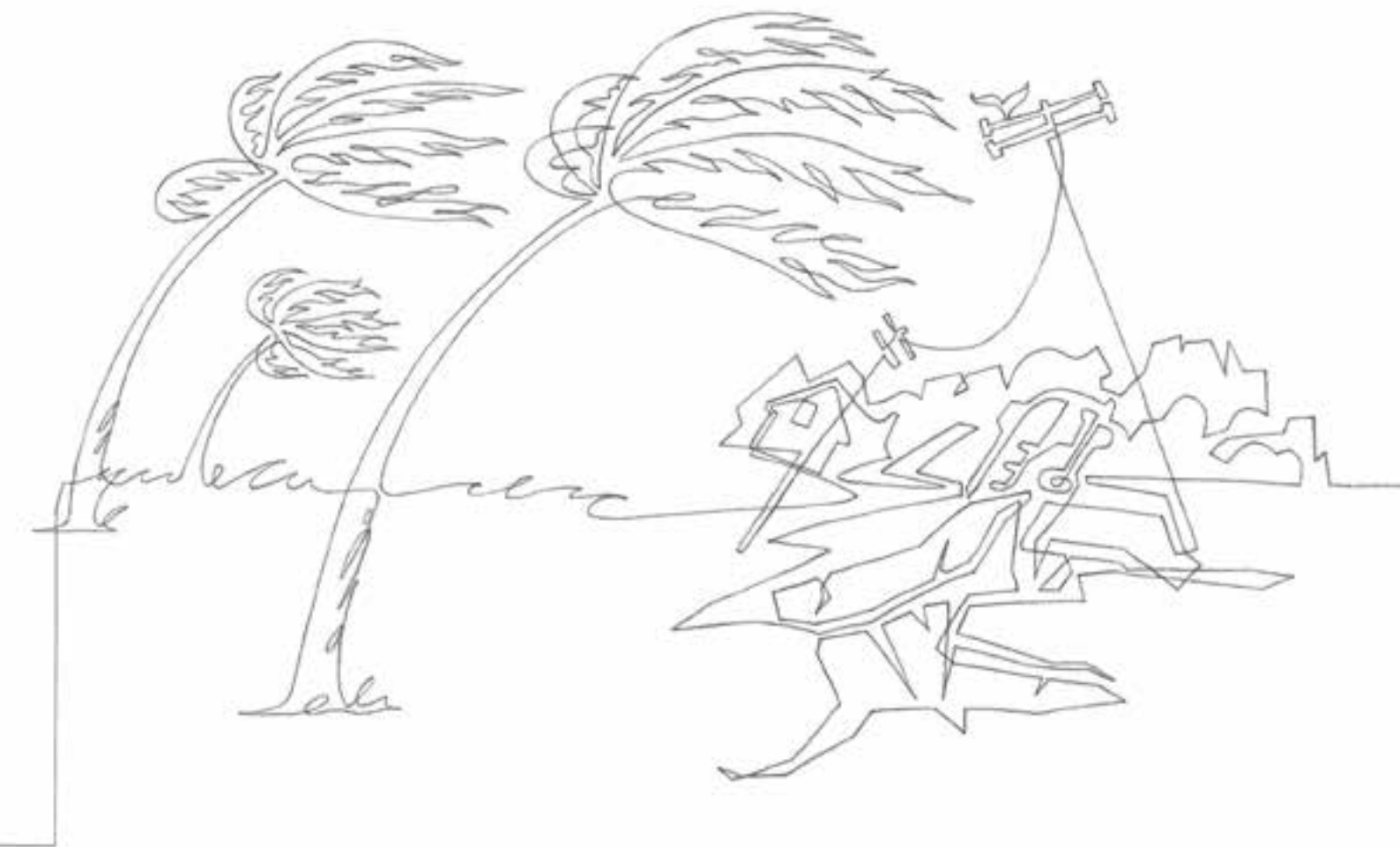


Moments of truth



Welcome to our Annual report 2017

Beazley Insurance dac reinsures and provides capital to support the underwriting activities of Beazley Underwriting Limited in the Lloyd's market. The company also writes non-life insurance through its European branch network.

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Highlights

Gross premiums written

\$1,411.6m

(2016: \$1,333.6m)

Claims ratio

58%

(2016: 48%)

Earned premiums, net of reinsurance

\$1,334.0m

(2016: \$1,267.6m)

Expense ratio

43%

(2016: 42%)

Profit after tax for the financial year

\$85.4m

(2016: \$156.2m)

Combined ratio

101%

(2016: 90%)

Cash and investments

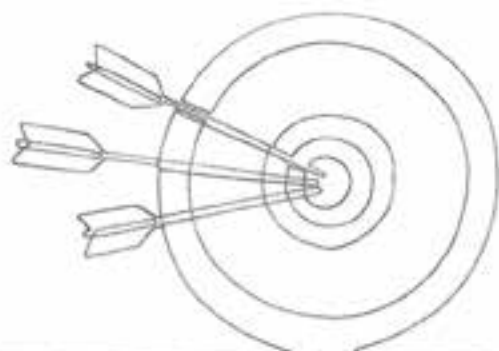
\$1,257.4m

(2016: \$1,304.0m)

Net investment income

\$126.8m

(2016: \$128.7m)



Report of the directors

The directors submit their report, together with the financial statements of the company for the year ended 31 December 2017.

Principal activities and business review

In July 2017 the company received authorisation from the Central Bank of Ireland to convert from a reinsurance company into a non-life insurance company permitted to transact business throughout the European Union. To that end the company was renamed Beazley Insurance dac. Subsequently the company established a branch network in the United Kingdom, France, Germany and Spain and operates across Europe on a freedom of services basis. The initial focus of the business will be on specialty lines business. The company underwrote its first policies for European banks in the fourth quarter of 2017.

The company also continues to act as an intra-group reinsurer and provides capital to support the underwriting activities of its sister company, Beazley Underwriting Limited. Beazley Underwriting Limited is a Lloyd's of London corporate member. It participates in the Lloyd's insurance market on a limited liability basis through syndicates 2623, 3622 and 3623. The company has an aggregate excess of loss reinsurance agreement with Beazley Underwriting Limited. Under the terms of this agreement the company reinsures and indemnifies Beazley Underwriting Limited in respect of all losses up to 75% of the declared result of Beazley Underwriting Limited's participation in syndicates 2623 and 3623. In the event that the declared result is a loss, the extent of the reinsurance is limited to the loss not exceeding 75% of the Funds at Lloyds less an excess of £2m.

In November 2016, the company issued \$250m of 5.875% subordinated tier 2 notes due in 2026.

Future developments in the business

The reinsurance contract for 2018 was signed by the company and Beazley Underwriting Limited on 21 December 2017. The company will seek to grow and expand its new non life insurance business across Europe through the launch of new products and additional underwriting capability.

Principal risks and uncertainties

Due to the nature of its activities, the principal risks and uncertainties of the company are aligned with those of 'Beazley plc' (the group) and include:

- Insurance risk
- Asset risk
- Operational risk
- Liquidity risk
- Credit risk
- Group risk
- Regulatory and legal risk
- Strategic risk

The group operates a risk management framework, within which risk appetite is defined, risks assumed are identified and managed and key controls are implemented and monitored.

Key performance indicators ('KPIs')

Gross premiums written in the year were \$1,411.6m (2016: \$1,333.6m) and profit before tax was \$95.8m (2016: \$179.2m).

Return on equity for the year was 8% (2016: 16%).

Results and dividends

The company has entered into a number of reinsurance contracts with its sister company, Beazley Underwriting Limited. The result for the year is shown on the profit or loss account on pages 12 and 13.

The company paid £66m, being £66m per share, dividends in 2017 (2016: nil) to its sole shareholder Beazley Ireland Holdings plc.

Directors

The names of the persons who were directors at any time during the year ended 31 December 2017 are set out below:

Director

M L Bride (French)	
D A Horton (British)	
E J McGivney	
D K O'Connor	(Independent non-executive – resigned 13 December 2017)
P O Desaulle (French)	(Independent non-executive – appointed 3 November 2017)
V J Sheridan	(Independent non-executive – resigned 31 December 2017)
I C Stuart	(Independent non-executive)
C M Woods	(Independent non-executive)

Directors and secretary and their interests

The directors and secretary who held office at 31 December 2017 had no interests greater than 1% in the shares of, or debentures or loan stock of, the company or group companies.

Statement of directors' responsibilities

The directors are responsible for preparing the report of the directors' and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 103 Insurance contracts, comprising applicable law and the accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland.

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act, 2014. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

As required by Section 325 of the Companies Act 2014 (the '2014 Act'), the company confirms that it has established an audit committee, which assists the board in carrying out its oversight and control obligations.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- so far as the directors are aware, there is no relevant audit information of which the company's statutory auditors are unaware; and
- the directors have taken all the steps that he or she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's statutory auditors are aware of that information.

Report of the directors *continued*

Statement of directors' compliance

The directors of the company acknowledge that they are responsible for securing the company's compliance with its relevant obligations (as defined in the 2014 Act) and, as required by Section 225 of the 2014 Act.

The directors confirm that:

- a compliance policy statement setting out the company's policies with regard to complying with the relevant obligations under the 2014 Act has been prepared;
- arrangements and structures have been put in place that they consider sufficient to secure material compliance with the company's relevant obligations; and
- a review of the arrangements and structures has been conducted during the financial year to which this directors' report relates.

Accounting records

The directors believe that they have complied with the requirements of sections 281 to 285 of the Companies Act, 2014 with regard to books of account by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The books of account of the company are maintained at 2 Northwood Avenue, Santry, Dublin 9 (D09 X5N9).

Political donations

The company made no political donations during the financial year ending 31 December 2017; neither above or below €200.

Central Bank of Ireland Corporate Governance Code

The company is subject to the Corporate Governance Requirements for Insurance Undertakings issued by the Central Bank of Ireland. The company is not required to comply with the additional requirements for major institutions.

Post balance sheet events

On 15 February 2018, the board approved an interim dividend payment to be made to Beazley Ireland Holdings plc of £35.7m from the company's distributable reserves. This dividend was paid in cash on 16 March 2018.

Auditor

The auditor, KPMG, Chartered Accountants has indicated its willingness to continue in office in accordance with section 383(2) of the Companies Act, 2014.

On behalf of the Board

Catherine Woods
Director

Ed McGivney
Director

27 April 2018



INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF BEAZLEY INSURANCE DAC

1 Opinion: our opinion is unmodified

We have audited the financial statements of Beazley Insurance DAC (“the Company”) for the year ended 31 December 2017 which comprise Profit and Loss Account, the Statement of Changes in Equity, the Balance Sheet and the related notes, including the basis of preparation and accounting policies set out in Note 1. The financial reporting framework that has been applied in their preparation is Irish Law and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS 103 *Insurance Contracts*.

In our opinion, the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS 103 *Insurance Contracts* and
- have been properly prepared in accordance with the requirements of the Companies Act 2014 and the European Union (Insurance Undertakings: Financial Statements) Regulations 2015

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (“ISAs (Ireland)”) and applicable law. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities* section of our report. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 27 November 2008. The period of total uninterrupted engagement is the 10 years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remained independent of the Company in accordance with, ethical requirements applicable in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA) as applied to public interest entities. No non-audit services prohibited by that standard were provided.



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

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Valuation of insurance liabilities \$2,122.8m (2016 - \$1,946.6m)

Refer to page 18 (accounting policy) and pages 33 to 35 (technical provisions)

The key audit matter	How the matter was addressed in our audit
The valuation of insurance liabilities remains the most significant inherent risk in our audit.	Our procedures, which involved obtaining and assessing testing performed by the Group auditor and the involvement of our own actuarial specialists, included but were not limited to:
The level of subjectivity in the estimated impact of uncertain or unknown future events, the diversity of risks insured or reinsured by Beazley Insurance DAC and therefore the level of reserving that occurs at reinsurer level, and the exposure to extreme losses in the catastrophe book serve to increase the level of judgement required and subjectivity inherent in the estimation of insurance liabilities.	<p>Reconciliation controls: Testing the design and operating effectiveness of the controls associated with the existence of the hedge funds and illiquid credit assets.</p> <p>Sector experience and benchmarking: Performing benchmarking of Beazley's ultimate loss ratios, initial expected loss ratios, premium rate change, expectations of total losses on natural catastrophes, the rate at which IBNR has been utilised in the year and reserve releases in comparison to the rest of the market, in order to identify specific trends and outliers.</p> <p>Re-projections: Using our projection of premiums and claims (on a gross and net basis) that we carried out as part of our overall actuarial audit testing and compared these with the Group's estimates.</p> <p>Methodology assessment: Assessing the reserving assumptions and methodology (on a gross basis and net of outwards reinsurance) for reasonableness using our professional and sector experience and for consistency year on year, including inspecting the management's margin paper.</p>



Actual versus expected testing: Challenging the quality of historical reserving estimates by monitoring progression of loss ratios against expectations.

In addition to the above, the audit team performed procedures to assess the completeness and accuracy of data:

Data reconciliations: Checking the completeness and accuracy of the data used within the reserving process by reconciling the actuarial source data to the financial systems. We have also checked the completeness and accuracy of the data flow from the claims and policy systems into the financial systems primarily through the testing of automated controls.

Recalculation: Recalculating the Company's share of insurance liabilities based on the audited result of Beazley plc and the related syndicates.

Existence and valuation of investments \$1,234.3m (2016 - \$1,278.2m)

Refer to pages 18 and 19 (accounting policy) and pages 31 and 32 (financial instruments)

The key audit matter

Investments are held to meet the future claims payments of policyholders of the insurance contracts business and the required capital for the Company. There is a fraud risk associated with cash and investments and their misappropriation. Key matters relate to valuation and liquidity of investments and appropriate fair value hierarchy classification

How the matter was addressed in our audit

Our procedures, which involved obtaining and assessing testing performed by the Group auditor, included but were not limited to:

Reconciliation controls: Testing the design and operating effectiveness of the controls associated with the existence of investments held.

Valuations: We tested the valuation of debt securities and equity linked funds by agreeing the prices used to independent third party sources using pricing specialists. For investments in hedge funds we inspected the financial statements of the underlying funds to confirm that the valuation approach was acceptable.

Historical accuracy: For investments in hedge funds the historical accuracy of the valuations was assessed by comparing interim valuation reports to the final year-end reports for prior periods.

Roll forward testing: Assessing the quantum of change in the valuation of investments between the early close date and the period end date to consider whether



there was a material movement post the early close date (30 November) that required adjustment

Reconciliation controls: Testing the design and operating effectiveness of the controls associated with the existence of investments held.

Verifying the ownership of the investment portfolio by agreeing to independently obtained confirmations.

Valuation of premium estimates \$1,411.6m (2016 - \$1,333.6m)

Refer to page 17 (accounting policy) and pages 28 and 29 (segmental analysis)

The key audit matter

There are adjustments made to gross premiums written to reflect adjustments to ultimate premium estimates, binding authority contract adjustments, reinstatement premiums and other ad hoc adjustments to premium income. There is judgement involved in the estimation of ultimate premiums which forms part of the reserving process.

Some judgement also underpins the model adopted to recognise inward premiums written and earned through binding authority contracts –the ‘binder adjustment’. There is an increased risk of premium estimates being misstated as a result of the early close process which requires the Parent to estimate the premiums relating to December and where necessary make adjustments at the period end.

Reinstatement premiums and adjustments to ultimate premiums constitute estimates which can be significant.

How the matter was addressed in our audit

Our procedures, which involved obtaining and assessing testing performed by the Group auditor, included but were not limited to:

Retrospective analysis: Critically assessing past expertise in making premium estimates through comparison of estimates and actuals for prior years for a sample of binders. We also compared the estimate of gross premiums written between the early close date and reporting date to actuals.

Methodology assessment: Inspecting the binder adjustment calculation and agreed that the methodology remains consistent and appropriate in the context of the timing of business written throughout the year.

Independent performance: Recalculating, on a sample basis, the earning of premium and investigated any changes to earnings patterns.

Recalculation: Recalculating the Company’s share of premium based on the audited result of Beazley plc and the related syndicates.



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

Materiality for the financial statements as a whole was set at \$14.3m (2016: \$13.3 million) using the management forecasts for the Company made during Q3 2017. As a starting point we set our materiality with reference to a benchmark of gross written premium (of which 1% is applied (2016: 1% of gross written premium)). We consider gross written premium to be the most appropriate benchmark as it provides a stable measure year on year and is reflective of the level of activity of the Company. We compared our materiality to other relevant benchmarks, such as profit before tax and total assets to ensure the materiality selected was appropriate for our audit.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding \$0.7m (2016: \$0.6m) in addition to other qualitative misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed at the Company's head office at 2 Northwood Avenue, Northwood Park, Santry Demesne, Dublin 1, Ireland and KPMG Offices, 1 Harbourmaster Place, International Financial Services Centre, Dublin 1

4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5 We have nothing to report on the other information in the annual report

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

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



6 Our opinions on other matters prescribed the Companies Act 2014 are unmodified

Based solely on the work undertaken in the course of the audit, we report that

- in our opinion, the information given in the directors' report is consistent with the financial statements; and
- in our opinion, the directors' report has been prepared in accordance with the Companies Act 2014.

We also report that, based on the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

We have obtained all the information and explanations which we consider necessary for the purpose of our audit.

In our opinion, the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the Company's statement of financial position and profit and loss account is in agreement with the accounting records.

7 We have nothing to report on other matters on which we are required to report by exception

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act are not made.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 3, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material



if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on IAASA's website at https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf.

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

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. 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 our report, or for the opinions we have formed.

Ivor Conlon

for and on behalf of

KPMG

Chartered Accountants, Statutory Audit Firm

1 Harbourmaster Place,

IFSC,

Dublin 1,

Ireland

27 April 2018

Profit or loss account

for the year ended 31 December 2017

Technical account – non-life insurance business

	Notes	2017 \$m	2016 \$m
Gross premiums written	3	1,411.6	1,333.6
Written premiums ceded to reinsurers		(0.2)	-
Net premiums written		1,411.4	1,333.6
Change in the gross provision for unearned premiums		(77.6)	(66.0)
Reinsurer's share of change in the provision for unearned premium		0.2	-
Change in net provision for unearned premiums	13	(77.4)	(66.0)
Net earned premiums	3	1,334.0	1,267.6
Allocated investment return transferred from the non-technical account	4	132.7	137.0
Revenue		1,466.7	1,404.6
Gross claims paid		(618.7)	(583.6)
Reinsurers' share of claims paid		-	-
Claims paid net of reinsurance		(618.7)	(583.6)
Change in gross provision for claims		(152.5)	(28.4)
Reinsurer's share of change in provision for claims		-	-
Change in the net provision for claims	13	(152.5)	(28.4)
Claims incurred net of reinsurance		(771.2)	(612.0)
Net operating expenses	5	(573.7)	(527.3)
Investment charges transferred from the non-technical account	4	(5.9)	(8.3)
Balance on the technical account		115.9	257.0

Profit or loss account *continued*

Non-technical account

	Notes	2017 \$m	2016 \$m
Investment income	4	132.7	137.0
Allocated investment return transferred to the non-life technical account		(132.7)	(137.0)
Investment expenses	4	(5.9)	(8.3)
Allocated investment expenses transferred to the non-life technical account		5.9	8.3
Finance costs		(14.9)	(2.3)
Loss on foreign exchange		(5.2)	(75.5)
Profit on ordinary activities before taxation		95.8	179.2
Tax on profit on ordinary activities	7	(10.4)	(23.0)
Profit for the financial year		85.4	156.2

The company's operating activities all relate to continuing operations.

The company has no recognised gains or losses for the year or in the previous year other than those dealt with in the profit and loss account.

The notes on pages 17 to 36 form part of these financial statements.

Statement of changes in equity

as at 31 December 2017

	Share capital \$m	Foreign exchange reserve \$m	Retained earnings \$m	Total equity \$m
Balance as at 1 January 2017	536.3	(42.8)	622.8	1,116.3
Profit for the financial year	-	-	85.4	85.4
Dividend paid	-	-	(80.9)	(80.9)
Balance as at 31 December 2017	536.3	(42.8)	627.3	1,120.8

	Share capital \$m	Foreign exchange reserve \$m	Retained earnings \$m	Total equity \$m
Balance as at 1 January 2016	536.3	(42.8)	466.6	960.1
Profit for the financial year	-	-	156.2	156.2
Dividend paid	-	-	-	-
Balance as at 31 December 2016	536.3	(42.8)	622.8	1,116.3

The notes on pages 17 to 36 form part of these financial statements.

Balance sheet

as at 31 December 2017

	Notes	2017 \$m	2016 \$m
Assets			
Fixed assets			
Leasehold improvements		0.2	-
		0.2	-
Investments			
Financial assets designated at fair value through profit or loss	2, 8	1,234.3	1,278.2
		1,234.3	1,278.2
Reinsurer's share of technical provision			
Provision for unearned premiums, reinsurer's share		0.2	-
Claims outstanding, reinsurer's share		-	-
	13	0.2	-
Debtors			
Amounts due from group companies		2,729.7	2,588.3
Debtors arising from direct insurance operations		0.5	-
Current tax receivable	9	7.7	5.1
		2,737.9	2,593.4
Cash and cash equivalents	10	23.1	25.8
Prepayments and accrued income			
Deferred acquisition costs	11	234.2	202.2
Other prepayments and accrued interest		4.3	1.6
		238.5	203.8
Total assets		4,234.2	4,101.2

Balance sheet *continued*

	Notes	2017 \$m	2016 \$m
Equity			
Capital and reserves			
Called up share capital	12	-	-
Capital contribution		536.3	536.3
Foreign exchange translation reserve		(42.8)	(42.8)
Profit or loss account		627.3	622.8
Shareholders' funds attributable to equity interests		1,120.8	1,116.3
Liabilities			
Technical provisions			
Provision for unearned premium		737.7	654.3
Claims outstanding		2,122.8	1,946.6
	13	2,860.5	2,600.9
Creditors			
Amounts due to group companies		-	135.7
Other creditors		4.0	-
		4.0	135.7
Financial liabilities	2, 8, 17	248.9	248.3
Total liabilities		3,113.4	2,984.9
Total equity and liabilities		4,234.2	4,101.2

Approved on behalf of the board of directors:

Catherine Woods
Director

Ed McGivney
Director

27 April 2018

The notes on pages 17 to 36 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2017

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

(a) Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 102, (*the Financial Reporting Standard applicable in the UK and Republic of Ireland*) (FRS 102) and Financial Reporting Standard 103 (*Insurance Contracts*) (FRS 103), as issued in August 2014 by the Financial Reporting Council and promulgated for use in Ireland by Chartered Accountants Ireland. Under FRS 102, all assets and liabilities arising from an insurance contract are now treated as monetary items – thus unearned premium and DAC which had previously been presented as non monetary items converted at historic FX rates are now presented as monetary items converted at period end FX rates.

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

The financial statements comply with the European Communities (Insurance Undertakings: Accounts) Regulations 2015, and the Companies Act 2014.

Under FRS 102.1.12(b), the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As 100% of the voting rights of the company are controlled within the group headed by Beazley plc, the company has taken advantage of the exemption contained in FRS 102.33.1A and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Beazley plc, within which this company is included, can be obtained from the registered address listed on page 35 of these accounts.

(b) Basis of accounting for insurance activities

As noted on page 2, the company undertakes both insurance and reinsurance activities. The company has an aggregate excess of loss reinsurance agreement with Beazley Underwriting Limited. Under the terms of this agreement the company reinsure and indemnify Beazley Underwriting Limited in respect of all losses up to 75% of the declared result of Beazley Underwriting Limited's participation in syndicates 2623 and 3623. In the event that the declared result is a loss, the extent of the reinsurance is limited to the loss not exceeding 75% of the Funds at Lloyds in addition to an excess of £2m. The underwriting results relating to this reinsurance contract are determined on an annual basis. Results under this contract reported on an annual basis recognise profits as they are earned instead of at the closure of a particular Lloyd's year of account, normally after three years.

Premiums

Gross premiums written represent:

- a 75% share of premiums notified as due to the syndicates by brokers up to the balance sheet date in respect of contracts commencing in the financial year together with adjustments to premiums written in previous accounting periods and estimates for 'pipeline' premiums; and
- direct insurance premiums written through branches located in the EU.

Gross premiums written are stated before deduction of commissions but exclusive of taxes, duties levied on premiums and other deductions; and outward reinsurance premiums are accounted for in the same accounting period as the related direct insurance or inwards reinsurance business except in relation to excess of loss contracts, where the initial premium is charged when paid.

Unearned premiums represent a 75% share of the proportion of premiums written by the syndicates, and for our direct insurance business, the proportion of premiums written which is estimated to be earned in the following or subsequent financial periods, computed separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

Claims incurred

Claims incurred represent a 75% share of all claims payments and internal and external settlement expense payments made by the syndicates in the financial year and a 75% share in the movement in the provisions for outstanding claims and settlement expenses, including claims incurred but not reported, net of salvage and subrogation expenses. Where appropriate, statistical methods have been applied to past experience of claims frequency and severity. A provision for claims incurred but not reported has also been recognised for claims arising from direct insurance written through branches located in the EU.

Notes to the financial statements *continued*

1 Principal accounting policies *continued*

Claims provisions

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible the company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions represent 75% of the provisions as calculated by the syndicates as well as provisions for direct insurance written through branches in the EU, net of any estimates of amounts that will be recoverable from reinsurers of the syndicates having due regard to collectability.

Deferred acquisition costs

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

Deferred acquisition costs of Beazley Insurance dac represent 75% of the deferred acquisitions costs as calculated by the syndicates as well as deferred acquisition costs of premium written through branches in the EU.

(c) Financial instruments

Financial instruments are recognised in the balance sheet at such time that the company becomes a party to the contractual provisions of the financial instrument. 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 company's obligations specified in the contract expire, are discharged or cancelled.

Purchases and sales of financial assets are recognised on the trade date, which is the date the company commits to purchase or sell the asset.

Financial assets

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

1 Principal accounting policies *continued*

Financial assets at fair value through profit or loss account

This category has two sub-categories: financial assets held for trading and those designated at fair value through the profit or loss account at inception.

Financial assets held for trading are those assets which are acquired principally for the purpose of selling in the short term, or which are held as part of a portfolio in which there is evidence of short-term profit taking or if it is designated so by management. At present all derivatives are classified as held for trading by the company.

All non-derivative financial investments are designated as fair value through profit or loss account upon initial recognition because their performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to key management. The investment strategy is to invest and evaluate their performance with reference to their fair values.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the company 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 and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the company establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (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 company, 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 company 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 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 not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the company 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 company 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 company 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 are recognised in profit or loss account when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in the profit and loss account. Net changes in the fair value of financial assets at fair value through the profit or loss account exclude interest and dividend income.

Notes to the financial statements *continued*

1 Principal accounting policies *continued*

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 profit or loss. Interest is recognised on an accruals basis for financial assets at fair value through 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 balance sheet date, and the carrying value at the previous year end or purchase value during the year.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. 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. The best evidence of fair value of a derivative at initial recognition is the transaction price.

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.

(d) Cash and cash equivalents

This consists of cash at bank and in hand and short term deposits held at call with banks.

(e) Other payables

Other payables are stated at amortised cost.

(f) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Current tax is provided on the company's taxable profits at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

(g) Foreign currency translation

Transactions in foreign currencies are translated to the company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit or loss account. For the purpose of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

The results and financial position of foreign operations that have a functional currency different from the company's 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.

2 Risk review

The company 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 sections below outline the company's risk appetite and explain how it defines and manages each category of risk.

Risk management framework

Corporate governance

The board gives high priority to risk management and risk control. Procedures are in place within the company to ensure that risks are being measured, monitored and reported adequately and effectively to the board risk committee.

The company is subject to regular internal audit review which is carried out by the group internal audit function.

Capital management

The company is required to maintain minimum capital requirements as set out in the European Union (Insurance and Reinsurance) Regulations 2015 (S.I. 485/2015). Regulations stipulate that the company should maintain capital, allowable for solvency purposes, of at least the calculated threshold amount. At no time in the year has the company failed to meet this requirement.

2.1 Insurance risk

The insurance risk exposure is documented in the business plan which is approved by the board and used to guide current activities and any future developments. The company has a diversified portfolio and any adverse movements can impact on the reserves that the company is required to hold on these portfolios. There is risk in relation to potential late claim notifications and/or deterioration to existing claims reserves.

a) Underwriting risk

Underwriting risk comprises four elements that apply to all insurance products offered by the company:

- 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.

The company'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, geography and size.

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

The company's 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 company 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 company 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 company is exposed.

The company 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 include natural catastrophes, cyber, marine, liability, political, terrorism and war events.

Notes to the financial statements *continued*

2 Risk review *continued*

a) Underwriting risk *continued*

One of the largest types of event exposure relates to natural catastrophe events such as windstorm or earthquake. Where possible the company 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 company also has exposure to man-made claim aggregations, such as those arising from terrorism and data breach events. Beazley chooses to underwrite data breach insurance within the specialty lines division using our team of specialist underwriters, claims managers and data breach services managers. Other than for data breach, Beazley's preference is to exclude cyber exposure where possible.

To manage the potential exposure, the board has established a risk budget for the aggregation of data breach related claims which is monitored by reference to the largest of 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. It is expected that reinsurance purchased by Beazley entities, whether directly by the company or indirectly by syndicates 2623 and 3623, would mitigate the cost of most, but not all, data breach catastrophes.

In 2017, the company's reinsurance business consisted of four operating divisions. The following table provides a breakdown of net premiums written by division. During 2017 the life, accident and health division and political risks & contingency division were combined to form the political, accident & contingency division.

	2017	2016
Marine	12%	12%
Political, accident & contingency	8%	11%
Property	23%	23%
Specialty lines	57%	54%

b) Claims management risk

Claims management risk may arise within the company 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 Beazley 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 company'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. Prompt and accurate case reserves are set for all known claims liabilities, including provisions for expenses.

c) Reserving and ultimate reserves risk

Reserving and ultimate reserves risk occurs within the syndicate 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 the syndicate.

The objective of the company'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, actuarial, claims, and finance representatives.

2 Risk review *continued*

c) Reserving and ultimate reserves risk continued

A five percent increase or decrease in total claims liabilities would have the following effect on profit or loss and equity:

Sensitivity to insurance risk (claims reserves)	5% increase in claims reserves		5% decrease in claims reserves	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
Impact on profit	(92.9)	(85.2)	92.9	85.2

The company also monitors its exposure to insurance risk by location. The below table provides an analysis of the geographical breakdown of its written premiums by class of business.

Concentration of insurance risk	2017 %	2016 %
US	64%	63%
Europe	15%	14%
Other	21%	23%
Total	100%	100%

2.2 Market risk

Market risk arises where the value of assets and liabilities changes as a result of movements in foreign exchange rates, interest rates and market prices.

Foreign exchange risk

The functional and reporting currency of the company is US dollar. Therefore, the foreign exchange risk is that the company is exposed to fluctuations in exchange rates for any non-dollar denominated transactions and net assets. However foreign exchange risk is actively managed as described below.

The company is exposed to changes in the value of assets and liabilities due to movements in foreign exchange rates. The company deals in four main currencies, US dollars, UK sterling, Canadian dollars and Euro. Transactions in all non dollar currencies are converted to US dollars on initial recognition and revalued at the reporting date.

In 2017, the company managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting net assets to be predominantly US dollar denominated. 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 following table summarises the carrying value of total assets and total liabilities categorised by currency:

	UK £ \$m	CAD \$ \$m	EUR € \$m	Subtotal \$m	US \$ \$m	Total \$m
31 December 2017						
Total assets	524.4	175.0	243.1	942.5	3,291.7	4,234.2
Total liabilities	(312.4)	(174.2)	(214.7)	(701.3)	(2,412.1)	(3,113.4)
Net assets	212.0	0.8	28.4	241.2	879.6	1,120.8
31 December 2016						
Total assets	736.8	190.7	174.0	1,101.5	2,999.7	4,101.2
Total liabilities	(488.0)	(196.0)	(235.8)	(919.8)	(2,065.1)	(2,984.9)
Net assets	248.8	(5.3)	(61.8)	181.7	934.6	1,116.3

As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure across the company. 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 company's assets are matched by currency to the principal underlying currencies of its insurance liabilities. This helps mitigate the risk that the company's assets required to cover its insurance liabilities are not materially affected by any future movements in exchange rates.

Notes to the financial statements *continued*

2 Risk review *continued*

Fluctuations in the company's trading currencies against the US dollar would result in a change to net asset value. The table below gives an indication of the impact on net assets of a % change in relative strength of US dollar against the value of sterling, Canadian dollar and euro, simultaneously. The analysis is based on the current information available and is presented net of the impact of the exchange rate derivatives referenced above.

	Impact on profit after tax for the year ended		Impact on net assets	
	2017	2016	2017	2016
	\$m	\$m	\$m	\$m
Change in exchange rate of UK Sterling, Canadian dollar and Euro relative to US dollar				
Dollar weakens 30% against other currencies	63.3	47.7	63.3	47.7
Dollar weakens 20% against other currencies	42.2	31.8	42.2	31.8
Dollar weakens 10% against other currencies	21.1	15.9	21.1	15.9
Dollar strengthens 10% against other currencies	(21.1)	(15.9)	(21.1)	(15.9)
Dollar strengthens 20% against other currencies	(42.2)	(31.8)	(42.2)	(31.8)
Dollar strengthens 30% against other currencies	(63.3)	(47.7)	(63.3)	(47.7)

Interest rate risk

Some of the company's financial instruments, including financial investments, are exposed to movements in market interest rates.

The company manages interest rate risk by primarily investing in short duration financial investments. The board of Beazley Insurance dac monitors the duration of these assets on a regular basis.

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

Duration

	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-10 yrs	>10 yrs	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
31 December 2017								
Fixed and floating rate securities	412.1	259.1	200.3	120.5	107.5	-	-	1,099.5
Cash and cash equivalents	23.1	-	-	-	-	-	-	23.1
Derivative financial instruments	4.6	-	-	-	-	-	-	4.6
Borrowings	-	-	-	-	-	(248.5)	-	(248.5)
Total	439.8	259.1	200.3	120.5	107.5	(248.5)	-	878.7
31 December 2016								
Fixed and floating rate securities	456.9	186.2	248.8	166.9	115.0	18.6	-	1,192.4
Cash and cash equivalents	25.8	-	-	-	-	-	-	25.8
Derivative financial instruments	1.1	-	-	-	-	-	-	1.1
Borrowings	-	-	-	-	-	(248.3)	-	(248.3)
Total	483.8	186.2	248.8	166.9	115.0	(229.7)	-	971.0

In November 2016, the company 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.

2 Risk review *continued*

Sensitivity analysis

The company holds financial assets and liabilities that are exposed to interest rate risk. Changes in interest yields, with all other variables constant, would result in changes in the capital value of debt securities and a change in value of borrowings and derivative financial instruments. This will affect reported profits and net assets as indicated in the below table:

	Impact on profit after tax for the year ended		Impact on net assets	
	2017 \$m	2016 \$m	2017 \$m	2016 \$m
<i>Shift in yield (basis points)</i>				
150 basis point increase	(7.8)	(8.6)	(7.8)	(8.6)
100 basis point increase	(5.2)	(5.7)	(5.2)	(5.7)
50 basis point increase	(2.6)	(2.9)	(2.6)	(2.9)
50 basis point decrease	2.6	2.9	2.6	2.9
100 basis point decrease	5.2	5.7	5.2	5.7

Price risk

Debt securities and equities that are recognised on the balance sheet at their fair value are susceptible to losses due to adverse changes in prices. This is referred to as price risk.

Investments are made in debt securities and equities depending on the company's appetite for risk. These investments are well diversified with high quality, liquid securities. The board has established comprehensive guidelines with investment managers setting out maximum investment limits, diversification across industries and concentrations in any one industry or company.

Listed investments are recognised on the balance sheet at quoted bid price. If the market for the investment is not considered to be active, then the company establishes fair value using valuation techniques. This includes using recent arm's length market transactions, 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.

2.3 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The company's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event. This means that the company maintains sufficient liquid assets, or assets that can be translated 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 following is an analysis by business segment of the estimated timing of the net cash flows based on the net claims liabilities balance held at 31 December 2017 and 31 December 2016:

	Within 1 year \$m	2-3 years \$m	3-5 years \$m	Greater than 5 years \$m	Total \$m	Weighted average term to settlement (years)
31 December 2017						
Marine	75.7	67.2	20.1	15.4	178.4	2.0
Political, accident and contingency	40.5	29.6	6.4	7.8	84.3	2.3
Property	155.2	126.5	37.8	39.8	359.3	2.2
Specialty lines	392.9	516.9	260.9	330.1	1,500.8	3.4
Net insurance liabilities	664.3	740.2	325.2	393.1	2,122.8	
31 December 2016						
Marine	73.8	60.1	17.1	12.8	163.8	1.9
Political, accident and contingency	47.4	24.9	6.2	9.4	87.9	2.2
Property	121.4	98.1	27.5	21.9	268.9	1.8
Specialty lines	298.1	488.5	291.7	347.7	1,426.0	3.5
Net insurance liabilities	540.7	671.6	342.5	391.8	1,946.6	

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

Notes to the financial statements *continued***2 Risk review** *continued***Maturity**

	<1 yr \$m	1-2 yrs \$m	2-3 yrs \$m	3-4 yrs \$m	4-5 yrs \$m	5-10 yrs \$m	>10 yrs \$m	Total \$m
31 December 2017								
Fixed and floating rate securities	207.0	338.7	249.1	173.2	105.2	26.3	-	1,099.5
Cash and cash equivalents	23.1	-	-	-	-	-	-	23.1
Derivative financial instruments	4.6	-	-	-	-	-	-	4.6
Borrowings	-	-	-	-	-	(248.5)	-	(248.5)
Total	234.7	338.7	249.1	173.2	105.2	(222.2)	-	878.7
31 December 2016								
Fixed and floating rate securities	235.4	238.5	313.6	195.2	191.1	18.6	-	1,192.4
Cash and cash equivalents	25.8	-	-	-	-	-	-	25.8
Derivative financial instruments	1.1	-	-	-	-	-	-	1.1
Borrowings	-	-	-	-	-	(248.3)	-	(248.3)
Total	262.3	238.5	313.6	195.2	191.1	(229.7)	-	971.0

In November 2016, the company 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.

2.4 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 company are:

- Investments – whereby issuer default results in the company losing all or part of the value of a financial instrument; and
- Amounts receivable under the reinsurance contracts – whereby counterparties fail to pass on premiums due under the reinsurance contracts. The main credit risk exposure facing the company arises by virtue of the reinsurance contract in place with its sister company, Beazley Underwriting Limited and the underlying risk facing that company.

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

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 review *continued*

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

31 December 2017	Tier 1 \$m	Tier 2 \$m	Tier 3 \$m	Tier 4 \$m	Unrated \$m	Total \$m
Financial assets at fair value						
– Fixed and floating rate debt securities	826.1	273.4	–	–	–	1,099.5
– Equity linked funds	–	–	–	–	80.9	80.9
– Hedge funds	–	–	–	–	48.9	48.9
– Derivative financial assets	–	–	–	–	5.0	5.0
Cash and cash equivalents	23.1	–	–	–	–	23.1
Accrued interest	4.3	–	–	–	–	4.3
Amounts due from group companies	–	–	–	–	2,729.7	2,729.7
Total	853.5	273.4	–	–	2,864.5	3,991.4
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	865.4	327.0	–	–	–	1,192.4
– Equity linked funds	–	–	–	–	38.3	38.3
– Hedge funds	–	–	–	–	46.4	46.4
– Derivative financial assets	–	–	–	–	1.1	1.1
Cash and cash equivalents	25.8	–	–	–	–	25.8
Accrued interest	1.6	–	–	–	–	1.6
Amounts due from group companies	–	–	–	–	2,588.3	2,588.3
Total	892.8	327.0	–	–	2,674.1	3,893.9

The carrying amount of financial assets at the reporting date represents the maximum credit exposure.

At 31 December 2017, the company held no financial assets that were past due or impaired, either for the current year under review or on a cumulative basis.

3 Segmental analysis

a) Reporting segments

Segment information is presented in respect of reportable segments. These are based on the cedants management and internal reporting structures and represent the level at which financial information is reported to the board, being the chief operating decision-maker as defined in IFRS 8. The operating segments are based upon the different types of insurance risk underwritten by the group, as described below:

Marine

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

Political, accident & contingency ('PAC')

This segment underwrites terrorism, political violence, expropriation and credit risks as well as contingency and risks associated with contract frustration. The segment also underwrites health, personal accident, sports and income protection risks.

Property

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

Notes to the financial statements *continued*3 Segmental analysis *continued*

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.

b) Segment information

	Marine \$m	PAC \$m	Property \$m	Specialty lines \$m	Total reportable segments \$m	Unallocated \$m	Total \$m
31 December 2017							
Segment results							
Gross premiums written	174.1	113.3	326.1	798.1	1,411.6	-	1,411.6
Net earned premiums	169.2	119.0	320.1	725.7	1,334.0	-	1,334.0
Net investment income	13.3	8.1	25.6	79.8	126.8	-	126.8
Revenue	182.5	127.1	345.7	805.5	1,460.8	-	1,460.8
Net insurance claims	(92.2)	(61.9)	(262.1)	(355.0)	(771.2)	-	(771.2)
Net operating expenses	(76.6)	(59.3)	(141.7)	(296.1)	(573.7)	-	(573.7)
Foreign exchange loss	-	-	-	-	-	(5.2)	(5.2)
Finance costs	-	-	-	-	-	(14.9)	(14.9)
Expenses	(168.8)	(121.2)	(403.8)	(651.1)	(1,344.9)	(20.1)	(1,365.0)
Profit on ordinary activities before tax	13.7	5.9	(58.1)	154.4	115.9	(20.1)	95.8
Segment assets and liabilities							
Segment assets	425.1	212.1	803.3	2,793.7	4,234.2	-	4,234.2
Segment liabilities	(312.6)	(156.0)	(590.7)	(2,054.1)	(3,113.4)	-	(3,113.4)
Net assets	112.5	56.1	212.6	739.6	1,120.8	-	1,120.8
Claims ratio	55%	52%	82%	49%	58%		
Expense ratio	45%	50%	44%	41%	43%		
Combined ratio	100%	102%	126%	90%	101%		
31 December 2016							
Segment results							
Gross premiums written	164.9	145.1	313.4	710.2	1,333.6	-	1,333.6
Net earned premiums	166.4	148.6	316.6	636.0	1,267.6	-	1,267.6
Net investment income	14.1	9.4	32.5	72.7	128.7	-	128.7
Revenue	180.5	158.0	349.1	708.7	1,396.3	-	1,396.3
Net insurance claims	(73.8)	(68.8)	(117.0)	(352.4)	(612.0)	-	(612.0)
Net operating expenses	(77.5)	(67.3)	(143.3)	(241.5)	(529.6)	-	(529.6)
Foreign exchange loss	-	-	-	-	-	(75.5)	(75.5)
Expenses	(151.3)	(136.1)	(260.3)	(593.9)	(1,141.6)	(75.5)	(1,217.1)
Profit on ordinary activities before tax	29.2	21.9	88.8	114.8	254.7	(75.5)	179.2

3 Segmental analysis *continued*

b) Segment information *continued*

Segment assets and liabilities	Marine \$m	PAC \$m	Property \$m	Specialty lines \$m	Total reportable segments \$m	Unallocated \$m	Total \$m
Segment assets	538.5	480.5	1,024.5	2,057.7	4,101.2	-	4,101.2
Segment liabilities	(391.9)	(349.7)	(745.6)	(1,497.7)	(2,984.9)	-	(2,984.9)
Net assets	146.6	130.8	278.9	560.0	1,116.3	-	1,116.3
Claims ratio	44%	46%	40%	55%	48%		
Expense ratio	47%	45%	37%	38%	42%		
Combined ratio	91%	91%	77%	93%	90%		

An analysis of gross premiums written by reference to the location of the risk insured by the ceding company is provided below:

	2017 \$m	2016 \$m
Risks located in US	903.4	840.1
Risks located in Europe	211.7	186.7
Risks located in other countries	296.5	306.8
	1,411.6	1,333.6

4 Investment return

	2017 \$m	2016 \$m
Share of Lloyd's syndicates investment income	80.3	66.1
Income derived from financial assets	33.4	12.2
Income from intercompany financing arrangements	19.0	17.3
Investment income	132.7	95.6
Fair value gain on intra-group derivative	-	41.4
	132.7	137.0
Investment expenses and charges	(5.9)	(8.3)
	126.8	128.7

5 Net operating expenses

	2017 \$m	2016 \$m
Share of Lloyd's Syndicates acquisition costs	451.4	397.0
Share of Lloyd's Syndicates operating expenses	99.6	103.1
Other administration costs including commissions payable to Beazley Underwriting Limited	22.7	29.5
	573.7	529.6

Administrative expenses include:

	2017 \$	2016 \$
Auditor's remuneration:		
Fees payable for the audit of these annual accounts (€29,300)	34,756	24,255
Fees payable in respect of other services pursuant to legislation (€35,000)	41,518	37,234
Fees payable in respect of tax advisory services	-	-
Fees payable in respect of other non-audit services	-	-
	76,274	61,489

Notes to the financial statements *continued*

5 Net operating expenses *continued*

The average number of persons employed by the company (including executive directors) during the year, analysed by category, was as follows:

Number of employees	2017	2016
Management	1	1
Finance	-	1
Compliance	1	1
Administration	0.5	0.5
	2.5	3.5

6 Staff numbers and costs

The aggregate payroll costs of these persons were as follows:

	2017 \$m	2016 \$m
Wages and salaries	0.4	0.4
Social security costs	-	-
Charged to profit or loss account	0.4	0.4

Executive director, M L Bride and Group non-executive director, D A Horton, are both executive directors of the company's parent company, Beazley plc. Details of their remuneration, which was borne by Beazley Management Limited, are disclosed in the accounts of Beazley plc.

Non-executive director of the company C M Woods is also a non-executive director of Beazley plc. Her remuneration was borne by Beazley plc, details of which are disclosed in the accounts of Beazley plc.

The table below contains details of remuneration paid to directors E McGivney, D K O'Connor, P O Desaulle, V Sheridan and I C Stuart.

	2017 \$m	2016 \$m
Directors' remuneration	0.5	0.3
Pension contributions	-	-
	0.5	0.3

7 Taxation

	2017 \$m	2016 \$m
Current tax:		
Irish corporation tax charge	11.3	22.7
Adjustment in respect of prior year	(0.9)	0.3
Tax on profit on ordinary activities	10.4	23.0

Factors affecting the tax charge for the current period

The tax charge for the year is lower (2016 lower) than the standard rate of corporation tax in Ireland, 12.5% due to the differences explained overleaf.

7 Taxation *continued*

	2017 \$m	2016 \$m
Profit on ordinary activities before tax	95.8	179.2
Corporation tax at 12.5%	12.0	22.4
Effect of:		
Permanent differences	(0.7)	0.3
Prior year over provision (2016 under provision)	(0.9)	0.3
	10.4	23.0

8 Financial instruments

Fair value measurement

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 company uses prices and inputs that are current as of the measurement date for valuation of these instruments.

The table overleaf analyses financial instruments measured at fair value at the 31 December 2017, by the level in the fair value hierarchy into which the fair value measurements is categorised:

Notes to the financial statements *continued*8 Financial instruments *continued*

31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through:	\$m	\$m	\$m	\$m
Fixed and floating rate debt securities				
1) Government issued	374.6	-	-	374.6
2) Quasi-government	-	-	-	-
3) Supernational	11.6	-	-	11.6
4) Corporate bonds	-	-	-	-
Investment grade	0.5	712.8	-	713.3
Equity linked funds	-	80.9	-	80.9
Hedge funds/uncorrelated strategies	-	48.9	-	48.9
Derivative financial assets	5.0	-	-	5.0
Total financial assets at fair value	391.7	842.6	-	1,234.3
Financial liabilities measured at fair value				
Derivative financial liabilities	0.4	-	-	0.4
Total financial liabilities measured at fair value	0.4	-	-	0.4
Financial liabilities not measured at fair value				
Tier 2 subordinated debt (2026) – issued in 2016	-	248.5	-	248.5
Total financial liabilities not measured at fair value	-	248.5	-	248.5

The table below analyses financial instruments measured at fair value at the 31 December 2016, by the level in the fair value hierarchy into which the fair value measurements is categorised:

31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through:	\$m	\$m	\$m	\$m
Fixed and floating rate debt securities				
1) Government issued	447.4	-	-	447.4
2) Quasi-government	19.7	-	-	19.7
3) Supernational	9.5	-	-	9.5
4) Corporate bonds	-	-	-	-
Investment grade	5.9	709.9	-	715.8
Equity linked funds	-	38.3	-	38.3
Hedge funds/uncorrelated strategies	-	46.4	-	46.4
Derivative financial assets	1.1	-	-	1.1
Total financial assets at fair value	483.6	794.6	-	1,278.2
Financial liabilities not measured at fair value				
Tier 2 subordinated debt (2026) – issued in 2016	-	248.3	-	248.3
Total financial liabilities not measured at fair value	-	248.3	-	248.3

9 Current tax receivable

	2017 \$m	2016 \$m
Current tax receivable	7.7	5.1
	7.7	5.1

10 Cash and cash equivalents

	2017 \$m	2016 \$m
Cash at bank and in hand	19.2	8.0
Short term deposits	3.9	17.8
	23.1	25.8

11 Deferred acquisition cost

	2017 \$m	2016 \$m
Balance at 1 January 2017	202.2	183.9
Additions	32.0	18.3
Balance at 31 December 2017	234.2	202.2

12 Share capital

	2017 \$m	2016 \$m
Authorised: 100,000,000 ordinary shares of (€1) each	128.4	128.4
Allotted, issued and fully paid	-	-

There is one share with a nominal value of €1 in issue.

13 Technical provisions

	Provision for unearned premium \$m	Claims outstanding \$m
Gross technical provisions		
At 1 January 2017	654.3	1,946.6
Exchange adjustments	5.8	23.7
Movement in provision	77.6	152.5
At 31 December 2017	737.7	2,122.8
Reinsurer's share of technical provisions		
At 1 January 2017		
Exchange adjustments	-	-
Movement in provision	(0.2)	-
At 31 December 2017	(0.2)	-
Net technical provisions		
At 31 December 2017	737.5	2,122.8
At 1 January 2017	654.3	1,946.6

Notes to the financial statements *continued*13 Technical provisions *continued*

	Provision for unearned premium \$m	Claims outstanding \$m
Gross technical provisions		
At 1 January 2016	599.7	1,953.6
Exchange adjustments	(11.4)	(35.4)
Movement in provision	66.0	28.4
At 31 December 2016	654.3	1,946.6
Net technical provisions		
At 31 December 2016	654.3	1,946.6
At 1 January 2016	599.7	1,953.6

Gross claims development	2009	2010	2011	2012	2013	2014	2015	2016	2017
12 months	60.5%	64.2%	66.9%	64.4%	63.0%	61.3%	61.1%	60.8%	66.4%
24 months	56.4%	68.8%	63.6%	58.5%	60.7%	56.7%	57.5%	61.0%	
36 months	52.7%	66.3%	60.1%	53.9%	57.9%	53.6%	53.6%		
48 months	50.3%	63.2%	56.9%	51.1%	54.7%	52.1%			
60 months	49.4%	63.1%	56.5%	49.7%	52.6%				
72 months	48.8%	62.1%	54.9%	49.0%					
84 months	48.8%	62.2%	53.7%						
96 months	48.6%	60.8%							
108 months	48.2%								

	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Gross claims liabilities, Beazley managed level	587.6	119.2	134.1	160.4	298.0	428.6	784.8	1,146.4	1,003.4	4,662.5
Less Group and Non Group entities	(398.2)	(51.4)	(61.5)	(60.4)	(144.6)	(209.0)	(425.7)	(612.5)	(576.4)	(2,539.7)
Gross claims liabilities, Beazley Insurance dac share	189.4	67.8	72.6	100.0	153.4	219.6	359.1	533.9	427.0	2,122.8

13 Technical provisions *continued*

Claims development tables

Net claims development	2009	2010	2011	2012	2013	2014	2015	2016	2017
12 months	60.5%	64.2%	66.9%	64.4%	63.0%	61.3%	61.1%	60.8%	66.4%
24 months	56.4%	68.8%	63.6%	58.5%	60.7%	56.7%	57.5%	61.0%	
36 months	52.7%	66.3%	60.1%	53.9%	57.9%	53.6%	53.6%		
48 months	50.3%	63.2%	56.9%	51.1%	54.7%	52.1%			
60 months	49.4%	63.1%	56.5%	49.7%	52.6%				
72 months	48.8%	62.1%	54.9%	49.0%					
84 months	48.8%	62.2%	53.7%						
96 months	48.6%	60.8%							
108 months	48.2%								

	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Net claims liabilities, Beazley managed level	358.3	98.2	112.7	144.5	240.0	339.3	589.7	883.2	707.7	3,473.6
Less Group and Non Group entities	(168.9)	(30.4)	(40.1)	(44.5)	(86.6)	(119.7)	(230.6)	(349.3)	(280.7)	(1,350.8)
Net claims liabilities, Beazley Insurance dac share	189.4	67.8	72.6	100.0	153.4	219.6	359.1	533.9	427.0	2,122.8

14 Funds at Lloyd's

The Funds at Lloyd's to support the underwriting of Beazley Underwriting Limited on syndicates 2623 and 3623 have been provided by the company by way of deposits of \$856.1m (2016: \$688.7m).

The Funds at Lloyd's may consist of certain approved assets only and are subject to a deed of charge in favour of Lloyd's.

In return for providing the Funds at Lloyd's, Beazley Underwriting Limited's pays the company an annual fee.

15 Related parties

The direct owner is Beazley Ireland Holdings plc and ultimate controlling party is Beazley plc.

16 Ultimate parent undertaking

The ultimate parent undertaking is Beazley plc, incorporated and resident in the United Kingdom.

The largest group in which the results of the company are consolidated is that headed by Beazley plc. The accounts of Beazley plc are available to the public at www.beazley.com and at Plantation Place South, 60 Great Tower Street, London EC3R 5AD, United Kingdom.

The smallest group in which the results of the company are consolidated is that headed by Beazley Ireland Holdings plc. The accounts of Beazley Ireland Holdings plc are available to the public at www.beazley.com and at 2 Northwood Avenue, Santry, Dublin (D09 X5N9).

No other group financial statements include the results of the company.

Notes to the financial statements *continued*

17 Financial liabilities

	2017 \$m	2016 \$m
Carrying value		
Tier 2 subordinated debt (2016) – issued in 2016	248.5	248.3
Derivative financial instruments	0.4	–
	248.9	248.3
Fair value		
Tier 2 subordinated debt (2016) – issued in 2016	266.6	253.3
Derivative financial instruments	0.4	–
	267.0	253.3

The fair value of the tier 2 subordinated debt is based on quoted market price.

In November 2016, the company issued \$250m of subordinated tier 2 notes due in 2026. This debt is listed on the London Stock Exchange. Annual interest, at a fixed rate of 5.875%, is payable in May and November each year.

Interest paid on this debt during 2017 was \$14.9m (2016: \$2.3m).

18 Post balance sheet events

On 15 February 2018, the board approved a dividend of £35.7m payable to its parent company, Beazley Ireland Holdings plc. This dividend was paid on 16 March 2018. The financial statements for the year ended 31 December 2017 have not been adjusted for this transaction.

19 Approval of financial statements

The board of directors approved these financial statements on 27 April 2018.

Directors and advisors

Directors

M L Bride (French)
D A Horton (British)
E J McGivney
P O Desaulle (French) – (appointed 3 November 2017)
D K O'Connor – (resigned 13 December 2017)
V J Sheridan – (resigned 31 December 2017)
I C Stuart
C M Woods

Secretary

M Landers – (resigned 27 January 2017)
R Yeoman – (appointed 27 January 2017)

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Registered number

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investor.relations.beazley.com

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