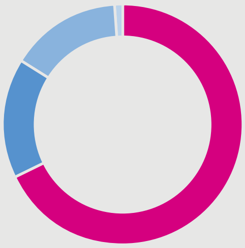
Strong growth across majority of divisions, with three divisions achieving growth of double digits.

Property



Richard Montminy
Head of property

Portfolio mix



Commercial property	68%
Small property business	16%
Jewellers & homeowners	15%
Engineering	1%

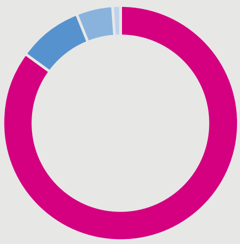
	2019 $m	2018 $m
Gross premiums written	428.7	415.4
Net premiums written	365.6	360.2
Results from operating activities	43.3	(80.4)
Claims ratio	57%	84%
Expense ratio	40%	41%
Combined ratio	97%	125%
Rate change	11%	10%

Find out more on page 26

Reinsurance

Patrick Hartigan
Head of reinsurance

Portfolio mix



Property catastrophe	85%
Property risk	9%
Miscellaneous	5%
Casualty class	1%

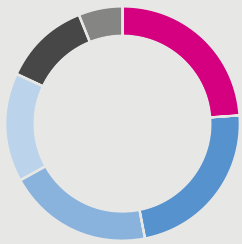
	2019 $m	2018 $m
Gross premiums written	206.0	207.4
Net premiums written	123.0	137.3
Results from operating activities	(48.2)	(1.8)
Claims ratio	118%	70%
Expense ratio	36%	33%
Combined ratio	154%	103%
Rate change	5%	6%

Find out more on page 27

Specialty lines

James Eaton
Head of specialty lines

Portfolio mix



Professions	24%
Small business	23%
Healthcare	20%
International specialities	15%
Treaty	12%
Market facilities	6%

	2019 $m	2018 $m
Gross premiums written	967.1	755.5
Net premiums written	834.8	668.0
Results from operating activities	124.1	66.6
Claims ratio	62%	50%
Expense ratio	37%	42%
Combined ratio	99%	92%
Rate change	6%	2%

Find out more on page 27

Navigating change for 33 years

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

Beazley began life in 1986

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

Trading began 1986

1986 → 1991

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

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

Specialty lines and treaty accounts started

UK windstorms $3.5bn

European storms $10bn

1992 → 2000

Management buyout of Hiscox share

Commercial property account started

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

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

Recall, contingency and political risks accounts started

Marine account started

US Hurricane Andrew $17bn

UK Bishopsgate explosion $750m

US Northridge earthquake $12.5bn

European storms $12bn

Flotation 2002

2001 → 2007

Management buyout of minority shareholders

EPL and UK PI accounts started

Flotation raised £150m to set up Beazley Group plc

D&O, healthcare, energy, cargo and specie accounts started

Local representation established in the US

Beazley MGA started in the US

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

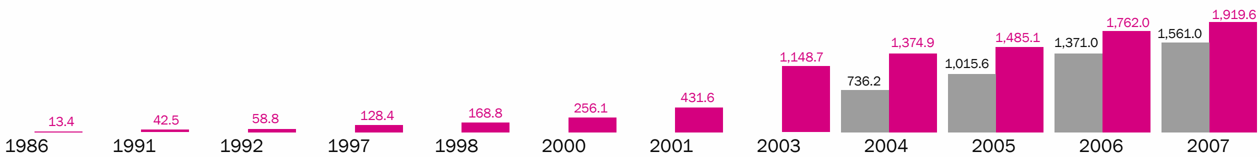
US 9/11 terrorist attack $20.3bn

SARS outbreak in Asia $3.5bn

US Hurricanes Katrina, Rita and Wilma $101bn

Managed gross premiums and Group share

$m



2008

Beazley opens new office in Munich

Political risks & contingency group formed as new division

Acquisition of Momentum Underwriting Management

Accident & life formed as new division

US Hurricane Ike $20bn

2009

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

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

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

2010

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

Beazley changes functional and presentational currency to US dollar

Beazley opens new office in Oslo

Special purpose syndicate 6107 formed to grow reinsurance business

Chile and NZ earthquakes $14bn

Deepwater Horizon explosion triggers biggest oil spill in history

2011

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

Launch of the Andrew Beazley Broker Academy

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

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

Tohoku earthquake in Japan $37bn

Floods in Thailand $16bn

US tornadoes $15bn

NZ earthquake $16bn

2012

Expansion into aviation and kidnap & ransom markets

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

Political risks & contingency expands into French market

Superstorm Sandy $25-30bn

2013

Construction Consortium launched at Lloyd's

Miami office opened to access Latin American reinsurance business

Beazley Flight – comprehensive emergency evacuation cover – launched

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

Local representation added in Rio to develop Latin American insurance business

2014

Construction Consortium extended to Lloyd's Asia

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

Space and satellite insurance account started

D&O Consortium launched at Lloyd's

Locally underwritten US business grows 19% to $537m

2015

Entered into a reinsurance agreement with Korean Re

US underwritten premium grows by 21%

Cyber Consortium launched at Lloyd's

Beazley welcomes its 1,000th employee globally

2016

Beazley celebrates its 30th anniversary

10th anniversary of operations in Singapore and Paris

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

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

2017

Beazley Insurance dac acquires licence to write business within the EU

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

Beazley closes Middle East office and sells Australian renewal rights

Hurricanes Harvey, Irma and Maria $90-95bn

Californian wildfires $10bn

Mexican earthquakes $2-5bn

2018

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

Neil Maidment retires as chief underwriting officer

Beazley closes Oslo office

Hurricanes Florence and Michael $11-14bn

Typhoons Jebi and Trami $10-12bn

Californian wildfires $9-15bn

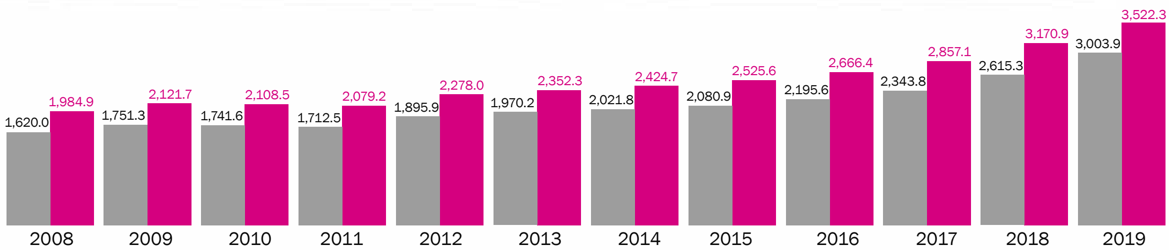
2019

Martin Bride retires as group finance director

Gross premiums written passes $3bn

Hurricane Dorian $4.5bn

Typhoons Faxai and Hagibis $15-25bn



Financial review
Group performance

Beazley delivered increased premium, increased investment return and increased profit before tax. This highlights how Beazley's financial performance derived from a range of areas across the business in 2019.

Profit

Profit before tax in 2019 was $267.7m (2018: $76.4m). The group's combined ratio increased to 100% (2018: 98%) due to a lower reserve release being available, although a small underwriting profit was achieved in absolute dollar terms. Unfortunately, three years of heightened claims activity has taken its toll on the reserves of our catastrophe exposed lines leading to lower releases. Our investment team achieved a strong investment return of 4.8% (2018: 0.8%) or $263.7m (2018: $41.1m), which counteracted our reduced underwriting result.

Premiums

Gross premiums written have increased by 15% in 2019 to $3,003.9m (2018: $2,615.3m). We continue to monitor our underwriting portfolio and look for areas where we see good opportunities to achieve profitable growth. Rates on renewal business on average increased by 6% across the portfolio (2018: increased by 3%) with our property and marine classes seeing the largest movement.

We have seen strong growth in our international platform, especially in Europe, as we continue to expand the variety of our offerings to our insureds. The charts overleaf highlight how we achieve diversification by product mix.

Strong investment return drives profit during changing underwriting environment.

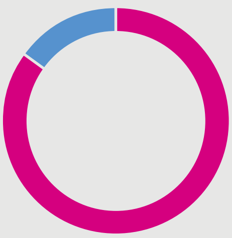
Sally Lake
Group finance director

Statement of profit or loss

	2019 $m	2018 $m	Movement %
Gross premiums written	3,003.9	2,615.3	15%
Net premiums written	2,503.5	2,248.5	11%
Net earned premiums	2,347.0	2,084.6	13%
Net investment income	263.7	41.1	542%
Other income	25.8	33.7	(23%)
Revenue	**2,636.5**	**2,159.4**	**22%**
Net insurance claims	1,452.5	1,227.8	18%
Acquisition and administrative expenses	889.7	812.6	9%
Foreign exchange (gain)/loss	(1.1)	13.2	(108%)
Expenses	**2,341.1**	**2,053.6**	**14%**
Impairment of investment in associate	–	(7.0)	
Finance costs	(27.7)	(22.4)	
Profit before tax	**267.7**	**76.4**	
Income tax expense	(33.6)	(8.2)	
Profit after tax	**234.1**	**68.2**	
Claims ratio	62%	59%	
Expense ratio	38%	39%	
Combined ratio	100%	98%	
Rate increase	6%	3%	
Investment return	4.8%	0.8%	

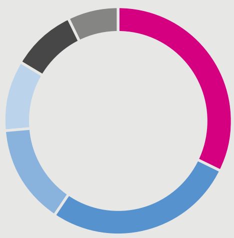
The group is of the view that some of the above metrics constitute alternative performance measures (APMs). Further information on our APMs can be found in the key performance indicators section (inside front cover) and in the glossary on page 207.

Insurance type



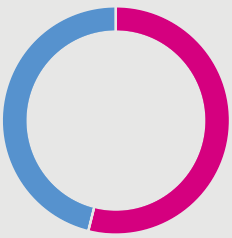
- Insurance 85%
- Reinsurance 15%

Business by division



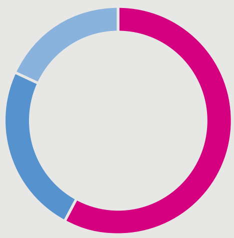
- Specialty Lines 32%
- Cyber & executive risk 27%
- Property 14%
- Marine 10%
- Political, accident & contingency 9%
- Reinsurance 7%

Premium written by claim settlement term



- Short tail 54%
- Medium tail 46%

Geographical distribution



- USA 58%
- Worldwide 24%
- Europe 18%

Financial review *continued*
Group performance *continued*

Reinsurance purchased

Reinsurance is purchased for a number of reasons:

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

The amount the group spent on reinsurance in 2019 was $500.4m (2018: $366.8m). As a percentage of gross premiums written it increased to 17% from 14% in 2018. This was due to an increase in market facilities business written (which is 90% reinsured out of the group) as well as us reinsuring our trucking portfolio during 2019. These impact the net earned premiums in the specialty lines and marine divisions respectively.

Combined ratio

The combined ratio of an insurance company is a measure of its operating performance and represents the ratio of its total costs (including claims and expenses) to total net earned premium. A combined ratio under 100% indicates an underwriting profit. Consistent delivery of operating performance across the market cycle is clearly a key objective for an insurer. Beazley's combined ratio increased in 2019 to 100% (2018: 98%) due to lower reserve releases.

Claims

2019 was the third year in a row where material natural catastrophe losses were experienced. We estimate the cost of Hurricane Dorian and Typhoons Faxai and Hagibis at $80m net of reinsurance. We have also experienced an increase in attritional claims within our directors' & officers', employment practice liability and healthcare liability books driven by social inflation within the US. As a result of these our claims ratio for the year has increased to 62% (2018: 59%).

Reserve releases

Beazley has a consistent reserving philosophy, with initial reserves being set to include risk margins that may be released over time as and when any uncertainty reduces. Historically these margins have given rise to held reserves within the range of 5-10% above our actuarial estimates, which themselves include some margin for uncertainty. The margin held above the actuarial estimate was 6.8% at the end of 2019 (2018: 5.6%). As we indicated in the 2018 annual report, our reserve releases for 2019 have been subdued compared to our long term average. We expect this to remain the case for 2020. 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.

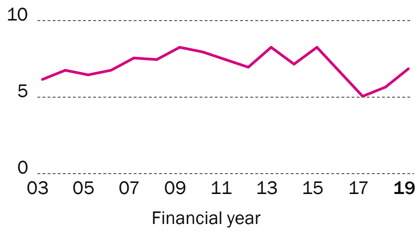
The reserve releases in 2019 decreased to $9.5m (2018: $115.0m). Our specialty lines, cyber & executive risk and political, accident & contingency divisions all contributed releases within 2019. Both the specialty lines and cyber & executive risk divisions have been impacted over the past few years by the increased claims seen on their liability books. As such, specialty lines releases decreased to $36.9m (2018: $85.5m) while cyber & executive risk releases reduced to $9.4m (2018: $25.7m). Our political, accident & contingency division provided a release of $16.8m, $2.0m higher than the $14.8m released in 2018. These releases were offset by strengthening in our marine, property and reinsurance book. Our reinsurance division saw reserves strengthen by $30.1m (2018: release of $23.8m), driven by loss creep on Typhoon Jebi and the Woolsey Fires. Our marine and property business saw reserves increased, with marine strengthening by $6.4m (2018: release of $12.5m) and property strengthening by $17.1m (2018: $47.3m).

Both were in books of business where we have taken remedial action, with US trucking being the main driver of the marine division's increase, while construction and engineering drove the strengthening in property. We have since stopped underwriting both of these lines of business.

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

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

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



Prior year reserve adjustments

	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	5 year average $m
Cyber & executive risk	20.6	6.9	32.5	25.7	9.4	19.0
Marine	31.2	15.9	10.7	12.5	(6.4)	12.8
Political, accident & contingency	23.7	27.2	3.9	14.8	16.8	17.3
Property	37.8	36.8	13.2	(47.3)	(17.1)	4.7
Reinsurance	44.9	32.3	54.7	23.8	(30.1)	25.1
Specialty lines	18.1	61.6	88.9	85.5	36.9	58.2
Total	**176.3**	**180.7**	**203.9**	**115.0**	**9.5**	**137.1**
Releases as a percentage of net earned premium	10.4%	10.2%	10.9%	5.5%	0.4%	7.5%

Acquisition costs and administrative expenses

Business acquisition costs and administrative expenses increased during 2019 to $889.7m from $812.6m in 2018. The breakdown of these costs is shown to the right.

	2019 $m	2018 $m
Brokerage costs	533.8	461.1
Other acquisition costs	111.6	100.8
Total acquisition costs	645.4	561.9
Administrative expenses	244.3	250.7
Total acquisition costs and administrative expenses	889.7	812.6

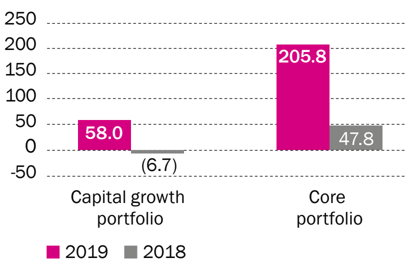
Brokerage costs are the premium commissions paid to insurance intermediaries for providing business. As a percentage of net earned premiums they have increased slightly to 23% in the current year (2018: 22%). Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with the group's accounting policy. Other acquisition costs comprise costs that have been identified as being directly related to underwriting activity (e.g. underwriters' salaries and Lloyd's box rental). These costs are also deferred in line with premium earning patterns.

Beazley's overall expense ratio was down by one percent from 39% in 2018 to 38%. In actual terms administrative expenses also decreased to $244.3m (2018: $250.7m) driven primarily by favourable foreign exchange rates on our large sterling expense base. The company has always stressed that improving the expense ratio during the phases of stronger growth was a key objective. By actively managing our expenses we have been able to stop them growing as quickly as earned premium.

Foreign exchange

The majority of Beazley's business is transacted in US dollars, which is the currency we have reported in since 2010 and the currency in which we hold the company's net assets. Changes in the US dollar exchange rate with sterling, the Canadian dollar and the euro do have an impact as we receive premiums in those currencies and a material number of our staff receive their salary in sterling. Beazley's foreign exchange gain taken through the statement of profit or loss in 2019 was $1.1m (2018: loss of $13.2m).

Comparison of returns – major asset classes ($m)



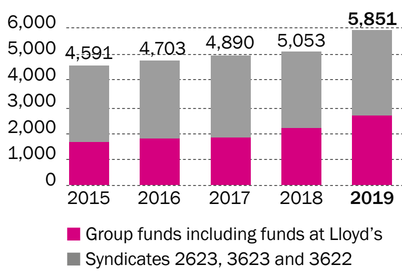
Investment performance

During 2019, the funds managed by the Beazley group increased on the prior year, with financial assets at fair value and cash and cash equivalents of $5,851.3m at the end of the year (2018: $5,052.6m). The chart below shows the increase in our group funds since 2015.

We have seen a much stronger investment performance in 2019, as financial market conditions proved more supportive of returns than many anticipated. Interest rates, particularly in the US, were generally expected to continue their upward path in 2019, but growing concerns about the sustainability of global growth instead resulted in an easing of monetary policy and the US Federal Reserve reduced interest rates three times between July and October.

These developments helped to stabilise economic growth later in the year and provided the catalyst for much improved investor sentiment across most asset classes. Geopolitical concerns persisted and generated intermittent market volatility, but the most adverse outcomes were avoided, or at least deferred, so that these considerations had limited ultimate impact on market levels. Many asset classes had seen significant weakness in the final part of 2018, making valuations look more attractive, and this was also a factor in the strong recovery in asset values during 2019. The level and direction of risk free yields is the most significant driver of our investment returns. US sovereign bond yields are most relevant to us, as nearly all of our investments are denominated in US dollars. At the start of 2019, US sovereign bonds of a two-year duration yielded more than they had for some years, at around 2.5%, but many feared that yields would continue to rise as interest rates increased further, generating capital losses and unattractive overall returns.

Beazley group funds ($m)



However, interest rates fell as global growth faltered and yields also declined throughout most of the year, generating capital gains and resulting in a return of 3.5% on two-year sovereign US securities in 2019: the highest return achieved by these assets for more than a decade.

We increased the duration of our fixed income portfolio in 2019, maintaining it at around two years for much of the period. This unusually high asset duration helped us to take good advantage of the falling yield environment.

Corporate credit spreads on our fixed income investments were also a major contributor to returns. Rising interest rates in 2018 led to a widening of spreads in the final part of that year and the extra yield available on our investment grade bonds had risen to around 0.8% at the start of 2019, before declining throughout the year to 0.4% as interest rates fell and economic sentiment improved. As a result, the credit element of our investment grade bonds returned 1.5% in this period and our more modest exposure to high yield bonds performed better still, as the credit element of these returned more than 9%.

Financial review *continued*
Group performance *continued*

Approximately 65% of our fixed income investments include exposure to corporate credit spreads. The combination of strong contributions from both risk free yields and credit spreads is fairly unusual and resulted in an overall return of 4.3% (2018: 1.1%) for our core portfolio in 2019.

Our capital growth assets also performed well, returning 8.6% (2018: a loss of 1.0%), again helped by attractive valuations at the beginning of the year, following the market correction in the final quarter of 2018, as well as the easing of monetary policy during the year. We added to our equity investments early in 2019, utilising most of our maximum appetite for investment risk, and this proved beneficial to returns. However, we reduced exposures in the second half of the year, as equity valuations became more expensive and so missed out on some of the available return in this unusual year.

Other capital growth investments include our hedge fund and absolute return portfolios, which target alternative investment strategies, to provide risk diversification against our equity and credit exposures. Maintaining appropriate levels of cash in the business is a challenge, particularly as our financial assets continue to grow quickly: we need sufficient cash for liquidity purposes, but excess cash balances reduce our opportunity to generate investment returns.

Our cash balance has reduced in recent years, to $278.5m, or 4.8% of our financial assets, at the end of 2019 (2018: $336.3m, or 6.7%).

Our total investment return was 4.8%, or $263.7m (2018: 0.8%, $41.1m). The 2019 investment return is the highest we have achieved in recent years. This reflects the current supportive financial market, but the changes we have made to the structure of our investment portfolio in recent years have helped us to take advantage of this environment, extracting the available return in the context of our investment risk appetite. Looking ahead, most investment assets look more expensive following their strong performance in 2019: sovereign yields are 1% lower than a year ago, and credit spreads 0.4% lower, while equity earnings yields are up to 1.5% lower, based on historic earnings.

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

	31 Dec 2019		31 Dec 2018	
	$m	%	$m	%
Cash and cash equivalents	278.5	4.8	336.3	6.7
Fixed and floating rate debt securities				
– Government and quasi-government	1,870.9	32.0	1,410.1	27.9
– Corporate bonds				
– Investment grade	2,706.4	46.3	2,525.3	50.0
– High yield	235.8	4.0	32.7	0.6
– Senior secured loans	–	–	132.1	2.6
Derivative financial instruments	25.5	0.4	6.9	0.1
Core portfolio	5,117.1	87.5	4,443.4	87.9
Equity funds	163.6	2.8	85.4	1.7
Hedge funds	354.0	6.0	337.2	6.7
Illiquid credit assets	216.6	3.7	186.6	3.7
Total capital growth assets	734.2	12.5	609.2	12.1
Total	**5,851.3**	**100.0**	**5,052.6**	**100.0**

Comparison of return by major asset class:

	31 Dec 2019		31 Dec 2018	
	$m	%	$m	%
Core portfolio	205.8	4.3	47.8	1.1
Capital growth assets	58.0	8.6	(6.7)	(1.0)
Overall return	**263.7**	**4.8**	**41.1**	**0.8**

We are hopeful that macro conditions will remain supportive of investment returns, but these starting conditions lead us to expect a more modest contribution from investments in 2020, with our overall running yield at 2.1% as at 31 December 2019.

Tax

Beazley is liable to corporation tax in a number of jurisdictions, notably the UK, the US and Ireland. Beazley's effective tax rate is thus a composite tax rate mainly driven by the Irish, UK and US tax rates. The weighted average of the statutory tax rates for the year was 15.0% (2018: 18.6%). The effective tax rate has increased in 2019 to 12.6% (2018: 10.7%). The increase has been a result of lower favourable prior year tax adjustments in 2019 as compared to 2018. The application of the diverted profits tax legislation passed by the UK government early in 2015 still remains uncertain. We have considered the implication of this and retain the view that this tax should not apply to Beazley (see note 9 to the financial statements). Whilst the uncertainty around the legislation remains, the quantum of our earnings that could theoretically fall within its scope grows as the period since the legislation started to apply lengthens.

A new Tax Act (the Tax Cuts and Jobs Act) was signed into law in the US in December 2017. The Tax Act includes a base erosion anti-avoidance tax (the "BEAT") provisions. We have performed an assessment for a number of our intra-group transactions for BEAT purposes. Although the application of this new BEAT legislation is still not fully certain for some types of transactions we believe that the BEAT impact on the group is not significant. For the year 2019 the amount of $1.9m was provided for in the group financial statements for BEAT liabilities (for 2018 the group paid BEAT tax of $0.9m).

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

Balance sheet management

Summary statement of financial position

	2019 $m	2018 $m	Movement %
Intangible assets	122.2	126.5	(3%)
Reinsurance assets	1,338.2	1,192.8	12%
Insurance receivables	1,048.0	943.3	11%
Other assets	514.0	418.7	23%
Financial assets at fair value and cash and cash equivalents	5,851.3	5,052.6	16%
Total assets	**8,873.7**	**7,733.9**	**15%**
Insurance liabilities	6,059.0	5,456.2	11%
Financial liabilities	554.8	356.7	56%
Other liabilities	634.6	454.1	40%
Total liabilities	**7,248.4**	**6,267.0**	**16%**
Net assets	**1,625.3**	**1,466.9**	**11%**
Net assets per share (cents)	**309.6c**	**280.4c**	**10%**
Net tangible assets per share (cents)	**286.3c**	**256.2c**	**12%**
Net assets per share (pence)	**235.0p**	**219.6p**	**7%**
Net tangible assets per share (pence)	**217.3p**	**200.7p**	**8%**
Number of shares[1]	**524.9m**	**523.1m**	–

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

Intangible assets

Intangible assets consist of goodwill on acquisitions of $62.0m (2018: $62.0m), purchased syndicate capacity of $10.7m (2018: $10.7m), US admitted licences of $9.3m (2018: $9.3m), renewal rights of $17.3m (2018: $25.2m) and capitalised expenditure on IT projects of $22.9m (2018: $19.3m).

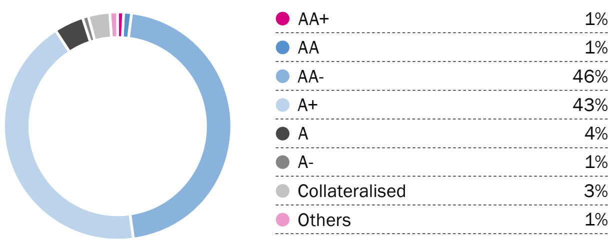
Reinsurance assets

Reinsurance assets represent recoveries from reinsurers in respect of incurred claims of $1,068.8m (2018: $951.7m), and the unearned reinsurance premiums reserve of $269.4m (2018: $241.1m). The reinsurance receivables from reinsurers are split between recoveries on claims paid or notified of $223.7m (2018: $231.9m) and an actuarial estimate of recoveries on claims that have not yet been reported of $845.1m (2018: $719.8m).

The group's exposure to reinsurers is managed through:

- minimising risk through selection of reinsurers who meet strict financial criteria (e.g. minimum net assets, minimum 'A' rating by S&P). These criteria vary by type of business (short vs medium tail). The chart below shows the profile of these assets (based on their S&P rating) at the end of 2019;
- 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 2019 our provision in respect of reinsurance recoveries totalled $13.7m (2018: $12.2m).

Reinsurance debtor credit quality



Insurance receivables

Insurance receivables are amounts receivable from brokers in respect of premiums written. The balance at 31 December 2019 was $1,048.0m (2018: $943.3m).

Financial review *continued*
Balance sheet management *continued*

Insurance liabilities

Insurance liabilities of $6,059.0m (2018: $5,456.2m) consist of two main elements, being the unearned premium reserve (UPR) and gross insurance claims liabilities. Our UPR has increased by 13% to $1,598.7m (2018: $1,415.5m). The majority of the UPR balance relates to current year premiums that have been deferred and will be earned in future periods. Current indicators are that this business is profitable. Gross insurance claims reserves are made up of claims which have been notified to us but not yet paid of $1,263.7m (2018: $1,171.2m) and an estimate of claims incurred but not yet reported (IBNR) of $3,196.6m (2018: $2,869.5m). These are estimated as part of the quarterly reserving process involving the underwriters and group actuary. Gross insurance claims reserves have increased 10% from 2018 to $4,460.3m (2018: $4,040.7m).

Financial liabilities

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

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

In September 2019, Beazley Ireland Holdings plc redeemed its £75m sterling denominated 5.375% notes as per the due date.

A syndicated short term banking facility led by Lloyds Banking Group plc provides potential borrowings up to $225m. Under the facility $225m may be drawn as letters of credit to support underwriting at Lloyd's. Of this, 100% may be advanced as cash under a revolving facility. The cost of the facility is based on a commitment fee of 0.385% per annum and any amounts drawn are charged at a margin of 1.1% per annum.

The cash element of the facility will expire on 31 July 2021, whilst letters of credit issued under the facility can be used to provide support for the 2019, 2020 and 2021 underwriting years. The facility is currently unutilised.

Other assets

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

- deferred acquisition costs of $350.7m (2018: $307.4m);
- profit commissions of $nil (2018: $5.9m); and
- deferred tax assets available for use against future taxes payable of $41.0m (2018: $28.9m).

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

Strategic report

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 (Prudential Regulation Authority, Lloyd's, Central Bank of Ireland, and the US state level supervisors). Beazley is subject to the capital adequacy requirements of the European Union (EU) Solvency II regime (SII). We comply with all relevant SII requirements.

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

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

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

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

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

In 2019, Beazley acquired 2.0m of its own shares into the employee benefit trust. These were acquired at an average price of 530.1p and the cost to the group was £10.6m.

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

	2019 $m	2018 $m
Shareholders' funds	1,625.3	1,466.9
Tier 2 subordinated debt (2026)	248.9	248.7
Retail bond (2019)	–	95.6
Tier 2 subordinated debt (2029)	297.9	–
	2,172.1	**1,811.2**

Our funding comes from a mixture of our own equity alongside $546.8m ($550.0m gross of capitalised borrowing costs) of tier 2 subordinated debt, and an undrawn banking facility of $225.0m.

The final Lloyd's economic capital requirement (ECR) at year end 2019, as confirmed by Lloyd's, is consistent with our projection at the interim results and reflects our plans for growth. Overall we expect our capital requirement to grow broadly in line with the net written premiums in our business plan, which in the short-term should be low double digit growth.

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

	2019 $m	2018 $m
Lloyd's economic capital requirement (ECR)	1,828.4	1,594.5
Capital for US insurance companies	203.9	173.4
	2,032.3	1,767.9

At 31 December 2019, we have surplus capital of 22% of ECR (on a Solvency II basis). Following payment of the second interim dividend of 8.2p, this surplus reduces to 19% compared to our current target range of 15% to 25% of ECR.

Solvency II

The Solvency II regime came into force on 1 January 2016. Beazley continue to provide quarterly Solvency II pillar 3 reporting to both Lloyd's for the Beazley managed syndicates and the Central Bank of Ireland for Beazley Insurance dac and Beazley plc. During 2019 the third annual solvency financial condition report (SFCR) of Beazley plc was published.

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

Financial review *continued*
Capital structure *continued*

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

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

IFRS 17

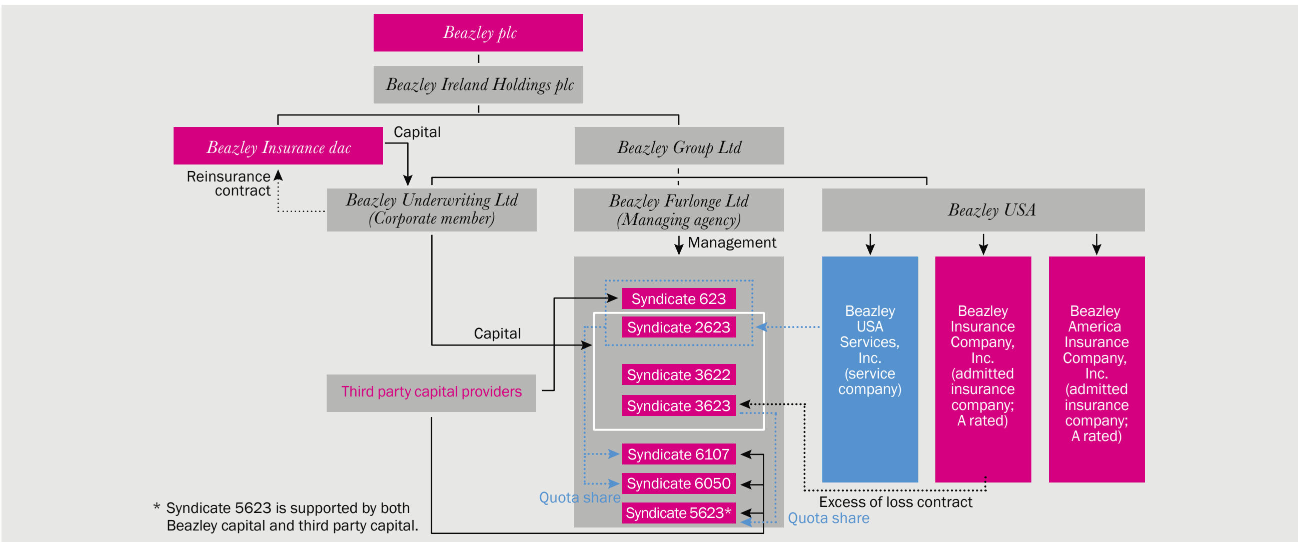
The implementation of IFRS 17: Insurance contracts is currently scheduled for accounting periods commencing on or after 1 January 2021, although a 12 month deferral was proposed by the IASB in June 2019. Applying this standard is a major undertaking and so the company has established a multi-disciplinary project group to oversee this activity.

The project has made good progress during 2019 and Beazley's preparations for IFRS 17 are on schedule.

Group structure

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

- Beazley plc – group holding company and investment vehicle, quoted on the London Stock Exchange;
- Beazley Ireland Holdings plc – intermediate holding company;
- Beazley Underwriting Limited – corporate member at Lloyd's writing business through syndicates 2623, 3622 and 3623;
- Beazley Furlonge Limited – managing agency for the seven syndicates managed by the group (623, 2623, 3622, 3623, 6107, 6050 and 5623);
- Beazley Insurance dac – insurance company based in Ireland that accepts non-life reinsurance premiums ceded by the corporate member, Beazley Underwriting Limited and also writes business directly from Europe;
- Syndicate 2623 – corporate body regulated by Lloyd's through which the group underwrites its general insurance business excluding accident, life and facilities. Business is written in parallel with syndicate 623;
- Syndicate 623 – corporate body regulated by Lloyd's which has its capital supplied by third party names;
- Syndicate 6107 – special purpose syndicate writing reinsurance business, and from 2017 cyber, on behalf of third party names;
- Syndicate 3622 – corporate body regulated by Lloyd's through which the group underwrites its life insurance and reinsurance business;
- Syndicate 3623 – corporate body regulated by Lloyd's through which the group underwrites its personal accident, BICI reinsurance business and, from 2018, market facilities business;
- Syndicate 6050 – special purpose syndicate which has its capital provided by third party names and provided reinsurance to syndicates 623 and 2623 on the 2015, 2016 and 2017 years of account;
- Syndicate 5623 – special purpose syndicate writing market facilities ceded from syndicate 3623;
- Beazley America Insurance Company, Inc. (BAIC) - insurance company regulated in the US. In the process of obtaining licenses to write insurance business in all 50 states;
- Beazley Insurance Company, Inc. (BICI) – insurance company regulated in the US. Licensed to write insurance business in all 50 states; and
- Beazley USA Services, Inc. (BUSA) – managing general agent based in Farmington, Connecticut. Underwrites business on behalf of Beazley syndicates, 2623 and 623, BICI and BAIC.



Operational update

Ian Fantozzi
Chief operating officer

Operational efficiency and digital transformation are key to our future success and performance in an increasingly digital world.

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

Supporting growth initiatives

In support of our growth plans, we have built an infrastructure that enables us to quickly trial and launch new products in the market as efficiently as possible. Expanded versions of our products such as virtual care UK, marine cyber and environmental eclipse are examples launched in 2019. We have also expanded our product development team that employs agile delivery techniques to more quickly convert new ideas into market-ready insurance products and services.

We continue to grow our market reach in the small business segment with product launches on our myBeazley e-trading platform. In 2019, we launched our management liability package offering in Spain, Germany and France. While in the US, another important myBeazley product launch was Beazley Breach Response. The myBeazley portal provides a quick and simple way for brokers to access our flagship products.

Supporting business growth relies on effective processes and systems, but it is also important that we have a high quality working environment that is conducive to team working and thought leadership. In 2019, we opened new larger offices in New York, Toronto and Barcelona. These offices bring greater access to local markets and are located in areas proximate to our broker partners. We put a great deal of time and effort towards selecting locations that will attract new business, and negotiating lease arrangements that represent good value to our shareholders.

Cost efficiency

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

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

Operational update *continued*

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

Managing operational risk effectively

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

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

Another area of focus across the Financial Services industry is operational resilience. As more financial services benefit from technology automation, they also become more dependent on system availability and the supporting technology infrastructure. At Beazley we have responsible individuals and teams committed to ensuring business continuity, IT disaster recovery, information security and critical outsource management. We have brought these together under one operational resilience governance model which works in partnership with our business managers to ensure that, in the event of an incident, we can minimise the impact to our customers, shareholders and employees.

Beazley's digital transformation

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

1) Applying technology and data to our business model

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

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

In an increasingly connected world, we see APIs as a critical technology for transacting insurance business going forward. We have APIs in place with broker systems in several regions now, and demand continues to grow strongly for transacting business in this way.

Faster, Smarter Underwriting aims to use technology and data to support the expert judgement of our underwriters. The types of technology most applicable here are data science tools which identify correlations in external data sets that could enhance our underwriting decisions. A practical example of this is with our cyber and Breach Response products. In 2019, we partnered with a leading software business to provide a range of data attributes that can indicate whether a business is more likely to suffer from a cyber attack or data breach. Not only can this type of solution improve underwriting decision making, it also provides information that we can use to advise our customers and reduce their risk exposure.

2) Building an agile delivery capability

One thing is certain in a digital world – business agility is key. Beazley is well regarded for its innovation in specialist insurance. To stay ahead of the competition, we seek to innovate in an increasingly agile way, taking new ideas to the market quickly, gathering feedback, evolving or failing them fast. At Beazley, we have structured our operations and technology teams into what we call a platform delivery model. Instead of delivering change and technology via many individual projects, we have organised our teams into 'platforms' that are aligned to both, the markets that Beazley operates in, and to the type of business being written. Each platform has an annual delivery budget within which there is greater flexibility afforded to the relevant business lines on how the budget is applied, and with the discipline of achieving against specific business outcomes aligned to our group strategy – such as increasing cost efficiency and responsiveness in customer service.

3) Developing our talent to best leverage technology

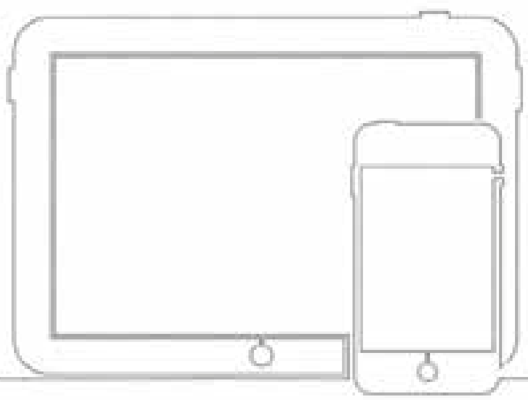
We are investing in our workforce to ensure we have the right blend of skills for the future. This means that our talent development programmes are placing emphasis on cross-skilled staff so they can operate in a more digital insurance market. In practice this means underwriters with increased understanding of technology, and similarly technology teams with greater knowledge of how specialist underwriting works. The outcome we strive for is to put technology and data at the centre of our specialist underwriting proposition.

4) Creating the optimum physical environment

Although Beazley receives plenty of interest when attracting new operations and technology talent, we recognise that our working environment needs to keep evolving to maintain this attraction and to then retain and further motivate this talent. Although one benefit of activity based working (ABW) is a more efficient use of office space, it also creates a physical and technological environment that maximises the potential for our staff to carry out their daily activities.

In 2017, we commenced a project to develop our larger offices into ABW environments. We have now launched four offices in this format – Birmingham, Barcelona, Toronto and New York. Work is currently underway to fit-out a new ABW London office at 22 Bishopsgate. We expect to open the new office in late 2020.

As we proceed into 2020, we are well placed not only as a high performing specialist insurer, but also because we have developed great strength in our operational capability. The changes we have made in 2019 will allow us to build on this operational strength and ensure we remain a high performing specialist insurer in an increasingly digital world.



Risk management

Andrew Pryde
Chief risk officer

Harnessing opportunities from change.

2019 in review

In 2018, I focused on the impact of external and internal change on the group and this change has continued into 2019.

Governance

In 2019, there were a number of changes to the membership of the executive committee, which resulted in changes to risk owners. Risk owners, a key role within the risk management framework, are senior members of staff responsible for identifying and managing risk in their areas of responsibility. The risk management function has worked with the new risk owners to explain their role and ensure that nothing has been missed or lost during the transition. Having new risk owners has created an opportunity to take a fresh look at the risks inherent within a function and reassess and enhance the control environment.

I have taken over as chair of the risk and regulatory committee, which is the executive level committee with oversight of how the business is managing risk. This evolution enables the committee to operate as an effective second line of defence to monitor and challenge risk owners as they undertake their risk responsibilities. The change has also meant that senior risk managers now attend the committee, which has improved the discussion as a result of their detailed knowledge of the areas of the risk register they focus on.

With the change in chief underwriting officer, we have taken the opportunity to split the underwriting committee into two separate committees. The underwriting committee will continue to be chaired by the chief underwriting officer and will focus on developing and delivering the business plan. The newly formed underwriting governance committee is chaired by me and will focus on oversight of the quality of the information used by the underwriting committee. The benefits created from this split are having the most appropriate people present at each committee and having sufficient time to focus on the relevant topics. The chief underwriting officer and myself are present at both committees, which provides a conduit of information.

The exposure management function now reports to me. Whilst the identification and management of aggregated exposure remains the responsibility of the underwriting teams and the chief underwriting officer remains the risk owner, the change in reporting line means that the exposure management team can move to more of an oversight role and challenge the underwriting teams to ensure that the methods and assumptions used to manage exposure remain appropriate.

A further enhancement has been to split the exposure management committee into a committee that focuses on natural catastrophes and a committee that focuses on man-made catastrophes such as cyber. Again, this split means that we have the most appropriate people involved in oversight of these key risks, as both areas require a different skill set, and we ensured that we commit an appropriate amount of time so that one risk area does not monopolise time to the detriment of the other.

Our experience of operating these new governance structures for the majority of 2019 has already demonstrated the value of having made these changes.

Culture

Every two years we commission a comprehensive staff engagement survey and this was undertaken in 2019. The results of this survey, coupled with leadership scores, are a useful guide for the risk management function to understand how the risk culture is evolving at Beazley. We have observed that the completion rate remains high at 83% and the level of engagement is 70%, which is on the boundary of top quartile companies and is at a relatively similar level from the survey in 2017. The survey also evidences a strong and open risk culture with consistency across most of our offices. Any deviation by function or office is a valuable risk metric which the risk function use to scope their work in order to provide assurance to the board.

I have taken on the executive sponsorship of the newly formed mental wellbeing and mental health initiative. Mental wellbeing is about educating the organisation on how to take care of themselves, since our people are our most important asset. Sleep deprivation and stress are two issues which can reduce the effectiveness of a workforce and their effects can be particularly dangerous because they are not always visible like a physical condition. Mental health is about providing a support network for situations where a mental health incident has occurred. This initiative has the secondary benefit of helping to support the risk culture at Beazley.

In 2019, a number of new ways of working were introduced at Beazley. Activity based working provides members of staff with different work spaces that are more conducive to the activity being undertaken, from a quiet room for high focused activity such as reading and reviewing to a collaborate space for group discussion, innovation and brainstorming. Remote working means that advances in technology allow our staff to continue to work seamlessly when away from Beazley offices. This reduces the need to rearrange meetings which would have caused a delay and reduces the risk that a meeting does not include an important participant. Finally, a number of change programmes are now being undertaken using an agile approach. This simply means that a cross functional team is formed to deliver change using a shared vision from the outset rather than one function delivering on behalf of another function. The core team meet on a more frequent basis so that activity is undertaken and overseen more regularly and any issues or decisions can be considered and made by all stakeholders in a timely manner, thereby increasing the likelihood of a successful outcome.

Whilst new ways of working can create risk, our assessment is that these changes are actually reducing operational risk.

Emerging and strategic risks

The emerging and strategic risk analysis helped identify the need for two of the current strategic initiatives. The Beazley Digital strategic initiative is working out how we underwrite and process our simpler risks better. The Faster, Smarter Underwriting strategic initiative is working out how we provide underwriters with data and analytics to help them better underwrite our complex risks. Both initiatives are creating opportunities for Beazley to work in new ways, develop new skill sets and harness new technology. Whilst they fundamentally improve profitability, they also reduce insurance and operational risk.

Brexit

Beazley has prepared for the UK leaving the EU, assuming a hard Brexit. European clients have the choice of either using the Lloyd's Brussels platform, which has been operating successfully since 1 January 2019, or using our European insurance company in Dublin, Beazley Insurance dac, which is authorised to underwrite all of Beazley's non-life products. We have also received authorisation of our European based service company, Beazley Solutions International Limited, which will underwrite risks from our European offices onto the Lloyd's Brussels platform. As such, Beazley remains prepared for whatever the Brexit outcome.

Climate change

Our stakeholders (including investors, regulators and staff) are increasingly interested in the financial impact of climate change.

To assess the risk within our insurance and investment portfolios, we ran the following three stress tests as part of our General Insurance Stress Test return to the Prudential Regulation Authority:

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

Insurance portfolio

From an insurance portfolio perspective, the increased claims costs of a US Hurricane under the three climatic scenarios are:

Insurance portfolio	Scenario A %	Scenario B %	Scenario C %
Average loss	15%	38%	90%
1:100 loss	9%	24%	63%

To illustrate, whilst the average claims costs would increase 15% under scenario A, the cost of a 1:100 event would only increase 9%. This is because some of the policies will have been exhausted in the more extreme 1:100 event and so the additional effect of climate change will not increase the claims costs by as much.

We also completed a pilot assessment, investigating the impact of climate change on the liability lines offered by our US architects and engineers team. The steps of the assessment were:

- Step 1 – Identify the uncertainty
- Step 2 – Create a scale of threat or opportunity
- Step 3 – Quantify the impact on the class, both present and future
- Step 4 – Implement changes where agreed appropriate

We are now extending the exercise across other classes of business to understand the liability and transition risk and asses how we should transition our insurance portfolio over time.

Risk management *continued*

Investment portfolio

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

Investment portfolio	Scenario A %	Scenario B %	Scenario C %
Transition risk	-0.36%	-0.24%	n/a
Physical risk	-0.01%	-0.09%	-0.27%

We have started to assess the financial impact of climate change and will continue this ongoing multi-year activity to ensure Beazley responds appropriately to this important risk.

Conclusion

Dealing with change can create debilitating inertia for a company and significantly increase risk or it can create the catalyst for improvement and ultimately reduce risk. My assessment is that Beazley is harnessing the opportunities created by change.

My latest report to the board has confirmed that the control environment has not identified any significant failings or weaknesses in key processes and that Beazley is operating within risk appetite as at 31 December 2019.

Risk management philosophy

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

Risk management strategy

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

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

On an annual basis, the board agrees the risk appetite for each risk event and this is documented in the risk management framework document. The residual financial impact is managed in a number of ways, including:
- mitigating the impact of the risk through the application of controls;
- transferring or sharing risk through outsourcing and purchasing insurance and reinsurance; and
- tolerating risk in line with the risk appetite.

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

Risk management framework

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

The risk management framework comprises a number of risk management components, which when added together describe how risk is managed on a day to day basis. The framework includes a risk register that captures the risk universe (52 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 which is monitored and signed-off by control reporters.

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

For each risk, the risk management report brings together a view of how successfully the business is managing risk and whether there have been any events that we can learn from (risk incidents). Finally, the framework is continually evaluated and where appropriate improved, through the consideration of stress and scenario testing, themed reviews using risk profiles and an assessment of strategic and emerging risks. There were no material changes made during 2019.

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

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

Business risk management
Risk ownership

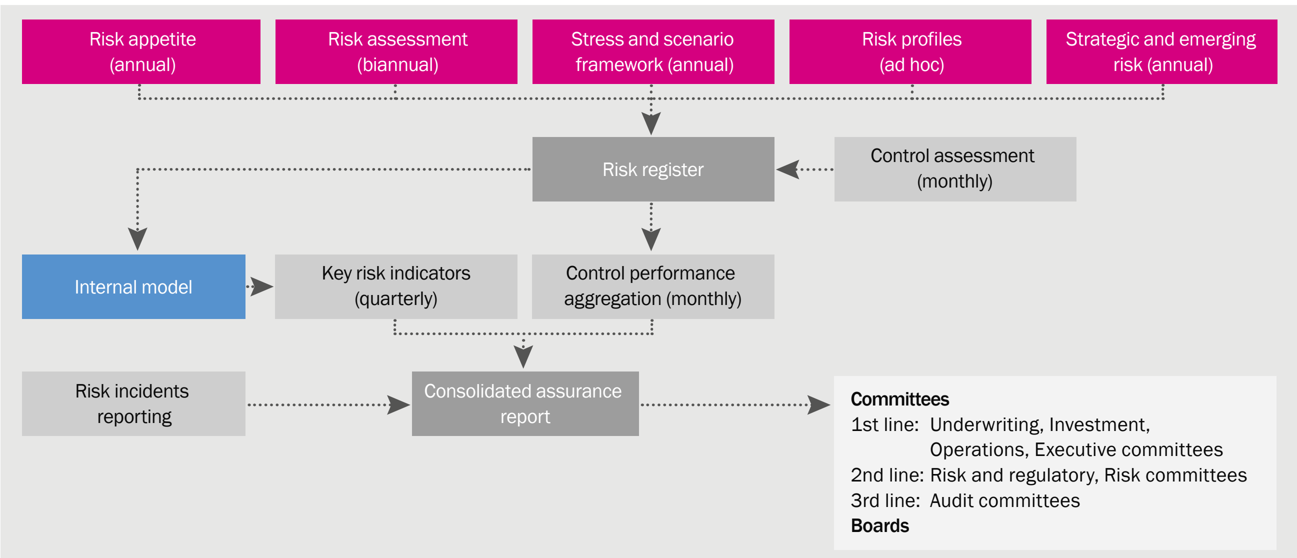
- *Identifies risk*
- *Assesses risk*
- *Mitigates risk*
- *Monitors risk*
- *Records status*
- *Remediates when required*

Risk management
Risk oversight

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

Internal audit
Risk assurance

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



Risk management *continued*

Viability statement

The directors have completed an assessment of the viability of the group over a three year period. A period of three future years has been selected to be short enough to be reasonably assessable but long enough to reflect Beazley's risk profile of a portfolio of diversified short- tailed and medium-tailed insurance liabilities. This three year period also aligns with the length of time over which business underwritten at Lloyd's, being the majority of our insurance business, is managed. The board has performed an annual risk assessment and the key risks to the group in the future are summarised on pages 48 to 50.

The risks and associated capital requirements have been brought together into a five year plan, although the uncertainties in year 4 and 5 of the plan mean the board focuses on the first three years for assessing viability. The main assumption is that the current market conditions will prevail, over which the outcomes of the board's strategic initiatives are overlaid. In addition, the board has reviewed the sensitivity of key assumptions and has performed scenario testing to understand the impact on cash flows of the key risks of a major natural catastrophe and/or a systemic mispricing of the medium-tailed liability classes.

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

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

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

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

The risks to financial performance

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

Insurance risk

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

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

Strategic risk

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

- **Strategic decisions:** The group's performance would be affected in the event of making strategic decisions that do not add value. The group mitigates this risk through the combination of recommendations and challenge from non-executive directors, debate at the executive committee and input from the strategy and performance group (a group of approximately 30+ senior individuals from across different disciplines at Beazley).
- **Environment:** There is a risk that the chosen strategy cannot be executed because of the environmental conditions within which Beazley operates, thereby delaying the timing of the strategy.
- **Communication:** Having the right strategy and environment is of little value if the strategy is not communicated internally so that the whole group is heading in the same direction, or if key external stakeholders are not aware of Beazley's progress against its strategy.

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

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

Other risks

The remaining six risk categories monitored by the board are:

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

Anti-bribery and corruption risk

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

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

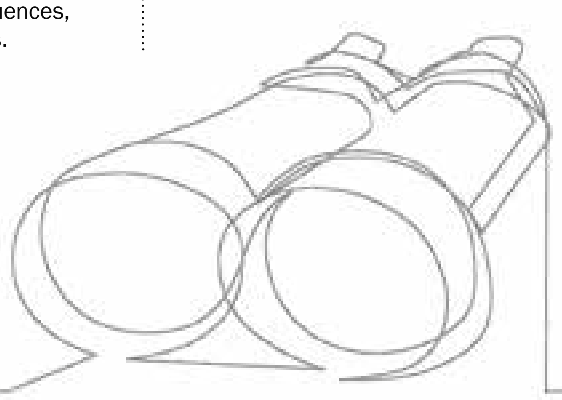
Considerations relevant to this risk include the nature, size and type of transactions, the jurisdiction in which transactions occur, and the degree to which agents or third parties are used during such transactions.

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

Climate change risk

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

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



Risk management *continued*

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

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

Responsible business

Emma Whiteacre
Chair of the responsible business committee

The impact of insurance goes beyond the financial impacts of remunerating policyholders for losses. There is an impact on lives and livelihoods which far outweighs the financial burden. At Beazley we are committed to addressing these non-financial impacts through our interaction with charities, the community, our environment, the wider market place and our employees. By being a responsible business we can bring value to our stakeholders in more ways than just monetary.

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

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

Charity
Our global partnership, fundraising and match funding.

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

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

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

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

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

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

Responsible business *continued*

Charity

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

"I am proud to have been the executive sponsor of Beazley's responsible business activity for the last few years. We have continued to invest not just financially but by encouraging employees to take paid leave to support local communities."

Anthony Hobkinson
Executive committee sponsor

All Hands and Hearts

Our global charity partner, All Hands and Hearts, addresses the immediate and long-term needs of communities impacted by natural disasters. 2019 marks the end of our three year partnership with All Hands and Hearts. In 2017 we chose to partner with them because of their innovative approach focused on deploying volunteers to areas in need, and their relatively small size meant that our involvement was more impactful.

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

All Hands and Hearts
Smart Response

Team Nepal helped build school

Over our three year partnership, we have helped raise over

$500,000*

for All Hands and Hearts.

*This includes $49,000 match funded by third parties.

A donation of

£350,000

is equivalent to funding an entire school in Nepal, impacting more than 360 students in the next 10 years.

"All the one on one conversations I had with Beazley people were really good - they recognised the value of what we were doing, loved being a part of it, were always involved in evening activities, and my favourite thing, started thinking about their lives back home."

Nepal volunteer for
All Hands and Hearts

Volunteering in Nepal

In 2015, a 7.8 magnitude earthquake hit Nepal near the capital city of Kathmandu. The impact was devastating, with almost 9,000 people losing their lives and a further 23,000 being injured. There was major destruction of infrastructure, with more than 5,000 schools being damaged or destroyed.

Thanks to our partnership with All Hands and Hearts, volunteers from Beazley were able to participate in one of their projects for the third year. Over 50 employees expressed interest, and after a blind application process, eight employees were selected. They visited Nepal to help rebuild a school, which accommodates 140 students.

Beazley colleagues around the world fundraised over $15,000 (match funded $15,000) through bake sales, quiz nights, and global competitions to support their colleagues during their two week project in Nepal.

The volunteers were in Nepal from Saturday 30 November to Sunday 15 December. They spent two weeks working hard to help rebuild Manakamana Basic School.


Beazley volunteers

Match funding

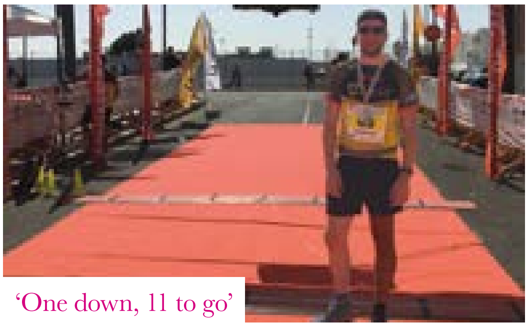
The charity committee also provides match funding for Beazley employees that undertake their own charity fundraising activities. We offer $750 (or local currency equivalent) per employee and up to $5,000 per team of three employees or more. Some examples of colleagues who used this are:

Emma Whiteacre took part in a 10km swim in the River Dart, raising over £1,540 for Level Water, a charity which provides swimming lessons for children with physical and sensory disabilities.


'Run, Alex, run'

Alex Hardy ran the Bank of America Chicago Marathon to raise money for Lurie Children's Hospital. He raised over $4,985 and was match funded $750.

Chris Booth ran a half marathon a month across the UK, France, Portugal and the Canary Islands. He has raised over £500 so far.


'One down, 11 to go'

Beazley Hiking Challenge
Over three days in late August ten Beazley climbers raised over $16,000 (match funded $5,000) for All Hands and Hearts, while scaling four of Colorado's mighty Fourteeners.


$56,000 raised for BeLike Jake

BeLikeJake
A group of US employees raised $56,000 for the BeLikeJake foundation who support the Children's Hospital of Philadelphia, a long term Beazley client.

Responsible business *continued*

Charity continued

Highlights

Charity week

We raised over $7,200 during our charity week in the UK and US, which involved a presentation from All Hands and Hearts, a bake sale, an executive mastermind session and a Wimbledon screening.

Charity week in London

JP Morgan London run

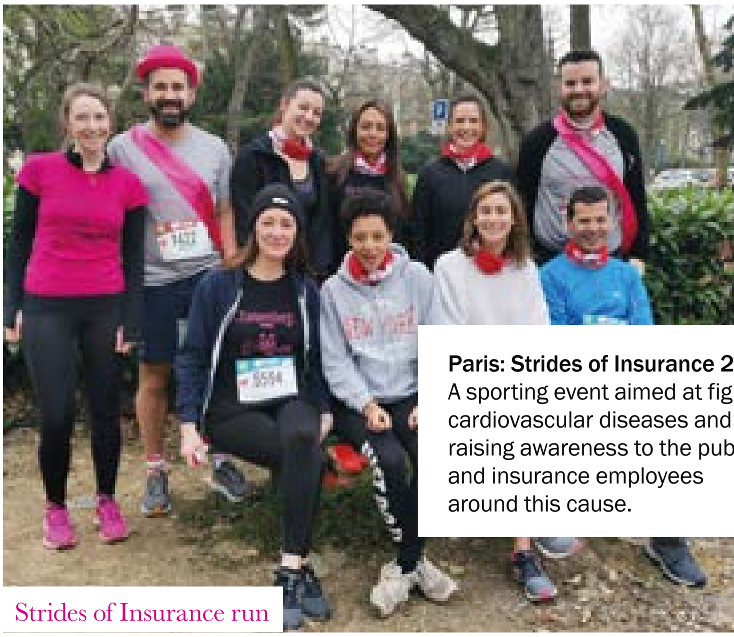
Charity runs

JP Morgan London run

46 employees, including our CEO Andrew Horton, took part in the JP Morgan run in London, raising money for Macmillan Trust. Colleagues around the globe took part in similar runs for local charities, including 'Strides of Insurance' in Paris, the Inside Ride in Toronto, and the Tunnels to Towers run in Manhattan.

Natural disasters

We respond to large-scale disasters, especially if they affect the communities where we work. We donate to Disaster Emergency Committee (DEC), a disaster relief charity which brings 14 charities together to help respond quickly and effectively when a crisis hits. We also support All Hands and Hearts if they have an existing project in the community affected. In 2019, we donated over $7,000 to charities, including the relief efforts following Hurricane Dorian in The Bahamas, and Cyclone Idai in Mozambique.



Paris: Strides of Insurance 2019

A sporting event aimed at fighting cardiovascular diseases and raising awareness to the public and insurance employees around this cause.

Strides of Insurance run

Community

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

Our long-term global approach focuses on young people, vulnerable adults and conservation. In 2019, our primary focus has been young people and children from lower socio-economic backgrounds.

Highlights:

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

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

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

Our global community partnerships

Our London colleagues partner with East London Business Alliance (ELBA) to work on community projects, including our Make a Difference activities and student workshops, meaning communities will be better able to enjoy these areas.

Our Birmingham office began a new partnership in September with Smiling Families. Since then, they have hosted a Children's cinema event and run a toy appeal.

Our Chicago office started a new partnership with 826CHI and have raised over $7,000 for the charity. They have also completed their training and have started volunteering for field trips and tutoring.

Our Farmington colleagues partnered with Camp Courant and throughout the year have packed over 3,500 bags for campers, participated in the annual run, and raised over $1,000 with internal fundraisers.

Beazley volunteers at an ELBA site

Camp Courant

Our Dallas and Houston offices have begun a partnership with Mission Squash and are currently in the on-boarding stage. They intend to develop this partnership through 2020.

The New York office have partnered with Reading Partners NYC to tutor students in small groups throughout the year.

Responsible business *continued*

Community *continued*

Make a Difference

More than 420 employees took part in Make a Difference during 2019.

Make a Difference is our global community volunteering programme, with 2019 marking a fifth successful consecutive year. Activities were selected based on local need and ranged from working at a farm to harvesting crops for local food pantries, sorting food at food banks, preparing and serving meals to the homeless, spending time with local pensioners and upgrading community facilities likes crèches and parks.

420+

employees took part in Make a Difference 2019

Toronto office visit St. John's Park to help keep it clean

London volunteers at Leyton Jubilee Park

New York prepares food for Loaves & Fishes Soup Kitchen in the office, with a group visiting the site to deliver, setup and serve lunch.

Our 2019 focus on Young People

Maths in Insurance workshop:
Volunteers in our London office worked on supporting 32 aspiring students to learn about maths related roles in the insurance market.

Hague Primary School
A group of Year 6 students from our school partner visited the Beazley office and were introduced to the world of insurance.

Reading Partners programme
We had 16 volunteers for our Reading Partners programme in London and another 6 in New York.

"I enjoy reading with my reading partner because we laugh and play games together, and it helps me with my reading. It helps me understand my book and clarify things in my head."
Year 5 student

"There has been a direct correlation between the children making advanced progress in reading and having a reading partner. Our children are more confident when meeting new adults and able to have a conversation, they are learning about the wider world and becoming more inquisitive. The adults who join us from Beazley are kind, inspiring and it is truly wonderful to watch them with our children every week. We thank them for their continued support."
Year 6 teacher

Global Intern programme

In 2019 over 25 interns were given internships in our local communities in New York, Farmington, San Francisco and London.

Our interns worked for teams across the business. As well as having valuable work experience, they spent time volunteering in local food banks, engaged in social activities, and worked on a Global Innovation Challenge.


2019 intern cohert

"Beazley's 'Summer Internship Programme' has provided valuable insight as to how the insurance industry works. Being able to work on real cases and meet with clients has allowed me to develop necessary skills in communication and business acumen. Furthermore, having the opportunity to shadow people in other departments has definitely opened up the idea of working in the insurance industry after university."
Intern at Beazley

Toy appeals
We ran toy appeals in our London, Birmingham, Dublin, Chicago and New York offices.

Responsible business *continued*

Environment

In 2019 we significantly increased our focus on the environment and employee engagement, establishing an Environment Working Group (EWG) in May which has a remit to materially reduce the environmental footprint of our operations. The group is led by Kelly Malynn and has grown to more than 60 people globally.

We have been closely analysing the sustainability of our offices and commercial operations. We continue to prioritise sourcing sustainable office space, using sustainable products in our fit-outs and furniture choices, reducing our paper usage and increasing recycling opportunities.

Our focus is on the environmental impact of our people, our places of work and our business processes. Through the EWG we are influencing corporate decision-making, increasing the environmental awareness of our employees and helping them to make more environmentally-conscious choices.

Key developments in 2019 included:

Reports

We produced our annual Greenhouse Gas Report employing 2018 data for our non-US operations and for the four largest offices in the US (Atlanta, NY, Farmington and Chicago). We saw a significant reduction in the emissions associated with our UK electricity consumption due to the reduced carbon intensity of the UK grid. Business travel fell from 2017 figures, but were in line with travel pre-2017 levels.

Our offices

We moved from serviced offices to Beazley offices in Birmingham (2018) and Barcelona (2019), allowing us to enhance recycling and green initiatives. New builds in Munich and Birmingham (2018), Barcelona (2019), New York (2019) and Toronto (2019) enabled a switch to appropriate sustainable materials including LED lighting.

Wellbeing

The installation of sit/stand desks in Paris, Dublin, Barcelona, New York and Toronto encourages a healthier working environment. Water filters introduced in the new Barcelona, New York and Toronto offices remove heavy metals, fluoride etc, and ionises water to ensure optimal pH levels. We have introduced alternative milk options (soy and almond) in all US offices and London and Birmingham offices.

Recycling and waste management

The EWG has conducted research and an information campaign about the best approaches to waste management and recycling and has promoted the use of the ‘Six Rs’ – Refuse, Reduce, Reuse, Repair, Repurpose, Recycle.

We have removed desk bins in favour of centralised trash and recycling in Atlanta (2016), Barcelona (2019), Toronto (2019) and New York (2019), and following an awareness drive by the EWG, around 80% of individual bins in London. All US offices have recycling bins and we have revitalised and redistributed recycling plans; Singapore and Barcelona are following suit.

We are working to reduce paper towel usage in rest rooms, while all new offices (Dublin, Munich, Birmingham, New York, Toronto, and Houston) are installed with hand dryers.

Suppliers

We are conscious of the environmental impact of our suppliers, and continue to work to reduce emissions and pollutants by, for example, sourcing office and kitchen goods locally across all offices, using local taxi services or Uber and switching to environmentally friendly cleaning products in all US, London, Birmingham and Dublin offices.

The EWG is researching suppliers of corporate gifts and kitchen items, with a view to eliminating unnecessary packaging, single-use plastics and non-sustainable palm oil.

Awareness raising

During its first six months the EWG has run two intranet takeovers, the first on waste reduction and the second on carbon emissions. It has also hosted a number of live events, which have been well attended.

Looking ahead, the biggest contribution to Beazley carbon footprint comes from flights. Ours is a business that requires frequent face to face contact with brokers and clients but we will be exploring opportunities to replace short haul flights with train journeys where possible.

We will also be exploring the carbon footprint of the data centres Beazley uses. There are significant differences in the carbon footprint of data centres primarily driven by the age of the cooling systems used. Some newer centres, such as one recently opened in Wales, are 100% powered by renewable energy.

Carbon emissions report

Latest greenhouse gas emission figures (tonnes CO_2 equivalent)[1]

Scope 1

34.17

Scope 3

6,637.68

tCO_2e/employee/year

Scope 2

722.81

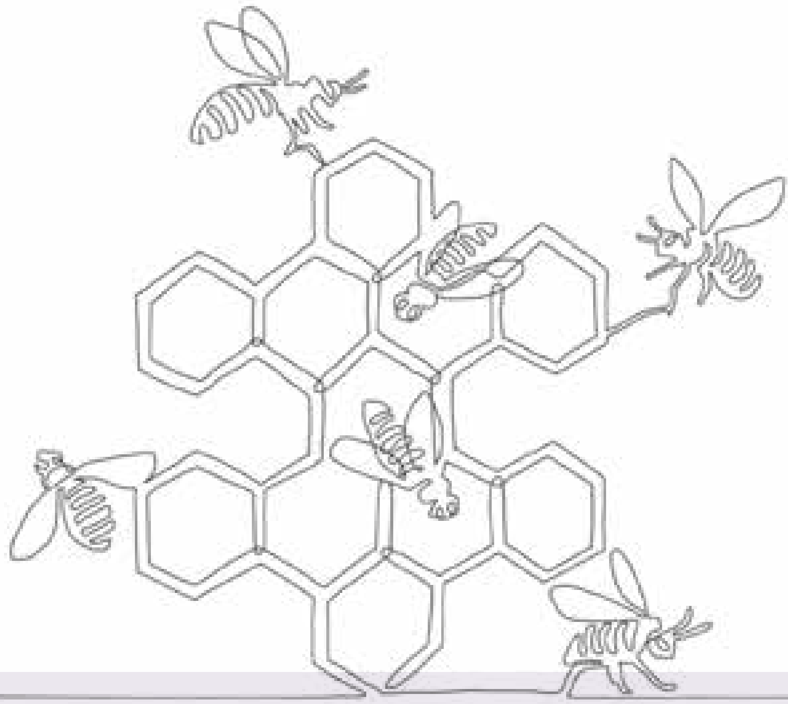
Scope 1 and 2 emissions increased due to expanded scope of reporting

tCO_2e/employee/year

6.8

Scope 3 emissions increased due to increased business travel by air

1 For further information, please refer to page 70.



Responsible business *continued*

Marketplace

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

Climate change is clearly a major challenge for many of our clients but we see it yielding business opportunities for Beazley. Beazley will be hiring a sustainability officer in 2020 who will support many of the objectives of this workstream.

Climate change impacts on insurers may be three-fold:

Physical
The disruptive impacts of more frequent or severe extreme weather events.

Transition
The business impact of the decarbonisation process, which may entail extensive policy, legal, technology and market changes, disruption to established business models and potential obsolescence and stranded assets and a switch to appropriate sustainable materials.

Liability
The risk that parties who have suffered loss or damage from climate change seek to recover losses from those they believe are responsible.

All these impacts on insurers may equally be felt by our clients, so we have an interest in working with them to better understand and manage these risks.

We have reported into ClimateWise, the insurance industry's initiative to monitor climate risks, since 2008.

In 2019, the reporting framework was adapted to more closely align with the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD). Reflecting the fact that we are still in the early stages of our thinking on TCFD reporting, the preliminary score for our submission was 39%. This compares with an average score for Lloyd's market entities of 38%.

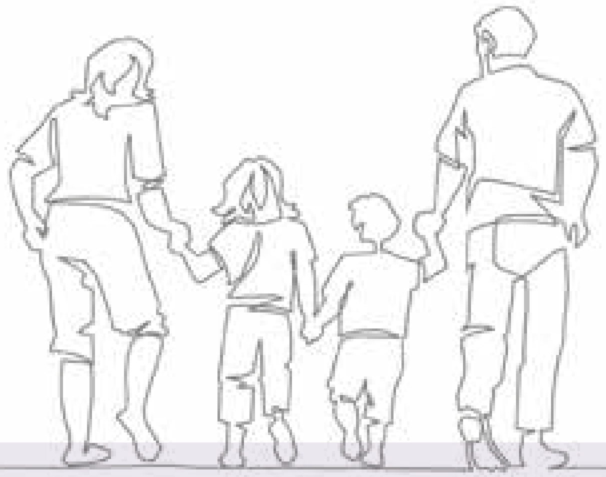
For further detail on Beazley's focus on climate change, please see our standalone 2019 sustainability report

Further analysis and reporting is taking place across different parts of the business, and will be a growing area of focus for the group in 2020. As well as the 2019 General Insurance Stress Tests, which for the first time included climate change scenarios, our architects and engineers professional liability team is conducting a pilot project to understand how climate change may impact on the liability exposures of architects, engineers, contractors and other related service providers we insure. It is expected that this work will help to develop a framework for reporting across all business lines.

As part of our thinking around climate change exposures, we delivered a well-attended workshop on climate change liability for underwriters, with external experts in the subject matter from Clyde and Co, Client Earth and Acclimatise.

Climate change is a major issue of discussion for us, internally and externally, and we are participating in the debate through various channels such as the hosting of briefings in Lloyd's on resilience and adaptation for property owners, climate change, and renewable energy; press articles including one by the head of our reinsurance division, Patrick Hartigan, on reinsurance and climate change in Insurance Day; and contributing to a forthcoming Lloyd's report on Insuring a Low Carbon World.

Our US Innovation Group is also exploring how to support insureds with services that boost sustainability and facilitate climate change adaptation in anticipation of regulatory and industry requirements. The group aims to take a more proactive, rather than reactive, approach to supporting insureds in risk mitigation following such successful examples as our healthcare underwriters working with hospitals to improve patient safety, and our cyber security risk advisory offering.



Responsible business *continued*

Responsible underwriting – compliance

Being Beazley is at the heart of everything we do.

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

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

Our framework consists of systems and controls, including:

- risk assessments;
- policies to ensure we comply with regulations;
- staff training and awareness;
- compliance monitoring; and
- compliance reporting.

Staff training

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

Knowing our customers

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

Sanctions

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

Anti-bribery and corruption

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

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

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

Our anti-corruption policies are supplemented by an annual risk assessment which analyses our business for exposure to high risk jurisdictions, our distribution channels and the classes of business we write.

Anti-money laundering

We have no appetite for Beazley being used as a vehicle for financial crime. Our controls include monitoring transactions and ascertaining the identity of our counterparties. Instances of suspicious activity are acted on in accordance with the Beazley Financial Crime Policy, which reflects the requirements of money laundering and tax legislation in the jurisdictions in which we operate. Staff are trained to refrain from entering into suspicious transactions and to report all such activity to the compliance team so that any necessary notifications can be made to external agencies.

Conduct

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

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

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

Data security

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

The following policies govern our management of data:

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

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

We are committed to upholding the rights of data subjects, informing them of the information we collect and process, and ensuring that we only collect what is required to deliver our services. We observe the legal and regulatory requirements of the various jurisdictions within which we operate and have a global privacy policy aligned to European, North American, Canadian and Singaporean privacy requirements.

In all, our information security and privacy programme is built around a framework of prepare, protect, detect, respond and recover. This enables us to take precautions, act decisively and protect the interests of our data subjects.

Senior management oversight

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

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

Whistleblowing

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

Such reports are treated with the utmost confidentiality and in accordance with all applicable legal and regulatory requirements. Annual reports are made to relevant Beazley boards on the effectiveness and operation of our whistleblowing procedures.

Non-financial information statement

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

	Chapter	Page reference
Environmental matters	Risk management; Responsible business; Directors' report	44-65; 67-70
The company's employees	Our key differentiators; Our business model; Statement of the chair; Chief executive's statement; Q&A with the chief executive; Operational update; Risk management; Responsible business; Section 172 statement; Directors' report; Letter from our chair; Board of directors; Statement of corporate governance; Letter from the chair of our remuneration committee; Directors' remuneration report	01-09; 16-23; 41-77; 79-124
Social matters	Statement of the chair; Chief executive's statement; Responsible business	16-21; 51-65
Respect of human rights	Responsible business	51-65
Anti-corruption and anti-bribery matters	Risk management; Responsible business	44-65

Responsible business *continued*

Inclusion and diversity

Developing diverse perspectives and celebrating differences.

An initiative for everyone

At Beazley we appreciate and support the mix of cultures, backgrounds and experiences which represent our organisation. Our clients welcome having a diverse representation of talent that draws from a combination of perspectives. Our people also value our inclusive culture and the efforts being made in this area with 83% of staff reporting being engaged by our approach to inclusion and diversity in the 2019 employee survey.

A number of initiatives were undertaken during the year which help support inclusion and diversity at Beazley. We launched training focusing on how unconscious bias impacts our working lives, in order to help with making fair decisions. The year also saw the continuation of our roll-out of agile ways of working which allows us to attract and retain diverse talent by providing our people more control over their working day.

Our ongoing commitment to gender diversity

During 2017 Beazley signed up to participate in the HM Treasury's Women in Finance Charter. In doing so we made a public commitment to increase the percentage of females in senior management from 28% to at least 35% by the end of 2020. At the beginning of 2019 32% of our senior management were women, however, we are pleased to announce that as of the start of 2020 we have achieved our goal, with 36% of our senior management being women.

Employee diversity

Beazley plc board

Male

7

Female

4

Total 2020 – 11

Senior management

Male

74

Female

42

Total 2020 – 116

All employees

Male

787

Female

744

Total 2020 – 1,531

In 2020 we will be setting a new goal for our commitment to gender diversity. Additionally, female representation on our plc board increased from 25% to 36% and executive committee from 13% to 20% from 2018 to 2019 respectively.

To further support our commitment, we continue our Insurance Supper club membership, which provides development training and events for our female staff. In addition, we launched our Beazley SHE employee resource network during 2019. Beazley SHE is a global network with the aim of providing personal and professional development opportunities to women internally as well as externally within the industry.

Inviting diverse perspectives

Through our recruitment practices we aim to attract and retain a diverse range of talent. Once hired we seek to develop our people and encourage them to share their individual skills, opinions and experiences to help shape our business. After its successful launch in 2018, the second cohort of NexCo was formed in 2019. NexCo is a group consisting of our younger talent from a broad range of roles, backgrounds and geographical locations, which aims to get different perspectives on the issues focused on at executive level. The group is provided with the monthly executive committee papers and members meet on a monthly basis to discuss, share ideas, challenge the executive and even make recommendations which the business should consider. This allows our future leaders to engage in key projects they may not have otherwise been aware of as well as present their own ideas to executive members. Membership is rotated every 12 months to maintain diversity of thought and ensure a wide pool of leadership development opportunities.

Celebrating our differences

We are proud of our culture which allows our people to feel included and empowered to make changes and drive progress in areas that are important to them. This is demonstrated by the success of our employee led networks and initiatives.

In 2019, a small number of passionate individuals were trained as Wellness Champions as part of a Lloyd's mental wellbeing initiative. Over the course of the year this small group conducted 'lunch and learns' and presented on request in team meetings about the importance of good mental health and how we can support one another and ourselves through mental health challenges.

Our LGBT+ network, Proud@beazley, has continued to go from strength to strength. During 2019 they hosted a number of internal events which included an awareness event to celebrate world AIDS day. Additionally, we collaborated with our brokers and fellow insurers to represent the industry at Pride celebrations in both London and New York. Additionally, we also have an active Young Professionals Network (YPN) which connects our people across the globe. The network aims to increase networking opportunities, develop skills, build career profiles and widen access to the information and opportunities within the insurance sector. In 2019, YPN ran a number of events including career discussions with executive members.

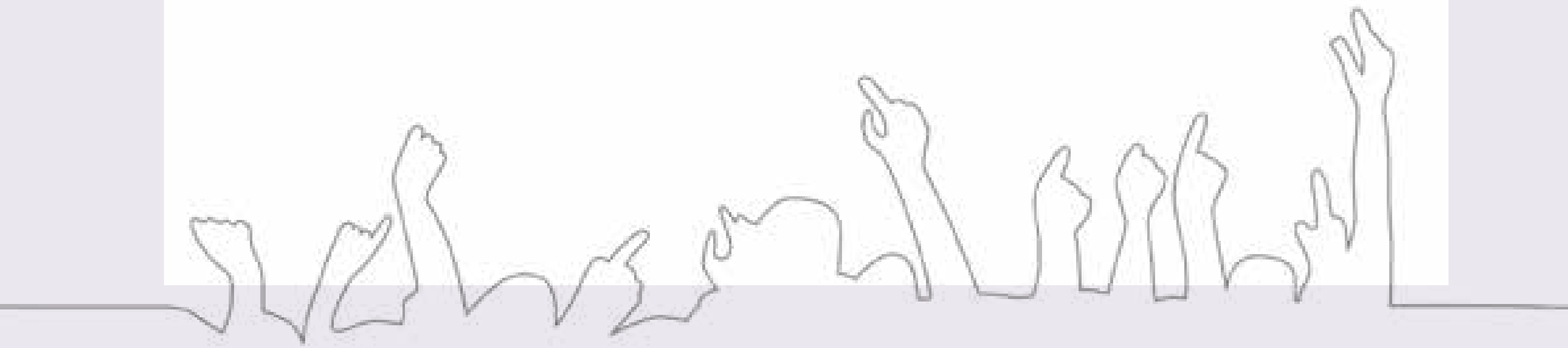
"During 2019 there has been visible progress on inclusion and diversity at Beazley, particularly in relation to gender diversity. Additionally, there is strong evidence that we are becoming an employer of choice for individuals from a wide variety of diverse backgrounds. We are proud of the progress made so far while recognising we must strive for continuous development and improvement in all that we do. In 2020 our aim is to continue to attract and retain the best possible talent so we benefit from a range of perspectives."

Sarah Booth
Chair of the diversity steering group

In the spirit of inclusion, we want to recognise calendar events that are important to a range of our people. During the year, our people shared their personal stories related to black history month, the festival of Diwali and world mental health day among others. We continue to encourage personal story telling as a way to ensure we maintain celebrating each other, bringing us closer together and embodying our inclusive culture.

2020 and beyond

We have made great strides during 2019, however, we recognise work must be ongoing in order to maintain and build on what we have achieved. Along with finalising a new gender diversity target, our 2020 focus will include initiatives to support our people from a race and ethnicity perspective. This will include the launch of a new employee resource network.



Section 172 statement

The directors are fully aware of their responsibilities to promote the success of the company in accordance with s172 of the Companies Act and have acted in accordance with these responsibilities during the year. The board has identified that its key stakeholders are: • our workforce • shareholders • customers • brokers • regulators

Beazley's core values, which are professionalism, integrity, effectiveness and dynamic, reflect the company's commitment to do the right thing simply because it is the right thing to do. The requirement to adhere to this principle is embedded within all job descriptions across the group.

Throughout the year the board considered the wider impact of strategic and operational decisions on the company's stakeholders. Examples included the various board changes undertaken throughout the year, the change of auditors, the approval of the Tier 2 debt raising by its subsidiary Beazley Insurance dac, and the renewal of the letter of credit and revolving credit facility. The remuneration committee also began consultation on updating the company's remuneration policy which will be put to a shareholder vote at the 2020 AGM. The board believes that the interests of all stakeholders are aligned in these decisions. The company complies with the Prompt Payment Code reporting requirements and publishes its average payment times for supplier invoices. Where a supplier proposes payment terms that differ from our standard terms, the company uses its best endeavours to accommodate the supplier's terms.

The board receives an annual report from the responsible business committee. Further information on the company's responsible business strategy and how the company aims to provide support for our communities and the environment are set out in the responsible business report on pages 51 to 65.

How we engage:

- **Our people:** Our people are fundamental to the long-term success of the company. We have various engagement mechanisms many of which have been in place for a number of years. Every other year we conduct a company-wide employee survey which provides an overall employee engagement score. Overall employee engagement in 2019 was 70%.

  The board receives reports on the results of the survey together with the action plans that management intend to take forward. The areas that had the greatest improvement from the prior survey were inclusion and diversity, work/life balance, and empowerment and autonomy, which reflects the efforts that were made in these areas. In addition, there are regular presentations and updates given to staff, and feedback is actively encouraged. When travelling to Beazley's offices, the executive committee members and non-executive directors will actively engage with staff and often host question and answer sessions. Emanating from the requirements of the UK Governance Code, enhancements were made to employee engagement mechanisms in 2019, with the introduction of the 'Sounding Board' which is chaired by Bob Stuchbery. Bob is the non-executive director nominated by the board to bring the views of the workforce to the boardroom. Bob has met with the group twice in 2019 and will continue to meet with the group ahead of board meetings and the board strategy day in 2020. The board sees the input of this group as being particularly important in discussions on the group's strategy, and acknowledges this input will evolve over time. For further information please see pages 64 to 65.
- **Our shareholders:** The support and engagement of our shareholders is imperative to the future success of our business. In all of their decision making, the board ensured that they acted fairly with regard to members of the company. We have productive ongoing dialogue with a number of our investors. We are in touch with all of our shareholders at least three times per annum with information about shareholder meetings, dividend payments and the company's financial results. We have regular meetings with institutional investors and analysts to understand their views and address any concerns. Towards the end of 2019 we entered into consultation with over 20 of our largest shareholders and three proxy advisory agencies explaining proposed changes to our remuneration policy. Having taken the feedback of our shareholders on board, further changes were made to the recommended policy. These changes included lowering the pension contributions for executive directors to be in line with the contribution available to the wider workforce, and the introduction of a minimum bonus deferral. The remuneration committee remains cognisant that it must ensure that the remuneration policy remains fit for purpose in order to attract and retain the best talent. Other engagement included the company's chair meeting with five of our significant shareholders to understand their views on the company.
- **Our customers:** Through our Closer to the Client core strategic initiative, we are focused on better understanding the needs of our clients. One of the key goals of the initiative is to ensure that Beazley becomes a client-centric organisation. The board receives regular reports on the progress against each of the strategic initiatives.
- **Our broker partners:** There is regular, coordinated engagement with our key broker partners which is facilitated through our broker relations team. There are a number of annual industry-wide events that bring our senior management together with the senior leaders of the broking firms. The board receives updates on our key broker relationships.
- **Regulators:** We have transparent communication with our key regulators which is facilitated through our compliance team. Our business teams and the non-executive directors of our regulated entities have ongoing engagement with our regulators on an ad hoc basis, including when requested to discuss specific matters. Any significant regulatory engagements are reported to the board.

Directors' report

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

Management report
The directors' report, together with the strategic report on pages 1 to 70, 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 125.

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

Results and dividends
The consolidated profit before taxation for the year ended 31 December 2019 amounted to $267.7m (2018: $76.4m).

The directors announce a second interim dividend of 8.2p per ordinary share (2018 second interim dividend: 7.8p). The dividend, together with the first interim dividend of 4.1p per ordinary share (2018 first interim dividend: 3.9p), gives a total of 12.3p (2018: 11.7p).

The aforementioned second interim dividend will be paid on 30 March 2020 to shareholders on the register on 28 February 2020.

Going concern and viability statement
A review of the financial performance of the group is set out on pages 32 to 40. The financial position of the group, its cash flows and borrowing facilities are included therein.

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

In accordance with provision C.2.2 of the UK Corporate Governance Code, the directors have assessed the viability of the group. The viability statement, which supports the going concern basis mentioned above, is included in the risk management section on page 48.

Directors
The directors of the company who served during 2019 and/or to the date of this report were as follows:

David Lawton Roberts	Non-executive chair
David Andrew Horton	Chief executive
George Patrick Blunden	Non-executive director (resigned 21/03/2019)
Martin Lindsay Bride	Finance director (resigned 23/05/2019)
Adrian Peter Cox	Director
Angela Doreen Crawford-Ingle	Non-executive director (resigned 31/05/2019)
Nicola Hodson	Non-executive director (appointed 10/04/2019)
Sally Michelle Lake	Finance director (appointed 23/05/2019)
Christine LaSala	Non-executive director
Sir John Andrew Likierman	Non-executive director
Anthony Jonathan Reizenstein	Non-executive director (appointed 10/04/2019)
John Peter Sauerland	Non-executive director
Robert Arthur Stuchbery	Non-executive director
Catherine Marie Woods	Non-executive director

Directors' report *continued*

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

Further information can be found in the statement of corporate governance on page 79.

Directors' interests

The directors' interests in shares of the company, for those directors in office at the end of the year, including any interests of a connected person (as defined in the Disclosure and Transparency Rules of the UK's Financial Conduct Authority), can be found in the directors' remuneration report on pages 96 to 124.

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

Corporate governance

The company was compliant with corporate governance during 2019. More information on compliance is disclosed in the statement of corporate governance on pages 79 to 93.

Corporate, social and environmental responsibility

The company's corporate, social and environmental activities are set out on pages 51 to 65. During 2019 Beazley and employees donated and raised over $400,000 to charities, details of which can be found in the responsible business report on pages 52 to 54.

Risk management

The group's approach to risk management is set out on pages 44 to 50 and further detail is contained in note 2 to the financial statements on pages 155 to 168.

Substantial shareholdings

As at 5 February 2020, 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	%
Fidelity Management & Research	51,083,172	9.6
MFS Investment Management	38,243,203	7.2
Invesco Perpetual	36,310,643	6.9
SKAGEN Fondene	21,986,028	4.2
Vanguard Group	21,412,769	4.0
BlackRock	17,513,208	3.3

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

Recent developments and post balance sheet events

Recent developments and post balance sheet events are given in note 34 to the financial statements on page 206.

Likely future developments

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

Research and development

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

Employee engagement

We place great emphasis on open and regular communication which helps to ensure everyone knows what is going on at Beazley. We have a number of channels to share information and gather feedback, including an intranet which is accessible by all employees and is updated at least every other day with company news. We also email all employees a weekly newsletter, and provide the opportunity for colleagues to join face to face presentations every other week to hear about a specific team/project/topic. Each week we host a brief update for all colleagues to hear progress on our strategic initiatives and on a monthly basis our CEO provides a bulletin giving information about general happenings around the business and the financial and economic factors affecting us that month (when relevant).

Every other year all employees are encouraged to take part in a survey which measures the way our people feel about the business, its vision and aspirations. Our executive team host regular face to face sessions with employees in which they have the opportunity to ask questions and share ideas and vice versa. We also ask for volunteers to work on projects outside of their day jobs in order to give different perspectives to decisions the company is making. In addition, a group of selected representatives from across the business gather input and views on set topics and provide those to the board.

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

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

Inclusion and diversity

Information concerning inclusion and diversity can be found in the responsible business section on pages 64 and 65 and in the statement on corporate governance on page 83.

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

Share capital

As at 31 December 2019, the company's issued shared capital comprised 529,744,068 ordinary shares, each with a nominal value of 5p and representing 100% of the total issued share capital. Details of the movement in ordinary share capital during the year can be found in note 21 on page 186. There are no restrictions on the transfer of shares in the company other than as set out in the articles of association and certain restrictions which may from time to time be imposed by law and regulations.

Authority to purchase own shares

On 21 March 2019 shareholders approved an authority, which will expire on 21 June 2020 or, if earlier, at the conclusion of the 2020 Annual General Meeting (AGM) for the company to repurchase up to a maximum of 52,776,127 ordinary shares (representing approximately 10% of the company's issued ordinary share capital). During the year, Beazley acquired 2,000,000 of its own shares into its employee benefit trust.

The board continues to regard the ability to repurchase issued shares in suitable circumstances as an important part of the financial management of the company. A resolution will be proposed at the 2020 AGM to renew the authority for the company to purchase its own share capital up to the specified limits for a further year. More detail of this proposal is given in the notice of AGM.

Significant agreements – change of control

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

The amended and restated $225m multi-currency standby letter of credit and revolving credit facility agreement dated 25 July 2019 remains unchanged.

The agreement, which is between the company, other members of the group and various banks, provides that if any person or groups of persons acting in concert gains control of the company or another group obligor, then: (a) the banks are thereafter not obliged to participate in any new revolving advances or issue any letter of credit; and (b) the facility agent may:
(i) require the group obligors to repay outstanding revolving advances made to them together with accrued interest; and (ii) ensure that the liabilities under letters of credit are reduced to zero or otherwise secured by providing cash collateral in an amount equal the maximum actual and contingent liabilities under such letters of credit.

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

Annual general meeting

The AGM of the company will be held at 14.30 on Wednesday 25 March 2020 at Plantation Place South, 60 Great Tower Street, London EC3R 5AD. The notice of the AGM details the business to be put to shareholders.

Directors' report *continued*

Greenhouse gas emissions

Beazley Group report 2018 UK and European GHG emissions of 5,412.43 tonnes CO_2 equivalent (tCO_2e) a decrease of 11% relative to 2017, 5% higher than 2016 emissions. 2018 Scope 1 and 2 emissions (611.39 tCO_2e) continuing the downwards trend, 15% lower than those reported for 2017.

2018 GHG emissions for Beazley Group's four principal North American offices are reported as 2,032.23 tCO_2, 7% lower than those reported for 2017, which had an expanded scope of reporting relative to 2016. 2018 Scope 1 and 2 emissions (195.59 tCO_2) are 9% lower than those reported for 2017 – due to a combination of reduced electricity consumption and lower carbon intensity grid electricity.

Beazley Group's greenhouse gas emission intensity ratio (reported Scope 1-3 emissions/employee/year) fell from 7.7 tCO_2e/employee in 2017 to 6.8 tCO_2e/employee in 2018.

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

	European offices	North American offices	
Scope 1 emissions	2016: 51.48 2017: 39.47 2018: 34.17	2016: data not available 2017: data not available 2018: data not available	
Scope 2 emissions	2016: 886.83 2017: 683.63 2018: 577.22	2016: 170.21 2017: 214.91 2018: 195.59	
Scope 3 emissions	2016: 4,235.00 2017: 5,380.06 2018: 4,801.04	2016: 1,483.74 2017: 1,977.05 2018: 1,836.64	
Total	2016: 5,173.31 2017: 6,103.16 2018: 5,412.43	2016: 1,653.95 2017: 2,191.96 2018: 2,032.23	
tCO_2e/employee/year			2016: 7.1 2017: 7.7 2018: 6.8

i) Beazley's European office reporting covers activity associated with our principal UK office and Dublin data centre. These sites collectively accounted for 86% of Beazley's European employees in 2018.

ii) Beazley's US office reporting covers activity associated with our four principal US offices, Farmington, New York, Chicago Atlanta office. These sites collectively accounted for 75% of Beazley's US employees in 2018.

iii) The scope of reporting for Beazley Group's European activities is the same as that used for reporting 2017 GHG emissions. The 2018 scope of reporting for the US offices expanded from that for 2017 to include emissions associated with personal car use for business travel.

iv) Greenhouse gas emissions are calculated and presented in accordance with DEFRA Environmental Reporting Guidelines, using the UK Government's GHG Conversion Factors for Company Reporting where possible.

v) GHG emissions are, where possible, calculated using the BEIS conversion factors for '$kgCO_2e$' the sum of carbon dioxide, methane and nitrous oxide emission factors. The exceptions to this are emissions associated with:

- Refrigerants (Scope 1 emissions), which are reported as carbon dioxide equivalent (CO_2e) emissions;
- Dublin office electricity use which is based on information reported by the Sustainable Energy Authority of Ireland (SEAI) and reported as tCO_2 only.
- US office electricity use (Scope 2), where the EPA 'US Average' emission factor for CO_2 + CH4 + N_2O is used;
- US grid electricity transmission and distribution (Scope 3) where the UK Government emission factor is for carbon dioxide only (tCO_2).
- US office business travel by rental car, personal car and rail (Scope 3) where the US Environment Protection Agency (EPA, 2018) emission factors are used.

vi) Reporting is based on operational control. Beazley Group does not have operational control over the building infrastructure and plant at its offices due to the presence of facility management companies and shared tenancy; as a result, emissions primarily fall within Scope 2 and 3 of the Greenhouse Gas Protocol.

vii) Reported Scope 1 sources are: company cars, fuel use in back-up generators and fugitive refrigerant losses from AC systems. Emissions associated with electricity used in Beazley's offices and Dublin data centre are reported as Scope 2 emissions. Scope 3 sources include business travel by air, rail, taxi and leased cars.

viii) UK and European office reporting covers activity associated with our principal UK office, Plantation Place South and our Dublin office. These sites collectively accounted for 90% of Beazley's UK/European permanent and contracted staff in 2017.

Auditor

EY LLP has indicated its willingness to continue in office. Accordingly a resolution to reappoint EY LLP as the auditor of the company will be proposed at the 2020 AGM.

Disclosure of information to auditor

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

By order of the board, covering the strategic report from pages 1 to 70 and the directors' report from pages 67 to 70.

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

5 February 2020

Governance

Letter from our chair

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

Company purpose

The company has had a long established vision, and in addition, the board this year discussed how to articulate the company's purpose in the most appropriate way. The board established the company's purpose as follows:

"To provide innovative risk transfer solutions and deliver excellent claims service to our clients by creating a sustainable business for the benefit of all our stakeholders."

Board changes

I am pleased to report that your board remains highly engaged in fulfilling its principal tasks of leading the company and overseeing the governance of the group. As mentioned on page 81, the board has continued to evolve with a number of changes during the year and further developments planned for the forthcoming year. Martin Bride retired from the board on 23 May 2019 after having served as an executive director since 2009. Martin was succeeded on the board by Sally Lake who was appointed on 23 May 2019. The board would like to express their thanks to Martin for the immense contribution he made to the development of the group.

In accordance with the group's policy on director independence and rotation, non-executive directors George Blunden (senior independent director) and Angela Crawford-Ingle (chair of the audit and risk committee) stepped down from the board on 21 March 2019 and 31 May 2019 respectively. The board is immensely grateful to both George and Angela for being such tremendous servants to the company during their tenure. The board welcomed John Reizenstein and Nicola Hodson who were appointed as directors on 10 April 2019. John became chair of the audit and risk committee succeeding Angela on 31 May 2019. Nicola became a member of the audit and risk committee and brings to the board expertise in technology, operations and data which we reported last year were additional skills that we were seeking. The board will be commencing a search for an individual with relevant insurance expertise to enhance and complement the board's skills. Following the recommendations from the Parker Review the board is committed to increasing ethnic diversity and this will be a specific consideration in future appointments.

Christine LaSala succeeded George Blunden in the role of senior independent director from 21 March 2019. Christine also joined the nomination and remuneration committees from the same date. We have increased diversity across all of the board's committees during the year.

The company has an open culture where there is regular communication with the workforce. These mechanisms are well embedded in the organisation and were enhanced this year when the board appointed non-executive director Bob Stuchbery to bring workforce feedback into the boardroom. In addition to the regular engagement that the executive team has with staff in all jurisdictions, the non-executive directors periodically travel to Beazley's offices to meet with staff. Each year there is an employee roadshow that showcases a number of presentations on strategy and interactive sessions on areas such as inclusion and diversity. In May 2019, the board held some of its meetings, including the board strategy day, in the US. During this visit, the board hosted a social event with all employees from our Farmington, CT office. The board also received a number of presentations from US employees which gave them a broader view of the US succession pipeline. The board were also able to meet with a number of employees working in the New York City offices during their time there. The US now has over 600 employees and the US is an important market for the group.

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

Board evaluation

In 2018, we appointed Boardroom Review Limited to undertake the triennial externally facilitated board evaluation. As reported last year, the review concluded that the board, its committees and its individual members continue to operate effectively. The review highlighted the following key areas that the board focused on in the coming year:

- reviewing the group's governance structure;
- discussing whether to divide the audit and risk committee into separate committees;
- development of the role of internal audit within the organisation;
- non-executive director participation in a crisis simulation; and
- improving visibility and understanding of the changing competitive landscape.

Further details of the actions taken this year to improve the board's performance can be found in the corporate governance section of the report on page 83. The 2019 board and committee effectiveness reviews were carried out by way of internal questionnaires. The board and its committees continue to operate effectively, but will be agreeing the actions that will be taken forward in 2020 to further enhance performance. We will report on the progress in implementing the recommendations made in the 2020 annual report.

Company culture

An update on culture is provided to the board on an annual basis, and it was also a topic of discussion at the board strategy day. A number of information sources are used to gauge the company's culture and these include: the employee engagement and leadership surveys, grievances raised, feedback from leavers and customer complaints. During 2019, the communications, culture and engagement team also ran informal sessions with employees across a number of locations to solicit anecdotal feedback on the way employees perceive the culture of Beazley. An integral component of our culture is to empower our people to find the best way to deliver results for the business, without confining them to a 'one size fits all' mentality. Beazley's values - professionalism, integrity, effectiveness and dynamic - support Beazley's culture.

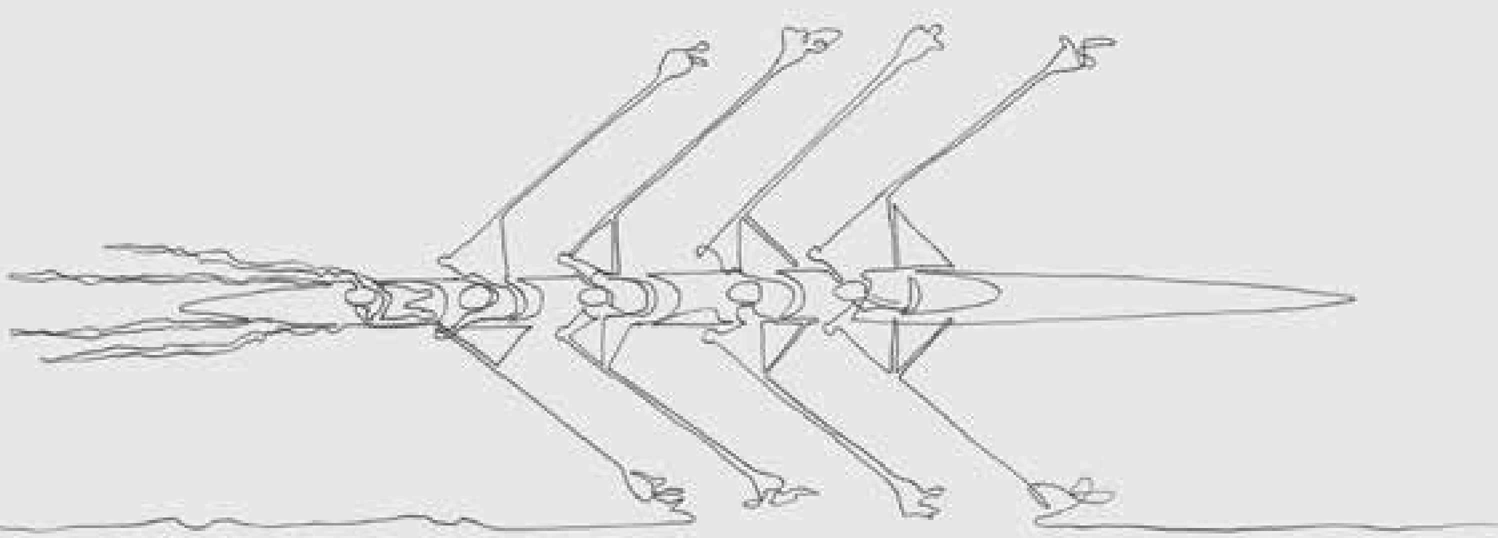
Governance

The company continues to be committed to the highest standards of governance and I am pleased to confirm that the company has complied with the principles and provisions that are set out in the 2018 UK Corporate Governance Code throughout the year ended 31 December 2019. Details of the activities of the board and its committees are also set out on pages 79 to 93. All directors will attend this year's AGM, either in person or via teleconference, which will again provide an opportunity for all shareholders to hear more about our performance and to ask questions of the board.

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

David Roberts
Chair

Board of directors



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

Our committees and committee chairs

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

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

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

Governance framework

Board of directors

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

Nomination committee
The nomination committee is chaired by David Roberts.

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

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

Board of directors *continued*

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

Andrew Horton
Chief executive officer
Appointed: 12 June 2003*
Experience: Andrew joined Beazley in June 2003 as finance director and became chief executive officer in September 2008. Prior to that he held various financial positions within ING, NatWest and Lloyds Bank and was the chief financial officer for the UK wholesale banking division of ING immediately prior to joining Beazley. He qualified as a chartered accountant with Coopers and Lybrand in 1987. He joined the board of Man Group plc in 2013 as a non-executive director. Andrew currently chairs the London Market Group.
Committee: Executive committee (chair)
Skills: strategy, investment, finance, mergers and acquisitions, leadership and people management.

Sally Lake
Group finance director
Appointed: 23 May 2019
Experience: A Fellow of the Institute of Actuaries since 2004. Sally joined Beazley in 2006 initially working with the specialty lines division, the largest underwriting division, for six years. This gave her a breadth of exposure to many aspects of the business at Beazley, especially focusing on claims analytics and reserving. In 2012 Sally became reserving manager and then group actuary in 2014. As group actuary Sally covered both pricing and reserving, as well as capital model validation. She became group finance director in May 2019. Prior to joining Beazley, Sally held financial positions within Lane Clark & Peacock where she qualified as an actuary and PwC where she gained experience in pensions.
Committee: Executive committee
Skills: reserving and actuarial pricing, capital model validation, leadership and people management, inclusion and diversity.

Adrian Cox
Chief underwriting officer
Appointed: 6 December 2010*
Experience: Adrian began his career at Gen Re in 1993 writing short tail facultative reinsurance before moving to the treaty department in 1997, where he wrote both short and long tail business specialising in financial lines. He joined specialty lines at Beazley in 2001 where he performed a variety of roles including underwriting manager, building the long tail treaty account, managing the private enterprise teams and the large risk teams before taking responsibility for specialty lines in 2008. He took on the role of chief underwriting officer in January 2019. Adrian was appointed to the boards of Beazley Furlonge Limited in 2008 and Beazley plc in 2011.
Committee: Executive committee
Skills: insurance, management, international business development and governance.

John Reizenstein
Non-executive director
Appointed: 10 April 2019
Experience: John joined Beazley in April 2019 as chair of the audit and risk committee. He has more than 30 years experience in financial services, most recently as chief financial officer of Direct Line Insurance Group plc, from which he retired in 2018. Prior to that he held senior positions in insurance and banking at Co-operative Financial Services and in investment banking at Goldman Sachs and UBS. He is a member of the Takeover Panel, chair of Farm Africa and a trustee of Nightingale Hammerson.
Committee: Audit and risk committee (chair)
Skills: finance, strategy, leadership, investment, and mergers & acquisitions.

Nicola Hodson
Non-executive director
Appointed: 10 April 2019
Experience: Nicola joined the board in April 2019. Nicola is vice president field transformation, for Microsoft Global Sales and Marketing and was previously chief operating officer for Microsoft UK. She is a non-executive director on the board of Drax Group plc and is chair of its remuneration committee. Nicola was formerly a non-executive director at Ofgem, a board member at the UK Council for Child Internet Safety and at the Child Exploitation and Online Protection group.
Committee: Audit and risk committee
Skills: strategy, leadership and management. digital transformation, sales & marketing. change leadership and IT.

Christine LaSala
Non-executive director
Appointed: 1 July 2016
Experience: Based in New York, Christine retired as chair of Willis Towers Watson North America. She has over 40 years of management, client leadership and financial experience in the insurance industry including work as an underwriter and 27 years as an insurance broker working with large corporate and public institution clients. Christine's experience includes board and leadership roles at Johnson & Higgins and Marsh and 10 years as CEO of the WTC Captive.
Committees: Audit and risk committee, nomination committee and remuneration committee
Skills: insurance, strategy, risk management, client leadership, regulatory, governance and talent and leadership development.

Sir Andrew Likierman
Non-executive director
Appointed: 25 March 2015*
Experience: Andrew is professor of management practice at the London Business School having served as Dean from 2009-2017. His career has spanned the public and private sectors as well as academic life, including 10 years as head of the UK Government Accountancy Service. He has had many non-executive director appointments, including at the Bank of England, and is currently also a non-executive director of Times Newspapers Holdings Ltd and Monument Corporation Ltd.
Committees: Remuneration committee (chair), nomination committee
Skills: accountancy, financial services, and governance.

Catherine Woods
Non-executive director
Appointed: 1 January 2016*
Experience: Catherine has 35 years experience in financial services as well as significant governance experience. Her executive career was with JP Morgan in the City of London, specialising in European financial institutions. She is a former vice president and head of the JP Morgan European Banks equity research team. She currently is a non-executive director of BlackRock Asset Management (Ireland) and joins the Lloyds Banking Group Board on 1 March 2020. She was previously appointed by the Irish Government to the Electronic Communications Appeals Panel and the Adjudication Panel to oversee the rollout of the National Broadband scheme. Catherine is a former deputy chair of AIB Group plc, former chair of EBS DAC and former non-executive director of AIB Mortgage Bank and An Post.
Committees: Audit and risk committee, remuneration committee, nomination committee
Skills: insurance, strategy, stakeholder management, finance, governance, leadership and management.

E Executive directors

N Non-executive directors

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

John Sauerland
Non-executive director
Appointed: 5 May 2016
Experience: John is chief financial officer of the Progressive Corporation, a US based insurance holding company. Prior to his current role, he was Progressive's personal lines group president for eight years, responsible for the company's primary business unit with $17bn in revenues. During his tenure as personal lines group president, he led the introduction of many innovations such as Name Your Price® and Snapshot®, the industry-leading pay-as-you-drive offering. He also oversaw significant growth of the company's direct marketing efforts and consumer-facing web and mobile technology.
Committee: Remuneration committee
Skills: finance, pricing, marketing and distribution.

Robert Stuchbery
Non-executive director and employee voice of the board
Appointed: 11 August 2016
Experience: Bob had previously been appointed as a non-executive director to the board of Beazley Furlonge Ltd, the group's Lloyd's managing agency, where he chairs the risk committee. He brings extensive Lloyd's experience, having been chief executive officer of Chaucer until 2015, and a deep knowledge of the Lloyd's market and distribution and operational strategies.
Committee: Audit and risk committee
Skills: insurance, risk management and strategy.

Investor relations

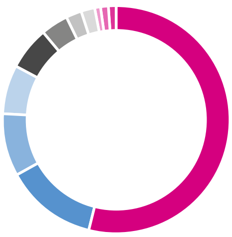
We place great importance on communication with shareholders. The annual report and accounts and the interim report are available to shareholders on the company's website (**www.beazley.com**). A mailed copy of the accounts is also available on request. The company responds to individual letters from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

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

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

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

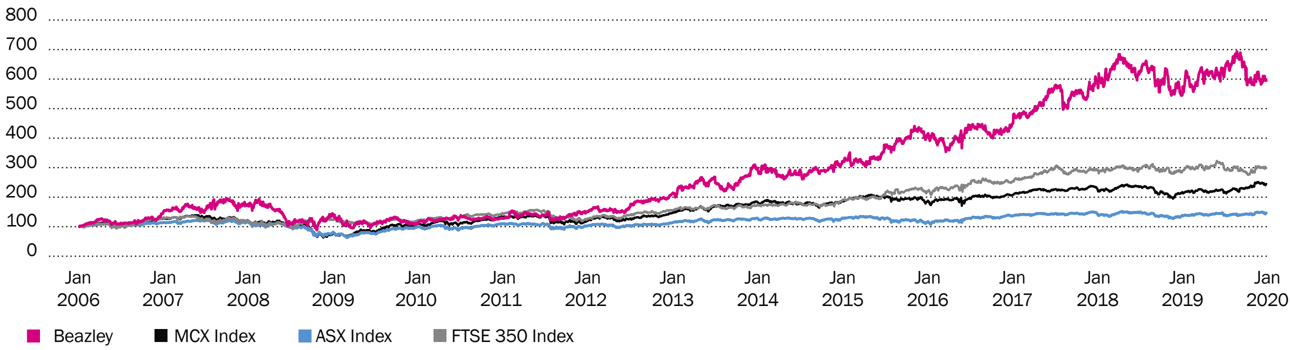
Shareholding by type of investor



Mutual Funds	54%
Retail	13%
Pensions	9%
SWF	7%
Insurance	6%
Investment Trusts	4%
Trading	2%
ETF	2%
Directors	1%
Charities	1%
Hedge funds	1%

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

Share price performance



Financial calendar

28 February 2020	Second interim dividend record date
25 March 2020	Annual general meeting
30 March 2020	Second interim dividend payment date for the six months ended 31 December 2019
23 July 2020	First interim dividend announcement for the six months ended 30 June 2020

Statement of corporate governance

Compliance with Code provisions

The board confirms that the company and the group have complied with the provisions set out in the 2018 version of the Financial Reporting Council's UK Corporate Governance Code (the Code) throughout the year ended 31 December 2019.

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

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

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

Governance framework

The company operates through the main board, the managing agent board, the board of the Irish insurance company (that accepts non-life reinsurance premiums ceded by the corporate member, Beazley Underwriting Limited), the board of the US admitted insurance companies and their board committees. The group has established properly constituted audit and risk, remuneration, nomination and disclosure committees of the board. There are terms of reference for each committee and details of their main responsibilities and activities in 2019 are set out on pages 80 to 93. Andrew Horton as the chief executive officer, has also constituted an executive committee that he chairs and which acts under delegated authority from the board. The executive committee meets on a monthly basis and is responsible for managing all activities of the operational group. The governance framework of the main board and its committees is shown in the diagram on the following page.

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

Statement of corporate governance *continued*

Shareholders

Company secretary
Christine Oldridge

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

Chair
David Roberts

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

The board

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

Chair
David Roberts

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

Chief executive
Andrew Horton

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

Audit and risk committee

Chair
John Reizenstein

Members
Nicola Hodson
Christine LaSala
Robert Stuchbery
Catherine Woods

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

Nomination committee

Chair
David Roberts

Members
Christine LaSala
Sir Andrew Likierman
Catherine Woods

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

Remuneration committee

Chair
Sir Andrew Likierman

Members
Christine LaSala
John Sauerland
Catherine Woods

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

Disclosure committee

Chair
Sally Lake (or her nominee)

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

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

Executive committee

Chair
Andrew Horton

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

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

The information above is as at 5 February 2020.

The board

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

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

George Blunden stepped down from the board on 21 March 2019 and was replaced as senior independent non-executive director by Christine LaSala. As senior independent director Christine will, if required, deputise for the chair. She is available to talk to shareholders if they have any issues or concerns or if there are any unresolved matters that shareholders believe should be brought to her attention. Angela Crawford-Ingle also stepped down from the board and as chair of the audit and risk committee on 31 May 2019. On 10 April 2019, the board appointed Nicola Hodson and John Reizenstein as non-executive directors. John Reizenstein was also appointed as chair of the audit and risk committee following Angela Crawford-Ingle's retirement.

Martin Bride retired as an executive director on 23 May 2019 and was replaced by Sally Lake, as group finance director on the same date.

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

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

Board meeting attendance

The full board meets at least five times each year and more frequently where business needs require. In 2019, in addition to the five regular board meetings, there were further meetings to consider the Q1 and Q3 2019 interim trading statements. All the directors also attend an annual strategy day. The nomination, audit and risk committees had additional ad hoc meetings with full attendance. The chair holds regular meetings with the non-executive directors without the executive directors being present.

Statement of corporate governance *continued*

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

	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[1]	1	1	2	2	2	2	1	1
Martin L Bride[2]	2	2	–	–	–	–	–	–
Adrian P Cox	5	5	–	–	–	–	–	–
Angela D Crawford-Ingle[3]	2	2	3	3	–	–	–	–
Nicola Hodson[4,5]	4	4	4	3	–	–	–	–
D Andrew Horton	5	5	–	–	–	–	–	–
Sally M Lake[6]	3	3	–	–	–	–	–	–
Christine LaSala[7]	5	5	6	6	4	4	4	4
Sir J Andrew Likierman	5	5	–	–	6	6	5	5
A John Reizenstein[4]	4	4	4	4	–	–	–	–
David L Roberts	5	5	–	–	–	–	5	5
John P Sauerland	5	5	–	–	6	6	–	–
Robert A Stuchbery	5	5	6	6	–	–	–	–
Catherine M Woods[8]	5	5	6	6	6	5	5	4

1 George Blunden resigned as a director on 21 March 2019.
2 Martin Bride resigned as a director on 23 May 2019.
3 Angela Crawford-Ingle resigned as a director on 31 May 2019.
4 Nicola Hodson and John Reizenstein were appointed to the board and audit and risk committee on 10 April 2019.
5 Nicola Hodson was unable to attend her first meeting of the audit and risk committee due to a scheduling clash.
6 Sally Lake was appointed to the board on 23 May 2019.
7 Christine LaSala was appointed to the remuneration and nomination committees with effect from 21 March 2019.
8 Catherine Woods was unable to attend the nomination and remuneration committee meetings in September 2019 due to a longstanding schedule clash.

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

Board discussions during the year

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

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

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

- review of strategic initiatives;
- review of the competitive landscape;
- discussing the actions arising from the board effectiveness review, and in particular the subsequent governance review and whether the audit and risk committee should be divided into two separate committees;
- climate change and the risks and opportunities associated with it;
- engagement with the workforce and key stakeholders;
- reviewing the letter of credit facility and debt issuance by subsidiary Beazley Insurance dac;
- discussing the prioritisation of investment expenditure;
- Solvency II reporting;
- review of risk management framework, including risk appetite;
- continued monitoring of developments and responding to requirements for Brexit;
- review of the Own Risk and Solvency Assessment (ORSA);
- cyber product development and cyber security; and
- review of developments in corporate governance and receipt of key legal and regulatory updates.

Beazley continues its support for the Inclusion Behaviours Pledge. This is a public commitment made by members of the insurance sector, which reinforces Beazley's promise to challenge inappropriate behaviour and create increasingly welcoming and inclusive workplaces in our sector. Beazley also remains a member of the Women in Banking & Finance forum to share best practice and offer networking and development opportunities to our female talent through their programme.

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

The Beazley inclusion and diversity steering group provides inclusion and diversity support for all employees and aims to foster open dialogue about gender, social, ethnicity, LGBT+, disability and parental/carer inclusion. Beazley currently has an LGBT+ network and young professionals network in place. In late 2019, Beazley launched an internal/external network, Beazley SHE, to support Successful, High potential, Empowered women in insurance, providing them opportunities for personal and professional development.

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

Training, information and support

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

To enable the board to function effectively and directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of board meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussion documents regarding specific matters. Directors have access to an electronic information repository to support their activities. During 2019, the board continued to support the maintenance and development of Beazley's information security programme to address changing and emerging cyber security threats. Director training included sessions on governance, investments and on the capital model. All directors allocate sufficient time to the company to enable them to discharge their responsibilities effectively. The terms and conditions of appointment for all the non-executive directors set out the expected time commitment and they agree that they have sufficient time to provide what is expected of them.

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

Board performance evaluation

Under the UK Corporate Governance Code, the board is required to undertake formal and rigorous evaluation of its own performance and that of its committees and individual directors and this should be externally facilitated every three years. The board and its committees consider their effectiveness regularly. An assessment was externally facilitated in 2018 by Boardroom Review Limited and an internal review was conducted in 2019. The recommendations from the 2018 review were progressed and discussed with the board throughout the year. One of the actions was to conduct a review the group's governance structure to explore credible options and alternatives for information flows and agendas, and to identify any potential vulnerabilities. A number of recommendations were adopted as a result of the review, including a number of amendments to the matters reserved for the board. A further recommendation from the external assessment was to consider the division of the audit and risk committee into separate committees. After some robust discussions, the board decided to reformat the way the committee operated, placing an increased focus on risk. The board will continue to keep a watching brief during the following year as to how effective the change has been. The board agreed at its last meeting of the year that the other actions from the review had been completed. The board will agree an action plan from the 2019 internally facilitated assessment in early 2020 and report on the action taken in the 2020 annual report. The reviews concluded that the board and its committees continue to operate effectively.

Audit and internal control

Following the audit tender carried out in 2018, EY have been appointed as the new external auditor for the 2019 accounting year, as approved by the shareholders at the 2019 AGM. Further details of the transition of the audit from KPMG to EY can be found in the audit and risk committee report.

Statement of corporate governance *continued*

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 2019 risk appetite for the group at the end of 2018 and, throughout 2019, the board has considered and acted upon the information presented to it in order to make risk based decisions against the 2019 risk appetite. Key components of the risk management framework include monthly control self assessments and six monthly risk assessments, with ad hoc risk assessments being conducted when required. These matters have been considered by the executive risk and regulatory committee each month and the audit and risk committee and board quarterly. In addition, the board has considered the quarterly Own Risk and Solvency Assessment report in the past year. This risk management framework has provided the board with an ongoing process for identifying, assessing, monitoring and managing the risks to the company, and accords with the UK Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial Business Reporting' document.

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

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

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

The board therefore confirms that it has, during 2019, reviewed the effectiveness of the group's risk management and internal controls (including financial, operational and compliance controls), which have been in place throughout the year under review and continue to operate up to the date of approval of the annual report and accounts.

The chair of the audit and risk committee also had regular contact with external and internal auditors during 2019 and members of the audit and risk committee met individually with the Central Bank of Ireland and the Prudential Regulation Authority.

Further information on the role of the audit and risk committee is set out on page 85 and further information on risk management at Beazley is set out in the risk management report.

Shareholder engagement

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

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

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

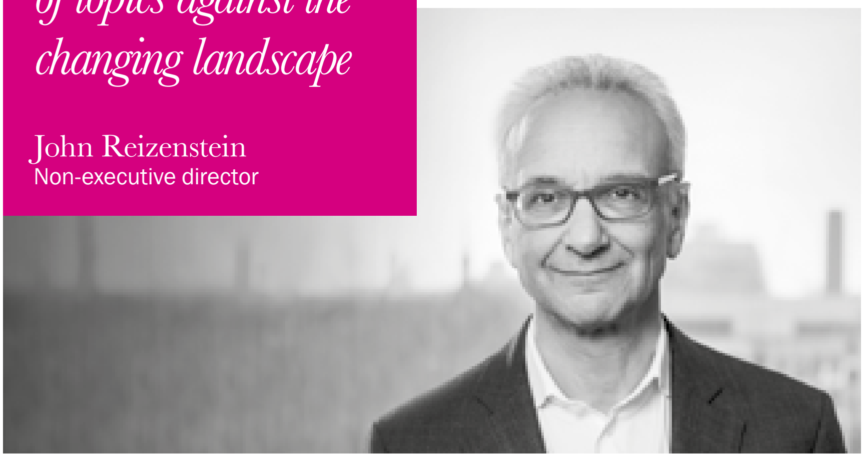
Statement of corporate governance *continued*

Audit and risk committee

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

In 2019 the audit and risk committee discussed a wide range of topics against the changing landscape

John Reizenstein
Non-executive director



The role of the committee is to assist the board of directors in fulfilling its oversight duties for the financial reporting process, the system of internal control, the audit process and the company's process for monitoring compliance with laws and regulations and the Code of Conduct. This role is unchanged from previous years and in order to perform this role effectively the committee works with management and key stakeholders to ensure that the risk and control framework within Beazley remains robust and appropriate for the group in the current environment. In addition to assessing the risk and control framework, in 2019 the committee also considered a number of specific topics such as monitoring of changes in regulatory and tax environments, and continued to assess the risks associated with Brexit.

Membership and attendance – audit and risk committee

	Appointment	Attendance at full meetings during 2019
Angela Crawford-Ingle	27 March 2013 resigned 31 May 2019	3/3
George Blunden	1 October 2010 resigned 21 March 2019	2/2
John Reizenstein	10 April 2019	4/4
Nicola Hodson	10 April 2019	3/4
Christine LaSala	1 July 2016	6/6
Robert Stuchbery	11 August 2016	6/6
Catherine Woods	11 March 2016	6/6

As part of the appointments process the nomination committee reviewed the membership of the committee during the year. Taken as a whole, the committee has an appropriate balance of skills specific to the industry within which the group operates, including recent and relevant financial experience, as required by the UK Corporate Governance Code. Details of the members' relevant financial experience are given in their biographies under 'board of directors' on pages 76 and 77. All committee members are independent non-executives.

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

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

The audit and risk committee is required to meet at least quarterly, with meetings scheduled at appropriate intervals in the reporting and audit cycle. Additional meetings are held as required. In 2019 there were a total of 6 meetings in the year compared to 7 meetings in 2018.

The internal and external auditors attend committee meetings and regularly meet in private with the committee. In addition the chair of the audit and risk committee has regular contact with the external and internal auditors throughout the year and members of the committee met individually with the Central Bank of Ireland and the Prudential Regulation Authority during 2019.

Statement of corporate governance *continued*
Audit and risk committee *continued*

Responsibilities of the committee

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

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

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

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

Specific committee responsibilities are set out below:

Audit and financial reporting

a) Financial and narrative reporting

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

b) Internal audit

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

c) External audit

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

d) Actuaries

- recommend to the board the appointment and termination of any firm of consulting actuaries used for the provision of Syndicate Actuarial Opinions (SAO) and/or review of insurance reserving. In 2019, the committee appointed EY to provide the SAO report; and
- monitor performance, determine independence and approve fees.

Risk management and compliance

a) Internal control and risk management systems

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

b) Compliance

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

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

Principal activities

The principal activities undertaken by the committee in discharging its responsibilities in 2019 are described below:

a) Significant financial statement reporting issues

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

i) Valuation of insurance liabilities
As further explained in note 1 to the financial statements, the group's policy is to hold sufficient provisions, including those to cover claims which have been incurred but not reported (IBNR) to meet all liabilities as they fall due. The reserving for these claims represents the most critical estimate in the group's financial statements. In both 2017 and 2018, we observed a significant amount of natural catastrophe activity which impacted many lines of business underwritten by Beazley. The impact of the 2018 catastrophes continued to be seen during 2019 with adjustments required to the valuation of the insurance liabilities held for these events. We have also seen a rise in cyber and liability claims during 2019 in line with the wider market. While there remains uncertainty around the final cost of these events to the company, the committee notes that Beazley continues to adopt a prudent approach where uncertainty exists as to the final cost of settlement.

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

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

On the basis of the information provided by the group actuary throughout the year and at the year end and the consistent application of Beazley's reserving philosophy, the committee was satisfied that the reserves held on the group statement of financial position at 31 December 2019 were appropriate.

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

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

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

iii) Valuation of financial assets at fair value
The board is responsible for setting the investment strategy, defining the risk appetite and overseeing the internal and outsourced providers via the chief investment officer. As the group's business model is to predominantly issue insurance contracts, the group has taken the option to defer the effective date of IFRS 9 until January 2021, as per the amendment to IFRS 4. As such the group continues to report its financial assets at fair value.

The committee notes that the overall investment strategy is broadly unchanged from prior periods. The committee receives updates from the group finance director and/or the chief investment officer and it has reported for 2019 that the investment portfolio is in line with the board approved risk appetite, that carrying values of the portfolio as at 31 December 2019 are appropriate and that the valuation methodologies applied to each hierarchy level are consistent with the accounting policies. Committee members are invited to and regularly attend the investment committee.

No misstatements that were material in the context of the financial statements as a whole were identified and the committee was satisfied with the approach employed by management in valuing the financial assets at fair value on the balance sheet at 31 December 2019.

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

Statement of corporate governance *continued*
Audit and risk committee *continued*

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

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

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

The committee reviews detailed projections of future cash flows, profit forecasts and capital requirements under various scenarios, including scenarios stressed in terms of claims frequency and liquidity. In the current year, we considered the group's capital position with regards to the group's £75m retail bond maturing and the issuance of new debt of $300m. We also consider the appropriateness of management's viability statement and the period over which this analysis is performed. The committee was satisfied by the level of analysis presented during the year and the related approach taken and statements made in the group's key external reporting.

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

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

b) Other updates
During 2019, in addition to the financial reporting matters mentioned above, the following items were key topics of discussion for the committee:
- oversight of the reporting and control processes and procedures relating to Solvency II reporting requirements;
- overview of key reporting and regulatory updates, including updates on accounting standards, changes in tax legislation, changes in regulatory requirements and the issuance of changes to the UK Corporate Governance Code in particular;
- compliance, financial crime and assurance reporting including risk incident information;
- the group's appointment of EY as external auditors (discussed further below);
- quarterly reserving and actuarial data;
- the consideration of strategic, emerging and heightened risks identified by management and the group's risk management team, alongside the processes and controls in place to mitigate these risks; and
- the impact of Brexit was discussed and monitored during the year. Potential outcomes were considered and actions taken to mitigate the impact where possible. The impact on the estimates and judgements contained within this report were considered and deemed immaterial.

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

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

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

Audit and financial reporting
a) Internal audit
The group's internal audit function reports directly, and is accountable to, the committee and the head of internal audit has direct access to the committee chair. In 2019, John Beauchamp was appointed to lead the internal audit function. The committee has reviewed the effectiveness of the function and remains satisfied that the internal audit function had sufficient resources during the year to undertake its duties.

During 2019 the committee:
- considered the results of all internal audit reports, and the findings and themes emerging from them;
- monitored the implementation of the 2019 internal audit plan;
- reviewed and approved the basis for internal audit planning. This included reviewing and approving the group's risk-based audit universe and the internal audit plan, and reviewing other business developments which could also potentially be the subject of internal audit work in the coming year. It also included challenging the frequency of audits in certain areas of the business and challenging the balance between thematic reviews and full end-to-end audits;
- reviewed and approved the internal audit charter;
- reviewed and approved the internal audit budget for 2019;
- received information relating to the internal audit functions quality assurance activities;

- reviewed how the internal audit, risk management and compliance functions contributed information and assurance relating to the group's control effectiveness;
- received and reviewed an overall summary assessment of 2019 internal audit activity;
- monitored the timely implementation of agreed management actions and reviewed the status of the same;
- requested and reviewed a report regarding the group's control environment as a whole; and
- reviewed the output of the external quality assessment carried out during the year on internal audit.

During the course of 2019 a number of internal audit recommendations were made to management in relation to its systems of control which have been subsequently implemented. Overall the internal audit function was able to report that for those areas it reviewed, the design and operation of our risk management framework, controls and processes have supported the group in operating within its risk appetite.

b) External audit
i) Appointment of EY
As disclosed in the group's annual report for the year ended 31 December 2018, EY were appointed Beazley's external auditor for financial periods commencing on or after 1 January 2019 after receiving shareholder approval at the group's AGM in 2019.

The committee oversaw the transition from KPMG to EY during the year and considered the transition to be effective.

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

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

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

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

iii) Non-audit services
The audit and risk committee's responsibility to monitor and review the objectivity and independence of the external auditor is supported by a policy that we have developed in relation to the provision of non-audit services by the auditor. During 2019, our non-audit services policy was updated, enhanced and reviewed by the committee.

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

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

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

In the year the audit fees and audit related services for 2019 were $1.9m (2018: $1.6m). Fees for non-audit and assurance services include work related to the accounts and regulatory reporting of the syndicates managed by Beazley, work which would commonly be carried out by the external auditor.

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

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

Solvency II reporting
During 2019 the committee has reviewed and approved the group's 2018 Solvency and Financial Condition Report and Regular Supervisory Report as well as approving the Solvency II policy documentation for the group.

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

Statement of corporate governance *continued*
Audit and risk committee *continued*

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

- risk appetite: the committee has monitored the actual risk profile against risk appetite throughout 2019 and can confirm that Beazley plc has been operating within risk appetite as at 31 December 2019. The committee has also reviewed the proposed 2020 risk appetite;
- risk assessment: the committee has performed a review of the group's risk profile to assess its coverage of the universe of risk and that major underlying risks are visible and are being monitored;
- risk profiles: the committee and the risk committees of the subsidiary boards have reviewed Beazley's risk profiles, which are focused risk assessments of specific topics. In 2019 the committee received a review of insured's cyber risk aimed at ensuring our suite of realistic disaster scenarios are appropriate. There was also a number of other operational risk profiles presented, including exposure management, life sciences and the IT platforms, which supported the committee's oversight of the on-going business processes;
- emerging risk: the committee supported the identification of strategic and emerging risks which were discussed at the board meeting in May 2019 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;
- heightened risk: the committee consider the heightened risk register quarterly. A risk is considered heightened if the likelihood or the impact of occurrence was higher than usual;
- oversight of the internal model: the committee and the risk committees of the subsidiary boards have reviewed regular reports associated with the internal model. These have included a standing report on internal model output, and a validation report featuring both internal and independent validation and themed reviews, for example, on the approach used to aggregate risk in individual entities which consolidate up to the group level. These assessments have supported the boards' use of the internal model; and
- quarterly ORSA: the committee has received a quarterly ORSA report and has reviewed it as part of the quality assurance process before commending it to the board.

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

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

During 2019, the committee:

- monitored the implementation of the 2019 compliance plan;
- reviewed and approved the 2020 annual compliance plan, including the compliance monitoring programme;
- reviewed changes in the regulatory environment applicable to Beazley;
- received updates on relationships with key group regulators, and oversight of regulatory requests;
- provided oversight to regulatory responses to corporate developments;
- reviewed updates from the money laundering reporting officer on the adequacy and effectiveness of the company's anti-money laundering systems and controls;
- provided oversight of the progress of the business in addressing identified enhancements to compliance requirements;
- approved the group policies and controls in respect of anti-bribery and corruption and anti-fraud;
- received updates on the structure and effectiveness of the company's compliance function; and
- received updates on the framework, training and policy put in place regarding whistleblowing.

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

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

Competition and Markets Authority Order 2014 statement of compliance
The committee confirms that during 2019 the group complied with the mandatory audit processes and audit committee responsibilities provisions of the Competition and Markets Authority Statutory Audit Services Order 2014 as presented in this report.

Statement of corporate governance *continued*

Remuneration committee

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

The committee continued to ensure remuneration was appropriate within Beazley.

Sir Andrew Likierman
Non-executive director

Membership and attendance – remuneration committee

	Appointment	Attendance at full meetings during 2019
Sir Andrew Likierman	25 March 2015	6/6
George Blunden (resigned 21 March 2019)	1 January 2011	2/2
Christine LaSala	21 March 2019	4/4
John Sauerland	11 May 2016	6/6
Catherine Woods	1 October 2018	5/6

Responsibilities of the committee

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

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

Key activities in 2019

During 2019 the committee:

- reviewed the key aspects of the remuneration policy, and oversaw its implementation and application;
- satisfied itself that the current remuneration structure is appropriate to attract and retain talented people;
- considered the chief risk officer's report which confirmed that the design of remuneration promotes appropriate risk behaviour throughout the organisation. In addition, the analysis considered the performance of the control environment, profit related pay targets, calculation of the bonus pool, share awards, a suite of risk metrics for each Solvency II member of staff and any individual who has created a higher than expected level of risk;
- ensured incentives continued to be appropriate to align company and shareholders;
- reviewed methodology of reporting of bonus disclosures with the objective of improving transparency;
- approved the grant of share awards under the group's deferred, retention and LTIP plans;
- considered the salary and bonus awards for 2019 for executive directors, heads of control functions, material risk takers and other officers;
- approved the gender pay gap report;
- approved the chair's fees;
- reviewed the executive director employment contracts;
- implemented the 2018 UK Corporate Governance Code requirements as appropriate; and
- considered what changes would be proposed to the remuneration policy in 2020 and consulted with over twenty of our largest shareholders and three proxy advisory agencies.

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

Statement of corporate governance *continued*

Nomination committee

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

The committee had a busy 2019 overseeing the changes to Beazley's management.

David Roberts
Chair

The nomination committee meets at least twice annually and at such other times during the year as are necessary to discharge its duties. In 2019, there were five scheduled meetings, reflecting the workload of the committee during the year. Only members of the committee have the right to attend meetings; however, other individuals, such as the chief executive and external advisers, may be invited to attend for all or part of any meeting.

The specific responsibilities and duties of the committee are set out in its terms of reference, which were updated in September 2019, and reflect the requirements set out in the UK Corporate Governance Code 2018. These requirements include specific responsibility to keep under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace. The terms of reference are available to download from the company's website.

Responsibilities of the committee

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

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

Policy on gender, inclusion and diversity

We believe having a diverse and inclusive workplace will support our vision for growth and outperforming the market. We continually review our approach to diversity and our aim is to have nurtured diverse employees across the business who are given the tools and opportunities to progress their career within Beazley. We believe employing individuals with wider perspectives and from a broader skill base will lead to a more dynamic, innovative, responsive organisation in touch with changes and developments in our business environment.

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

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

The committee has agreed the establishment of goals for gender diversity for both the board and the broader organisation. The board achieved its goals for gender diversity for the Beazley plc board of two female members by AGM 2016, and a third female member by AGM 2017. Female representation on the board went from zero to three in five years and has increased in 2019 with the appointments of Nicola Hodson and Sally Lake to the board. With the resignation of Angela Crawford-Ingle during the year, this brings the representation of females on the board to four or 44%. The committee reviewed progress against the group's 2020 goals for there being a minimum of 35% female senior managers within the organisation by 2020 and 33% female board members at group level by 2021.

The 2019 board effectiveness review was carried out internally and the board will agree an action plan from this review, early in 2020. A report on the plan and actions taken will be included in the 2020 annual report.

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

Key activities in 2019

Tasks which the committee carried out in 2019 were to:

- carry out the search process for a new group finance director. The appointment of Sally Lake as group finance director following the conclusion of 2018 accounting year was announced in January 2019. For the recruitment process the committee was assisted by Russell Reynolds Associates recruitment consultants;
- carry out the search for a non-executive director with expertise in technology, operations and data. This resulted in the appointment of Nicola Hodson in April 2019. For the recruitment process the committee was assisted by Audeliss Executive Search;
- review the performance of management by inviting all non-executive directors to attend a nomination committee meeting to review the performance of the executive management team;
- consider the board and committee succession plans;
- assess the collective skills and competency of the board and consider the proposed reappointment of directors;
- ensure that director development plans were implemented and that the board collectively received relevant training;
- ensure board members were able to allocate sufficient time to the company to discharge their responsibilities effectively;
- consider the wider executive management succession; and
- consider and approve proposals for individuals to be included in the new Senior Managers and Certification Regime.

Membership and attendance – nomination committee

	Appointment	Attendance at full meetings during 2019
David Roberts	22 March 2018	5/5
Christine LaSala	21 March 2019	4/4
Sir Andrew Likierman	25 March 2015	5/5
George Blunden (resigned 21 March 2019)	1 January 2011	1/1
Catherine Woods	1 October 2018	4/5

Letter from the chair of our remuneration committee

Dear shareholder

On behalf of the board, I am pleased to present the 2019 directors' remuneration report. I would like to take this opportunity to thank shareholders for the strong level of support we received last year when our 2018 directors' remuneration report was approved by nearly 98% of shareholders.

Remuneration policy

In accordance with the normal three-year cycle, our shareholders will have an opportunity to vote on a revised remuneration policy at the 2020 AGM. Over the last 12 months the remuneration committee has undertaken a full review of the policy to ensure that it supports our strategy, promotes Beazley's long-term success and is aligned with our purpose. During our review we also took into account the changes to the UK Corporate Governance Code and evolving shareholder views on remuneration.

Following our review we concluded that our existing policy was fit for purpose and well aligned to our purpose, culture and values. The basis of our policy will continue to be, to attract and keep those who are among the best in the world in specialist insurance, rewarding sustained performance and keeping the company competitive. The committee does, however, think that a number of minor changes are appropriate to reflect emerging views on executive pay and to meet the new requirements of the UK Corporate Governance Code. Immediately following this letter we have set out further details on how our policy aligns with good UK corporate governance. The changes we are proposing include the introduction of a post-employment shareholding requirement, alignment of executive directors pension contributions to the level available to the majority of the UK workforce (currently 12.5% of salary) and increased bonus deferral. We have also taken into account the views of our shareholders and are proposing to enhance our disclosure to provide additional information on our approach to determining bonus awards. Further detail on the proposed changes can be found in the policy itself and we have set out an explanation of the strategic rationale for the policy in the directors' remuneration report.

Business performance and incentive out-turns

As you will have seen from the results, the commercial background to this year's remuneration report is double digit premium growth and increased profit before income tax, despite a combined ratio of 100%, driven by a very strong investment return. The increase in average director's bonus from 49% to 59% of the maximum reflects higher profits.

Directors will receive the second tranche (instalment) of the 2015 LTIP and the first tranche of the LTIP for 2017. The tranches are due to vest (pay out) at 55.0% and 0% of the maximum respectively. These percentages reflect sustained growth in net asset value per annum of 13.7% and 9.5% respectively for the five and three year performance periods.

The committee believes that the remuneration policy operated as intended during 2019 and considers that out-turns are well aligned with company and individual performance. As such we did not find it necessary to apply further discretion.

Executive salaries for 2020

The average executive director salary increase for 2020 was 2.7%, which was below the average increase for the wider workforce.

LTIP targets

Since 2012 the vesting of our LTIP has been based on growth in net asset value per share (NAVps). NAVps is Beazley's central KPI and is a key item supporting increases in share price. As such its use strongly aligns the interest of participants with the interests of our shareholders. Threshold vesting of our LTIP requires sustained growth of 7.5% p.a. in excess of the risk-free rate whilst full vesting requires growth of 15% p.a. in excess of the risk-free rate. In order to receive the entire award this level of performance must be sustained for five years. During the review of our policy the committee considered the use of alternative measures and target ranges and concluded that NAVps was the most appropriate measure and that our target ranges were appropriately stretching.

Director changes

As announced last year, Martin Bride stepped down from the board at the conclusion of its meeting on 23 May 2019 and retired on 31 August 2019. Martin remained eligible for a pro-rated bonus for the year and his outstanding share awards subsist to their normal release/vesting date subject to performance where applicable. Following Martin's departure from the board we were pleased to announce Sally Lake's promotion from group actuary to be the new group finance director, effective from 23 May 2019. Sally's compensation was set in line with our remuneration policy. In recognition of the UK Corporate Governance Code Sally's pension was set at the level available to the majority of the UK workforce.

Consideration of the wider workforce

This year we have disclosed information on our CEO to employee pay ratio. The committee takes our pay ratios into account when considering remuneration policies and frameworks for the group and will continue to monitor them as they develop over time. In addition, the committee reviews the firm-wide remuneration policy and is presented with updates on arrangements for the wider workforce.

In August 2019, Beazley published its third gender pay gap analysis. We were encouraged to see that both our gender pay and bonus gaps have decreased year-on-year. We remain focused on improving our position through various initiatives and targets, for example we have a goal of having at least 35% female senior managers within the organisation. Our report, which can be found on our website, provides additional analyses we have undertaken to better understand the causes of our pay gap as well as more information on our initiatives.

Shareholders

I would like to thank those shareholders who took the time to discuss the proposed changes to our policy during the year. We value the views of our shareholders highly and hope to receive your support for both the new policy and the directors' remuneration report at the 2020 AGM.

Sir Andrew Likierman
Remuneration committee chair

Directors' remuneration report
Remuneration in brief

Remuneration policy

During the review of our directors' remuneration policy the remuneration committee took into account a wide range of factors including guidance from institutional shareholders, the requirements of Solvency II and the provisions of the UK Corporate Governance Code. The main aim of Beazley's remuneration policy is to ensure that management and staff are remunerated fairly and in such a manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel. The committee considers that the policy supports our strategy and promotes the long-term success of Beazley.

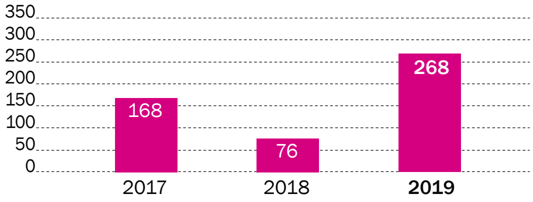
The following table summarises how the committee addressed the factors set out in the UK Corporate Governance Code when determining the remuneration policy:

Factor	Details
✓ **Clarity** Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce	At Beazley performance-related remuneration is an essential motivation to management and staff and is structured to ensure that executives' interests are aligned with those of our shareholders. The committee is mindful that we operate an atypical bonus with awards to individuals made from a profit pool and determined taking into account financial, corporate/strategic and individual performance. A key principle is that the committee exercises its judgement in determining individual awards. We have expanded our disclosure to provide shareholders with further clarity on the way in which we determine annual bonuses.
✓ **Simplicity** Remuneration structures should avoid complexity and their rationale and operation should be easy to understand	In determining our remuneration framework the committee was mindful of avoiding complexity and making arrangements easy to understand for both participants and our shareholders.
✓ **Risk** Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated	We believe reward at Beazley is appropriately balanced in light of risk considerations. The committee receives an annual report from the chief risk officer on remuneration policy to ensure that it is consistent with, and promotes, effective risk management. Our framework has a number of features which align remuneration out-turns with risk, including a five year time horizon on the LTIP, deferral of bonus into shares and personal shareholding requirements which, from 2020, extend post departure. Further details of the link between risk and remuneration are set out on page 116.
✓ **Predictability** The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy	Page 104 provides four illustrations of the application of our remuneration policy including the key elements of remuneration: base salary, pension, benefits and incentives. Payments at Beazley are directly aligned to the group's performance and the graph set out on page 110 demonstrates how historic annual bonus out-turns have reflected profit and ROE performance.
✓ **Proportionality** The link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance	Individual remuneration reflects group objectives but is dependent on the profitability of the group and is appropriately balanced against risk considerations. Potential rewards are market-competitive and the committee is comfortable that the range of potential out-turns are appropriate and reasonable. In addition the remuneration committee has discretion to adjust incentive outturns where they are not considered to appropriately reflect the underlying financial or non-financial performance of the individual or the company.
✓ **Alignment to culture** Incentive schemes should drive behaviours consistent with company purpose, values and strategy	The remuneration committee considers that the structure of remuneration packages supports meritocracy, which is an important part of Beazley's culture. All employees at Beazley are eligible to participate in a defined contribution pension plan and a bonus plan. Bonuses are funded by a pool approach which reflects our commitment to encourage teamwork at every level, which is one of our key cultural strengths.

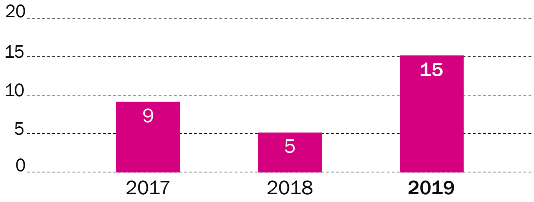
Performance in 2019

Beazley delivered double digit premium growth and increased profit before income tax, despite a combined ratio of 100%, driven by a very strong investment return.

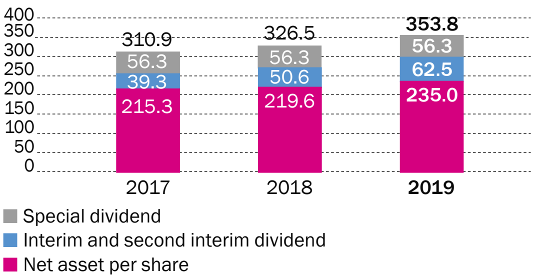
Profit before tax ($m)



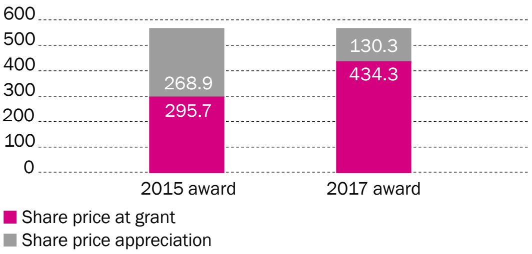
Return on equity (%)



Net assets and cumulative dividend per share (p)

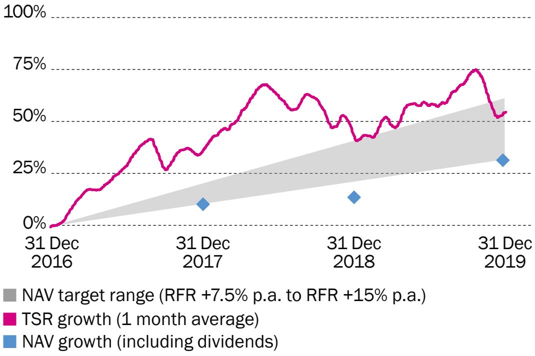


Share price (p)

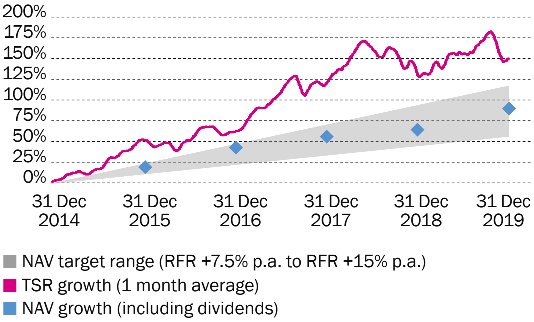


The group's performance over the longer term was strong in terms of NAVps growth and total shareholder return, as illustrated in the charts below.

LTIP performance 2016-2019 NAV and TSR growth



LTIP performance 2014-2019 NAV and TSR growth



Governance

Directors' remuneration report *continued*

Outcomes for 2019 and implementation for 2020

Element	Overview of policy	Implementation and outcomes during 2019	Implementation for 2020
Base salary	Salaries are set at a level to appropriately recognise responsibilities and to be broadly market competitive. Any salary increases will generally reflect our standard approach to all-employee salary increases across the group.	Salaries for 2019 were as follows: • D A Horton: £482,500 • M L Bride: £340,000 • A P Cox: £380,000 • S M Lake: £340,000	The executive directors received salary increases of 2.6% to 2.9%, below the average for the wider workforce. Salaries for 2020 will be as follows: • D A Horton: £495,000 • A P Cox: £390,000 • S M Lake: £350,000
Benefits	To provide market levels of benefits.	Benefits include private medical insurance, travel insurance, and company car or monthly car allowance.	In line with policy.
Pension	To provide market levels of pension provision through contributions to a defined contribution pension plan.	Executive directors appointed prior to 2019 (D A Horton and A P Cox) receive a cash payment in lieu of pension of 13.2% of base salary. Directors appointed from 2019 (S M Lake) receive a pension contribution or cash payment in lieu of pension of 12.5% of base salary, aligned with the rate available for the majority of the UK workforce.	In line with policy. Contribution rates for Executive Directors will be reduced from 13.2% to 12.5% of salary, in line with the rate available to the wider UK workforce.
Annual bonus	Discretionary annual bonus determined by reference to both financial and individual performance. A portion is generally deferred into shares for three years dependent on level of bonus.	Maximum bonus opportunity for executive directors was 400% of salary. ROE in the year was 15%. Profit for the year was $267.7m. Bonus outcomes range from 49% to 59% of maximum.	In line with policy. From 2020 the portion of the bonus that can be deferred into shares will be increased from 0%-37.5% of bonus to 20%-40% of bonus.
Long term incentive plan (LTIP)	Vesting of LTIP awards is dependent on net asset value per share (NAVps) performance against the risk-free rate of return. 50% of awards are subject to performance over three years and 50% over five years. NAVps performance — % of award vesting < average risk-free rate +7.5% p.a. — 0% = average risk-free rate +7.5% p.a. — 10% = average risk-free rate +10% p.a. — 25% = average risk-free rate +15% p.a. — 100% Straight-line vesting between points Since 2019 the first tranche of the LTIP is subject to a further two year holding period taking the total time frame for the entire award to five years.	The first tranche of the 2017 LTIP award vested at 0% of maximum following three year NAVps performance of 9.5% p.a. The second tranche of the 2015 LTIP award vested at 55.0% of maximum following five year NAVps performance of 13.7%p.a. In 2019, the following grants as a percentage of base salary were made, subject to the usual NAVps performance condition: • D A Horton: 200% • A P Cox: 150% • S Lake: 150%	In line with policy. In 2020, the following grants as a percentage of base salary will be made, subject to the usual NAVps performance condition • D A Horton: 200% • A P Cox: 150% • S Lake: 150%
Shareholding guidelines	Executive directors are expected to build up and maintain a shareholding of 150% of salary (200% for the CEO). From 2020 the requirement for all executive directors will be 200% of salary. LTIP awards may be forfeited if shareholding requirements are not met.	The CEO and CUO met their shareholding guidelines. The CFO was appointed during the year and has made progress towards meeting her guideline.	In line with policy. From 2020, we have introduced post-employment shareholding guidelines. Executive directors are expected to maintain 100% of their shareholding requirement for the first year post-departure and 50% of their shareholding requirement for the second year post-departure.

Directors' remuneration policy

This part of the report sets out Beazley's directors' remuneration policy which will be subject to a binding vote at the 2020 AGM.

Changes to the remuneration policy

The remuneration committee followed a robust decision-making process to determine the new remuneration policy, including an in-depth review of the current policy taking into account input from management and our independent advisors. The committee also sought the views of the group's major shareholders and took these into account in determining the final policy. The key changes between this policy and the policy which was approved by shareholders at Beazley's 2017 AGM are as follows:

- From 2020 the disclosure of our approach used to determine annual bonuses will be enhanced by providing additional information on financial, corporate/strategic and individual performance. An incentive pool will continue to be calculated as a percentage of profit with reference to return on equity.
- The minimum and maximum proportion of annual bonus that can be deferred into shares will be increased from 0%-37.5% of bonus to 20%-40% of the bonus. The deferral level will continue to depend on the level of bonus.
- Shareholding requirements, which have operated for a number of years, will now form part of the policy. The shareholding requirement for the chief executive will continue to be 200% of salary and the requirement for other executive directors will be increased from 150% of salary to 200% of salary.
- The holding period that was introduced to the three year portion of the LTIP in 2019 will now form part of the policy.
- Post-employment shareholding requirements will be introduced whereby executives are expected to maintain a shareholding in the company for two years following cessation.
- Pension contribution rates for executive directors will be reduced from 13.2% to 12.5% of salary in line with the level available to the majority of the UK workforce.

Other minor amendments have been made to aid the administration of the new policy, to reflect the changes referred to above and to reflect changes in practice since 2017.

Remuneration policy table

The following tables set out descriptions of each component of director remuneration packages comprised in the Beazley directors' remuneration policy.

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 2020 will be as follows: D A Horton: £495,000 A P Cox: £390,000 S M Lake: £350,000	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; • increased size, scope or complexity of the organisation; and • alignment to market levels.	None, although performance in role is taken into account in determining any salary increase.

Directors' remuneration report *continued*
Directors' remuneration policy *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. Bonuses are determined by reference to financial, corporate/strategic and individual performance. A portion of the bonus is deferred into shares for three years (between 20% and 40% of bonus) dependent on the level of bonus. Deferred shares may have dividend equivalents as described below this table. In certain circumstances deferred share awards may be subject to malus provisions and annual bonus payments may be subject to clawback, as described below. Additional amounts may be voluntarily deferred into the investment in underwriting arrangements described below.	An individual overall cap of 400% of salary will apply. Cash bonuses will normally be capped at 240% of salary with any amount above this deferred into shares.	An incentive pool will be calculated as a percentage of profit and by reference to group return on equity, subject to a minimum return on equity and risk adjustment. 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. Individual payouts to executive directors are discretionary and take into account broader corporate objectives, the individual's contribution and, where relevant, the performance of their division. Solvency II requires that performance measures for incentives are based on a combination of group, business unit and individual performance. The committee may make year-on-year adjustments to the performance framework, in particular to take into account developments in Solvency II requirements.
LTIP	To align the senior management team's interests to the long term performance of the group by linking reward to performance 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 awards made after 1 January 2019 which have a three year performance period will be subject to an additional two year holding period following the date on which the award vests. LTIP shares may have dividend equivalents, as described below this table. In certain circumstances LTIP awards may be subject to malus and clawback provisions, as described below.	Awards of up to 200% of salary in respect of any financial year.	Vesting of LTIP awards is dependent on performance measures selected by the committee. Awards made in 2020 vesting will be 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. Executive directors may participate in Beazley's all-employee share plans on the same basis as other employees. 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. The limits on participation in all-employee share plans reflect the rules of those plans and any limits imposed by applicable tax legislation from time to time.	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 A P Cox. Further service accruals ceased on 31 March 2006.	For defined contribution plans, maximum company contribution of 12.5% of salary. The maximum pension contribution for any executive director may be increased to reflect any increase in the pension available to the UK workforce. Legacy defined benefit pension arrangements will be honoured.	None.

Directors' remuneration report *continued*
Directors' remuneration policy *continued*

Shareholding requirements
The committee has adopted shareholding requirements which apply during employment and, with effect from 25 March 2020, post-employment. During employment, executive directors are expected to build up and maintain a shareholding of 200% of salary and LTIP awards may be forfeited if the requirement is not met. Post-employment, executive directors will ordinarily be expected to maintain a shareholding post-departure: the shareholding requirement 200% of salary will apply for the first year post-departure and 50% of the requirement (100% of salary) will apply for the second year post departure, or in either case, the number of shares owned at departure if lower.

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.

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 we have introduced a membership fee for representation on audit and risk committee, remuneration committee and employee voice.

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 fee • audit and risk committee chair fee • remuneration committee chair fee • subsidiary board membership and chair fees • membership fee for non-executive directors on the audit and risk committee • membership fee for non-executive directors on the remuneration committee • fee for non-executive director representing employee voice Non-executive directors may receive additional fees in the future if in the view of the board this was considered appropriate, including in circumstances of additional committees, other non-executive director positions, or to reflect additional time commitments in appropriate circumstances. 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. Non-executive directors do not normally receive any benefits however these may be provided in the future if in the view of the board this was considered appropriate. Total fees paid to non-executive directors will remain within the limit stated in the Articles of Association.

Notes to the remuneration policy table
Recovery provisions (clawback and malus) apply as follows to awards granted from 1 January 2020 onwards (provisions applying to previous awards are described in previous Directors' remuneration reports).

Malus
Annual bonuses are discretionary and may be reduced or cancelled before payment. LTIP awards and deferred bonus awards may be reduced or cancelled in the event of conduct which justifies summary dismissal, an exceptional development which has a material adverse impact on the company (including extreme financial loss which has a significant impact on the company's share price, reputational damage, material failure of risk management, material restatement of group accounts, significant sanction from any regulatory authority, material corporate failure, and other similar events) or to comply with a law or regulatory requirement.

Clawback
Annual bonuses paid in cash may be clawed back for up to three years following payment and LTIP awards may be clawed back for two years following vesting. Clawback may be applied in the event of material misstatement of results in respect of the bonus year or a year in the performance period for the LTIP award (as the case may be), gross misconduct, factual error in calculating vesting or award, reputational damage, material corporate failure, and other similar events.

The committee may increase the proportion of bonus deferred into shares at any time.

For future incentive awards the committee may adjust the performance measures to take into account developments in Solvency II remuneration requirements, or, in the event of a significant event or changing business circumstance. Major shareholders would be consulted prior to any significant changes.

LTIP and deferred share awards will be operated in accordance with the rules of the relevant plan. In accordance with those rules the committee has discretion in the following areas:

- in the event of a variation of Beazley's share capital or a demerger, delisting, special dividend, rights issue or other similar event, which may, in the committee's opinion, affect the current or future value of shares, the number of shares subject to an award and/or any performance condition attached to awards, may be adjusted. Awards under Beazley's other share plans have similar adjustment provisions;
- the committee may determine that awards may be settled, in whole or in part, in cash, but would only do so in exceptional circumstances such as where there is a regulatory restriction on the delivery of shares;
- the committee may substitute or amend a performance condition if one or more events occur which cause the committee to consider that a substituted or amended condition would be more appropriate and would not be materially more or less difficult to satisfy;
- the committee may in its discretion, adjust the vesting level of LTIP awards, including to reflect underlying financial or non-financial performance or if the vesting level would otherwise not be appropriate in the circumstances;
- the committee may determine the treatment of awards on a winding up, a change of control or similar event in accordance with the rules of the relevant plan; and
- the committee may determine the basis on which dividend equivalents will be calculated, which may include notional reinvestment.

Legacy commitments

The committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out in this report where the terms of the payment were agreed (i) before 26 March 2014 AGM (the date Beazley's first shareholder-approved directors' remuneration policy came into effect); (ii) before the policy set out in this report comes into effect, provided that the terms of the payment were consistent with the shareholder-approved directors' remuneration policy in force at the time they were agreed or were otherwise approved by shareholders; or (iii) at a time when the relevant individual was not a director of Beazley (or other person to whom this policy applies) and, in the opinion of the committee, the payment was not in consideration for the individual becoming a director of Beazley or such other person. For these purposes 'payments' includes the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted. This policy applies equally to any individual who is required to be treated as a director under the applicable regulations.

Performance measures and targets

The following table provides further detail on why performance measures are chosen and how targets are set.

Incentive plan	Performance measures	Why performance measures were chosen and target setting
Annual bonus plan	Financial performance (including profit and ROE), corporate/strategic performance (including risk adjustment) and individual performance.	• The committee believes the approach to the determination of bonuses creates alignment to shareholders' interests and ensures that bonuses are affordable, while the ROE targets increase the performance gearing and the risk adjustment is consistent with and promotes effective risk management. • The committee reviews the bonus pool framework each year to ensure that it remains appropriate and targets are set taking into account the prevailing environment, interest rates and expected investment returns, headcount and any other relevant factors. • 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.
Long term incentive plan	Growth in net asset value per share (NAVps) over three years (as regards a portion of the award) and five years (as regards the balance of the award).	• Creates alignment to Beazley's central key performance indicator, and recognises that NAVps is a key item supporting increases in share price and shareholder returns. • Vesting of a portion of the award requires sustained growth in NAVps over a five year time period. • The committee reviews the NAVps targets periodically to ensure they remain appropriate with reference to the internal business plan, the external environment and market practice. • In the event that NAVps were to become unsuitable as a performance measure in the opinion of the committee (for example due to a change in accounting standards) the committee would substitute a measure which followed broadly similar principles.
Investment in underwriting	The plan mirrors investment in an underwriting syndicate.	• The Beazley staff underwriting plan provides for participants to contribute personal capital to Beazley syndicates. Selected staff are invited to participate through bonus deferral with an element of cash incentives 'at risk' as capital commitments.

Directors' remuneration report *continued*
Directors' remuneration policy *continued*

Differences in policy from broader employee population

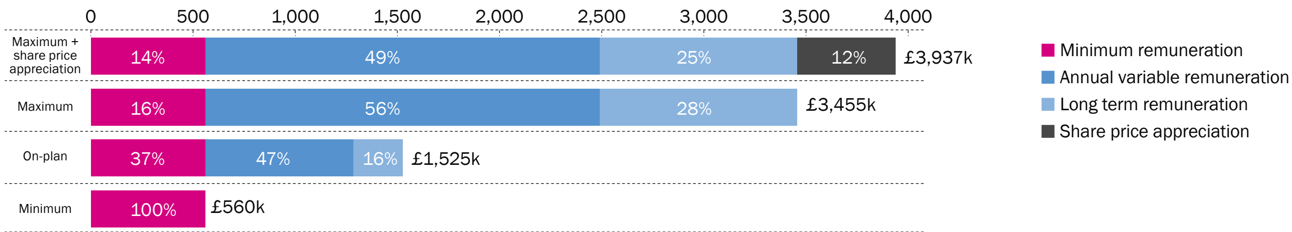
The policy for executive directors follows the same broad principles in place for all employees in Beazley. Differences in policy for executive directors and senior management as compared to the broader employee population reflect different market levels for seniority, as well as their group responsibilities. For example, incentive performance conditions for executive directors and senior management are more closely aligned to group performance, whereas underwriters participate in incentive plans linked to the performance of their business area.

All employees in the group may participate in a defined contribution pension plan, and are offered benefits such as private medical insurance and permanent health insurance. Beazley also operates all-employee share plans to create staff alignment and promote a sense of ownership.

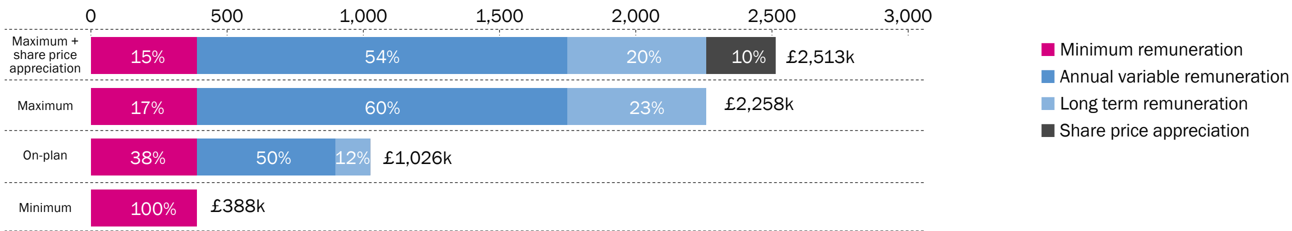
Illustrations of application of remuneration policy

The charts below set out an illustration of the operation of the remuneration policy for the current executive directors in respect of 2020 and includes base salary, pension, benefits, and incentives. Other than as regards the fourth scenario ("Maximum + share price appreciation"), the illustrations do not reflect potential share price increases. Dividends and, dividend equivalents and any deferral of bonus into the Investment in underwriting arrangements are disregarded for the purposes of these charts.

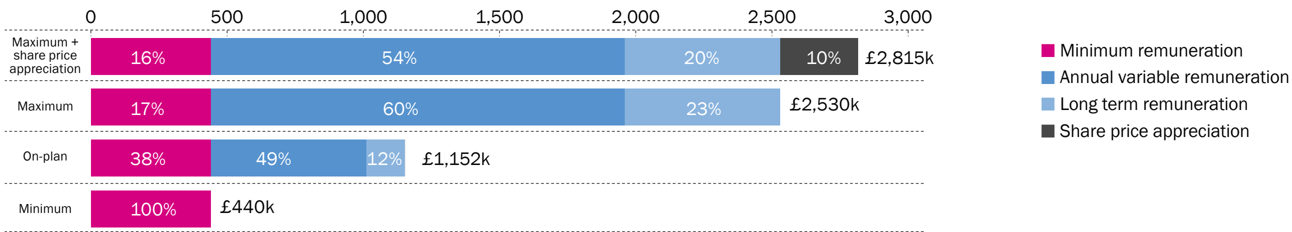
Chief executive officer (£'000)



Group finance director (£'000)



Chief underwriting officer (£'000)



Assumptions used for the illustrations of the policy

Element		'Minimum'	'On-plan'	'Maximum'	'Maximum + share price appreciation'
Fixed remuneration	Base salary	Annual base salary for 2020			
	Pension	12.5% of base salary			
	Benefits	Taxable value of annual benefits provided in 2019			
Annual variable remuneration (cash and deferred shares)		0% of salary	150% of salary	400% of salary[1]	400% of salary[1]
Long term remuneration (LTIP)		0% vesting	25% vesting	100% vesting	100% vesting + assumed 50% share price appreciation

1 An individual overall cap of 400% of salary applies to the annual bonus depending on financial, corporate/strategic and individual performance.

Approach to recruitment remuneration

The committee would have regard to the following principles when agreeing the components of a remuneration package upon the recruitment of a new director:

- in order to facilitate the future success of the company it is important that we are able to recruit directors of the calibre required to deliver our strategic priorities. Although the company operates in a highly competitive market for executive talent, the committee remains conscious of the need to avoid paying more than is necessary on recruitment;
- the committee will, so far as practical, seek to align the remuneration package for any incoming executive with the remuneration policy table set out above;
- on recruitment, salaries will be set to take into account role and responsibilities. For interim positions a cash supplement may be paid rather than salary (for example a non-executive director taking on an executive function on a short term basis);
- the committee may, on appointing an executive director, need to 'buy out' remuneration arrangements forfeited on joining the company;
- any buyout would take into account the terms of the arrangements (e.g. form of award, performance conditions, timeframe) being forfeited in the previous package. The form of any award would be determined at the time and the committee could if necessary make use of LR 9.4.2 of the Listing Rules (for the purpose of buyout awards only). The committee would seek to structure buyout awards to be in line with Beazley's remuneration framework so far as practical. The overriding principle will be that any replacement buyout awards would be of comparable commercial value to the awards which had been forfeited;
- all buyout awards would normally be liable to forfeiture or 'clawback' on early departure. For executive directors early departure is defined as being within the first two years of employment;
- the maximum level of variable remuneration which may be granted in the first year (excluding buyouts) is in line with the aggregate maximums set out in the policy table. The committee retains the flexibility to determine that for the first year of appointment any annual bonus award will be subject to such conditions as it may determine; and
- where an executive is appointed from within the organisation, the normal policy of the company is that any legacy arrangements would be honoured in line with the original terms and conditions (except that any pension arrangements will be provided in line with the remuneration policy table). Similarly, if an executive director is appointed following Beazley's acquisition of or merger with another company, legacy terms and conditions would be honoured.

Service contracts and loss of office payment policy

It is company policy that service contracts with executive directors contain notice periods, from the company or employee, of not more than 12 months. The company may at its absolute discretion elect to terminate an executive director's employment by making a payment in lieu of notice of the individual's salary for that period.

Subject to notice requirements, there is no provision in the service agreements for compensation to be payable on early termination of the contract. The committee has discretion to structure any compensation payments in such a way as it deems appropriate taking into account the circumstances of departure. Any payments of compensation will be subject to negotiation, and the group policy is to consider whether mitigation and phasing of payments is appropriate.

The committee reserves the right to make any other payments in connection with a director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a settlement of any claim arising in connection with the cessation of a director's office or employment. Any such payments may include amounts in respect of accrued leave, paying any fees for outplacement assistance and/or the director's legal or professional advice fees in connection with his or her cessation of office or employment.

In the event of a director's departure any outstanding share awards will be treated in accordance with the relevant plan rules.

Directors' remuneration report *continued*
Directors' remuneration policy *continued*

The following principles apply for the treatment of remuneration elements following loss of office for a director:

Remuneration element	Treatment upon loss of office
Bonus	There is no automatic entitlement to annual bonus. Taking into account the circumstances of leaving, the committee retains the discretion to award a bonus in respect of performance in the financial year with appropriate consideration of time pro-rating.
Deferred shares	If a director ceases office or employment with the group any unvested awards will lapse unless the individual is a good leaver. Good leaver circumstances are cessation by reason of injury, ill-health, permanent disability or retirement (with the agreement of the employing company) and, if the committee so determines, redundancy, the sale of the individual's employing company or business out of the group, or such other circumstances as the committee may determine. In these good leaver circumstances awards may vest in full or be time pro-rated, and be delivered on cessation or at the normal time. If a director dies his or her awards will vest in full.
Staff underwriting participation plan	For leavers, profit results are payable in respect of years of account commencing before cessation. A participant receives repayment of notional capital invested reduced by any loss result for the relevant year of account.
LTIP	If a director ceases office or employment with the group any unvested awards will lapse unless the individual is a good leaver. An individual is a good leaver if employment ceases because of death, ill-health, injury, disability, the sale of the individual's employing company or business out of the group or for any other reason at the committee's discretion (except where a participant is dismissed lawfully without notice). Awards will vest on the normal vesting date, unless the committee determines that awards should vest at the time the individual ceases employment. Any applicable holding period will ordinarily continue to apply, although the committee may bring the holding period to an end early in exceptional circumstances (for example in the event of termination due to ill health). If the participant dies awards will vest as soon as practicable after the date of death and the holding period will cease to apply. Awards will vest taking into account the satisfaction of any performance condition and, unless the committee determines otherwise, the period of time that has elapsed since the award was granted until the date of cessation of employment.
Pension	The director will be eligible to receive the standard contribution to the defined contribution pension plan during the notice period, or cash equivalent. 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.
HMRC approved all-employee plans (or equivalent overseas plans)	Leavers will be treated in accordance with the approved plan rules.
Recruitment awards	Were a buyout award to be made under LR 9.4.2 (or in other circumstances outside of the existing share plan rules) then the leaver provisions would be determined at the time of award.

In the event of a change of control or winding up of the company, treatment of share awards will be in accordance with the relevant plan rules. In these circumstances unvested LTIP awards and deferred shares may vest early. The extent to which unvested LTIP vest would be determined by the committee taking into account the satisfaction of any performance conditions, the period of time that has elapsed since the award was granted until the date of the event and any other factors the committee considers relevant. Deferred shares will vest to the extent determined by the committee taking into account any factors it considers relevant. Alternatively, the committee may determine that LTIP awards or deferred shares may be exchanged for equivalent awards on such terms as agreed with the acquiring company. If there is a demerger, delisting or other event which may materially affect the company's share price, LTIP awards may vest on the same basis as for a takeover. In the event of a change of control or other relevant event during the holding period applying to an LTIP award, the holding period will come to an end.

Non-executive directors' fee policy and service contracts

With effect from 2012 the standard approach for non-executive director appointment is that the appointment expires at the AGM following the end of the three year term, notwithstanding the fact that each director is subject to annual re-election at each AGM. Although there is currently no intention to do so, the board reserves the right to introduce notice periods for non-executive directors in the future. Details of the non-executive directors' current contracts are set out on page 118.

Consideration of conditions elsewhere in the company

As part of the regular cycle, the committee is informed of pay and employment conditions of wider employees in the group and takes these into account when determining the remuneration for executive directors. While the review includes various statistics on the outcome of the wider employee pay review, the review does not currently include any direct comparison measures between executive directors and wider employee pay. The company does not consult with employees on executive director remuneration.

Consideration of shareholders views

Following the committee's review of the remuneration policy we wrote to our major shareholders with the proposed changes in order to gather their views. A number of shareholders provided feedback on the proposals for which we are very grateful. We were pleased to find that the majority of shareholders were supportive of our new policy and its continued alignment with our long-term strategic priorities. The committee carefully considered the feedback received and made certain adjustments to our proposals to take into account the views of our shareholders.

The remuneration committee also regularly reviews guidance from shareholder advisory bodies such as the Investment Association, ISS and Glass Lewis, as well as the specific policies of our shareholders. These guidelines and policies were also carefully considered in developing the policy.

Minor changes

The committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax, or administrative purposes, or to take account of a change in legislation) without obtaining shareholder approval for such amendments.

Directors' remuneration report *continued*

Annual remuneration report

The symbol ▪ by a heading indicates that the information in that section has been audited. This part of the report, the annual remuneration report, sets out the remuneration out-turns for 2019 (and how these relate to our performance in the year) and details of the operation of our policy for 2020.

Single total figure of remuneration ▪

The tables below set out the single figure of total remuneration for executive directors and non-executive directors for the financial years ending 31 December 2019 and 31 December 2018.

Executive directors

		Fixed pay			Pay for performance		
£		Salary	Benefits	Pension	Total annual bonus[1]	Long term incentives (LTI)	Total Remuneration[2]
Martin L Bride[3]	2019	134,275	4,593	17,698	275,000	257,796	689,364
	2018	330,000	11,949	43,497	200,000	328,175	913,621
Adrian P Cox	2019	380,000	12,030	50,088	900,000	304,286	1,646,404
	2018	351,000	10,602	46,265	300,000	353,195	1,061,062
D Andrew Horton	2019	482,500	16,853	63,598	1,100,000	530,775	2,193,726
	2018	468,500	16,762	61,753	350,000	627,856	1,524,600
Sally M Lake[4]	2019	207,487	2,241	23,532	371,000	65,731	669,991
	2018	–	–	–	–	–	–

1 A portion of the bonus awards shown in the table above is deferred into shares for three years. Details of the deferral in respect of 2019 awards can be found on page 113.
2 A significant portion of the single figure values shown arises from the substantial share price appreciation over the period. For 2019 the share price at the time LTI awards were made was, 295.73p for the 2015 award and 434.33p for the 2017 award, while the average share price in the last three months of 2019 was 564.6p. For 2019 the proportion of the LTI figures shown attributable to share price appreciation was £116,000 for Martin L Bride, £135,000 for Adrian P Cox, £238,000 for D Andrew Horton and £28,000 for Sally M Lake.
3 Martin L Bride stepped down from the board on 23 May 2019.
4 Sally M Lake was appointed to the board on 23 May 2019. Further details of her remuneration arrangements are set out on page 117.

The figures in the preceding table reflect the following:

- salaries for 2019 increased by an average of 4.6%;
- annual bonus out-turns were higher than last year, commensurate with group performance; and
- LTI out-turns reflect that the second tranche of the 2015 LTI award vested at 55.0% of maximum and that the first tranche of the 2017 LTI award vested at 0% of maximum. Beazley achieved sustained NAV growth of 13.7% per annum and 9.5% per annum over the three and five year periods respectively. Beazley also achieved significant share price appreciation as detailed in the notes to the table.

Non-executive directors

		Total fees £[1]
George P Blunden[2]	2019	20,563
	2018	87,750
Angela D Crawford-Ingle[3]	2019	41,042
	2018	95,000
Nicola Hodson[4]	2019	44,548
	2018	–
Christine LaSala[5]	2019	78,313
	2018	67,192
Sir J Andrew Likierman	2019	78,500
	2018	76,000

		Total fees £[1]
David L Roberts	2019	257,500
	2018	211,462
John P Sauerland[6]	2019	69,767
	2018	67,192
Robert A Stuchbery	2019	89,500
	2018	86,250
A John Reizenstein[7]	2019	71,349
	2018	–
Catherine M Woods[8]	2019	80,134
	2018	76,788

1 Other than for the chair, fees include fees paid for chair of the audit and risk and remuneration committees, and for the role of senior independent director, as well as fees, where relevant, for membership of the subsidiary boards of Beazley Furlonge Limited (BFL) and Beazley Insurance dac, the chair of the BFL risk committee and Beazley Insurance Company, Inc. (BICI).
2 George P Blunden stepped down from the plc board and as senior independent director (SID) effective 21 March 2019.
3 Angela D Crawford-Ingle stepped down from the plc board and as chair of the audit and risk committee effective 31 May 2019.
4 Nicola Hodson joined the plc board on 10 April 2019 and the figure in the table above represents her fees from this date.
5 Christine LaSala received fees of $10,500 for her role on the BICI board which are represented in the table above. The fees for this role have been converted at an exchange rate of 1.27. Christine also joined the remuneration committee and nomination committee as well as becoming the SID on 21 March 2019.
6 John P Sauerland received fees of $10,500 for his role on the BICI board which are represented in the table above. The fees for this role have been converted at an exchange rate of 1.27.
7 John Reizenstein joined the plc board on 10 April 2019 and became chair of the audit committee on 31 May 2019. The figure in the table above represents his fees from these dates.
8 Catherine M Woods' non-executive director fee was based on €89,750 (2018: €87,000) and has been converted into sterling for this table at the average exchange rate of 1.12 (2018: the fee was converted into £76,788 at the average exchange rate of 1.13).

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 2020, the average salary increase was 2.7%, which was below the average salary increase across the group.

The base salaries for the executive directors in 2019 and 2020 are as set out below:

	2019 base salary £	2020 base salary £	Increase %
Martin L Bride[1]	340,000	n/a	n/a
Adrian P Cox	380,000	390,000	2.6
D Andrew Horton	482,500	495,000	2.6
Sally M Lake[2]	340,000	350,000	2.9

1 Martin L Bride stepped down from the board on 23 May 2019.
2 Sally M Lake was appointed to the board on 23 May 2019.

Benefits ▪
Benefits include private medical insurance for the director and their immediate family, income protection insurance, death in service benefit at four times annual salary, travel insurance, health-club membership, season ticket and the provision of either a company car or a monthly car allowance.

Pension ▪
Beazley operates a defined contribution scheme arranged through Fidelity. The legacy contribution for executive directors was 15% of salary.

Following changes to pension tax legislation that came into force from April 2011, if an individual exceeds the lifetime or annual allowance, an equivalent cash alternative is offered. For the directors that were in place prior to 2019, Andrew Horton and Adrian Cox, the cash alternative is equal to 13.2% of salary.

Following her appointment to the board in 2019 Sally Lake's pension level was set at 12.5% of salary, which is aligned with the rate available to the majority of the UK workforce.

Prior to 31 March 2006 the company provided pension entitlements to directors that are defined benefit in nature, based on its legacy policy under the Beazley Furlonge Limited Final Salary Pension Scheme. Future service accruals ceased on 31 March 2006. Only base salary is pensionable, subject to an earnings cap. The normal retirement age for pension calculation purposes is 60 years. A spouse's pension is the equivalent of two-thirds of the member's pension (before any commutation) payable on the member's death after retirement.

Details of the defined benefit entitlements of those who served as directors during the year are as follows:

	Accrued benefit at 31 Dec 2019 £	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 2019 £	Transfer value less directors' contributions £	Normal retirement date
Adrian P Cox	13,904	–	322	–	500,832	82,260	12 Mar 2031

Under the Beazley Furlonge Limited Final Salary Pension Scheme, on early retirement the director receives a pension which is reduced to reflect early payment in accordance with the rules of the scheme.

No other pension provisions are made.

Directors' remuneration report *continued*
Annual remuneration report *continued*

Annual bonus ▪
The annual bonus plan is a discretionary plan in which all employees are eligible to participate. The annual bonus is funded by a bonus pool. The pool is calculated as a percentage of profit subject to a minimum group ROE. The size of the pool as a percentage of profit increases for higher levels of ROE. This ensures that outcomes are strongly aligned with shareholders' interests.

The operation of an annual bonus pool approach reflects Beazley's commitment to encourage teamwork at every level, which, culturally, is one of its key strengths. A broad senior management team, beyond executive directors, participate in the bonus pool, reinforcing the company's collegiate culture.

Once the annual bonus pool has been calculated the committee determines individual allocations taking into consideration corporate/strategic achievements and individual achievements. The bonus is discretionary and, rather than adopting a prescriptive formulaic framework, the committee considers wider factors in its deliberations at the end of the year: for example quality of profit and risk considerations.

In determining awards, the committee will not necessarily award the bonus pool in aggregate (i.e. the sum of the bonus awards may be less than the bonus pool).

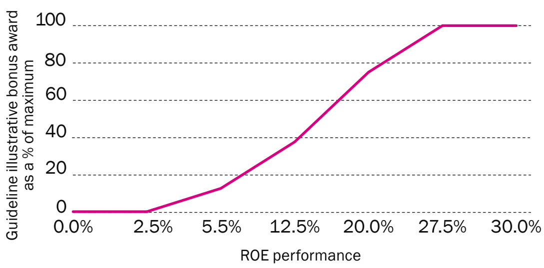
The approach to the calculation of bonuses is aligned to shareholders' interests and ensures that bonuses are affordable, while the ROE targets increase the performance gearing.

The committee reviews the bonus pool framework each year to ensure it remains appropriate, taking into account the prevailing environment, interest rates and expected investment returns, headcount and any other relevant factors.

Annual bonus out-turn for 2019
The process for determining 2019 bonuses is described below, including full details of the ROE targets underpinning our bonus approach along with the guideline levels which are used by the committee in its determination for each executive director.

Annual bonus pool calculation
At the beginning of the financial year, the risk-free return (RFR) was set at 2.5% taking into account the yield on US treasuries of two to five year maturities. This resulted in the following ROE hurdles and guideline bonus awards:

2019 ROE hurdles and guideline bonus awards



ROE performance hurdles	Threshold				Maximum
ROE performance	2.5%	5.5%	12.5%	20.0%	27.5%
Guideline/illustrative bonus award as a % of maximum	0%	12.5%	37.5%	75%	100%

These percentages are indicative only and based on broad corporate results. Within the pool framework bonus out-turns may be higher or lower taking into account corporate achievements and individual performance (see next page).

ROE for 2019 was 15% and the overall bonus pool (in which executive directors as well as other senior employees participate) was calculated based on this.

The annual bonus pool outcome is considered by the committee taking into account the outcome of the group's ROE/profit. The framework is used by the committee as a broad guideline rather than being formulaic and applies to a broader group of executives than board directors. A key principle of the process is that the committee exercises its judgement in determining individual awards taking into account the corporate/strategic objectives, individual's contribution and performance. In particular, there may be a diverse spread of returns earned across the various divisions within the business which will be reflected in bonus out-turns achieved. The table therefore provides full retrospective disclosure of all the group financial targets and corporate/strategic performance which the committee considers when determining the annual bonuses.

Assessment of corporate achievements

In determining annual bonuses for 2019 the committee took into account a range of financial and strategic elements as set out below.

Element	Achievements
Financial performance	• The delivery of a profit after tax of $234.1m and the return of $83.2m to shareholders by way of dividend as a result of strong investment returns and rates responding sharply to heightened claims activity in many lines of business. • Delivery of growth in our gross premiums written of 15%. • Reducing the expense ratio in line with our long term plan.
US performance	• Locally underwritten US premiums grew 13% during the year. • Beazley Benefits, our renamed accident and health team in the US, leveraged growth in the market with premiums rising by 20%. • Launched new admitted insurance company, Beazley America Insurance Company, Inc. • Extended the growth of our market leading products in the US, such as cyber, healthcare liability, accident and health, and environmental liability. • Launched new products including the Site Lender Environment Asset Protection, to protect lenders from pollution risks that could impair the value of property used as collateral for commercial loans. • Opened offices in Seattle, Denver and Phoenix as part of expanding our presence in the US. • Moved to a new Activity Based Working (ABW) office in New York. ABW is being rolled out across the business as we move or open new offices, giving employees greater options for working in the most productive way.
Investment performance	• Achieved a portfolio return of 4.8%.
International growth	• Continued demand for many of our specialist products in Canada, Europe and Asia, and significant growth potential in financial institutions business. • 17% European growth, with all platforms future-proofed post Brexit. • Growing demand for newer lines of business internationally, for example our cyber business grew by 26% outside the US in 2019. • Expanded our specialty treaty, property and mergers and acquisitions offering in Singapore. • Launched new products including marine cyber, reputational risk, virtual care and a myBeazley management liability cyber package across the UK and Europe.
Strategic Initiatives	• Strong progress made against all four strategic initiatives, which were identified as areas having the potential to make a considerable difference to the business. • Beazley Digital has successfully trialled across several product lines new ways to maximise use of technology to give seamless and efficient solutions to clients and brokers. • Faster, Smarter Underwriting has focused on larger more complex risks and is increasing our efficiency and quality of complex risk underwriting and claims settlement. • Closer to the Client has identified a group of clients to pilot a new way of working with and has increased cross-selling and client retention across the business. • London Market has focused on promoting London as a great place to write specialist insurance and is working on improving the efficiency of the London market.

Directors' remuneration report *continued*
Annual remuneration report *continued*

Assessment of individual contributions
While a number of the specific individual objectives of the executive directors are considered commercially sensitive, the following provides details of executive director achievements which the committee took into account.

Executive	Objectives	Achievements
Adrian P Cox (chief underwriting officer)	• Deliver 2019 business plan KPI's. • Strengthen capabilities in third party capital management. • Co-sponsor the Faster, Smarter Underwriting strategic initiative. • Build effective relationships with key stakeholders, focusing on US and UK initially. • Continue to oversee growth of Syndicate 5623. • Ensure action is taken on underperforming classes of business.	• Exceeded business KPI's including in rate change (6.3% v 0.9%), premiums (£2.8b to £2.7b 2019 YOA) and, increased reserve surplus over actuarial (from 5.1% to 6.8%). • Capabilities strengthened including capital raising for 5623, 6107 and cyber reinsurance. • Good progress made on Faster, Smarter Underwriting with new tools launched to aid underwriting. • Stakeholder relationships being enhanced and has a key role on the Lloyd's Market Association. • Syndicate 5623 plan for 2019 delivered with 330% growth in premium from \$8m to \$36m. • Focus on underperforming classes of business saw Beazley exit US trucking, construction and engineering and UK cargo and freight portfolio, along with the fishing vessels and UK commercial hull.
D Andrew Horton (chief executive officer)	• Ensure considerable progress made on group strategic initiatives. • Ensure Beazley is supporting a more efficient London market. • Develop and support new executive committee members. • Determine five year plan for syndicate 5623. • Rebuild succession plans given recent management changes.	• All strategic initiatives are now gaining momentum, resulting in productivity improvements and improved outputs. • Strong relationship built with Lloyd's and chairs the London Market Group. • Development plans in place and being implemented for all executive committee members. • Delivered five year plan for syndicate 5623 • Strong succession plans delivered during 2019, with three internal successors for five executive committee roles. New succession plans have been created and development plans now being implemented for individuals identified.
Group finance director (Martin L Bride to May 2019 Sally M Lake from May 2019)	• Active capital management, including \$300.0m of debt raised. • Deliver strong investment return. • Pursue expense improvement and containment of expense ratio. • Ensure smooth transition to new group finance director. • Ensure focus on agreed elements of Women in Finance Charter. • Ensure the business is prepared for IFRS 17.	• Strong capital management, with debt raised as planned. • Competitive investment return delivered. • Good focus across the business on expense management. • Handover to new group finance director executed professionally, with 90 day plan implemented. • Achieved the 2020 Women in Finance Charter target. Beazley were the first Lloyd's managing agent and specialist insurer to sign up to increasing female representation in the group's leadership to at least 35% by 2020. We moved from 29% in 2018 to 37% at the start of 2020 and a new target is now being set. • IFRS 17 planning underway and project on track.

Annual bonus award outcomes for 2019
Within the framework of the annual bonus, in respect of individual performance and achievements, awards are dependent on a profit pool and minimum level of ROE performance. The resultant bonuses were as follows:

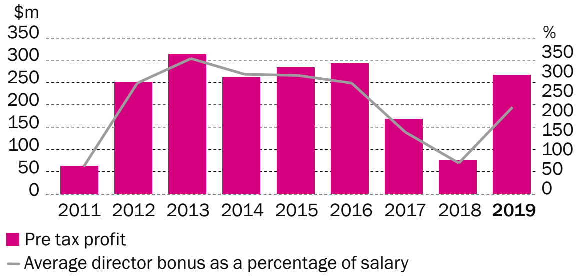
	Bonus (delivered as a mix of cash and deferred shares)	% of maximum	% of salary
Martin L Bride[1]	£275,000	51%	205%
Adrian P Cox	£900,000	59%	237%
D Andrew Horton	£1,100,000	57%	228%
Sally M Lake[2]	£371,000	45%	179%

1 Martin L Bride stepped down from the board on 23 May 2019. He remained eligible for a bonus in respect of the period of the year worked.

2 Sally M Lake was appointed to the board on 23 May 2019.

The following graph and table set out the out-turn for 2019 against performance and illustrate the way in which bonuses over time reflect profit and ROE performance.

Average executive director bonus (% of salary)



	2011	2012	2013	2014	2015	2016	2017	2018	**2019**
Pre-tax profit	$63m	$251m	$313m	$262m	$284m	$293m	$168m	$76m	**$268m**
Post-tax ROE	6%	19%	21%	17%	19%	18%	9%	5%	**15%**
Average executive director bonus as a percentage of salary	c.64%	c.272%	c.333%	c.294%	c.291%	c.272%	c.150%	c.73%	**c.212%**

Bonus deferral ▪

A portion of the bonus will generally be deferred into shares for three years. For 2019 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 2019 (see investment in underwriting section on page 115 for further details).

For 2019, the portion of each director's annual bonus deferred into shares was as follows:

	Deferred into shares
Martin L Bride	£110,000
Adrian P Cox	£270,000
D Andrew Horton	£330,000
Sally M Lake	£111,300

Directors' remuneration report *continued*
Annual remuneration report *continued*

Bonus awards for 2020
The annual bonus for 2020 will operate within a similar framework as set out above however we will enhance the disclosure of our approach by providing additional information on financial, corporate/strategic and individual performance. In addition, a 20% minimum deferral in to shares will be in operation with the maximum portion of the bonus that can be deferred into shares will be increased from 37.5% of the bonus to 40% of the bonus. The level of deferral will continue to depend on the level of the bonus.

Long term incentive plan (LTIP) ▪
Under the LTIP executive directors, senior management and selected underwriters receive awards of shares subject to the achievement of stretching performance conditions measured over three and five years.

The key features of the plan are as follows:
- 50% of the award is measured after three years and 50% after five years;
- awards are in the form of nil-cost options with a 10-year term;
- participants are expected to build a shareholding in Beazley equal to their annual award level. For example the CEO has a shareholding requirement of 200% of salary. Participants have three years to build this shareholding. LTIP awards may be forfeited if shareholding requirements are not met; and
- in accordance with the updated UK Corporate Governance Code, since 2019, the first tranche of LTIP awards has been subject to a further two year holding period taking the total time frame for the entire award to five years.

Vesting of awards is based on growth in net asset value per share (NAVps), one of Beazley's key performance indicators. The committee considers the LTIP NAVps growth targets to be very stretching, particularly taking into account that growth must be over a sustained three and five year period.

Growth in NAVps is calculated taking into account any payment of dividends by the company. In line with our reporting to shareholders, NAVps is denominated in US dollars.

LTIP awards vesting in respect of the year ▪
The LTIP awards shown in the single total figure of remuneration for 2019 include:
- the second tranche of awards granted on 10 February 2015. These are due to vest on 10 February 2020, subject to the achievement of a NAVps growth performance condition over the five years ended 31 December 2019; and
- the first tranche of awards granted on 8 February 2017. These are due to vest on 8 February 2020, subject to the achievement of a NAVps growth performance condition over the three years ended 31 December 2019.

The results were independently calculated by Deloitte LLP.

The NAVps performance conditions for both these awards are as follows:

NAVps performance	% of award vesting
NAVps growth < average risk-free rate +7.5% p.a.	0%
NAVps growth = average risk-free rate +7.5% p.a.	10%
NAVps growth = average risk-free rate +10% p.a.	25%
NAVps growth = average risk-free rate +15% p.a.	100%
Straight-line vesting between points	

Actual NAVps growth achieved in the five years to 31 December 2019 was 13.7% p.a. which resulted in 55.0% of the second tranche of the 2015 awards vesting.

Actual NAVps growth achieved in the three years to 31 December 2019 was 9.5% p.a. which resulted in 0% of the first tranche of the 2017 awards vesting.

LTIP awards for 2019 ▪

During 2019 LTIP awards with a face value equal to 200% of salary for the CEO and 100% to 150% of salary were granted to executive directors. The awards were as shown in the table below.

Share awards granted during the year ▪

Individual	Type of interest	Basis on which award made	Number of shares awarded	Face value of shares (£)[1]	% vesting at threshold	Performance period end: Three years (50%)	Performance period end: Five years (50%)
LTIP							
Martin L Bride	Nil cost option (LTIP)	150% of salary	–	–	10%	31/12/2021	31/12/2023
Adrian P Cox	Nil cost option (LTIP)	150% of salary	111,729	570,000	10%	31/12/2021	31/12/2023
D Andrew Horton	Nil cost option (LTIP)	200% of salary	189,156	965,000	10%	31/12/2021	31/12/2023
Sally M Lake	Nil cost option (LTIP)	100% of salary	37,243	190,000	10%	31/12/2021	31/12/2023
Deferred bonus *(in respect of 2019 bonus)*							
Martin L Bride	Deferred shares	n/a	–	–	–	–	–
Adrian P Cox	Deferred shares	n/a	8,820	45,000	–	–	–
D Andrew Horton	Deferred shares	n/a	10,290	52,500	–	–	–
Sally M Lake	Deferred shares	n/a	3,430	17,500	–	–	–

1 The face value of shares awarded was calculated using the three day average share price prior to grant, which was 510.16p.

NAVps performance	% of award vesting
NAVps growth < risk-free rate +7.5% p.a.	0%
NAVps growth = risk-free rate +7.5% p.a.	10%
NAVps growth = risk-free rate +10% p.a.	25%
NAVps growth = risk-free rate +15% p.a.	100%
Straight-line vesting between points	

LTIP awards for 2020

It is intended that the performance conditions for the LTIP awards for 2020 will be in line with those granted in 2019 (see table above). The remuneration committee may adjust the vesting level of the LTIP awards if it considers that they do not reflect the underlying financial or non-financial performance of the individual or the Company. LTIP awards will be 200% of salary for the CEO and 150% for other executive directors.

Dilution

The share plans permit 10% of the company's issued share capital to be issued pursuant to awards under the LTIP, SAYE and option plan in a 10-year period.

The company adheres to a dilution limit of 5% in a 10 year period for executive schemes.

Investment in underwriting ▪

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

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

To date over 300 employees of the group have committed to put at risk £16.0m of bonuses to the underwriting results of syndicate 623. Of the total at risk, £11.9m has already been deferred from the bonuses awarded.

Directors' remuneration report *continued*
Annual remuneration report *continued*

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

	Total bonuses deferred £	2018 year of account underwriting capacity £	2019 year of account underwriting capacity £	2020 year of account underwriting capacity £
Adrian P Cox	191,600	400,000	400,000	400,000
D Andrew Horton	191,600	400,000	400,000	400,000
Sally M Lake[1]	–	n/a	n/a	100,000

1 Sally M Lake was appointed to the board on 23 May 2019.

The executive directors who are participating in the 2018 and 2019 year of account, are currently fully funded in the plan and no further bonus deferral was made in 2019. Sally Lake will be participating in the plan for the first time for the 2020 year of account.

Malus and clawback
Recovery provisions (malus and clawback) have applied to incentives for a number of years. Further detail on the recovery provisions, including the circumstances and timeframe for which they can be applied are set out in the remuneration policy.

Risk and reward at Beazley
The committee regularly reviews developing remuneration governance in the context of Solvency II remuneration guidance, other corporate governance developments and institutional shareholders' guidance. The chief risk officer reports annually to the remuneration committee on risk and remuneration as part of the regular agenda. The committee believes the group is adopting an approach which is consistent with, and takes account of, the risk profile of the group.

We believe reward at Beazley is appropriately balanced in light of risk considerations, particularly taking into account the following features:

Features aligned with risk considerations	
Share deferral	A portion of bonus is normally deferred into shares for three years. These deferred shares, together with shares awarded under the LTIP, mean that a significant portion of total remuneration is delivered in the form of shares deferred for a period of years.
LTIP holding period	For awards made from 2019 the first tranche of the LTIP is subject to a further two-year holding period.
Extended performance periods	A portion of the LTIP has performance measured over an extended five-year period.
Shareholding requirements	Executive directors are expected to build up and maintain a shareholding of 200% of salary. LTIP awards may be forfeited if shareholding requirements are not met. From 2020 executive directors are expected to maintain a shareholding post-departure.
Investment in underwriting	Management and underwriters may defer part of their bonuses into the Beazley staff underwriting plan, providing alignment with capital providers. Capital commitments can be lost if underwriting performance is poor.
Underwriters' remuneration aligned with profit achieved	Under the profit related bonus plan payments are aligned with the timing of profits achieved on the account. For long tail accounts this may be in excess of six years. If the account deteriorates then payouts are 'clawed back' through adjustments to future payments. Since 2012 profit related pay plans may be at risk of forfeiture or reduction if, in the opinion of the remuneration committee, there has been a serious regulatory breach by the underwriter concerned, including in relation to the group's policy on conduct risk.
Clawback and malus provisions for annual bonus and LTIP shares	For deferred share awards and LTIP awards from 2012 malus provisions were introduced. For LTIP awards from 2015 and annual bonus in respect of 2015 and onwards, clawback provisions also apply for executive directors.

Service contracts and payments for loss of office

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

Martin Bride stepped down from the board at the conclusion of its meeting on 23 May 2019 and retired on 31 August 2019. The remuneration committee determined that Martin would be treated as a good leaver for the purposes of his incentives. Martin remained eligible for a pro-rated bonus for the year as shown on page 108. Martin's outstanding share awards subsist to their normal release/vesting date subject to performance where applicable.

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

Remuneration arrangements for Sally Lake

As announced last year, Sally Lake was promoted from group actuary to group finance director, effective from 23 May 2019. Sally's remuneration arrangements are in-line with our remuneration policy:

- Sally was appointed on a salary of £340,000, in-line with the level received by her predecessor.
- Her pension level was set at 12.5% of salary, which is aligned with the rate available to the wider workforce.
- Sally is eligible for a maximum bonus opportunity of 400% of salary and was awarded an LTIP award with a maximum value of 100% of salary during 2019.

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 2019 were £100,000.

Non-executive directors' fees

The fees of non-executive directors are determined by the board and are reviewed annually. When setting fee levels consideration is given to levels in comparable companies for comparable services and also to the time commitment and responsibilities of the individual non-executive director. No non-executive director is involved in the determination of their fees.

A review of non-executive director time commitments was undertaken during the year and in recognition of a significant increase in workload and time commitment over the past few years, an additional fee for committee membership has been introduced for 2020. This includes further fees for the designated non-executive director representing employee voice and those non-executive directors who are members of the audit and risk and remuneration committees. Details of the non-executive directors' fees payable for plc board responsibilities are set out below:

	2019 fee	2020 fee
Chair of board fee	£206,000	£211,150
Basic fee	£61,500	£63,100
Senior independent director fee (additional)	£11,000	£11,300
Chair of audit and risk committee fee (additional)	£18,500	£19,000
Chair of remuneration committee fee (additional)	£17,000	£17,500
Membership fee for non-executive directors on the audit and risk committee (additional)	–	£7,500
Membership fee for non-executive directors on the remuneration committee (additional)	–	£5,000
Fee for designated non-executive director representing employee voice (additional)	–	£5,000

Beazley operates across Lloyd's, Europe and the US markets through a variety of legal entities and structures. Non-executive directors, in addition to the plc board, typically sit on either one of our key subsidiary boards, namely Beazley Furlonge Ltd, our managing agency at Lloyd's, or Beazley Insurance dac, our Irish insurance company. Non-executive directors may receive additional fees for sitting on subsidiary boards. As a result of developments in regulation, the degree of autonomy in the operation of each board has increased in recent years, with a consequent increase in time commitment and scope of the role.

No non-executive director participates in the group's incentive arrangements or pension plan.

Directors' remuneration report *continued*
Annual remuneration report *continued*

Non-executive directors are appointed for fixed terms, normally for three years, and may be reappointed for future terms. Non-executive directors are typically appointed through a selection process that assesses whether the candidate brings the desired competencies and skills to the group. The board has identified several key competencies for non-executive directors to complement the existing skill-set of the executive directors. These competencies may include:

- insurance sector expertise;
- asset management skills;
- public company and corporate governance experience;
- risk management skills;
- finance skills; and
- IT and operations skills.

Non-executive directors' service contracts ▪
Details of the non-executive directors' terms of appointment are set out below:

	Commencement of appointment	Expires
Christine LaSala	1 Jul 2016	AGM 2020
Sir J Andrew Likierman	25 Mar 2015	AGM 2021
David L Roberts	1 Nov 2017	AGM 2021
John P Sauerland	5 May 2016	AGM 2020
Robert A Stuchbery	11 Aug 2016	AGM 2020
Catherine M Woods	1 Jan 2016	AGM 2022
A John Reizenstein	10 Apr 2019	AGM 2022
Nicola Hodson	10 Apr 2019	AGM 2022

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

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. The UK SAYE scheme has been extended to eligible employees in Singapore, Ireland, Canada, France, Germany and Spain. The Irish SAYE scheme has been approved by the Irish Revenue.

US SAYE
The Beazley plc savings-related share option plan for US employees permits all eligible US-based employees to purchase shares of Beazley plc at a discount of up to 15% to the shares' fair market value. Participants may exercise options after a two-year period. The plan is compliant with the terms of section 423 of the US Internal Revenue Code and is similar to the SAYE scheme operated for UK-based Beazley employees.

Retention shares
The retention plan may be used for recruitment or retention purposes. Any awards vest at 25% per annum over years three to six. Policy going forward is that existing executive directors do not participate in this plan and no executive directors have subsisting legacy awards outstanding.

CEO pay increase in relation to all employees

	Percentage change in remuneration from 31 Dec 2018 to 31 Dec 2019		
	Percentage change in base salary %	Percentage change in benefits %	Percentage change in annual bonus %
CEO	3.00%	2.47%	214.3%
All employees	4.01%	5.96%	42.4%

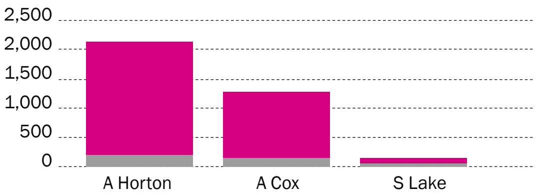
Note: Salary and bonus are compared against all employees of the group. Benefits (including pension) are compared against all UK employees, reflecting the group's policy that benefits are provided by reference to local market levels.

Directors' remuneration report *continued*
Annual remuneration report *continued*

Statement of directors' shareholdings and share interests ▪

LTIP participants are expected to build a shareholding in Beazley equal to their annual award level. The 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. The CEO and CUO met their shareholding guidelines. The group finance director was appointed during the year and has made progress towards meeting her guideline (see chart below).

Directors' shareholdings (% of salary)



The table below shows the total number of directors' interests in shares as at 31 December 2019 or date of cessation as a director.

		Unvested awards			Vested awards	
Name	Number of shares owned (including by connected persons)	Conditional shares not subject to performance conditions (deferred shares and retention shares)	Nil cost options subject to performance conditions (LTIP awards)	Options over shares subject to savings contracts (SAYE)	Unexercised nil cost options	Options exercised in the year
George P Blunden[1]	40,000	–	–	–	–	–
Martin L Bride[2]	169,643	73,329	344,216	–	–	131,107
Adrian P Cox	905,082	111,907	499,746	4,202	–	159,500
Sally M Lake[3]	50,000	13,160	149,675	4,662	–	4,230
D Andrew Horton	1,834,136	127,352	844,100	4,603	–	231,451
Angela D Crawford-Ingle[4]	34,207	–	–	–	–	–
Christine LaSala	40,000	–	–	–	–	–
Sir J Andrew Likierman	10,000	–	–	–	–	–
David L Roberts	50,750	–	–	–	–	–
John P Sauerland	30,000	–	–	–	–	–
Robert A Stuchbery	62,500	–	–	–	–	–
Catherine M Woods	30,000	–	–	–	–	–
A John Reizenstein[5]	10,000	–	–	–	–	–
Nicola Hodson	–	–	–	–	–	–

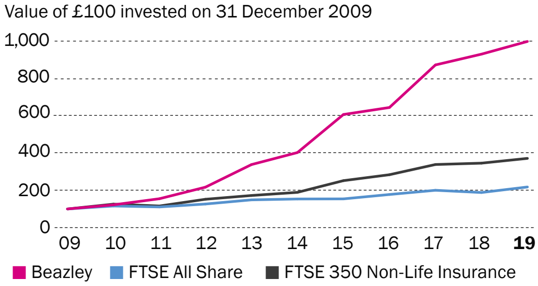
1 George P Blunden ceased to be a director on 21 March 2019.
2 Martin L Bride ceased to be a director on 23 May 2019.
3 Sally M Lake was appointed as a director on 23 May 2019.
4 Angela D Crawford-Ingle ceased to be a director on 31 May 2019.
5 John Reizenstein and Nicola Hodson were appointed as directors on 10 April 2019.

No changes in the interests of directors have occurred between 31 December 2019 and 5 February 2020.

CEO pay versus performance

The following graph sets out Beazley's 10 year total shareholder return performance to 31 December 2019, compared with the FTSE All Share and FTSE 350 Non-Life Insurance indices. These indices were chosen as comparators as they comprise companies listed on the same exchange and, in the case of the Non-Life Insurance index, the same sector as Beazley.

Total shareholder return performance



Historical CEO payouts

Year	CEO single figure of total remuneration	Annual variable award (% of maximum opportunity)[1]	Long term incentives vesting (% of maximum opportunity)
2010	£1,525,102	63%	50%
2011	£1,008,669	14%	99%
2012	£2,339,573	71%	84%
2013	£2,922,392	93%	100%
2014	£3,745,989	74%	100%
2015	£3,711,647	73%	100%
2016	£3,715,146	70%	100%
2017	£3,140,145	38%	98%
2018	£1,524,600	19%	41%
2019	£2,193,726	57%	37%

1 An individual overall cap of 400% of salary was introduced from 2013. Prior to this date and in line with industry practice, there was no formal limit on individual bonuses. To enable comparison, the above table assumes that a maximum annual variable award of 400% of salary also applied for years prior to 2013.

Pay ratio data

The following table provides pay ratio data in respect of the CEO's total remuneration compared to the 25th, median and 75th percentile UK employees.

Financial year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	Option A	42:1	25:1	15:1

The employees used for the purposes of the table above were identified on a full-time equivalent basis as at 31 December 2019. Option A was chosen as it is considered to be the most accurate way of identifying the relevant employees. This captures all relevant pay and benefits and aligns to how the single figure table is calculated.

Directors' remuneration report *continued*
Annual remuneration report *continued*

The following table provides salary and total remuneration information in respect of the employees at each quartile.

Financial year	Element of pay	25th percentile employee	Median employee	75th percentile employee
2019	Salary	£38,500	£63,650	£95,300
	Total remuneration	£52,500	£89,500	£148,300

Note: Salary and bonus are compared against all employees of the UK group.

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)
2018	$208.8m	$79.5m
2019	$218.8m	$83.2m

Directors' share plan interests ▪
Details of share plan interests of those directors who served during the period are as follows:

	Outstanding options at 1 Jan 2019[1]	Options granted	Options exercised	Lapsed unvested	Outstanding options at 31 Dec 2019[2]
Martin L Bride					
Deferred bonus:	140,399	–	67,070	–	73,329
LTIP (see notes):	493,867	–	64,037	85,614	344,216
SAYE:	–	–	–	–	–
Adrian P Cox					
Deferred bonus:	186,925	8,820	83,838	–	111,907
LTIP (see notes):	548,962	111,729	68,920	92,025	499,746
SAYE:	6,742	4,202	6,742	–	4,202
D Andrew Horton					
Deferred bonus:	226,052	10,290	108,990	–	127,352
LTIP (see notes):	940,913	189,156	122,461	163,508	844,100
SAYE:	4,603	–	–	–	4,603
Sally M Lake					
Deferred bonus:	13,160	–	–	–	13,160
LTIP (see notes):	162,465	–	–	–	162,465
SAYE:	4,662	–	–	–	4,662

1 Sally M Lake's interest is shown from her date of appointment to the board, 23 May 2019.
2 Martin L Bride's interest is shown until his date of resignation from the board, 23 May 2019.

Notes to share plan interests table

Deferred bonus	Deferred bonus awards are made in the form of conditional shares that normally vest three years after the date of award.
LTIP 2014 – 3/5 year	Awards were made on 11 February 2014 at a mid-market share price of 273.13p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+7.5% p.a. equates to 0% vesting, NAVps = RFR+7.5% p.a. equates to 10% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points. Awards expire in February 2024.
LTIP 2015 – 3/5 year	Awards were made on 10 February 2015 at a mid-market share price of 295.73p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+7.5% p.a. equates to 0% vesting, NAVps = RFR+7.5% p.a. equates to 10% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points. Awards expire in February 2025.
LTIP 2016 – 3/5 year	Awards were made on 9 February 2016 at a mid-market share price of 354.1p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+7.5% p.a. equates to 0% vesting, NAVps = RFR+7.5% p.a. equates to 10% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points. Awards expire in February 2026.
LTIP 2017 – 3/5 year	Awards were made on 8 February 2017 at a mid-market share price of 434.33p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+7.5% p.a. equates to 0% vesting, NAVps = RFR+7.5% p.a. equates to 10% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points. Awards expire in February 2027.
LTIP 2018 – 3/5 year	Awards were made on 13 February 2018 at a mid-market share price of 553.33p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+7.5% p.a. equates to 0% vesting, NAVps = RFR+7.5% p.a. equates to 10% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points. Awards expire in February 2028.
LTIP 2019 – 3/5 year	Awards were made on 12 February 2019 at a mid-market share price of 510.16p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+7.5% p.a. equates to 0% vesting, NAVps = RFR+7.5% p.a. equates to 10% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points. Awards expire in February 2029.

Share prices

The market price of Beazley ordinary shares at 31 December 2019 (the last trading day of the year) was 556p and the range during the year was 494p to 628p.

Remuneration committee

The committee consists of only non-executive directors and during the year the members were Sir Andrew Likierman (chair), John Sauerland, Catherine Woods and Christine LaSala. George Blunden also served on the committee until he stepped down in March 2019. The board views each of the committee members as independent.

The committee considers the individual remuneration packages of the chief executive, executive directors and executive committee members. It also has oversight of the salary and bonus awards of individuals outside the executive committee who either directly report to executive committee members or who have basic salaries over £200,000, as well as the overall bonus pool and total incentives paid by the group. The terms of reference of the committee are available on the company's website. The committee met six times during the year. Further information on the key activities of the committee for 2019 can be found within the statement of corporate governance on page 91.

During the year the committee was advised by remuneration consultants from Deloitte LLP. Total fees in relation to executive remuneration consulting were £91,800. Deloitte LLP also provided advice in relation to share schemes, tax, internal audit and compliance support.

Deloitte LLP was appointed by the committee. Deloitte LLP is a member of the Remuneration Consultants' Group and as such voluntarily operates under a code of conduct in relation to executive remuneration consulting in the UK. The committee agrees each year the protocols under which Deloitte LLP provides advice, to support independence. The committee is satisfied that the advice received from Deloitte LLP has been objective and independent.

Directors' remuneration report *continued*
Annual remuneration report *continued*

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.

Engagement with the workforce
As part of the regular cycle, the committee is informed of pay and employment conditions of wider employees in the group and takes these into account when determining the remuneration for executive directors.

Statement of shareholder voting
The voting outcomes of the 2018 annual remuneration report and 2016 remuneration policy were as follows:

	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld (abstentions)
2018 annual remuneration report	396,690,818	97.71	9,293,687	2.29	405,984,505	1,089,238
2016 remuneration policy	382,443,087	94.63	21,721,581	5.37	404,164,668	103,464

Annual general meeting
At the forthcoming annual general meeting to be held on 25 March 2020, a binding resolution will be proposed to approve the directors' remuneration policy and an advisory resolution will be proposed to approve this annual remuneration report.

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

By order of the board

J A Likierman
Chair of the remuneration committee

5 February 2020

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

The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations.

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that complies with that law and those regulations.

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

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

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

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

D Roberts
Chair

S M Lake
Group finance director

5 February 2020

Independent Auditors report to the members of Beazley plc

Opinion

In our opinion;

- Beazley plc's consolidated financial statements and parent company financial statements (the 'Financial Statements') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with International Financial Report Standards ('IFRSs') as adopted by the European Union ('EU');
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Beazley plc and its subsidiaries (collectively 'the group') and the parent company financial statements which comprises:

Group	Parent company
Consolidated statement of profit and loss for the year then ended	
Statement of comprehensive income for the year then ended	Statement of comprehensive income for the year then ended
Statement of changes in equity for the year then ended	Statement of changes in equity for the year then ended
Statement of financial position as at 31 December 2019	Statement of financial position as at 31 December 2019
Statement of cash flows for the year then ended	Statement of cash flows for the year then ended
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies (except for note 2 where it is marked as unaudited)	Related notes 1 to 34 to the financial statements including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 155 to 168 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 48 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 67 in the Annual Report about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation on page 48 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Valuation of insurance liabilities • Valuation of estimated premium income • Valuation of level 3 financial investments
Audit scope	• We performed an audit of the complete financial information of one component (Syndicate 2623), and audit procedures on specific balances for a further 4 components. (Syndicate 3623, Beazley Insurance DAC ('BIDAC'), Beazley Insurance Company Inc ('BICI') and Group Function) • The components where we performed full or specific audit procedures accounted for 97% of Profit before income tax, 98% Gross Written Premium and 99% Total assets.
Materiality	• Overall group materiality of $10.8m which represents 5% of pre-tax profits on a 5 year average.

First year audit considerations

In the preparation for our first year audit of the 31 December 2019 financial statements, we performed a number of transitional procedures. Following our selection, we undertook procedures to establish our independence of the Group, including ensuring that all staff who work on the audit worldwide are independent of the Group. We used time prior to commencing any audit work to gain an understanding of the business issues and meet with key management.

We were appointed by the audit committee in May 2019, and were independent from 1 January 2019.

Our transition activities included shadowing the former auditor KPMG LLP ('KPMG') at key meetings with management, such as meetings of the Audit and Risk Committee. We reviewed KPMG's 2018 audit work papers and gained an understanding of their risk assessment and key judgements. We held a number of meetings with management to understand the key judgements being made for the 31 December 2018 year end.

In May 2019, we held our global team planning event attended by the audit partners and senior staff responsible for auditing the main business function and significant overseas components of the Group. This provided the opportunity for the entire team to prepare themselves for the audit including the alignment of our audit approach. Our global audit team has deep knowledge of the insurance industry and has been involved in the audits of large International financial services companies.

We used the understanding the audit team had formed to establish our audit base and assist in the formalisation of our audit strategy for the 2019 Group audit. This involved gaining an understanding of the Group's key processes and controls over financial reporting through walkthroughs of the processes.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditors report
to the members of Beazley plc *continued*

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Valuation of claims liabilities (Gross: $4,460.3m, Net of reinsurance : $3,391.5m, PY comparative Gross:$4,040.7m, Net of reinsurance: $3,089.0m)		
Refer to the Audit and Risk Committee Report (pages 85 to 90); Accounting policies (pages 146 and 149); and Note 24 of the Consolidated Financial Statements (pages 189 to 198).		
One of the most significant financial statement risk areas from both a business and an audit perspective is the valuation and adequacy of the claims liabilities held by the Group. Gross and net of reinsurance claims liabilities are inherently uncertain and subjective by nature and therefore are more susceptible to fraud or error than other financial statement balances. A small manipulation of an assumption could have a significant impact on the result for the year. This could lead to claims liabilities not falling within a reasonable range of estimates, resulting in a misstatement in the financial statements. Additionally, the valuation process is conditional upon the accuracy and completeness of the data. We have split the risk relating to the valuation of claims liabilities into the following component parts: • Actuarial assumptions; and • data		
Actuarial assumptions The assumptions used to develop the incurred but not yet reported ('IBNR') loss reserves, which make up a significant component of the claims liabilities (gross and net of reinsurance), involve a significant degree of judgement. As a result we focused on this area as the valuation can be materially impacted by various factors including: • The risk of inappropriate assumptions used in determining current year gross and net of reinsurance loss reserves. Given that limited data is available, especially on newer or growing classes of business such as CyEx, as there is a greater reliance on expert judgement in management's estimates due to the significant areas of uncertainty. • The risk that IBNR loss reserve estimates in respect of catastrophe and large claims losses as well as classes which are inherently uncertain such as Speciality lines are accurate, particularly as they are often estimated based on limited data. • The areas we consider as key areas of judgement include the tail development and consistency of case reserves, allowance of social inflation and other inflationary trends at a reserving class level which are key assumptions used in management's projections.	To obtain sufficient audit evidence to conclude on the appropriateness of actuarial assumptions, we engaged our actuaries as part of our audit team and performed the following procedures: • Obtained an understanding and tested the design and operating effectiveness of key controls over management's process in respect of the valuation of claims liabilities on a gross and net of reinsurance basis including the setting and updating of actuarial assumptions. • Assessed and challenged the reserving methodology on both a gross and net of reinsurance basis. This has also involved comparing the Group's reserving methodology with industry practice and understanding the rationale for key differences. • Performed independent re-projections of IBNR applying our own assumptions, across all classes of business for attritional claims on a net and gross basis and compared these to management's results as at 31 December 2019. • Challenged and assessed whether the assumptions, such as inflationary trends, applied to key areas of uncertainties were appropriate based on our knowledge of the Group, industry practice and regulatory and financial reporting requirements. • Benchmarking catastrophe and large losses, and assumptions used in inherent uncertain classes and new growing classes, against other comparable industry participants to challenge and assess the reserving assumptions.	We determined that the actuarial assumptions as a whole, which are used by management, are reasonable based on our analysis of the experience to date, industry practice and the financial and regulatory requirements. We therefore conclude that reserves lie within our reasonable range of possible outcomes.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Data The valuation of claims liabilities depends on complete and accurate data used since they are used to form expectations about future claims. The valuation of claims liabilities is therefore conditional upon the accuracy and completeness of the data used.	To obtain sufficient audit evidence to assess the integrity of premium and case gross and net of reinsurance claims data we performed the following procedures: • Obtained an understanding of the process and tested the design and operating effectiveness of key controls over management's data collection, extraction and validation process. • Tested the completeness and accuracy of the claims, reinsurance and premium data used within the reserving process by reconciling the data used in the actuarial projections to the underlying policy administration and finance systems. • For a sample of paid and outstanding claims we corroborated to underlying supporting evidence. For paid claims this included authorisation requests and bank statements. For a sample of outstanding claims we held discussions with claims handlers to further understand the background of the claims. We also obtained supporting evidence including claims handler reports performed by third parties handlers to corroborate the year end balances.	We determined, based on our audit work, that the data used for the actuarial model inputs was materially consistent and accurate to data tested for completeness in respect of case claims, reinsurance and premiums.
Valuation of estimated premium within Gross Written Premiums income (Gross Written Premium $3,003.9m , PY comparative $2,615.3m) *Refer to Accounting policies (pages 147 and 148).* For certain contracts, premium is initially recognised based on estimates of ultimate premium. This occurs where pricing is based on variables which are not known with certainty at the point of binding the policy. Subsequent adjustments to those estimates arise as updated information relating to those pricing variables becomes available, and are recorded in the period in which they are determined. These estimates are judgemental and therefore could result in misstatements of revenue recognised in the financial statements.	Our procedures included: • Obtained an understanding of the process and testing the design effectiveness of key controls. • Performing independent re-projections of ultimate premium per underwriting year for the 2018 and prior underwriting years, applying our own assumptions and comparing these to the Group's booked ultimate premium. Where there were significant variances we challenged management's assumption. • For a sample of policy estimates in respect of the 2019 underwriting year, we corroborated the estimated premium to third party supporting evidence such as signed slips. Additionally to corroborate estimates where similar policies have been written previously, we performed back testing against historic experience of estimated premium income compared to actual premium signed. • Performing analytical review procedures at a class of business level, comparing actual premium to management's business forecasts. • Reviewing and testing the completeness and accuracy of premium data to underlying policy and finance systems. This was performed through substantively testing key reconciliations to external sources such as external service organisations reports.	Based on the results of the procedures performed we concluded that premium estimates had been recorded appropriately.

Independent Auditors report
to the members of Beazley plc *continued*

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Valuation of level 3 investments ($216.6m, PY comparative $186.6m) *Refer to the Audit and Risk Committee Report (pages 85 to 90); Accounting policies (pages 150 to 151); and Note 16 of the Consolidated Financial Statements (pages 179 to 184).* Investments in level 3 assets predominantly comprise illiquid credit asset funds managed by third party managers (generally closed end limited partnerships or open ended funds). The investments themselves are in many cases private and unquoted. These assets are inherently harder to value due to the inability to obtain a market price of these assets as at the balance sheet date. Therefore, there is judgement in both deriving the price and the timeliness of receiving the information from the third party managers, either of which could result in misstatements of the asset value recognised in the financial statements.	To obtain sufficient audit evidence to conclude on the appropriateness of valuation of level 3 investments, we performed the following procedures for a sample of key investments: • Obtained an understanding of the process and tested the design and operating effectiveness of key controls. • Obtained net assets valuation ('NAV') statements provided by third party administrators in respect of investments and compared these to management's valuations. We assessed management's valuations by performing independent back testing of recent realisations, to confirm that NAV is an appropriate proxy for fair value. • With support from our valuation specialists we assessed the need for their input in the valuation of level 3 investments.	Based on our procedures performed we are satisfied that the valuation of level 3 investments was reasonable.

Prior year comparison

In the prior year, KPMG identified 'recoverability of insurance and reinsurance debtors' and 'recoverability of parent company's investment in subsidiaries' as key audit matters. Based on our risk assessment procedures, we did not consider either to be key audit matters due to the amount of insurance and reinsurance debtors greater than one year outstanding as at 31 December 2019, and we deem that there is limited risk of impairment in respect of the parent company's investment in subsidiaries as we deem there are no impairment indicators present.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes to the business environment and other factors when assessing the level of work to be performed at each reporting component.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we identified 33 legal entities within the group. Of the 33 legal entities within the group we selected four entities covering entities within UK, Ireland and US which represent the material business units within the Group. One full scope entity (Syndicate 2623) and three specific scope components (Syndicate 3623, Beazley Insurance Company Inc ('BICI') and Beazley Insurance DAC ('BIDAC')). Our work on specific scope components covers area such as cash, investments, financial liabilities and reinsurance on outstanding claims. Furthermore, we performed specific scope procedures over a further 11 legal entities over group wide processes and functions and denoted this as one reporting unit ('Group Function'). The Group Function and process consists of entities primarily which hold the pension scheme, intangibles, leases, expenses, cash and investments for the group.

Details of the five reporting components are set out below:

Component	Scope	Auditor
Syndicate 2623	Full	EY Primary Team
Syndicate 3623	Specific	EY Primary Team
BICI	Specific	EY New York
BIDAC	Specific	EY Primary Team
Group function	Specific	EY Primary Team

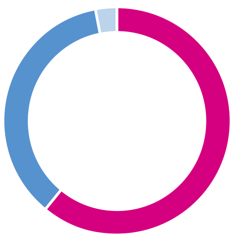
Of the 5 components selected, we performed an audit of the complete financial information of one component ("full scope components") which was selected based on its size or risk characteristics. For the remaining 4 components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted 97% of the Group's Profit before Income Tax measure used to calculate materiality, 98% of the Group's Gross Written Premium and 99% of the Group's Total assets. For the current year, the full scope component contributed 61% of the Group's Profit before Income Tax, 79% of the Group's Gross Written Premium and 8% of the Group's Total assets. The specific scope components contributed 36% of the Group's PBT measure used to calculate materiality, 19% of the Group's Gross written Premium and 91% of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining 18 legal entities that together represent 3% of the Group's Profit before Income Tax, none are individually greater than 3% of the Group's Profit before Income Tax. For these components, we performed other procedures, including analytical review, testing of significant balances, review of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

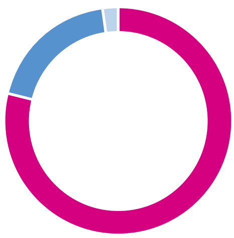
The charts below illustrate the coverage obtained from the work performed by our audit teams.

Profit before tax



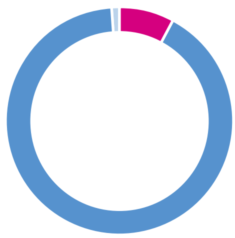
Full scope component: Syndicate 2623	61%
Specific scope components: BICI, BIDAC, Syndicate 3623 and Group Function	36%
Other procedures	3%

Gross Written Premium



Full scope component: Syndicate 2623	79%
Specific scope components: BICI, BIDAC, Syndicate 3623 and Group Function	19%
Other procedures	2%

Total assets



Full scope component: Syndicate 2623	8%
Specific scope components: BICI, BIDAC, Syndicate 3623 and Group Function	91%
Other procedures	1%

Independent Auditors report
to the members of Beazley plc *continued*

Involvement with component teams
In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction.

The primary audit team provided detailed audit instructions to the component teams which included guidance on areas of focus, including the relevant risks of material misstatement detailed above, and set out the information required to be reported to the primary audit team.

For the one full scope component (Syndicate 2623) and 3 specific scope components (Syndicate 3623, BIDAC, and Group function), audit procedures were performed directly by the primary audit team whilst the other specific scope component (BICI) was audited by an overseas component audit team. For other companies, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence has been obtained as a basis for our opinion on the Group as a whole.

The primary audit team followed a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits each component where the Group audit scope was focused at least once every year. For the specific scope component where we instructed an EY network firm, the primary audit team have reviewed the audit procedures performed by the component team on the specific accounts and attended key Audit Committee meetings at the component.

The work performed on the components, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the consolidated financial statement as a whole.

Our application of materiality
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be $11 million, which is 5% of average profit before income tax over the last 5 years. We considered that profit before income tax is the most relevant performance measure used by investors, regulators and other stakeholders when assessing the Group. Given the level of large losses in 2017 and 2018 and fluctuation in investment return, average profit before tax over the last 5 years is reflective of the Group's profitability.

We determined materiality for the Parent Company to be $7 million, which is 1% of net assets. The Parent company primarily holds the investment in Group entities and, therefore, net assets is considered to be the key focus for users of the financial statements.

We calculated materiality at the planning stage of the audit and then during the course of our audit, we reassessed initial materiality based on average of profit before tax over a 5 year period taking into account the year ended 31 December 2019.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely $5.5m, this is our normal practice for a first year audit.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was $4.5m to $1.4m.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of $0.5m, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 125, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 79** – the statement given by the Directors that they consider 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, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit and Risk Committee reporting set out on pages 85 to 90**– the section describing the work of the Audit and Risk committee does not appropriately address matters communicated by us to the Audit and Risk committee or is materially inconsistent with our knowledge obtained in the audit; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 79** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Independent Auditors report
to the members of Beazley plc *continued*

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors
As explained more fully in the Directors' responsibilities statement set out on page 125, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Group and management.

Our approach was as follows:
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and its subsidiaries and determined that the relevant laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA'). We obtained a general understanding of how Beazley plc is complying with those frameworks by making enquiries of management and those responsible for legal and compliance matters. We also reviewed correspondence between the Company and regulatory bodies, reviewed minutes of the Board and Executive Committee, and gained an understanding of the Company's approach to governance demonstrated by the Board's approval of the Company's governance framework.
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.
- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations; inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees; inquiring about the Group's methods of enforcing and monitoring compliance with such policies; and inspecting significant correspondence with the FCA and PRA.

- The Group operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.
- We assessed the susceptibility of the consolidated financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, including complex transactions, performance targets, external pressures and the impact these have on the control environment. Where this risk was considered to be higher we performed audit procedures to address each identified fraud risk (valuation of insurance liabilities). These procedures included journal entry testing, with a focus on manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Company Directors on 23 May 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods. Our appointment as auditor was approved by shareholders at the Annual General Meeting on 21 March 2019.
- The period of total uninterrupted engagement including previous renewals and reappointments is one year.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit and Risk committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stuart Wilson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

5 February 2020

Notes:

1 The maintenance and integrity of the Beazley plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial statements

Consolidated statement of profit or loss

for the year ended 31 December 2019

	Notes	2019 $m	2018 $m
Gross premiums written	3	3,003.9	2,615.3
Written premiums ceded to reinsurers		(500.4)	(366.8)
Net premiums written	3	**2,503.5**	**2,248.5**
Change in gross provision for unearned premiums		(184.5)	(167.6)
Reinsurer's share of change in the provision for unearned premiums		28.0	3.7
Change in net provision for unearned premiums		**(156.5)**	**(163.9)**
Net earned premiums	3	**2,347.0**	**2,084.6**
Net investment income	4	263.7	41.1
Other income	5	25.8	33.7
		289.5	**74.8**
Revenue		**2,636.5**	**2,159.4**
Insurance claims		1,842.5	1,463.9
Insurance claims recoverable from reinsurers		(390.0)	(236.1)
Net insurance claims	3	**1,452.5**	**1,227.8**
Expenses for the acquisition of insurance contracts	3	645.4	561.9
Administrative expenses	3	244.3	250.7
Foreign exchange (gain)/loss	3	(1.1)	13.2
Operating expenses		**888.6**	**825.8**
Expenses	3	**2,341.1**	**2,053.6**
Impairment of investment in associate	14	–	(7.0)
Results of operating activities		**295.4**	**98.8**
Finance costs	8	(27.7)	(22.4)
Profit before income tax		**267.7**	**76.4**
Income tax expense	9	(33.6)	(8.2)
Profit for the year attributable to equity shareholders		**234.1**	**68.2**
Earnings per share (cents per share):			
Basic	10	44.6	13.0
Diluted	10	44.0	12.8
Earnings per share (pence per share):			
Basic	10	35.0	9.7
Diluted	10	34.5	9.5

Statement of comprehensive income

for the year ended 31 December 2019

	2019 $m	2018 $m
Group		
Profit for the year attributable to equity shareholders	234.1	68.2
Other comprehensive income		
Items that will never be reclassified to profit or loss:		
Gain/(loss) on remeasurement of retirement benefit obligations	6.6	(1.5)
Income tax on defined benefit obligation	(0.4)	–
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange translation differences	1.8	(2.1)
Total other comprehensive income	8.0	(3.6)
Total comprehensive income recognised	**242.1**	**64.6**

Statement of comprehensive income

for the year ended 31 December 2019

	2019 $m	2018 $m
Company		
Profit for the year attributable to equity shareholders	75.7	81.7
Total comprehensive income recognised	**75.7**	**81.7**

Statement of changes in equity

for the year ended 31 December 2019

	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 2018		**37.8**	**–**	**(93.8)**	**32.0**	**1,522.9**	**1,498.9**
Total comprehensive income recognised		–	–	(2.1)	–	66.7	64.6
Dividends paid	11	–	–	–	–	(80.5)	(80.5)
Issue of shares	21	0.2	1.6	–	–	–	1.8
Equity settled share based payments	22	–	–	–	18.7	–	18.7
Acquisition of own shares in trust	22	–	–	–	(44.9)	–	(44.9)
Tax on share option vestings	9	–	–	–	4.1	6.1	10.2
Transfer of shares to employees	22	–	–	–	6.6	(8.5)	(1.9)
Balance at 31 December 2018		**38.0**	**1.6**	**(95.9)**	**16.5**	**1,506.7**	**1,466.9**
Impact of adoption of IFRS 16		–	–	–	–	0.3	0.3
Balance at 1 January 2019		**38.0**	**1.6**	**(95.9)**	**16.5**	**1,507.0**	**1,467.2**
Total comprehensive income recognised		–	–	1.8	–	240.3	242.1
Dividends paid	11	–	–	–	–	(79.5)	(79.5)
Issue of shares	21	0.1	1.6	–	–	–	1.7
Equity settled share based payments	22	–	–	–	4.7	–	4.7
Acquisition of own shares in trust	22	–	–	–	(13.8)	–	(13.8)
Tax on share option vestings	9	–	–	–	1.0	2.6	3.6
Transfer of shares to employees	22	–	–	–	(4.8)	4.1	(0.7)
Balance at 31 December 2019		**38.1**	**3.2**	**(94.1)**	**3.6**	**1,674.5**	**1,625.3**

Statement of changes in equity

for the year ended 31 December 2019

	Notes	Share capital $m	Share premium $m	Merger reserve[1] $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Company								
Balance at 1 January 2018		**37.8**	**–**	**55.4**	**0.7**	**24.2**	**628.3**	**746.4**
Total comprehensive income recognised		–	–	–	–	–	81.7	81.7
Dividends paid	11	–	–	–	–	–	(80.5)	(80.5)
Issue of shares	21	0.2	1.6	–	–	–	–	1.8
Equity settled share based payments	22	–	–	–	–	18.7	–	18.7
Acquisition of own shares in trust	22	–	–	–	–	(44.9)	–	(44.9)
Transfer of shares to employees	22	–	–	–	–	6.6	(8.5)	(1.9)
Balance at 31 December 2018		**38.0**	**1.6**	**55.4**	**0.7**	**4.6**	**621.0**	**721.3**
Total comprehensive income recognised		–	–	–	–	–	75.7	75.7
Dividends paid	11	–	–	–	–	–	(79.5)	(79.5)
Issue of shares	21	0.1	1.6	–	–	–	–	1.7
Equity settled share based payments	22	–	–	–	–	4.7	–	4.7
Acquisition of own shares in trust	22	–	–	–	–	(13.8)	–	(13.8)
Transfer of shares to employees	22	–	–	–	–	(4.8)	4.1	(0.7)
Balance at 31 December 2019		**38.1**	**3.2**	**55.4**	**0.7**	**(9.3)**	**621.3**	**709.4**

1 A merger reserve was created through a scheme of arrangement on 13 April 2016, in which Beazley plc became the parent company of the group.

Statements of financial position

as at 31 December 2019

	Notes	2019 Group $m	2019 Company $m	2018 Group $m	2018 Company $m
Assets					
Intangible assets	12	122.2	–	126.5	–
Plant and equipment	13	8.9	–	4.9	–
Right of use assets	29	35.9	–	–	–
Deferred tax asset	28	41.0	–	28.9	–
Investment in subsidiaries	31	–	724.6	–	724.6
Investment in associates	14	0.1	–	–	–
Deferred acquisition costs	15	350.7	–	307.4	–
Retirement benefit asset	27	5.4	–	–	–
Reinsurance assets	19, 24	1,338.2	–	1,192.8	–
Financial assets at fair value	16, 17	5,572.8	–	4,716.3	–
Insurance receivables	18	1,048.0	–	943.3	–
Other receivables		72.0	–	58.5	–
Current income tax asset		–	1.1	19.0	0.3
Cash and cash equivalents	20	278.5	–	336.3	2.4
Total assets		**8,873.7**	**725.7**	**7,733.9**	**727.3**
Equity					
Share capital	21	38.1	38.1	38.0	38.0
Share premium		3.2	3.2	1.6	1.6
Merger reserve		–	55.4	–	55.4
Foreign currency translation reserve		(94.1)	0.7	(95.9)	0.7
Other reserves	22	3.6	(9.3)	16.5	4.6
Retained earnings		1,674.5	621.3	1,506.7	621.0
Total equity		**1,625.3**	**709.4**	**1,466.9**	**721.3**
Liabilities					
Insurance liabilities	24	6,059.0	–	5,456.2	–
Financial liabilities	16, 17, 25	554.8	–	356.7	–
Lease liabilities	29	39.4	–	–	–
Deferred tax liability	28	19.5	–	9.1	–
Current income tax liability		9.3	–	–	–
Retirement benefit liability	27	–	–	2.4	–
Other payables	26	566.4	16.3	442.6	6.0
Total liabilities		**7,248.4**	**16.3**	**6,267.0**	**6.0**
Total equity and liabilities		**8,873.7**	**725.7**	**7,733.9**	**727.3**

No income statement is presented for the parent company as permitted by Section 408 of the Companies Act 2006. The profit after tax of the parent company for the period was $75.7m (2018: $81.7m).

The financial statements were approved by the board of directors on 5 February 2020 and were signed on its behalf by:

D Roberts
Chair

S M Lake
Group finance director

5 February 2020

Statements of cash flows

for the year ended 31 December 2019

	Notes	2019 Group $m	2019 Company $m	2018 Group $m	2018 Company $m
Cash flow from operating activities					
Profit before income tax		**267.7**	**74.7**	**76.4**	**81.2**
Adjustments for:					
Amortisation of intangibles	12	14.1	–	12.6	–
Equity settled share based compensation	22	4.7	4.7	18.7	18.7
Net fair value (gain)/loss on financial assets	4	(151.6)	–	53.7	–
Impairment of investment in associate	14	–	–	7.0	–
Depreciation of plant and equipment	13	2.4	–	2.1	–
Depreciation of right of use assets		10.1	–	–	–
Impairment of reinsurance assets recognised/(written back)	6	1.5	–	(1.0)	–
Increase in insurance and other payables[1]		722.8	0.1	216.7	5.6
(Increase)/decrease in insurance, reinsurance and other receivables		(265.0)	10.3	23.9	19.8
Increase in deferred acquisition costs		(43.3)	–	(26.0)	–
Financial income	4	(120.9)	(80.2)	(102.6)	(82.9)
Financial expense	8	27.7	1.9	22.4	0.9
Foreign exchange on financial liabilities		(3.2)	–	(4.1)	–
Income tax paid		(6.8)	–	(21.1)	–
Net cash generated from operating activities		**460.2**	**11.5**	**278.7**	**43.3**
Cash flow from investing activities					
Purchase of plant and equipment	13	(6.3)	–	(2.6)	–
Expenditure on software development	12	(12.3)	–	(7.2)	–
Purchase of investments		(4,824.5)	–	(2,686.2)	–
Proceeds from sale of investments		4,125.3	–	2,376.9	–
Interest and dividends received	4	112.0	80.2	102.6	82.9
Net cash (used in)/from investing activities		**(605.8)**	**80.2**	**(216.5)**	**82.9**
Cash flow from financing activities					
Acquisition of own shares in trust	22	(13.8)	(13.8)	(44.9)	(44.9)
Payment of lease liabilities		(10.8)	–	–	–
Repayment of borrowings	25	(92.6)	–	(18.0)	–
Issuance of debt	25	297.8	–	–	–
Finance costs	8	(25.8)	(1.9)	(22.0)	(0.9)
Issuance of shares		1.7	1.7	1.8	1.8
Dividend paid		(79.5)	(79.5)	(80.5)	(80.5)
Net cash from/(used in) financing activities		**77.0**	**(93.5)**	**(163.6)**	**(124.5)**
Net (decrease)/increase in cash and cash equivalents		**(68.6)**	**(1.8)**	**(101.4)**	**1.7**
Cash and cash equivalents at beginning of year		336.3	2.4	440.5	0.7
Effect of exchange rate changes on cash and cash equivalents		10.8	(0.6)	(2.8)	–
Cash and cash equivalents at end of year	**20**	**278.5**	**–**	**336.3**	**2.4**

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

Notes to the financial statements

1 Statement of accounting policies

Beazley plc (registered number 09763575) is a company incorporated in England and Wales and is resident for tax purposes in the United Kingdom. The company's registered address is Plantation Place South, 60 Great Tower Street, London EC3R 5AD, United Kingdom. The group financial statements for the year ended 31 December 2019 comprise the parent company, its subsidiaries and the group's interest in associates. The principal activity of the company and its subsidiaries (the 'group') is to participate as a specialist insurer which transacts primarily in commercial lines of business through its subsidiaries and through Lloyd's syndicates.

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

In the current year, the group has applied amendments to IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2019. The new effective requirements are:

- IFRS 16: Leases (EU effective date: 1 January 2019);
- IFRIC 23: Uncertainty over Income Tax Treatments (EU effective date: 1 January 2019);
- IAS 28: Amendment: Long-term Interests in Associates and Joint Ventures (EU effective date: 1 January 2019);
- IAS 19: Amendment: Plan Amendment, Curtailment or Settlement (EU effective date: 1 January 2019); and
- Annual Improvements to IFRS Standards 2015-2017 Cycle (EU effective date: 1 January 2019).

Apart from IFRS 16, these amendments did not result in a material impact on the financial statements of the group.

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

- IFRS 9: Financial Instruments (EU effective date: 1 January 2018, deferred in line with implementation of IFRS 17);
- IFRS 3: Amendment: Definition of a business (IASB effective date: 1 January 2020);[1]
- IAS 1 and IAS 8: Amendment: Definition of Material (IASB effective date: 1 January 2020);[1]
- IFRS 9, IFRS 7 and IAS 39: Amendment: Interest Rate Benchmark Reform (IASB effective date: 1 January 2020);
- IFRS 9: Amendment: Prepayment Features with Negative Compensation (EU effective date: 1 January 2019, deferred in line with implementation of IFRS 17);
- IFRS 17: Insurance Contracts (IASB effective date: 1 January 2022);[1]
- IFRS 10 and IAS 28: Amendment: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (IASB effective date: optional);[1] and
- Amendments to References to the Conceptual Framework in IFRS Standards (IASB effective date: 1 January 2020);[1]

1 Have not been endorsed by EU.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

Of the upcoming accounting standard changes that we are aware of, we anticipate that IFRS 17 and IFRS 9 will have the most material impact on the financial statements' presentation and disclosures. The accounting developments and implementation timelines of IFRS 17 and IFRS 9 are being closely monitored and the impacts of the standards themselves are being assessed and prepared for. A brief overview of each of these standards is provided below:

- IFRS 17 will fundamentally change the way insurance contracts are accounted for and reported. Revenue will no longer be equal to premiums written but instead reflect a change in the contract liability on which consideration is expected. On initial assessment the major change will be on the presentation of the statement of profit or loss, with premium and claims figures being replaced with insurance contract revenue, insurance service expense and insurance finance income and expense. It is not currently known what impact the new requirements will have on the group's profit and financial position, but it is expected that the timing of profit recognition will be altered. During 2019, the group continued to undertake a number of tasks in preparation for IFRS 17. These tasks included completing various modelling exercises to understand the data requirements needed under IFRS 17. As part of this process various decisions have also been made such as unit of account and the model to use for recognising insurance contracts. A more detailed update will be provided after the full assessment has been completed.
- As was stated in the 2017 annual report, the group chose to apply the temporary exemption permitted by IFRS 4 from applying IFRS 9: Financial Instruments. The group qualifies for this exemption because, as at 31 December 2015, $5,040.7m or 95% of its total liabilities were connected with insurance. There has been no material change in the group's activities since 31 December 2015, therefore the exemption still remains. The group has also disclosed information in relation to specific types of financial instruments to ensure the comparability with the entities applying IFRS 9. As such, fair values are disclosed separately for the group's financial assets which are managed and evaluated on a fair value basis and those which meet the solely payments of principal and interest (SPPI) test under IFRS 9. Beazley plc as a standalone company adopted IFRS 9 from 1 January 2018. However, as the standalone company has no financial investments the adoption had an immaterial impact on its financial statements. Below is a table outlining the fair value of assets which are managed and evaluated on a fair value basis and those which meet the SPPI test under IFRS 9. The information on credit exposures can be found in note 2 to the financial statements on page 164.

On 27 June 2019 the International Accounting Standards Board (IASB) published an exposure draft proposing limited amendments to IFRS 17, including an extension of the effective date of IFRS 17 and IFRS 9 to 1 January 2022.

	2019 $m	2018 $m
Financial assets managed and evaluated on a fair value basis		
Fixed and floating rate debt securities:		
– Government issued	1,870.9	1,384.2
– Quasi-government	–	25.9
– Corporate bonds		
– Investment grade	2,706.4	2,525.3
– High yield	235.8	32.7
– Senior secured loans	–	132.1
Equity funds	163.6	85.4
Hedge funds	354.0	337.2
Illiquid credit assets	216.6	186.6
Derivative financial assets	25.5	6.9
Total financial assets managed and evaluated on a fair value basis	**5,572.8**	**4,716.3**
Financial assets meeting the SPPI test		
Cash and cash equivalent	278.5	336.3
Insurance receivables	1,048.0	943.3
Other receivables	72.0	58.5
Total financial assets meeting the SPPI test	**1,398.5**	**1,338.1**

1 Statement of accounting policies *continued*

IFRS 16

The group has applied, for the first time, IFRS 16 Leases. As required by IAS 8, the nature and effect of these changes are disclosed below.

- IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model; and
- The group adopted IFRS 16 using the modified retrospective method with a date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The group elected to use the practical expedient on transition allowing the standard to be applied only to contracts that were previously identified as leases under IAS 17 and IFRIC 4 at the date of initial application. The group also elected to use the recognition exemptions for lease contracts where the underlying asset is of low value ('low-value assets').

The effect of adopting IFRS 16 as at 1 January 2019 is as follows:

	$m
Assets	
Right of use assets	31.2
Total assets	**31.2**
Liabilities	
Other payables	(2.4)
Lease liabilities	33.2
Deferred tax liabilities	0.1
Total liabilities	**30.9**
Total adjustment on equity:	
Retained earnings	0.3

Nature of the effect of adoption of IFRS 16

The group has lease contracts for various items of property, vehicles and IT equipment. Before the adoption of IFRS 16, the group classified each of its leases at the inception date as either a finance lease or an operating lease. As at 1 January 2019, the group held operating leases only. The operating lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other payables.

Upon adoption of IFRS 16, the group applied a single recognition and measurement approach for all leases, except for leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the group.

Leases previously accounted for as operating leases

The group recognised right of use assets and lease liabilities for all leases, except for leases of low-value assets. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the weighted average incremental borrowing rate at initial application. The right of use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised.

The group also applied the available practical expedients wherein it:

- used a weighted average incremental borrowing rate as the discount rate to a portfolio of leases with similar characteristics;
- relied on its assessment of whether leases are onerous immediately before the date of initial application;
- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

Based on the above, as at 1 January 2019:

- right of use assets of $31.2m were recognised and presented separately in the statement of financial position;
- lease liabilities of $33.2m were recognised and presented separately in the statement of financial position. This includes an adjustment of $6.3m for right of use assets, which were previously not included in property operating leases;
- other payables of $2.4m related to previous operating leases were derecognised;
- deferred tax liabilities increased by $0.1m due to the impact of changes in assets and liabilities; and
- the net effect of these adjustments was adjusted in retained earnings.

Leases not qualifying under IFRS 16 were included in short-term leases.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	$m
Property operating lease commitments reported as at 31 December 2018	**32.9**
Less:	
Commitments relating to assets not qualifying as leases under IFRS 16	(1.2)
Add:	
Adjustments on adoption of IFRS 16	6.3
Total lease commitments under IFRS 16 as at 31 December 2018	38.0
Weighted average incremental borrowing rate as at 1 January 2019	4.6%
Lease liabilities as at 1 January 2019	**33.2**

Basis of presentation

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

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

Use of estimates and judgements

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

a) Estimates

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

The most critical estimate included within the group's financial position is the estimate for insurance losses incurred but not reported, which is included within total insurance liabilities and reinsurance assets in the statement of financial position and in note 24. This estimate is critical as it outlines the current liability for future expenses expected to be incurred in relation to claims. If this estimation was to prove inadequate then an exposure would arise in future years where a liability has not been provided for. The total estimate for insurance losses incurred but not reported gross of reinsurers' share as at 31 December 2019 is $3,196.6m (2018: $2,869.5m). The total estimate for insurance losses incurred but not reported net of reinsurers' share as at 31 December 2019 is $2,351.5m (2018: $2,149.7m) and is included within total insurance liabilities and reinsurance assets in the statement of financial position and in note 24.

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

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

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

1 Statement of accounting policies *continued*

Other key estimates contained within our close process are premium estimates and the earning pattern of recognising premium over the life of the contract. In the syndicates the premium written is initially based on the estimated premium income (EPI) of each contract. Where premium is sourced through binders, the binder EPI is pro-rated across the binder period. This is done on a straight-line basis unless the underlying writing pattern from the prior period indicates the actual underlying writing pattern is materially different. The underwriters adjust their EPI estimates as the year of account matures. As the year of account closes premiums are adjusted to match the actual signed premium. An accrual for estimated future reinstatement premiums is retained. Premiums are earned on a straight-line basis over the life of each contract. At a portfolio level this is considered to provide a reasonable estimate for the full year of the pattern of risk over the coverage period.

Another estimate used by Beazley is the assumptions underlying the recoverable amounts used in assessing the impairment of goodwill as per note 12.

b) Judgements

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

- note 1a: accounting treatment for the group's interest in managed syndicates
- note 1: Leases: determination of a lease term.

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.

For all business combinations:

(i) transaction costs, other than those associated with the issue of debt or equity securities, that the group incurs in connection with a business combination, are expensed as incurred;

(ii) in addition, any consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognised in profit or loss; and

(iii) any contingent consideration is measured at fair value at the acquisition date.

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

Certain group subsidiaries underwrite as corporate members of Lloyd's on syndicates managed by Beazley Furlonge Limited. In view of the several and direct liability of underwriting members at Lloyd's for the transactions of syndicates in which they participate, only attributable shares of transactions, assets and liabilities of those syndicates are included in the group financial statements. The group continues to conclude that it remains appropriate to consolidate its share of the result of these syndicates and accordingly, as the group is the sole provider of capacity on syndicates 2623, 3622 and 3623, these financial statements include 100% of the economic interest in these syndicates. For the following syndicates to which Beazley is appointed managing agent, being syndicates 623, 6107, and 6050, for which the capacity is provided entirely by third parties to the group, these financial statements reflect Beazley's economic interest in the form of agency fees and profit commission to which it is entitled. In 2018 and 2019, Beazley also consolidated 33.85% of the business written through syndicate 5623 on the 2018 year of account, which is aligned with Beazley Corporate Member No.3 Limited's participation in the syndicate. There is no participation on the 2019 year of account.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

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

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

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

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

Foreign currency translation

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

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

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

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

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

Insurance contracts

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

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.

1 Statement of accounting policies *continued*

Deferred acquisition costs (DAC)

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

Claims

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

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

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

Liability adequacy testing

At each reporting date, liability adequacy tests are performed by segment to ensure the adequacy of the claims liabilities net of DAC and unearned premium reserves. In performing these tests, current best estimates of future contractual cash flows, claims handling and administration expenses, and investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to the statement of profit or loss, initially by writing off DAC and subsequently by establishing a provision for losses arising from liability adequacy tests ('unexpired risk provision'). There is currently no unexpired risk provision.

Ceded reinsurance

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

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

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

Revenue

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

Dividends paid

Dividend distributions to the shareholders of the group are recognised in the period in which the dividends are paid, as a first interim dividend, second interim dividend or special dividend. The second and special dividends are approved by the group's shareholders at the group's annual general meeting.

Plant and equipment

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

Fixtures and fittings	Three to ten years
Computer equipment	Three years

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

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

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

Intangible assets

a) Goodwill

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

Goodwill has an indefinite life and is annually tested for impairment. Goodwill is allocated to each cash-generating unit (CGU, being the group's operating segments) for the purpose of impairment testing. Goodwill is impaired when the net carrying amount of the relevant CGU exceeds its recoverable amount, being the higher of its value in use or fair value less costs to sell. Value in use is defined as the present value of the future cash flows expected to be derived from the CGU.

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

b) Syndicate capacity

The syndicate capacity represents the cost of purchasing the group's participation in the combined syndicates. The capacity is capitalised at cost in the statement of financial position. It has an indefinite useful life and is carried at cost less accumulated impairment. It is annually tested for impairment by reference to the latest auction prices provided by Lloyd's.

c) Licences

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

d) IT development costs

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

e) Renewal rights

Renewal rights comprise future profits relating to insurance contracts acquired and the expected renewal of those contracts. The costs directly attributable to acquire the renewal rights are recognised as intangible assets where they can be measured reliably and it is probable that they will be recovered by directly related future profits. These costs are subject to an impairment review annually and are amortised on a straight-line basis, based on the estimated useful life of the assets, which is estimated to be between five and 10 years.

Financial instruments

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

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

1 Statement of accounting policies *continued*

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.

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

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

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

e) Hedge funds, equity funds and illiquid credit assets

The group invests in a number of hedge funds, equity funds and illiquid credit assets for which there are no available quoted market prices. The valuation of these assets is based on fair value techniques as described above. The fair value of our hedge fund portfolio is calculated by reference to the underlying net asset values (NAVs) of each of the individual funds. Consideration is also given to adjusting such NAV valuations for any restriction applied to distributions, the existence of side pocket provisions and the timing of the latest available valuations. At certain times, we will have uncalled unfunded commitments in relation to our illiquid credit assets. These uncalled unfunded commitments are actively monitored by the group and are disclosed in the notes 2 and 16 to the financial statements. The additional investment into our illiquid credit asset portfolio is recognised on the date that this funding is provided by the group.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

f) Insurance receivables and payables

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

g) Other receivables

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

h) Investment income

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

i) Borrowings

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

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

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

j) Other payables

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

k) Hedge accounting and derivative financial instruments

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

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

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

l) Impairment of financial assets

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

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

1 Statement of accounting policies *continued*

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

m) Cash and cash equivalents

Cash and cash equivalents consist of cash held at bank, cash in hand, deposits held at call with banks, cash held in Lloyd's trust accounts and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These investments have less than three months maturity from the date of acquisition. Cash and cash equivalents are measured at fair value through the profit and loss account.

n) Unfunded commitment capital

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

Leases

Summary of new accounting policies

Set out below are the new accounting policies of the group upon adoption of IFRS 16, which have been applied from the date of initial application:

- Right of use assets

  The group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

- Lease liabilities

  At the commencement date of the lease, the group recognises a lease liability measured at the present value of the lease payments to be made over the lease term.

  In calculating the present value of lease payments, the group uses the weighted average incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- Short-term leases and leases of low-value assets

  The group applies the short-term lease recognition exemption to its short-term leases of property (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense in the profit or loss on a straight-line basis over the lease term.

- Significant judgement in determining the lease term of contracts with renewal options

  The group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

  The group has the option, under some of its leases to lease the assets for various additional terms. The group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. After the commencement date, the group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affect its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

Employee benefits

a) Pension obligations

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

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

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

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

- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect of the asset ceiling.

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

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

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

b) Share based compensation

The group offers option plans over Beazley plc's ordinary shares to certain employees, including the save-as-you-earn (SAYE) scheme.

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

When the options are exercised and new shares are issued to cover SAYE vestings, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) with the excess amount going to share premium. For other plans, when no proceeds are received, the nominal value of shares issued is to share capital and debited to retained earnings. When the options are exercised and the shares are granted from the employee share trust, the proceeds received, net of any transaction costs, and the value of shares held within the trust, are credited to retained earnings.

Income taxes

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

1 Statement of accounting policies *continued*

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

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

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

Earnings per share

Basic earnings per share are calculated by dividing profit after tax available to shareholders by the weighted average number of ordinary shares in issue during the period.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares such as share options granted to employees. Share options with performance conditions attaching to them have been excluded from the weighted average number of shares to the extent that these conditions have not been met at the reporting date.

The shares held in the employee share options plan (ESOP) and treasury shares are excluded from both the calculations, until such time as they vest unconditionally with the employees.

Provisions and contingencies

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

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

2 Risk management

The group has identified the risks arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite. The group categorises its risks into eight areas: insurance, strategic, market, operational, credit, regulatory and legal, liquidity and group risk. The sections below outline the group's risk appetite and explain how it defines and manages each category of risk.

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

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

2.1 Insurance risk †

The group's insurance business assumes the risk of loss from persons or organisations that are directly exposed to an underlying loss. Insurance risk arises from this risk transfer due to inherent uncertainties about the occurrence, amount and timing of insurance liabilities. The four key components of insurance risk are underwriting, reinsurance, claims management and reserving. Each element is considered below.

a) Underwriting risk

Underwriting risk comprises four elements that apply to all insurance products offered by the group:

- cycle risk – the risk that business is written without full knowledge as to the (in)adequacy of rates, terms and conditions;
- event risk – the risk that individual risk losses or catastrophes lead to claims that are higher than anticipated in plans and pricing;
- pricing risk – the risk that the level of expected loss is understated in the pricing process; and
- expense risk – the risk that the allowance for expenses and inflation in pricing is inadequate.

Notes to the financial statements *continued*

2 Risk management *continued*

We manage and model these four elements in the following three categories: attritional claims, large claims and catastrophe events.

The group's underwriting strategy is to seek a diverse and balanced portfolio of risks in order to limit the variability of outcomes. This is achieved by accepting a spread of business over time, segmented between different products, geographies and sizes.

The annual business plans for each underwriting team reflect the group's underwriting strategy, and set out the classes of business, the territories and the industry sectors in which business is to be written. These plans are approved by the board of each underwriting entity and the group and monitored by the underwriting committee.

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

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

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

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

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

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 2019 the group operated to a catastrophe risk appetite for a probabilistic 1-in-250 years US event of $416.0m (2018: $416.0m) net of reinsurance. This remains unchanged since 2018.

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 2018 and 2019 are:

Unaudited †

	2019	
Lloyd's prescribed natural catastrophe event (total incurred losses)	Modelled PML[1] (before reinsurance) $m	Modelled PML[1] (after reinsurance) $m
San Francisco quake (2019: $78.0bn)	727.9	222.8
Los Angeles quake (2019: $78.0bn)	748.2	218.8
US Northeast windstorm (2019: $78.0bn)	554.6	205.3

Unaudited †

	2018	
Lloyd's prescribed natural catastrophe event (total incurred losses)	Modelled PML[1] (before reinsurance) $m	Modelled PML[1] (after reinsurance) $m
San Francisco quake (2018: $78.0bn)	704.4	236.9
Gulf of Mexico windstorm (2018: $112.0bn)	595.1	199.0
Los Angeles quake (2018: $78.0bn)	697.2	235.9

1 Probable market loss.

2 Risk management *continued*

The tables on the previous page show each event independent of each other and considered on their own. The impacts would be different if all three occurred within the same year.

Net of reinsurance exposures for the two California quakes have reduced in 2019, which is being driven by the property division reducing exposures in this region and buying additional reinsurance. The increase in gross exposures is being driven by the reinsurance division, who have increased their writings in this region but this had not lead to an increase in net as the additional exposure is contained within the reinsurance programme. Windstorm exposures have reduced in the Gulf of Mexico during 2019, which has resulted in the US Northeast windstorm scenario replacing the Gulf of Mexico windstorm scenario as being the third largest scenario. The natural catastrophe risk appetite has remained unchanged in 2019.

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

The group also has exposure to man-made claim aggregations, such as those arising from terrorism and data breach events. Beazley chooses to underwrite data breach insurance within the cyber and executive risk and specialty lines division using our team of specialist underwriters, claims managers and data breach services managers. Other than for data breach, Beazley's preference is to exclude cyber exposure where possible.

To manage the potential exposure, the board has established a risk budget for the aggregation of data breach related claims which is monitored by reference to the largest of ten realistic disaster scenarios that have been developed internally. These scenarios include the failure of a data aggregator, the failure of a shared hardware or software platform and the failure of a cloud provider. Whilst it is not possible to be precise, as there is sparse data on actual aggregated events, these severe scenarios are expected to be very infrequent. The largest net realistic disaster scenario is currently similar to the US Northeast windstorm event shown above for the group as at 31 December 2019. The reinsurance programmes that protect the cyber and executive risk and specialty lines divisions would partially mitigate the cost of most, but not all, data breach catastrophes.

Beazley also reports on cyber exposure to Lloyd's using the three largest internal realistic disaster scenarios and three prescribed scenarios which include both data breach and property damage related cyber exposure. Given Beazley's risk profile, the quantum from the internal data breach scenarios is larger than any of the cyber property damage related scenarios.

To manage underwriting exposures, the group has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry. In 2019, 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 monitoring to maintain underwriting quality and confirm ongoing compliance with contractual guidelines.

Notes to the financial statements *continued*

2 Risk management *continued*

Operating divisions

In 2019, 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.

2019	UK (Lloyd's)	US (Non-Lloyd's)	Europe (Non-Lloyd's)	Total
Cyber & executive risk	18%	9%	–	27%
Marine	10%	–	–	10%
Political, accident & contingency	8%	1%	–	9%
Property	14%	–	–	14%
Reinsurance	7%	–	–	7%
Specialty lines	27%	5%	1%	33%
Total	**84%**	**15%**	**1%**	**100%**

2018[1]	UK (Lloyd's)	US (Non-Lloyd's)	Europe (Non-Lloyd's)	Total
Cyber & executive risk	17%	10%	–	27%
Marine	11%	–	–	11%
Political, accident & contingency	8%	1%	–	9%
Property	16%	–	–	16%
Reinsurance	8%	–	–	8%
Specialty lines	23%	6%	–	29%
Total	**83%**	**17%**	**–**	**100%**

1 From 1 January 2019, the specialty lines division has been split into two. The prior year comparative has been re-presented to allow comparison.

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 163.

The group's reinsurance programmes complement the underwriting team business plans and seek to protect group capital from an adverse volume or volatility of claims on both a per risk and per event basis. In some cases the group deems it more economic to hold capital than purchase reinsurance. These decisions are regularly reviewed as an integral part of the business planning and performance monitoring process.

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

c) Claims management risk

Claims management risk may arise within the group in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. These risks may damage the group brand and undermine its ability to win and retain business, or incur punitive damages. These risks can occur at any stage of the claims life cycle. The group's claims teams are focused on delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business's broader interests. Case reserves are set for all known claims liabilities, including provisions for expenses, as soon as a reliable estimate can be made of the claims liability.

2 Risk management *continued*

d) Reserving and ultimate reserves risk

Reserving and ultimate reserves risk occurs within the group where established insurance liabilities are insufficient through inaccurate forecasting, or where there is inadequate allowance for expenses and reinsurance bad debts in provisions.

To manage reserving and ultimate reserves risk, our actuarial team uses a range of recognised techniques to project gross premiums written, monitor claims development patterns and stress-test ultimate insurance liability balances. The group aims to hold reserves within a range of 5-10% above the actuarial estimates, which themselves include some margin for uncertainty.

The objective of the group's reserving policy is to produce accurate and reliable estimates that are consistent over time and across classes of business. The estimates of gross premiums written and claims prepared by the actuarial department are used through a formal quarterly peer review process to independently test the integrity of the estimates produced by the underwriting teams for each class of business. These meetings are attended by senior management, senior underwriters, and actuarial, claims, and finance representatives.

2.2 Strategic risk

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

a) Senior management performance

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

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

2.3 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 2019, this permitted variance from the forecast investment return was set at $150.0m (unaudited). For 2020, the permitted variance is likely to be at the same level. Investment strategy is developed to be consistent with this limit and investment risk is monitored on an ongoing basis, using outputs from our internal model.

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

Notes to the financial statements *continued*

2 Risk management *continued*

a) Foreign exchange risk

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

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

In 2019, the group managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting to have net assets that are predominantly denominated in US dollar. As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure across the group. Details of foreign currency derivative contracts entered into with external parties are disclosed in note 17. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk.

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

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

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

31 December 2019	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	546.2	165.5	364.3	1,076.0	7,797.7	8,873.7
Total liabilities	(549.2)	(165.2)	(348.7)	(1,063.1)	(6,185.3)	(7,248.4)
Net assets	**(3.0)**	**0.3**	**15.6**	**12.9**	**1,612.4**	**1,625.3**

31 December 2018	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	506.3	131.6	290.3	928.2	6,805.7	7,733.9
Total liabilities	(511.8)	(138.9)	(305.6)	(956.3)	(5,310.7)	(6,267.0)
Net assets	**(5.5)**	**(7.3)**	**(15.3)**	**(28.1)**	**1,495.0**	**1,466.9**

Sensitivity analysis

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

	Impact on profit after tax for the year ended		Impact on net assets	
Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar	2019 $m	2018 $m	2019 $m	2018 $m
Dollar weakens 30% against other currencies	3.4	(7.5)	(1.0)	(11.5)
Dollar weakens 20% against other currencies	2.3	(5.0)	(0.6)	(7.7)
Dollar weakens 10% against other currencies	1.1	(2.5)	(0.3)	(3.8)
Dollar strengthens 10% against other currencies	(1.1)	2.5	0.3	3.8
Dollar strengthens 20% against other currencies	(2.3)	5.0	0.6	7.7
Dollar strengthens 30% against other currencies	(3.4)	7.5	1.0	11.5

2 Risk management *continued*

b) Interest rate risk

Some of the group's financial instruments, including cash and cash equivalents, certain financial assets at fair value and borrowings, are exposed to movements in market interest rates.

The group manages interest rate risk by primarily investing in short duration financial assets along with cash and cash equivalents. The investment committee monitors the duration of these assets on a regular basis.

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

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

Duration 31 December 2019	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	1,530.8	1,650.5	898.0	327.7	304.2	87.6	14.3	4,813.1
Cash and cash equivalents	278.5	–	–	–	–	–	–	278.5
Derivative financial instruments	25.5	–	–	–	–	–	–	25.5
Borrowings	–	–	–	–	–	(546.8)	–	(546.8)
Total	**1,834.8**	**1,650.5**	**898.0**	**327.7**	**304.2**	**(459.2)**	**14.3**	**4,570.3**

31 December 2018	<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	1,566.0	831.0	963.8	467.4	188.2	83.8	–	4,100.2
Cash and cash equivalents	336.3	–	–	–	–	–	–	336.3
Derivative financial instruments	6.9	–	–	–	–	–	–	6.9
Borrowings	(95.6)	–	–	–	–	(248.7)	–	(344.3)
Total	**1,813.6**	**831.0**	**963.8**	**467.4**	**188.2**	**(164.9)**	**–**	**4,099.1**

Borrowings consist of two items as at 31 December 2019. The first is $250m of subordinated tier 2 debt raised in November 2016. This debt is due in 2026 and has annual interest of 5.875% payable in May and November of each year. The second comprises $300m of subordinate tier 2 debt raised in September 2019. This debt is due in 2029 and has annual interest of 5.5% payable in March and September each year.

As at 31 December 2018, borrowings included £75m of sterling denominated 5.375% notes which were redeemed in September 2019. Due to this redemption, it is not included in any of the categories in the 31 December 2019 table (2018: <1 yr category).

Sensitivity analysis

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

	Impact on profit after income tax for the year		Impact on net assets	
	2019 $m	2018 $m	2019 $m	2018 $m
Shift in yield (basis points)				
150 basis point increase	(112.7)	(93.8)	(112.7)	(93.8)
100 basis point increase	(75.1)	(62.6)	(75.1)	(62.6)
50 basis point increase	(37.6)	(31.3)	(37.6)	(31.3)
50 basis point decrease	37.6	31.3	37.6	31.3
100 basis point decrease	75.1	62.6	75.1	62.6

Notes to the financial statements *continued*

2 Risk management *continued*

c) Price risk

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

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

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

	Impact on profit after income tax for the year		Impact on net assets	
	2019 $m	2018 $m	2019 $m	2018 $m
Change in fair value of hedge funds, equity funds and illiquid credit assets				
30% increase in fair value	192.5	163.2	192.5	163.2
20% increase in fair value	128.3	108.8	128.3	108.8
10% increase in fair value	64.2	54.4	64.2	54.4
10% decrease in fair value	(64.2)	(54.4)	(64.2)	(54.4)
20% decrease in fair value	(128.3)	(108.8)	(128.3)	(108.8)
30% decrease in fair value	(192.5)	(163.2)	(192.5)	(163.2)

d) Investment risk

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

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

Beazley's investment strategy is developed by reference to an investment risk budget, set annually by the board as part of the overall risk budgeting framework of the business. The Solvency II internal model is used to monitor compliance with the budget, which limits the amount by which our reported annual investment return may deviate from a predetermined target, at the 1 in 10 confidence level. In 2019, the permitted deviation was $150.0m (unaudited). Additionally, a limit is specified for the net interest rate sensitivity of assets and liabilities combined and investments are managed to ensure that this limit is not exceeded.

2.4 Operational risk

Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or external events.

There are a number of business activities for which the group uses the services of a third-party company, such as investment management, IT systems, data entry and credit control. These service providers are selected against rigorous criteria and formal service level agreements are in place, and regularly monitored and reviewed.

2 Risk management *continued*

The group also recognises that it is necessary for people, systems and infrastructure to be available to support our operations. Therefore we have taken significant steps to mitigate the impact of business interruption which could follow a variety of events, including the loss of key individuals and facilities. We operate a formal disaster recovery plan which, in the event of an incident, allows the group to move critical operations to an alternative location within 24 hours.

The group actively manages operational risks and minimises them where appropriate. This is achieved by implementing and communicating guidelines to staff and other third parties. The group also regularly monitors the performance of its controls and adherence to these guidelines through the risk management reporting process.

Key components of the group's operational control environment include:
- modelling of operational risk exposure and scenario testing;
- management review of activities;
- documentation of policies and procedures;
- preventative and detective controls within key processes;
- contingency planning; and
- other systems controls.

2.5 Credit risk

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

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

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

An approval system also exists for all new brokers, and broker performance is carefully monitored. Regular exception reports highlight trading with non-approved brokers, and the group's credit control function frequently assesses the ageing and collectability of debtor balances. Any large, aged items are prioritised and where collection is outsourced incentives are in place to support these priorities.

The investment committee has established comprehensive guidelines for the group's investment managers regarding the type, duration and quality of investments acceptable to the group. The performance of investment managers is regularly reviewed to confirm adherence to these guidelines.

The group has developed processes to formally examine all reinsurers before entering into new business arrangements. New reinsurers are approved by the reinsurance security committee, which also reviews arrangements with all existing reinsurers at least annually. Vulnerable or slow-paying reinsurers are examined more frequently.

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

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

Notes to the financial statements *continued*

2 Risk management *continued*

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

31 December 2019	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	3,544.0	1,269.1	–	–	–	4,813.1
– equity funds	–	–	–	–	163.6	163.6
– hedge funds	–	–	–	–	354.0	354.0
– illiquid credit assets	–	–	–	–	216.6	216.6
– derivative financial instruments	–	–	–	–	25.5	25.5
Insurance receivables	–	–	–	–	1,048.0	1,048.0
Reinsurance assets	1,338.2	–	–	–	–	1,338.2
Other receivables	72.0	–	–	–	–	72.0
Cash and cash equivalents	278.5	–	–	–	–	278.5
Total	**5,232.7**	**1,269.1**	**–**	**–**	**1,807.7**	**8,309.5**

31 December 2018	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	3,041.2	1,059.0	–	–	–	4,100.2
– equity funds	–	–	–	–	85.4	85.4
– hedge funds	–	–	–	–	337.2	337.2
– illiquid credit assets	–	–	–	–	186.6	186.6
– derivative financial instruments	–	–	–	–	6.9	6.9
Insurance receivables	–	–	–	–	943.3	943.3
Reinsurance assets	1,192.8	–	–	–	–	1,192.8
Other receivables	58.5	–	–	–	–	58.5
Cash and cash equivalents	336.3	–	–	–	–	336.3
Total	**4,628.8**	**1,059.0**	**–**	**–**	**1,559.4**	**7,247.2**

The largest counterparty exposure within tier 1 is $1,599.9m of US treasuries (2018: $1,106.5m).

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

Insurance receivables and other receivables balances held by the group have not been impaired, based on all evidence available, and no impairment provision has been recognised in respect of these assets. Insurance receivables in respect of coverholder business are credit controlled by third-party managers. We monitor third party coverholders' performance and their financial processes through the group's coverholder management team. These assets are individually impaired after considering information such as the occurrence of significant changes in the counterparties' financial position, patterns of historical payment information and disputes with counterparties.

2 Risk management *continued*

An analysis of the overall credit risk exposure indicates that the group has reinsurance assets that are impaired at the reporting date. The total impairment in respect of the reinsurance assets, including reinsurer's share of outstanding claims, at 31 December 2019 was as follows:

	Individual impairment $m	Collective impairment $m	Total $m
Balance at 1 January 2018	2.9	10.3	13.2
Impairment loss written back	(0.1)	(0.9)	(1.0)
Balance at 31 December 2018	2.8	9.4	12.2
Impairment loss recognised	0.3	1.2	1.5
Balance at 31 December 2019	**3.1**	**10.6**	**13.7**

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 2019	Up to 30 days past due $m	30-60 days past due $m	60-90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance receivables	59.2	26.0	8.6	31.9	125.7
Reinsurance assets	3.0	5.6	0.9	7.3	16.8

31 December 2018	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	49.6	13.9	5.3	18.8	87.6
Reinsurance assets	1.0	2.3	0.3	3.4	7.0

The total impairment provision in the statement of financial position in respect of reinsurance assets past due (being reinsurance recoverables due on paid claims) by more than 30 days at 31 December 2019 was $3.1m (2018: $3.1m). This $3.1m provision in respect of overdue reinsurance recoverables is included within the total provision of $13.7m shown in the table at the top of the page.

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

2.6 Regulatory and legal risk

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

2.7 Liquidity risk

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

The group's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (details of the group's exposure to realistic disaster scenarios are provided on page 157). 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 39 to 40.

Notes to the financial statements *continued*

2 Risk management *continued*

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

31 December 2019	Within 1 year $m	1-3 years $m	3-5 years $m	Greater than 5 years $m	Total $m	Weighted average term to settlement (years)
Cyber & executive risk	263.2	431.0	177.8	58.4	930.4	2.2
Marine	112.2	100.5	35.1	16.5	264.3	1.8
Political, accident & contingency	69.9	51.1	13.1	12.2	146.3	1.9
Property	159.5	129.0	31.9	20.9	341.3	1.7
Reinsurance	106.8	93.8	26.0	19.4	246.0	1.9
Specialty lines	246.3	483.4	341.4	392.1	1,463.2	3.8
Net claims liabilities	**957.9**	**1,288.8**	**625.3**	**519.5**	**3,391.5**	

31 December 2018	Within 1 year $m	1-3 years $m	3-5 years $m	Greater than 5 years $m	Total $m	Weighted average term to settlement (years)
Cyber & executive risk	164.3	301.4	190.1	108.5	764.3	2.9
Marine	116.3	97.3	28.6	21.8	264.0	2.0
Political, accident & contingency	59.5	44.2	12.2	16.8	132.7	2.4
Property	179.9	111.9	29.0	27.0	347.8	1.8
Reinsurance	88.4	71.5	22.8	21.3	204.0	2.2
Specialty lines	267.0	429.8	281.8	397.6	1,376.2	3.7
Net claims liabilities	**875.4**	**1,056.1**	**564.5**	**593.0**	**3,089.0**	

1 For a breakdown of net claims liabilities refer to note 24.

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

31 December 2019	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Net claims liabilities	957.9	1,288.8	625.3	519.5	3,391.5
Borrowings	–	–	–	546.8	546.8
Other payables	566.4	–	–	–	566.4

31 December 2018	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Net claims liabilities	875.4	1,056.1	564.5	593.0	3,089.0
Borrowings	95.6	–	–	248.7	344.3
Other payables	442.6	–	–	–	442.6

The group makes additional interest payments for borrowings. Further details are provided in notes 8 and 25.

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

Maturity 31 December 2019	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	1,229.5	1,686.6	954.2	410.2	471.2	27.5	33.9	4,813.1
Derivative financial instruments	25.5	–	–	–	–	–	–	25.5
Cash and cash equivalents	278.5	–	–	–	–	–	–	278.5
Insurance receivables	1,048.0	–	–	–	–	–	–	1,048.0
Other receivables	72.0	–	–	–	–	–	–	72.0
Other payables	(566.4)	–	–	–	–	–	–	(566.4)
Borrowings	–	–	–	–	–	(546.8)	–	(546.8)
Total	**2,087.1**	**1,686.6**	**954.2**	**410.2**	**471.2**	**(519.3)**	**33.9**	**5,123.9**

2 Risk management *continued*

31 December 2018	<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	1,114.0	909.1	1,050.2	516.6	322.1	188.2	–	4,100.2
Derivative financial instruments	6.9	–	–	–	–	–	–	6.9
Cash and cash equivalents	336.3	–	–	–	–	–	–	336.3
Insurance receivables	943.3	–	–	–	–	–	–	943.3
Other receivables	58.5	–	–	–	–	–	–	58.5
Other payables	(442.6)	–	–	–	–	–	–	(442.6)
Borrowings	(95.6)	–	–	–	–	(248.7)	–	(344.3)
Total	**1,920.8**	**909.1**	**1,050.2**	**516.6**	**322.1**	**(60.5)**	**–**	**4,658.3**

Borrowings consist of two items as at 31 December 2019. The first is $250m of subordinated tier 2 debt raised in November 2016. This debt is due in 2026 and has annual interest of 5.875% payable in May and November of each year. The second comprises $300m of subordinate tier 2 debt raised in September 2019. This debt is due in 2029 and has annual interest of 5.5% payable in March and September each year.

As at 31 December 2018, borrowings included £75m of sterling denominated 5.375% notes which were redeemed in September 2019. Due to this redemption, it is not included in any of the categories in the 31 December 2019 table (2018: <1 yr category).

Illiquid credit assets, hedge funds and equity funds are not included in the maturity profile because the basis of maturity profile cannot be determined with any degree of certainty.

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

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

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

2.9 Capital management †
The group follows a risk-based approach to determine the amount of capital required to support its activities. Recognised stochastic modelling techniques are used to measure risk exposures, and capital to support business activities is allocated according to risk profile. Stress and scenario analysis is regularly performed and the results are documented and reconciled to the board's risk appetite where necessary.

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

For more detail on the value of capital managed, please see pages 39 to 40.

Notes to the financial statements *continued*

2 Risk management *continued*

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

The board's strategy is to grow the dividend (excluding special dividend) by between 5% and 10% per year. Our capital management strategy is to carry some surplus capital to enable us to take advantage of growth opportunities which may arise. At 31 December 2019 we have surplus capital of 22% of ECR (unaudited, on a Solvency II basis). Following payment of the second interim dividend of 8.2p per share, the surplus reduces to 19% (unaudited) compared to our current target range of 15% to 25% of ECR.

2.10 Company risk

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

3 Segmental analysis

a) Reporting segments

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

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

Cyber & executive risk

This segment underwrites management liabilities such as employment practices risks and directors and officers, alongside cyber and technology, media and business services.

Marine

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

Political, accident & contingency

This segment underwrites terrorism, political violence, expropriation and credit risks as well as contingency and risks associated with contract frustration. In addition, this segment underwrites life, health, personal accident, sports and income protection risks.

Property

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

Reinsurance

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

Specialty lines

This segment underwrites a wide portfolio of business, including architects and engineers, healthcare, lawyers and environmental liability, market facilities business and international financial institutions.

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

3 Segmental analysis *continued*

b) Segment information

2019	Cyber & executive risk $m	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Gross premiums written	823.0	306.4	272.7	428.7	206.0	967.1	3,003.9
Net premiums written	712.2	222.1	245.8	365.6	123.0	834.8	2,503.5
Net earned premiums	644.5	222.2	237.4	361.8	123.0	758.1	2,347.0
Net investment income	76.8	21.8	13.0	28.7	17.0	106.4	263.7
Other income	6.2	1.3	1.7	5.1	1.2	10.3	25.8
Revenue	**727.5**	**245.3**	**252.1**	**395.6**	**141.2**	**874.8**	**2,636.5**
Net insurance claims	395.7	126.8	110.5	207.3	144.6	467.6	1,452.5
Expenses for the acquisition of insurance contracts	143.2	82.4	76.4	110.3	30.6	202.5	645.4
Administrative expenses	62.2	27.8	24.1	34.9	14.3	81.0	244.3
Foreign exchange gain	(0.2)	(0.1)	(0.1)	(0.2)	(0.1)	(0.4)	(1.1)
Expenses	**600.9**	**236.9**	**210.9**	**352.3**	**189.4**	**750.7**	**2,341.1**
Segment result	**126.6**	**8.4**	**41.2**	**43.3**	**(48.2)**	**124.1**	**295.4**
Finance costs							(27.7)
Profit before income tax							**267.7**
Income tax expense							(33.6)
Profit for the year attributable to equity shareholders							**234.1**
Claims ratio	61%	57%	47%	57%	118%	62%	62%
Expense ratio	32%	50%	42%	40%	36%	37%	38%
Combined ratio	93%	107%	89%	97%	154%	99%	100%
Segment assets and liabilities							
Segment assets	2,481.2	633.3	479.0	976.5	767.5	3,536.2	8,873.7
Segment liabilities	(1,980.5)	(560.8)	(385.0)	(772.2)	(630.5)	(2,919.4)	(7,248.4)
Net assets	**500.7**	**72.5**	**94.0**	**204.3**	**137.0**	**616.8**	**1,625.3**
Additional information							
Capital expenditure	5.7	0.8	1.1	2.3	1.6	7.1	18.6
Amortisation and depreciation	(2.6)	(1.9)	(0.5)	(1.0)	(7.5)	(3.0)	(16.5)
Net cash flow	(17.8)	(2.6)	(3.3)	(7.3)	(4.9)	(21.9)	(57.8)

Notes to the financial statements *continued*

3 Segmental analysis *continued*

2018	Cyber & executive risk[1] $m	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Gross premiums written	713.5	284.8	238.7	415.4	207.4	755.5	2,615.3
Net premiums written	615.3	255.0	212.7	360.2	137.3	668.0	2,248.5
Net earned premiums	545.8	249.5	194.3	344.1	139.5	611.4	2,084.6
Net investment income	12.7	3.3	2.3	3.1	1.8	17.9	41.1
Other income	5.6	2.9	3.8	6.4	1.7	13.3	33.7
Revenue	**564.1**	**255.7**	**200.4**	**353.6**	**143.0**	**642.6**	**2,159.4**
Net insurance claims	306.9	134.0	90.2	289.4	97.7	309.6	1,227.8
Expenses for the acquisition of insurance contracts	122.1	74.5	63.3	103.5	33.2	165.3	561.9
Administrative expenses	62.1	25.1	21.5	38.9	13.0	90.1	250.7
Foreign exchange loss	3.3	1.6	1.2	2.2	0.9	4.0	13.2
Expenses	**494.4**	**235.2**	**176.2**	**434.0**	**144.8**	**569.0**	**2,053.6**
Impairment of associate[2]	–	–	–	–	–	(7.0)	(7.0)
Segment result	**69.7**	**20.5**	**24.2**	**(80.4)**	**(1.8)**	**66.6**	**98.8**
Finance costs							(22.4)
Profit before income tax							**76.4**
Income tax expense							(8.2)
Profit for the year attributable to equity shareholders							**68.2**
Claims ratio	56%	54%	46%	84%	70%	50%	59%
Expense ratio	34%	40%	44%	41%	33%	42%	39%
Combined ratio	90%	94%	90%	125%	103%	92%	98%
Segment assets and liabilities							
Segment assets	2,177.4	689.7	445.4	882.1	666.4	2,872.9	7,733.9
Segment liabilities	(1,774.6)	(571.9)	(347.2)	(726.1)	(505.8)	(2,341.4)	(6,267.0)
Net assets	**402.8**	**117.8**	**98.2**	**156.0**	**160.6**	**531.5**	**1,466.9**
Additional information							
Impairment of associate[2]	–	–	–	–	–	(7.0)	(7.0)
Capital expenditure	2.7	0.8	0.7	1.0	1.1	3.5	9.8
Amortisation and depreciation	(1.8)	(2.1)	(0.4)	(0.6)	(0.6)	(9.2)	(14.7)
Net cash flow	(28.6)	(8.3)	(7.0)	(11.1)	(11.4)	(37.8)	(104.2)

1 From 1 January 2019, the speciality lines division has been split into two. The prior year comparative has been re-presented to allow comparison.

2 In 2018, management received information which led them to conclude that the recoverable amount of the group's investment in Capson was lower than its carrying value. In March 2018 the group took the decision to write down its investment in Capson Corp., Inc to $2.8m. In December the group took the further decision to fully write down its investment in Capson Corp., Inc to nil. This is deemed to be an appropriate value for Beazley's share in Capson.

3 Segmental analysis *continued*

c) Information about geographical areas

The group's operating segments are also managed geographically by placement of risk. UK earned premium in the analysis below represents all risks placed at Lloyd's; US earned premium represents all risks placed at the group's US insurance company, Beazley Insurance Company, Inc; and Europe earned premium represents all risks placed at the group's European insurance company, Beazley Insurance dac. An analysis of gross premiums written split geographically by placement of risk and by reportable segment is provided in note 2 on page 158.

	2019 $m	2018 $m
Net earned premiums		
UK (Lloyd's)	1,974.3	1,821.8
US (Non-Lloyd's)[1]	346.3	260.2
Europe (Non-Lloyd's)	26.4	2.6
	2,347.0	**2,084.6**

	2019 $m	2018 $m
Segment assets		
UK (Lloyd's)	8,046.5	7,213.2
US (Non-Lloyd's)[1]	762.4	482.1
Europe (Non-Lloyd's)	64.8	38.6
	8,873.7	**7,733.9**

1 Increase in US net earned premiums and assets is driven by a change of internal reinsurance contract. As a result of this, more premiums are retained in the US.

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

	2019 $m	2018 $m
Capital expenditure		
Non-US	13.7	9.5
US	4.9	0.3
	18.6	**9.8**

4 Net investment income

	2019 $m	2018 $m
Interest and dividends on financial investments at fair value through profit or loss	120.6	102.1
Interest on cash and cash equivalents	0.3	0.5
Net realised gains on financial investments at fair value through profit or loss	21.5	12.4
Net unrealised fair value gains/(losses) on financial investments at fair value through profit or loss	130.1	(66.1)
Investment income from financial investments	**272.5**	**48.9**
Investment management expenses	(8.8)	(7.8)
	263.7	**41.1**

Notes to the financial statements *continued*

5 Other income

	2019 $m	2018 $m
Commissions received by Beazley service companies	21.2	20.7
Profit commissions from syndicates 623	1.0	7.5
Agency fees from 623	2.5	2.5
Other income	1.1	3.0
	25.8	**33.7**

As at 31 December 2019 there was no accrued profit commission at risk of being reversed if there were to be an adverse impact on syndicate 623's profit (31 December 2018: nil). We have not experienced any deterioration to profits on these contracts recognised previously.

6 Operating expenses

	2019 $m	2018 $m
Operating expenses include:		
Amounts receivable by the auditor[1] and associates in respect of:		
– audit services for the group and subsidiaries	1.2	1.0
– audit-related assurance services	0.7	0.6
– taxation compliance services	–	0.1
– other non-audit services	0.5	0.8
	2.4	2.5
Impairment loss recognised/(written back) on reinsurance assets	1.5	(1.0)

1 In 2018 the group's auditor was KPMG but for 2019 it is EY.

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

7 Employee benefit expenses

	2019 $m	2018 $m
Wages and salaries	165.2	156.0
Short term incentive payments	56.2	38.0
Social security	17.0	21.0
Share based remuneration	4.9	17.7
Pension costs[1]	11.5	11.7
	254.8	244.4
Recharged to syndicate 623	(36.0)	(35.6)
	218.8	**208.8**

1 Pension costs refer to the contributions made under the defined contribution scheme. Further information on the defined benefit pension scheme can be found in note 27.

The average number of employees for 2019 was 1,514.

8 Finance costs

	2019 $m	2018 $m
Interest expense on financial liabilities	25.8	22.4
Interest expense on lease liabilities	1.9	–
	27.7	**22.4**

During 2019, Beazley redeemed debt with a nominal value of £75m and a market value of £75m in the form of sterling denominated notes. No profit or loss was realised at redemption as there was no difference between the carrying value and market value of the debt. Please refer to note 25 for further detail on subordinated debt.

9 Income tax expense

	2019 $m	2018 $m
Current tax expense		
Current year	38.8	32.3
Prior year adjustments	(4.0)	(5.3)
	34.8	27.0
Deferred tax expense		
Origination and reversal of temporary differences	2.3	(14.6)
Impact of change in UK/US tax rates	(0.5)	0.7
Prior year adjustments	(3.0)	(4.9)
	(1.2)	(18.8)
Income tax expense	**33.6**	**8.2**

Reconciliation of tax expense

The weighted average of statutory tax rates applied to the profits earned in each country in which the group operates is 15.0% (2018: 18.6%), whereas the tax charged for the year 31 December 2019 as a percentage of profit before tax is 12.6% (2018: 10.7%). The reasons for the difference are explained below:

	2019 $m	2019 %	2018 $m	2018 %
Profit before tax	**267.7**	–	**76.4**	–
Tax calculated at the weighted average of statutory tax rates	40.3	15.0	14.2	18.6
Effects of:				
– non-deductible expenses	1.5	0.6	3.0	3.9
– non-taxable losses on foreign exchange	–	–	0.3	0.4
– tax relief on share based payments – current and future years	(0.7)	(0.3)	0.2	0.3
– over provided in prior years	(7.0)	(2.6)	(10.2)	(13.4)
– change in UK/US tax rates[1]	(0.5)	(0.1)	0.7	0.9
Tax charge for the period	**33.6**	**12.6**	**8.2**	**10.7**

1 The Finance Act 2016, which provides for reduction in the UK Corporation tax rate down to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. This 17% tax rate will reduce the company's future current tax charge and has been reflected in the calculation of the deferred tax balance as at 31 December 2019.

Notes to the financial statements *continued*

9 Income tax expense *continued*

As noted on page 36, the group has assessed the potential impact of the diverted profits tax (DPT) following the enactment of new legislation in April 2015 and is of the view that no liability arises. The ultimate outcome may differ and any profits that did fall within the scope of the DPT would potentially be taxed at a rate of 25% rather than 12.5% (the current rate of tax on corporate earnings in Ireland). The earnings that would potentially be taxed at 25% are the relevant earnings from 2015 to 2019. The relevant earnings are determined in relation to 75% of the profits and losses in Beazley's syndicates potentially starting with a proportion of the profits on the 2013, 2014 and 2015 years of account and 75% of all profits and losses in Beazley's syndicates on years of account from 2016 onwards.

A new Tax Act (the Tax Cuts and Jobs Act) was signed into law in the US in December 2017. The Tax Act includes base erosion anti-avoidance tax provisions (the "BEAT"). We have performed an assessment for our intra-group transactions potentially in scope of BEAT. The application of this new BEAT legislation is still uncertain for some types of transaction and we are keeping developments under review. With support from external advisors, we believe that the BEAT impact on the group is not significant. For the year 2019 $1.9m was provided in the group accounts for BEAT liabilities (for 2018 the group paid BEAT tax of $0.9m). The ultimate outcome may differ and if any additional amounts did fall within the scope of the BEAT, incremental tax at 10% might arise on some or all of those amounts.

Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profits or loss or other comprehensive income but directly debited or credited to equity:

	2019 $m	2018 $m
Current tax: share based payments	(2.6)	(6.1)
Deferred tax: share based payments	(1.0)	(4.1)
	(3.6)	**(10.2)**

In addition, the group recognised deferred tax amounts directly in retained earnings as a result of the changes in accounting policy in relation to leases (see note 1).

10 Earnings per share

	2019	2018
Basic (cents)	44.6c	13.0c
Diluted (cents)	44.0c	12.8c
Basic (pence)	35.0p	9.7p
Diluted (pence)	34.5p	9.5p

Basic

Basic earnings per share are calculated by dividing profit after tax of $234.1m (2018: $68.2m) by the weighted average number of shares in issue during the year of 525.1m (2018: 523.2m). The shares held in the Employee Share Options Plan (ESOP) of 4.8m (2018: 4.7m) have been excluded from the calculation, until such time as they vest unconditionally with the employees.

Diluted

Diluted earnings per share are calculated by dividing profit after tax of $234.1m (2018: $68.2m) by the adjusted weighted average number of shares of 532.4m (2018: 533.1m). The adjusted weighted average number of shares assumes conversion of dilutive potential ordinary shares, being shares from the SAYE, retention and deferred share schemes. The shares held in the ESOP of 4.8m (2018: 4.7m) 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 8.2p per ordinary share (2018: 7.8p) will be payable on 30 March 2020 to Beazley plc shareholders registered at 5.00pm on 28 February 2020 in respect of the six months ended 31 December 2019. No special dividend was declared in 2019 (2018: nil). The company expects the total amount to be paid in respect of the second interim dividend to be approximately £42.8m. These financial statements do not provide for the second interim dividend as a liability.

Together with the interim dividend of 4.1p (2018: 3.9p) this gives a total dividend for the year of 12.3p (2018: 11.7p).

12 Intangible assets

	Goodwill $m	Syndicate capacity $m	Licences $m	IT development costs $m	Renewal rights $m	Total $m
Cost						
Balance at 1 January 2018	72.0	10.7	9.3	71.1	61.0	224.1
Other additions	–	–	–	7.2	–	7.2
Foreign exchange loss	–	–	–	(3.3)	(2.0)	(5.3)
Balance at 31 December 2018	**72.0**	**10.7**	**9.3**	**75.0**	**59.0**	**226.0**
Balance at 1 January 2019	72.0	10.7	9.3	75.0	59.0	226.0
Other additions	–	–	–	12.3	–	12.3
Foreign exchange gain	–	–	–	0.5	1.0	1.5
Balance at 31 December 2019	**72.0**	**10.7**	**9.3**	**87.8**	**60.0**	**239.8**
Amortisation and impairment						
Balance at 1 January 2018	(10.0)	–	–	(54.8)	(25.8)	(90.6)
Amortisation for the year	–	–	–	(3.8)	(8.8)	(12.6)
Foreign exchange gain	–	–	–	2.9	0.8	3.7
Balance at 31 December 2018	(10.0)	–	–	(55.7)	(33.8)	(99.5)
Balance at 1 January 2019	(10.0)	–	–	(55.7)	(33.8)	(99.5)
Amortisation for the year	–	–	–	(5.6)	(8.5)	(14.1)
Foreign exchange loss	–	–	–	(3.6)	(0.4)	(4.0)
Balance at 31 December 2019	**(10.0)**	**–**	**–**	**(64.9)**	**(42.7)**	**(117.6)**
Carrying amount						
31 December 2019	**62.0**	**10.7**	**9.3**	**22.9**	**17.3**	**122.2**
31 December 2018	62.0	10.7	9.3	19.3	25.2	126.5

Notes to the financial statements *continued*

12 Intangible assets *continued*

Impairment tests

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

2019	Cyber & executive risk $m	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Goodwill	1.5	2.3	29.6	24.9	0.8	2.9	62.0
Capacity	1.7	1.6	1.0	2.5	0.8	3.1	10.7
Licences	3.3	–	–	1.9	–	4.1	9.3
Total	**6.5**	**3.9**	**30.6**	**29.3**	**1.6**	**10.1**	**82.0**

2018	Cyber & executive risk[1] $m	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Goodwill	1.5	2.3	29.6	24.9	0.8	2.9	62.0
Capacity	1.7	1.6	1.0	2.5	0.8	3.1	10.7
Licences	3.3	–	–	1.9	–	4.1	9.3
Total	**6.5**	**3.9**	**30.6**	**29.3**	**1.6**	**10.1**	**82.0**

1 From 1 January 2019, the speciality lines division has been split into two. The prior year comparative has been re-presented to allow comparison.

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

A discount rate, based on weighted average cost of capital (WACC) of 7% (2018: 9%) has been applied to projected future cash flows. This has been calculated using independent measures of the risk-free rate of return and is indicative of the group's risk profile relative to the market. The impairment test for goodwill confirms that no impairment is required.

Significant changes in the economic and regulatory environment, such as US legislation and Brexit, could impact the amount of premium written and investment income for each CGU. This could potentially have an impact on the carrying value of the CGU, however this remains remote.

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

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

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

13 Plant and equipment

	Company	Group		
	Fixtures & fittings $m	Fixtures & fittings $m	Computer equipment $m	Total $m
Cost				
Balance at 1 January 2018	–	22.9	7.6	30.5
Additions	–	2.1	0.5	2.6
Write off	–	(1.2)	(0.1)	(1.3)
Foreign exchange loss	–	(0.4)	(0.1)	(0.5)
Balance at 31 December 2018	**–**	**23.4**	**7.9**	**31.3**
Balance at 1 January 2019	**–**	**23.4**	**7.9**	**31.3**
Additions	–	4.0	2.3	6.3
Foreign exchange gain	–	0.3	0.1	0.4
Balance at 31 December 2019	**–**	**27.7**	**10.3**	**38.0**
Accumulated depreciation				
Balance at 1 January 2018	–	(19.3)	(6.8)	(26.1)
Depreciation charge for the year	–	(1.5)	(0.6)	(2.1)
Write off	–	1.2	0.1	1.3
Foreign exchange gain	–	0.3	0.2	0.5
Balance at 31 December 2018	**–**	**(19.3)**	**(7.1)**	**(26.4)**
Balance at 1 January 2019	**–**	**(19.3)**	**(7.1)**	**(26.4)**
Depreciation charge for the year	–	(1.6)	(0.8)	(2.4)
Foreign exchange loss	–	(0.2)	(0.1)	(0.3)
Balance at 31 December 2019	**–**	**(21.1)**	**(8.0)**	**(29.1)**
Carrying amounts				
31 December 2019	**–**	**6.6**	**2.3**	**8.9**
31 December 2018	–	4.1	0.8	4.9

Notes to the financial statements *continued*

14 Investment in associates

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

Group	2019 $m	2018 $m
As at 1 January	–	**7.0**
Impairment of Capson Corp., Inc.	–	(7.0)
Investment in Pegasus Underwriting Ltd	0.1	–
Share of profit after tax	–	–
As at 31 December	**0.1**	**–**

The group's investment in associates consists of:

	Country/region of incorporation	% interest held	Carrying value $m
2019			
Falcon Money Management Holdings Limited (and subsidiaries)	Malta[1]	25%	–
Capson Corp., Inc. (and subsidiary)	USA[2]	31%	–
Pegasus Underwriting Limited	Hong Kong[3]	33%	0.1
			0.1

1 259 St Paul Street, Valletta, Malta.
2 221 West 6th Street, Suite 301, Austin TX 78701, USA.
3 Suite 126, 12/F Somptuex Central, 52-54 Wellington Street, Hong Kong.

In March 2018, the group took the decision to write down its investment in Capson Corp., Inc. to $2.8m. In December 2018 the group took the further decision to fully write down its investment in Capson Corp., Inc. to nil. This was deemed to be an appropriate value for Beazley's share in Capson.

The aggregate financial information for all associates (100%) held at 31 December 2019 is as follows:

	2019 $m	2018 $m
Assets	4.0	36.7
Liabilities	3.7	24.6
Equity	0.3	12.1
Revenue	4.3	18.8
Profit after tax	–	0.9
Share of other comprehensive income	–	–
Share of total comprehensive income	**–**	**0.9**

All of the investments in associates are unlisted and are equity accounted using available financial information as at 31 December 2019. Falcon Money Management Holdings Limited is an investment management company which also acts in an intermediary capacity.

15 Deferred acquisition costs

	2019 $m	2018 $m
Balance at 1 January	307.4	281.4
Additions	688.7	587.9
Amortisation charge	(645.4)	(561.9)
Balance at 31 December	**350.7**	**307.4**

16 Financial assets and liabilities

	2019 $m	2018 $m
Financial assets at fair value		
Fixed and floating rate debt securities:		
– Government issued	1,870.9	1,384.2
– Quasi-government	–	25.9
– Corporate bonds		
– Investment grade	2,706.4	2,525.3
– High yield	235.8	32.7
– Senior secured loans	–	132.1
Total fixed and floating rate debt securities	**4,813.1**	**4,100.2**
Equity funds	163.6	85.4
Hedge funds	354.0	337.2
Illiquid credit assets	216.6	186.6
Total capital growth assets	**734.2**	**609.2**
Total financial investments at fair value through statement of profit or loss	**5,547.3**	**4,709.4**
Derivative financial assets	25.5	6.9
Total financial assets at fair value	**5,572.8**	**4,716.3**

Quasi-government securities include securities which are issued by non-sovereign entities but which have an explicit sovereign guarantee. Supranational securities are issued by institutions sponsored by more than one sovereign issuer. Investment corporate bonds are rated BBB-/Baa3 or higher by at least one major rating agency, while high yield corporate bonds have lower credit ratings. Senior secured loans are tradeable, floating rate debt obligations of corporate issuers, with credit ratings of BB+/Ba1 or below. Hedge funds are investment vehicles pursuing alternative investment strategies, structured to have minimal correlation to traditional asset classes. Equity funds are investment vehicles which invest in equity securities and provide diversified exposure to global equity markets. Illiquid credit assets are investment vehicles that predominantly target private lending opportunities, often with longer investment horizons. The fair value of these assets at 31 December 2019 excludes an unfunded commitment of $74.3m (2018: $81.8m).

The amounts expected to mature within and after one year are:

	2019 $m	2018 $m
Within one year	1,037.3	1,121.0
After one year	3,801.3	2,986.1
Total	**4,838.6**	**4,107.1**

Our capital growth assets have no defined maturity dates and have thus been excluded from the above maturity table. However, all $163.6m (2018: $85.4m) of equity funds could be liquidated within two weeks, $272.8m (2018: $256.5m) of hedge fund assets within six months and the remaining $81.2m (2018: $80.7m) of hedge fund assets within 18 months, in normal market conditions. Illiquid credit assets are not readily realisable and principal will be returned over the life of these assets, which may be up to 12 years.

As noted on page 151 consideration is also given when valuing the hedge funds to the timing of the latest valuations, and the impact of any significant market stress events. The adjustment to the underlying net asset value of the funds as a result of these considerations was $nil at 31 December 2019 (2018: $nil).

Notes to the financial statements *continued*

16 Financial assets and liabilities *continued*

Financial liabilities	2019 $m	2018 $m
Retail bond	–	95.6
Tier 2 subordinated debt (2026)	248.9	248.7
Tier 2 subordinated debt (2029)	297.9	–
Derivative financial liabilities	8.0	12.4
Total financial liabilities	**554.8**	**356.7**
The amounts expected to mature before and after one year are:		
Within one year	8.0	108.0
After one year	546.8	248.7
	554.8	**356.7**

A breakdown of the group's investment portfolio is provided on page 36.
A breakdown of derivative financial instruments is disclosed in note 17.

The retail bond was issued in 2012 and redeemed in 2019. The tier 2 subordinated debt (2029) was issued in 2019. Tier 2 subordinated debt (2026) was issued in 2016. Please refer to note 25 for further details of our borrowings and associated repayment terms.

The group has given a fixed and floating charge over certain of its investments and other assets to secure obligations to Lloyd's in respect of its corporate member subsidiary. Further details are provided in note 32.

Valuation hierarchy

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

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

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

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

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

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

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

16 Financial assets and liabilities *continued*

Level 2 investments

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

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

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

Additional information is obtained from fund managers relating to the underlying assets within individual hedge funds. We identified that 83% (2018: 83%) 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 2019, the group's investment committee approved additional allocations to an illiquid asset portfolio comprising investments in funds managed by third party managers (generally closed end limited partnerships or open ended funds). While the funds provide full transparency on their underlying investments, the investments themselves are in many cases private and unquoted, and are therefore classified as level 3 investments.

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

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

Notes to the financial statements *continued*

16 Financial assets and liabilities *continued*

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

2019	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets measured at fair value				
Fixed and floating rate debt securities				
– Government issued	1,839.1	31.8	–	1,870.9
– Corporate bonds				
– Investment grade	1,244.1	1,462.3	–	2,706.4
– High yield	–	235.8	–	235.8
Equity funds	–	163.6	–	163.6
Hedge funds	–	354.0	–	354.0
Illiquid credit assets	–	–	216.6	216.6
Derivative financial assets	25.5	–	–	25.5
Total financial assets measured at fair value	**3,108.7**	**2,247.5**	**216.6**	**5,572.8**
Financial liabilities measured at fair value				
Derivative financial liabilities	8.0	–	–	8.0
Financial liabilities not measured at fair value				
Tier 2 subordinated debt (2029)	–	318.6	–	318.6
Tier 2 subordinated debt (2026)	–	276.8	–	276.8
Total financial liabilities not measured at fair value	**–**	**595.4**	**–**	**595.4**

2018	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets measured at fair value				
Fixed and floating rate debt securities				
– Government issued	1,384.2	–	–	1,384.2
– Quasi-government	25.9	–	–	25.9
– Corporate bonds				
– Investment grade	–	2,525.3	–	2,525.3
– High yield	–	32.7	–	32.7
– Senior secured loans	–	132.1	–	132.1
Equity funds	–	85.4	–	85.4
Hedge funds	–	337.2	–	337.2
Illiquid credit assets	–	–	186.6	186.6
Derivative financial assets	6.9	–	–	6.9
Total financial assets measured at fair value	**1,417.0**	**3,112.7**	**186.6**	**4,716.3**
Financial liabilities measured at fair value				
Derivative financial liabilities	12.4	–	–	12.4
Financial liabilities not measured at fair value				
Retail bond	–	98.2	–	98.2
Tier 2 subordinated debt (2026)	–	249.4	–	249.4
Total financial liabilities not measured at fair value	**–**	**347.6**	**–**	**347.6**

16 Financial assets and liabilities *continued*

The table above does not include financial assets and liabilities that are, in accordance with the group's accounting policies, recorded at amortised cost, if the carrying amount of these financial assets and liabilities approximates their fair values at the reporting date. Cash and cash equivalents have not been included in the table above; however, the full amount of cash and cash equivalents would be classified under level 2 in both the current and prior year.

Transfers

The group determines whether transfers have occurred between levels in the fair value hierarchy by assessing categorisation at the end of the reporting period.

For the period ended 31 December 2019, enhanced understanding of vendor pricing methodologies and the purchase of a new valuation tool have provided better quality data used in determining the fair value hierarchy classification, which has resulted in the following transfers between levels 1 & 2 for the period ended 31 December 2019:

31 December 2018 vs 31 December 2019 transfer from level 1 to level 2	Level 1 $m	Level 2 $m
Fixed and floating rate debt securities		
– Government issued	(8.1)	8.1
– Investment grade	(4.8)	4.8

31 December 2018 vs 31 December 2019 transfer from level 2 to level 1	Level 1 $m	Level 2 $m
Fixed and floating rate debt securities		
– Investment grade	866.5	(866.5)

There were no transfers in either direction between Level 1, 2 and 3 in 2018.

Level 3 investment reconciliations

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

	2019 $m	2018 $m
As at 1 January	186.6	180.4
Purchases	68.9	46.3
Sales	(48.0)	(52.4)
Total net gains recognised in profit or loss	9.1	12.3
As at 31 December	**216.6**	**186.6**

Total unrealised gain on level 3 investments included into net gains above was $9.1m (2018: loss of $0.7m).

Unconsolidated structured entities

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

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

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

	2019 $m	2018 $m
High yield bond funds	235.8	32.7
Equity funds	163.6	85.4
Hedge funds	354.0	337.2
Illiquid credit assets	216.6	186.6
Investments through unconsolidated structured entities	**970.0**	**641.9**

Notes to the financial statements *continued*

16 Financial assets and liabilities *continued*

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

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

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

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

Currency exposures

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

2019	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Financial assets at fair value						
Fixed and floating rate debt securities	21.7	198.8	–	220.5	4,592.6	4,813.1
Equity funds	–	–	28.1	28.1	135.5	163.6
Hedge funds	–	–	–	–	354.0	354.0
Illiquid credit assets	4.8	–	25.9	30.7	185.9	216.6
Derivative financial assets	–	–	–	–	25.5	25.5
Total	**26.5**	**198.8**	**54.0**	**279.3**	**5,293.5**	**5,572.8**

2018	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Financial assets at fair value						
Fixed and floating rate debt securities	6.6	184.5	–	191.1	3,909.1	4,100.2
Equity funds	–	–	22.2	22.2	63.2	85.4
Hedge funds	–	–	–	–	337.2	337.2
Illiquid credit assets	–	–	16.2	16.2	170.4	186.6
Derivative financial assets	–	–	–	–	6.9	6.9
Total	**6.6**	**184.5**	**38.4**	**229.5**	**4,486.8**	**4,716.3**

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

17 Derivative financial instruments

In 2019 and 2018 the group entered into over-the-counter and exchange traded derivative contracts. The group had the right and the intention to settle each contract on a net basis.

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

Derivative financial instrument assets	2019 Gross contract amount $m	2019 Market value of derivative position $m	2018 Gross contract amount $m	2018 Market value of derivative position $m
Foreign exchange forward contracts	427.3	25.3	365.1	6.9
Bond futures contract	222.8	0.2	–	–
	650.1	**25.5**	**365.1**	**6.9**

Derivative financial instrument liabilities	2019 Gross contract amount $m	2019 Market value of derivative position $m	2018 Gross contract amount $m	2018 Market value of derivative position $m
Foreign exchange forward contracts	323.2	8.0	205.6	9.6
Bond futures contract	–	–	189.2	2.8
	323.2	**8.0**	**394.8**	**12.4**

Foreign exchange forward contracts

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

Bond futures positions

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

18 Insurance receivables

	2019 $m	2018 $m
Insurance receivables	1,048.0	943.3
	1,048.0	**943.3**

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

Notes to the financial statements *continued*

19 Reinsurance assets

	2019 $m	2018 $m
Reinsurers' share of claims	1,082.5	963.9
Impairment provision	(13.7)	(12.2)
	1,068.8	951.7
Reinsurers' share of unearned premium reserve	269.4	241.1
	1,338.2	**1,192.8**

Further analysis of the reinsurance assets is provided in note 24.

20 Cash and cash equivalents

Group	2019 $m	2018 $m
Cash at bank and in hand	276.9	291.3
Short term deposits and highly liquid investments	1.6	45.0
	278.5	**336.3**

Total cash and cash equivalents include $9.8m (2018: $10.4m) 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	2019 $m	2018 $m
Cash at bank and in hand	–	2.4
	–	**2.4**

21 Share capital

	2019		2018	
	No. of shares (m)	$m	No. of shares (m)	$m
Ordinary shares of 5p each				
Issued and fully paid	529.7	38.1	527.8	38.0
Balance at 1 January	**527.8**	**38.0**	**525.8**	**37.8**
Issue of shares	1.9	0.1	2.0	0.2
Balance at 31 December	**529.7**	**38.1**	**527.8**	**38.0**

22 Other reserves

	Employee share options reserve $m	Employee share trust reserve $m	Total $m
Group			
Balance at 1 January 2018	**49.4**	**(17.4)**	**32.0**
Share based payments	18.7	–	18.7
Acquisition of own shares held in trust	–	(44.9)	(44.9)
Tax on share option vestings	4.1	–	4.1
Transfer of shares to employees	(25.5)	32.1	6.6
Balance at 31 December 2018	**46.7**	**(30.2)**	**16.5**
Share based payments	4.7	–	4.7
Acquisition of own shares held in trust	–	(13.8)	(13.8)
Tax on share option vestings	1.0	–	1.0
Transfer of shares to employees	(16.8)	12.0	(4.8)
Balance at 31 December 2019	**35.6**	**(32.0)**	**3.6**

	Employee share options reserve $m	Employee share trust reserve $m	Total $m
Company			
Balance at 1 January 2018	**19.9**	**4.3**	**24.2**
Share based payments	18.7	–	18.7
Acquisition of own shares held in trust	–	(44.9)	(44.9)
Transfer of shares to employees	(25.5)	32.1	6.6
Balance at 31 December 2018	**13.1**	**(8.5)**	**4.6**
Share based payments	4.7	–	4.7
Acquisition of own shares held in trust	–	(13.8)	(13.8)
Transfer of shares to employees	(16.8)	12.0	(4.8)
Balance at 31 December 2019	**1.0**	**(10.3)**	**(9.3)**

The merger reserve is shown within the statement of changes in equity as a separate category and as such has been excluded from the other reserves note.

The employee share options reserve is held in accordance with IFRS 2: Share-based payment. For more information refer to note 23.2.

More information on the employee share trust reserve is included in note 23.

Notes to the financial statements *continued*

23 Equity compensation plans

23.1 Employee share trust

	2019 Number (m)	2019 $m	2018 Number (m)	2018 $m
Movements in employee share trust reserve				
Balance at 1 January	4.7	30.2	3.8	17.4
Additions	2.0	13.8	6.0	44.9
Transfer of shares to employees	(1.9)	(12.0)	(5.1)	(32.1)
Balance at 31 December	**4.8**	**32.0**	**4.7**	**30.2**

The shares are owned by the employee share trust to satisfy awards under the group's deferred share plan, retention plan, one-off share incentive plan and long term incentive plan (LTIP). These shares are purchased on the market and carried at cost.

On the third anniversary of an award the shares under the deferred share plan are transferred from the trust to the employee. Under the retention plan, on the third anniversary, and each year after that up to the sixth anniversary, 25.0% of the shares awarded are transferred to the employee.

The deferred share plan is recognised in the statement of profit or loss on a straight-line basis over a period of three years, while the retention share plan is recognised in the statement of profit or loss on a straight-line basis over a period of six years.

23.2 Employee share option plans

The group has a long term incentive plan (LTIP), one-off share incentive plan, deferred share plan, retention plan and save-as-you-earn (SAYE) plan that entitle employees to purchase shares in the group.

The terms and conditions of the grants are as follows:

Share option plan	Grant date	No. of options (m)	Vesting conditions	Contractual life of options
One-off share incentive plan	10/02/2015	0.2	Five years' service + ROE	10 years
LTIP	12/02/2019	1.6	Five years' service + NAV +	10 years
	13/02/2018	1.3	minimum shareholding requirement	
	17/02/2017	1.6		
	09/02/2016	1.8		
	10/02/2015	1.8		
LTIP	12/02/2019	1.5	Three years' service + NAV +	10 years
	13/02/2018	1.3	minimum shareholding requirement	
	17/02/2017	1.7		
SAYE (UK)	01/04/2019	0.4	Three years' service	N/A
	04/04/2018	0.5		
	17/02/2017	0.6		
SAYE (US)	03/06/2019	0.1	Two years' service	N/A
	01/06/2018	0.1		
SAYE (Others)	13/04/2017	0.1	Three years' service	N/A
Total share options outstanding		**14.6**		

Vesting conditions

In summary the vesting conditions are defined as:

- two years' service – an employee has to remain in employment until the second anniversary from the grant date;
- three years' service – an employee has to remain in employment until the third anniversary from the grant date;
- ROE – return on equity, based on the average marine divisional pre-tax return on equity (ROE) over the performance period; and
- NAV – the NAV growth, after adjusting for the effect of dividends, is greater than the risk-free rate of return plus a premium per year.

23 Equity compensation plans *continued*

Further details of equity compensation plans can be found in the directors' remuneration report on pages 96 to 124. The total gain on directors' exercises of share-option plans during the period was £2.7m (2018: £6.3m).

The number and weighted average exercise prices of share options are as follows:

	2019 Weighted average exercise price (pence per share)	2019 No. of options (m)	2018 Weighted average exercise price (pence per share)	2018 No. of options (m)
Outstanding at 1 January	**44.7**	**16.5**	**34.6**	**18.0**
Forfeited during the year	18.9	(3.7)	122.0	(0.5)
Exercised during the year	90.5	(2.1)	28.5	(5.0)
Granted during the year	68.0	3.9	80.0	4.0
Outstanding at 31 December	**50.7**	**14.6**	**44.7**	**16.5**
Exercisable at 31 December	–	–	–	–

The share option programmes allow group employees to acquire shares of the company. The fair value of options granted is recognised as an employee expense with a corresponding increase in the employee share options reserve. The fair value of the options granted is measured at grant date and spread over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The following is a summary of the assumptions used to calculate the fair value:

	2019 $m	2018 $m
Share options charge to employee share options reserve	**4.9**	**17.7**
Weighted average share price (pence per option)	445.0	404.0
Weighted average exercise price (pence per option)	50.7	44.7
Average expected life of options	4.4 yrs	4.4 yrs
Expected volatility	22.8%	23.5%
Expected dividend yield	1.2%	1.3%
Average risk-free interest rate	0.8%	0.9%

The expected volatility is based on historic volatility over a period of at least two years.

24 Insurance liabilities and reinsurance assets

	2019 $m	2018 $m
Gross		
Claims reported and loss adjustment expenses	1,263.7	1,171.2
Claims incurred but not reported	3,196.6	2,869.5
Gross claims liabilities	4,460.3	4,040.7
Unearned premiums	1,598.7	1,415.5
Total insurance liabilities, gross	**6,059.0**	**5,456.2**
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	223.7	231.9
Claims incurred but not reported	845.1	719.8
Reinsurers' share of claims liabilities	1,068.8	951.7
Unearned premiums	269.4	241.1
Total reinsurers' share of insurance liabilities	**1,338.2**	**1,192.8**

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

	2019 $m	2018 $m
Net		
Claims reported and loss adjustment expenses	1,040.0	939.3
Claims incurred but not reported	2,351.5	2,149.7
Net claims liabilities	3,391.5	3,089.0
Unearned premiums	1,329.3	1,174.4
Total insurance liabilities, net	**4,720.8**	**4,263.4**

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

	2019			2018		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
Claims reported and loss adjustment expenses	1,171.2	(231.9)	939.3	1,056.3	(219.4)	836.9
Claims incurred but not reported	2,869.5	(719.8)	2,149.7	2,852.3	(773.8)	2,078.5
Balance at 1 January	**4,040.7**	**(951.7)**	**3,089.0**	**3,908.6**	**(993.2)**	**2,915.4**
Claims paid	(1,439.5)	280.1	(1,159.4)	(1,301.1)	261.5	(1,039.6)
Increase in claims						
– Arising from current year claims	1,860.6	(398.6)	1,462.0	1,844.7	(501.9)	1,342.8
– Arising from prior year claims	(18.2)	8.7	(9.5)	(380.8)	265.8	(115.0)
Net exchange differences	16.7	(7.3)	9.4	(30.7)	16.1	(14.6)
Balance at 31 December	**4,460.3**	**(1,068.8)**	**3,391.5**	**4,040.7**	**(951.7)**	**3,089.0**
Claims reported and loss adjustment expenses	1,263.7	(223.7)	1,040.0	1,171.2	(231.9)	939.3
Claims incurred but not reported	3,196.6	(845.1)	2,351.5	2,869.5	(719.8)	2,149.7
Balance at 31 December	**4,460.3**	**(1,068.8)**	**3,391.5**	**4,040.7**	**(951.7)**	**3,089.0**

b) Unearned premiums reserve

	2019			2018		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
Balance at 1 January	1,415.5	(241.1)	1,174.4	1,259.2	(237.9)	1,021.3
Increase in the year	3,003.9	(508.0)	2,495.9	2,615.3	(375.6)	2,239.7
Release in the year	(2,820.7)	479.7	(2,341.0)	(2,459.0)	372.4	(2,086.6)
Balance at 31 December	**1,598.7**	**(269.4)**	**1,329.3**	**1,415.5**	**(241.1)**	**1,174.4**

24 Insurance liabilities and reinsurance assets *continued*

24.2 Assumptions, changes in assumptions and claims reserve strength analysis

a) Process used to decide on assumptions

The peer review reserving process

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

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

A formal internal peer review process is then undertaken to determine the reserves held for accounting purposes which, in totality, are not lower than the actuarially established figure.

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

Actuarial assumptions

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

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

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

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

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

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

Where significant large losses impact an underwriting year (e.g. the events of 11 September 2001, the hurricanes in 2004, 2005, 2008, 2012, 2017, 2018 and 2019, the typhoons in 2018 and 2019, or the earthquakes in 2010, 2011 and 2017), the development is usually very different from the attritional losses. In these situations, the large loss total is extracted from the remainder of the data and analysed separately by the respective claims managers using exposure analysis of the policies in force in the areas affected.

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

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

b) Major assumptions

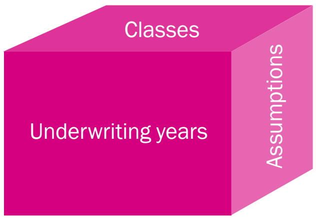
The main assumption underlying these techniques is that the group's past claims development experience (with appropriate adjustments for known changes) can be used to project future claims development and hence ultimate claims costs. As such these methods extrapolate the development of premiums, paid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

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

c) Changes in assumptions

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

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



1993 1994 ... 2018 2019

- *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 such volatility including the purchase of reinsurance. In addition, the group holds capital to absorb volatility.

d) Claims reserve strength analysis

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

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

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

To illustrate the robustness of our reserves, the loss development tables below provide information about historical claims development by the six segments – marine, political, accident & contingency, property, reinsurance, specialty lines and cyber & executive risk. 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 2019 is adequate. However, due to inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

24 Insurance liabilities and reinsurance assets *continued*

Gross ultimate claims	2009 ae %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %
Cyber & executive risk											
12 months		73.6	75.3	72.0	71.4	66.6	64.9	62.4	59.7	61.3	62.2
24 months		72.3	74.6	72.2	71.7	66.9	64.9	62.3	61.5	62.3	
36 months		72.1	79.6	69.4	71.4	63.7	59.6	58.9	56.9		
48 months		72.4	77.6	64.1	69.1	64.9	55.0	58.6			
60 months		65.5	78.6	62.0	66.8	69.5	56.8				
72 months		62.2	71.0	59.7	63.3	68.2					
84 months		61.0	74.4	59.0	63.4						
96 months		57.1	76.8	58.0							
108 months		54.7	78.9								
120 months		54.7									
Marine											
12 months		50.5	54.7	55.9	56.4	57.5	56.7	59.5	68.1	61.9	60.0
24 months		49.8	47.4	46.3	52.0	46.8	54.0	70.3	62.5	68.1	
36 months		44.1	39.0	34.8	44.3	47.1	47.4	65.4	61.7		
48 months		42.4	33.7	32.2	42.6	46.7	45.5	64.0			
60 months		40.4	35.4	31.5	42.0	55.6	43.3				
72 months		40.2	31.7	30.7	41.3	52.7					
84 months		42.3	30.9	30.0	40.1						
96 months		40.8	29.4	29.8							
108 months		41.2	29.4								
120 months		40.9									
Political, accident & contingency											
12 months		57.8	57.5	60.0	59.2	59.3	59.9	61.3	58.0	59.2	57.3
24 months		44.9	44.6	54.5	49.5	51.3	58.9	54.4	49.4	55.1	
36 months		39.1	44.4	51.4	45.0	47.1	57.2	49.4	46.1		
48 months		32.7	39.7	49.0	44.0	50.1	57.9	47.9			
60 months		31.7	37.9	46.0	46.1	51.4	53.9				
72 months		30.5	35.8	45.3	45.7	52.5					
84 months		29.5	35.3	44.3	45.5						
96 months		29.7	35.4	44.3							
108 months		27.7	35.4								
120 months		26.7									
Property											
12 months		57.9	58.3	55.5	55.2	53.2	54.9	59.0	72.5	63.4	53.1
24 months		60.5	50.5	47.5	49.2	47.7	49.0	68.4	88.6	63.2	
36 months		58.5	48.0	39.8	45.8	41.4	45.9	71.3	91.2		
48 months		55.8	46.2	36.7	45.8	40.7	44.9	71.8			
60 months		53.1	45.3	36.2	45.6	39.7	43.7				
72 months		52.1	44.1	35.6	47.3	40.2					
84 months		51.2	43.6	35.5	46.7						
96 months		51.0	43.3	36.8							
108 months		51.0	43.2								
120 months		51.0									

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

Gross ultimate claims	2009 ae %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %	
Reinsurance												
12 months		68.0	79.2	62.9	58.3	61.4	65.7	67.5	124.1	96.1	101.4	
24 months		142.6	77.7	37.4	44.6	33.4	33.6	41.6	117.1	124.8		
36 months		129.6	70.0	32.0	42.1	30.8	25.7	40.5	130.0			
48 months		122.2	66.3	31.1	40.8	27.7	25.5	41.3				
60 months		125.8	63.5	31.2	37.9	27.5	25.3					
72 months		124.5	63.3	30.9	37.6	27.0						
84 months		124.6	58.5	31.0	36.8							
96 months		123.6	58.5	30.6								
108 months		121.3	59.0									
120 months		121.5										
Specialty lines												
12 months		73.8	75.5	75.2	74.8	70.0	69.6	67.9	65.9	68.5	67.1	
24 months		74.2	76.1	75.2	74.3	69.7	70.1	67.8	65.9	68.9		
36 months		73.3	74.6	73.9	74.1	66.1	68.9	65.0	66.0			
48 months		73.8	74.3	74.2	69.5	62.1	68.1	63.3				
60 months		71.6	71.5	70.7	64.3	58.5	70.0					
72 months		73.5	68.5	69.6	62.2	56.1						
84 months		73.7	64.6	69.0	61.5							
96 months		71.0	62.6	71.5								
108 months		68.0	60.8									
120 months		66.7										
Total												
12 months		64.5	67.2	64.6	63.7	62.2	62.7	63.4	70.5	66.8	65.0	
24 months		71.6	62.8	58.2	59.2	55.8	58.4	62.9	71.5	69.6		
36 months		67.6	60.5	53.2	56.3	52.5	54.5	60.7	71.5			
48 months		65.6	57.9	51.0	54.3	51.5	52.5	60.0				
60 months		63.3	57.0	49.1	52.4	52.7	52.8					
72 months		62.9	53.9	48.1	51.5	51.8						
84 months		62.8	52.6	47.3	50.8							
96 months		61.1	52.3	48.2								
108 months		60.1	51.9									
120 months		59.1										
Estimated total ultimate losses ($m)	7,464.7	1,221.1	994.9	959.9	1,096.9	1,203.6	1,268.8	1,553.9	2,000.9	1,992.3	2,000.5	21,757.5
Less paid claims ($m)	(7,243.0)	(1,169.6)	(906.2)	(860.2)	(941.6)	(1,040.6)	(919.8)	(981.7)	(929.5)	(526.1)	(139.4)	(15,657.7)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(31.4)	(786.3)	(817.7)
Gross claims liabilities (100% level) ($m)	**221.7**	**51.5**	**88.7**	**99.7**	**155.3**	**163.0**	**349.0**	**572.2**	**1,071.4**	**1,434.8**	**1,074.8**	**5,282.1**
Less non-group share ($m)	(41.8)	(10.0)	(16.0)	(18.3)	(26.2)	(26.4)	(58.2)	(84.2)	(161.7)	(217.8)	(161.2)	(821.8)
Gross claims liabilities, group share ($m)	**179.9**	**41.5**	**72.7**	**81.4**	**129.1**	**136.6**	**290.8**	**488.0**	**909.7**	**1,217.0**	**913.6**	**4,460.3**

24 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2009ae %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %
Cyber & executive risk											
12 months		71.5	72.9	69.2	67.3	64.1	61.3	59.9	58.2	58.6	60.3
24 months		70.5	72.1	68.0	67.0	64.6	61.1	59.8	59.2	60.5	
36 months		72.2	72.9	65.1	65.8	62.4	57.0	56.5	55.6		
48 months		68.1	70.5	59.7	62.3	61.3	51.2	56.7			
60 months		62.9	71.4	58.6	60.0	65.7	52.5				
72 months		61.0	67.6	56.2	57.4	64.8					
84 months		59.9	70.0	55.6	57.2						
96 months		57.5	71.8	55.3							
108 months		55.1	74.7								
120 months		55.2									
Marine											
12 months		52.1	55.6	55.4	56.0	56.4	56.7	56.7	57.6	59.4	56.6
24 months		49.2	47.6	46.1	53.1	48.4	52.6	62.5	61.5	67.7	
36 months		44.7	38.6	37.4	47.3	46.6	47.2	61.6	61.9		
48 months		42.7	34.4	35.1	45.7	45.6	46.8	62.1			
60 months		41.1	35.5	34.0	45.2	46.8	45.5				
72 months		40.2	32.2	33.2	44.6	44.9					
84 months		42.5	31.3	32.9	42.5						
96 months		40.8	30.2	32.7							
108 months		41.3	30.1								
120 months		40.9									
Political, accident & contingency											
12 months		54.4	54.9	58.7	58.7	57.0	57.6	60.2	56.9	58.4	56.6
24 months		43.8	45.2	52.5	51.1	49.9	56.2	53.2	48.7	54.2	
36 months		39.7	45.7	49.9	47.5	45.0	55.3	49.7	45.2		
48 months		33.5	42.5	47.0	45.0	49.8	54.6	47.3			
60 months		32.5	40.5	43.8	45.4	50.3	51.7				
72 months		31.4	38.3	43.0	45.5	51.3					
84 months		29.9	37.8	42.5	45.6						
96 months		30.4	37.9	42.8							
108 months		28.5	38.0								
120 months		27.6									
Property											
12 months		58.8	60.2	58.6	56.7	54.5	55.0	57.7	76.4	64.5	56.5
24 months		65.2	57.6	53.0	56.3	51.2	50.3	69.6	93.8	66.8	
36 months		65.8	53.6	46.0	52.3	44.3	46.9	71.4	95.7		
48 months		59.9	50.4	41.3	50.2	42.9	44.8	70.8			
60 months		57.7	49.0	40.7	49.9	42.0	44.5				
72 months		56.7	47.9	40.2	51.6	43.0					
84 months		56.2	47.6	40.0	51.7						
96 months		55.9	47.4	41.5							
108 months		55.9	47.3								
120 months		55.9									

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2009 ae %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %	
Reinsurance												
12 months		76.7	90.0	67.0	56.3	58.7	61.3	60.9	106.7	85.2	86.9	
24 months		127.1	88.0	45.3	51.2	37.2	34.1	38.8	93.4	100.4		
36 months		117.6	80.8	39.0	47.8	33.4	24.2	38.2	105.4			
48 months		111.8	75.3	37.7	46.5	30.6	24.0	40.0				
60 months		121.2	73.0	37.7	43.0	30.4	24.3					
72 months		115.9	73.0	37.3	42.7	29.9						
84 months		116.0	67.7	37.4	41.8							
96 months		115.4	67.8	36.9								
108 months		112.2	68.5									
120 months		112.6										
Specialty lines												
12 months		70.9	72.4	72.0	70.9	67.4	65.7	65.5	63.8	66.1	64.7	
24 months		71.2	72.6	72.0	70.3	67.0	66.2	65.5	63.7	67.1		
36 months		69.8	71.2	70.6	70.4	64.6	64.1	61.3	63.5			
48 months		70.1	69.1	69.0	64.5	59.7	59.3	56.6				
60 months		71.5	69.5	66.7	59.5	56.3	59.6					
72 months		72.4	69.4	67.0	58.1	55.1						
84 months		72.7	66.8	66.8	57.8							
96 months		70.3	65.4	67.6								
108 months		67.4	63.9									
120 months		66.8										
Total												
12 months		64.2	67.0	64.0	62.1	60.6	60.1	60.8	66.2	63.8	62.1	
24 months		68.7	63.6	58.3	60.1	56.0	56.5	61.0	68.0	66.4		
36 months		66.3	60.2	53.7	57.3	52.5	52.8	58.8	68.0			
48 months		63.2	57.1	50.7	54.2	51.0	49.8	57.4				
60 months		63.1	56.8	49.3	52.1	51.0	49.6					
72 months		62.1	55.2	48.6	51.5	50.5						
84 months		62.1	54.0	48.3	50.9							
96 months		60.8	53.6	48.8								
108 months		59.2	53.6									
120 months		58.9										
Estimated total ultimate losses ($m)	5,217.4	1,004.2	858.0	830.9	920.8	980.5	1,019.8	1,224.1	1,619.1	1,639.8	1,587.1	16,901.7
Less paid claims ($m)	(5,060.2)	(956.2)	(787.8)	(745.6)	(811.2)	(850.9)	(768.0)	(804.8)	(801.7)	(476.2)	(151.8)	(12,214.4)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(40.8)	(640.1)	(680.9)
Net claims liabilities (100% level) ($m)	**157.2**	**48.0**	**70.2**	**85.3**	**109.6**	**129.6**	**251.8**	**419.3**	**817.4**	**1,122.8**	**795.2**	**4,006.4**
Less non-group share ($m)	(26.4)	(8.4)	(12.7)	(14.3)	(20.6)	(22.1)	(41.5)	(62.7)	(120.6)	(167.4)	(118.2)	(614.9)
Net claims liabilities, group share ($m)	**130.8**	**39.6**	**57.5**	**71.0**	**89.0**	**107.5**	**210.3**	**356.6**	**696.8**	**955.4**	**677.0**	**3,391.5**

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 2019 for each underwriting year.

Cyber & executive risk

The employment practice liability book has seen deteriorations on the 2011 and 2015 underwriting years. The cyber book had positive claims experience on the 2017 underwriting year.

Marine

All underwriting years of the US trucking liability book are now reinsured, impacting the 2016 to 2018 underwriting years. The 2018 underwriting year has also been affected by poor experience in marine hull, UK marine and energy. Releases continue on older underwriting years as the risk expires.

Political, accident & contingency

Releases on the 2015 to 2018 underwriting years in terrorism, contingency and personal accident accounts were partially offset by deterioration on the 2014 underwriting year following a claim on the political book and poor experience on the life book.

Property

The reserves on the recent underwriting years have been strengthened, with increases to the 2018 catastrophe estimates and adverse claims development on the US coverholders book. Older underwriting years have seen strengthening following adverse experience on the construction and engineering book. The impact of catastrophes on the 2019 underwriting year was less than the two preceding years.

Reinsurance

The 2017 and 2018 underwriting years have experienced increases in the estimates for catastrophe, primarily in respect of Typhoon Jebi, as well as poor experience on risk and aggregate excess of loss business. The 2019 underwriting year has been impacted by Typhoon's Faxai and Hagibis as well as Storm Dorian.

Specialty lines

Older underwriting years continue to release as claims mature. Strengthening on the 2012 underwriting year is driven by a specific claim on the healthcare book and the deterioration seen on the 2018 underwriting year is driven by the US architects & engineers business. The difference between the opening position in 2019 compared to 2018 is driven by mix changes between the more traditional, cyber and market facilities businesses.

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

Claim releases

The table below analyses our net claims between current year claims and adjustments to prior year net claims reserves. These have been broken down by segment and underwriting year. Beazley's reserving policy is to maintain catastrophe reserve margins either until the end of the exposure period or until catastrophe events occur. Therefore margins have been released from prior year reserves where risks have expired during 2019.

Reserve releases during the year totalled $9.5m (2018: $115.0m). The net of reinsurance estimates of ultimate claims costs on the 2016 and prior underwriting years have improved by $41.9m during 2019, while 2017 and 2018 underwriting year strengthened by $30.3m driven by the deterioration of catastrophe losses in our reinsurance division and poor performance of US trucking and engineering within our marine and property divisions.

The movements shown on 2016 and earlier are absolute claim movements and are not impacted by any current year movements in premium on those underwriting years.

2019	Cyber & executive risk $m	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	405.1	120.4	127.3	190.2	114.5	504.5	1,462.0
Prior year							
– 2016 underwriting year and earlier	4.3	(11.1)	(6.6)	9.3	(3.6)	(34.2)	(41.9)
– 2017 underwriting year	(13.2)	6.1	(7.8)	8.4	17.4	(3.4)	7.5
– 2018 underwriting year	(0.5)	11.4	(2.4)	(0.6)	16.3	0.7	24.9
	(9.4)	6.4	(16.8)	17.1	30.1	(36.9)	(9.5)
Net insurance claims	**395.7**	**126.8**	**110.5**	**207.3**	**144.6**	**467.6**	**1,452.5**

2018	Cyber & executive risk $m	Marine $m	Political, accident & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	329.5	146.5	105.0	242.1	121.5	398.2	1,342.8
Prior year							
– 2015 underwriting year and earlier	(14.3)	(11.6)	0.4	(2.9)	(5.2)	(74.1)	(107.7)
– 2016 underwriting year	(11.7)	(2.2)	(7.9)	7.4	(0.7)	(10.7)	(25.8)
– 2017 underwriting year	0.3	1.3	(7.3)	42.8	(17.9)	(0.7)	18.5
	(25.7)	(12.5)	(14.8)	47.3	(23.8)	(85.5)	(115.0)
Net insurance claims	**303.8**	**134.0**	**90.2**	**289.4**	**97.7**	**312.7**	**1,227.8**

25 Borrowings

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

Carrying value	Tier 2 subordinated debt (2029) $m	Tier 2 subordinated debt (2026) $m	Retail bond $m	Total $m
Balance at 1 January 2019	**–**	**248.7**	**95.6**	**344.3**
Issuance of new debt	297.8	–	–	297.8
Debt redemption	–	–	(92.6)	(92.6)
Amortisation of capitalised borrowing costs	0.1	0.2	0.2	0.5
Foreign exchange gain	–	–	(3.2)	(3.2)
Balance at 31 December 2019	**297.9**	**248.9**	**–**	**546.8**

Fair value	Tier 2 Subordinated debt (2029) $m	Tier 2 subordinated debt (2026) $m	Retail bond $m	Total $m
Balance at 1 January 2019	**–**	**249.4**	**98.2**	**347.6**
Debt issuance/(redemption)	297.9	–	(98.2)	199.7
Change in fair value	20.7	27.4	–	48.1
Balance at 31 December 2019	**318.6**	**276.8**	**–**	**595.4**

Carrying value	Tier 2 subordinated debt (2018) $m	Tier 2 subordinated debt (2026) $m	Retail bond $m	Total $m
Balance at 1 January 2018	**18.0**	**248.5**	**99.5**	**366.0**
Debt redemption	(18.0)	–	–	(18.0)
Amortisation of capitalised borrowing costs	–	0.2	0.2	0.4
Foreign exchange gain	–	–	(4.1)	(4.1)
Balance at 31 December 2018	**–**	**248.7**	**95.6**	**344.3**

Fair value	Tier 2 Subordinated debt (2018) $m	Tier 2 subordinated debt (2026) $m	Retail bond $m	Total $m
Balance at 1 January 2018	**18.0**	**266.6**	**104.1**	**388.7**
Debt redemption	(18.0)	–	–	(18.0)
Change in fair value	–	(17.2)	(5.9)	(23.1)
Balance at 31 December 2018	**–**	**249.4**	**98.2**	**347.6**

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

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

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

In September 2019, the group issued $300m of subordinated tier 2 notes due in 2029. Annual interest, at a fixed rate of 5.5% is payable in March and September each year.

In addition to these borrowings we operate a syndicated short term banking facility, managed through Lloyds Banking Group plc. In July 2019 we renewed our syndicated short term banking facility led by Lloyds Banking Group plc. The facility provides potential borrowings up to $225m. The agreement is based on a commitment fee of 0.385% per annum and any amounts drawn are charged at a margin of 1.1% per annum. The cash element of the facility will last for three years, expiring on 31 July 2021, whilst letters of credit issued under the facility can be used to provide capital support for the group's underwriting at Lloyd's on the 2019, 2020 and 2021 underwriting years. The facility is currently unutilised.

Notes to the financial statements *continued*

26 Other payables

Group	2019 $m	2018 $m
Reinsurance premiums payable	214.1	183.8
Accrued expenses including staff bonuses	169.0	138.3
Other payables	81.5	48.4
Due to syndicate 623	21.0	5.0
Due to syndicate 6107	65.5	65.1
Due to syndicate 6050	–	0.4
Due to syndicate 5623	15.3	1.6
	566.4	**442.6**

Company	2019 $m	2018 $m
Other payables	16.3	6.0
	16.3	**6.0**

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

27 Retirement benefit obligations

	2019 $m	2018 $m
Present value of funded obligations	54.7	47.0
Fair value of plan assets	(60.1)	(44.6)
Retirement benefit (asset)/liability in the statement of financial position	**(5.4)**	**2.4**

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

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

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

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

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

Contributions to the scheme are determined by a qualified actuary using the projected unit credit method as set out in the scheme rules and the most recent valuation was at 31 December 2019. According to the Schedule of Contributions, the group expects to contribute approximately $1.3m in each of the next two years.

Trustees obligations

Under section 222 of the Pension Act 2004, every scheme is subject to the Statutory Funding Objective (SFO), which is to have sufficient and appropriate assets to cover its technical provisions, which represent the present value of benefits to which members are entitled based on pensionable service to the valuation date. This is assessed at least every three years using assumptions agreed between the Trustees and the employer as set out in the Statement of Funding Principles produced in accordance with the Occupational Pensions (Scheme Funding) Regulations 2005 (OP(SF)R 2005) Regulation 6.

27 Retirement benefit obligations *continued*

The Trustees written Statement of Funding Principles is dated 27 December 2017 and it sets out their policy for securing that the SFO is met (that the scheme will have sufficient assets to cover its technical provisions). In accordance with the OP(SF)R 2005 Regulation 5(2) trustees have chosen the Defined Accrued Benefit Method, a variant of the projected unit credit method where accrual has ceased.

The most recently completed Actuarial Valuation of the Scheme was carried out at 1 January 2017 including a valuation carried out in accordance with the Pensions Protection Fund (Valuation) Regulations 2005 and with appropriate section 179 guidance and assumptions issued by the Board of the Pension Protection Fund.

A recovery plan was agreed between the Trustees and the employer on 27 December 2017 in accordance with OP(SF)R 2005 Regulation 8. These arrangements were formalised in a schedule of contributions which the scheme Actuary certified on 27 December 2017 in accordance with OP(SF)R 2005 Regulation 9.

	2019 $m	2018 $m
Movement in present value of funded obligations recognised in the statement of financial position		
Balance at 1 January	47.0	**55.9**
Interest cost	1.3	1.3
Actuarial loss/(gain)	5.3	(6.8)
Benefits paid	(0.5)	(1.1)
Foreign exchange loss/(gain)	1.6	(2.3)
Balance at 31 December	**54.7**	**47.0**

	2019 $m	2018 $m
Movement in fair value of plan assets recognised in the statement of financial position		
Balance at 1 January	**44.6**	**53.6**
Expected return on plan assets	1.3	1.3
Actuarial gain/(loss)	11.9	(8.0)
Employer contributions	1.3	1.0
Benefits paid	(0.4)	(1.1)
Foreign exchange gain/(loss)	1.4	(2.2)
Balance at 31 December	**60.1**	**44.6**
Plan assets are comprised as follows:		
Equities	59.9	44.4
Cash	0.2	0.2
Total	**60.1**	**44.6**

The actual gain on plan assets was $13.2m (2018: gain of $6.8m).

	2019 $m	2018 $m
Principal actuarial assumptions		
Discount rate	2.0%	2.8%
Inflation rate	3.4%	3.5%
Expected return on plan assets	2.0%	2.8%
Future salary increases	3.4%	3.5%
Future pensions increases	2.9%	3.0%
Life expectancy for members aged 60 at 31 December	89 years	90 years
Life expectancy for members aged 40 at 31 December	91 years	93 years

At 31 December 2019, the weighted-average duration of the defined benefit obligation was 22.5 years (2018: 23.2 years).

Notes to the financial statements *continued*

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 2019	Increase $m	Decrease $m
Discount rate (0.5% decrease)	6.8	–
Inflation rate (0.3% decrease)	–	(2.4)
Future salary changes (0.5% decrease)	–	(0.4)
Life expectancy (1 year increase)	2.1	–

31 December 2018	Increase $m	Decrease $m
Discount rate (0.5% decrease)	6.0	–
Inflation rate (0.3% decrease)	–	(2.2)
Future salary changes (0.5% decrease)	–	(0.5)
Life expectancy (1 year increase)	1.6	–

28 Deferred tax

	2019 $m	2018 $m
Deferred tax asset	41.0	28.9
Deferred tax liability	(19.5)	(9.1)
	21.5	**19.8**

The movement in the net deferred income tax is as follows:		
Balance at 1 January	19.8	(3.0)
Income tax charge	1.2	18.8
Amounts recorded through equity	0.9	4.2
Foreign exchange translation differences	(0.4)	(0.2)
Balance at 31 December	**21.5**	**19.8**

	Balance 1 Jan 19 $m	Recognised in income $m	Recognised in equity $m	FX translation differences $m	Balance 31 Dec 19 $m
Plant and equipment	0.1	0.6	–	–	0.7
Intangible assets	(2.1)	0.2	–	–	(1.9)
Underwriting profits	(1.9)	17.4	–	–	15.5
Deferred acquisition costs	(2.5)	(5.1)	–	–	(7.6)
Tax losses carried forward	10.0	(10.0)	–	–	–
Share based payments	13.9	(0.1)	0.9	(0.4)	14.3
Other	2.3	(1.8)	–	–	0.5
Net deferred income tax account	**19.8**	**1.2**	**0.9**	**(0.4)**	**21.5**

	Balance 1 Jan 18 $m	Recognised in income $m	Recognised in equity $m	FX translation differences $m	Balance 31 Dec 18 $m
Plant and equipment	0.3	(0.2)	–	–	0.1
Intangible assets	(1.1)	(1.0)	–	–	(2.1)
Underwriting profits	(16.7)	14.8	–	–	(1.9)
Deferred acquisition costs	6.8	(9.3)	–	–	(2.5)
Tax losses carried forward	–	10.0	–	–	10.0
Share based payments	9.6	0.2	4.2	(0.1)	13.9
Other	(1.9)	4.3	–	(0.1)	2.3
Net deferred income tax account	**(3.0)**	**18.8**	**4.2**	**(0.2)**	**19.8**

28 Deferred tax *continued*

The group has tax adjusted losses carried forward giving rise to a deferred tax asset of $0.7m, measured at the UK corporation tax rate of 17%. The deferred tax asset has not been recognised on the group statement of financial position in the current year as losses are not expected to be utilised in the foreseeable future based on the current taxable profit estimates and forecasts of the underlying entity in question.

29 Leases

Leases as lessee (IFRS 16)

The group leases offices, IT equipment and motor vehicles. The leased offices are in several locations and the leases of large offices such as London and New York typically run for a period of 10 years with an option to renew the lease after that date or continue on a rolling month by month basis. Lease payments are renegotiated as agreed in the lease contracts. Previously, all office leases were classified as operating leases under IAS 17.

During 2019, the New York office was derecognised as the lease contract ended and was not renewed. Following the move to a new office location, the group recognised the New York office lease, recognising a right of use asset of $14.3m and a liability of $14.8m. Additionally, the office in Barcelona was recognised as a right of use asset of $1.0m and a liability of $1.1m.

During 2019, the lease of the San Francisco extension has been sub-let by the group. The lease and sub-lease expire in 2022. The right of use asset was therefore recognised as an investment asset of $0.5m.

The leases of IT equipment and motor vehicles were previously recognised as operating leases in the statement of profit and loss. The long term leases have been categorised as leases under IFRS 16.

Information about leases for which the group is a lessee is presented below.

Right of use assets

Right of use assets related to leased properties that do not meet the definition of investment property are presented as property, plant and equipment.

	Offices $m	IT equipment $m	Motor vehicles $m	Total $m
Balance at 1 January 2019	**29.5**	**1.5**	**0.2**	**31.2**
Depreciation charge for the year	(9.1)	(0.9)	(0.1)	(10.1)
Additions of right of use assets	15.8	–	0.1	15.9
Disposals of right of use assets	(1.3)	–	(0.1)	(1.4)
Foreign exchange gain	0.3	–	–	0.3
Balance at 31 December 2019	**35.2**	**0.6**	**0.1**	**35.9**

Lease liabilities

	Offices $m	IT equipment $m	Motor vehicles $m	Total $m
Balance at 1 January 2019	**31.6**	**1.5**	**0.1**	**33.2**
Lease payments	(9.7)	(1.0)	(0.1)	(10.8)
Interest on lease liabilities	1.8	–	–	1.8
Additions to lease portfolio	15.3	–	0.1	15.4
Disposals from lease portfolio	(0.5)	–	–	(0.5)
Foreign exchange gain	0.3	–	–	0.3
Balance at 31 December 2019	**38.8**	**0.5**	**0.1**	**39.4**

Notes to the financial statements *continued*

29 Leases *continued*

Amounts recognised in profit or loss

	2019 $m
Leases under IFRS 16	
Interest on lease liabilities	(1.8)
Depreciation	(10.1)
Income from sub-leasing right of use assets	0.1
Expenses relating to low value leases	(0.4)
Expenses relating to short-term leases	(0.2)
Total recognised in profit/(loss)	**(12.4)**

	2018 $m
Operating leases under IAS 17	
Lease expense	32.9
Sub-lease income	–
Total lease commitments under IAS 17	32.9

Amounts recognised in statement of cash flows

	2019 $m
Total cash outflow for leases	**(10.8)**

Extension options

Some property leases contain extension options exercisable by the group before the end of the non-cancellable contract period or the option to continue with the lease on a monthly rolling basis. The group reassess whether it is reasonably certain to exercise the options if there is a significant event or changes in circumstances within its control.

Should the group exercise all its extension options, the potential lease payments would result in an increase in lease liability of $1.9m.

Leases as lessor

The group sub-leases leased property, which is classified as a investment asset. The group recognised $0.5m in 2019. The sub-lease contract ends in 2022.

30 Related party transactions

The group and company have related party relationships with syndicates 623, 6107, 6050, 5623, its subsidiaries, associates and its directors.

30.1 Syndicates 623, 6107, 6050 and 5623

The group received management fees and profit commissions for providing a range of management services to syndicates 623, 6107 and 6050, which are all managed by the group. In addition, the group ceded portions or all of a group of insurance policies to syndicates 6107, 5623 and 6050. The participants on syndicates 623, 6107 and 6050 are solely third party capital.

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

	2019 $m	2018 $m
Written premium ceded to syndicates	96.3	65.0
Other income received from syndicates	25.8	29.0
Services provided	33.1	36.3
Balances due:		
Due to syndicate 623	(21.0)	(5.0)
Due to syndicate 6107	(65.5)	(65.1)
Due from/(to) syndicate 6050	0.4	(0.4)
Due to syndicate 5623	(15.3)	(1.6)

30 Related party transactions *continued*

30.2 Key management compensation

	2019 $m	2018 $m
Salaries and other short term benefits	16.4	11.8
Post-employment benefits	0.6	0.5
Share based remuneration	1.1	5.9
	18.1	**18.2**

Key management include executive and non-executive directors and other senior management.

The total number of Beazley plc ordinary shares held by key management was 4.4m. Apart from the transactions listed in the table above, there were no further related party transactions involving key management or a close member of their family. Further details of directors' shareholdings and remuneration can be found in the directors' remuneration report on pages 96 to 124.

30.3 Other related party transactions

At 31 December 2019, the group had purchased services from Falcon Money Management Holdings Limited of $2.3m (2018: $2.3m) throughout the year. All transactions with the associate and subsidiaries are priced on an arm's length basis.

31 Parent company and subsidiary undertakings

Beazley plc, a company incorporated in England and Wales and resident for tax purposes in the United Kingdom, is the ultimate parent and the ultimate controlling party within the group.

The following is a list of all the subsidiaries in the group as at 31 December 2019:

	Country/region of incorporation	Ownership interest	Nature of business	Functional currency	Beazley plc direct investment in subsidiary ($m)
Beazley Ireland Holdings plc	Jersey	100%	Intermediate holding company	USD	724.6
Beazley Group Limited	England	100%	Intermediate holding company	USD	
Beazley Furlonge Holdings Limited	England	100%	Intermediate holding company	USD	
Beazley Furlonge Limited	England	100%	Lloyd'managing agents	GBP	
Beazley Investments Limited	England	100%	Investment company	USD	
Beazley Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Management Limited	England	100%	Management company	GBP	
Beazley Staff Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Solutions Limited	England	100%	Insurance services	GBP	
Beazley Underwriting Services Limited	England	100%	Insurance services	GBP	
Beazley Corporate Member (No.2) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.3) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.6) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Leviathan Limited	England	100%	Underwriting at Lloyd's	GBP	
Beazley Canada Limited	Canada	100%	Insurance services	CAD	
Beazley Insurance dac	Ireland	100%	Insurance and reinsurance company	USD	
Beazley Solutions International Limited	Ireland	100%	Insurance services	USD	
Beazley Underwriting Pty Ltd	Australia	100%	Insurance services	AUD	
Beazley USA Services, Inc.*	USA	100%	Insurance services	USD	
Beazley Holdings, Inc.*	USA	100%	Holding company	USD	
Beazley Holdings, Inc. Digital LLC	USA	100%	Insurance services	USD	
Beazley Group (USA) General Partnership**	USA	100%	General partnership	USD	
Beazley Insurance Company, Inc.***	USA	100%	Underwriting admitted lines	USD	
Beazley America Insurance Company, Inc.***	USA	100%	Underwriting admitted lines	USD	
Lodestone Securities LLC****	USA	100%	Consultancy services	USD	
Beazley Limited	Hong Kong	100%	Insurance services	HKD	
Beazley Pte. Limited	Singapore	100%	Underwriting at Lloyd's	SGD	
Beazley Labuan Limited	Malaysia	100%	Insurance services	USD	
					724.6

Please see page 206 for registered addresses.

Notes to the financial statements *continued*

31 Parent company and subsidiary undertakings *continued*

The following is a list of group registered office locations:

Address	City	Postcode	Country/region
United Kingdom and Continental Europe			
60 Great Tower Street	London	EC3R 5AD	England
2 Northwood Avenue	Dublin	D09 X5N9	Ireland
22 Grenville Street	Saint Helier	JE4 8PX	Jersey
North America			
1209 Orange Street*	Wilmington, Delaware	19801	USA
2711 Centerville Road Suite 400**	Wilmington, Delaware	19808	USA
30 Batterson Park Road***	Farmington, Connecticut	06032	USA
160 Greentree Drive, Suite 101****	Dover, Delaware	19904	USA
55 University Avenue, Suite 550	Toronto, Ontario	M5J 2HJ	Canada
Asia			
138 Market Street, 03-04 Capita Green	Singapore	048946	Singapore
36/F., Tower Two, Times Square, 1 Matheson Street, Causeway Bay	Hong Kong	–	Hong Kong
Kensington Gardens, No. I1317, Lot 7616, Jalan Jumidar Buyong	Labuan	87000	Malaysia
Australia			
Level 15, 1 O'Connell Street	Sydney	NSW 2000	Australia

32 Contingencies

Funds at Lloyd's

The following amounts are held in trust by Lloyd's to secure underwriting commitments:

	Underwriting year 2020 £m	Underwriting year 2019 £m	Underwriting year 2018 £m
Debt securities and other fixed income securities	1,085.8	720.4	733.2

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

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

33 Foreign exchange rates

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

	2019		2018	
	Average	Year end spot	Average	Year end spot
Pound sterling	0.79	0.76	0.75	0.78
Canadian dollar	1.33	1.32	1.29	1.36
Euro	0.89	0.90	0.84	0.87

34 Subsequent events

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

Glossary

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

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

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

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

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

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

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

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

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

Claims ratio
Ratio, in percentage terms, of net insurance claims to net earned premiums. The calculation is performed excluding the impact of foreign exchange. In 2019, this ratio was 62% (2018: 59%). This represented total claims of $1,452.5m (2018: $1,227.8m) divided by net earned premiums of $2,347.0m (2018: $2,084.6m).

Combined ratio
Ratio, in percentage terms, of the sum of net insurance claims, expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. This is also the sum of the expense ratio and the claims ratio. The calculation is performed excluding the impact of foreign exchange. In 2019, this ratio was 100% (2018: 98%). This represents the sum of net insurance claims of $1,452.5m (2018: $1,227.8m), expenses for acquisition of insurance contracts of $645.4m (2018: $561.9m) and administrative expenses of $244.3m (2018: $250.7m) to net earned premiums of $2,347.0m (2018: $2,084.6m). This is also the sum of the expense ratio 38% (2018: 39%) and the claims ratio 62% (2018: 59%).

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

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

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

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

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

Expense ratio
Ratio, in percentage terms, of the sum of expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. The calculation is performed excluding the impact of foreign exchange on non-monetary items. In 2019, the expense ratio was 38% (2018: 39%). This represents the sum of expenses for acquisition of insurance contracts of $645.4m (2018: $561.9m) and administrative expenses of $244.3m (2018: $250.7m) to earned premiums of $2,347.0m (2018: $2,084.6m).

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

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

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

Horizontal limits
Reinsurance coverage limits for multiple events.

Incurred but not reported (IBNR)
These are anticipated or likely claims that may result from an insured event but which have not yet been reported.

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

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

Investment return
Ratio, in percentage terms, calculated by dividing the net investment income by the average financial assets at fair value, including cash. In 2019, this was calculated as net investment income of $263.7m (2018: $41.1m) divided by average financial assets at fair value, including cash, of $5,452.0m (2018: $4,791.4m).

Glossary *continued*

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

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

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

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

Managed premiums
Managed premium refers to all gross premiums written by Beazley's underwriters. In addition to gross premiums written on behalf of the group managed premium includes gross premiums written in syndicate 623 by Beazley's underwriters on behalf of third party capital providers.

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

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

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

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

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

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

Rate change
The percentage change in premium income charged relative to the level of risk on renewals.

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

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

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

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

Return on equity (ROE)
Ratio, in percentage terms, calculated by dividing the consolidated profit after tax by the average daily total equity. In 2019, this was calculated as profit after tax of $234.1m (2018: $68.2m) divided by average equity of $1,538.6m (2018: $1,444.8m).

Risk
This term may refer to:
a) the possibility of some event occurring which causes injury or loss;
b) the subject matter of an insurance or reinsurance contract; or
c) an insured peril.

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

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

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

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

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

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

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

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

Underwriting profit
This is calculated as net earned premiums, less net insurance claims, acquisition costs and administrative expenses.

If you have finished reading this report
and no longer wish to keep it, please
pass it on to other interested readers,
return it to Beazley or recycle it. Thank you.

Designed and produced by:
Instinctif Partners www.creative.instinctif.com

Beazley online annual report
and accounts 2019

www.reports.beazley.com/2019

Beazley plc

Plantation Place South
60 Great Tower Street
London
EC3R 5AD
United Kingdom

Phone: +44 (0)20 7667 0623
Fax: +44 (0)20 7674 7100

www.beazley.com

beazley

beautifully
designed
insurance