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beazley

Beautifully designed insurance

Beazley Ireland Holdings plc ('the company') is a holding company within the Beazley plc group. Up until April 2016, Beazley Ireland Holdings plc was the parent company of the Beazley group. These accounts are for Beazley Ireland Holdings plc and its subsidiaries ('the group') only.

Within the group there is a commitment to deliver beautifully designed insurance to all our clients.

Beautiful designs require beautifully designed insurance. Our architects' and engineers' professional indemnity team is just one of the many teams at Beazley that work closely with brokers to design customised insurance, backed by expert service, to address our clients' most pressing needs. We are proud to have insured the architects behind the Jeddah Tower and many other pioneering designs, Adrian Smith + Gordon Gill Architecture, since 2008 and the building's structural engineers, Thornton Tomasetti, since 2006.

When complete in 2020 the Jeddah Tower will be the world's tallest building, soaring more than a kilometre (3,281 feet) above Jeddah, a Red Sea port and Saudi Arabia's second largest city.

Artist's impression of Jeddah Tower. Design architect: Adrian Smith + Gordon Gill Architecture

Strategic report

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Our key differentiators

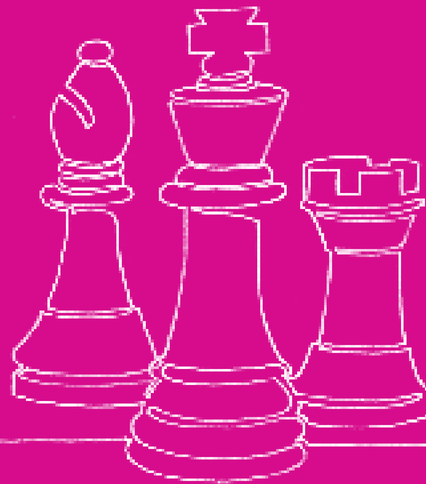
We create value through the implementation of three key differentiators – consistently applied and nurtured across our specialist insurance operations around the world.

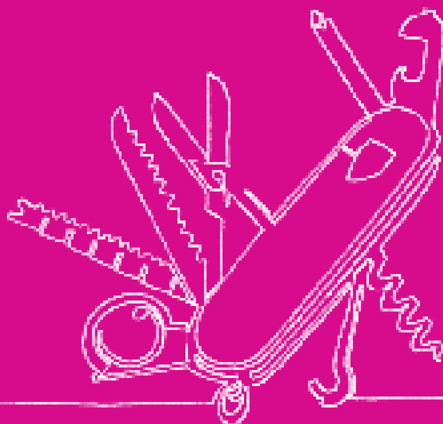
Entrepreneurial spirit

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 target a balanced portfolio spanning specialist classes driven by different cycles on an international basis.

Our key differentiators

Entrepreneurial spirit

We hired 63 underwriters in 2016, a record number. For talented individuals in our lines of business, Beazley provides an opportunity that combines a high level of professional support with a high level of personal accountability.

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

Entrepreneurs usually achieve success through collaboration and Beazley underwriters are members of close knit teams. Our claims professionals work closely with our underwriters to understand the intent behind the cover we offer and provide a swift and supportive service to clients. Increasingly, key elements of the customer experience depend on far more than skilled and conscientious underwriters and claims staff: they also depend on advanced systems and skills to make doing business with Beazley as easy and agreeable as possible. We invest what is needed to maintain leadership in these fields.

"The world of risk is changing fast. I was attracted to Beazley by its track record of innovation – trying new things is part of the company's DNA. In an industry that can be slow to adapt, Beazley stood out."

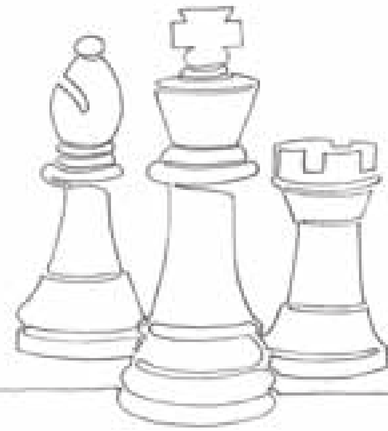
Libby Benet
Underwriter and manager,
Beazley Product Solutions, Farmington

"For three decades Beazley has been a leader in professional liability for architects and engineers. I am excited about the opportunity to expand our offering to contractors, a significant growth market, and also developers through our new DeveloPro product."

Michael Attwell
Underwriter – A&E and construction,
specialty lines, London

Our key differentiators

Strong partnerships

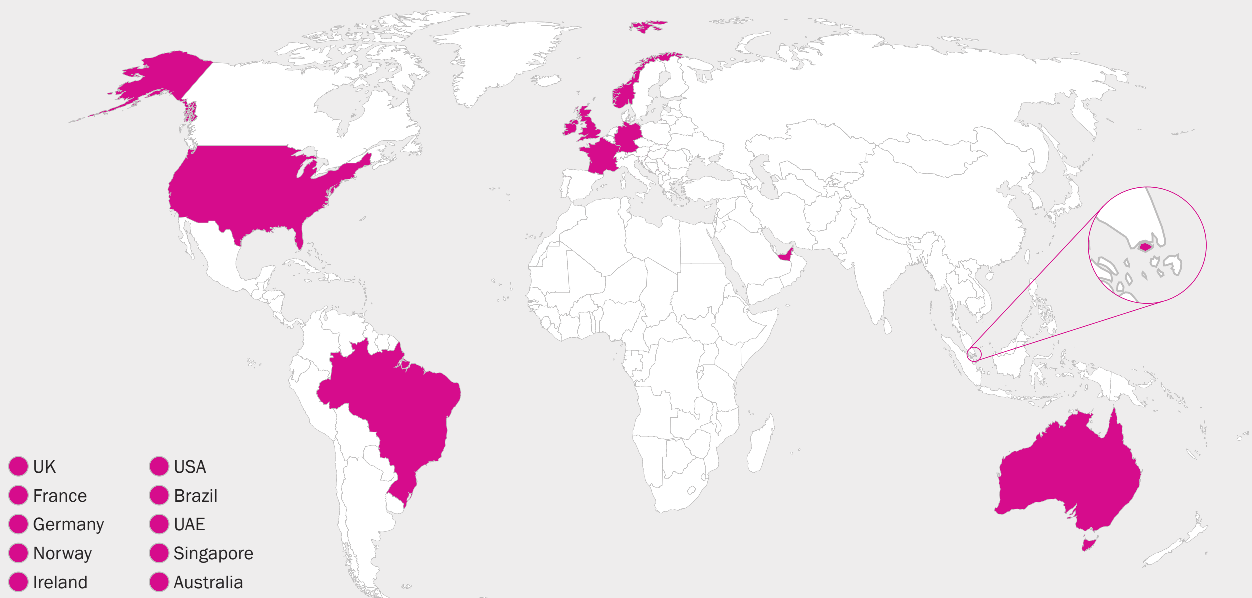


We aim to forge strong relationships with brokers, reinsurers and insureds who appreciate the quality of our products and the value of our service and whose decisions are not driven solely by cost.

During the course of 2016, we also took steps to strengthen our relationships with other insurers and reinsurers whose business goals are complementary to our own. With our deep roots in the Lloyd's market, we are of course no stranger to partnering with other Lloyd's insurers – through coinsurance – to cover large, complex risks. However, our new partnerships extend the principle more broadly. In April we announced a partnership with the Corporate Insurance Partner unit of Munich Re to expand the cyber cover we could offer to the world's largest companies. We have also entered into a number of relationships with other insurers to embed, through reinsurance, our data breach product in the cover they can offer to their clients.

Responsibility for maintaining strong broker relationships falls to each and every Beazley underwriter, supported by our broker relations team led by Dan Jones. A detailed survey among our brokers worldwide conducted in October and November indicated that our commitment to these relationships is appreciated. Eighty four percent of respondents ranked us seven or higher out of ten for responsiveness (with 49% ranking us nine or ten out of ten). For underwriting expertise, 94% ranked us seven or higher out of ten and 59% nine or higher.

Global presence of Beazley's offices



Our key differentiators

Diversified business

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

Our diversified portfolio allows us to implement efficient cycle management. We assess the merits of writing a new line of business very carefully with an eye on the effect on the diversification of our portfolio.

As our divisions have grown, they have also become more diversified. Specialty lines, which accounted for 53% of our premiums in 2016, is the foremost example of this, but our property and marine divisions have also diversified significantly in recent years. A decade ago, large scale property business written out of London accounted for more than half of our property division's portfolio; last year it stood at 29%. Similarly, a decade ago marine hull and energy business together accounted for more than two thirds of our marine division's portfolio; last year they accounted for approximately 45% and aviation business, which we began underwriting in 2013, represented 8%.

Marine – a diversified business

"Over the past decade, we have enhanced the ability of our portfolio to weather rate declines in individual lines of business. We have progressively diversified our account, expanding our marine liability book, entering the satellite market, and significantly developing our aviation business."

Clive Washbourn
Head of marine

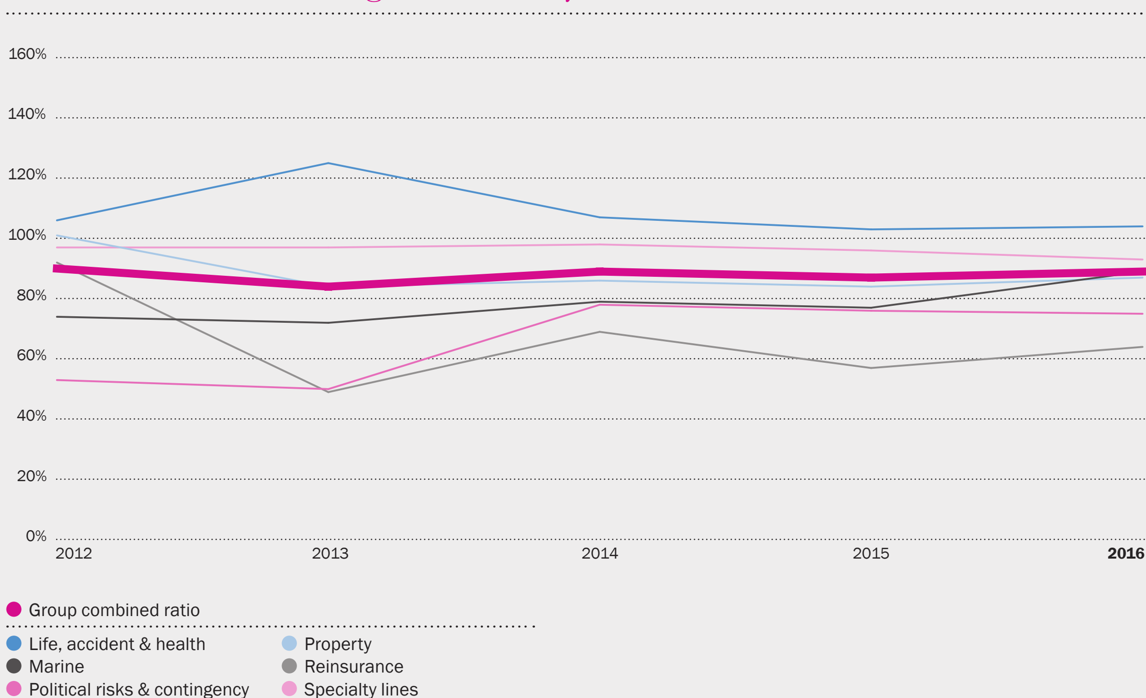
Diversification of the marine account 2016

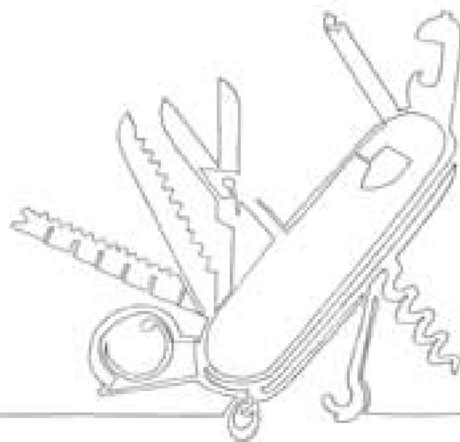
Diversification of the marine account 2009

Diversified portfolio

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

Diversified portfolio achieves consistent combined ratio through market cycles





Our key differentiators

Diversified business *continued*

Managed gross premiums growth by division $m

Life, accident & health

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

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Marine

We help insure in excess of 20% of the world's ocean-going tonnage and are the pre-eminent leader of voyage and tow business in the London market. We insure 60% of the Forbes' List of the 25 Biggest Public Oil & Gas Companies. We have extensive experience insuring a wide variety of cargoes including project, fine art and specie.

Find out more page 19

Political risks & contingency

In addition to traditional lines such as contract frustration, expropriation and credit, we insure a growing number of businesses against terrorism and political violence. Our contingency team is one of the strongest in the London market. We also specialise in event cancellation – writing everything from weddings to World Cups.

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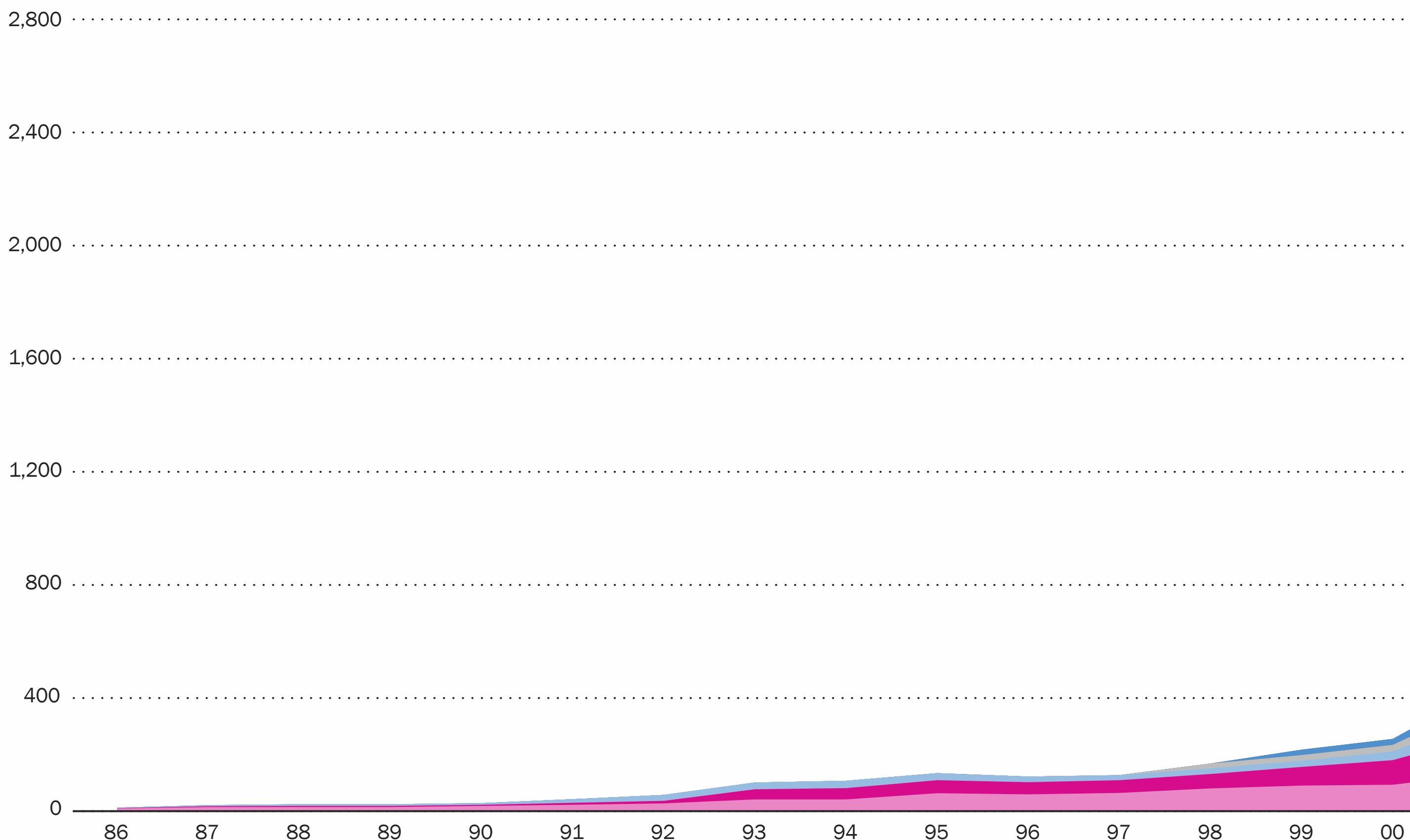
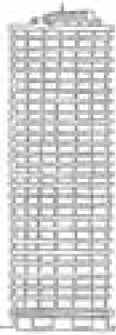




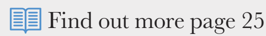
Property

We've protected clients ranging from Fortune 1000 companies to homeowners through 24 years of natural and man-made catastrophes. We underwrite this business through three platforms; Lloyd's, the US and Singapore, with a business focus on commercial property, engineering and construction risks and select homeowners' business.

Find out more page 23

Reinsurance

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



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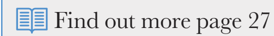
Specialty lines

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



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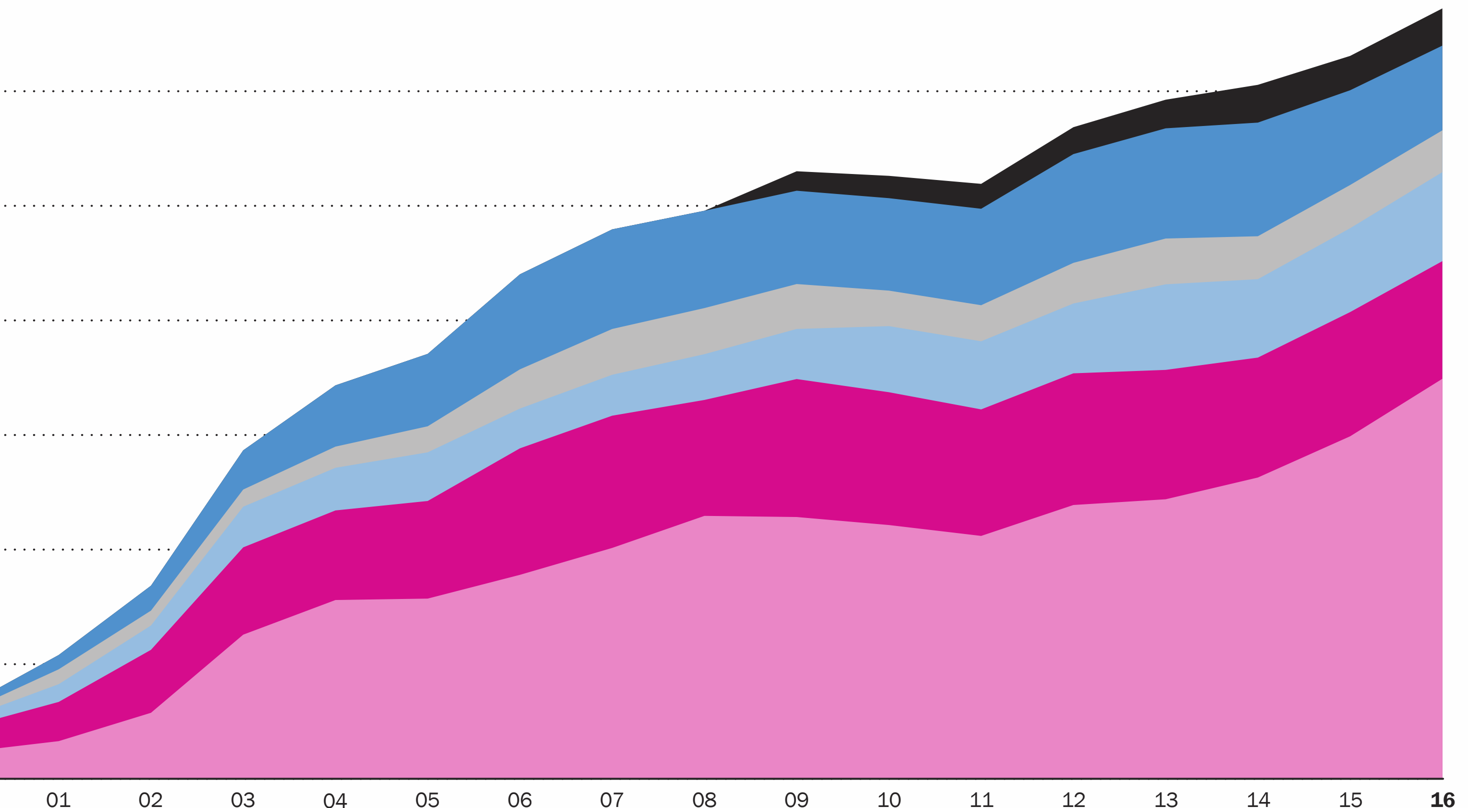


Our business model and strategy

Our business model

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

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

Our strategy

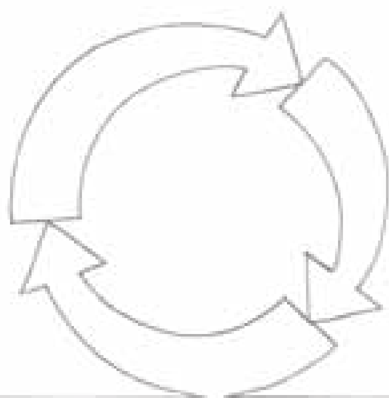
Our strategy is directed towards the achievement of our vision, which is to become, and be recognised as, the highest performing specialist insurer. To this end, our strategy comprises:

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

Risks

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

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



Our approach to managing these and other risks is described in detail on page 43

2016 in review

Our balanced portfolio was a key factor in achieving both growth and a strong combined ratio.

The group prospered in 2016, generating a profit before income tax of $298.9m (2015: $284.0m) on gross premiums that rose by 6% to $2,195.6m (2015: $2,080.9m). At 89% our combined ratio was in line with our performance in recent years, despite more challenging underwriting conditions for many lines of business and rate declines that averaged 2% across our portfolio.

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

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

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

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

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

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

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

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

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

Claims activity

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

Investment performance

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

Risk management

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

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

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

Growth through partnerships

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

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

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

Investing in our business

In building the talent base of our company for the future, we aim to look beyond underwriting cycles. Recent market conditions have not favoured all of our competitors and, as a result, some have merged while others have withdrawn from business lines that remain attractive to us. Underwriters with entrepreneurial ambitions in our target markets have meanwhile found Beazley an attractive, and welcoming, employer. The group hired 63 underwriters across our six divisions in 2016, a record number.

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

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

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

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

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

20%

Growth of locally underwritten US premiums

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

Service

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

We were pleased to receive, overall, very high ratings from brokers for the responsiveness and expertise of our underwriting and claims teams. Willingness to recommend Beazley, for both underwriting and claims, Can we do better? We believe that we can. One area we are investigating is the scope to simplify our policy wordings, particularly for small scale business where the recipient of the policy is not an insurance professional well versed in industry jargon.

Beautifully designed insurance

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

Outlook

We have experienced continued challenging market conditions over the past year but, thanks to the composition of our risk portfolio and strong investment returns, we have been able to offset declining rates in some areas with continued profitable growth in others.

We predict there being further margin declines when (and it is a matter of when, not if) claims return to more normal levels. The consolation for the group is that the underwriting discipline we have maintained for short tail, catastrophe exposed business should cushion the impact of major claims when they occur.

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

N Lillis
Director

6 April 2017

2016 underwriting report

Balanced portfolio delivers a strong underwriting result.

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

Rating environment

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

Premium retention rates

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

Retention rates[1]	2016	2015
Life, accident & health	79%	92%
Marine	87%	84%
Political risks & contingency	80%	72%
Property	81%	78%
Reinsurance	85%	85%
Specialty lines	84%	84%
Overall	83%	83%

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

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

Divisional commentary

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

We continue to see strong demand for our cyber products and in April, we were happy to start to offer large scale cyber risk solutions in partnership with Munich Re.

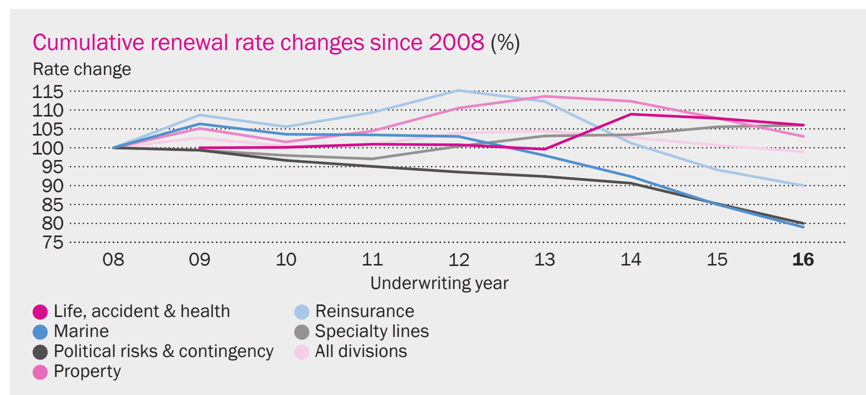
We also focused on expanding our cyber offerings outside the US and we see good growth potential in other markets, particularly in Europe. Our healthcare team was another which performed well during 2016 and in March, we were delighted to welcome a new team focusing on small and mid-sized medical malpractice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

Our life, accident and health division recorded a loss of $3.7m in 2016 (2015: profit of $0.4m) driven by losses in our Australian business and a relatively high cost base in the US as we continue to work towards growing our business across the country. We have taken positive steps in 2016 to continue to re-shape our portfolio, particularly in Australia where one of our larger superannuation policies was not renewed, while increasing our focus on smaller scale personal accident risks. In the US, we are working to optimise our sales and distribution capabilities so that we can take better advantage of the demand for our products and grow across the country.

Our property division delivered another profitable underwriting result in 2016, achieving a combined ratio of 87% (2015: 84%) on gross premiums written of $329.7m (2015: $353.1m). Market conditions continue to be challenging, particularly in respect of large risks, with rates on renewal business falling by 4% year on year for the division as a whole (2015: reduction of 4%).

Against the backdrop of this difficult trading environment, we are adapting our underwriting strategy to focus on segmenting our portfolio and giving increasing focus to small and mid-sized risks. We executed this strategy in 2016 by achieving growth in our high value homeowner portfolio in the US, and our fine arts and specie business in London. Our diverse portfolio helps us to offset some of the more competitive conditions we see in the large risk arena, particularly in the open market book written in London.

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



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

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

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

Outlook

The insurance market continues to be impacted by an oversupply of capital. This oversupply, particularly in short tail lines of business such as marine and reinsurance, has meant that 2016 has been another year where most trading divisions within Beazley have found competitive pressures to be strong.

We anticipate that the trading environment currently encountered will remain broadly unchanged throughout 2017.

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

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

E McGivney
Director

6 April 2017

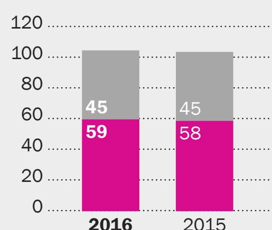
Performance by division

Profitable growth in a competitive environment.

Life, accident & health

Christian Tolle
Head of life, accident & health

Combined ratio (%)



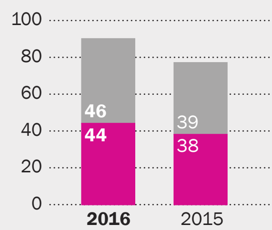
	2016 $m	2015 $m
Gross premiums written	126.6	119.8
Net premiums written	118.0	106.6
Results from operating activities	(3.7)	0.4
Claims ratio	59%	58%
Expense ratio	45%	45%
Combined ratio	104%	103%
Rate change	(2%)	(1%)

Find out more on page 17

Marine

Clive Washbourn
Head of marine

Combined ratio (%)



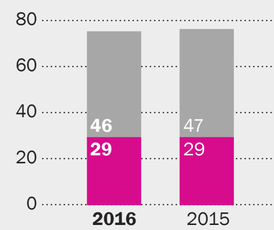
	2016 $m	2015 $m
Gross premiums written	247.4	269.3
Net premiums written	220.7	239.5
Results from operating activities	35.3	66.9
Claims ratio	44%	38%
Expense ratio	46%	39%
Combined ratio	90%	77%
Rate change	(7%)	(8%)

Find out more on page 19

Political risks & contingency

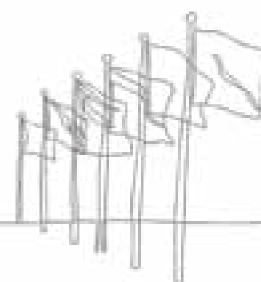
Adrian Lewers
Head of political risks & contingency

Combined ratio (%)



	2016 $m	2015 $m
Gross premiums written	118.7	123.6
Net premiums written	97.6	105.0
Results from operating activities	31.7	29.0
Claims ratio	29%	29%
Expense ratio	46%	47%
Combined ratio	75%	76%
Rate change	(6%)	(6%)

Find out more on page 21

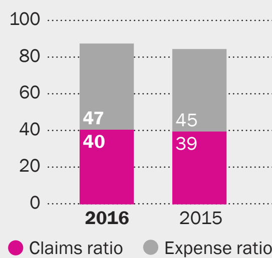


Performance by division *continued*

Property

Mark Bernacki
Head of property

Combined ratio (%)



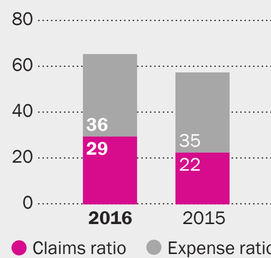
	2016 $m	2015 $m
Gross premiums written	329.7	353.1
Net premiums written	277.1	304.8
Results from operating activities	52.1	59.7
Claims ratio	40%	39%
Expense ratio	47%	45%
Combined ratio	87%	84%
Rate change	(4%)	(4%)

Find out more on page 23

Reinsurance

Patrick Hartigan
Head of reinsurance

Combined ratio (%)



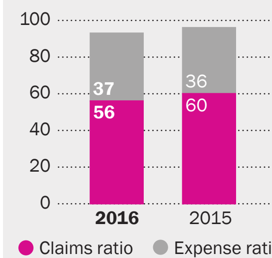
	2016 $m	2015 $m
Gross premiums written	213.4	199.9
Net premiums written	141.2	132.0
Results from operating activities	61.2	66.3
Claims ratio	29%	22%
Expense ratio	36%	35%
Combined ratio	65%	57%
Rate change	(4%)	(7%)

Find out more on page 25

Specialty lines

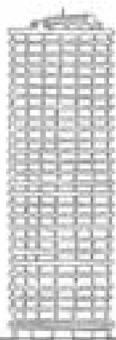
Adrian Cox
Head of specialty lines

Combined ratio (%)



	2016 $m	2015 $m
Gross premiums written	1,159.8	1,015.2
Net premiums written	999.4	825.2
Results from operating activities	136.7	77.0
Claims ratio	56%	60%
Expense ratio	37%	36%
Combined ratio	93%	96%
Rate change	1%	2%

Find out more on page 27

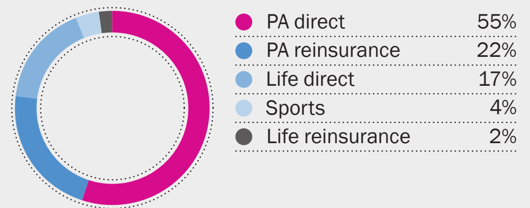


Life, accident & health

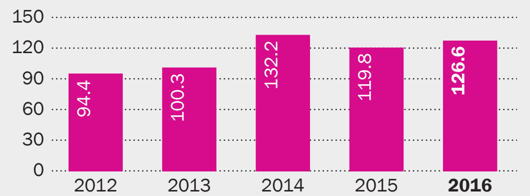
Progress made in 2016 by re-balancing our portfolio.

Christian Tolle
Head of life, accident & health

Portfolio mix



Gross premiums written ($m)



$126.6m

Gross premiums written

The life, accident & health division made good progress in strengthening key distribution channels in 2016 despite recording a combined ratio of 104% (2015: 103%) on premiums of $126.6m (2015: $119.8m). The operating loss of $3.7m was driven by losses in our Australian business in the current year, and a high cost base in the US as we continue our efforts to grow our business stateside.

Approximately two thirds of the division's premiums were generated by our London underwriters, who write a broad mix of personal accident business (on both a direct and reinsurance basis); personal accident for sports teams; and life business (also both direct and as reinsurance).

More than 60 Lloyd's syndicates have the capability to underwrite personal accident business. This is positive in that it makes the Lloyd's market a significant player in this market, particularly for niche forms of cover that other insurers lack the experience to underwrite. However, it can be challenging when, as now, there is a significant amount of competition for high quality business. We saw rates on our London market business fall by an average of 2% in the course of 2016 (2015: fell by 1%).

In Australia our business has undergone material changes in the past two years, moving away from a heavy dependence on major superannuation fund accounts. (Australian superannuation funds are government supported retirement funds that also offer disability insurance). With the loss of one such major account and a strong push into smaller scale group personal accident business, we now have a far more diverse and balanced book.

Our business in Australia, as around the world, relies heavily on strong broker and coverholder relationships. We were therefore delighted in September to learn that a large scale survey conducted among nearly 3,000 Beazley brokers around the world recorded particularly high satisfaction and 'willingness to recommend' scores for our underwriters and claims staff in Australia. This is a tribute to the excellent work that Suzie White and her team have put into broadening and strengthening our broker relationships in the region.

In the United States, the drivers of demand for the gap protection products that we offer remain strong. These products help employees supplement the cover they obtain under high deductible healthcare benefit plans. With medical inflation continuing to run at high levels, the costs to employers of providing more comprehensive benefit plans will continue to climb, increasing the attractiveness of our products.

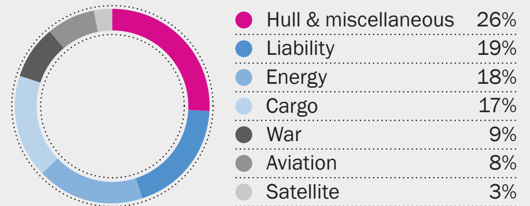
Dan Jones, the group's head of broker relations, has been working closely with the US accident and health team in recent months to strengthen the team's sales capabilities and open up new distribution channels, efforts we expect to bear fruit in 2017. There are now some uncertainties in the US market over the future of President Obama's healthcare reforms under the new administration, but the pressure on employers to find more cost effective benefit solutions for their employees is likely to remain.

Marine

Underwriting discipline key to delivering strong combined ratio.

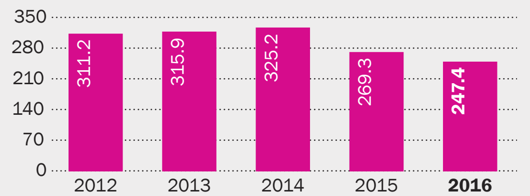
Clive Washbourn
Head of marine

Portfolio mix



Hull & miscellaneous	26%
Liability	19%
Energy	18%
Cargo	17%
War	9%
Aviation	8%
Satellite	3%

Gross premiums written ($m)



$247.4m

Gross premiums written

Strategic report
Directors' statement and auditor's report
Financial statements

Further steep declines in rates, particularly for marine and energy business, took a toll on the marine division's results in 2016, with reserve releases from previous years also down. We were nevertheless pleased to achieve a combined ratio of 90% (2015: 77%) on premiums of $247.4m (2015: $269.3m).

The division underwrites a mix of marine, energy, aviation and satellite business, benefiting from Lloyd's position as the leading global market for all these classes of business. We also underwrite a war risks account, which in recent years has primarily focused on piracy risks off the Horn of Africa. In recent years, we have significantly outperformed the average results for the marine market at Lloyd's.

Underwriting conditions in 2016 continued to be exceptionally challenging, with rates falling by 7% for the marine division and notably 13% for energy and 9% for aviation business.

Our focus in this environment is on underwriting discipline, as is well illustrated by the 53% reduction in our energy premiums since 2014, a market in which competitive pressures have been particularly strong. Brokers are well aware that we will walk away from risks that do not meet our profitability requirements: they also know that Beazley is an adaptable insurer that can commit swiftly to new and unusual risks that fall within our appetite. Speed is also of the essence in claims service and we strive to deliver the most responsive service in the market.

One specialist field in which we have played a role in recent years has been the insurance of subsea equipment such as remotely operated vehicles and seismic streamers for surveying the sea-bed. We have for many years supported Leviathan, a managing general agency that has specialised in these risks for more than two decades. In May we were delighted to announce the acquisition of Leviathan and to welcome its seasoned underwriting team, led by Simon Edwards and Keith Broughton, to Beazley.

Our profile in the marine liability market has grown significantly since Phil Sandle joined us in 2013. The team, which provides a wide range of covers for shipowners, port authorities, freight forwarders, maritime industry financiers and others, had a banner year, growing premiums by 47% to $48.0m.

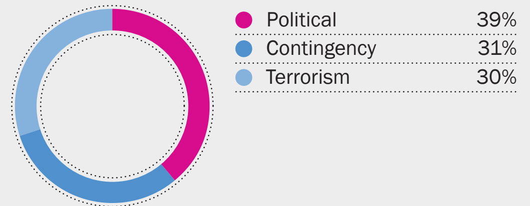
Our UK marine team, led by Steve Smyth, continued its strong performance in 2016. This business was a slow burn in its early years, as Steve and his team built strong broker relationships through our four regional offices around the UK. In a competitive market environment, the team has been buoyed by both new business and high retention rate for existing accounts and has seen its share of total division premium rise from 3% in 2013 to 6% in 2016 with premium income increasing by 58% to $14.3m in that period.

Our investments in talent do not march in lockstep with market conditions – we hire capable underwriters and claims staff as the opportunity arises. In addition to the Leviathan team we were delighted to welcome Christophe Paulin to our aviation team in 2016.

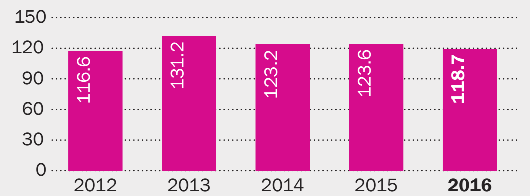
Political risks & contingency

Diverse product mix delivers strong combined ratio.

Portfolio mix



Gross premiums written ($m)



$118.7m

Gross premiums written

The political risks and contingency division performed well in 2016 in markets that continued to be quite competitive for both political and terrorism risks. At 75%, the division's combined ratio compared favourably to 2015's 76%, despite declining rates in both these business lines.

Our differentiators in markets that are awash with capacity are high service standards, strong broker relationships forged over a long period, and a willingness to innovate to offer new solutions to our clients and, thereby, incremental revenue streams to our brokers. All three of these differentiators stood us in good stead in 2016.

In addition to political risks and terrorism cover, the division includes one of the largest and most experienced contingency teams in the world, with a strong track record in insuring many of the largest international sports and entertainment events. We have leveraged this experience in recent years to write a steadily increasing volume of smaller event cancellation risks for trade shows and conference organisers among others.

Our contingency team, led by Chris Rackliffe, saw premium decrease in 2016 to $36.2m (2015: $40.5m). The team write mainly large risks out of London, and smaller business in the UK through our myBeazley e-trading platform. In the US, our contingency business has been growing strongly, supported by the release of new products and product extensions and, in December, the launch of our myBeazley platform. In July, the team expanded event cancellation insurance for the sports, entertainment and leisure industries to include riots, civil commotion, strikes, the threat of a terrorist act and other potential disruptions to live events.

Rates for terrorism insurance, the second of our major lines of business, continued their downward trajectory in 2016, despite ample evidence that the world is not becoming any safer. We have seen strong demand for cover in France, where we lead risks on behalf of a consortium of Lloyd's underwriters, but overall our terrorism book shrank during the course of the year as rates fell by 13%.

As with our contingency business, our global terrorism team has continued to reinforce Beazley's reputation for innovation, offering clients cover for active shooter events in the US and 'loss of attraction' cover for businesses indirectly impacted by a terrorist event.

Competition for terrorism business was particularly strong in London during the course of 2016, while the market environment was slightly less competitive in other locations, such as Singapore and Dubai, where we have begun locating underwriters in recent years. We relocated one terrorism underwriter, Andrew Page, to Singapore in 2016 to access business we would not normally see in London and continue the growth of our terrorism business there.

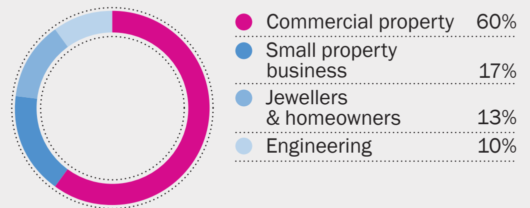
At 39% of our portfolio, political risks insurance for perils such as confiscation, nationalisation and expropriation, and trade-related credit insurance continues to be our largest line of business. This team, under the leadership of Roddy Barnett, performed well during 2016, despite rates that fell by 4% on average.

Property

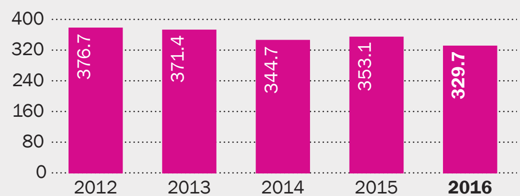
Increased focus on small and mid-sized risks counter competitive pressures in large scale market.

Mark Bernacki
Head of property

Portfolio mix

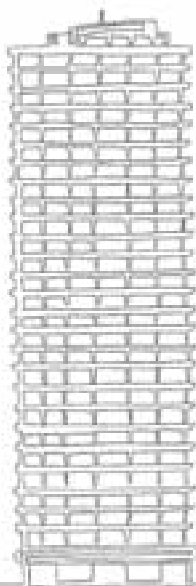


Gross premiums written ($m)



$329.7m

Gross premiums written



Beazley's property division delivered a strong result in 2016 given market conditions that were increasingly challenging for many lines of business, notably for large scale catastrophe exposed risks written out of London.

In addition to large scale commercial property business, the property division, Beazley's second largest, underwrites small and mid sized commercial property risks; construction and engineering risks; and homeowners risks in both the UK and US. Our London underwriters also specialise in jewellers' block, fine art and specie business. The property account as a whole has become steadily more diversified in recent years, enhancing the consistency of our underwriting returns.

In 2016, our UK and US homeowners business performed particularly well, with premiums rising 13% to $38m. In common with all the business we underwrite in the US, we insure homeowners on a surplus lines basis, meaning that we write risks that are not normally attractive to the standard, or 'admitted', market. Our clients and brokers in this market value speed of service, both in underwriting and claims, and we made major strides in delivering this in 2016.

Our US commercial property team, under the leadership of Ron Beauregard, focuses on mid sized risks with some catastrophe exposures, performed creditably during the year, although competition was strong. Premiums underwritten by the team were in line with the previous year at $75.5m.

This year, we will be extending our large risk property underwriting capabilities to the US, with a view to accessing business that we do not currently see in London. London will continue to be the main focus for our large risk property business and Simon Jackson, who leads our open market property team in London, will continue to be globally responsible for our large risk business. In 2016, market conditions for this business continued to deteriorate, with rates on renewal business falling 6%.

Hurricane Matthew, which grazed the eastern seaboard of the US in October, did not rank as a market changing event in terms of the rating environment for any of our teams. It did however affect a number of our clients, both businesses and homeowners, in the south eastern US and we were pleased to be able to support them through the storm's aftermath.

A key single segment of our portfolio continues to be our small business unit, led by Paul Bromley, which underwrote $99.3m in 2016 (2015: $123.7m). We see greater residual profitability in this business – much of it sourced from Lloyd's coverholders with whom we have strong long term relationships – than in our large risk business. Beazley has a strategic initiative to enhance our attractiveness to small commercial clients and their brokers and we expect the small business unit to be a major beneficiary of this.

Our global construction and engineering team, led by Colin Rose, had a mixed year. Our large risk business, much of which we underwrite through the Construction Consortium at Lloyd's in London and Singapore, performed well. Conditions were more difficult for our builders' risk team in the US, which focuses on smaller scale business. The team expanded its product range in September, launching five new products that should enhance our ability to offer one-stop solutions for our broker partners and their construction clients across multiple industries.

In common with most other Beazley divisions, the property division currently derives most of its business from the US and UK. Nevertheless we continued to take steps in 2016 to tap new geographic sources of business, including Latin America and the Asia Pacific region. In October we hired Santiago Jaramillo as construction and engineering focus group leader for Latin America, working out of our Miami office. We also made good progress during the course of the year in developing jewellers' block and other business in Brazil – as the insurer of around half of the jewellers in the UK, we have deep experience and very strong credentials in this line.

At the end of the year in London we welcomed two highly experienced Lloyd's underwriters, Mark Bosshard and Scott Sellick, to expand our fine art and specie underwriting capabilities. These lines of business are complementary to our jewellers' block business. Specie risks such as bank vault contents, private art collections and art dealers' inventory also require significant capacity and we will be offering a maximum line size of $100m in support of this business.

Looking ahead we see overcapacity continuing to depress rates for large scale property business. However with a portfolio that is increasingly diversified by geography, client size and type of risk, we have greater room for manoeuvre in protecting underwriting margins.

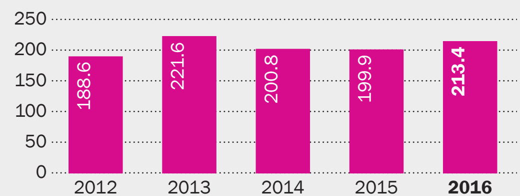
Reinsurance

Good profitability driven by lower than expected natural catastrophe losses.

Patrick Hartigan
Head of reinsurance

Portfolio mix

Gross premiums written ($m)



$213.4m

Gross premiums written

The reinsurance division delivered another strong underwriting performance in 2016, achieving a combined ratio of 65% (2015: 57%) on premiums marginally higher than the previous year's at $213.4m (2015: $199.9m).

There is little doubt that reinsurance remains a buyer's market but it would appear that the sharp rate declines we have seen in recent years are now flattening out. Renewal rates fell 4% in 2016, but this compared with a rate decline of 7% in 2015 and 10% in 2014. We have seen demand for reinsurance edging up in a number of markets, including the US, which is the source of about half the division's premiums.

Our approach for several years now has been to continue to support our US cedents with reliable, flexible cover while steadily improving access to other markets around the world through local underwriters. We now underwrite European business out of Beazley offices in Munich and Paris (as well as in London); Asian business out of Singapore and through Lloyd's China in Shanghai; and Latin American business out of Miami.

Claims continued to be broadly subdued in 2016, despite the most active US hurricane season that we have seen since 2012. Hurricane Matthew, the largest of these storms, is now expected to cost the insurance industry between $2.5bn and $8bn, but that will not in itself have a material impact on premium rates. The impact of Hurricane Matthew on Beazley was modest.

In terms of the supply of risk bearing capital, we have recently seen traditional reinsurers competing very effectively with the insurance linked securities (ILS) alternatives that, a few years ago, were widely expected to encroach far more deeply into our markets. Part of the reason for this is that the set-up costs for many of these vehicles have remained stubbornly high, exceeding the transaction costs of reinsurance. At Beazley we have continued to look for ways to improve the design of our products, including reinstatement terms, to address the challenge posed by both traditional and non traditional competitors.

We have, however, continued to see hedge funds, pension funds and other investors gain access to major reinsurance programmes through the provision of collateralised reinsurance – a market that we have ourselves tapped to help meet our needs for retrocession cover.

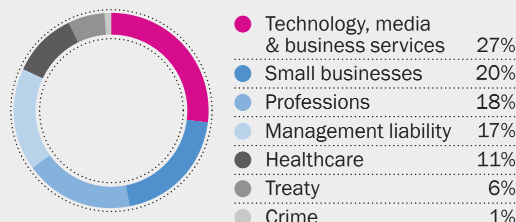
Looking ahead, we see the potential for a significant increase in demand for reinsurance cover in developed and less developed markets around the world if the administrators of state-backed insurance programmes seek to transfer some of their exposures to the private sector, as some have been considering doing. If this occurs, the new demand could go a long way towards absorbing the overcapacity that now impacts our market.

Specialty lines

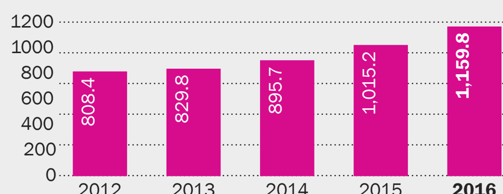
Profitable growth across numerous product lines and geographies drives improved combined ratio.

Adrian Cox
Head of specialty lines

Portfolio mix



Gross premiums written ($m)

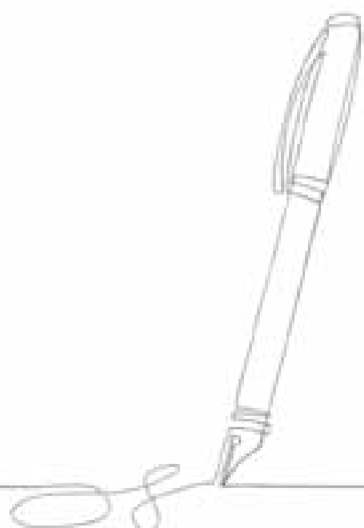


$1,159.8m

Gross premiums written

Beazley's largest division continued to grow strongly in 2016, writing gross premiums of $1,159.8m (2015: $1,015.2m). As in recent years, the main engine of growth was the US, where Beazley has had a local presence for over a decade and demand for our specialist products has been strong.

Specialty lines comprises in the main professional and management liability business, underwritten for large, mid sized and small companies and professional services firms around the world. For the most part our London based underwriters focus on the larger and more complex risks, such as large hospitals, law firms and engineering firms, whereas our local US underwriters write smaller scale risks.



In common with other lines of business underwritten at Beazley, we saw less competition for small and mid sized business in 2016 than for large risk business. Overall, we saw premium rates rise 1% for the division as a whole during the year.

In much of the business we underwrite, claims take some time to crystallise – in many professional lines, for example, this can occur six years or more after the policies were underwritten. We reserve prudently in the meantime and, after claims are paid, are frequently able to make reserve releases. In 2016, these prior year reserve releases made an increased contribution to the division's profits of $68.5m (2015: $38.7m). This higher level of reserve release was possible as we distanced ourselves from the credit crunch which affected the years 2008 through to 2011, where claims frequency appears to be higher than in the years immediately before and after this period.

Demand for data breach insurance and other forms of cyber cover has been consistently high since we launched our pioneering data breach product, Beazley Breach Response (BBR), in 2009. In 2016, we took a number of steps to capture a larger share of this fast growing market. In April, we announced a partnership with the Corporate Insurance Partner unit of Munich Re, the world's largest reinsurer, to underwrite large scale cyber risks, offering per risk capacity of up to $100m. This initiative has been very well received by brokers and clients.

During the course of the year we launched a number of other cyber partnerships with insurance companies across the world, from the US to Latin America, mainland Europe and the Middle East, enabling policyholders – largely small and mid sized businesses – to obtain the broad data breach cover and claims service for which Beazley is well known. We see partnerships of this kind as holding great promise in extending our reach cost effectively into markets where Beazley lacks a local presence.

The fastest growing cyber insurance market in the world has hitherto been the US, driven largely by complex state and federal regulations governing how data breaches must be reported to the affected individuals. In coming years, we expect other developed economies to begin to catch up as regulations in those regions also tighten. In Europe, the EU General Data Protection Regulation, due to come into force in 2018, will make the challenge of managing data breaches more complex and more costly. We also launched BBR in Canada during 2016 to tap growing demand in that country.

An important element of our long term strategy in specialty lines is to promote our products and expertise strongly in fast growing industries. Technology is one such industry: our technology, media and business service team that developed BBR also underwrites technology errors & omissions business for many of the world's largest software and software services companies. Healthcare is another: in 2016, we saw our healthcare liability business grow by 18% to $126.7m. We also broadened our architects & engineers professional liability practice to include contractors who are taking in-house an ever growing proportion of design work that we seek to insure.

Another growth market for us in 2016 was environmental liability. We have taken full advantage of dislocations in this market to hire experienced underwriters and develop our book, mainly in the US. Our team underwrote premiums of $61.5m in 2016, more than double the level of premium income generated in 2015.

In all of the industries we serve, clients look to Beazley for well designed products that address their most pressing risks and perform as required in the event of a claim. Many of these products are highly innovative – for example the regulatory liability cover we offer to US hospitals to protect them from billing errors, a major concern in the highly complex and regulated US healthcare market. Other products afford specialist services in the event of a claim – services that can be far more valuable than monetary compensation.

Although demand for many of these products often begins in the US, the London insurance market remains a crucible for innovation in our industry and many of our most innovative products and services originate with our London underwriters, working closely with specialist brokers. For example, our healthcare team, led by Nat Cross, has developed over the years a unique way of working with major hospitals to incentivise them to invest in patient safety and quality measures that should also, over time, reduce claims. Premium credits paid to hospitals under this programme now exceed $7m. We believe that our approach, pioneered with some of the most respected hospitals in the US, should also prove valuable to hospitals in other countries.

London will also be a key focus for the continuing development of our broader international business outside the US. In December we welcomed Gerard Bloom to lead a new team focusing on the development of this business, including non-US financial institutions risks. We will be writing this business both from the Beazley box at Lloyd's and from local offices around the world.

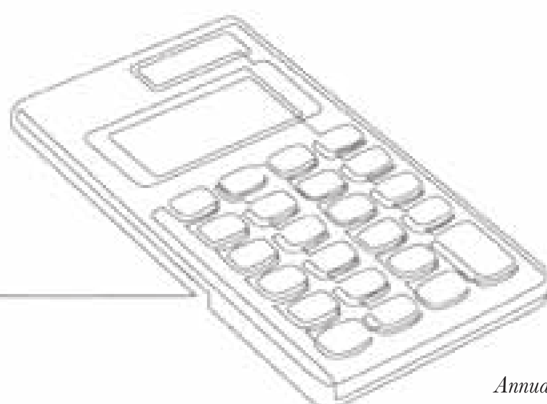
Beazley began life in 1986 as an insurer of large, complex risks: major US law firms and engineering businesses were among our first clients. However, in recent years, we have seen the strongest demand for our products from far smaller firms. To position ourselves successfully in these markets, we have invested in technology designed to make our brokers' work easier, mindful of the modest commissions brokers receive on a per client basis for small business risks. We continued in 2016 to explore ways in which we can offer our products through our brokers' own proprietary channels as well as through our e-trading platform, myBeazley.

Financial review 2016

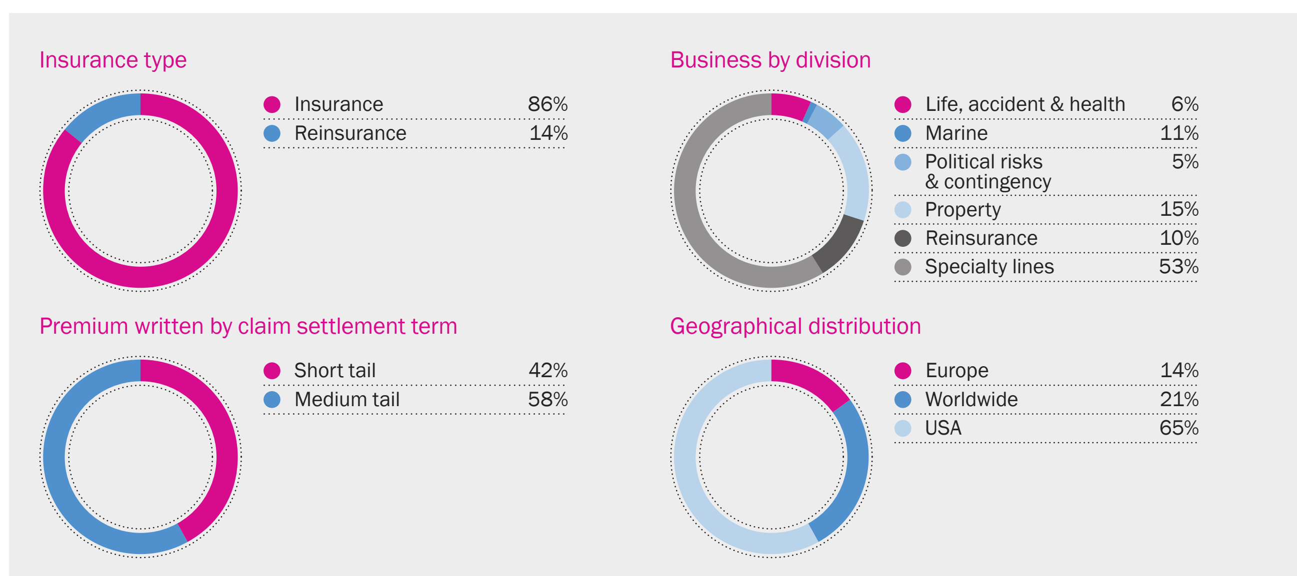
Increased premium, profits and investment return.

Statement of profit or loss

	2016 $m	2015 $m	Movement %
Gross premiums written	2,195.6	2,080.9	6%
Net premiums written	1,854.0	1,713.1	8%
Net earned premiums	1,768.2	1,698.7	4%
Net investment income	93.1	57.6	62%
Other income	32.7	30.9	6%
Revenue	**1,894.0**	**1,787.2**	**6%**
Net insurance claims	855.6	813.9	5%
Acquisition and administrative expenses	719.2	663.8	8%
Foreign exchange loss	5.7	9.7	(41%)
Expenses	**1,580.5**	**1,487.4**	**6%**
Share of loss of associates	(0.2)	(0.5)	(60%)
Finance costs	(14.4)	(15.3)	(6%)
Profit before tax	**298.9**	**284.0**	**5%**
Income tax expense	(42.9)	(35.0)	23%
Profit after tax	**256.0**	**249.0**	**3%**
Claims ratio	48%	48%	
Expense ratio	41%	39%	
Combined ratio	89%	87%	
Rate decrease	(2%)	(2%)	
Investment return	2.0%	1.3%	



Group performance *continued*



Profit

Profit before tax increased slightly in 2016 at $298.9m (2015: $284.0m). The group achieved a combined ratio in line with its long term target of 90% but slightly higher than the 87% seen in 2015. Profits on short tail classes were lower than in 2015 reflecting the reduced margins available following several years of price competition in these areas. Overall, reserve releases were at similar levels to 2015 but with a greater contribution from specialty lines where the prior year releases increased by 77% on 2015. The very strong investment return of 2.0% (2015: 1.3%) compensated for the reduced underwriting contribution.

Premiums

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

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

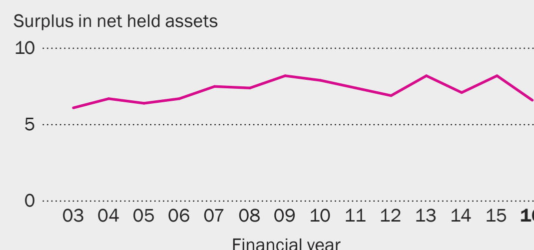
The charts above highlight how we achieve diversification by product mix, geography and type of business.

Reinsurance purchased

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

The amount the group spent on reinsurance in 2016 was $341.6m (2015: $367.8m). The reduced purchases in 2016 were driven by a reduction in our life, accident and health division's reinsurance purchase as a result of the non renewal of one large inward risk and a reduction in our specialty lines division due to business mix and amendments to some of our larger quota shares.

Whole account reserve strength within our target range (%)



Combined ratio

The combined ratio of an insurance company is a measure of its operating performance and represents the ratio of its total costs (including claims and expenses) to total net earned premium. A combined ratio under 100% indicates an underwriting profit. Consistent delivery of operating performance across the market cycle is clearly a key objective for an insurer. Beazley's combined ratio has increased in 2016 to 89% (2015: 87%), but it still maintains our five year historic average below 90%.

Claims

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

Reserve releases

Beazley has a consistent reserving philosophy, with initial reserves being set to include risk margins that may be released over time as and when any uncertainty reduces. Historically these margins have given rise to held reserves within the range 5-10% above our actuarial estimates, which themselves include some margin for uncertainty. The margin held above the actuarial estimate was 6.6% at the end of 2016 (2015: 8.2%). This margin has remained stable over time and is a lead indicator for the sustainability of reserve releases. However, it is important to recognise that claims reserve uncertainty is significant for Beazley and a positive lead indicator will not always equate to future releases.

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

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

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

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

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

Acquisition costs and administrative expenses

Business acquisition costs and administrative expenses increased during 2016 to $719.2m from $663.8m in 2015. The breakdown of these costs is shown below:

	2016 $m	2015 $m
Brokerage costs	390.0	362.8
Other acquisition costs	82.5	85.8
Total acquisition costs	**472.5**	**448.6**
Administrative expenses	246.7	215.2
Total acquisition costs and administrative expenses	**719.2**	**663.8**

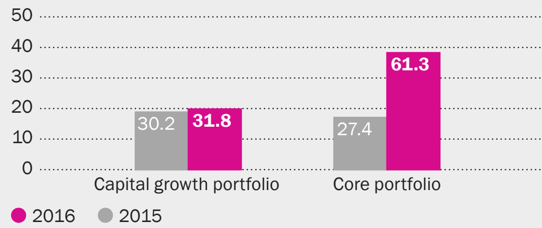
Brokerage costs are the premium commissions paid to insurance intermediaries for providing business. As a percentage of net earned premium they have increased slightly to 22% in the current year (2015: 21%). Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with the group's accounting policy.

Other acquisition costs comprise costs that have been identified as being directly related to underwriting activity (e.g. underwriters' salaries and Lloyd's box rental). These costs are also deferred in line with premium earning patterns.

The group expense ratio has increased 2% over the last three years to 41%. Average brokerage rates have increased 1% and the other half of the increase is in our own internal expenses. On the internal aspects, we continue to invest in developing Beazley and to experience expense ratio pressure in areas of the portfolio where the top line is shrinking due to market conditions. Our careful expense management, together with sterling weakness, have enabled us to contain the increase in expense ratio driven by internal costs to only 1%.

Foreign exchange

The majority of Beazley's business is transacted in US dollar, which is the currency we have reported in since 2010 and the currency in which we hold the group's net assets. Changes in the US dollar exchange rate with sterling, the Canadian dollar and the euro do have an impact as we receive premiums in those currencies and the majority of our staff still receive their salary in sterling. The Beazley Ireland Holdings plc group FX loss taken through the statement of profit or loss in 2016 was $5.7m (2015: loss of $9.7m). The main component of this loss, generated by IFRS's treatment of the unearned premium reserve as a non-monetary item, is purely timing with FX profits and losses which unwind in the subsequent period.



Investment performance

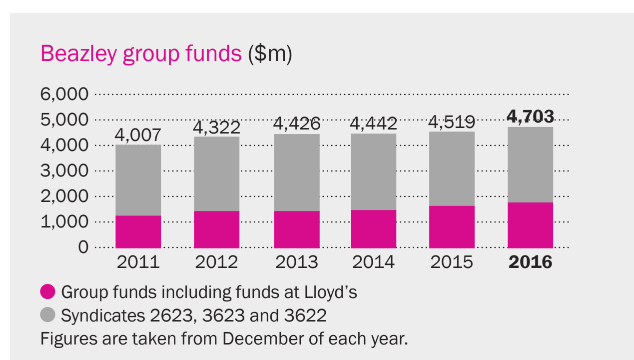
Financial markets experienced another volatile year in 2016. Weak energy prices and concerns about fragile global growth led to significant declines in equity markets and wider credit spreads, particularly for high yield issuers, in January and February. Subsequently, these asset classes recovered their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

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

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

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

Group performance *continued*



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

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

Comparison of return by major asset class:

	31 Dec 2016 $m	31 Dec 2016 %	31 Dec 2015 $m	31 Dec 2015 %
Core portfolio	61.3	1.5	27.4	0.7
Capital growth assets	31.8	5.6	30.2	5.4
Overall return	**93.1**	**2.0**	**57.6**	**1.3**

In 2016, the funds managed by the Beazley group remained in line with the prior year, with financial assets at fair value and cash and cash equivalents of $4,702.6m at the end of the year (2015: $4,519.1m). The chart above shows the increase in our group funds since 2011.

Tax

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

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

Balance sheet management

Summary statement of financial position

	2016 $m	2015 $m	Movement %
Intangible assets	96.6	91.0	6%
Reinsurance assets	1,082.1	1,099.7	(2%)
Insurance receivables	795.0	732.7	9%
Other assets	331.8	302.9	10%
Financial assets at fair value and cash and cash equivalents	4,702.6	4,519.1	4%
Total assets	**7,008.1**	**6,745.4**	**4%**
Insurance liabilities	4,657.7	4,586.7	2%
Financial liabilities	363.8	247.3	47%
Other liabilities	516.0	470.0	10%
Total liabilities	**5,537.5**	**5,304.0**	**4%**
Net assets	**1,470.6**	**1,441.4**	**2%**

Intangible assets

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

Reinsurance assets

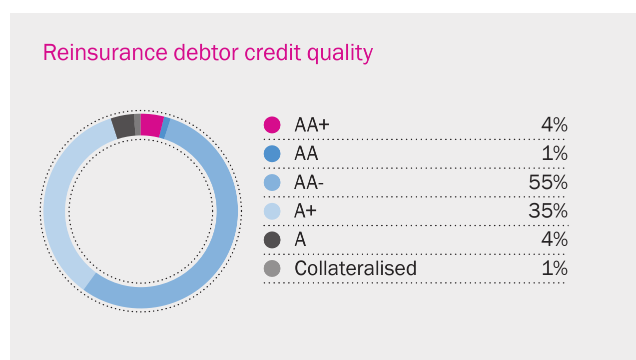
Reinsurance assets represent recoveries from reinsurers in respect of incurred claims of $853.9m, and the unearned reinsurance premiums reserve of $228.2m. The reinsurance receivables from reinsurers are split between recoveries on claims paid or notified of $201.8m and an actuarial estimate of recoveries on claims that have not yet been reported of $652.1m. The group's exposure to reinsurers is managed through:

- minimising risk through selection of reinsurers who meet strict financial criteria (e.g. minimum net assets, minimum 'A' rating by S&P). These criteria vary by type of business (short vs medium tail). The chart on page 36 shows the profile of these assets (based on their S&P rating) at the end of 2016;
- timely calculation and issuance of reinsurance collection notes from our ceded reinsurance team; and
- regular monitoring of the outstanding debtor position by our reinsurance security committee and credit control committee.

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

Group performance *continued*

Reinsurance debtor credit quality



Insurance receivables

Insurance receivables are amounts receivable from brokers in respect of premiums written. The balance at 31 December 2016 was $795.0m (2015: $732.7m).

Other assets

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

- deferred acquisition costs of $242.8m;
- profit commissions of $15.2m; and
- deferred tax assets available for use against future taxes payable of $11.0m.

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

Insurance liabilities

Insurance liabilities of $4,657.7m consist of two main elements, being the unearned premium reserve (UPR) and gross insurance claims liabilities.

Our UPR has increased by 8% to $1,140.8m. The majority of the UPR balance relates to current year premiums that have been deferred and will be earned in future periods. Current indicators are that this business is profitable.

Gross insurance claims reserves are made up of claims which have been notified to us but not yet paid of $949.5m and an estimate of claims incurred but not yet reported (IBNR) of $2,567.4m. These are estimated as part of the quarterly reserving process involving the underwriters and group actuary. Gross insurance claims reserves are broadly unchanged from 2015 at $3,516.9m.

Financial liabilities

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

- in 2006 we raised £150m of lower tier 2 unsecured fixed rate debt that was payable in 2026 and callable in 2016. In 2012, we bought back a total of £47.3m in two tranches. In 2013 we bought back £26.2m of this debt. In October 2016, the group exercised its first call option and redeemed the remaining outstanding nominal amount of debt of £76.5m.
- a US$18m subordinated debt facility was raised in 2004. This loan is also unsecured and interest is payable at the US$ London interbank offered rate (LIBOR) plus 3.65%. These subordinated notes are due in 2034 and have been callable at the group's option since 2009;
- during September 2012 we issued a sterling denominated 5.375% retail bond under a £250m euro medium term note programme which raised £75m for the group and is due in 2019. This diversified the source and maturity profile of the group's debt financing; and
- in November 2016, Beazley Re dac issued $250m of 5.875% subordinated tier 2 notes due in 2026.

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

Capital structure

Capital structure

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

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

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

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

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

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

	2016 $m	2015 $m
Shareholder's funds	1,470.6	1,441.4
Tier 2 subordinated debt (2026) – recalled in 2016	–	116.9
Tier 2 subordinated debt (2026) – issued in 2016	248.3	–
Retail bond (2019)	94.7	112.3
Long term subordinated debt (2034)	18.0	18.0
	1,831.6	**1,688.6**

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

Capital structure *continued*

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

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

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

Surplus of capital is assessed on a Beazley plc group level. At 31 December 2016, the Beazley plc group had surplus capital of 44% of ECR (on a solvency II basis). Following payment of the second interim dividend of 7.0p and special dividend of 10.0p by Beazley plc, this surplus reduces to 36% compared to our current target range of 15% to 25% of ECR.

Solvency II

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

Solvency capital requirement

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

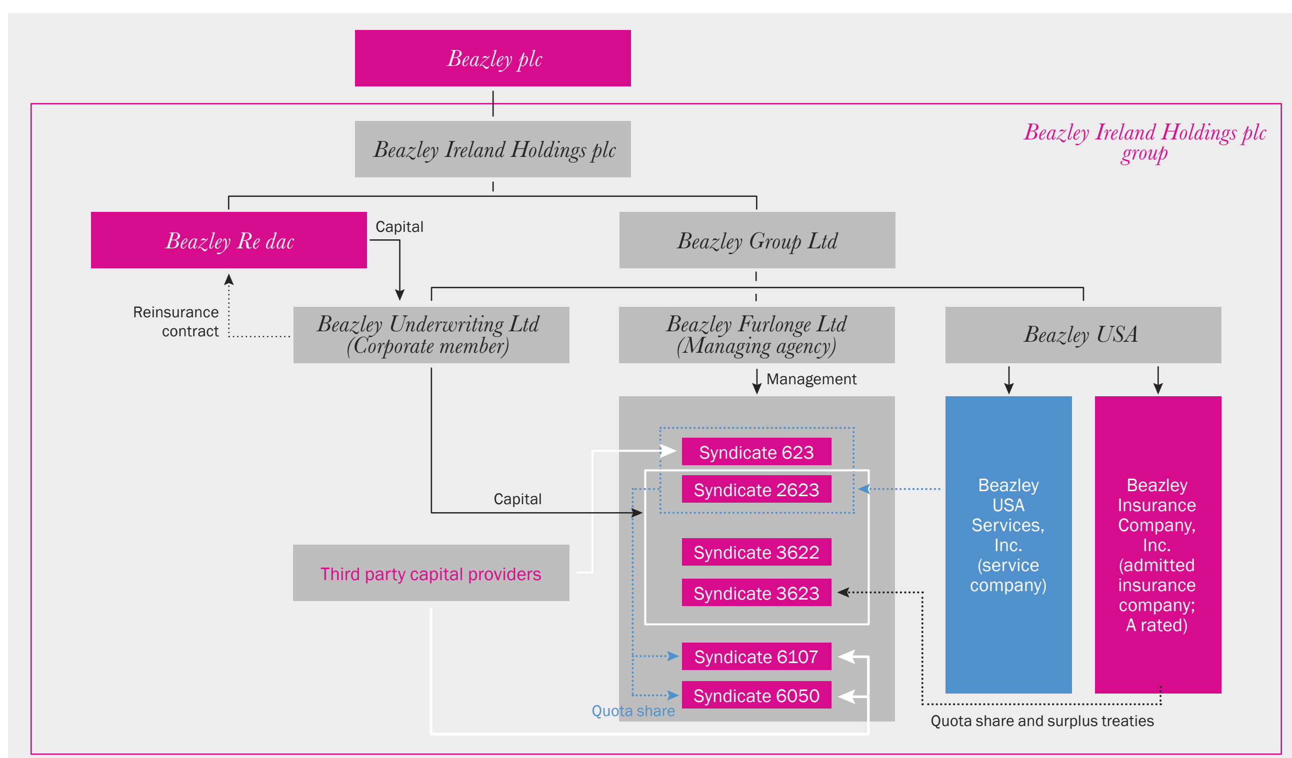
The current SCR has been established using our solvency II approved internal model which has been run within the regime as prescribed by Lloyd's. In order to perform the capital assessment, we have made significant investments in both models and process:

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

Group structure

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

- Beazley Ireland Holdings plc – intermediate holding company within the Beazley plc group which holds £75m sterling denominated notes;
- Beazley Underwriting Limited – corporate member at Lloyd's writing business through syndicates 2623, 3622 and 3623;
- Beazley Furlonge Limited – managing agency for the six syndicates managed by the group (623, 2623, 3622, 3623, 6107 and 6050);
- Beazley Re dac – reinsurance company that accepts reinsurance premiums ceded by the corporate member, Beazley Underwriting Limited;
- Syndicate 2623 – corporate body regulated by Lloyd's through which the group underwrites its general insurance business excluding accident & life. Business is written in parallel with syndicate 623;
- Syndicate 623 – corporate body regulated by Lloyd's which has its capital supplied by third-party names;
- Syndicate 6107 – special purpose syndicate writing reinsurance business, and from 2017 cyber, on behalf of third-party names;
- Syndicate 3622 – corporate body regulated by Lloyd's through which the group underwrites its life insurance and reinsurance business;
- Syndicate 3623 – corporate body regulated by Lloyd's through which the group underwrites its personal accident and BICI reinsurance business;
- Syndicate 6050 – special purpose syndicate which has its capital provided by third-party names and provides reinsurance to syndicates 623 and 2623;
- Beazley Insurance Company, Inc. (BICI) – insurance company regulated in the US. Licensed to write insurance business in all 50 states; and
- Beazley USA Services, Inc. (BUSA) – managing general agent based in Farmington, Connecticut. Underwrites business on behalf of Beazley syndicates and BICI.



Operational update

Technology innovation, data analytics, and our ability to scale operationally are key to our business growth.

The group continues to demonstrate profitable growth, and we have developed a diversified portfolio of products that are distributed globally, through 27 locations. To support this growth we have developed a scalable and efficient operating platform that through focused investment has become an important competitive advantage.

A high performing global operations function relies on us maintaining consistency in operational standards throughout the group, while, simultaneously, being prepared to try new things and leverage our depth of insurance operations expertise to give us a lead over the competition. In order to achieve this, we pursue our group operations strategy. This has five areas of focus:

Supporting growth initiatives

In support of our strategic growth initiatives such as in the US, Europe, and Asia Pacific, we have continued to enhance our infrastructure so that we can bring attractive new products to market as efficiently as possible. Enhanced event cancellation cover and professional indemnity cover for design-build contractors are examples of two new types of insurance that we launched in 2016.

We also continue to explore new ways to improve access to our specialist products. In 2016, we launched more products on our core e-trading platform, myBeazley.com. This included marine pleasure craft, professional indemnity, and event cancellation products in both the UK and US. We also developed new business-to-business-to-consumer or 'B2B2C' electronic trading products through myBeazley.com. Solutions like this make it easier for brokers to market our products to the end customer, and also increase the efficiency of the end-to-end insurance placement process. Our electronic distribution strategy also includes the rollout of online pricing tools that enable our brokers to quickly price risks for newer types of specialty coverage, such as within the cyber insurance market. These tools have been instrumental in growing our market share whilst also making it quicker for brokers to get risks priced for their customers.

Supporting business growth relies on effective processes and systems, but it is also important that we have a high quality working environment that is conducive to team working and thought leadership. Our offices are open plan, bright and airy with a style and consistency that supports our global brand. We strive to get the best quality working space at the best lease and facility cost. In 2016, we opened a new office in Miami that will help us to access both Latin American reinsurance business and US insurance business. We also opened a new office in Houston, Texas where our specialty lines underwriters are already growing market share. We further opened a larger office in Atlanta, Georgia – to accommodate underwriting team growth and to provide space for a second US shared service support centre. This support centre will enable us to better load balance operational support alongside our primary support centre in Farmington, Connecticut. In Europe, we have moved to a new office in Paris to accommodate our broadening portfolio of products and new underwriting hires.

Cost efficiency

The group 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. In 2016, we progressed two new 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.

This year we also continued to increase the amount of process automation in our back-office for our higher volume products in the US and Europe. Our investment in process automation is key to supporting increased transaction volumes and revenue, without having to scale up our expense base. Much of our technology architecture uses software components that can be reused across our global platforms, so technology we have built to service our US market is also being used to service our European market, and vice versa. This approach to technology development means we can minimise duplication in implementation cost, and also means we are able to introduce technology solutions that have been successful in one market to another.

Managing operational risk effectively

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

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

This year we completed the final phase of our US data centre upgrade. This converted our disaster recovery capability to an 'active-active' configuration. This means if one of our data centres should go offline, such as in the event of a major natural disaster, then another data centre will automatically kick-in and keep our systems running with no noticeable change to our users. In an age where customers expect a high degree of service availability and response time, this type of platform investment could be critical.

Enabling product and service innovation

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

A continuing focus for us has been strengthening our ability to take new product ideas more quickly from the drawing board to the underwriting stamp. We have built dedicated teams in both London and the US to coordinate the product innovation process, and then to bring all the operational components together for a successful market launch. In advance of further expansion in Europe, such as for financial institutions business, we have been further extending our product delivery capability by working with our outsourcing partners to give additional scale.

In order to encourage more idea development from all Beazley employees, we launched a new 'BHive' collaboration app. This tool enables employees to upload new innovation ideas or contribute to other people's ideas whilst on the move, using their mobile devices. For this app we won the Lloyd's Innovation Award for the second year running, and it reaffirms our commitment to driving innovation across Beazley.

A good technology idea is only of value if we can apply it to a business problem or opportunity. With this in mind, in 2016, we launched a new programme of work called Beazley Labs. This focuses specifically on applying emerging technologies to our business products and services, with a view to converting technology ideas into specialist insurance revenue opportunities. Beazley Labs has begun with a series of organised sessions that bring together technology specialists both from within Beazley and from external partners, along with specialist underwriters, in order to quickly prototype technology ideas for business application. Initial areas of focus have been on supporting underwriting and claims decisions with artificial intelligence, processing using robotics, and mapping insurance exposures using marine cargo tracking data.

Managing for performance

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

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

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

Looking ahead

Three areas of focus for 2017 are, firstly, continuing to increase our ability to efficiently scale up operational support in areas where we see greatest growth potential and margin. Secondly, continuing to research and develop innovative ways to get our products to the customer. Working closely with our broker partners, we want to continue to make best use of technology and data insight to maximise the efficiency of getting the most appropriate insurance cover for our customers. Thirdly, using innovating specialist underwriting data is a Beazley strategic initiative – next year will see the implementation of several projects in this space including the rollout of a new data analytics capability for our teams that will bring together our own internal data and the wealth of externally available data using third party specialists.

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

Risk management

Good design supports informed decision making.

Design of our risk management framework

Given the 'beautifully designed' theme of this year's report and accounts, it is an opportune time to explain the key principles that were used in the design of the risk management framework:

- Simple and accessible: The first principle is that the risk management framework is simple to operate and easy to understand. Without this, the framework would not be used widely and would be of little value to the Beazley plc board in overseeing the business. It is true that simplicity is the ultimate form of sophistication;
- Risk coverage: The risk management framework covers the complete risk universe. If the management of risk is restricted to say the top ten risks, it will inevitably be the eleventh or twelfth risks that cause problems;
- Relevant information: There is a balance to be sought in the calibration of the risk management information reported. If the calibration is too sensitive, issues will be constantly reported and the Beazley plc board will struggle to distinguish between what is important and what is just background noise. If the calibration is not sensitive enough, then the board will not have sight of the important issues and will incorrectly believe everything is fine. At Beazley, the reporting is focussed on managing within the risk appetite established by the Beazley plc board;
- Consolidated view: The Beazley plc board receives a consolidated view free of unnecessary contradiction. The consolidated assurance report at Beazley brings together the perspective of the business and the perspective of the assurance functions of compliance, risk management and internal audit in order to provide the Beazley plc board with a holistic view of the risk and control landscape. In addition, the design of the risk management framework aligns with the way that internal audit undertake their reviews and report their findings; and
- Decision making: The risk management framework and its associated reports support informed decision making and help steer the business.

Good design should be intuitive and effortlessly achieve the desired outcome. In 2016, the Beazley plc board completed the first detailed review of the current design of the risk management framework since its implementation in 2010. The result of this review has been just a few fine tuning adjustments as the framework has been demonstrated to be meeting these design principles over the past seven years and has coped well with the continued growth and evolution of the business.

2016 in review

A key change to the risk environment in 2016 was the outcome of the UK referendum in June to leave the European Union. A risk review had been performed prior to the vote in order to assess the potential impact of either outcome. Given Beazley's insurance risk profile, the premium at risk if Lloyd's licences were no longer to be applicable in Europe is relatively low at less than 5%. Therefore, the main short term risks identified for Beazley were asset volatility and exchange rate fluctuations and steps were undertaken prior to the vote to mitigate these risks. Our experience in the period since the referendum has shown that this assessment turned out to be correct and in particular, a weaker sterling has provided a tailwind for us as a dollar denominated company with sterling expenses and dollar profit which is worth more for sterling based investors. Nevertheless, we have established a project team to oversee developments and support Lloyd's activity to ensure that market participants can continue to trade in Europe in an efficient way.

More recently in November, another key change was the outcome of the US election which delivered a Republican Presidency, Senate and House of Representatives. Given the importance of the US to Beazley's business, we are actively monitoring the risk environment and any emerging opportunities and risks to Beazley's US business as policies are implemented by the newly elected government.

Earlier in the year, the specialty lines division had embarked on developing Europe and the Rest of the World to complement existing distribution at Lloyd's and in the US for its products. This involved an application to change the Beazley Re dac licence in Ireland to include an insurance licence in addition to the existing reinsurance licence. A secondary benefit of this application is to be able to offer insurance to our European clients in the event that a Lloyd's licence cannot be utilised, or to provide our European clients with a choice of using either Lloyd's security or locally capitalised security. The risk management team undertook a transactional ORSA (Own Risk and Solvency Assessment) to provide assurance that the risk management framework will evolve appropriately as Beazley's Irish company starts to underwrite both insurance and reinsurance business.

Risk management completed a transactional ORSA which considered the associated risks, including related to regulatory, legal and tax, arising from the transfer of management of the Beazley plc group from Dublin to London which was completed on 13 April 2016. Another transactional ORSA was also written for the debt issuance that completed on 4 November 2016 which can be used to support underwriting opportunities from both the US and the specialty lines international initiative.

The challenging market conditions have remained a key risk for the group in 2016 and careful cycle management was required to navigate the classes of business experiencing the most rating pressure and to optimise the areas of opportunity. The ability of the group's underwriters to segment their classes and understand the relative risk and reward dynamics is a key way this risk is mitigated and members of the risk and capital teams have supported underwriting teams in this activity during 2016.

Premium from our market leading cyber product, Beazley Breach Response, continues to grow as new clients purchase this valuable and innovative product. As planned, we have added to our suite of realistic disaster scenarios and have updated the assumptions of existing scenarios to reflect our current understanding of how an aggregated claims event might occur. Given that we have yet to actually observe an aggregated claims event, there is little data available to assist with this modelling. As such, we continue to use external technical expertise to supplement our own views of how such an event could unfold. The scenarios are compared against our risk appetite to ensure that growth in this area remains appropriate within the group's diversified portfolio of other risk types. It is clear that this area continues to evolve at a relatively fast pace which warrants such regular review and oversight.

Risk management facilitated a discussion of emerging and strategic risks at the Beazley plc strategy day in May. The discussion focused on four topics, namely; the commoditisation of insurance, disintermediation, being the last independent company at Lloyd's and the impact of a global recession. The analysis performed by Beazley plc board members and the ensuing discussion provided an opportunity to test how the Beazley plc group's strategy may have to evolve if these risks were to emerge.

An important element of risk management's role is to work with staff across the business to better understand the practical challenges facing our business. During 2016, members of the Beazley plc risk management team visited Beazley offices in the US, Europe, and Asia to identify how we can improve what we do and to observe how the Beazley culture ensures our staff do the right thing.

In 2016 we had a number of employees take advantage of our sabbatical programme. Risk management have supported the business to test that, where necessary, adjustments to roles and responsibilities are considered. In addition to recognising a ten year career at Beazley, the sabbatical programme has also benefited teams and individuals supporting those on sabbatical with opportunities to expand their roles, challenge existing processes, and in some cases, reduce exposure to key personnel risk.

The risk management report to the Beazley plc remuneration committee is now in its sixth year. The analysis reported confirmed that the design of remuneration at Beazley is driving appropriate behaviour. The main enhancement made this year has been to review a suite of risk metrics in order to provide assurance that senior members of staff were managing risk in an appropriate manner.

This year represents the first year of operating within the new solvency II regime with our internal model approved by the Central Bank of Ireland. The extensive work undertaken by the capital modelling team in the pre-application stages to design how processes should operate has resulted in a robust yet efficient framework that delivers a valued capital model which is parametrised to reflect the reality of the business, is updated to reflect the evolution of the business, is validated to provide assurance that its design and parametrisation is appropriate and so is used across the group to support business processes and inform the Beazley plc board on how risk is changing. We have continued to use an external consultancy to provide independent challenge which has supported the production of a detailed validation report to the Beazley plc board. This report, coupled with a programme of regular and tailored director briefings ensure that the internal model is understood. During 2016 Beazley plc board has welcomed new directors and have benefited from their fresh perspective on managing risk and capital to ensure that our approach remains fit for purpose in identifying, managing and mitigating risk we may face in the future.

Although risk appetite is established with reference to earnings volatility, there are a number of risks that do not necessarily have a direct financial consequence. Instead, for example, there may be a reputational impact. We have experienced this year that the qualitative risk appetite statements introduced in 2015 have helped business functions prioritise activity within their teams to ensure that necessary activity is undertaken in a timely manner in order to operate as the Beazley plc board expects.

The latest chief risk officer report to the Beazley plc board confirmed that the control environment has not identified any significant failings or weaknesses in key processes and that the group is operating within risk appetite as at 31 December 2016.

Risk management philosophy

The group'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 Beazley plc board. In addition, our risk management processes are designed to continuously monitor our risk profile against risk appetite and to exploit opportunities as they arise.

Risk management strategy

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

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

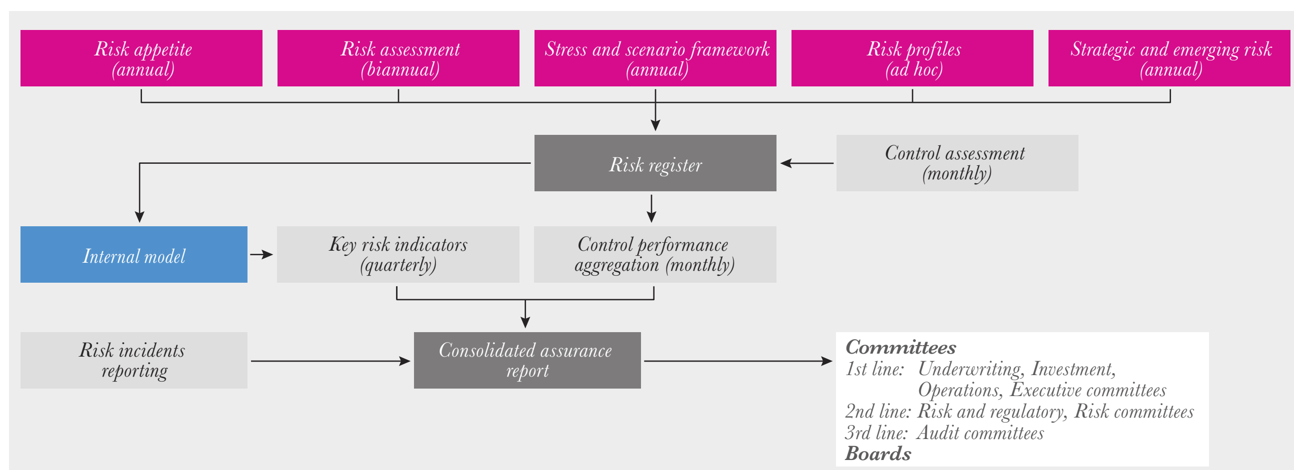
- risk management is a part of the wider governance environment;
- techniques employed are fit for purpose and proportionate to the business;
- risk management is a core capability for all employees;
- risk management is embedded in day-to-day activities;
- there is a culture of risk awareness, in which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

Risk management framework

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

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

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



In summary, the Beazley plc 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 reports on how well the business is operating using a consolidated assurance report. For each risk, the consolidated assurance report brings together a view of how successfully the business is managing risk, qualitative commentary from the assurance functions and whether there have been any events that we can learn from (risk incidents). Finally, the framework is continually improved, through the consideration of stress and scenario testing, themed reviews using risk profiles and an assessment of strategic and emerging risks.

A suite of risk management reports are produced. The risk reports include the risk appetite statement, the consolidated assurance report, risk profiles, stress and scenario testing, reverse stress testing, an emerging and strategic report, a report to the remuneration committee and the ORSA report.

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

The risks to financial performance

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

Insurance risk

Given the nature of the group'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, this could be a hurricane, major windstorm or earthquake. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.
- **Non natural catastrophe risk:** This risk is similar to natural catastrophe risk except that multiple losses arise from one event caused by mankind. Given the group's risk profile, examples include a coordinated cyber attack, an act of terrorism, an act of war or a political event. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.
- **Reserve risk:** The group has a consistent and conservative reserving philosophy. However, there is a risk that the reserves put aside for expected losses turn out to be insufficient. This could be due to any of the three drivers of risk described above. The group uses a range of techniques to mitigate this risk including a detailed reserving process which compares, claim by claim, estimates established by the claims team with a top down statistical view developed by the actuarial team. A suite of metrics is also used to ensure consistency each year.
- **Single risk losses:** Given the size of policy limits offered on each risk, it is unlikely that the poor performance of one policy will have a material impact on the group's financial performance.

Strategic risk

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

- **Strategic decisions:** The group's performance would be affected in the event of making strategic decisions that do not add value. The group mitigates this risk through the combination of recommendations and challenge from non-executive directors, debate at the executive committee and input from the strategy and performance group (a group of approximately 35 senior individuals from across different disciplines at Beazley).
- **Environment**: There is a risk that the chosen strategy cannot be executed because of the current environmental conditions within which the group operates, thereby delaying the timing of the strategy.
- **Communication:** Having the right strategy and environment is of little value if it is not communicated internally so that the whole group is heading in the same direction, or if key external stakeholders are not aware of the group's progress against its strategy.

The risks to financial performance *continued*

- **Senior management performance:** There is a risk that senior management is overstretched or does not perform, which would have a detrimental impact on the group's performance. The performance of the senior management team is monitored by the CEO of Beazley plc 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. The group expects its staff to act honourably (one of seven ingredients of Being Beazley) by doing the right thing.
- **Flight risk:** There is a risk that the group is unable to deliver its strategy due to the loss of key personnel. The group 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 the group undertakes a corporate transaction which does not return the expected value to shareholders. This risk is mitigated through the due diligence performed, the financial structure of transactions and the implementation activity.

Under the environmental risk heading, the Beazley plc board identifies and analyses emerging and strategic risk on an annual basis for discussion at the Beazley plc 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 is adversely impacted by movements in interest rates, exchange rates, default rates or external market forces. This risk is monitored by the investment committee.
- **Operational risk:** This risk is the failure of people, processes and systems or the impact of an external event on Beazley's operations, and is monitored by the operations committee.
- **Credit risk:** Beazley has credit risk to its reinsurers, brokers and coverholders of which the reinsurance asset is the largest. The underwriting committee monitors this risk.
- **Regulatory and legal risk:** This is the risk that Beazley does not operate in line with the relevant regulatory framework in the territories where it operates. Of the eight risk categories, the board has the lowest tolerance for this risk. This risk is monitored by the risk and regulatory committee.
- **Liquidity risk:** This is the risk that the group does not have sufficient liquid funds following a catastrophic event. The investment committee monitors this risk which, given the nature of the asset portfolio, is currently small.
- **Group risk:** The structure of the group is not complex and so the main group risk is that one group entity operates to the detriment of another group entity or entities. Although this risk is currently small, the Beazley plc board monitors this risk through the reports it receives from each entity.

Directors' report

The directors have pleasure in presenting their report and the audited financial statements of the group for the year ended 31 December 2016.

Principal activity

Beazley Ireland Holdings plc is the parent company of Beazley Group Limited, which is the intermediate holding company for the majority of the subsidiaries of the Beazley group.

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

Management report

The directors' report, together with the strategic report on pages 1 to 48 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 52.

Review of business

A more detailed review of the business for the year and a summary of future developments are included in the 2016 in review, underwriting review and the financial review sections of this report.

Results and dividends

The consolidated profit before taxation for the year ended 31 December 2016 amounted to $298.9m (2015: $284.0m).

A 2015 second interim and special dividend totalling £129.1m ($188.2m) was paid in March 2016. At this time, Beazley Ireland Holdings plc was the ultimate holding company of the Beazley group. A 2016 first interim dividend of £18.2m ($24.0m) was paid to the company's immediate parent company, Beazley plc, on 12 August 2016. On 3 March 2017 the directors declared a 2016 second interim dividend of £90m ($110.3m) payable to Beazley plc.

Going concern

A review of the financial performance of the group is set out on pages 29 to 39. 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.

Directors

The directors of the company who served during 2016 and/or to the date of this report were as follows:

Dennis Holt	Non-executive chairman (resigned - 13/07/2016)
David Andrew Horton	Chief executive (resigned - 13/07/2016)
George Patrick Blunden	Non-executive director (resigned - 13/07/2016)
Martin Lindsay Bride	Finance director (resigned - 13/07/2016)
Adrian Peter Cox	Director (resigned - 13/07/2016)
Angela Doreen Crawford-Ingle	Non-executive director (resigned - 13/07/2016)
Sir John Andrew Likierman	Non-executive director (resigned - 13/07/2016)
Neil Patrick Maidment	Director (resigned - 13/07/2016)
Padraic Joseph O'Connor	Non-executive director (resigned 24/03/2016)
Vincent Joseph Sheridan	Non-executive director (resigned 13/07/2016)
Rolf Albert Wilhelm Tolle	Non-executive director (resigned 11/03/2016)
Clive Andrew Washbourn	Director (resigned - 13/07/2016)
Catherine Marie Woods	Non-executive director (resigned - 13/07/2016)
Christopher Carl Whitmore Jones	Director (appointed - 23/08/2016)
Niall Peter Lillis	Director (appointed - 13/07/2016)
Edward Joseph McGivney	Director (appointed - 13/07/2016)
Christine Paula Oldridge	Director (appointed - 23/08/2016)

Company secretary

The company secretaries of the company who served during 2016 and/or to the date of this report were as follows:

Sian Annette Coope	Company secretary (resigned - 01/09/2016)
Christine Paula Oldridge	Company secretary (appointed - 01/09/2016)

Donations

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

Risk management
The group's approach to risk management is set out on pages 43 to 48 and further detail is contained in note 2 to the financial statements on pages 72 to 85.

Recent developments and post balance sheet events
Recent developments and post balance sheet events are given in note 33 in the financial statements on page 121.

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.

Share capital
The company has ordinary shares in issue. Ordinary shares therefore represent 100% of the total issued share capital as at 31 December 2016 and 6 April 2017. Details of the movement in ordinary share capital during the year can be found in note 21 on page 103.

Auditors
KPMG have indicated their willingness to continue in office. Accordingly, a resolution to reappoint KPMG as auditors of the company is proposed.

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

By order of the board, covering the strategic report from pages 1 to 48 and the directors' report from pages 49 to 51.

N Lillis
Director
2 Northwood Avenue
Northwood Park
Santry Demesne
Santry
Dublin 9 Ireland

6 April 2017

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies (Jersey) Law 1991. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in Jersey 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

In accordance with the Disclosure and Transparency Rules of Financial Conduct Authority, each of the Directors, whose names are set out on page 50 confirms that to the best of his/her 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.

E McGivney
Director

N Lillis
Director

6 April 2017

Independent auditor's report to the members of Beazley Ireland Holdings plc

Opinions and conclusions arising from our audit

We have audited the group financial statements of Beazley Ireland Holdings plc (the "company") for the year ended 31 December 2016 which comprise the Consolidated statement of profit or loss, the Group and Company statement of comprehensive income, the Group and Company statement of changes in equity, the Group and Company statements of financial position and the Group and Company statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union ('EU').

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the 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.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 52, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2016 and of the group's and the parent company's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the EU;
- the financial statements have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Stuart Crisp (Senior Statutory Auditor)
for and on behalf of
KPMG LLP, Statutory Auditor
Chartered Accountants, Recognised Auditor
15 Canada Square
London
E14 5GL

6 April 2017

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Consolidated statement of profit or loss

for the year ended 31 December 2016

	Notes	2016 $m	2015 $m
Gross premiums written	3	2,195.6	2,080.9
Written premiums ceded to reinsurers		(341.6)	(367.8)
Net premiums written	3	**1,854.0**	**1,713.1**
Change in gross provision for unearned premiums		(83.4)	(57.4)
Reinsurer's share of change in the provision for unearned premiums		(2.4)	43.0
Change in net provision for unearned premiums		**(85.8)**	**(14.4)**
Net earned premiums	3	**1,768.2**	**1,698.7**
Net investment income	4	93.1	57.6
Other income	5	32.7	30.9
		125.8	**88.5**
Revenue		**1,894.0**	**1,787.2**
Insurance claims		1,027.3	974.1
Insurance claims recoverable from reinsurers		(171.7)	(160.2)
Net insurance claims	3	**855.6**	**813.9**
Expenses for the acquisition of insurance contracts	3	472.5	448.6
Administrative expenses	3	246.7	215.2
Foreign exchange loss	3	5.7	9.7
Operating expenses		**724.9**	**673.5**
Expenses	3	**1,580.5**	**1,487.4**
Share of loss in associates	14	(0.2)	(0.5)
Results of operating activities		**313.3**	**299.3**
Finance costs	8	(14.4)	(15.3)
Profit before income tax		**298.9**	**284.0**
Income tax expense	9	(42.9)	(35.0)
Profit for the year attributable to equity shareholders		**256.0**	**249.0**

Statement of comprehensive income

for the year ended 31 December 2016

	2016 $m	2015 $m
Group		
Profit for the year attributable to equity shareholders	256.0	249.0
Other comprehensive income		
Items that will never be reclassified to profit or loss:		
(Loss)/gain on remeasurement of retirement benefit obligations	(6.1)	0.3
Items that may be reclassified subsequently to profit or loss:		
Foreign exchange translation differences	(10.1)	(1.6)
Total other comprehensive income	(16.2)	(1.3)
Total comprehensive income recognised	**239.8**	**247.7**

Statement of comprehensive income

for the year ended 31 December 2016

	2016 $m	2015 $m
Company		
Profit for the year attributable to equity shareholders	41.2	379.7
Write-off of intercompany distribution due	(17.4)	–
Total comprehensive income recognised	**23.8**	**379.7**

Statement of changes in equity

for the year ended 31 December 2016

	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 2015		**41.6**	**12.0**	**(85.7)**	**(32.1)**	**1,406.9**	**1,342.7**
Total comprehensive income recognised		–	–	(1.6)	–	249.3	247.7
Dividends paid	11	–	–	–	–	(164.2)	(164.2)
Equity settled share based payments	22	–	–	–	17.5	–	17.5
Acquisition of own shares in trust	22	–	–	–	(3.9)	–	(3.9)
Transfer of shares to employees	22	–	–	–	9.8	(8.2)	1.6
Balance at 31 December 2015		**41.6**	**12.0**	**(87.3)**	**(8.7)**	**1,483.8**	**1,441.4**
Total comprehensive income recognised		–	–	(10.1)	–	249.9	239.8
Dividends paid	11	–	–	–	–	(212.2)	(212.2)
Issue of shares		0.1	–	–	–	–	0.1
Acquisition of own shares in trust[1]	22	–	–	–	(5.0)	–	(5.0)
Equity settled share based payments[1]	22	–	–	–	3.5	–	3.5
Transfer of shares to employees[1]	22	–	–	–	(1.6)	2.5	0.9
Tax on share option vestings	9	–	–	–	–	2.1	2.1
Scheme of arrangement[2]	22	(4.5)	–	–	4.5	–	–
Reclassification of reserves[3]	22	–	–	–	(3.6)	3.6	–
Balance at 31 December 2016		**37.2**	**12.0**	**(97.4)**	**(10.9)**	**1,529.7**	**1,470.6**

1 All movements shown in relation to share option reserves relate to the period before scheme of arrangement.

2 With effect from 13 April 2016, under a scheme of arrangement involving a share exchange with the members of Beazley Ireland Holdings plc, Beazley plc became the new holding company for the Beazley group.

3 Following the scheme of arrangement, and when Beazley Ireland Holdings plc no longer acted as the ultimate parent company of the Beazley plc group, components of equity related to share reserves were re-classified as retained earnings.

Statement of changes in equity

for the year ended 31 December 2016

	Notes	Share capital $m	Share premium $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Company							
Balance at 1 January 2015		41.6	12.0	(35.9)	(41.3)	695.5	671.9
Total comprehensive income recognised		–	–	–	–	379.7	379.7
Dividends paid	11	–	–	–	–	(164.2)	(164.2)
Equity settled share based payments	22	–	–	–	17.5	–	17.5
Acquisition of own shares in trust	22	–	–	–	(3.9)	–	(3.9)
Transfer of shares to employees	22	–		–	9.8	(8.2)	1.6
Balance at 31 December 2015		**41.6**	**12.0**	**(35.9)**	**(17.9)**	**902.8**	**902.6**
Total comprehensive income recognised		–	–	–	–	23.8	23.8
Dividends paid	11	–	–	–	–	(212.2)	(212.2)
Issue of shares		0.1	–	–	–	–	0.1
Acquisition of own shares in trust[1]	22	–	–	–	(5.0)	–	(5.0)
Equity settled share based payments[1]	22	–	–	–	3.5	–	3.5
Transfer of shares to employees[1]	22	–	–	–	(1.6)	2.5	0.9
Scheme of arrangement[2]	22	(4.5)	–	–	4.5	–	–
Reclassification of reserves[3]	22	–	–	–	(14.4)	14.4	–
Balance at 31 December 2016		**37.2**	**12.0**	**(35.9)**	**(30.9)**	**731.3**	**713.7**

1 All movements shown in relation to share option reserves relate to the period before scheme of arrangement.

2 With effect from 13 April 2016, under a scheme of arrangement involving a share exchange with the members of Beazley Ireland Holdings plc, Beazley plc became the new holding company for the Beazley group.

3 Following the scheme of arrangement, and when Beazley Ireland Holdings plc no longer acted as the ultimate parent company of the Beazley plc group, components of equity related to share reserves were re-classified as retained earnings.

Statements of financial position

as at 31 December 2016

	Notes	2016 Group $m	2016 Company $m	2015 Group $m	2015 Company $m
Assets					
Intangible assets	12	96.6	–	91.0	–
Plant and equipment	13	5.4	0.5	4.5	0.7
Deferred tax asset	27	11.0	–	7.1	–
Investment in subsidiaries	30	–	747.2	–	747.2
Investment in associates	14	9.9	–	10.0	–
Deferred acquisition costs	15	242.8	–	226.2	–
Reinsurance assets	19, 23	1,082.1	–	1,099.7	–
Financial assets at fair value	16	4,195.4	–	3,842.2	–
Insurance receivables	18	795.0	–	732.7	–
Other receivables		46.4	61.6	31.5	249.9
Current income tax asset		16.3	–	23.6	–
Cash and cash equivalents	20	507.2	0.7	676.9	18.4
Total assets		**7,008.1**	**810.0**	**6,745.4**	**1,016.2**
Equity					
Share capital	21	37.2	37.2	41.6	41.6
Share premium		12.0	12.0	12.0	12.0
Foreign currency translation reserve		(97.4)	(35.9)	(87.3)	(35.9)
Other reserves	22	(10.9)	(30.9)	(8.7)	(17.9)
Retained earnings		1,529.7	731.3	1,483.8	902.8
Total equity		**1,470.6**	**713.7**	**1,441.4**	**902.6**
Liabilities					
Insurance liabilities	23	4,657.7	–	4,586.7	–
Financial liabilities	16, 24	363.8	94.7	247.3	112.3
Retirement benefit liability	26	6.2	–	0.7	–
Deferred tax liabilities	27	12.8	–	6.0	–
Other payables	25	497.0	1.6	463.3	1.3
Total liabilities		**5,537.5**	**96.3**	**5,304.0**	**113.6**
Total equity and liabilities		**7,008.1**	**810.0**	**6,745.4**	**1,016.2**

The financial statements were approved by the board of directors on 6 April 2017 and were signed on its behalf by:

E McGivney
Director

N Lillis
Director

6 April 2017

Statements of cash flows

for the year ended 31 December 2016

	Notes	2016 Group $m	2016 Company $m	2015 Group $m	2015 Company $m
Cash flow from operating activities					
Profit before income tax		**298.9**	**23.8**	**284.0**	**379.7**
Adjustments for:					
Amortisation of intangibles	12	5.3	–	5.0	–
Equity settled share based compensation	22	3.1	3.1	17.5	17.5
Net fair value (gain)/loss on financial assets		(28.9)	–	3.0	–
Share of loss in associates	14	0.2	–	0.5	–
Depreciation of plant and equipment	13	1.8	0.2	2.1	0.2
Impairment of reinsurance assets written back	6	(1.1)	–	–	–
Increase in insurance and other liabilities		85.1	(17.3)	235.7	(4.2)
Increase in insurance, reinsurance and other receivables		(59.5)	188.3	(203.5)	(209.5)
Increase in deferred acquisition costs		(16.6)	–	(3.5)	–
Financial income	4	(71.5)	–	(70.8)	–
Financial expense	8	14.4	7.7	15.3	6.8
Income tax paid		(39.8)	–	(89.8)	–
Net cash from operating activities		**191.4**	**205.8**	**195.5**	**190.5**
Cash flow from investing activities					
Purchase of plant and equipment	13	(2.9)	–	(2.5)	–
Expenditure on software development	12	(4.7)	–	(5.0)	–
Purchase of investments		(5,985.4)	–	(3,659.7)	–
Proceeds from sale of investments		5,666.0	–	3,892.2	–
Investment in associate	14	(0.1)	–	–	–
Acquisition of renewal rights	12	(8.0)	–	–	–
Interest and dividends received	4	71.5	–	70.8	–
Net cash (used in)/from investing activities		**(263.6)**	–	**295.8**	**–**
Cash flow from financing activities					
Acquisition of own shares in trust	22	(5.0)	(5.0)	(3.9)	(3.9)
Repayment of borrowings	24	(107.1)	–	–	–
Proceeds from debt issue	24	248.7	–	–	
Interest paid		(14.4)	(7.7)	(15.3)	(6.8)
Dividends paid		(212.2)	(212.2)	(164.2)	(164.2)
Net cash used in financing activities		**(90.0)**	**(224.9)**	**(183.4)**	**(174.9)**
Net (decrease)/increase in cash and cash equivalents		**(162.2)**	**(19.1)**	**307.9**	**15.6**
Cash and cash equivalents at beginning of year		676.9	18.4	364.2	1.2
Effect of exchange rate changes on cash and cash equivalents		(7.5)	1.4	4.8	1.6
Cash and cash equivalents at end of year	20	**507.2**	**0.7**	**676.9**	**18.4**

Notes to the financial statements

1 Statement of accounting policies

Beazley Ireland Holdings plc (registered number 102680) is a company incorporated in Jersey and domiciled in Ireland. The company's registered address is 2 Northwood Avenue, Northwood Park, Santry Demesne, Santry, Dublin 9, Ireland. The group financial statements for the year ended 31 December 2016 comprise the parent company, its subsidiaries and the group's interest in associates. The principal activity of the company and its subsidiaries ('the group') is to participate as a specialist insurer which transacts primarily in commercial lines of business through its subsidiaries and through Lloyd's syndicates.

The financial statements of the parent company, Beazley Ireland Holdings plc, and the group financial statements have been prepared and approved by the directors in accordance with IFRSs as adopted by the EU ('Adopted IFRSs'). On publishing the parent company financial statements together with the group financial statements, the company is taking advantage of the exemption in s105 of the Companies (Jersey) Law 1991 not to present its individual statement of profit or loss and related notes that form a part of these approved financial statements.

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

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

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

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

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

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

- IFRS 2: Amendment: Classification and measurement of share-based payment transactions (IASB effective date: 1 January 2018);
- IFRS 9: Financial instruments (IASB effective date: 1 January 2018);
- IFRS 15: Revenue from contracts with customers (EU effective date: 1 January 2018);
- IFRS 16: Leases (IASB effective date: 1 January 2019);
- IAS 7: Amendment: Disclosure Initiative (IASB effective date: 1 January 2017); and
- IAS 12: Amendment: Recognition of deferred tax assets for unrealised losses (IASB effective date: 1 January 2017).

1 Statement of accounting policies *continued*

Of the upcoming accounting standard changes that we are aware of, we anticipate that IFRS 9 and IFRS 15 will have the most material impact on the financial statements' presentation and disclosures. The accounting developments and implementation timelines of these standards are being closely monitored and the impacts of the standards themselves are being monitored. Full impact analysis in respect of these standards is in the process of being completed. A brief overview of these standards is provided below:

- IFRS 9 provides a reform of financial instruments accounting to supersede IAS 39: Financial instruments: recognition and measurement. The standard contains the requirements for a) the classification and measurement of financial assets and liabilities; b) a new impairment methodology, and c) general hedge accounting. During 2016, the IASB confirmed that the effective date of IFRS 17 'Insurance Contracts' will be 1 January 2021. The IASB also amended IFRS 4 to permit certain entities/groups that issue insurance contracts within the scope of IFRS 4 to defer application of IFRS 9 (Financial instruments) until accounting periods beginning on or after 1 January 2021 (the deferral approach), in order to align with IFRS 17 implementation. This option is subject to the entity/group meeting criteria relating to the predominance of insurance activity. Beazley expects to be eligible to apply this deferral approach and intends to do so, thus IFRS 9 is not expected to impact the group's financial statements until accounting periods beginning on or after 1 January 2021.
- IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue from contracts with customers. Revenue from contracts accounted for under IFRS 4 'Insurance contracts' is outside the scope of IFRS 15. However, the group will have to apply the new revenue recognition standard to non-insurance contracts. Furthermore, the group may have to apply the new standard to non-insurance components of contracts traditionally considered to be insurance contracts. The new standard's requirement for accounting for variable consideration could change the timing of revenue recognition for non-insurance contracts issued by the group.

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

Change of parent company in the Beazley plc group

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

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

The comparative figures presented in these financial statements for the financial year ended 31 December 2015 are extracted from the group financial statements of Beazley Ireland Holdings plc (formerly Beazley plc) for that financial year. Those financial statements have been reported on by the company's auditor and delivered to the Jersey Financial Services Commission. The report of the auditor was unqualified.

Basis of presentation

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

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

1 Statement of accounting policies *continued*

Use of estimates and judgements

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

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

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

- note 1a: accounting treatment for group's interest in managed syndicates;
- note 12: intangible assets including goodwill (assumptions underlying recoverable amounts);
- note 16: financial assets and liabilities (valuations based on models and unobservable inputs);
- note 23: insurance liabilities and reinsurance assets (estimates for losses incurred but not reported); and
- note 26: retirement benefit obligations (actuarial assumptions).

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

Consolidation

a) Subsidiary undertakings

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

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

For all business combinations from 1 January 2010:

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

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

Certain group subsidiaries underwrite as corporate members of Lloyd's on syndicates managed by Beazley Furlonge Limited. In view of the several and direct liability of underwriting members at Lloyd's for the transactions of syndicates in which they participate, only attributable shares of transactions, assets and liabilities of those syndicates are included in the group financial statements. The group continues to conclude that it remains appropriate to consolidate its share of the result of these syndicates and accordingly, as the group is the sole provider of capacity on syndicates 2623, 3622 and 3623, these financial statements include 100% of the economic interest in these syndicates. For the other syndicates to which Beazley is appointed managing agent, being syndicates 623, 6107 and 6050, for which the capacity is provided entirely by third parties to the group, these financial statements reflect Beazley's economic interest in the form of agency fees and profit commission to which they are entitled.

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.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using average exchange rates applicable to the period in which the transactions take place and where the group considers these to be a reasonable approximation of the transaction rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at the period end of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss. Non-monetary items recorded at historical cost in foreign currencies are translated using the exchange rate on the date of the initial transaction.

c) Foreign operations

The results and financial position of the group companies that have a functional currency different from the group presentational currency are translated into the presentational currency as follows:

- assets and liabilities are translated at the closing rate ruling at the statement of financial position date;
- income and expenses for each statement of profit or loss are translated at average exchange rates for the reporting period where this is determined to be a reasonable approximation of the actual transaction rates; and
- all resulting exchange differences are recognised in other comprehensive income and as a separate component of equity.

On disposal of foreign operations, cumulative exchange differences previously recognised in other comprehensive income are recognised in the statement of profit or loss as part of the gain or loss on disposal.

Insurance contracts

Insurance contracts (including inwards reinsurance contracts) are defined as those containing significant insurance risk. Insurance risk is considered significant if, and only if, an insured event could cause the group 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 the group's independent syndicate reporting actuary. The techniques generally use projections, based on past experience of the development of claims over time, to form a view on the likely ultimate claims to be experienced. For more recent underwriting years, regard is given to the variations in the business portfolio accepted and the underlying terms and conditions. Thus, the critical assumptions used when estimating provisions are that past experience is a reasonable predictor of likely future claims development and that the rating and business portfolio assumptions are a fair reflection of the likely level of ultimate claims to be incurred for the more recent years.

Liability adequacy testing
At each reporting date, liability adequacy tests are performed by segment to ensure the adequacy of the claims liabilities net of DAC and unearned premium reserves. In performing these tests, current best estimates of future contractual cash flows, claims handling and administration expenses, and investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to the statement of profit or loss, initially by writing off DAC and subsequently by establishing a provision for losses arising from liability adequacy tests ('unexpired risk provision').

Ceded reinsurance
These are contracts entered into by the group with reinsurers under which the group is compensated for losses on contracts issued by the group that meet the definition of an insurance contract. Insurance contracts entered into by the group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

Any benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers and include reinsurers' share of provisions for claims. These balances are based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the period and the current security rating of the reinsurer involved. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The group assesses its reinsurance assets for impairment. If there is objective evidence of impairment, then the carrying amount is reduced to its recoverable amount and the impairment loss is recognised in the statement of profit or loss.

Revenue
Revenue consists of net earned premiums, net investment income and other income (made up of commissions received from Beazley service companies, profit commissions and managing agent's fees). Profit commissions are recognised as profit is earned. Managing agent's fees are recognised as the services are provided.

Dividends paid
Dividend distributions are recognised in the period in which the dividends are paid, as a first interim dividend, second interim dividend or special dividend.

1 Statement of accounting policies *continued*

Plant and equipment

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

Fixtures and fittings	Three to ten years
Computer equipment	Three years

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

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

Intangible assets

a) Goodwill

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

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

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

b) Syndicate capacity

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

c) Licences

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

d) IT development costs

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

1 Statement of accounting policies *continued*

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 to the group's key management. The group's investment strategy is to invest and evaluate their performance with reference to their fair values.

c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are carried at amortised cost less any impairment losses.

d) Fair value measurement

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.

When available, the group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available as well as representing actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the group establishes fair value using a valuation technique. Valuation techniques include using recent orderly transactions between market participants (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When the transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but before the valuation is supported wholly by observable market data or the transaction is closed out.

1 Statement of accounting policies *continued*

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

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

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

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

f) Insurance receivables and payables

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

g) Other receivables

Other receivables categorised as loans and receivables 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.

1 Statement of accounting policies *continued*

j) Other payables

Other payables are stated at amortised cost determined according to the effective interest rate method.

k) Hedge accounting and derivative financial instruments

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

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

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

l) Impairment of financial assets

The group considers evidence of impairment for financial assets measured at amortised cost at both a specific asset and a collective level. The group assesses at each reporting date whether there is objective evidence that a specific financial asset measured at amortised cost is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the assets and that event has an impact on the estimated cash flows of the financial asset that can be reliably estimated. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

If there is objective evidence that impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount and the value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in the statement of profit or loss.

In assessing collective impairment, the group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than those suggested by historical trends.

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 or loss account.

n) Unfunded commitment capital

Unfunded committed capital arising in relation to certain financial asset investments is not shown on the statement of financial position as unfunded committed capital represents a loan commitment that is scoped out of IAS 39.

Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made by the group for operating leases are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

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 like age, years of service and compensation. The pension costs are assessed using the projected unit credit method. Under this method the costs of providing pensions are charged to the statement of profit or loss so as to spread the regular costs over the service lives of employees in accordance with the advice of the qualified actuary, who values the plans annually. The net pension obligation is measured at the present value of the estimated future net cash flows and is stated net of plan assets.

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

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

- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect of the asset ceiling.

Net interest expense/(income) is recognised in the statement of profit or loss.

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

For the defined contribution plan, the group pays contributions to a privately administered pension plan. Once the contributions have been paid, the group has no further obligations. The group's contributions are charged to the statement of profit or loss in the period to which they relate.

b) Share-based compensation

The Beazley plc group offers option plans over Beazley plc's ordinary shares to certain employees, including the SAYE scheme. Up until the scheme of arrangement, Beazley Ireland Holdings plc offered the same option plans over their ordinary shares. These pre scheme of arrangement charges are reflected in the financial statements to these accounts.

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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

1 Statement of accounting policies *continued*

Income taxes

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

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

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

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

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 Beazley plc group has identified the risks arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite. The group categorises its risks into eight areas: insurance, strategic, market, operational, credit, regulatory and legal, liquidity and group risk. The sections below outline the group's risk appetite and explain how it defines and manages each category of risk.

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

The symbol † by a heading indicates that the information in that section has not been audited.

2.1 Insurance risk

The group's insurance business assumes the risk of loss from persons or organisations that are directly exposed to an underlying loss. Insurance risk arises from this risk transfer due to inherent uncertainties about the occurrence, amount and timing of insurance liabilities. The four key components of insurance risk are underwriting, reinsurance, claims management and reserving. Each element is considered below.

a) Underwriting risk

Underwriting risk comprises four elements that apply to all insurance products offered by the group:
- cycle risk – the risk that business is written without full knowledge as to the (in)adequacy of rates, terms and conditions;
- event risk – the risk that individual risk losses or catastrophes lead to claims that are higher than anticipated in plans and pricing;
- pricing risk – the risk that the level of expected loss is understated in the pricing process; and
- expense risk – the risk that the allowance for expenses and inflation in pricing is inadequate.

We manage and model these four elements in the following three categories; attritional claims, large claims and catastrophe events.

2 Risk management *continued*

The group's underwriting strategy is to seek a diverse and balanced portfolio of risks in order to limit the variability of outcomes. This is achieved by accepting a spread of business over time, segmented between different products, geographies and sizes.

The annual business plans for each underwriting team reflect the group's underwriting strategy, and set out the classes of business, the territories and the industry sectors in which business is to be written. These plans are approved by the board and monitored by the underwriting committee.

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

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

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

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

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

The group's high level catastrophe risk appetite is set by the board and the business plans of each team are determined within these parameters. The board may adjust these limits over time as conditions change. In 2016 the group operated to a catastrophe risk appetite for a probabilistic 1-in-250 years US event of $412.0m (2015: $462.0m) net of reinsurance. This represented a reduction in our catastrophe risk appetite of 11% compared to 2015.

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 the group in 2015 and 2016 are:

Unaudited

	2016	
Lloyd's prescribed natural catastrophe event (total insured losses)	Modelled PML[1] (before reinsurance) $m	Modelled PML[1] (after reinsurance) $m
San Francisco quake (2016: $78.0bn)	647.1	219.0
Gulf of Mexico windstorm (2016: $112.0bn)	622.8	215.3
Los Angeles quake (2016: $78.0bn)	674.6	213.9

Unaudited

	2015	
Lloyd's prescribed natural catastrophe event (total incurred losses)	Modelled PML[1] (before) reinsurance) $m	Modelled PML[1] (after) reinsurance) $m
Los Angeles quake (2015: $78.0bn)	630.0	224.8
Gulf of Mexico windstorm (2015: $112.0bn)	563.7	222.7
US Northeast windstorm (2015: $78.0bn)	488.2	220.5

1 Probable market loss.

2 Risk management *continued*

The net of reinsurance exposures to the above Lloyd's RDS events have reduced during 2016, mainly due to additional reinsurance being purchased in the reinsurance division. In the property division, there has been growth in exposure in some regions which has led to an increase in the gross losses for the Los Angeles quake and Gulf of Mexico windstorm scenarios.

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

The group also has exposure to man-made claim aggregations, such as those arising from terrorism and data breach events. The group chooses to underwrite data breach insurance within the specialty lines division using our team of specialist underwriters, claims managers and data breach services managers. Other than for data breach, the group'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 nine realistic disaster scenarios that have been developed internally. These scenarios have been peer reviewed by an external technical expert and include the failure of a data aggregator, the failure of a shared hardware or software platform 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 realistic disaster scenario is currently lower than the exposure to the Lloyd's prescribed natural catastrophe events listed above for the group as at 31 December 2016. However, the cost of these scenarios will increase as the group continues to grow its data breach product. The clash reinsurance programme that protects the specialty lines account would partially mitigate the cost of most, but not all, data breach catastrophes.

The group also reports on cyber exposure to Lloyd's using the three largest internal realistic disaster scenarios and seven prescribed scenarios which include both data breach and property damage related cyber exposure. Given the group'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 2016, the maximum line that any one underwriter could commit the managed syndicates to was $100m. In most cases, maximum lines for classes of business were much lower than this.

These authority limits are enforced through a comprehensive sign-off process for underwriting transactions including dual sign-off for all line underwriters and peer review for all risks exceeding individual underwriters' authority limits. Exception reports are also run regularly to monitor compliance.

All underwriters also have a right to refuse renewal or change the terms and conditions of insurance contracts upon renewal. Rate monitoring details, including limits, deductibles, exposures, terms and conditions and risk characteristics are also captured and the results are combined to monitor the rating environment for each class of business.

Binding authority contracts

A proportion of the group's insurance risks are transacted by third parties under delegated underwriting authorities. Each third party is thoroughly vetted by our coverholder approval group before it can bind risks, and is subject to rigorous monitoring to maintain underwriting quality and confirm ongoing compliance with contractual guidelines.

2 Risk management *continued*

Operating divisions

In 2016, 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.

2016	UK (Lloyd's)	US (non-Lloyd's)	Total
Life, accident & health	5%	1%	6%
Marine	11%	–	11%
Political risks & contingency	5%	–	5%
Property	15%	–	15%
Reinsurance	10%	–	10%
Specialty lines	42%	11%	53%
Total	**88%**	**12%**	**100%**

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

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 80.

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

c) Claims management risk

Claims management risk may arise within the group in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. These risks may damage the group brand and undermine its ability to win and retain business, or incur punitive damages. These risks can occur at any stage of the claims life cycle. The group's claims teams are focused on delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business'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. An external independent actuary also performs an annual review to produce a statement of actuarial opinion for reporting entities within the group.

The objective of the group's reserving policy is to produce accurate and reliable estimates that are consistent over time and across classes of business. The estimates of gross premiums written and claims prepared by the actuarial department are used through a formal quarterly peer review process to independently test the integrity of the estimates produced by the underwriting teams for each class of business. These meetings are attended by senior management, senior underwriters, and actuarial, claims, and finance representatives.

2.2 Strategic risk †

This is the risk that the group's strategy is inappropriate or that the group is unable to implement its strategy. Where events supersede the group's strategic plan this is escalated at the earliest opportunity through the group's monitoring tools and governance structure.

Senior management performance

Management stretch is the risk that business growth might result in an insufficient or overly complicated management team structure, thereby undermining accountability and control within the group. As the group expands its worldwide business in the UK, the US, Europe, South America, Asia, Australia and the Middle East, management stretch may make the identification, analysis and control of group risks more complex.

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

2.3 Market risk

Market risk arises where the value of assets and liabilities or future cash flows changes as a result of movements in foreign exchange rates, interest rates and market prices. Efficient management of market risk is key to the investment of group assets. Appropriate levels of investment risk are determined by limiting the proportion of forecast group earnings which could be at risk from lower than expected investment returns, using a 1 in 10 confidence level as a practical measure of such risk. In 2016, this permitted variance from the forecast investment return was set at $126.0m. For 2017, the permitted variance will be similar. Investment strategy is developed to be consistent with this limit and investment risk is monitored on an ongoing basis, using outputs from our internal model.

Changes in interest rates also impact the present values of estimated group liabilities, which are used for solvency and capital calculations. Our investment strategy reflects the nature of our liabilities, and the combined market risk of investment assets and estimated liabilities is monitored and managed within specified limits.

2 Risk management *continued*

a) Foreign exchange risk

The functional currency of Beazley Ireland Holdings plc and its main trading entities is the US dollar and the presentational currency in which the group reports its consolidated results is the US 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. Remaining foreign exchange risk is still actively managed as described below.

In 2016, the group managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting to have net assets that are predominantly denominated in US dollar. As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure across the group. Details of all foreign currency derivative contracts entered into with external parties are disclosed in note 17. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk.

The group's underwriting capital is matched by currency to the principal underlying currencies of its written premiums. This helps to mitigate the risk that the group's capital required to underwrite business is materially affected by any future movements in exchange rates.

The group also has 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, Singapore dollars and Australian dollars on translation to the group's presentational currency, although these exposures are minimal.

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

31 December 2016	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	538.6	156.2	283.2	978.0	6,030.1	7,008.1
Total liabilities	(526.2)	(166.2)	(304.3)	(996.7)	(4,540.8)	(5,537.5)
Net assets	**12.4**	**(10.0)**	**(21.1)**	**(18.7)**	**1,489.3**	**1,470.6**

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

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 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	2016 $m	2015 $m	2016 $m	2015 $m
Dollar weakens 30% against other currencies	(4.8)	(12.3)	(13.1)	(25.7)
Dollar weakens 20% against other currencies	(3.2)	(8.2)	(8.7)	(17.1)
Dollar weakens 10% against other currencies	(1.6)	(4.1)	(4.4)	(8.6)
Dollar strengthens 10% against other currencies	1.6	4.1	4.4	8.6
Dollar strengthens 20% against other currencies	3.2	8.2	8.7	17.1
Dollar strengthens 30% against other currencies	4.8	12.3	13.1	25.7

2 Risk management *continued*

b) Interest rate risk

Some of the group's financial instruments, including cash and cash equivalents, certain financial assets at fair value and borrowings, are exposed to movements in market interest rates.

The group manages interest rate risk by primarily investing in short duration financial assets along with cash and cash equivalents. The investment committee monitors the duration of these assets on a regular basis.

The group also entered into interest rate futures contracts to manage the interest rate risk on bond portfolios.

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

Duration 31 December 2016	<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	1,505.2	562.5	688.0	467.5	286.2	108.0	–	3,617.4
Cash and cash equivalents	507.2	–	–	–	–	–	–	507.2
Derivative financial instruments	12.2	–	–	–	–	–	–	12.2
Borrowings	–	–	(94.7)	–	–	(248.3)	(18.0)	(361.0)
Total	**2,024.6**	**562.5**	**593.3**	**467.5**	**286.2**	**(140.3)**	**(18.0)**	**3,775.8**

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

As at 31 December 2015, borrowings included tier 2 subordinated debt that was due in October 2026 with a first call at the group's option in October 2016, which was exercised. As the debt was recalled in October 2016 it is not included within any of the categories in the 31 December 2016 table (2015: <1 yr category). Borrowings consist of three items as at 31 December 2016. The first is $18.0m of a subordinated debt facility raised in 2004 which is unsecured. The subordinated notes are due in 2034 and have been callable at the group's option since 2009. This debt was also present within borrowings as at 31 December 2015. The second is $250.0m of subordinated tier 2 debt raised in November 2016. This debt is due in 2026 and has annual interest of 5.875% payable in May and November of each year. The third is a £75m sterling denominated 5.375% notes due in 2019 with interest payable in March and September each year.

Sensitivity analysis

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

	Impact on profit after income tax for the year		Impact on net assets	
	2016 $m	2015 $m	2016 $m	2015 $m
Shift in yield (basis points)				
150 basis point increase	(56.0)	(73.4)	(56.0)	(73.4)
100 basis point increase	(37.3)	(48.9)	(37.3)	(48.9)
50 basis point increase	(18.7)	(24.5)	(18.7)	(24.5)
50 basis point decrease	18.7	24.5	18.7	24.5
100 basis point decrease	37.3	48.9	37.3	48.9

2 Risk management *continued*

c) Price risk

Financial assets and derivatives that are recognised in the statement of financial position at their fair value are susceptible to losses due to adverse changes in prices. This is referred to as price risk.

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

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

	Impact on profit after income tax for the year		Impact on net assets	
	2016 $m	2015 $m	2016 $m	2015 $m
Change in fair value of hedge funds, equity linked funds and illiquid credit assets				
30% increase in fair value	145.3	149.5	145.3	149.5
20% increase in fair value	96.9	99.7	96.9	99.7
10% increase in fair value	48.4	49.8	48.4	49.8
10% decrease in fair value	(48.4)	(49.8)	(48.4)	(49.8)
20% decrease in fair value	(96.9)	(99.7)	(96.9)	(99.7)
30% decrease in fair value	(145.3)	(149.5)	(145.3)	(149.5)

d) Investment risk

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

Our investment strategy is developed by reference to an investment risk budget, set annually by the Beazley plc board as part of the overall risk budgeting framework of the business. The internal model is used to monitor compliance with the budget. In 2016, the investment risk budget was set at a level such that investment losses should not cause the group financial result to deviate from the planned level by more than $126.0m at the 1 in 10 confidence level. This compares to a planned investment result in the current low interest rate environment of 1.3% or $61.1m. The investment risk budget will be at a similar level in 2017. It is important to note that stochastic risk modelling is not a precise discipline. Our ESG outputs are regularly validated against actual market conditions, but we also use a number of other, qualitative, measures to support the monitoring and management of investment risk. These include stress testing, as well as selective historic and prospective scenario analysis.

2.4 Operational risk †

Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or external events.

There are a number of business activities for which the group uses the services of a third-party company, such as investment management, data entry and credit control. These service providers are selected against rigorous criteria and formal service level agreements are in place, and regularly monitored and reviewed.

2 Risk management *continued*

The group also recognises that it is necessary for people, systems and infrastructure to be available to support our operations. Therefore we have taken significant steps to mitigate the impact of business interruption which could follow a variety of events, including the loss of key individuals and facilities. We operate a formal disaster recovery plan which, in the event of an incident, allows the group to move critical operations to an alternative location within 24 hours.

The group actively manages operational risks and minimises them where appropriate. This is achieved by implementing and communicating guidelines to staff and other third parties. The group also regularly monitors the performance of its controls and adherence to these guidelines through the risk management reporting process.

Key components of the group's operational control environment include:
- modelling of operational risk exposure and scenario testing;
- management review of activities;
- documentation of policies and procedures;
- preventative and detective controls within key processes;
- contingency planning; and
- other systems controls.

2.5 Credit risk

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the group are:
- reinsurers – 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 and derivative financial instrument; and
- cash and cash equivalents.

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

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

An approval system also exists for all new brokers, and broker performance is carefully monitored. Regular exception reports highlight trading with non-approved brokers, and the group's credit control function frequently assesses the ageing and collectability of debtor balances. Any large, aged items are prioritised and where collection is outsourced incentives are in place to support these priorities.

The investment committee has established comprehensive guidelines for the group's investment managers regarding the type, duration and quality of investments acceptable to the group. The performance of investment managers is regularly reviewed to confirm adherence to these guidelines.

The group has developed processes to formally examine all reinsurers before entering into new business arrangements. New reinsurers are approved by the reinsurance security committee (RSC), which also reviews arrangements with all existing reinsurers at least annually. Vulnerable or slow-paying reinsurers are examined more frequently.

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

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

2 Risk management *continued*

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

31 December 2016	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						
– fixed and floating rate debt securities	2,687.3	928.2	1.9	–	–	3,617.4
– equity linked funds	–	–	–	–	116.3	116.3
– hedge funds	–	–	–	–	317.1	317.1
– illiquid credit assets	–	–	–	–	132.4	132.4
– derivative financial instruments	–	–	–	–	12.2	12.2
Insurance receivables	–	–	–	–	795.0	795.0
Reinsurance assets	1,082.1	–	–	–	–	1,082.1
Other receivables	46.4	–	–	–	–	46.4
Cash and cash equivalents	507.2	–	–	–	–	507.2
Total	**4,323.0**	**928.2**	**1.9**	**–**	**1,373.0**	**6,626.1**

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

The largest counterparty exposure within tier 1 is $788.4m of US Treasuries (2015: $568.6m).

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

Insurance receivables and other receivables balances held by the group have not been impaired, based on all evidence available, and no impairment provision has been recognised in respect of these assets. Insurance receivables in respect of coverholder business are credit controlled by third-party managers. We monitor third party coverholders' performance and their financial processes through the group's coverholder management team. These assets are individually impaired after considering information such as the occurrence of significant changes in the counterparties' financial position, patterns of historical payment information and disputes with counterparties.

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 at 31 December 2016 was as follows:

	Individual impairment $m	Collective impairment $m	Total $m
Balance at 1 January 2015	3.5	10.6	14.1
Impairment loss (written back)/recognised	(0.6)	0.2	(0.4)
Balance at 31 December 2015	2.9	10.8	13.7
Impairment loss written back	(0.5)	(0.6)	(1.1)
Balance at 31 December 2016	**2.4**	**10.2**	**12.6**

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 2016	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	31.9	7.9	2.3	11.2	53.3
Reinsurance assets	0.1	3.9	0.1	4.2	8.3

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

The total impairment provision in the statement of financial position in respect of reinsurance assets past due by more than 30 days at 31 December 2016 was $3.2m (2015: $3.3m).

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

2.6 Regulatory and legal risk †

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

2.7 Liquidity risk

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

The group's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (details of the group's exposure to realistic disaster scenarios (RDS) are provided on page 74). 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 24. Further information on the group's capital resources is contained on pages 37 to 39.

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 2016	Within 1 year $m	1-3 years $m	3-5 years $m	Greater than 5 years $m	Total $m	Weighted average term to settlement (years)
Life, accident & health	40.9	16.1	0.7	–	57.7	0.9
Marine	97.6	79.6	22.6	16.9	216.7	1.9
Political risks & contingency	24.7	24.4	7.5	6.0	62.6	2.2
Property	99.0	75.9	19.3	13.4	207.6	1.8
Reinsurance	61.2	53.5	17.1	15.4	147.2	2.2
Specialty lines	412.1	675.2	403.2	480.7	1,971.2	3.5
Net claims liabilities	**735.5**	**924.7**	**470.4**	**532.4**	**2,663.0**	

1 For a breakdown of net claims liabilities refer to note 23.

31 December 2015	Within 1 year $m	1-3 years $m	3-5 years $m	Greater than 5 years $m	Total $m	Weighted average term to settlement (years)
Life, accident & health	43.7	15.8	0.6	–	60.1	0.8
Marine	102.4	82.8	22.7	16.1	224.0	1.9
Political risks & contingency	32.8	32.7	9.4	7.4	82.3	2.0
Property	93.9	72.2	18.4	12.9	197.4	1.8
Reinsurance	66.4	57.0	18.4	16.5	158.3	2.2
Specialty lines	410.0	662.3	393.9	469.2	1,935.4	3.5
Net claims liabilities	**749.2**	**922.8**	**463.4**	**522.1**	**2,657.5**	

The following table is an analysis of the net contractual cash flows based on all the liabilities held at 31 December:

31 December 2016	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Net claims liabilities	735.5	924.7	470.4	532.4	2,663.0
Borrowings	–	94.7	–	266.3	361.0
Other payables	495.6	1.4	–	–	497.0

31 December 2015	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Net claims liabilities	749.2	922.8	463.4	522.1	2,657.5
Borrowings	116.9	–	112.3	18.0	247.2
Other payables	463.3	–	–	–	463.3

The group makes additional interest payments for borrowings. Further details are provided in notes 8 and 24.

The next two tables summarise the carrying amount at reporting date of financial instruments analysed by maturity date.

Maturity 31 December 2016	<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	925.0	695.6	816.8	522.4	485.2	172.4	–	3,617.4
Derivative financial instruments	12.2	–	–	–	–	–	–	12.2
Cash and cash equivalents	507.2	–	–	–	–	–	–	507.2
Insurance receivables	795.0	–	–	–	–	–	–	795.0
Other receivables	46.4	–	–	–	–	–	–	46.4
Other payables	(495.6)	(1.4)	–	–	–	–	–	(497.0)
Borrowings	–	–	(94.7)	–	–	(248.3)	(18.0)	(361.0)
Total	**1,790.2**	**694.2**	**722.1**	**522.4**	**485.2**	**(75.9)**	**(18.0)**	**4,120.2**

2 Risk management *continued*

31 December 2015	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Fixed and floating rate debt securities	978.4	618.4	568.5	474.6	336.6	292.3	–	3,268.8
Derivative financial instruments	4.6	–	–	–	–	–	–	4.6
Cash and cash equivalents	676.9	–	–	–	–	–	–	676.9
Insurance receivables	732.7	–	–	–	–	–	–	732.7
Other receivables	31.5	–	–	–	–	–	–	31.5
Other payables	(462.6)	(0.7)	–	–	–	–	–	(463.3)
Borrowings	(116.9)	–	–	(112.3)	–	–	(18.0)	(247.2)
Total	**1,844.6**	**617.7**	**568.5**	**362.3**	**336.6**	**292.3**	**(18.0)**	**4,004.0**

As at 31 December 2015, borrowings included tier 2 subordinated debt that was due in October 2026 with a first call at the group's option in October 2016 which was exercised. As the debt was recalled in October 2016 it is not included within any of the categories in the 31 December 2016 table (2015: <1 yr category). Borrowings consist of three items as at 31 December 2016. The first is $18m of a subordinated debt facility raised in 2004 which is unsecured. The subordinated notes are due in 2034 and have been callable at the group's option since 2009. This debt was also present within borrowings as at 31 December 2015. The second is $250.0m of subordinated tier 2 debt raised in November 2016. This debt is due in 2026 and has annual interest of 5.875% payable in May and November of each year. The third is a £75m sterling denominated 5.375% notes due in 2019 with interest payable in March and September each year.

Illiquid credit assets, hedge funds and equity linked funds are not included in the maturity profile because the basis of maturity profile can not be determined with any degree of certainty.

2.8 Group risk †

Group risk occurs where business units fail to consider the impact of their activities on other parts of the group, as well as the risks arising from these activities. There are two main components of group risk which are explained below.

a) Contagion

Contagion risk is the risk arising from actions of one part of the group which could adversely affect any other part of the group. As the two largest components of the group, this is of particular relevance for actions in any of the US operations, which could adversely affect the UK operations, and vice versa. The group has limited appetite for contagion risk and minimises the impact of this occurring by operating with clear lines of communication across the group to ensure all group entities are well informed and working to common goals.

b) Reputation

Reputation risk is the risk of negative publicity as a result of the group's contractual arrangements, customers, products, services and other activities. Key sources of reputation risk include operation of a Lloyd's franchise, interaction with capital markets since the group's IPO during 2002, and reliance upon the Beazley brand in the US, Europe, Asia, South America, Asia, Australia and the Middle East. The group's preference is to minimise reputation risks but where it is not possible or beneficial to avoid them, we seek to minimise their frequency and severity by management through public relations and communication channels.

2.9 Capital management

The Beazley plc 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 and 3622. This is based on the group's own individual capital assessment. It may be provided in the form of either the group's cash and investments or debt facilities;
- to support underwriting in Beazley Insurance Company, Inc. in the US; and
- to make acquisitions of insurance companies or MGAs whose strategic goals are aligned with our own.

The Internal Model Solvency Capital Requirement is a dedicated quantitative review of syndicate models and it sets outs to be a key input to the Lloyd's Internal Model.

2 Risk management *continued*

The Beazley plc board's strategy is to grow the Beazley plc group external dividend by between 5% and 10% per year. The capital management strategy of the Beazley plc group is to carry some surplus capital to enable us to take advantage of growth opportunities which may arise. At 31 December 2016, Beazley plc group had surplus capital of 44% of ECR (unaudited), including solvency II adjustments. Following Beazley plc's payment of the second interim dividend of 7.0p per share and special dividend of 10.0p per share, the surplus reduced to 36% (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:

Life, accident & health

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

Marine

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

Political risks & contingency

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

Property

The property segment underwrites commercial, high-value homeowners' and construction and engineering property insurance on a worldwide basis.

Reinsurance

This segment specialises in writing property catastrophe, property per risk, casualty clash, aggregate excess of loss and pro-rata business.

Specialty lines

This segment underwrites professional liability, management liability and environmental liability, including architects and engineers, healthcare, cyber, lawyers, technology, media and business services, directors and officers and employment practices risks.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The reporting segments do not cross-sell business to each other. There are no individual policyholders who comprise greater than 10% of the group's total gross premiums written.

3 Segmental analysis *continued*

b) Segment information

2016	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Segment results							
Gross premiums written	126.6	247.4	118.7	329.7	213.4	1,159.8	2,195.6
Net premiums written	118.0	220.7	97.6	277.1	141.2	999.4	1,854.0
Net earned premiums	117.5	223.2	103.6	287.0	138.4	898.5	1,768.2
Net investment income	1.3	8.9	3.6	10.2	6.4	62.7	93.1
Other income	0.5	3.8	2.4	6.4	6.2	13.4	32.7
Revenue	**119.3**	**235.9**	**109.6**	**303.6**	**151.0**	**974.6**	**1,894.0**
Net insurance claims	70.0	98.9	29.7	115.3	40.2	501.5	855.6
Expenses for the acquisition of insurance contracts	36.9	65.9	30.2	88.8	34.7	216.0	472.5
Administrative expenses	15.7	35.1	17.7	46.6	14.5	117.1	246.7
Foreign exchange loss	0.4	0.7	0.3	0.8	0.4	3.1	5.7
Expenses	**123.0**	**200.6**	**77.9**	**251.5**	**89.8**	**837.7**	**1,580.5**
Share of loss of associates	–	–	–	–	–	(0.2)	(0.2)
Segment result	**(3.7)**	**35.3**	**31.7**	**52.1**	**61.2**	**136.7**	**313.3**
Finance costs							(14.4)
Profit before income tax							**298.9**
Income tax expense							(42.9)
Profit for the year attributable to equity shareholders							**256.0**
Claims ratio	59%	44%	29%	40%	29%	56%	48%
Expense ratio	45%	46%	46%	47%	36%	37%	41%
Combined ratio	104%	90%	75%	87%	65%	93%	89%
Segment assets and liabilities							
Segment assets	229.0	1,175.5	831.0	1,087.8	418.1	3,266.7	7,008.1
Segment liabilities	(211.6)	(816.4)	(678.0)	(862.7)	(233.5)	(2,735.3)	(5,537.5)
Net assets	**17.4**	**359.1**	**153.0**	**225.1**	**184.6**	**531.4**	**1,470.6**
Additional information							
Investment in associates	–	–	2.6	–	–	7.3	9.9
Impairment of non-financial assets	–	–	–	–	–	–	–
Capital expenditure	0.3	1.2	0.4	1.3	0.8	3.2	7.2
Increase in intangibles	–	8.0	–	–	–	–	8.0
Amortisation and depreciation	(0.3)	(1.2)	(0.4)	(1.3)	(0.8)	(3.1)	(7.1)
Net cash flow	(3.1)	(46.3)	(17.5)	(25.5)	(18.9)	(58.4)	(169.7)

3 Segmental analysis *continued*

2015	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Segment results							
Gross premiums written	119.8	269.3	123.6	353.1	199.9	1,015.2	2,080.9
Net premiums written	106.6	239.5	105.0	304.8	132.0	825.2	1,713.1
Net earned premiums	110.8	258.2	106.4	297.8	133.8	791.7	1,698.7
Net investment income	1.5	6.2	2.4	6.6	4.6	36.3	57.6
Other income	2.9	3.4	2.2	5.9	5.5	11.0	30.9
Revenue	**115.2**	**267.8**	**111.0**	**310.3**	**143.9**	**839.0**	**1,787.2**
Net insurance claims	64.3	97.8	30.6	117.1	29.4	474.7	813.9
Expenses for the acquisition of insurance contracts	35.0	68.9	32.1	91.0	32.8	188.8	448.6
Administrative expenses	15.2	32.7	18.5	40.9	13.9	94.0	215.2
Foreign exchange loss	0.3	1.5	0.4	1.6	1.5	4.4	9.7
Expenses	**114.8**	**200.9**	**81.6**	**250.6**	**77.6**	**761.9**	**1,487.4**
Share of loss of associates	–	–	(0.4)	–	–	(0.1)	(0.5)
Segment result	**0.4**	**66.9**	**29.0**	**59.7**	**66.3**	**77.0**	**299.3**
Finance costs							(15.3)
Profit before income tax							**284.0**
Income tax expense							(35.0)
Profit for the year attributable to equity shareholders							**249.0**
Claims ratio	58%	38%	29%	39%	22%	60%	48%
Expense ratio	45%	39%	47%	45%	35%	36%	39%
Combined ratio	103%	77%	76%	84%	57%	96%	87%
Segment assets and liabilities							
Segment assets	221.5	1,132.8	798.5	1,047.1	403.1	3,142.4	6,745.4
Segment liabilities	(195.1)	(739.6)	(650.1)	(830.7)	(242.4)	(2,646.1)	(5,304.0)
Net assets	**26.4**	**393.2**	**148.4**	**216.4**	**160.7**	**496.3**	**1,441.4**
Additional information							
Investment in associates	–	–	2.5	–	–	7.5	10.0
Impairment of non-financial assets	–	–	–	–	–	–	–
Capital expenditure	0.2	0.5	0.3	0.6	0.3	1.5	3.4
Amortisation and depreciation	(0.3)	(0.6)	(0.3)	(0.8)	(0.4)	(1.9)	(4.3)
Net cash flow	6.7	87.3	32.3	44.5	32.3	109.6	312.7

3 Segmental analysis *continued*

c) Information about geographical areas

The group's operating segments are also managed geographically by placement of risk. UK earned premium in the analysis below represents all risks placed at Lloyd's and US earned premium represents all risks placed at the group's US insurance company, Beazley Insurance Company, Inc. An analysis of gross premiums written split geographically by placement of risk and by reportable segment is provided in note 2 on page 75.

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

	2016 $m	2015 $m
Segment assets		
UK (Lloyd's)	6,656.9	6,409.3
US (Non-Lloyd's)	351.2	336.1
	7,008.1	**6,745.4**

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

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

4 Net investment income

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

5 Other income

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

6 Operating expenses

	2016 $m	2015 $m
Operating expenses include:		
Amounts receivable by the auditor and associates in respect of:		
– audit services for the group and subsidiaries	0.7	1.1
– audit-related assurance services	0.3	0.3
– taxation compliance services	–	0.1
– other assurance services	0.5	–
– other non-audit services	0.4	0.4
	1.9	1.9
Impairment loss written back on reinsurance assets	(1.1)	–
Operating leases	9.5	9.4

Other than the fees disclosed above, no other fees were paid to the company's auditor in relation to this group

7 Employee benefit expenses

	2016 $m	2015 $m
Wages and salaries	134.6	123.6
Short-term incentive payments	77.8	75.6
Social security	18.3	17.7
Share-based remuneration [1]	23.0	17.5
Pension costs[2]	9.2	10.4
	262.9	244.8
Recharged to syndicate 623	(38.5)	(36.1)
	224.4	**208.7**

1 Share based remuneration was borne by Beazley Management Limited, a company within the group, and includes payments in relation to share options held by Beazley plc, an immediate parent company of Beazley Ireland Holdings plc.

2 Pension costs refer to the contributions made under the defined contribution scheme. Further information on the defined benefit pension scheme can be found in note 26.

8 Finance costs

	2016 $m	2015 $m
Interest expense	14.4	15.3
	14.4	**15.3**

During 2016, Beazley bought back debt with a remaining nominal amount of $107.1m at a market value of $107.1m in the form of fixed/floating rate subordinated notes using its first call right. No profit or loss was realised as there was no difference between carrying value and market value of the debt bought back. Please refer to note 24 for further detail on subordinated debt.

9 Income tax expense

	2016 $m	2015 $m
Current tax expense		
Current year	37.8	44.6
Prior year adjustments	2.1	(8.8)
	39.9	35.8
Deferred tax expense		
Origination and reversal of temporary differences	2.1	(2.9)
Impact of change in UK tax rates	(0.8)	(0.2)
Prior year adjustments	1.7	2.3
	3.0	(0.8)
Income tax expense	**42.9**	**35.0**

Reconciliation of tax expense

The weighted average of statutory tax rates applied to the profits earned in each country in which the group operates is 15.0% (2015: 15.2%), whereas the tax charged for the year 31 December 2016 as a percentage of profit before tax is 14.4% (2015: 12.3%). The reasons for the difference are explained below:

	2016 $m	2016 %	2015 $m	2015 %
Profit before tax	**298.9**		**284.0**	
Tax calculated at the weighted average of statutory tax rates	44.7	15.0	43.2	15.2
Effects of:				
– non-deductible expenses	1.4	0.5	0.8	0.3
– non-taxable gains on foreign exchange	(5.6)	(1.9)	–	–
– tax relief on share based payments – current and future years	(0.6)	(0.2)	(2.3)	(0.8)
– under/(over) provided in prior years	3.8	1.3	(6.5)	(2.3)
– change in UK tax rates[1]	(0.8)	(0.3)	(0.2)	(0.1)
Tax charge for the period	**42.9**	**14.4**	**35.0**	**12.3**

1 The Finance Act 2015, which provided for a reduction in the UK corporation tax rate to 19% effective from 1 April 2017 was substantively enacted on 26 October 2015. The Finance Act 2016, which provides for a reduction in the UK corporation tax rate to 17% effective from 1 April 2020 was substantively enacted on 6 September 2016. These rate reductions to 19% and 17% will reduce the group's future current tax charge and have been reflected in the calculation of the deferred tax balance as at 31 December 2016.

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

10 Directors and employees

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 2015 and for the period from 1 January to 13 April 2016 when Beazley Ireland Holdings plc was the ultimate controlling company of Beazley plc group. After 13 April 2016 none of the directors of the company, or employees of the group, received any remuneration in respect of services rendered to the company. Details of the remuneration paid to the Beazley plc group's directors and employees for their services to the Beazley plc group are shown in the ultimate parent undertaking's accounts, Beazley plc, which can be found at www.beazley.com.

Executive directors

		Fixed pay			Pay for performance				
£		Salary	Benefits	Pension	Cash bonus	Bonus deferred into shares	Total annual bonus	LTI	Total remuneration
Martin L Bride	2016[1]	88,968	3,370	11,726	159,126	68,197	227,323	243,099	574,486
	2015	310,000	11,779	46,500	560,000	240,000	800,000	924,410	2,092,689
Adrian P Cox	2016[1]	95,532	3,508	13,015	218,798	93,770	312,568	250,064	674,687
	2015	332,800	119,600	49,920	700,000	300,000	1,000,000	951,112	2,453,432
D Andrew Horton	2016[1]	127,301	4,967	16,780	248,634	106,557	355,191	489,628	993,867
	2015	443,500	17,667	66,525	910,000	390,000	1,300,000	1,883,955	3,711,647
Neil P Maidment	2016[1]	95,532	4,689	12,592	194,929	83,541	278,470	275,464	666,747
	2015	332,800	16,811	49,920	700,000	300,000	1,000,000	1,059,893	2,459,424
Clive A Washbourn	2016[1]	95,532	4,128	12,592	139,235	59,672	198,907	275,464	586,623
	2015	332,800	13,502	50,243	700,000	300,000	1,000,000	2,877,393	4,273,938

1 2016 remuneration are for the period from 1 January to 13 April 2016 when Beazley Ireland Holdings plc was the ultimate controlling company of Beazley plc group.

Non-executive directors

£		Total fees[1]
George P Blunden	2016	23,727
	2015	79,250
Angela D Crawford-Ingle	2016	25,645
	2015	88,750
Dennis Holt	2016	56,831
	2015	164,730
Sir J Andrew Likierman[2]	2016	18,375
	2015	42,885
Padraic J O'Connor[3]	2016	18,215
	2015	68,613
Vincent J Sheridan	2016	17,760
	2015	55,474
Rolf A W Tolle[4]	2016	16,190
	2015	80,500
Catherine M Woods	2016	17,760
	2015	–

1 Other than for the chairman, fees include fees paid for chairmanship of the Beazley plc audit and risk and remuneration committees, and for the role of senior independent director, as well as fees, where relevant, for membership of the subsidiary boards of Beazley Furlonge Limited (BFL) and Beazley Re dac and the chairmanship of the BFL risk committee.

2 Sir Andrew Likierman was appointed the chairman of the Beazley plc remuneration committee on 24 March 2016 and the figure in the table above includes fees paid for the chairmanship of the remuneration committee from this date.

3 Padraic O'Connor resigned on 24 March 2016 and the figure in the table above represents his fees to this date.

4 Rolf Tolle resigned as a non-executive director on 10 March 2016 and the figure in the table above represents his fees to this date

11 Dividends

A 2015 second interim and special dividend totalling £129.1m ($188.2m) was paid in March 2016. At this time, Beazley Ireland Holdings plc was the ultimate holding company of the Beazley group. A 2016 first interim dividend of £18.2m ($24.0m) was paid to the company's immediate parent company, Beazley plc, on 12 August 2016. A 2016 second interim dividend of £90.0m ($110.3m) payable to Beazley plc was declared on 3 March 2017. These financial statements do not provide for the second interim dividend as a liability.

12 Intangible assets

	Goodwill $m	Syndicate capacity $m	Licences $m	IT development costs $m	Renewal rights $m	Total $m
Cost						
Balance at 1 January 2015	72.0	10.7	9.3	66.7	17.0	175.7
Other additions	–	–	–	5.0	–	5.0
Write off	–	–	–	(3.2)	–	(3.2)
Foreign exchange loss	–	–	–	(5.3)	–	(5.3)
Balance at 31 December 2015	**72.0**	**10.7**	**9.3**	**63.2**	**17.0**	**172.2**
Balance at 1 January 2016	72.0	10.7	9.3	63.2	17.0	172.2
Other additions	–	–	–	4.7	8.0	12.7
Write off	–	–	–	–	–	–
Foreign exchange loss	–	–	–	(10.9)	(0.4)	(11.3)
Balance at 31 December 2016	**72.0**	**10.7**	**9.3**	**57.0**	**24.6**	**173.6**
Amortisation and impairment						
Balance at 1 January 2015	(10.0)	–	–	(54.1)	(17.0)	(81.1)
Amortisation for the year	–	–	–	(5.0)	–	(5.0)
Write off	–	–	–	3.2	–	3.2
Foreign exchange gain	–	–	–	1.7	–	1.7
Balance at 31 December 2015	**(10.0)**	**–**	**–**	**(54.2)**	**(17.0)**	**(81.2)**
Balance at 1 January 2016	(10.0)	–	–	(54.2)	(17.0)	(81.2)
Amortisation for the year	–	–	–	(4.6)	(0.7)	(5.3)
Write off	–	–	–	–	–	–
Foreign exchange gain	–	–	–	9.4	0.1	9.5
Balance at 31 December 2016	**(10.0)**	**–**	**–**	**(49.4)**	**(17.6)**	**(77.0)**
Carrying amount						
31 December 2016	**62.0**	**10.7**	**9.3**	**7.6**	**7.0**	**96.6**
31 December 2015	62.0	10.7	9.3	9.0	–	91.0

12 Intangible assets *continued*

Impairment tests

Goodwill, syndicate capacity and US insurance authorisation licences are deemed to have indefinite life as they are expected to have value in use that does not erode or become obsolete over the course of time. Consequently, they are not amortised but annually tested for impairment. They are allocated to the group's cash-generating units (CGUs) as follows:

2016	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Goodwill	28.6	2.3	1.0	24.9	0.8	4.4	62.0
Capacity	0.3	1.6	0.7	2.5	0.8	4.8	10.7
Licences	–	–	–	1.9	–	7.4	9.3
Total	**28.9**	**3.9**	**1.7**	**29.3**	**1.6**	**16.6**	**82.0**

2015	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Goodwill	28.6	2.3	1.0	24.9	0.8	4.4	62.0
Capacity	0.3	1.6	0.7	2.5	0.8	4.8	10.7
Licences	–	–	–	1.9	–	7.4	9.3
Total	**28.9**	**3.9**	**1.7**	**29.3**	**1.6**	**16.6**	**82.0**

When testing for impairment, the recoverable amount of a CGU is determined based on value in use. Value in use is calculated using projected cash flows based on financial budgets approved by management covering a five-year period. Key assumptions used in preparation of projected cash flow include premium growth rates, claims experience, retention rates and expected future market conditions. For prudence purposes, a growth rate of 0% is used to extrapolate projections beyond the covered period. A pre tax discount rate of 7% (2015: 9%) has been used to discount the projected cash flows of each CGU. The discount rate of 7% (2015: 9%) reflects the Beazley plc group's expected cost on equity and cost of borrowing and has been calculated using independent measures of the risk-free rate of return and the Beazley plc group's risk profile relative to the risk-free and market rates of return and, as such, is considered representative of the rate appropriate to the risk specific to the CGU. As all segments undertake underwriting activities supported by the same capital base, the same discount rate has been applied to all operating segments.

The impairment tests have been performed assuming the group's operating segments are the CGUs to which the intangible assets have been allocated. As at 31 December 2016, the financial budgets for the life, accident & health segment, in particular, have been challenged in light of the losses incurred over past 12 months and management are comfortable the forecast profits are achievable, supporting the recoverability of the goodwill balance held. To test this segment's sensitivity to variances from forecast profits, the discount rate has been flexed to 10% above and 5% below the central assumption. Within this range, the recovery of goodwill remains supportable. Headroom was calculated in respect of the value in use of all the group's other intangible assets.

13 Plant and equipment

	Company	Group		
	Fixtures & fittings $m	Fixtures & fittings $m	Computer equipment $m	Total $m
Cost				
Balance at 1 January 2015	2.4	21.5	9.6	31.1
Additions	–	1.1	1.4	2.5
Write off	–	(1.6)	(1.2)	(2.8)
Foreign exchange loss	–	(0.3)	–	(0.3)
Balance at 31 December 2015	**2.4**	**20.7**	**9.8**	**30.5**
Balance at 1 January 2016	**2.4**	**20.7**	**9.8**	**30.5**
Additions	–	2.4	0.5	2.9
Write off	–	–	(0.4)	(0.4)
Foreign exchange loss	–	(1.6)	(0.7)	(2.3)
Balance at 31 December 2016	**2.4**	**21.5**	**9.2**	**30.7**
Accumulated depreciation				
Balance at 1 January 2015	(1.5)	(18.5)	(8.7)	(27.2)
Depreciation charge for the year	(0.2)	(1.2)	(0.9)	(2.1)
Write off	–	1.6	1.2	2.8
Foreign exchange gain	–	0.4	0.1	0.5
Balance at 31 December 2015	**(1.7)**	**(17.7)**	**(8.3)**	**(26.0)**
Balance at 1 January 2016	**(1.7)**	**(17.7)**	**(8.3)**	**(26.0)**
Depreciation charge for the year	(0.2)	(1.0)	(0.8)	(1.8)
Write off	–	–	0.4	0.4
Foreign exchange gain	–	1.4	0.7	2.1
Balance at 31 December 2016	**(1.9)**	**(17.3)**	**(8.0)**	**(25.3)**
Carrying amounts				
31 December 2016	**0.5**	**4.2**	**1.2**	**5.4**
31 December 2015	0.7	3.0	1.5	4.5

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	2016 $m	2015 $m
As at 1 January	**10.0**	**10.5**
Investment in Equinox Global Limited	0.1	–
Share of loss after tax	(0.2)	(0.5)
As at 31 December	**9.9**	**10.0**

14 Investment in associates *continued*

The group's investment in associates consists of:

	Country of incorporation	% interest held	Carrying value $m
2016			
Falcon Money Management Holdings Limited (and subsidiaries)	Malta[1]	25%	–
Capson Corp., Inc. (and subsidiary)	USA[2]	31%	7.3
Equinox Global Limited (and subsidiary)	UK[3]	37%	2.6
			9.9

1 259 St. Paul Street, Valletta, Malta.

2 221 West 6th Street, Suite 301, Austin TX 78701, USA.

3 Sutherland House, 3 Lloyd's Ave, London EC3N 3DS, UK.

The aggregate financial information for all associates (100%) is as follows:

	2016 $m	2015 $m
Assets	36.8	41.2
Liabilities	22.4	25.7
Equity	14.4	15.5
Revenue	32.7	21.9
Loss after tax	(0.7)	(1.1)
Share of other comprehensive income	–	–
Share of total comprehensive income	(0.7)	(1.1)

All of the investments in associates are unlisted and are equity accounted using available financial information as at 31 December 2016. Equinox Global Limited and Capson Corp Inc. are both insurance intermediaries. Falcon Management Holdings Limited is an investment management company which also acts in an intermediary capacity.

The company's investment in associates consists of:

Company	Country of incorporation	% interest held	Carrying value $m
2016			
Falcon Money Management Holdings Limited (and subsidiaries)	Malta	25%	–

The aggregate financial information for the associate (100%) is as follows:

	2016 $m	2015 $m
Assets	2.4	4.5
Liabilities	0.6	2.5
Equity	1.8	2.0
Revenue	2.4	2.6
Profit after tax	1.0	–
Share of other comprehensive income	–	–
Share of total comprehensive income	1.0	–

The investment in the associate is unlisted and is equity accounted using unaudited financial information as at 31 December 2016.

15 Deferred acquisition costs

	2016 $m	2015 $m
Balance at 1 January	226.2	222.7
Additions	489.0	452.1
Amortisation charge	(472.4)	(448.6)
Balance at 31 December	**242.8**	**226.2**

16 Financial assets and liabilities

	2016 $m	2015 $m
Financial assets at fair value		
Fixed and floating rate debt securities:		
– Government issued	1,180.0	1,101.0
– Quasi-government	62.0	362.8
– Supranational	19.5	393.3
– Corporate bonds		
– Investment grade	2,158.0	1,215.8
– High yield	97.1	68.3
– Senior secured loans	96.2	114.9
– Asset backed securities	4.6	12.7
Total fixed and floating rate debt securities	**3,617.4**	**3,268.8**
Equity linked funds	116.3	147.5
Hedge funds	317.1	329.0
Illiquid credit assets	132.4	92.3
Total capital growth assets	565.8	568.8
Total financial investments at fair value through statement of profit or loss	**4,183.2**	**3,837.6**
Derivative financial assets	12.2	4.6
Total financial assets at fair value	**4,195.4**	**3,842.2**

Quasi-government securities include securities which are issued by government agencies or entities supported by government guarantees. Supranational securities are issued by institutions sponsored by more than one sovereign issuer. Investment grade credit assets are any corporate bonds rated as BBB-/Baa3 or higher by one or more major rating agency, while the remainder of our corporate bonds are rated as high yield. Asset-backed securities are backed by financial assets, including mortgage, credit card and auto loan receivables. Equity linked funds are investment vehicles which are predominantly exposed to equity securities and are intended to give diversified exposure to global equity markets. Our illiquid credit assets are described in further detail below. The fair value of these assets at 31 December 2016 excludes an unfunded commitment of $85.5m (2015: $95.3m).

The amounts expected to mature within and after one year are:	2016 $m	2015 $m
Within one year	937.2	983.1
After one year	2,692.4	2,290.3
Total	**3,629.6**	**3,273.4**

Our capital growth assets have no defined maturity dates and have thus been excluded from the above maturity table. However, $105.0m (2015: $122.0m) of equity linked funds could be liquidated within two weeks and the balance within six months, $303.8m (2015: $314.5m) of hedge fund assets within six months and the remaining $13.3m (2015: $14.5m) of hedge fund assets within 18 months. Illiquid credit assets are not readily realisable and principal will be returned over the life of these assets, which may be up to ten years.

As noted on page 68 consideration is also given when valuing the hedge funds to any restriction applied to distributions, the existence of side pocket provisions and the timing of the latest valuations. The adjustment to the underlying net asset value of the funds as a result of these considerations was $nil at 31 December 2016 (2015: $nil).

16 Financial assets and liabilities *continued*

Financial liabilities	2016 $m	2015 $m
Retail bond	94.7	112.3
Subordinated debt	18.0	18.0
Tier 2 subordinated debt (2026) – recalled in 2016	–	116.9
Tier 2 subordinated debt (2026) – issued in 2016	248.3	–
Derivative financial liabilities	2.8	0.1
Total financial liabilities	**363.8**	**247.3**

The amounts expected to mature before and after one year are:		
Within one year	2.8	117.0
After one year	361.0	130.3
	363.8	**247.3**

A breakdown of the group's investment portfolio is provided on page 34.
A breakdown of derivative financial instruments is disclosed in note 17.

The retail bond was issued by the company in 2012. The tier 2 subordinated debt was issued by the company in 2016. Please refer to note 24 for further details of our borrowings and associated repayment terms.

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.

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 31.

Valuation hierarchy

The table below summarises financial assets carried at fair value using a valuation hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – Valuations based on quoted prices in active markets for identical instruments. An active market is a market in which transactions for the instrument occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Included within level 1 are bonds and treasury bills of government and government agencies which are measured based on quoted prices in active markets.

Level 2 – Valuations based on quoted prices in markets that are not active, or based on pricing models for which significant inputs can be corroborated by observable market data (e.g. interest rates, exchange rates). Included within level 2 are government bonds and treasury bills which are not actively traded, corporate bonds, asset backed securities and mortgage-backed securities.

Level 3 – Valuations based on inputs that are unobservable or for which there is limited market activity against which to measure fair value.

The availability of financial data can vary for different financial assets and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on models or inputs that are unobservable in the market, the determination of fair value requires more judgement. Accordingly the degree of judgement exercised by management in determining fair value is greatest for instruments classified in level 3. The group uses prices and inputs that are current as of the measurement date for valuation of these instruments.

If the inputs used to measure the fair value of an asset or a liability can be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The group has an established control framework and valuation policy with respect to the measurement of fair values.

16 Financial assets and liabilities *continued*

Level 2 investments

For the group's level 2 debt securities our fund administrator obtains the prices used in the valuation from independent pricing vendors such as Bloomberg, Standard and Poor's, Reuters, Markit and International Data Corporation. The independent pricing vendors derive an evaluated price from observable market inputs. The market inputs include trade data, two-sided markets, institutional bids, comparable trades, dealer quotes, and other relevant market data. These inputs are verified in their pricing engines and calibrated with the pricing models to calculate spread to benchmarks, as well as other pricing assumptions such as Weighted Average life (WM), Discount Margins (DM), default rates, and recovery and prepayment assumptions for mortgage securities. While such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.

The group records the unadjusted price provided and validates the price through various tolerance checks such as comparison with the investment custodians and the investment managers to assess the reasonableness and accuracy of the price to be used to value the security. In the rare case that the price fails the tolerance test, it is escalated and discussed internally. We would not override the price on a retrospective basis, but we would work with the administrator and pricing vendor to investigate the difference. This generally results in the vendor updating their inputs. We also review the valuation policy on a regular basis to ensure it is fit for purpose. No adjustments have been made to the prices obtained from the administrator at the current year end.

For our hedge funds and equity linked funds, the pricing and valuation of each fund is undertaken by administrators in accordance with each underlying fund's valuation policy. For the equity linked funds, the individual fund prices are published on a daily, 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 linked fund portfolios are calculated by reference to the underlying net asset values of each of the individual funds.

Additional information is obtained from fund managers relating to the underlying assets within individual hedge funds. We identified that 77% (2015: 68%) 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 2016, the group's investment committee approved additional allocations to an illiquid asset portfolio comprising investments in funds managed by third party managers (generally closed end limited partnerships or open ended funds). While the funds provide full transparency on their underlying investments, the investments themselves are in many cases private and unquoted, and are therefore classified as level 3 investments.

These inputs can be subjective and may include a discount rate applied to the investment based on market factors and expectations of future cash flows, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance relative to benchmarks, financial condition, and financing transactions subsequent to the acquisition of the investment.

We take the following steps to ensure accurate valuation of these level 3 assets. A substantial part of the preinvestment due diligence process is dedicated to a comprehensive review of each fund's valuation policy and the internal controls of the manager. In addition to this, confirmation that the investment reaches a minimum set of standards relating to the independence of service providers, corporate governance, and transparency is sought prior to approval. Post investment, unaudited capital statements confirming the fair value of the limited partner interests are received and reviewed on a quarterly (or more frequent) basis. Audited financial statements are received on an annual basis, with the valuation of each transaction being confirmed.

16 Financial assets and liabilities *continued*

The following table shows the fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy.

2016	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	1,180.0	–	–	1,180.0
– Quasi-government	62.0	–	–	62.0
– Supranational	19.5	–	–	19.5
– Corporate bonds				
– Investment grade	45.0	2,113.0	–	2,158.0
– High yield	–	97.1	–	97.1
– Senior secured loans	–	96.2	–	96.2
– Asset backed securities	–	4.6	–	4.6
Equity linked funds	–	116.3	–	116.3
Hedge funds	–	317.1	–	317.1
Illiquid credit assets	–	6.3	126.1	132.4
Derivative financial assets	12.2	–	–	12.2
Total financial assets measured at fair value	**1,318.7**	**2,750.6**	**126.1**	**4,195.4**
Financial liabilities measured at fair value				
Derivative financial liabilities	2.8	–	–	2.8
Financial liabilities not measured at fair value				
Retail bond	–	100.8	–	100.8
Tier 2 subordinated debt (2026) – issued in 2016	–	253.3	–	253.3
Total financial liabilities not measured at fair value	**–**	**354.1**	**–**	**354.1**

2015	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets measured at fair value				
Fixed and floating rate debt securities				
– Government issued	1,091.0	10.0	–	1,101.0
– Quasi-government	205.0	157.8	–	362.8
– Supranational	393.3	–	–	393.3
– Corporate bonds				
– Investment grade	–	1,215.8	–	1,215.8
– High yield	–	68.3	–	68.3
– Senior secured loans	–	114.9	–	114.9
– Asset backed securities	–	12.7	–	12.7
Equity linked funds	–	147.5	–	147.5
Hedge funds	–	329.0	–	329.0
Illiquid credit assets	–	2.6	89.7	92.3
Derivative financial assets	4.6	–	–	4.6
Total financial assets measured at fair value	**1,693.9**	**2,058.6**	**89.7**	**3,842.2**

16 Financial assets and liabilities *continued*

2015	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial liabilities measured at fair value				
Derivative financial liabilities	0.1	–	–	0.1
Financial liabilities not measured at fair value				
Retail bond	–	114.4	–	114.4
Tier 2 subordinated debt (2026) – recalled in 2016	–	119.7	–	119.7
Total financial liabilities not measured at fair value	**–**	**234.1**	**–**	**234.1**

The table above does not include financial assets and liabilities that are, in accordance with the group's accounting policies, recorded at amortised cost, if the carrying amount of these financial assets and liabilities approximates their fair values at the reporting date. Cash and cash equivalents have not been included in the table above, however, the full amount of cash and cash equivalents would be classified under level 1 in both the current and prior year.

As at 31 December the investments comprising the group's unconsolidated structured entities are as follows:

	2016 $m	2015 $m
Asset backed securities	4.6	12.7
Equity linked funds	116.3	147.5
Hedge funds	317.1	329.0
Illiquid credit assets	132.4	92.3
Investments through unconsolidated structured entities	**570.4**	**581.5**

Apart from a small exposure to asset backed securities, 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 asset backed securities, equity linked funds and hedge funds ranges in frequency from daily to semi-annually. The group did not sponsor any of the respective structured entities.

These investments are included in financial assets at fair value through profit or loss in the statement of financial position. The group's maximum exposure to loss from its interests in investee funds is equal to the total fair value of its investments in investee funds and unfunded commitments. Once the group has disposed of its shares in an investee fund, it ceases to be exposed to any risk from that investee fund.

Unconsolidated structured entities

A structured entity is defined as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements.

As part of its standard investment activities the group holds fixed interest investments in asset backed securities, as well as capital growth investments in equity linked funds, hedge funds and illiquid credit assets which in accordance with IFRS 12 are classified as unconsolidated structured entities. The group does not sponsor any of the unconsolidated structured entities. The assets classified as unconsolidated structured entities are held at fair value on the statement of financial position.

As 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.

16 Financial assets and liabilities *continued*

Transfers and level 3 investment reconciliations

There were no transfers in either direction between level 1, level 2 and level 3 in either 2015 or 2016.

The table below shows a reconciliation from the opening balances to the closing balances of level 3 fair values.

	2016 $m	2015 $m
As at 1 January	89.7	38.0
Purchases	47.9	59.3
Sales	(21.6)	(11.0)
Total net gains recognised in profit or loss	10.1	3.4
As at 31 December	**126.1**	**89.7**

Currency exposures

The currency exposures of our financial assets held at fair value are detailed below:

2016	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Financial assets at fair value						
Fixed and floating rate debt securities	140.1	169.2	–	309.3	3,308.1	3,617.4
Equity linked funds	–	–	29.7	29.7	86.6	116.3
Hedge funds	–	–	–	–	317.1	317.1
Illiquid credit assets	–	–	8.1	8.1	124.3	132.4
Derivative financial assets	–	–	–	–	12.2	12.2
Total	**140.1**	**169.2**	**37.8**	**347.1**	**3,848.3**	**4,195.4**

2015	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Financial assets at fair value						
Fixed and floating rate debt securities	261.6	140.7	142.5	544.8	2,724.0	3,268.8
Equity linked funds	32.0	–	30.2	62.2	85.3	147.5
Hedge funds	–	–	(0.4)	(0.4)	329.4	329.0
Illiquid credit assets	–	–	4.3	4.3	88.0	92.3
Derivative financial assets	–	–	–	–	4.6	4.6
Total	**293.6**	**140.7**	**176.6**	**610.9**	**3,231.3**	**3,842.2**

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 2016 and 2015 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	2016 Gross contract amount $m	2016 Market value of derivative position $m	2015 Gross contract amount $m	2015 Market value of derivative position $m
Foreign exchange forward contracts	144.0	6.9	11.0	3.9
Bond futures contract	(843.4)	5.3	(815.3)	0.7
	(699.4)	**12.2**	**(804.3)**	**4.6**

Derivative financial instrument liabilities	2016 Gross contract amount $m	2016 Market value of derivative position $m	2015 Gross contract amount $m	2015 Market value of derivative position $m
Foreign exchange forward contracts	278.6	2.8	131.0	0.1
Bond futures contract	–	–	–	–
	278.6	**2.8**	**131.0**	**0.1**

Foreign exchange forward contracts

The group entered into over-the-counter foreign exchange forward agreements in order to hedge the foreign currency exposure resulting from transactions and balances held in currencies that are different to the functional currency of the group.

Bond 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

	2016 $m	2015 $m
Insurance receivables	795.0	732.7
	795.0	**732.7**

These are receivable within one year and relate to business transacted with brokers and intermediaries. All insurance receivables are classified as loans and receivables and their carrying values approximate fair value at the reporting date.

19 Reinsurance assets

	2016 $m	2015 $m
Reinsurers' share of claims	866.5	882.1
Impairment provision	(12.6)	(13.7)
	853.9	868.4
Reinsurers' share of unearned premium reserve	228.2	231.3
	1,082.1	**1,099.7**

Further analysis of the reinsurance assets is provided in note 23.

20 Cash and cash equivalents

Group	2016 $m	2015 $m
Cash at bank and in hand	374.6	585.8
Short term deposits and highly liquid investments	132.6	91.1
	507.2	**676.9**

Total cash and cash equivalents include $44.5m (2015: $56.2m) held in Lloyd's Singapore trust accounts. These funds are only available for use by the group to meet local claim and expense obligations.

Company	2016 $m	2015 $m
Cash at bank and in hand	0.7	18.4
	0.7	**18.4**

21 Share capital

	2016		2015	
	No. of shares (m)	$m	No. of shares (m)	$m
Ordinary shares of 5p each				
Authorised	700.0	55.8	700.0	55.8
Issued and fully paid	523.3	37.2	521.4	41.6
Balance at 1 January	**521.4**	**41.6**	**521.4**	**41.6**
Issue of shares	1.9	0.1	–	–
Creation of scheme of arrangement reserve	(523.3)	(41.7)	–	–
Issue of shares to parent company	523.3	37.2	–	–
Balance at 31 December	**523.3**	**37.2**	**521.4**	**41.6**

22 Other reserves

	Merger reserve $m	Scheme of arrangement reserve $m	Employee share options reserve $m	Employee share trust reserve $m	Total $m
Group					
Balance at 1 January 2015	**(15.4)**	–	**30.2**	**(46.9)**	**(32.1)**
Share based payments	–	–	17.5	–	17.5
Acquisition of own shares held in trust	–	–	–	(3.9)	(3.9)
Transfer of shares to employees	–	–	(11.2)	21.0	9.8
Balance at 31 December 2015	**(15.4)**	–	**36.5**	**(29.8)**	**(8.7)**
Share based payments	–	–	3.5	–	3.5
Acquisition of own shares held in trust	–	–	–	(5.0)	(5.0)
Transfer of shares to employees	–	–	(14.8)	13.2	(1.6)
Scheme of arrangement[1]	–	4.5	–	–	4.5
Reclassification of reserves[2]	–	–	(25.2)	21.6	(3.6)
Balance at 31 December 2016	**(15.4)**	**4.5**	–	–	**(10.9)**

1 With effect from 13 April 2016, under a scheme of arrangement involving a share exchange with the members of Beazley Ireland Holdings plc, Beazley plc became the new holding company for the Beazley group.

2 Following the scheme of arrangement, and when Beazley Ireland Holdings plc no longer acted as the ultimate parent company of the Beazley plc group, components of equity related to share reserves were re-classified as retained earnings.

	Merger reserve $m	Scheme of arrangement reserve $m	Employee share options reserve $m	Employee share trust reserve $m	Total $m
Company					
Balance at 1 January 2015	(35.4)	–	10.7	(16.6)	(41.3)
Share based payments	–	–	17.5	–	17.5
Acquisition of own shares held in trust	–	–	–	(3.9)	(3.9)
Transfer of shares to employees	–	–	(11.2)	21.0	9.8
Balance at 31 December 2015	**(35.4)**	–	**17.0**	**0.5**	**(17.9)**
Share based payments	–	–	3.5	–	3.5
Acquisition of own shares held in trust	–	–	–	(5.0)	(5.0)
Transfer of shares to employees	–	–	(14.8)	13.2	(1.6)
Scheme of arrangement[1]	–	4.5	–	–	4.5
Reclassification of reserves[2]	–	–	(5.7)	(8.7)	(14.4)
Balance at 31 December 2016	**(35.4)**	**4.5**	–	–	**(30.9)**

1 With effect from 13 April 2016, under a scheme of arrangement involving a share exchange with the members of Beazley Ireland Holdings plc, Beazley plc became the new holding company for the Beazley group.

2 Following the scheme of arrangement, and when Beazley Ireland Holdings plc no longer acted as the ultimate parent company of the Beazley plc group, components of equity related to share reserves were re-classified as retained earnings.

The merger reserve has arisen as a result of historic Beazley group restructuring. The most significant item is the reverse acquisition that occurred in 2009. The scheme of arrangement reserve has arisen as a result of the cancellation and reissuance of company share capital as part of the scheme of arrangement with Beazley plc.

23 Insurance liabilities and reinsurance assets

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

	2016 $m	2015 $m
Net		
Claims reported and loss adjustment expenses	747.7	727.2
Claims incurred but not reported	1,915.3	1,930.3
Net claims liabilities	2,663.0	2,657.5
Unearned premiums	912.6	829.5
Total insurance liabilities, net	**3,575.6**	**3,487.0**

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

23.1 Movements in insurance liabilities and reinsurance assets

a) Claims and loss adjustment expenses

	2016			2015		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
Claims reported and loss adjustment expenses	937.5	(210.3)	727.2	984.7	(195.0)	789.7
Claims incurred but not reported	2,588.4	(658.1)	1,930.3	2,540.2	(665.7)	1,874.5
Balance at 1 January	**3,525.9**	**(868.4)**	**2,657.5**	**3,524.9**	**(860.7)**	**2,664.2**
Claims paid	(989.5)	177.5	(812.0)	(916.1)	149.5	(766.6)
Increase in claims						
– Arising from current year claims	1,314.0	(277.7)	1,036.3	1,218.4	(228.3)	990.1
– Arising from prior year claims	(286.4)	105.7	(180.7)	(244.6)	68.3	(176.3)
Net exchange differences	(47.1)	9.0	(38.1)	(56.7)	2.8	(53.9)
Balance at 31 December	**3,516.9**	**(853.9)**	**2,663.0**	**3,525.9**	**(868.4)**	**2,657.5**
Claims reported and loss adjustment expenses	949.5	(201.8)	747.7	937.5	(210.3)	727.2
Claims incurred but not reported	2,567.4	(652.1)	1,915.3	2,588.4	(658.1)	1,930.3
Balance at 31 December	**3,516.9**	**(853.9)**	**2,663.0**	**3,525.9**	**(868.4)**	**2,657.5**

23 Insurance liabilities and reinsurance assets *continued*

b) Unearned premiums reserve

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

23.2 Assumptions, changes in assumptions and sensitivity analysis

a) Process used to decide on assumptions

The peer review reserving process

Beazley uses a quarterly dual track process to set its reserves:

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

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

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

Actuarial assumptions

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

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

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

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

23 Insurance liabilities and reinsurance assets *continued*

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

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

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

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

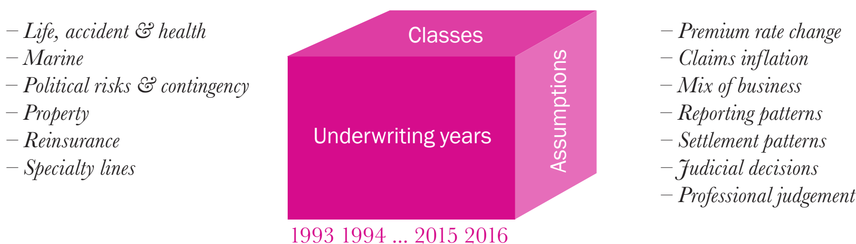
b) Major assumptions

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

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

c) Changes in assumptions

As already discussed, general insurance business requires many different assumptions. The diagram below illustrates the main categories of assumptions used for each underwriting year and class combination.



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

23 Insurance liabilities and reinsurance assets *continued*

d) Sensitivity analysis

The estimation of IBNR reserves for future claim notifications is subject to a greater degree of uncertainty than the estimation of the outstanding claims already notified. This is particularly true for the specialty lines business, which will typically display greater variations between initial estimates and final outcomes as a result of the greater degree of difficulty in estimating these reserves. The estimation of IBNR reserves for other business written is generally subject to less variability as claims are generally reported and settled relatively quickly.

As such, our reserving assumptions contain a reasonable margin for prudence given the uncertainties inherent in the insurance business underwritten, particularly on the longer tailed specialty lines classes.

Since year end 2004, we have identified a range of possible outcomes for each class and underwriting year combination directly from our internal model (previously our individual capital assessment (ICA)) process. Comparing these with our pricing assumptions and reserving estimates gives our management team increased clarity into our perceived reserving strength and the relative uncertainties of the business written.

To illustrate the robustness of our reserves, the loss development tables below provide information about historical claims development by the six segments – life, accident & health, marine, political risks & contingency, property, reinsurance and specialty lines. The tables are by underwriting year which in our view provides the most transparent reserving basis. We have supplied tables for both ultimate gross claims and ultimate net claims.

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

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of these financial statements are cautioned against extrapolating past redundancies or deficiencies on current claims liabilities. The group believes that the estimate of total claims liabilities as at 31 December 2016 is adequate. However, due to inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

23 Insurance liabilities and reinsurance assets *continued*

Gross ultimate claims	2006 ae %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %
Life, accident & health											
12 months				53.0	52.2	56.1	56.9	63.2	64.0	67.0	68.3
24 months				53.1	52.1	52.5	67.8	64.2	66.4	69.4	
36 months				45.8	48.5	59.5	65.1	62.8	63.7		
48 months				43.4	47.0	56.3	61.9	60.9			
60 months				42.6	46.5	54.2	58.6				
72 months				41.5	45.5	52.9					
84 months				41.5	45.2						
96 months				41.5							
108 months											
120 months											
Marine											
12 months		58.9	69.4	54.4	50.5	54.6	55.9	56.3	57.5	56.7	59.5
24 months		60.0	65.5	50.9	49.8	47.4	46.4	52.0	46.7	54.1	
36 months		50.6	59.4	44.2	44.1	38.9	34.8	44.2	47.0		
48 months		48.2	63.3	40.7	42.4	33.6	32.3	42.5			
60 months		49.5	62.9	40.4	40.4	35.3	31.5				
72 months		49.8	59.2	48.7	40.2	31.5					
84 months		46.8	55.4	47.8	42.2						
96 months		44.0	54.8	49.2							
108 months		43.4	51.7								
120 months		43.4									
Political risks & contingency											
12 months		57.2	57.4	61.1	61.2	58.4	62.2	57.1	56.0	54.8	55.7
24 months		39.1	71.7	38.5	40.2	39.3	43.9	41.1	41.2	51.9	
36 months		56.4	76.3	33.8	33.1	33.8	39.8	34.6	35.8		
48 months		53.3	89.6	29.1	23.5	27.6	38.1	33.7			
60 months		53.4	74.0	23.0	22.2	25.9	35.5				
72 months		49.5	62.7	17.4	20.9	23.2					
84 months		46.9	59.5	17.6	19.5						
96 months		49.0	60.0	17.6							
108 months		44.9	59.1								
120 months		39.7									
Property											
12 months		57.7	70.5	53.6	57.7	58.1	55.4	55.1	53.2	54.9	58.9
24 months		55.6	65.1	41.4	60.3	50.3	47.4	49.2	47.7	49.0	
36 months		52.9	64.1	36.2	58.3	47.7	39.7	45.8	41.3		
48 months		53.5	62.0	35.1	55.6	45.9	36.7	45.8			
60 months		56.7	60.4	34.0	52.8	45.1	36.1				
72 months		66.3	59.3	33.0	51.9	43.9					
84 months		66.5	58.2	32.5	51.0						
96 months		65.7	57.6	32.0							
108 months		64.9	57.3								
120 months		64.7									

23 Insurance liabilities and reinsurance assets *continued*

Gross ultimate claims	2006 ae %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	
Reinsurance												
12 months		59.5	59.8	60.7	68.0	79.6	62.9	57.9	61.4	65.7	68.0	
24 months		24.5	54.6	47.8	141.0	77.7	37.6	44.3	33.5	33.8		
36 months		20.3	44.9	39.7	127.8	69.8	32.2	41.7	30.9			
48 months		19.0	41.4	39.1	120.2	66.1	31.4	40.4				
60 months		18.1	41.1	35.0	123.6	63.3	31.4					
72 months		18.0	41.2	32.1	122.3	63.1						
84 months		16.3	40.5	31.5	122.3							
96 months		15.5	40.2	31.5								
108 months		15.2	40.1									
120 months		15.2										
Specialty lines												
12 months		72.7	72.0	72.5	73.7	75.4	73.9	73.4	68.5	67.4	65.3	
24 months		72.2	71.8	72.4	73.8	75.5	74.0	73.1	68.4	67.7		
36 months		72.0	71.8	71.6	72.8	76.4	72.0	72.9	65.0			
48 months		71.9	71.9	71.3	73.3	75.4	70.1	69.3				
60 months		72.2	71.4	71.6	69.5	74.0	67.1					
72 months		71.9	71.7	68.5	69.7	69.3						
84 months		71.9	70.0	69.7	69.4							
96 months		71.2	73.5	70.2								
108 months		70.5	72.9									
120 months		71.3										
Total												
12 months		64.5	69.1	62.8	64.4	67.2	64.6	63.6	62.1	62.7	63.4	
24 months		59.9	68.1	56.9	71.3	62.8	58.2	59.2	55.8	58.4		
36 months		58.7	66.5	53.0	67.4	60.4	53.2	56.3	52.5			
48 months		58.0	67.8	51.6	65.3	57.8	51.0	54.2				
60 months		59.1	65.7	50.7	63.0	56.9	49.1					
72 months		60.9	64.1	49.7	62.6	53.7						
84 months		60.0	62.1	49.9	62.5							
96 months		59.1	63.6	50.3								
108 months		58.2	62.6									
120 months		58.0										
Estimated total ultimate losses ($m)	4,405.2	1,017.5	1,183.4	1,058.0	1,306.5	1,025.9	948.6	1,167.4	1,230.5	1,410.6	1,580.8	16,334.4
Less paid claims ($m)	(4,232.7)	(917.6)	(1,021.7)	(834.0)	(1,123.5)	(808.9)	(727.1)	(681.7)	(565.0)	(337.6)	(63.7)	(11,313.5)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(17.5)	(804.5)	(822.0)
Gross claims liabilities (100% level) ($m)	**172.5**	**99.9**	**161.7**	**224.0**	**183.0**	**217.0**	**221.5**	**485.7**	**665.5**	**1,055.5**	**712.6**	**4,198.9**
Less non-group share ($m)	(32.0)	(19.7)	(20.9)	(36.5)	(35.0)	(39.8)	(48.9)	(79.0)	(103.5)	(159.9)	(106.8)	(682.0)
Gross claims liabilities, group share ($m)	**140.5**	**80.2**	**140.8**	**187.5**	**148.0**	**177.2**	**172.6**	**406.7**	**562.0**	**895.6**	**605.8**	**3,516.9**

23 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2006 ae %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %
Life, accident & health											
12 months				51.7	50.9	55.2	58.1	65.7	62.5	65.2	68.2
24 months				51.6	51.8	54.9	65.3	68.1	64.6	66.4	
36 months				44.4	52.2	63.3	63.2	66.4	61.5		
48 months				45.6	50.5	59.8	56.7	63.6			
60 months				44.9	49.9	57.5	54.4				
72 months				43.8	48.9	56.1					
84 months				43.7	48.5						
96 months				43.7							
108 months											
120 months											
Marine											
12 months		56.1	61.4	53.3	52.1	55.6	55.4	55.8	56.3	56.7	56.7
24 months		56.5	56.8	47.5	49.3	47.6	46.1	53.1	48.3	52.5	
36 months		49.4	50.4	38.8	44.8	38.5	37.5	47.2	46.4		
48 months		46.5	47.2	35.1	42.7	34.3	35.1	45.6			
60 months		47.2	46.7	34.8	41.1	35.4	34.0				
72 months		47.2	46.1	38.4	40.1	32.0					
84 months		44.8	44.9	37.7	42.3						
96 months		42.8	44.4	37.0							
108 months		42.4	44.8								
120 months		42.4									
Political risks & contingency											
12 months		55.3	55.8	59.6	57.2	54.6	59.0	54.6	52.9	51.9	52.7
24 months		40.5	79.6	35.2	37.8	38.0	42.5	40.3	39.3	48.9	
36 months		55.1	79.2	31.5	30.6	32.0	38.7	35.3	33.1		
48 months		54.9	81.7	26.9	21.3	29.0	38.5	32.9			
60 months		52.6	71.3	21.1	20.2	27.1	34.8				
72 months		49.2	60.4	16.5	18.9	24.4					
84 months		46.9	57.0	16.7	16.8						
96 months		48.7	57.1	16.6							
108 months		45.1	56.8								
120 months		40.4									
Property											
12 months		60.7	66.9	53.3	58.8	60.2	58.6	56.7	54.5	55.0	57.6
24 months		58.6	66.7	47.2	65.0	57.6	52.9	56.3	51.2	50.2	
36 months		57.6	64.6	43.6	65.7	53.5	45.9	52.3	44.2		
48 months		57.8	63.5	41.4	59.7	50.2	41.2	50.2			
60 months		60.9	62.4	40.8	57.6	48.9	40.7				
72 months		61.6	61.0	39.5	56.5	47.8					
84 months		61.7	60.3	39.0	56.0						
96 months		61.3	59.3	38.7							
108 months		61.2	59.0								
120 months		60.9									

23 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2006 ae %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	2013 %	2014 %	2015 %	2016 %	
Reinsurance												
12 months		55.2	68.8	55.5	76.7	90.6	67.0	55.8	58.8	61.3	61.4	
24 months		28.8	61.9	52.4	125.3	88.0	45.7	50.9	37.4	34.3		
36 months		23.9	51.5	46.7	115.2	80.7	39.3	47.5	33.5			
48 months		22.2	49.1	45.9	109.2	75.2	38.0	46.1				
60 months		21.5	48.6	41.1	119.3	72.9	38.0					
72 months		21.3	49.0	37.8	113.2	72.9						
84 months		19.4	47.8	37.0	113.2							
96 months		18.4	47.5	37.0								
108 months		18.0	47.4									
120 months		18.0										
Specialty lines												
12 months		70.0	70.0	69.5	70.9	72.4	71.0	69.5	66.0	63.5	62.9	
24 months		68.8	69.9	69.3	71.0	72.4	70.5	69.0	65.9	63.9		
36 months		68.6	69.8	68.7	70.4	71.6	68.6	68.4	63.6			
48 months		67.3	68.5	65.8	69.5	69.5	65.7	63.5				
60 months		67.4	67.8	65.7	68.8	70.0	63.7					
72 months		67.3	67.7	64.8	68.9	68.7						
84 months		67.3	67.7	65.4	68.8							
96 months		67.1	69.9	65.4								
108 months		66.3	69.7									
120 months		65.2										
Total												
12 months		63.2	66.7	60.6	64.2	67.0	64.0	62.1	60.6	60.1	60.8	
24 months		59.2	67.1	56.4	68.4	63.6	58.4	60.0	56.1	56.6		
36 months		58.3	64.6	52.8	66.0	60.1	53.8	57.2	52.5			
48 months		57.3	63.4	50.3	62.9	57.0	50.8	54.1				
60 months		57.9	61.8	49.3	62.8	56.7	49.3					
72 months		57.7	60.6	48.6	61.8	55.1						
84 months		57.0	59.9	48.5	61.8							
96 months		56.5	60.6	48.3								
108 months		55.7	60.5									
120 months		54.8										
Estimated total ultimate losses ($m)	2,767.0	846.1	928.4	775.8	1,064.1	860.0	829.5	976.3	1,047.1	1,124.7	1,270.4	12,489.4
Less paid claims ($m)	(2,643.9)	(769.5)	(822.5)	(660.6)	(917.6)	(702.2)	(620.0)	(590.3)	(497.5)	(307.5)	(54.2)	(8,585.8)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	–	(23.9)	(700.4)	(724.3)
Net claims liabilities (100% level) ($m)	**123.1**	**76.6**	**105.9**	**115.2**	**146.5**	**157.8**	**209.5**	**386.0**	**549.6**	**793.3**	**515.8**	**3,179.3**
Less non-group share ($m)	(23.2)	(12.6)	(16.3)	(21.7)	(26.9)	(31.8)	(36.9)	(62.9)	(83.2)	(122.7)	(78.1)	(516.3)
Net claims liabilities, group share ($m)	**99.9**	**64.0**	**89.6**	**93.5**	**119.6**	**126.0**	**172.6**	**323.1**	**466.4**	**670.6**	**437.7**	**2,663.0**

23 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 2016 for each underwriting year.

Life, accident & health

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

Marine

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

Political risks & contingency

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

Property

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

Reinsurance

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

Specialty lines

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

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

Claim releases

The table below analyses our net claims between current year claims and adjustments to prior year net claims reserves. These have been broken down by segment and underwriting year. Beazley's reserving policy is to maintain catastrophe reserve margins either until the end of the exposure period or until catastrophe events occur. Therefore margins have been released from prior year reserves where risks have expired during 2016.

The net of reinsurance estimates of ultimate claims costs on the 2015 and prior underwriting years have improved by $180.7m during 2016 (2015: $176.3m). This movement arose from a combination of better than expected claims experience coupled with small changes to the many assumptions resulting from the observed experience.

The movements shown on 2013 and earlier are absolute claim movements and are not impacted by any current year movements in premium on those underwriting years.

2016	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	77.1	114.8	49.9	152.0	72.5	570.0	1,036.3
Prior year							
– 2013 underwriting year and earlier	(4.3)	(7.0)	(13.4)	(11.6)	–	(52.0)	(88.3)
– 2014 underwriting year	(3.3)	(4.1)	(5.7)	(18.4)	(4.2)	(17.0)	(52.7)
– 2015 underwriting year	0.5	(4.8)	(1.0)	(6.8)	(28.1)	0.5	(39.7)
	(7.1)	(15.9)	(20.1)	(36.8)	(32.3)	(68.5)	(180.7)
Net insurance claims	**70.0**	**98.9**	**29.8**	**115.2**	**40.2**	**501.5**	**855.6**

23 Insurance liabilities and reinsurance assets *continued*

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

24 Borrowings

The carrying amount and fair values of the non-current borrowings are as follows:

	2016 $m	2015 $m
Carrying value		
Subordinated debt	18.0	18.0
Tier 2 subordinated debt (2026) – recalled in 2016	–	116.9
Tier 2 subordinated debt (2026) – issued in 2016	248.3	–
Retail bond	94.7	112.3
	361.0	**247.2**
Fair value		
Subordinated debt	18.0	18.0
Tier 2 subordinated debt (2026) – recalled in 2016	–	119.7
Tier 2 subordinated debt (2026) – issued in 2016	253.3	–
Retail bond	100.8	114.4
	372.1	**252.1**

Company	2016 $m	2015 $m
Carrying value		
Retail bond	94.7	112.3
Fair value		
Retail bond	100.8	114.4

The fair values of the subordinated debt, the tier 2 subordinated debt and the retail bond are based on quoted market prices.

In November 2004, the group issued subordinated debt of $18m to JPMorgan Chase Bank, N.A., JPMorgan. The loan is unsecured and interest is payable at the USD London interbank offered rate (LIBOR) plus a margin of 3.65% per annum. The subordinated notes are due in November 2034 and have been callable at the group's option since 2009.

In October 2006, the group issued £150m of unsecured fixed/floating rate subordinated notes that were due in October 2026 with a first call at the group's option in October 2016. Interest of 7.25% per annum was paid annually in arrears for the period up to October 2016. In October 2016, the group exercised its first call option and bought back the remaining outstanding nominal amount of debt of £76.5m. Please refer to note 8 for further detail on debt buyback.

In September 2012, the group issued £75m of sterling denominated 5.375% notes due 2019. Interest at a fixed rate of 5.375% is payable in March and September each year. The carrying value of the note has reduced in 2016 due to a decrease in GBP FX rate against USD.

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.

25 Other payables

Group	2016 $m	2015 $m
Reinsurance premiums payable	177.8	159.1
Accrued expenses including staff bonuses	147.4	142.3
Other payables	100.4	118.5
Deferred consideration payable on acquisition of MGAs	1.4	1.8
Due to syndicate 6107	47.0	34.8
Due to syndicate 623	–	2.9
Due to syndicate 6050	9.7	3.9
Due to Beazley plc	13.3	–
	497.0	**463.3**

Company	2016 $m	2015 $m
Other payables	1.6	1.3
	1.6	**1.3**

All other payables are payable within one year of the reporting date other than $1.4m of the deferred consideration, which is payable after one year. The carrying value approximates fair values.

26 Retirement benefit obligations

	2016 $m	2015 $m
Present value of funded obligations	48.2	43.1
Fair value of plan assets	(42.0)	(42.4)
Retirement benefit liability in the statement of financial position	**6.2**	**0.7**
Amounts recognised in the statement of profit or loss		
Interest cost	1.4	1.4
Expected return on plan assets	(1.4)	(1.5)
	–	**(0.1)**

Beazley Furlonge Limited operates a defined benefit pension scheme ('the Beazley Furlonge Limited Pension Scheme'). The scheme provides the following benefits:

- an annual pension payable to the member from his or her normal pension age (60th birthday) of generally 1/60th of final pensionable salary for each year of pensionable service up to 31 March 2006;
- a spouse's pension of 2/3rds of the member's pension payable on the member's death after retirement;
- a lump sum of four times current pensionable salary for death in service at the date of death; and
- a pension of 2/3rds of the member's prospective pension at the date of death, payable to the spouse until their death. This pension is related to salary at the date of death.

The scheme is administered by a trust that is legally separated from the group. The trustees consist of both employee and employer representatives and an independent chair, all of whom are governed by the scheme rules.

The scheme exposes the group to additional actuarial, interest rate and market risk.

Contributions to the scheme are determined by a qualified actuary using the projected unit credit method as set out in the scheme rules and the most recent valuation was at 31 December 2016. The group expects to pay $1.3m in contributions to the scheme in 2017.

26 Retirement benefit obligations *continued*

	2016 $m	2015 $m
Movement in present value of funded obligations recognised in the statement of financial position		
Balance at 1 January	**43.1**	**43.6**
Interest cost	1.4	1.4
Actuarial gains/(losses)	10.9	(0.1)
Benefits paid	(0.3)	(0.4)
Foreign exchange gain	(6.9)	(1.4)
Balance at 31 December	**48.2**	**43.1**
Movement in fair value of plan assets recognised in the statement of financial position		
Balance at 1 January	**42.4**	**41.0**
Expected return on plan assets	1.4	1.5
Actuarial gains	3.7	0.2
Employer contributions	1.6	1.5
Benefits paid	(0.3)	(0.4)
Foreign exchange loss	(6.8)	(1.4)
Balance at 31 December	**42.0**	**42.4**
Plan assets are comprised as follows:		
Equities	27.7	21.0
Bonds	8.0	16.3
Cash	–	5.1
UCITS funds	6.3	–
Total	**42.0**	**42.4**

The actual gain on plan assets was $5.0m (2015: $1.7m).

	2016 $m	2015 $m
Principal actuarial assumptions		
Discount rate	2.8%	3.5%
Inflation rate	3.5%	3.1%
Expected return on plan assets	2.8%	3.5%
Future salary increases	3.5%	3.1%
Future pensions increases	3.0%	2.7%
Life expectancy for members aged 60 at 31 December	90 years	90 years
Life expectancy for members aged 46 at 31 December	92 years	92 years

At 31 December 2016, the weighted-average duration of the defined benefit obligation was 10.7 years (2015: 11.4 years).

26 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 2016	Increase $m	Decrease $m
Discount rate (0.5% decrease)	6.9	–
Inflation rate (0.3% decrease)	–	(3.9)
Future salary changes (0.5% decrease)	–	(0.3)
Life expectancy (1 year increase)	1.4	–

31 December 2015	Increase $m	Decrease $m
Discount rate (0.5% decrease)	5.9	–
Inflation rate (0.3% decrease)	–	(3.0)
Future salary changes (0.5% decrease)	–	(0.2)
Life expectancy (1 year increase)	1.1	–

27 Deferred tax

	2016 $m	2015 $m
Deferred tax asset	11.0	7.1
Deferred tax liability	(12.8)	(6.0)
	(1.8)	**1.1**

The movement in the net deferred income tax is as follows:		
Balance at 1 January	1.1	0.5
Income tax (charge)/credit	(3.0)	0.8
Amounts recorded through equity	1.5	(0.1)
Foreign exchange translation differences	(1.4)	(0.1)
Balance at 31 December	**(1.8)**	**1.1**

	Balance 1 Jan 16 $m	Recognised in income $m	Recognised in equity $m	FX translation differences $m	Balance 31 Dec 16 $m
Plant and equipment	0.5	(0.2)	–	–	0.3
Intangible assets	1.2	–	–	–	1.2
Underwriting profits	(13.4)	(9.6)	–	–	(23.0)
Timing differences	7.1	3.8	–	–	10.9
Other	5.7	3.0	1.5	(1.4)	8.8
Net deferred income tax account	**1.1**	**(3.0)**	**1.5**	**(1.4)**	**(1.8)**

	Balance 1 Jan 15 $m	Recognised in income $m	Recognised in equity $m	FX translation differences $m	Balance 31 Dec 15 $m
Plant and equipment	0.3	0.2	–	–	0.5
Intangible assets	1.3	(0.1)	–	–	1.2
Underwriting profits	(14.1)	0.7	–	–	(13.4)
Timing differences	8.9	(1.8)	–	–	7.1
Other	4.1	1.8	(0.1)	(0.1)	5.7
Net deferred income tax account	**0.5**	**0.8**	**(0.1)**	**(0.1)**	**1.1**

27 Deferred tax *continued*

The group has tax adjusted losses carried forward giving rise to a deferred tax asset of $1.2m, measured at the UK corporation tax rate of 17.0%. 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.

28 Operating lease commitments

The group leases land and buildings under non-cancellable operating lease agreements.

The future minimum lease payments under the non-cancellable operating leases are as follows:

	2016 $m	2015 $m
No later than one year	9.4	8.3
Later than one year and no later than five years	27.0	31.1
Later than five years	6.8	3.2
	43.2	**42.6**

29 Related party transactions

The group and company have related party relationships with syndicates 623, 6107, 6050, its subsidiaries, associates and its directors.

29.1 Syndicates 623, 6107 and 6050

The group received management fees and profit commissions for providing a range of management services to syndicates 623, 6107 and 6050, which are all managed by the group. In addition, the group ceded portions or all of a group of insurance policies to both syndicates 6107 and 6050. The participants on syndicates 623, 6107 and 6050 are solely third party capital. Details of transactions entered into and the balances with these syndicates are as follows:

	2016 $m	2015 $m
Written premium ceded to syndicates	57.3	53.2
Other income received from syndicates	33.1	28.2
Services provided	38.6	39.2
Balances due:		
Due from/(to) syndicate 623	4.7	(2.9)
Due to syndicate 6107	(47.0)	(34.8)
Due to syndicate 6050	(9.7)	(3.9)

29.2 Key management compensation

	2016 $m	2015 $m
Salaries and other short term benefits	21.0	21.0
Post-employment benefits	0.6	0.7
Share-based remuneration	12.7	12.7
	34.3	**34.4**

Key management include executive and non-executive directors of Beazley plc and other senior management. This compensation was borne by Beazley Management limited, which is a part of Beazley Ireland Holdings plc group.

29 Related party transactions *continued*

29.3 Other related party transactions

At 31 December 2016, the group purchased services from the associate of $2.5m (2015: $2.6m) throughout the year. All transactions with the associate and subsidiaries are priced on an arm's length basis. Beazley loaned $2m at an interest rate of 5.25% p.a to our associate Equinox Global Limited. The outstanding balance on this loan at 31 December 2016 is $2m and will be repayable by 2018.

29.4 Scheme of arrangement

As mentioned in note 1 to the financial statements, the group executed a scheme of arrangement in April 2016, the effect of which was the establishment of a new ultimate holding company of the Beazley group, Beazley plc. At 31 December 2016, the amount owed to Beazley plc by Beazley Ireland Holdings plc and its subsidiaries was $13.3m (2015: $nil).

30 Parent company and subsidiary undertakings

Beazley Ireland Holdings plc, a company incorporated in Jersey and resident for tax purposes in the Republic of Ireland is the parent company for the group. Beazley plc is the ultimate parent of Beazley Ireland Holdings plc and the ultimate controlling party within the Beazley plc group.

The following is a list of all the subsidiaries in the group as at 31 December 2016:

	Country of incorporation	Ownership interest	Nature of business	Functional currency	Beazley Ireland Holdings plc direct investment in subsidiary ($m)
Beazley Group Limited[1]	England	100%	Intermediate holding company	USD	–[1]
Beazley Furlonge Holdings Limited	England	100%	Intermediate holding company	USD	
Beazley Furlonge Limited	England	100%	Lloyd's underwriting agents	GBP	
Beazley Investments Limited	England	100%	Investment company	USD	
Beazley Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Management Limited	England	100%	Intermediate management company	GBP	
Beazley Staff Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Solutions Limited	England	100%	Insurance services	GBP	
Beazley Underwriting Services Limited	England	100%	Insurance services	GBP	
Beazley DAS Limited	England	100%	Dividend access scheme	GBP	
Beazley Corporate Member (No.2) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.3) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.4) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.5) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Corporate Member (No.6) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Leviathan Limited	England	100%	Underwriting at Lloyd's	GBP	
Beazley Re dac	Ireland	100%	Reinsurance of Lloyd's business	USD	747.2
Beazley Underwriting Pty Ltd	Australia	100%	Insurance services	AUD	
Australian Income Protection Pty Ltd	Australia	100%	Insurance services	AUD	
Beazley USA Services, Inc.*	USA	100%	Insurance services	USD	
Beazley Holdings, Inc.*	USA	100%	Holding company	USD	
Beazley Group (USA) General Partnership**	USA	100%	General partnership	USD	
Beazley Insurance Company, Inc.***	USA	100%	Underwriting admitted lines	USD	
Lodestone Securities LLC****	USA	100%	Consultancy services	USD	
Beazley Limited	Hong Kong	100%	Insurance services	HKD	
Beazley Middle East Limited	UAE	100%	Insurance services	USD	
Beazley Pte. Limited	Singapore	100%	Underwriting at Lloyd's	SGD	
					747.2

1 Beazley Ireland Holdings plc holds a direct investment in Beazley Group Limited of $2.

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30 Parent company and subsidiary undertakings *continued*

The following is a list of group registered office locations:

Address	City	Postcode	Country
United Kingdom and Continental Europe			
60 Great Tower Street	London	EC3R 5AD	England
2 Northwood Avenue	Dublin	D09 X5N9	Ireland
22 Grenville Street	Saint Helier	JE4 8PX	Jersey
United States			
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
Middle East			
Precinct Building 2, Dubai international financial centre	Dubai	PO Box 506929	UAE
Asia			
8 Marina View	Singapore	018960	Singapore
36/F., Tower Two, Times Square, 1 Matheson Street	Causeway Bay	–	Hong Kong
Australia			
Level 20, 133 Castlereagh Street	Sydney	NSW 2000	Australia

31 Contingencies

Funds at Lloyd's

The following amounts are controlled by Lloyd's to secure underwriting commitments.

	Underwriting year 2017 £m	Underwriting year 2016 £m	Underwriting year 2015 £m
Debt securities and other fixed income securities	656.9	447.6	513.9

The funds are held in trust and can be used to meet claims liabilities should syndicates' members fail to meet their claims liabilities. The funds can only be used to meet claim liabilities of the relevant member.

These balances are included within financial assets at fair value on the statement of financial position.

32 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:

	2016		2015	
	Average	Year end spot	Average	Year end spot
Pound sterling	0.73	0.79	0.65	0.66
Canadian dollar	1.34	1.31	1.26	1.38
Euro	0.91	0.94	0.90	0.91

33 Subsequent events

In January 2017 Beazley Furlonge Holdings Limited, an indirect 100% owned subsidiary of Beazley Ireland Holdings plc, set up a direct 100% owned subsidiary, 1104980 B.C. Ltd. (BC Limited), in Canada. The principal activity of BC Limited is to act as an intermediate holding company within the Beazley group. This subsidiary agreed to acquire 100% of a Canadian coverholder, Creechurch International Underwriters Limited (now Beazley Canada Limited/Limitée), on 3 February 2017. This acquisition secured a strategic platform for specialty lines and a Beazley expansion into Canada. It also allowed us to write more business through increased line size and launching new specialist products through the acquiree's distribution. The acquisition was achieved in one stage. The transaction was partially funded by a loan of $17.2m provided to BC Limited by Beazley Group Limited. The total estimated amount of consideration payable by BC Limited is $33.8m. The total amount of consideration represents cash which was paid only as no contingent consideration was offered.

The acquired company has the following estimated identifiable assets and liabilities, thus the acquisition is expected to have the following estimated effect on the group's financial statements.

Fair value of the net assets acquired (estimated)	$m
Fixed assets	0.1
Cash and cash equivalents	3.5
Other receivables	2.6
Other payables	(4.3)
Estimated value of net assets acquired	**1.9**

The analysis assessing the impact of the acquisition on the group's assets and liabilities is still ongoing. As such, disclosures relating to the value of goodwill recognised, acquisition-related transaction costs and the acquiree's post acquisition revenue and profit or loss is not currently available. Based on our analysis to date, and following the implementation of recognition principle, the estimated value of identifiable intangible assets is expected to be $31.9m. Together with net assets acquired it constitutes an estimated consideration price of $33.8m.

34 Business combinations

Acquisition of business portfolio

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

SRPE was subsequently renamed Beazley Leviathan Limited.

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

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

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

Glossary

Aggregates/aggregations
Accumulations of insurance loss exposures which result from underwriting multiple risks that are exposed to common causes of loss.

Aggregate excess of loss
The reinsurer indemnifies an insurance company (the reinsured) for an aggregate (or cumulative) amount of losses in excess of a specified aggregate amount.

A.M. Best
A.M. Best is a worldwide insurance-rating and information agency whose ratings are recognised as an ideal benchmark for assessing the financial strength of insurance related organisations, following a rigorous quantitative and qualitative analysis of a company's statement of financial position strength, operating performance and business profile.

Binding authority
A contracted agreement between a managing agent and a coverholder under which the coverholder is authorised to enter into contracts of insurance for the account of the members of the syndicate concerned, subject to specified terms and conditions.

Capacity
This is the maximum amount of premiums that can be accepted by a syndicate. Capacity also refers to the amount of insurance coverage allocated to a particular policyholder or in the marketplace in general.

Capital growth assets
These are assets that do not pay a regular income and target an increase in value over the long term. They will typically have a higher risk and volatility than that of the core portfolio. Currently these are the hedge funds, equity linked funds and illiquid credit assets.

Catastrophe reinsurance
A form of excess of loss reinsurance which, subject to a specified limit, indemnifies the reinsured company for the amount of loss in excess of a specified retention with respect to an accumulation of losses resulting from a catastrophic event or series of events.

Claims
Demand by an insured for indemnity under an insurance contract.

Claims ratio
Ratio, in percentage terms, of net insurance claims to net earned premiums. The calculation is performed excluding the impact of foreign exchange. In 2016, this ratio was 48% (2015: 48%). This represented total claims of $855.6m (2015: $813.9m) divided by net earned premiums of $1,768.2m (2015: $1,698.7m).

Combined ratio
Ratio, in percentage terms, of the sum of net insurance claims, expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. This is also the sum of the expense ratio and the claims ratio. The calculation is performed excluding the impact of foreign exchange. In 2016, this ratio was 89% (2015: 87%). This represents the sum of net insurance claims of $855.6m (2015: $813.9m), expenses for acquisition of insurance contracts of $472.5m (2015: $448.6m) and administrative expenses of $246.7m (2015: $215.2m) to net earned premiums of $1,768.2m (2015: $1,698.7m). This is also the sum of the expense ratio 41% (2015: 39%) and the claims ratio 48% (48%).

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

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

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

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

Expense ratio
Ratio, in percentage terms, of the sum of expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. The calculation is performed excluding the impact of foreign exchange on non-monetary items. In 2016, the expense ratio was 41% (2015: 39%). This represents the sum of expenses for acquisition of insurance contracts of $472.5m (2015: $448.6m) and administrative expenses of $246.7m (2015: $215.2m) to earned premiums of $1,768.2m (2015: $1,698.7m).

Facultative reinsurance
A reinsurance risk that is placed by means of a separately negotiated contract as opposed to one that is ceded under a reinsurance treaty.

Gross premiums written
Amounts payable by the insured, excluding any taxes or duties levied on the premium, including any brokerage and commission deducted by intermediaries.

Hard market
An insurance market where prevalent prices are high, with restrictive terms and conditions offered by insurers.

Horizontal limits
Reinsurance coverage limits for multiple events.

Incurred but not reported (IBNR)
These are anticipated or likely claims that may result from an insured event although no claims have been reported so far.

International Accounting Standards Board (IASB)
An independent accounting body responsible for developing IFRS (see below).

International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS)
Standards formulated by the IASB with the intention of achieving internationally comparable financial statements. Since 2002, the standards adopted by the IASB have been referred to as International Financial Reporting Standards (IFRS). Until existing standards are renamed, they continue to be referred to as International Accounting Standards (IAS).

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk
This term may refer to:

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

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

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

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

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

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

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

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

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