

Beautifully designed insurance



Beautifully designed insurance

At Beazley, our commitment is to deliver beautifully designed insurance to our clients around the world.

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

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



Our business model and strategy

Our business model

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

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

Our strategy

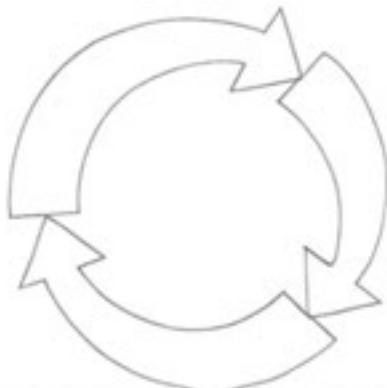
Our strategy is directed towards the achievement of our vision, which is to become, and be recognised as, the highest performing specialist insurer. To this end, our strategy comprises:

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

Risks

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

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



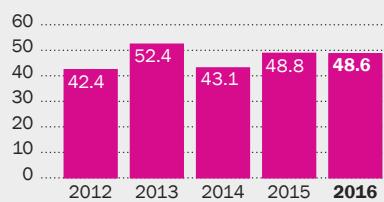
 Our approach to managing these and other risks is described in detail on page 52

Our key performance indicators

KPIs

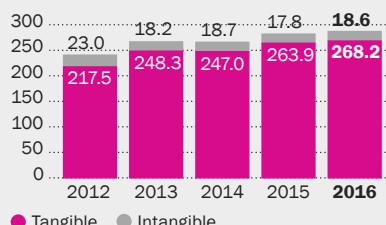
Financial highlights

Earnings per share (c)



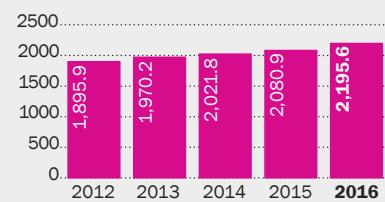
EPS is at 1.7x total dividend cover for 2016.

Net assets per share (c)



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

Gross premiums written (\$m)



Growth of 6% in 2016 and 16% since 2012.

Dividends per share (p)



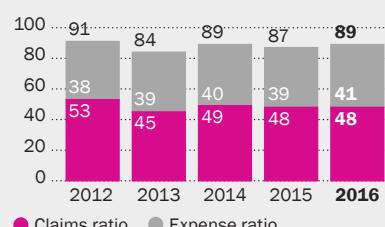
The second interim dividend for 2016 is in line with our dividend strategy and has grown by 6%. In addition we are paying a special dividend of 10p.

Return on equity (%)

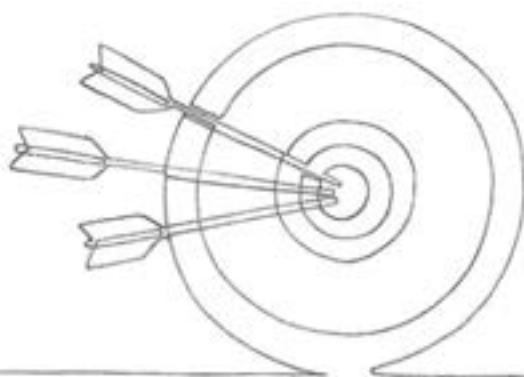


Average five year return on equity of 19%.

Combined ratio (%)



Our combined ratio has averaged 88% over five years.



Find out more page 127

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

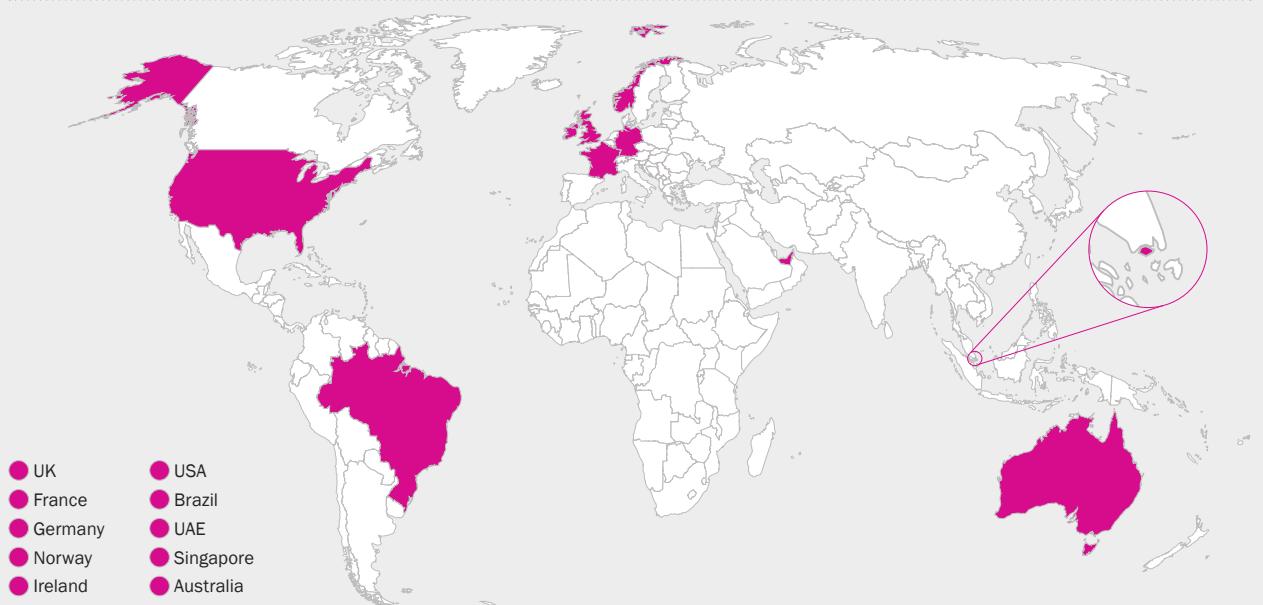
We aim to forge strong relationships with brokers, reinsurers and insureds who appreciate the quality of our products and the value of our service and whose decisions are not driven solely by cost.

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. But 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 offices



Diversified business

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

Our diversified portfolio allows us to implement efficient cycle management. 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 (see pages 8 to 11), 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."

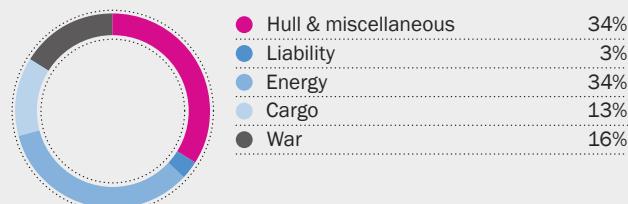
Clive Washbourn
Head of marine



Diversification of the marine account 2016



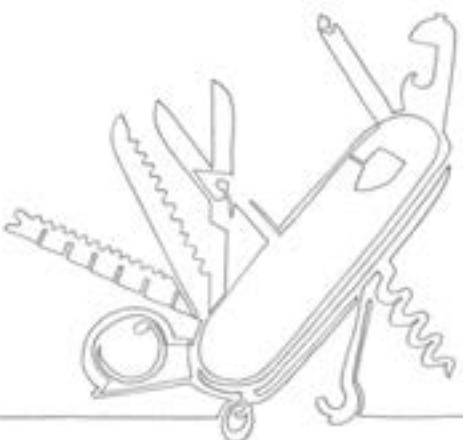
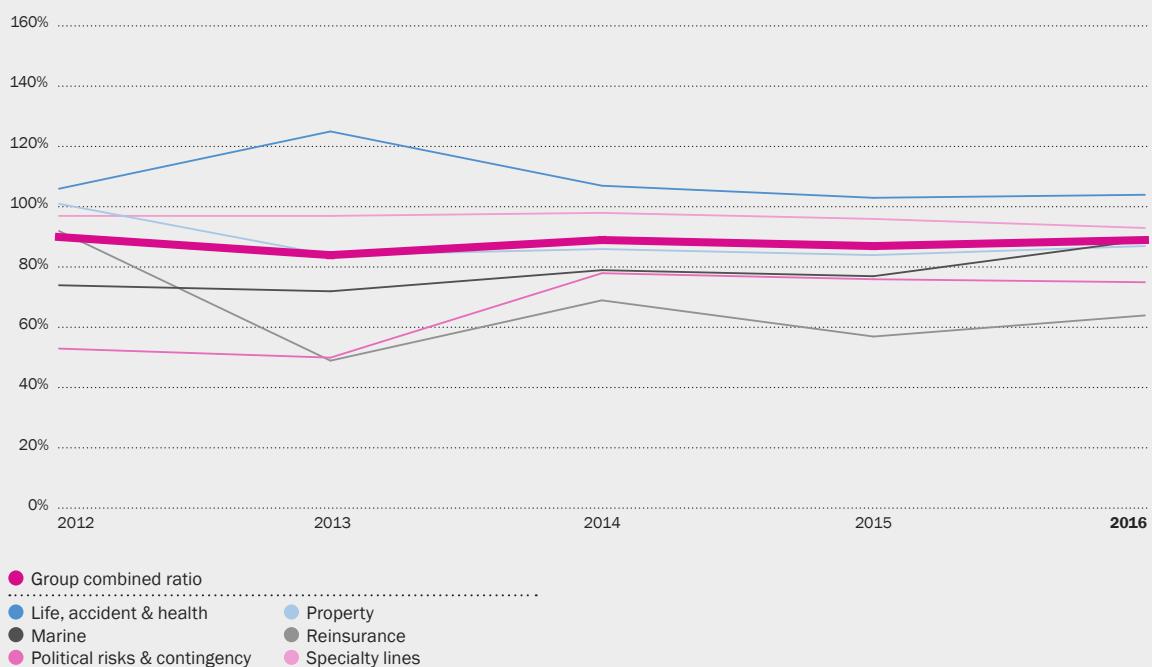
Diversification of the marine account 2009



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.

Find out more page 26

● Marine

We help insure in excess of 20% of the world's ocean-going tonnage and are the pre-eminent leader of voyage and tow business in the London market. We insure 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.

● 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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Find out more page 30

2,800

2,400

2,000

1,600

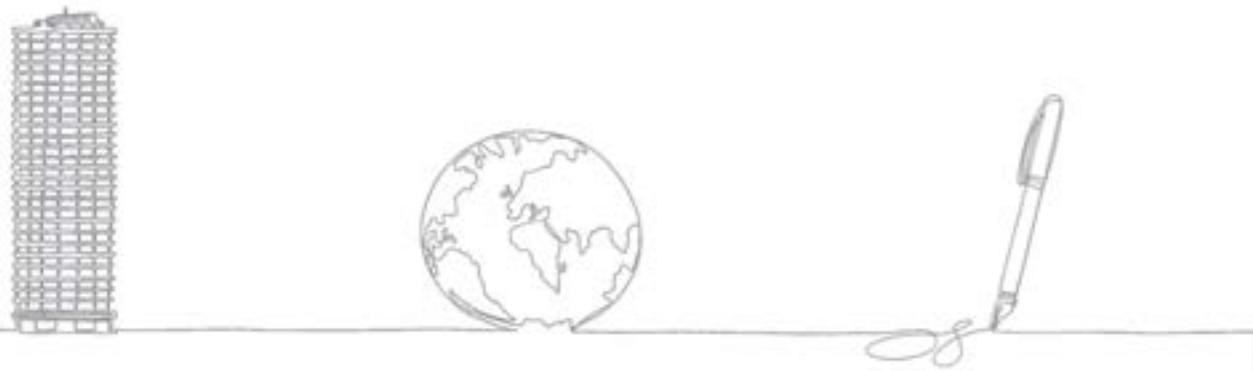
1,200

800

400

0

86 87 88 89 90 91 92 93 94 95 96 97 98 99 00



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 32

Reinsurance

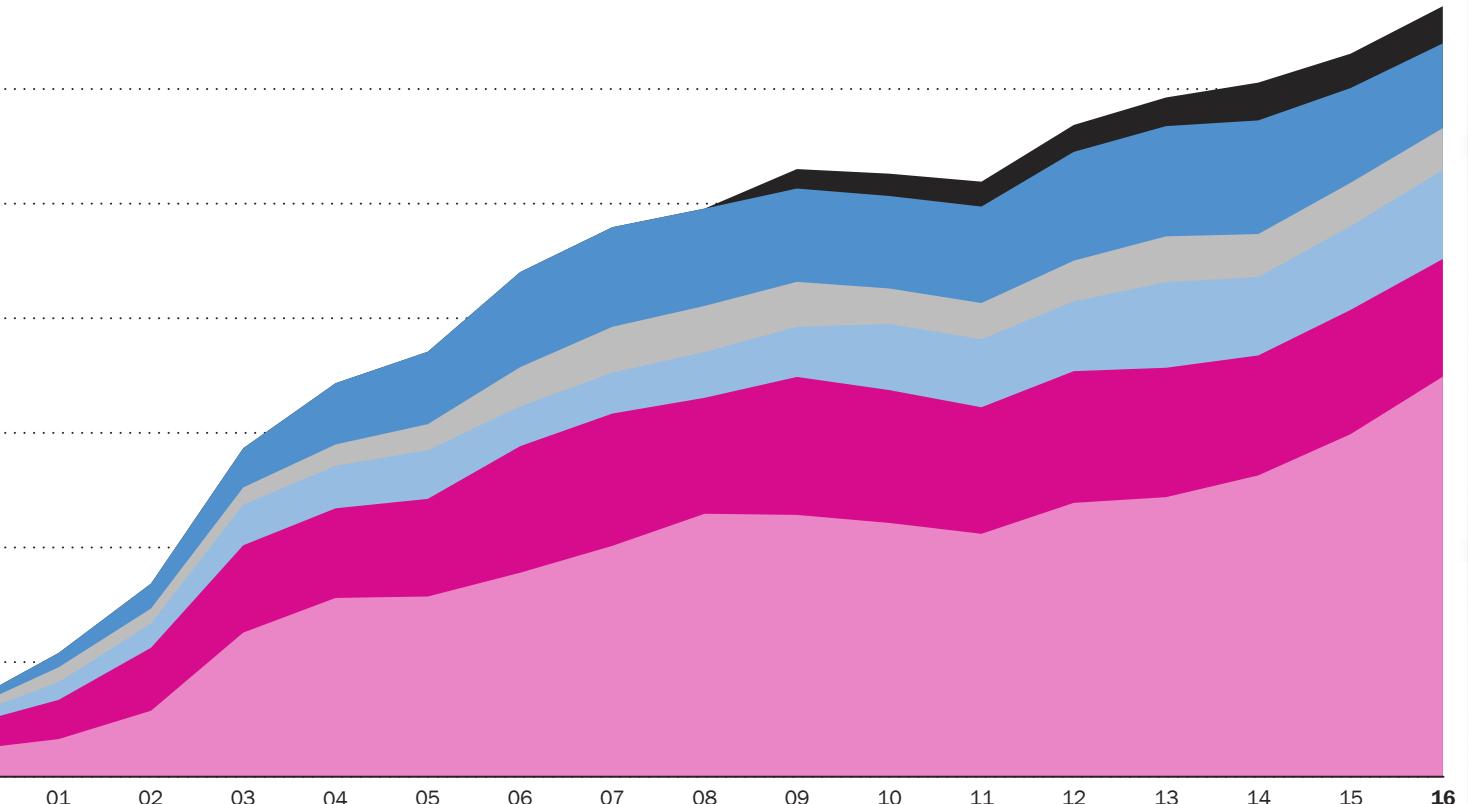
The reinsurance team specialises in writing worldwide property catastrophe; per risk; aggregate excess of loss and pro-rata business; and casualty clash. Approximately 80% of our top clients have reinsured with us for 20 years or more.

Find out more page 34

Specialty lines

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

Find out more page 36



Strong roots, tall trees

Specialty lines have been part of Beazley since the company's earliest days. They are a big part of its future too.

Specialty lines – Gross premiums written 2007-2016 (\$m)



As Beazley celebrated its 30th anniversary, the division that accounts for some of the company's longest established lines of business – specialty lines – has enjoyed a highly successful year, reaping the rewards of a long term growth strategy that has seen premiums rise by 76% over the past decade.

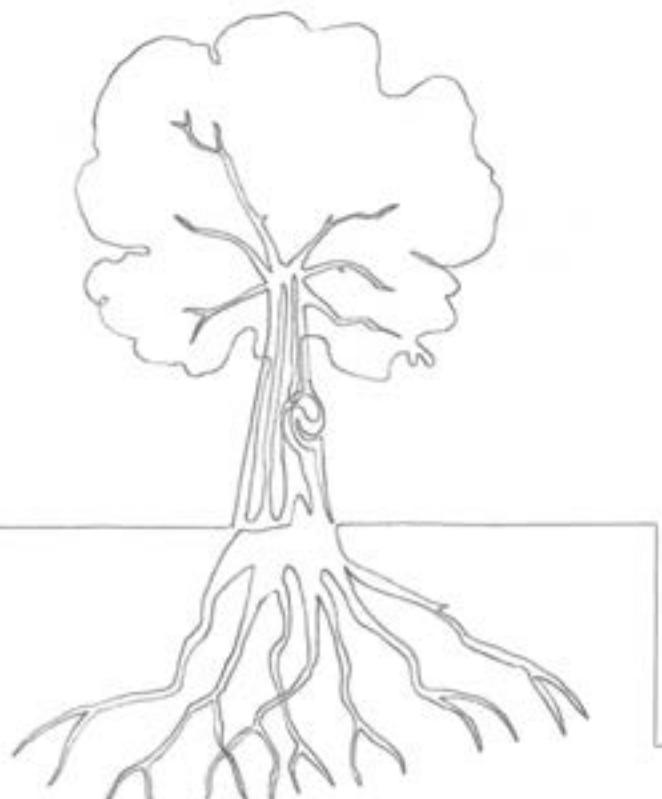
Beazley was founded in 1986 in the midst of a crisis of capacity for liability risks in the US that prompted Time magazine to run a cover story in March of that year headlined 'Sorry America. Your insurance has been cancelled'. Professional indemnity covers for large US law firms and for major US engineering design firms were among the first risks Andrew Beazley underwrote on behalf of the fledgling Lloyd's syndicate.

Thirty years later, Beazley remains a major market for professionals such as lawyers, architects and engineers. However the company's interests in specialty lines business – encompassing a wide spectrum of professional and management liability risks – have diversified hugely. The division's (and Beazley's) largest single line of business in 2016 – data breach insurance – would have been inconceivable in 1986.

Specialty lines, led by Adrian Cox since 2008, has benefited from a consistent strategy. This starts with the identification of promising business lines – lines in which highly skilled underwriters and claims specialists can make a major difference to the experience of clients and brokers. This difference may take the form of a willingness to underwrite risks that other insurers will not. Invariably it reflects a commitment to providing excellent service, both in underwriting and claims.

Commoditised, price-driven lines of business are not well suited to this approach. Instead, Beazley's underwriters target more complicated risks where it is possible to forge real partnerships with brokers to develop innovative solutions and explain them to clients. In these areas the major investments Beazley has made in talented individuals can pay off.

"We aim to attract people that enjoy becoming experts – you might even say geeks – on both the underwriting and claims side," says Adrian Cox. "Then we deploy them in the field where they can best use their expertise to win the loyalty of clients and out-manoeuvre competitors. This model does not suit the writing of lines such as personal auto insurance."



Strong roots, tall trees *continued*

The specialty lines team has also focused successfully on industries and business lines that have strong growth potential. Technology-related risks and the healthcare industry have accordingly been major targets in recent years, with premiums from the former growing 55% over the past three years and from the latter 32%.

One of the attractions of the healthcare market, particularly in the US, is the high relevance of a wide range of Beazley products, both from the specialty lines division and further afield. Beazley underwrites medical malpractice, errors & omissions, directors' & officers' insurance, employment practices liability and environmental impairment liability for healthcare providers of many kinds. In addition, we have developed a highly innovative regulatory liability product for hospitals held responsible for incorrectly billing US federal healthcare programmes such as Medicare and Medicaid – a constant challenge given the massive complexity of the billing regulations. We have also been able to introduce underwriters from other Beazley divisions to our healthcare clients, including underwriters of commercial property and terrorism risks.

Environmental insurance represents a major area of opportunity for Beazley – this is a significant growth market worldwide that has also suffered dislocations as major insurers have withdrawn in recent years. Beazley began underwriting environmental business in the US in 2009 and expanded its team rapidly during the course of 2016, attracting a number of highly experienced and well regarded underwriters. The team, led by Jayne Cunningham, now numbers 13, including 12 underwriters in the US and 1 in London. Premiums grew significantly in 2016 to \$61.5m (2015: \$25.8m).

In terms of geography, the US has been the most fertile region for the types of insurance that Beazley's specialty lines underwriters focus on. The division has accordingly been the largest beneficiary of Beazley's decision, early this century, to establish a local US presence and the capacity to underwrite 'admitted' business in the country. Most of the Lloyd's market's US business is transacted on a surplus lines basis, meaning that Lloyd's underwriters can only target business that the local market declines. In 2005 Beazley established Beazley Insurance Company, Inc. as its US admitted carrier.

An early area of focus, as had been the case in 1986, was professional indemnity for architects and engineers. However, this time it was far smaller firms that were targeted than had been originally sought out from London.

In 2005, Beazley underwrote \$7.5m in specialty lines business in the US; by last year, this had grown to \$545.8m. The years in between saw the financial crisis of 2008 and the recession that followed it. However, perhaps more significant for Beazley, was the onward march of Moore's Law (named after the co-founder of Intel, Gordon Moore, who predicted in the 1960s that the processing power of computers would double roughly every two years) and the related explosion in the online exchange of data, including personal data.



"We were able to achieve significant growth in our environmental book in 2016. We see further growth opportunities in the US and around the world, particularly from property owners and developers looking for well designed, long term protection from environmental lawsuits and regulatory action."

Jayne Cunningham
Environmental focus group leader

Beazley's technology, media and business services (TMB) team within the specialty lines division began underwriting network security and privacy risks in 2005. However, to establish clear leadership in the nascent data breach insurance market required a willingness to rethink the product from the ground up, recognising that clients' most pressing need was not for third party liability cover following a data breach, but for immediate hands-on help in handling the consequences of the breach.

Thus Beazley Breach Response (BBR) was launched in June 2009. As billed in the press release, the product did indeed bring 'radical change to the data breach and security insurance market'. It provided an array of tightly coordinated response services to help clients manage data breaches effectively for up to two million affected individuals (later increased to five million). By tying the cap to the number of individuals notified of the breach, BBR alleviated any concerns clients might have about running out of insurance funds before the job was done.

BBR, developed by a team led by Mike Donovan, TMB focus group leader, was the first really credible insurance industry response to the growing legal and reputational challenge to companies posed by data breaches. Several dozen states then had their own data breach notification laws (the number has since risen to 48) and coordinating responses in multiple states was a major challenge. BBR Services, the dedicated business unit established by Beazley in 2012 to help clients manage data breaches effectively, strengthened the service still further. Beazley has now worked with clients on more than 5,000 breaches.

In recent years, Beazley's leadership position in cyber insurance has extended outside the US. This has occurred partly through launches of BBR in other markets (versions of the policy can be purchased through brokers in France, Italy, the UK and Canada) and partly through reinsurance agreements with other insurers through which Beazley's data breach cover can be embedded in the other insurers' existing product range.

Although the US will unquestionably continue to be the biggest market for the specialty lines division in the years to come, business in other markets is gaining ground. Lloyd's remains a crucible for innovation in insurance, as well as the natural home to many of the largest and most complex risks. From 2017, as part of the expansion of our international (non-US) specialty lines business, a team under Gerard Bloom's leadership will be targeting new opportunities in financial institutions and in other specialty lines such as management liability and cyber.

Specialty lines is strongly rooted in the history and culture of Beazley as the company has developed over three decades. And trees with strong roots can grow very tall.

5,000+

The number of data breaches handled by Beazley's experts by late 2016

Three eventful decades

For three decades, Beazley has helped clients recover from risks that threaten to derail their businesses and destroy their livelihoods.



1986

In the year Beazley begins trading, the first acknowledged computer virus, Brain, is released. Thirty years later Beazley is at the forefront of insuring against this type of threat.

1987

In October 1987, hurricane-force winds sweep across southern England and northern France, killing at least 22 people and leaving a path of destruction in their wake.



1992

The most destructive hurricane in US history, Hurricane Andrew, passes through the Bahamas and southern USA in August 1992.



2001

Terrorist attacks on the World Trade Center and Pentagon kill 2,996.



*Flotation
2002*

1980s

Turbulent beginnings

Beazley began life in a tumultuous decade for world insurance markets. A capacity crisis in US liability markets sent premiums soaring in the US, offering attractive opportunities to the few carriers that had not withdrawn from the market and were able to price risks appropriately.

At Lloyd's, storm clouds were gathering. The late 1980s saw mounting losses from long tail liabilities for risks such as asbestos deriving from policies underwritten, in many cases, decades before. As a new syndicate Beazley was not directly exposed to these risks, but the combination of long tail liabilities and more recent catastrophe losses from events such as the North Sea Piper Alpha oil platform explosion and Hurricane Hugo posed a threat to the market as a whole.

1990s

Change at Lloyd's

The problems at Lloyd's came to a head in the 1990s. At the beginning of the decade, the market's capital was derived exclusively from the personal wealth of 34,000 private individuals, known as Names, who backed underwriting at Lloyd's with unlimited liability. By the end of the decade, corporate capital had replaced much of the Names' capacity and Equitas, the world's largest run-off reinsurance company, had been formed to manage 1992 and prior year liabilities. (Equitas was later acquired by Berkshire Hathaway.)

Andrew Beazley, Nick Furlonge and other Beazley underwriters played key roles in helping the Lloyd's market navigate through this perilous period in its history.

2000

2001

2002

2003

2004

Terrorism on a new scale

The terrorist attacks on the World Trade Center on 11 September 2001 gave rise to the heaviest insurance losses in history, with the Lloyd's market alone paying out more than \$1.98 bn. The security of Lloyd's held but the shock prompted a review of the market's governance. Andrew Beazley was a member of the Chairman's Strategy Group at Lloyd's, which set down a blueprint for reforms including the creation of the Franchise Board in 2003. With the oversight of the Franchise Board, Lloyd's has enjoyed a period of exceptional growth and stability.

\$1.98bn

Lloyd's market loss as direct result of September 11, 2001 attacks

As we move into our fourth decade, the company is larger, better resourced and more diverse than at any point in its history. We can accordingly do more to help our clients while providing exciting career opportunities for our employees and attractive returns for our investors.

2005

Hurricanes Katrina, Rita and Wilma cause massive damage to the southern US. Wilma set a record for the lowest barometric pressure ever recorded in the Atlantic. But it was Katrina that caused by far the greatest loss of life and damage.



2012

Superstorm Sandy makes landfall in the US, causing estimated losses of between \$25-30bn, the second costliest windstorm in US history.



2008

On the day that Lehman Brothers files for bankruptcy – 15 September 2008 – the Dow Jones index falls by over 500 points (4.4%). Worse was to come.



2005

2006

2007

2008

2009

2010

2011

2012

2013

2014

2015

2016

Growth at Beazley

Beazley took two important steps to develop its business in the early years of this century. In 2002, the company floated its shares on the London Stock Exchange, raising £150m to invest in profitable growth opportunities that were, at that time, plentiful. Also from 2005 onwards, the company began underwriting business locally in the United States, then as now, Beazley's most important market.

The great recession

The US financial crisis in 2008 and the global economic slowdown that followed it posed challenges for insurers, with scant growth opportunities and heavy claims in recession-exposed classes of business such as employment practice liability. Beazley adjusted its portfolio accordingly and traded profitably through the downturn.

The calm after the storms

Recent years have proved generally profitable for insurers, with relatively subdued claims experience and a steady recovery of the US economy. Investment returns have however been low, benefiting insurers with deep underwriting expertise and the ability to generate strong underwriting returns. Beazley targets a combined ratio of 90% or lower and has achieved this in four consecutive years. In 2011, the worst year on record for insured natural catastrophes, the company's combined ratio was 99% compared to a combined ratio of 106.8% for the Lloyd's market as a whole.

Increased demand for cyber

Demand for specialist insurance has also been evolving rapidly. Recent years have also seen an explosion of data as businesses seek new ways to serve customers (and influence them). The Internet of Things, a term first coined in 1999, became immensely popular a decade and more later as the networked world expanded. However the dark side of big data – the potential for massively damaging data breaches and network intrusions – also grew, spurring the rapid emergence of a new insurance market. Beazley, which had launched a highly innovative data breach product, Beazley Breach Response, in 2009, has established itself as a leader in this market.

5.5m

The number of new devices, including household appliances, that came online each day in 2016

Same company, same values

Although many of the risks Beazley underwrites today were unheard of in 1986, in other important respects the company has not changed. It has enjoyed a high level of management stability, with two chief executives in the company's history. A focus on organic growth has enabled the company to avoid the dilution of the founders' culture that companies which have grown through acquisitions have often experienced. The culture is based on strong, respectful relationships – among colleagues and, externally, with brokers and clients. The evidence of the past three decades suggests that it is a culture that benefits investors as well.

Chairman's statement



Dennis Holt
Chairman

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

Against a background of continued sharply falling premium rates for most large risk business, Beazley delivered a very strong performance in 2016, generating a return on average shareholders' equity of 18% (2015: 19%) and premium growth of 6%.

Through skilled underwriting and careful rebalancing of our diversified risk portfolio, Beazley once again achieved a combined ratio below 90%, recording 89% in 2016 (2015: 87%). Earnings per share were 48.6c (2015: 48.8c) and net tangible assets per share grew to 268.2c (2015: 263.9c).

The board is pleased to announce a second interim dividend of 7.0p per ordinary share (plus a special dividend of 10.0p per ordinary share). Together with the first interim dividend of 3.5p this takes the total dividends declared for 2016 to 20.5p per ordinary share (2015: first interim dividend of 3.3p, second interim dividend of 6.6p plus a special dividend of 18.4p, totalling 28.3p).

Beazley targets dividend growth (excluding special dividends) of between 5% and 10%, a record which we have maintained since flotation. Additional capital is available to be returned to shareholders if cash flow further exceeds the opportunity to invest in profitable growth, plus a prudent buffer. As our specialty lines business continues to grow, and as we continue to reduce our peak natural catastrophe exposure, in part due to the competitive rating

environment, we expect our capital requirements to increase. In 2016, our capital requirements grew by 11%, thus reducing the level of excess capital compared to 2014 and 2015.

The markets within which Beazley operates faced major economic and political uncertainties in 2016 – uncertainties that had not diminished by the year end. It is now clear that the hardship and psychological shocks caused by the 2008 financial crash and subsequent recession have, several years later, had major political repercussions that few expected. In both Britain and the US support for open markets and free trade is more challenged and the economic cost may ultimately be high. The direction of both monetary and fiscal policy in this volatile environment is hard to predict.

Reflecting this trend, Brexit has been a source of concern and considerable uncertainty to many businesses in the City of London. For Beazley the concern is less acute, in part because less than 5% of our business is generated within mainland Europe, but also because we had already planned to develop our presence in Dublin to access more business in continental Europe. In November 2016, we filed an application with the Central Bank of Ireland to obtain approval for Beazley Re dac to become a European insurance company, enabling us to broaden our underwriting platforms to European clients.

For many insurers, the ripple effects of political uncertainty and weak investment returns on performance have been masked by a low incidence of catastrophe claims that has continued largely unbroken since 2011. Premium rates have naturally

fallen to reflect this, most sharply in the energy market. However, it is in the nature of large risk, catastrophe exposed business that rates can fall a long way and insurers can still make money if claims are subdued.

Beazley has weathered multiple underwriting cycles in three decades and, at this juncture, our focus is on maintaining underwriting discipline across the business classes that have seen rates continue to fall. We have accordingly further trimmed our exposures to energy risks, large scale commercial property, and reinsurance.

Nevertheless, amid the challenges our industry faces, there are many areas of opportunity for Beazley. Specialty lines, the company's largest division, continues to grow strongly, generating gross premiums of \$1,159.8m in 2016 (2015: \$1,015.2m), 14% up on the previous year. This business was buoyed by the relatively attractive premium rates for small scale risks that our mature US operations are now well equipped to handle. We have been building a strong platform in the US for more than a decade now and it has served us well.

For a specialist insurer such as Beazley, one important measure of vitality is the flow of new product ideas and a commitment to invest in them – an area in which Beazley continues to excel. Another is a willingness to partner with other insurers or reinsurers to exploit attractive growth opportunities that might not be accessible to a single company. The partnership we forged in 2016 with Munich Re to underwrite large scale cyber risks is an example of the latter.

The cyber market continues to grow and evolve rapidly, but in other areas patience can be a virtue. Beazley celebrated 10 year anniversaries in Paris and in Singapore in 2016, hard on the heels of our tenth anniversary as a local insurer in the United States. In each market, we have grown largely or exclusively organically, making only small scale acquisitions, if any. This is not the fastest way to grow, but in insurance it can prove a surer route to profitable growth.

An important focus for the Beazley board has always been to scrutinise the key diversification elements in the company's risk portfolio. Beazley's success over time has depended heavily on being able to flex the portfolio to capitalise on profitable growth opportunities in one geography or line of business while keeping our powder dry in another. In addition, the duration of risks matters: in recent years we have seen short tail catastrophe exposed business shed margin far faster than the medium tail casualty business that is the focus of our specialty lines division. In all these areas – product, geography and duration – the board continuously challenges the company's strategy and the assumptions that underpin it.

In this work we have benefited greatly from the diverse experience and skillset of board members, including Vincent Sheridan, who has been a Beazley plc non-executive director since 2009, and who resigned from the board and audit and risk committee at the end of the year. He will remain a director of Beazley Recad, the group's Irish subsidiary. I am very grateful to Vincent for his valued contribution to the board during his seven year tenure.

We were delighted to welcome three new board members during the course of the year, each of whom brings experience relevant to particular opportunities and challenges the company faces.

John Sauerland joined us in May as a non-executive director and member of the remuneration committee. Based in Ohio, John is currently the chief financial officer of Progressive Insurance, having served in a number of roles across that organisation since 1991. As the US continues to be a strategic focus for the group, John's experience and skills will prove very valuable to us.

Further reinforcing the board's US experience, particularly in the broking arena, we welcomed Christine LaSala as a non-executive director and a member of the audit and risk committee in July. Based in New York, Christine recently retired as chair of Willis Towers Watson North America after a long and distinguished career in insurance broking that included leadership roles at Johnson & Higgins and Marsh.

Finally in August, the board appointed Bob Stuchbery as a non-executive director and member of the audit and risk committee. Bob had previously been appointed as a non-executive director to the board of Beazley Furlonge Ltd, the group's Lloyd's managing agency, where he chairs the risk committee. He brings extensive Lloyd's experience, having been CEO of Chaucer until 2015 and his deep knowledge of the Lloyd's market and distribution and operational strategies will be an asset to the board.

Dividend policy and capital requirements

Our capital management strategy is to carry some surplus capital to enable us to take advantage of growth opportunities that may arise; this is further supported by our fully undrawn banking facility. We continue to manage our capital actively, and to the extent that we have surplus capital outside of this range the board will consider means to return this capital to shareholders, as demonstrated once more through the announcement of a special dividend for 2016.

Outlook

Profitable growth proved a challenge for many insurers in 2016 and we do not expect it to be any easier to achieve in the coming year. For Beazley, however, there remain significant opportunities to grow in the US and, on a smaller scale, in other markets outside London. Demand for our specialist products, particularly among small and mid sized businesses, remains strong.

The London market faces a more challenging near term future. The influx of capital into this market in recent years, and the resulting rating pressure, has contributed to tighter margins across many lines of business. If the relatively benign claims environment we have grown used to in recent years were to deteriorate, the consequences of writing risk at these rates would become even clearer.

That is not Beazley's approach. Our vision is to become, and be recognised as, the highest performing specialist insurer. As long as we continue to generate good ideas to help clients address their most pressing risks while attracting skilled underwriters who can price their products sustainably, we will continue to make progress towards achieving our vision.

Dennis Holt
Chairman

2 February 2017



Chief executive's statement



Andrew Horton
Chief executive

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

Beazley prospered in 2016, generating a profit before income tax of \$293.2m (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 we 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. (Our growth strategy for specialty lines business is described in more detail on pages 8 to 11).

Beazley has underwritten US business since the company's early years, when Andrew Beazley and Nick Furlonge built a strong reputation for the company 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, we 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 Beazley to be material.

Investment performance

Our 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. Our move to insource more decision taking to our 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. More details of our investment strategy are shown on page 42.

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. Our risk management team, led by our chief risk officer 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 Beazley'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.

 Find out more pages 52 to 57

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 we 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. We 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, we 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 board, to which, as the chairman describes in his letter on page 71, we 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, was also very high.

Can we do better? I have no doubt 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

I noted in last year's report that the returns on equity we had seen in previous years would prove unsustainable if market conditions continued to deteriorate. That deterioration has occurred 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.

At the risk of being accused of crying wolf, I will once again predict margin declines when (and it is a matter of when, not if) claims return to more normal levels. The consolation for Beazley 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, Beazley'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.

Andrew Horton
Chief executive

2 February 2017



Q&A with the chief executive



Andrew Horton
Chief executive

Andrew Horton reviews Beazley's performance and describes the risks and opportunities he foresees in 2017.

Q Has the change in domicile implemented in April 2016 delivered the expected benefits? Wasn't it a mistake to have moved to the UK just before the Brexit vote?

A Our return to the UK has delivered exactly the benefits we anticipated and we would have made the same decision, regardless of Brexit. In practical terms it would, we believed, be easier to manage the group from London, where the bulk of our business continues to be transacted. That has proved the case. However we kept our internal reinsurance company, Beazley Re dac, in Dublin with the intention of using this as a vehicle to develop further European business, subject to regulatory approval from the Central Bank of Ireland (CBI). Our application to convert Beazley Re dac from a reinsurance company to an insurance company was submitted to the CBI last November and now we will be working with them to answer any questions they have, with the aim of obtaining approval in the first half of this year.

Q How important is the direction of the US economy to Beazley's business?

A Very important – 65% of our premiums derive from US risks. We see attractive growth opportunities in other parts of the world and will continue to develop them, but the US market will continue to be key for many of our London underwriters as well as our US underwriters.

The direction of the US economy in 2016 was positive for our business – our locally underwritten business grew by 20% last year. We expect this to continue into 2017. As insurers we tend to favour a 'Goldilocks' economy with moderate growth, of the kind we have recently seen.

Rising interest rates, which the Federal Reserve has signalled for 2017, have a short term negative impact on our investment returns as our bonds are marked to market, but longer term the impact is clearly positive.

Q Specialty lines has been growing as a proportion of your overall business. Why is that and do you see limits to that growth?

A Demand for the professional indemnity and management liability lines of business that we class as specialty lines has been growing steadily, particularly among smaller companies. Demand has been growing even faster for data breach and other cyber insurance protections, which is another area of focus for the specialty lines division.

The drivers of increasing demand are varied. We see no evidence that the US is becoming a less litigious society, while regulatory risk is growing. In some other markets, such as the UK, people are also becoming more litigious. As explained on pages 8 to 11 we have been quite successful in developing business in those

sectors of the US economy, including healthcare and technology, that have been growing fastest. We expect this growth to continue.

We look frequently at the headroom we have to continue growing in our target markets. The good news for our specialty lines underwriters is that they have plenty of headroom to grow further. To take just one example, we wrote \$36m more environmental business in 2016 than in the previous year, but the team's total premium was still only \$61m. There's a great deal more profitable business to play for.

Q You formed a partnership with Munich Re to write large cyber business in 2016. How important do you think partnering with other insurers and reinsurers will be to Beazley in the future?

A We see partnerships of this kind playing an important role in Beazley's future. Our first one was forged with Korean Re in 2015 and we are pleased with the results to date. We have sent, so far, three of our underwriters to spend time with Korean Re in Seoul and gain insights into that market, the seventh largest for non life insurance in Asia. We see many of our specialist products holding appeal for Korean buyers, but the reality is that it is not a market we know well and broker penetration is not deep. A partnership with the country's biggest reinsurer brings us relationships and local credibility that it would take decades for us to develop on our own.

The relationship with Munich Re is of longer duration – they have reinsured Beazley, and supported our growth, over many years. However, we think we have a unique opportunity in the cyber space to combine Munich Re's emerging risks expertise (particularly in the manufacturing sector) with our data breach experience. We are working with the Corporate Insurance Partner unit of Munich Re, which was established for just this type of venture, and we are writing risks together on a coinsurance, rather than a reinsurance, basis.

We are very open to developing other, similar opportunities, either with existing partners or with new partners. In 2017 we launched a new business unit within specialty lines, Beazley Product Solutions, to identify and develop such opportunities.

Q Beazley has seen far more growth in small and mid sized business in recent years, particularly in the US, than in large risks. Do you see this continuing and what are you doing to increase Beazley's appeal to small businesses?

A Large risk business has always tended to be more volatile than small risk business. Part of our rationale in establishing a local presence in the US was to win a larger share of small risk business to balance our large risk portfolio and help us ride out periods of competition for large risks. That strategy has worked well for us in recent years.

We are taking a number of steps to build on our existing attractions for small business clients. Many of these clients like to buy insurance on a package basis, with multiple lines written together, and we will be expanding our ability to offer package policies in Europe and the US. However our goal in doing this is clear – we think our specialist products, such as our data breach cover, can help differentiate our package policies. We are not keen to write more commoditised business for its own sake.

Distribution is critical at this end of the market and we will also be expanding our ability to write risks through managing general agencies (known at Lloyd's as coverholders) which can write business on a delegated authority basis, within strict underwriting guidelines. The small business unit within our property division has pursued such a strategy very successfully for many years.

Q What progress has been made this year in enhancing the efficiency of the London market through the Target Operating Model initiative? How optimistic are you about London's future?

A The idea behind the London Target Operating Model is to have more efficient processing supported by electronic data capture for all stages of the journey taken by a piece of business, from placement, through claims, to renewal. This year saw the launch of a key part of the model, Placing Platform Limited or PPL, which brokers are now using to submit risks to London market insurers electronically and enable risk data to flow through into their systems. Fifteen brokers and 68 insurers, including Beazley, are now using the platform. Since the system went live, more than 1,000 risks have been placed electronically, reflecting the value of the initiative and the strong collaborative relationships that underpin it.

Q You have talked about increasing pressure on margins for a number of years but Beazley has continued to produce combined ratios of 90% or better. When will this change?

A The margin pressures in our industry have definitely increased and this has contributed to the recent consolidation we have seen among competitors and their withdrawal from lines of business where they no longer feel they can make money. At Beazley we have enjoyed a greater degree of flexibility than some others because of the diversity of our book, which enables us to be quite nimble in focusing on profitable opportunities. This is not an accident – it reflects well on both our strategy and the skills of our underwriters. However if rates continue to erode for large parts of our overall book, we cannot maintain current margins indefinitely. The other part of the equation is of course claims experience, which continued to be relatively benign in most of our lines in 2016: a return to more normal levels would also depress margins. We will, once again, do our utmost in 2017 to maintain underwriting margins but it will, once again, be harder to succeed.

Q Rate pressure in the marine and energy markets has been particularly intense in recent years. Do you see signs of this abating?

A Not in the near term. The Lloyd's market is a bellwether for both these lines of business and we have not seen capacity withdrawn by syndicates that, in most cases, have experienced higher loss ratios than we have. There is some evidence that global trade is picking up, which should have positive effects for the marine market, but we are not expecting that to give our marine business a lift in 2017. As we explain on page 4, Clive Washbourn and his team have taken steps in recent years to diversify the marine division's book: marine hull and energy risks together accounted for approximately 70% of the account in 2009; they now account for less than 45%. This has reduced the margin erosion we have suffered but not eliminated it altogether.



Chief underwriting officer's report



Neil Maidment
Chief underwriting officer

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 table below 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 \$3.9m 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.

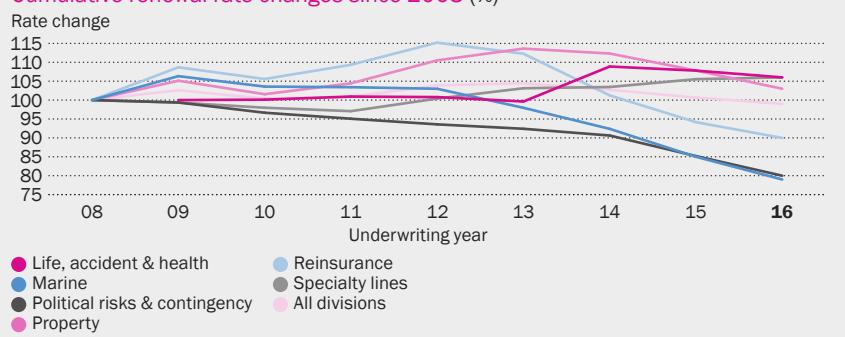
Our property division delivered another profitable underwriting result in 2016, achieving a combined ratio of 87% (2015: 84%) on gross premiums written of \$329.7m (2015: \$353.1m). Market conditions continue to be challenging, particularly in respect of large risks, with rates on renewal business falling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

Cumulative renewal rate changes since 2008 (%)



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.

At Beazley we will continue to prioritise value creation for our shareholders and clients 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.

Neil Maidment
Chief underwriting officer

2 February 2017



Performance by division

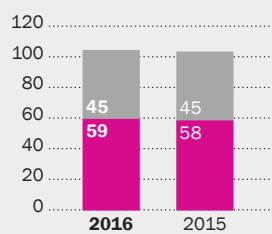
Profitable growth in a competitive environment.

Life, accident & health



Christian Tolle
Head of life, accident & health

Combined ratio (%)



● Claims ratio ● Expense ratio

	2016 \$m	2015 \$m
Gross premiums written	126.6	119.8
Net premiums written	118.0	106.6
Results from operating activities	(3.9)	0.4
Claims ratio	59%	58%
Expense ratio	45%	45%
Combined ratio	104%	103%
Rate change	(2%)	(1%)

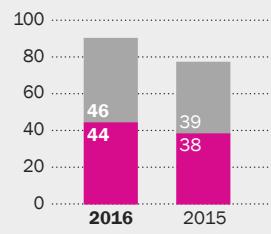
Find out more on pages 26

Marine



Clive Washbourn
Head of marine

Combined ratio (%)



● Claims ratio ● Expense ratio

	2016 \$m	2015 \$m
Gross premiums written	247.4	269.3
Net premiums written	220.7	239.5
Results from operating activities	34.5	66.9
Claims ratio	44%	38%
Expense ratio	46%	39%
Combined ratio	90%	77%
Rate change	(7%)	(8%)

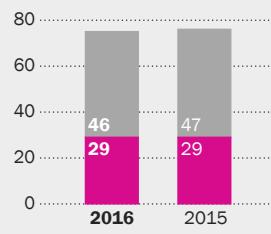
Find out more on pages 28

Political risks & contingency



Adrian Lewers
Head of political risks & contingency

Combined ratio (%)



● Claims ratio ● Expense ratio

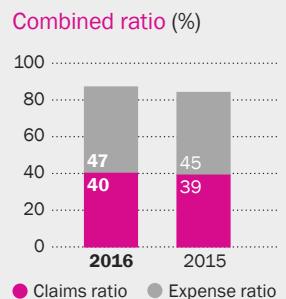
	2016 \$m	2015 \$m
Gross premiums written	118.7	123.6
Net premiums written	97.6	105.0
Results from operating activities	31.5	29.0
Claims ratio	29%	29%
Expense ratio	46%	47%
Combined ratio	75%	76%
Rate change	(6%)	(6%)

Find out more on pages 30

Property



Mark Bernacki
Head of property



	2016 \$m	2015 \$m
Gross premiums written	329.7	353.1
Net premiums written	277.1	304.8
Results from operating activities	51.5	59.7
Claims ratio	40%	39%
Expense ratio	47%	45%
Combined ratio	87%	84%
Rate change	(4%)	(4%)

Find out more on pages 32

Reinsurance



Patrick Hartigan
Head of reinsurance



	2016 \$m	2015 \$m
Gross premiums written	213.4	199.9
Net premiums written	141.2	132.0
Results from operating activities	60.9	66.3
Claims ratio	29%	22%
Expense ratio	36%	35%
Combined ratio	65%	57%
Rate change	(4%)	(7%)

Find out more on pages 34

Specialty lines



Adrian Cox
Head of specialty lines



	2016 \$m	2015 \$m
Gross premiums written	1,159.8	1,015.2
Net premiums written	999.4	825.2
Results from operating activities	133.9	77.0
Claims ratio	56%	60%
Expense ratio	37%	36%
Combined ratio	93%	96%
Rate change	1%	2%

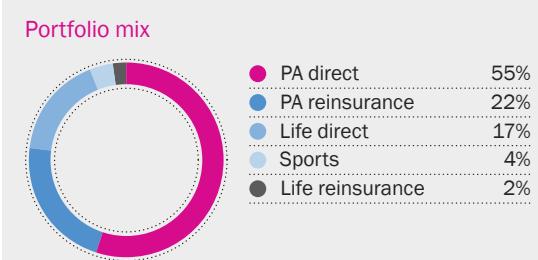
Find out more on pages 36

Life, accident & health

Progress made in 2016 by re-balancing our portfolio.



Christian Tolle
Head of life, accident & health



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 \$3.9m 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, Beazley'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



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.

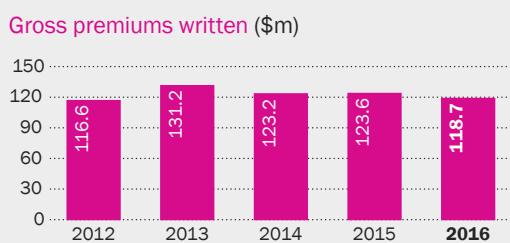
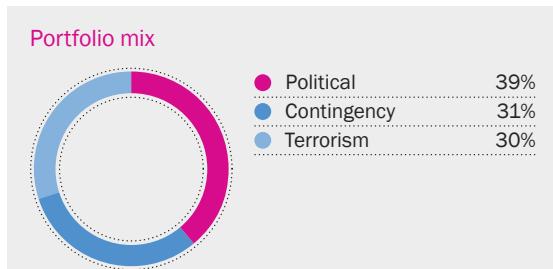
Our investments in talent do not march in lockstep with market conditions – we hire capable underwriters and claims staff as the opportunity arises. In addition to the Leviathan team we were delighted to welcome Christophe Paulin to our aviation team in 2016.

Political risks & contingency

Diverse product mix delivers strong combined ratio.

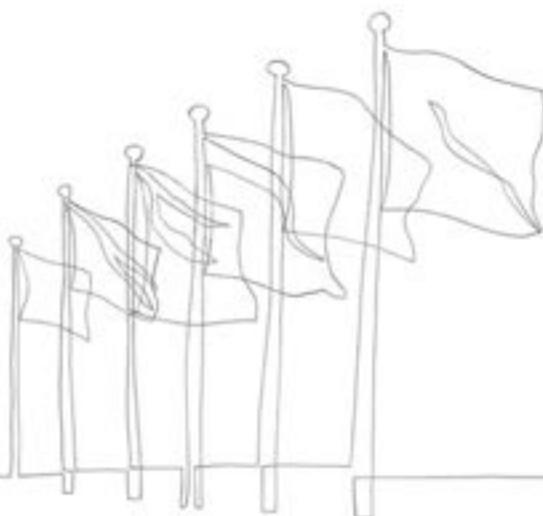


Adrian Lewers
Head of political risks & contingency



\$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.

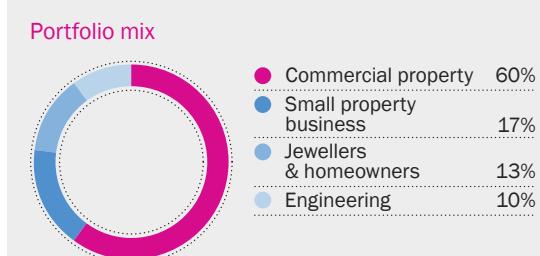
At 39% of our portfolio, political risks insurance for perils such as confiscation, nationalisation and expropriation, and trade-related credit insurance continues to be our largest line of business. This team, under the leadership of Roddy Barnett, performed well during 2016, despite rates that fell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



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.

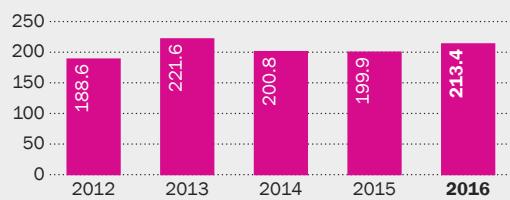


Patrick Hartigan
Head of reinsurance

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.

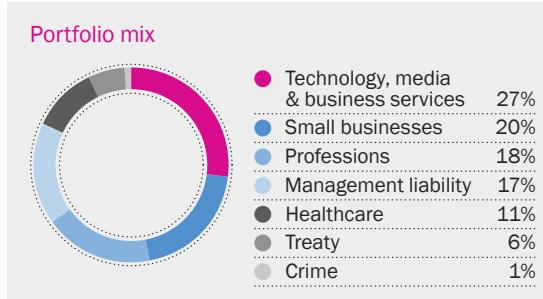
Looking ahead, we see the potential for a significant increase in demand for reinsurance cover in developed and less developed markets around the world if the administrators of state-backed insurance programmes seek to transfer some of their exposures to the private sector, as some have been considering 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



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 – described in detail on pages 8 to 11 – 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

Group performance



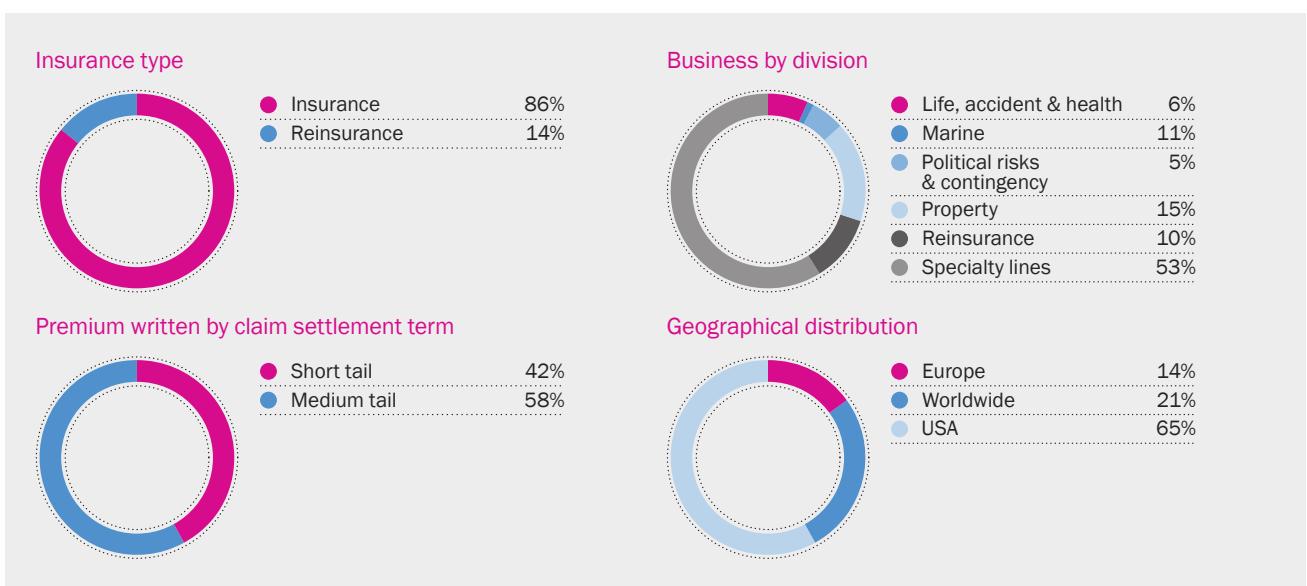
Martin Bride
Finance director

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	720.3	663.8	9%
Foreign exchange loss	9.5	9.7	(2%)
Expenses	1,585.4	1,487.4	7%
Share of loss of associates	(0.2)	(0.5)	(60%)
Finance costs	(15.2)	(15.3)	(1%)
Profit before tax	293.2	284.0	3%
Income tax expense	(42.2)	(35.0)	21%
Profit after tax	251.0	249.0	1%
Claims ratio	48%	48%	
Expense ratio	41%	39%	
Combined ratio	89%	87%	
Rate decrease	(2%)	(2%)	
Investment return	2.0%	1.3%	





Profit

Profit before tax was broadly unchanged in 2016 at \$293.2m (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:

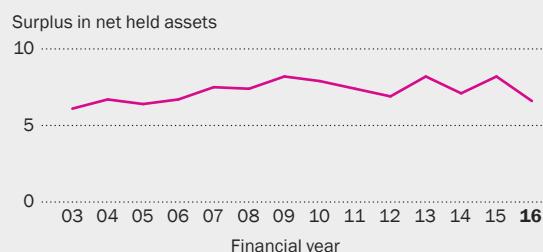
- to mitigate the impact of catastrophes such as hurricanes;
- to enable the group to put down large, lead lines on the risks we underwrite; and
- to manage capital to lower levels.

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.

Financial review *continued*

Group performance *continued*

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 \$720.3m 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	247.8	215.2
Total acquisition costs and administrative expenses	720.3	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 company's net assets. Changes in the US dollar exchange rate with sterling, the Canadian dollar and the euro do have an impact as we receive premiums in those currencies and the majority of our staff still receive their salary in sterling. Beazley's FX loss taken through the statement of profit or loss in 2016 was \$9.5m (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.

Financial review *continued*

Group performance *continued*

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



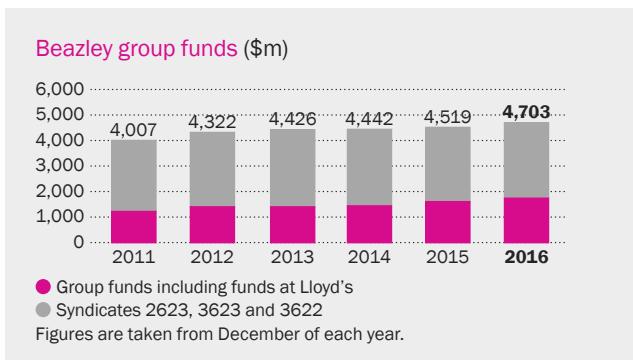
Investment performance

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.



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

	31 Dec 2016 \$m	%	31 Dec 2015 \$m	%
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 2015 \$m	%
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 2012.

Tax

Beazley is liable to corporation tax in a number of jurisdictions, notably the UK and Ireland. Our effective tax rate is thus a composite tax rate driven by the Irish and UK tax rates. Our effective tax rate for the year was 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 (see note 9).

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	794.7	732.7	8%
Other assets	332.5	302.9	10%
Financial assets at fair value and cash and cash equivalents	4,702.6	4,519.1	4%
Total assets	7,008.5	6,745.4	4%
Insurance liabilities	4,657.7	4,586.7	2%
Financial liabilities	363.8	247.3	47%
Other liabilities	503.3	470.0	7%
Total liabilities	5,524.8	5,304.0	4%
Net assets	1,483.7	1,441.4	3%
Net assets per share (cents)	286.8c	281.7c	2%
Net tangible assets per share (cents)	268.2c	263.9c	2%
Net assets per share (pence)	225.9p	186.5p	21%
Net tangible assets per share (pence)	211.2p	174.8p	21%
Number of shares¹	517.2m	511.7m	1%

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

Intangible assets

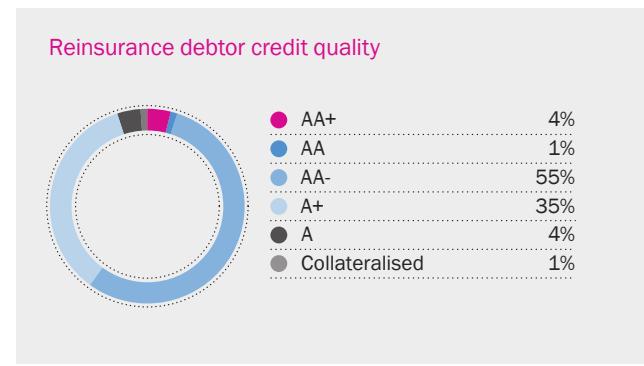
Intangible assets consist of goodwill on acquisitions of \$62.0m, purchased syndicate capacity of \$10.7m, US admitted licences of \$9.3m, renewal rights of \$7.0m and capitalised expenditure on IT projects of \$7.6m.

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 45 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).



Insurance receivables

Insurance receivables are amounts receivable from brokers in respect of premiums written. The balance at 31 December 2016 was \$794.7m (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 to support underwriting at Lloyd's. Of this, 75% may be advanced as cash under a revolving facility. The cost of the facility is based on a commitment fee of 0.4375% per annum and any amounts drawn are charged at a margin of 1.25% per annum. The cash element of the facility will expire on 31 July 2017, whilst letters of credit issued under the facility can be used to provide support for the 2015, 2016 and 2017 underwriting years. The facility is currently unutilised.

Capital structure

Capital structure

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

Further capital requirements come from rating agencies who provide ratings for Beazley Insurance Company Inc and Beazley 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.

In 2016, Beazley acquired 2.0m of its own shares into the employee benefit trust. These were acquired at an average price of 335p and the cost to the group was £6.7m.

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

	2016 \$m	2015 \$m
Shareholders' funds	1,483.7	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
	1,844.7	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, a \$94.7m retail bond and an undrawn banking facility of \$225.0m.

We signalled at the interim results that we 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

At 31 December 2016, we have 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, 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. 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 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.

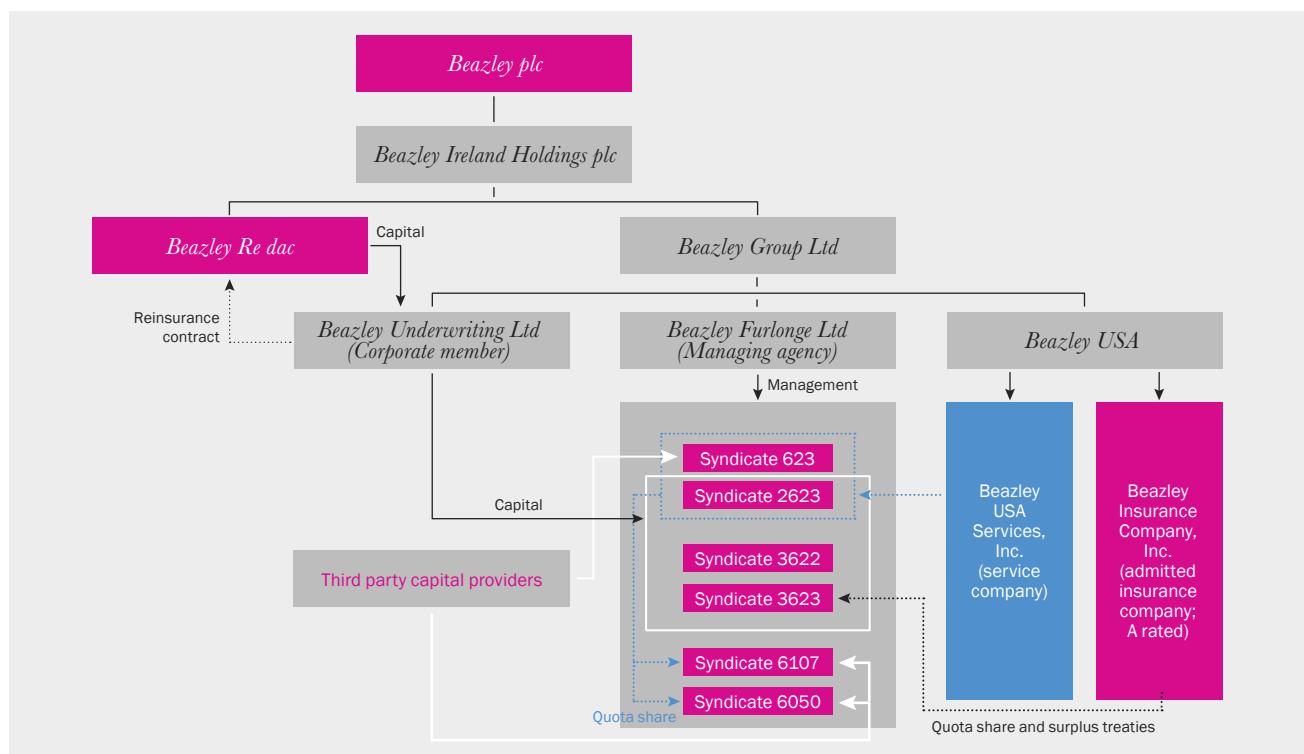
Financial review *continued*

Capital structure *continued*

Group structure

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

- Beazley plc – group holding company and investment vehicle, quoted on the London Stock Exchange;
- Beazley Ireland Holdings plc – Intermediate holding company which holds £75m sterling denominated notes;
- Beazley Underwriting Limited – corporate member at Lloyd's writing business through syndicates 2623, 3622 and 3623;
- Beazley Furlonge Limited – managing agency for the 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.



Ian Fantozzi
Chief operating officer

Beazley 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.

Operational update *continued*

Cost efficiency

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

In pursuit of greater efficiency and consistency of operational service, we have centralised operations support or outsourced it where this brings further value. We want to make sure that operations and processing are done by appropriately skilled people, at the most cost effective location, whilst providing the best service levels. 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.



Andrew Pryde
Chief risk officer

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 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 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 board;
- Consolidated view: The 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 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. At Beazley, in addition to the consolidated assurance report, the suite of risk management reports range from thematic risk reviews to the regular and transactional Own Risk and Solvency Assessment (ORSA) reports.

Good design should be intuitive and effortlessly achieve the desired outcome. In 2016, we 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 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 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 Beazley 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 Beazley 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 Beazley's 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 the board's risk appetite to ensure that growth in this area remains appropriate within Beazley'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 board 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 board members and the ensuing discussion provided an opportunity to test how Beazley'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 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 remunerations 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 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 board. This report, coupled with a programme of regular and tailored director briefings ensure that the internal model is understood. During 2016 we have 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 board expects.

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

Risk management *continued*

Risk management philosophy

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

Risk management strategy

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

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

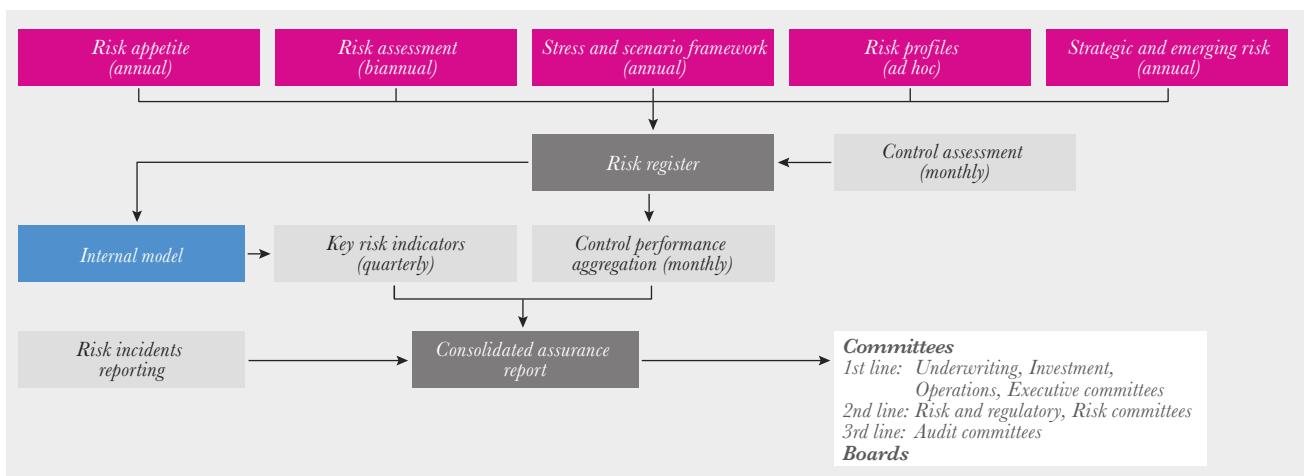
- risk management is a part of the wider governance environment;
- techniques employed are fit for purpose and proportionate to the business;
- risk management is a core capability for all employees;
- risk management is embedded in day-to-day activities;
- there is a culture of risk awareness, in which 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

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

<i>Business risk management</i> <i>Risk ownership</i>	<i>Risk management</i> <i>Risk oversight</i>	<i>Internal audit</i> <i>Risk assurance</i>
<ul style="list-style-type: none">– Identifies risk– Assesses risk– Mitigates risk– Monitors risk– Records status– Remediates when required	<ul style="list-style-type: none">– Are risks being identified?– Are controls operating effectively?– Are controls being signed off?– Reports to committees and board	<ul style="list-style-type: none">– Independently tests control design– Independently tests control operation– Reports to committees and board

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



In summary, the board identifies risk, assesses risk and sets risk appetite. The business then implements a control environment which describes how the business should operate to stay within risk appetite. Risk management then reports to the board on how well the business is operating using a consolidated assurance report. For each risk, the consolidated assurance report brings together a view of how successfully the business is managing risk, qualitative commentary from the assurance 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 provided to the boards and committees to assist senior management and board members to discharge their oversight and decision making responsibilities. The risk reports include the risk appetite statement, the consolidated assurance report, risk profiles, stress and scenario testing, reverse stress testing, an emerging and strategic report, a report to the remuneration committee and the ORSA report.

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

Viability statement

The directors have completed a robust assessment of the viability of the group over a three year period. A period of three future years has been selected to be short enough to be reasonably assessable but long enough to reflect Beazley's risk profile of a portfolio of diversified short-tailed and medium-tailed insurance liabilities. This three year period also aligns with the length of time over which business underwritten at Lloyd's, being the majority of our insurance business, is managed. The board has performed an annual risk assessment and the key risks to the group in the future are summarised on pages 56 and 57.

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

The Chief Risk Officer provides a quarterly own risk and solvency assessment (ORSA) to the board summarising the short term and longer term risks to the group and the capital implications.

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

The risks to financial performance

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

Insurance risk

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

- **Market cycle risk:** The risk of systematic mispricing of the medium tailed specialty lines business which could arise due to a change in the US tort environment, changes to the supply and demand of capital, and companies using incomplete data to make decisions. This risk would affect multiple classes within the specialty lines division across a number of underwriting years. The group uses a range of techniques to mitigate this risk including sophisticated pricing tools, analysis of macro trends, analysis of claim frequency and the expertise of our experienced underwriters and claims managers.
- **Natural catastrophe risk:** The risk of one 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 Beazley's risk profile, examples include a coordinated cyber attack, an act of terrorism, an act of war or a political event. This risk is monitored using exposure management techniques to ensure that the risk and reward are appropriate and that the exposure is not overly concentrated in one area.

• **Reserve risk:** Beazley has a consistent and conservative reserving philosophy. However, there is a risk that the reserves put aside for expected losses turn out to be insufficient. This could be due to any of the three drivers of risk described above. The group uses a range of techniques to mitigate this risk including a detailed reserving process which compares, claim by claim, estimates established by the claims team with a top down statistical view developed by the actuarial team. A suite of metrics is also used to ensure consistency each year.

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

Strategic risk

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

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

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

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

Other risks

The remaining six risk categories monitored by the board are:

- **Market (asset) risk:** This is the risk that the value of investments 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 Beazley group is not complex and so the main group risk is that one group entity operates to the detriment of another group entity or entities. Although this risk is currently small, the Beazley plc board monitors this risk through the reports it receives from each entity.

Responsible business

Making more of a difference in our 30th year.

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

This year we wanted to make an even bigger difference as part of our 30th anniversary celebrations. We've donated \$362,000 to our charity partners and our Beazley Pacific Cycle challenge alone raised another \$18,264, which was used for 18 ShelterBoxes in Haiti following Hurricane Matthew. September was also 'Making a Bigger Difference' month, helping the total number of employee volunteers for the year reach 430, from 326 in 2015. It's all about making sure that everyone – not just ourselves – felt the benefit of our anniversary celebrations.

Thirty is a significant anniversary. As well as looking back and appraising what we've done, it's also a time to look ahead, to the things one aspires to. We pride ourselves on setting ourselves apart. Being different. Doing different. We work hard to give something back, especially in the workplace and with our communities. However, there's more we can do, particularly in the marketplace and for our impact on the environment.

Things to celebrate

Marketplace

Celebrating our products that are making a real difference to our customers.

"As market leaders in many of our chosen lines, we have a unique understanding of our clients' risks. We can use this expertise to create innovative products that encourage behaviour that benefits society as well as our insureds."

Adrian Cox
Head of specialty lines

QuIRP and Baby Beazley

"Hospitals that improve get money back on the basis they are becoming a better risk. And that means patients are safer," says Nat Cross, Head of global healthcare.

The Quality Indicator Return Premium, or QuIRP, programme is an important element of the specialist healthcare insurance that we offer to hospitals. It offers clients returns on their premiums if they meet pre-agreed patient quality and safety standards. The programme creates an incentive to provide better care for patients. It also shows how specialist insurance designed by experts can be a force for good.

The Ann & Robert H. Lurie Children's Hospital of Chicago is an excellent example. It reinvested part of the rebate it received for meeting safety and quality targets in 'Baby Beazley', a simulation mannequin used for training in the main hospital as well as many of its outreach units across the State of Illinois.



Says Nat: "We're proud that through QuIRP we have returned more than \$7m in premiums to hospitals that have demonstrably improved their practices."

► **\$7m+**

premiums returned

"We want to minimise our business's environmental impact. We're focused on making our offices efficient. We work with suppliers to make our procurement sustainable. We engage our people to help achieve our goals. Looking after our environment is core to 'Being Beazley' – we do the right thing not because the rule book tells us to, but because it's right."

Ian Fantozzi
Chief operating officer

EPL: fewer claims, 'phew' say employees

"By helping employers avoid claims, we are reducing their risk while improving the workplace for everyone," says Wayne Imrie, EPL & Private company liability underwriter.

Employee tribunals are stressful events for everyone. Our Employment Practices Liability (EPL) policy aims to reduce the risk of situations ending up in court. As well as providing typical insurance, BeazleySure, our online risk management platform, offers policyholders comprehensive risk management training, a dedicated telephone hotline, wage and hour tutorials as well as model policies and procedures.

Environment

Celebrating doing our bit for the environment.

Refreshing our environmental policy

"As tenants there's a limit to what we can do environmentally to affect the buildings we are in," says Munira Hirji, Head of commercial management, and Responsible Business Committee member for the environment. "But what we can do we will – principally working closely with our landlords and building management companies to ensure that together we promote and implement building initiatives that support the environment. In addition, we encourage our colleagues to save energy and minimise waste both within our own spaces and outside."

We refreshed our environmental policy in July 2016, renewing our commitment to managing our environmental impacts. Our strategy focuses on three key areas:

Our offices

We make every effort to ensure that any adverse environmental impact from our offices is minimal and we find ways to enhance them so they have a more positive impact.

We consider our environmental impact when we open new offices and aim to select sustainable and energy saving materials to minimise these impacts. For example, this year we replaced the lighting in our London office with energy efficient LED lights.

Our procurement

We leverage our buying power and work with suppliers to make a positive environmental impact.

Our people and communications

We engage our people to help achieve our goals, consider their environmental approach outside work and keep them informed of what we are doing. Every day we strive to reduce our carbon footprint – from using public transport as a preferred means of transportation to booking taxi's with car companies that provide electric and hybrid vehicles when car transportation is required in the UK.

We use electric and hybrid vehicles in the UK.



Responsible business *continued*

Environment *continued*

Green goes Gold in Chicago

Almost half of our US offices are in Leadership in Energy and Environmental Developments (LEED) certified buildings. This is a coveted industry standard. Where possible we open new offices in LEED or local equivalent certified buildings. Our Chicago office is a LEED-certified building and has been recently upgraded to Gold status.

"For new buildings to receive LEED status is a big achievement, but for existing buildings to improve their LEED status to Gold is really impressive," says Munira. "It's all thanks to our landlord's and our own colleagues focus on energy and resource-saving ideas such as replacing equipment with more energy-efficient models and installing automated faucets in the restrooms."

The building also received an Energy Star score from the US Environmental Protection Agency (EPA) of 84 – three points up from last year. Buildings that earn the Energy Star use on average up to 35% less energy and generate 35% fewer greenhouse gas emissions than similar buildings across the US.

+ An EPA Energy Star score of

► 84

Workplace

Diversity in our workforce

Furthering our diversity goals

In 2015 the nomination committee agreed our goal should be to have two women on the board by the 2016 AGM and three by the 2017 AGM – we achieved that with Catherine Woods and Christine LaSala joining the board this year.

The board has agreed to adopt a similar approach to the gender diversity of our senior management with the aim of building a diverse talent pipeline for the future. The board is committed to having at least 35% of female senior management at Beazley by 2020. In line with our vision, the board is also committed to promoting the recruitment and retention of people from different backgrounds. This approach is underpinned by our commitment to maintaining our meritocratic approach to diversity while ensuring that we are avoiding unconscious bias in our selection criteria. We're also doing our best to give people from all backgrounds the right level of support to progress within the group.



"Our vision is to attract and develop people with different experiences, backgrounds and lifestyles, with different skills and perspectives – a workforce that shares the diversity of our customers and communities where we work around the world."

Penny Malik

Head of talent management

“We plan to expand our efforts to recruit and promote people from an increasingly diverse population. Externally, that includes continuing to investigate recruitment partners who share our diversity and inclusion vision and goals.”

Rob Anarfi

Chair of the diversity and inclusion steering group

Recruitment

We have increased our activities to support diversity recruitment across the group and we are looking to partner with organisations that promote diverse recruitment in both the US and the UK.

Training

We have recently launched a new learning management system (LMS) across the group. This includes a section focusing on diversity and inclusion outlining programmes focusing on:

- **Learning and development for women at Beazley.** This includes a bespoke modular programme ‘Women at Work’. In the US we have linked with the Women in Insurance and Financial Services network.
- **Working parents.** We have linked up with Talking Talent in the UK and the National Parenting Education network in the US, which provides support for new parents and their line managers. We have also provided links to similar support programmes in Singapore and Australia.
- **Young professionals.** We have connected with programmes in the US, UK and Asia Pac that help support young professionals starting their careers in insurance.

Employee diversity by gender

Beazley plc board

Male

11 

Female

3 

Total 2016 – 14

Senior management

Male

77 

Female

26 

Total 2016 – 103

All employees

Male

616 

Female

528 

Total 2016 – 1,144

Statement on the Modern Slavery Act 2015

We abide by and are committed to the requirements of the Modern Slavery Act. We continue to work to ensure there is no slavery, human trafficking or any forced labour in our supply chains.

Health and wellbeing

2016 saw the second year of our Health and Wellbeing initiative, which raises awareness about the Beazley benefits available to employees, and promotes healthy lifestyles. During the year we held events on nutrition, which covered educational talks and healthy eating and also musculoskeletal, which included yoga and massage sessions.

Throughout the year we continued to promote the Beazley health and wellbeing site with healthy initiatives, including ‘reclaim your lunch break’ which promoted ideas such as walking and cycling trails in the areas local to each office, lunchtime talks outside the office, Beazley lunchtime clubs and gym membership.

The number of Health and Wellbeing champions has grown in line with the business and they continue to support and promote the initiative around the globe.

We carry out health and safety risk assessments at all locations to ensure safety and correct protocols are in place at all locations. We also ensure our people are trained in first aid and fire procedures to ensure the safety of our employees.

Health & Wellbeing
at **beazley**

Responsible business *continued*

Communities

Celebrating making a difference in our communities

"We aim to go beyond employment, and improve opportunities for all those who live and work around our offices. Many of our employees volunteer their time through mentoring and partnership programmes which increase the skills and expertise of local children and young people. Beazley people also support our communities by contributing to our corporate charity partner and to dozens of causes close to their homes or hearts."

Clive Washbourn

Head of marine

The rewards of volunteering

"I love September – it's global volunteering month and all over the world colleagues are going out and making a difference," says Pippa Vowles, chair, Beazley Responsible Business Committee. "Everyone agrees that Make a Difference is valuable, for those we help and for ourselves."

This year teams from Australia, Ireland, France, Singapore, the US and the UK took part in Make a Difference projects, distributing food for the homeless, maintaining local parks, restoring community centres and teaching young people career and public speaking skills.

Samira, from Sarah Bonnell School in London who attended one of our workshops said: "Thank you for the amazing presentation about insurance and women in the workplace. It really got me interested in the concept of insurance and I am now considering going into the insurance industry."

► **430+**
over 430 colleagues roll up their sleeves



Giving the next generation a step up

"Mentoring is one of the most valuable ways we can contribute to our communities," says Iain Newton, Research and development manager, and Responsible Business Committee member for community. "It means we can share our skills and expertise in a very meaningful way."

Colleagues mentor students and graduates in a number of ways. In 2016 we held workshops for more than 350 students focusing on careers and work skills. We're also members of the Lloyd's Community Programme, which offers hundreds of volunteering opportunities in and around our London office – from children with literacy and numeracy needs to young teenagers struggling to find work.

"I'm reading Maths and Economics at the University of Surrey and last year I got a placement with healthcare, specialty lines," says Nida Jafri, returning intern. "I've had more training at Beazley than my friends elsewhere. Having worked here, I feel more equipped for the path I'd like to pursue."

► **200+**
over 200 students mentored in 2016

Pedalling hard for Haiti

"What's the link between 23,000ft, the Pacific Ocean and pink lycra? It can only be the Beazley Pacific Cycle! On 15 September, eight of us took to our bikes for a gruelling 470 miles from San Francisco to LA in aid of our global charity partner of the year, ShelterBox," says James Wright, Head of US IT.

"Our target was to raise \$10,000 for the charity and we almost doubled that by reaching \$18,264."

ShelterBox is an international disaster relief charity that responds to natural and man-made disasters by delivering boxes of aid – ShelterBoxes. It became our UK charity partner in 2013, and in 2015 our global charity partner. Every ShelterBox contains items families need to survive in the immediate aftermath of a disaster, such as special tents, blankets, groundsheets, water-filtration equipment, a tool-kit and mosquito nets. All ShelterBoxes are distributed by specially trained volunteers. These volunteers are based all over the world and are ready to deploy at a moment's notice to get aid to families who need it most.

The amount raised was used for 18 ShelterBoxes in Haiti following Hurricane Matthew.

► \$18,264
raised for ShelterBox through Beazley Pacific Cycle



Beazley team conquers four Colorado 'fourteeners' for Shelterbox

A team of eight Beazley employees raised more than \$15,000 for ShelterBox by climbing four 'fourteeners' (14,000 ft+ mountains) in southern Colorado in August.

► \$33,000+

raised for ShelterBox in two months

Supporting the Cancer Research Institute

In the US, one in four people's lives are cut short by cancer. The Cancer Research Institute awards research grants and fellowships to support scientists at leading research universities and clinics around the world. It supports scientists at any stage of their career at all levels of scientific inquiry from basic research to coordinated clinical trials. It is the world's only not-for-profit organisation dedicated exclusively to harnessing the immune system's power to conquer cancer.

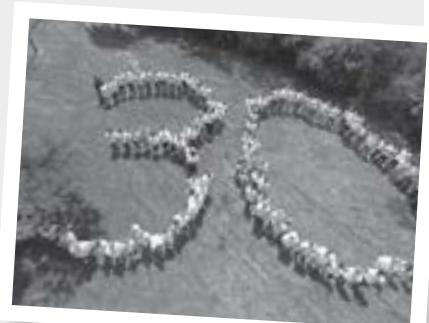
"Current cancer treatments are not enough, and new approaches beyond chemotherapy, radiation and surgery are needed to help save more lives," says Jill O'Donnell-Tormey, CEO of Cancer Research Institute. "Beazley's support provides much needed funding, which allows us in turn to aid scientists to research cures for cancer by giving grants. These grants are crucial in allowing talented scientists to conduct laboratory research and clinical trials leading to life-saving immunotherapies for all cancers."

► \$99,329

raised to help research scientists

► \$362,000

donated to charities



30 grants and 30 meals

As part of our 30th anniversary efforts to continue making an impact in our communities, we offered employees the chance to apply for a total of 30 grants of 250 in local currency to be donated to a charity of their choice. We have also donated 30 meals in every location where we are based for those in need, via a local charity or homeless shelter.

Responsible business *continued*

What we want to do next

Our aspirations going forward.

There has been much to celebrate with regards to carrying out our business responsibly in the year of our 30th anniversary. However we're on a journey and it's ever a case of 'onwards and upwards'.

Marketplace

Aspiring to define, develop and deliver

"Marketplace is core to our Responsible Business strategy because it underpins the way we write business and has a far-reaching impact," says Andrew Horton, CEO. "Wherever possible we want to use our expertise as a force for good. Our aim is to understand the full reach of our existing business practices and highlight the positive influence we can have when underwriting as well as finding innovative ways to deliver responsible, profitable business."

Marketplace includes finding ways to underwrite profitable business that can also have a positive impact on the wider community, for example, better patient care through our healthcare products or encouraging our insureds to invest in their local communities with our terrorism products. Also, we link our community and charity activities to our business, choosing charities that are relevant to us like ShelterBox and All Hands (for more on All Hands please see page 65).

In 2016 we focused on phase one of our Marketplace strategy, and in 2017 we will focus on phases two and three:

- 1. Research:** to get a better understanding of what we currently do and explore what other opportunities there are across the business, so we can then focus on delivering two or three initiatives
- 2. Define and develop:** run a workshop with representatives from across the business, to identify and agree two or three initiatives to develop in to product offerings/variations
- 3. Deliver:** deliver the two or three initiatives chosen as above.

Our objective is to create a robust responsible business strategy that creatively uses our expertise as a force for good in the sectors we serve and recognises its centrality to our business.

Environment

Aspiring to keep doing our bit

We will look for opportunities to do even more next year to minimise our environment impact. We will ensure we deliver against our environmental policy and continue to work with our landlords and our new people to make an even bigger difference.



Communities

Aspiring to do still more in 2017

"2016 has seen some great projects delivered and some great results achieved in our community and charity work. Our focus next year will be on strategic direction while keeping our momentum."

Adam Rich

Actuary and lead for our US community efforts



New charity partnership

Establishing our new global charity partnership with All Hands will be a key focus for us in 2017. All Hands are a disaster-relief organisation addressing the needs of communities worldwide affected by such catastrophes. We need to look beyond the funds we donate and create a sustainable partnership where we use our skills and expertise as well.

'Make a Difference' 2017

The benefits of getting involved with our local communities has a positive impact not only on them but also on our people too. Our colleagues have said that community volunteering is valuable for us as an organisation. It has helped build pride in working for Beazley as well as enhancing their skills and building and strengthening relationships across the business. We look forward to building further on this rewarding area of involvement by delivering another successful 'Make a Difference' month in September 2017.

"Wherever you find Beazley, we want you to find people doing the right thing by our clients, by the communities we're part of, and by each other. I look forward to working with my colleagues across the business in 2017 to develop a strategic approach that embeds our desire to do the right thing throughout our company."

Andrew Horton

Chief executive officer

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

Management report

The directors' report, together with the strategic report on pages 1 to 65, 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 119.

Review of business

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

Results and dividends

The consolidated profit before taxation for the year ended 31 December 2016 amounted to \$293.2m (2015: \$284.0m).

The directors announce both a second interim dividend of 7.0p per ordinary share (2015 second interim dividend: 6.6p) and a special dividend of 10.0p per ordinary share (2015 special dividend: 18.4p per ordinary share). These dividends, together with the first interim dividend of 3.5p per ordinary share (2015 first interim dividend: 3.3p), give a total of 20.5p (2015: 28.3p).

The aforementioned second interim and special dividends will be paid on 29 March 2017 to shareholders on the register on 3 March 2017.

Going concern and viability statement

A review of the financial performance of the group is set out on pages 38 to 48. The financial position of the group, its cash flows and borrowing facilities are included therein.

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

In accordance with provision C.2.2 of the UK Corporate Governance Code, the directors have assessed the viability of the group. The viability statement, which supports the going concern basis mentioned above, is included in the risk management section at page 55.

Directors

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

Dennis Holt	Non-executive chairman
David Andrew Horton	Chief executive
George Patrick Blunden	Non-executive director
Martin Lindsay Bride	Finance director
Adrian Peter Cox	Director
Angela Doreen Crawford-Ingle	Non-executive director
Christine LaSala	Non-executive director (appointed 01/07/2016)
Sir John Andrew Likierman	Non-executive director
Neil Patrick Maidment	Director
Padraic Joseph O'Connor	Non-executive director (resigned 24/03/2016)
John Peter Sauerland	Non-executive director (appointed 05/05/2016)
Vincent Joseph Sheridan	Non-executive director (resigned 31/12/2016)
Robert Arthur Stuchbery	Non-executive director (appointed 11/08/2016)
Rolf Albert Wilhelm Tolle	Non-executive director (resigned 11/03/2016)
Clive Andrew Washbourn	Director
Catherine Marie Woods	Non-executive director (appointed 01/01/2016)

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

Further information can be found in the statement of corporate governance on page 77.

Directors' interests

The directors' interests in shares of the company, in office at the end of the year, including any interests of a connected person (as defined in the Disclosure and Transparency Rules of the UK's Financial Conduct Authority), can be found in the directors' remuneration report on page 94.

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

Corporate governance

The company's compliance with corporate governance is disclosed in the statement of corporate governance on pages 77 to 82.

Corporate, social and environmental responsibility

The company's corporate, social and environmental policy is disclosed on pages 58 to 65.

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

Risk management

The group's approach to risk management is set out on pages 52 to 55 and further detail is contained in note 2 to the financial statements on pages 144 to 158.

Substantial shareholdings

As at 2 February 2017, the board had been notified of, or was otherwise aware of, the following shareholdings of 3% or more of the company's issued ordinary share capital:

	Number of ordinary shares	%
Invesco Perpetual	88,445,467	16.9
MFS Investment Management	64,866,670	12.4
Woodford Investment Management	26,396,106	5.0
Dimensional Fund Advisors	23,897,373	4.6
BlackRock	18,047,581	3.5
Legal & General Investment Management	16,034,535	3.1

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

Recent developments and post balance sheet events

Recent developments and post balance sheet events are given in note 34 in the financial statements on page 196.

Likely future developments

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

Research and development

In the ordinary course of business the group develops new products and services in each of its business divisions.

Greenhouse gas emissions

Our latest greenhouse gas (GHG) emissions report from 2015, showed 2015 UK and European GHG emissions for 2015 (6,415.47 tonnes CO₂ equivalent (tCO₂e)) increased by 4%, although Scope 1 and 2 emissions (1,324.26 tCO₂e) fell 4% relative to 2014 (to 1,380.69 tCO₂e). The increase in total reported emissions is primarily emissions associated with air travel (Scope 3 emissions). 2015 GHG emissions for Beazley Group's three principal North American offices are reported as 1,665.12 tonnes CO₂ equivalent (tCO₂e). This is 13% lower than 2014 reported emissions and is primarily due to reduced emissions from business travel by air.

Diversity and inclusion

Information concerning diversity and inclusion can be found in the responsible business section on page 60 and in the statement on corporate governance on page 77.

Authority to purchase own shares

On 24 March 2016 shareholders approved an authority, which will expire on 24 June 2017 or, if earlier, at the conclusion of the 2017 AGM for the company to repurchase up to a maximum of 52,335,334 ordinary shares (representing approximately 10 per cent of the company's issued ordinary share capital). During the year, Beazley acquired 2.0m of its own shares into the employee benefit trust. The board continues to regard the ability to repurchase issued shares in suitable circumstances an important part of the financial management of the company. A resolution will be proposed at the 2017 annual general meeting to renew the authority for the company to purchase its own share capital up to the specified limits for a further year. More detail of this proposal is given in the notice of AGM.

Share capital

The company has ordinary shares in issue. Ordinary shares therefore represent 100% of the total issued share capital as at 31 December 2016 and 2 February 2017. Details of the movement in ordinary share capital during the year can be found in note 21 on page 176.

Annual general meeting

The annual general meeting of the company will be held at 14:30hrs on Friday 24 March 2017 at Plantation Place South, 60 Great Tower Street, London, EC3R 5AD. The notice of the AGM details the business to be put to shareholders.

Auditors

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

Disclosure of information to auditors

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

By order of the board, covering the strategic report from pages 1 to 65 and the directors' report from pages 66 to 69.

C P Oldridge

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

2 February 2017



Governance

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Letter from our chairman



The board's role is to set the company's strategic aim, scrutinise management's performance and ensure that the necessary financial and human resources are in place for the company to meet its objectives.

The board and its committees met regularly during the year to set direction and risk appetite and provided oversight and control of management in the day-to-day running of the business. We promote a culture of openness and debate at each meeting and seek to receive constructive challenge from the non-executive directors to help develop proposals on strategy and other matters. As chairman, I seek to ensure this is achieved, that appropriate decisions are then reached, and that we empower management to then execute those decisions, with our on-going oversight and support. Each of the strategic initiatives has been assigned a non-executive sponsor. In May, we held our annual board strategy day and topics included were emerging risks and trends, two new strategic initiatives and the current mergers and acquisitions environment within the insurance industry.

As part of planning for board succession, the nomination committee and board looked at the balance of the board, including the skills and experience and there were a number of new appointments made in 2016. During the year, the board welcomed John Sauerland, Christine LaSala and Bob Stuchbery with effect from 5 May, 1 July and 11 August 2016 respectively. Details of the search processes are set out in the nomination committee report. Rolf Tolle resigned from the board on 11 March 2016. After having served more than six years on the board, Padraig O'Connor and Vincent Sheridan resigned on 24 March and 31 December 2016 respectively. The board would like to thank them all for their valuable contributions during their time on the board.

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

On 13 April 2016 the management of the group was re-located to the United Kingdom by means of a scheme of arrangement in order to simplify the management and decision making of the group. This put in place a new parent company for the Beazley group, which is incorporated in England and Wales and resident for tax purposes in the UK. Under the scheme of arrangement Beazley shareholders received one New Beazley share for every ordinary share held by them at the scheme record date. These New Beazley shares were admitted to the premium segment of the Official List and began trading on the London Stock Exchange's main market on 13 April 2016. The reorganisation has had no material effect on the strategy of the group.

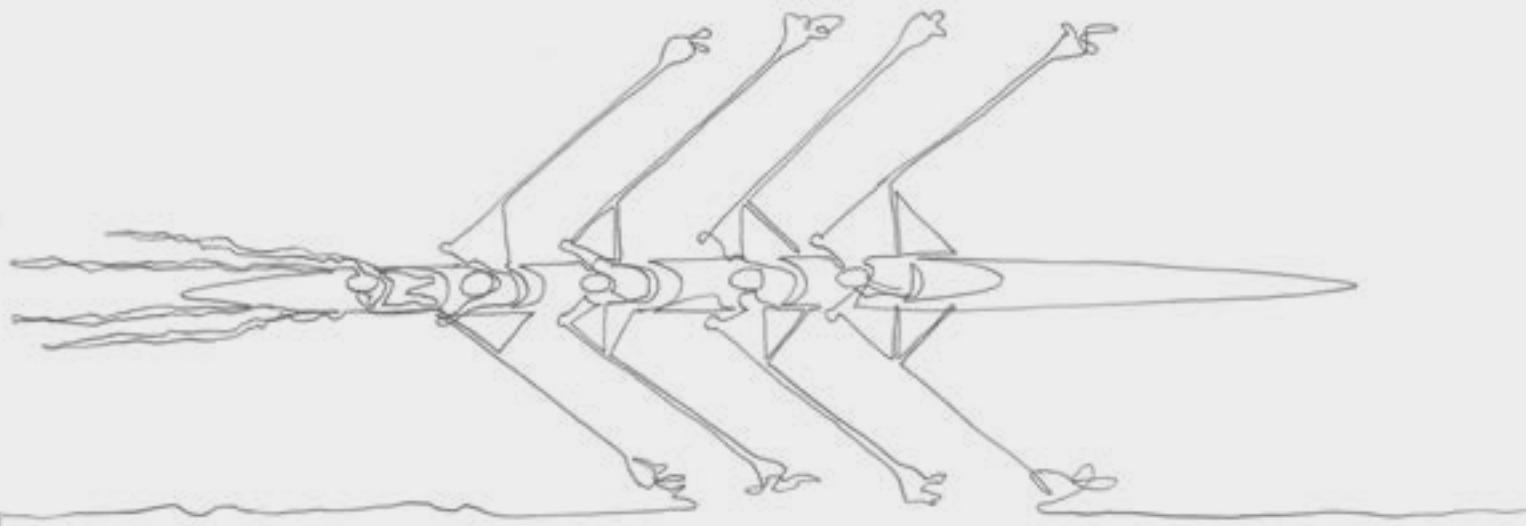
We ensure directors continually update their skills through individual development plans and board training. Talent development and succession planning are critical components of sustainable success and this starts at the very top, in the boardroom. It is vital that we have on the board the right balance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

The group believes in the importance of diversity for board and group effectiveness and has developed a diversity strategy to support our commitment to being an equal opportunities employer. We achieved our goal of three female directors by the 2017 AGM, having gone from none to three within five years. We have now set a new goal of a minimum of 35% of female senior managers within the organisation by 2020 and of 33% of female board members at group level by 2021. We are committed to ensuring appointments are made on merit against selection criteria. Further details of our policy and goals are set out in the nomination committee report.

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

I am pleased to confirm the company has complied with the principles and provisions set out in the UK Corporate Governance Code throughout the year ended 31 December 2016. Details of the activities of the board and its committee also are set out on pages 72 to 75.

Dennis Holt
Chairman



Board of directors

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

Our committees and committee chairmen

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

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

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

 Find out more on pages 83 to 88

Governance framework

Board of directors

Audit and risk committee

The audit and risk committee is chaired by Angela Crawford-Ingle.

Nomination committee

The nomination committee is chaired by Dennis Holt.

Remuneration committee

The remuneration committee is chaired by Sir Andrew Likierman.

Executive committee

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

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

Board of directors *continued*

Executive directors



Andrew Horton
Chief executive officer

Appointed: 12 June 2003*
Experience: Andrew joined Beazley in June 2003 as finance director. Prior to that he held various financial positions within ING, NatWest and Lloyds Bank and was the chief financial officer for the UK wholesale banking division of ING immediately prior to joining Beazley. He qualified as a chartered accountant with Coopers and Lybrand in 1987. He joined the board of Man Group plc in 2013 as a non-executive director.
Committee: Executive committee (chair)



Martin Bride
Group finance director

Appointed: 5 May 2009*
Experience: Martin joined Beazley in May 2009 as finance director. He began his career in insurance in 1985 and took up his first role as a finance director in 1996. He trained as a general insurance actuary, before pursuing a career in the composite insurance sector with Aviva and Zurich Financial Services. His experience spans personal and commercial lines general insurance, the London market, life insurance and asset management in both the UK and France.
Committee: Executive committee



Neil Maidment
Chief underwriting officer

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



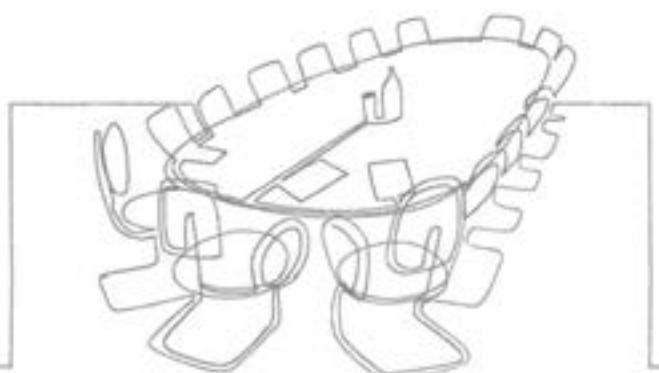
Adrian Cox
Head of specialty lines

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



Clive Washbourn
Head of marine

Appointed: 4 December 2006*
Experience: Clive has over 30 years' experience in the marine insurance industry and actively underwrites marine hull, marine liability and marine war risks.
Committee: Executive committee



Non-executive directors



Dennis Holt
Chairman



George Blunden
Non-executive director



Angela Crawford-Ingle
Non-executive director



Christine LaSala
Non-executive director

Appointed: 21 July 2011*

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

Committee: Nomination committee (chair)

Appointed: 1 January 2010*

Experience: George is the senior independent director. He retired as senior vice president and director from AllianceBernstein Ltd in December 2009. He had previously been chief executive of Union plc, and a director of SG Warburg Securities, Seccombe, Marshall and Campion plc and Meridian Investment Performance Services. He is the chairman of the Charity Bank Ltd and chairman of Stonewater Ltd.

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

Appointed: 27 March 2013*

Experience: Angela is a chartered accountant with extensive audit experience of multinational and listed companies. She was a partner in PricewaterhouseCoopers specialising in financial services for 20 years during which time she led the insurance and investment management division and retired in 2008. She is currently a partner in Ambre Partners, a firm providing strategic, financial and operational advice. Angela is also currently a non-executive director and audit chair of Swinton Group Ltd and River and Mercantile Group plc.

Committee: Audit and risk committee (chair)

Appointed: 1 July 2016

Experience: Based in New York, Christine recently retired as chair of Willis Towers Watson North America. She has 40 years of management, client leadership and financial experience in the insurance industry including work as an underwriter and 27 years as an insurance broker working with large corporate and public institution clients designing their risk management programmes which included leadership roles at Johnson & Higgins and Marsh.

Committee: Audit and risk committee



Sir Andrew Likierman
Non-executive director



John Sauerland
Non-executive director



Robert Stuchbery
Non-executive director



Catherine Woods
Non-executive director

Appointed: 25 March 2015*

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

Committees: Remuneration committee (chair), nomination committee

Appointed: 5 May 2016

Experience: John is Chief Financial Officer of the Progressive Corporation, a US based insurance holding company. Prior to his current role, he was Progressive's Personal Lines Group President for eight years, responsible for the company's primary business unit with \$17bn in revenues. During his tenure as Personal Lines Group President, he led the introduction of many innovations such as Name Your Price® and Snapshot®, the industry leading pay-as-you-drive offering. He also oversaw significant growth of the company's direct marketing efforts and consumer facing web and mobile technology.

Committee: Remuneration committee

Appointed: 11 August 2016

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

Committee: Audit and risk committee

Appointed: 1 January 2016*

Experience: Catherine Woods is a non-executive director of AIB Plc, AIB Mortgage Bank, and EBS Dac. She is also the senior independent director and chair of the audit committee at AIB Plc. She was previously the finance expert on the adjudication panel established by the Irish government to oversee the rollout of the national broadband scheme. Her executive career was with JP Morgan where she was a vice president and head of the European banks equity research team. Catherine is a former non-executive director of An Post, and a former member of the Electronic Communications Appeals Panel.

Committee: Audit and risk committee

Investor relations

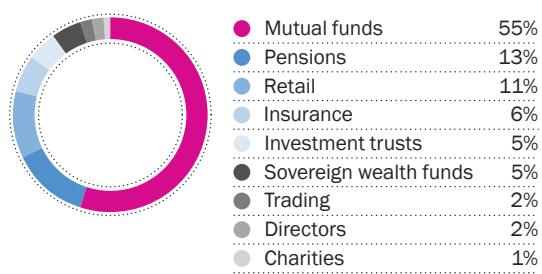
We place great importance on communication with shareholders. The annual report and accounts and the interim report are available to shareholders on the company's website (www.beazley.com). A mailed copy of the accounts is also available on request. The company responds to individual letters from shareholders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

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

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

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

Shareholding by type of investor



There are currently 12 analysts publishing research notes on the group. In addition to research coverage from Numis and JP Morgan, the company's joint corporate broker, coverage is provided by Autonomous, Keefe Bruyette & Woods, Peel Hunt, Shore Capital, Cannaccord, Sanford Bernstein, Collins Stewart, Stockdale Securities, UBS and RBC.

Share price performance



Financial calendar

3 March 2017	Second interim dividend and special dividend record date
24 March 2017	Annual general meeting
29 March 2017	Second interim dividend and special dividend payment date for the six months ended 31 December 2016
21 July 2017	First interim dividend announcement for the six months ended 30 June 2017

Statement of corporate governance

Compliance with code provisions

The board confirms that the company and the group have complied with the provisions set out in the 2014 version of the Financial Reporting Council's UK Corporate Governance Code (the Code) throughout the year ended 31 December 2016. The Company has not, however, tendered for audit services in the past 10 years as explained on page 87.

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

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

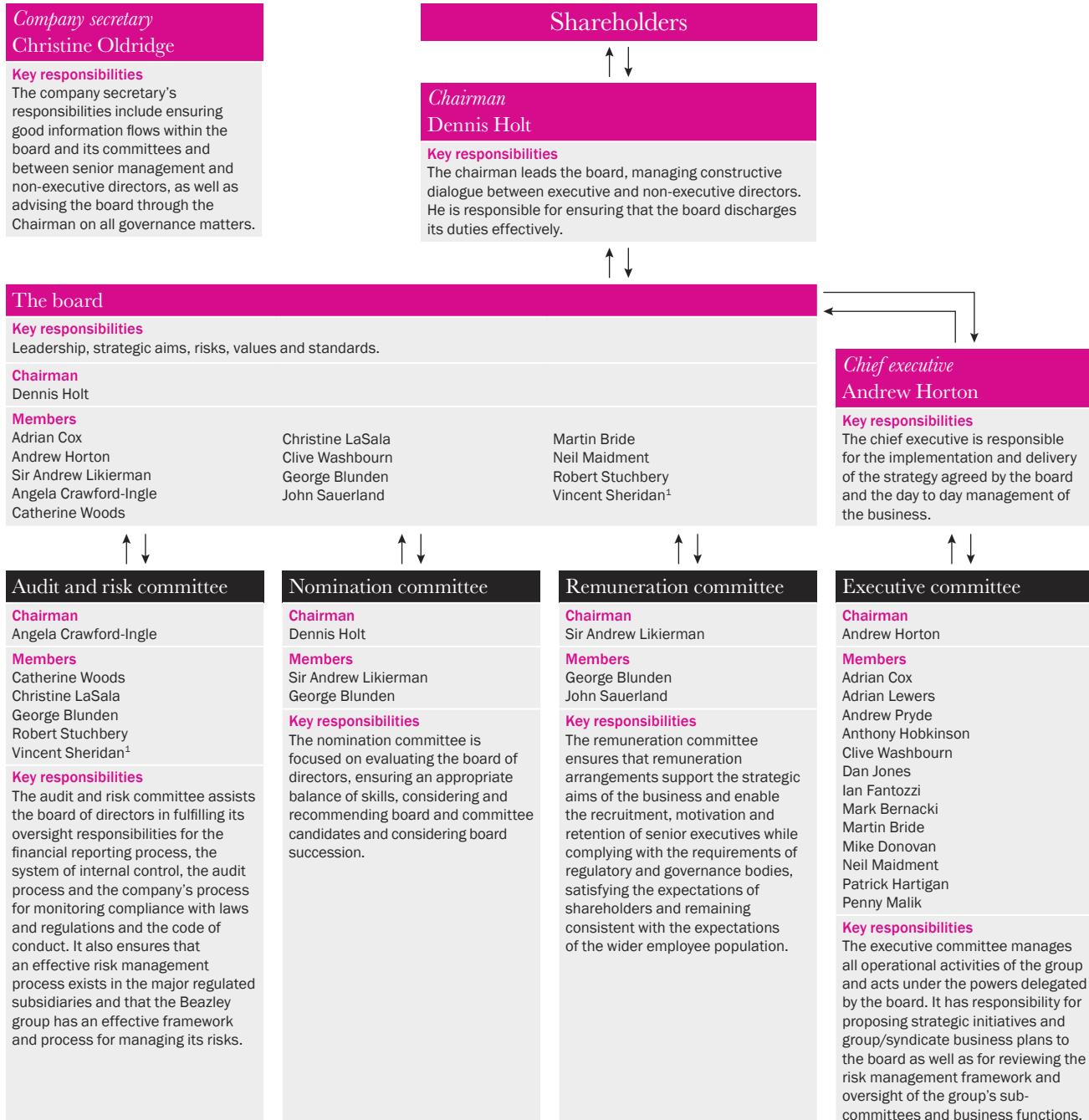
The board is accountable to the company's shareholders for good governance and the statements set out below describe how the main principles identified in the UK Corporate Governance Code have been applied by the group.

Governance framework

The company operates through the main board, the managing agent board, the board of the reinsurance company (that accepts reinsurance premiums ceded by the corporate member, Beazley Underwriting Limited) and their board committees. The group has established properly constituted audit and risk, remuneration and nomination committees of the board. There are terms of reference for each committee and details of their main responsibilities and activities in 2016 are set out on pages 83 to 91. The board has also appointed an executive committee that is chaired by Andrew Horton and acts under delegated authority from the board. The executive committee meets on a monthly basis and are responsible for managing all activities of the operational group. The governance framework of the main board and its committees is shown in the diagram on the following page.

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

Statement of corporate governance *continued*



¹ Vincent Sheridan resigned from the Beazley plc board and audit and risk committee with effect from 31 December 2016.

The board

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

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

George Blunden, who has served a term in excess of six years, continues to bring strong challenge and insight to the board and its committees and his appointment was extended for a further three years at the 2016 AGM, subject to annual reappointment at the AGM. The nomination committee carried out a rigorous assessment of George Blunden's continuing independence, taking into account the length of his tenure on the boards of both Beazley plc and Beazley Furlonge Ltd, and concluded that he remained independent. As senior independent director George will, if required, deputise for the chairman. He is available to talk to shareholders if they have any issues or concerns or if there are any unresolved matters that shareholders believe should be brought to his attention.

John Sauerland, Christine LaSala and Robert Stuchbery were appointed to the board during 2016 on 5 May, 1 July and 11 August respectively. Rolf Tolle, Padraig O'Connor and Vincent Sheridan resigned from the board on 11 March 2016, 24 March and 31 December 2016 respectively.

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

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

Board meeting attendance

The full board meets at least five times each year and more frequently where business needs require. In 2016, in addition to the five regular board meetings, there were further meetings to consider the Q3 2016 interim statement and director changes. Attendance at the meetings was high. All the directors also attend an annual strategy day. The remuneration, nomination, and audit and risk committees had additional ad hoc meetings with full attendance. The chairman holds meetings as required with the non-executive directors without the executive directors being present.

Statement of corporate governance *continued*

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

Director	Board		Audit and risk committee		Remuneration committee		Nomination committee	
	No. of meetings	No. attended	No. of meetings	No. attended	No. of meetings	No. attended	No. of meetings	No. attended
George P Blunden	5	5	6	6	4	4	5	5
Martin L Bride	5	5	-	-	-	-	-	-
Adrian P Cox	5	5	-	-	-	-	-	-
Angela D Crawford-Ingle	5	5	6	6	-	-	-	-
Dennis Holt	5	5	-	-	-	-	5	5
D Andrew Horton	5	5	-	-	-	-	-	-
Christine LaSala	3	3	3	3	-	-	-	-
Sir J Andrew Likierman	5	5	-	-	4	4	5	5
Padraig J O'Connor	1	1	-	-	1	1	-	-
Neil P Maidment	5	5	-	-	-	-	-	-
Vincent J Sheridan ¹	5	4	6	5	-	-	-	-
John P Sauerland	3	3	-	-	3	3	-	-
Robert A Stuchbery	2	2	3	3	-	-	-	-
Rolf A W Tolle	1	1	1	1	-	-	-	-
Clive A Washbourn ²	5	3	-	-	-	-	-	-
Catherine Woods	5	5	6	6	-	-	-	-

1 Vincent Sheridan was unable to attend the board and audit and risk committee meetings on 6 December 2016 due to a scheduling conflict.

2 Clive Washbourn was unable to attend the board meeting on 4 May 2016 as he was on sabbatical and the meeting on 29 September due to illness.

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

Board discussions during the year

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

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

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

- review of strategic initiatives and Brexit impacts;
- review of the competitive landscape;
- discussions over prioritisation of investment expenditure; solvency II reporting;
- review of risk management framework, including risk appetite;
- careful monitoring of market conditions prior to and following the UK referendum and consideration of the implications of its result;
- understanding the EU Market Abuse Regulation;
- ORSA;
- discussion on capital position and dividends;
- cyber and cyber security;
- new acquisitions;
- review of developments in corporate governance and receipt of key legal and regulatory updates; and
- discussion of the outcome of the board evaluation and effectiveness review and agreement of improvement opportunities.

Training, information and support

New directors will receive appropriate induction training when they join the board of Beazley plc. They will be asked to complete a skills and knowledge assessment and the company secretary with talent management will arrange and coordinate the appropriate training. There are a number of modules available to the directors which are regularly reviewed to ensure they meet best practice. Where appropriate, mentoring will be provided to new directors by an external provider.

To enable the board to function effectively and directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of board meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussion documents regarding specific matters. Directors have access to an electronic information repository to support their activities. During 2016 the board continued to support the maintenance and development of Beazley's information security programme to address changing and emerging cyber security threats. All directors allocate sufficient time to the company to enable them to discharge their responsibilities effectively. The terms and conditions of appointment for all the non-executive directors set out the expected time commitment and they agree that they have sufficient time to meet what is expected of them.

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

Board performance evaluation

Under the UK Corporate Governance Code, the board is required to undertake formal and rigorous evaluation of its own performance and that of its committees and individual directors, and for this to be externally facilitated every three years. In 2015 an assessment of the effectiveness of the board and its committees was externally facilitated by Deloitte LLP. The board considered the results of the assessment and confirmed that there were no significant matters to be addressed. A self-assessment of the board and its committees was carried out in 2016 as described in the nomination committee report on page 90.

Audit and internal control

The respective responsibilities of the directors and the auditors in connection with the accounts are explained in the statement of directors' responsibilities and the independent auditor's report, together with the statement of the directors on going concern in the directors' report.

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

The board agreed the 2016 risk appetite for the group at the end of 2015 and, throughout 2016, the board has considered and acted upon the information presented to it in order to make risk based decisions against the 2016 risk appetite. Key components of the risk management framework include monthly control self assessments and six monthly risk assessments, with ad hoc risk assessments being conducted when required. These matters have been considered by the executive risk and regulatory committee each month and the audit and risk committee and board quarterly. In addition, the board has considered the quarterly Own Risk and Solvency Assessment report in the past year. This risk management framework has provided the board with an ongoing process for identifying, assessing, monitoring and managing the risks to the company, and accords with the UK Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial Business Reporting'.

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

Statement of corporate governance *continued*

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

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

The board therefore confirms that it has, during 2016, reviewed the effectiveness of the group's risk management and internal controls (including financial, operational and compliance controls), which have been in place throughout the year under review and continue to operate up to the date of approval of the annual report and accounts.

Further information on the role of the audit and risk committee is set out on page 83 and further information on risk management at Beazley is set out in the risk management report.

Shareholder engagement

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

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

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

Statement of corporate governance *continued*

Audit and risk committee



Angela Crawford-Ingle

The board has delegated oversight of audit and risk matters to the audit and risk committee which currently comprises Angela Crawford-Ingle (committee chairman), George Blunden, Catherine Woods, Christine LaSala and Bob Stuchbery.

During the year the committee has remained focused on its key responsibilities relating to financial reporting, internal controls, compliance and risk management; working collaboratively with management and internal and external assurance providers to make an effective assessment of the governance framework. The committee has received and challenged a variety of information in order to ensure that the internal risk and control framework is appropriate for the group. The control and risk environment is continuing to change and the committee is working actively with the group to ensure a robust internal control and risk environment is maintained.

At the same time we have considered a number of significant issues including the increasingly complex regulatory reporting environment, potential impact of the UK referendum, business growth in the US primarily in our cyber book and our proposed tender strategy to rotate our current auditors.

The committee has seen a number of changes during the year. Vincent Sheridan and Rolf Tolle resigned and I would like to take this opportunity to thank them for their contribution.

Membership and attendance

	Appointment	Attendance at full meetings during 2016
Angela Crawford-Ingle	27 March 2013 (Chair)	6/6
George Blunden	1 October 2010	6/6
Christine LaSala	1 July 2016	3/3
Vincent Sheridan ¹	9 June 2009	5/6
Robert Stuchbery	11 August 2016	3/3
Rolf Tolle ¹	6 December 2010	1/1
Catherine Woods	11 March 2016	6/6

¹ Vincent Sheridan and Rolf Tolle resigned from the committee on 31 December and 10 March 2016 respectively.

We were able to bring on board Catherine Woods, Christine LaSala and Bob Stuchbery who bring a diverse range of experience and insight to the committee. Throughout the year we maintained continuity within the committee and this enabled us to carry out our full range of responsibilities.

Details of the members' financial, accounting and other relevant financial experience are given in their biographies under 'board of directors' on pages 74 to 75.

The audit and risk committee is required to meet at least quarterly, with meetings scheduled at appropriate intervals in the reporting and audit cycle. Additional meetings are held as required. In 2016 there were a total of six meetings, reflecting the workload of the committee during the year.

Only members of the committee have the right to attend meetings; however standing invitations are extended to the chief executive officer, the group finance director, the chief underwriting officer, the chief risk officer, the head of internal audit and the head of compliance. Other non-members may be invited to attend all or part of any meeting as and when appropriate. The company secretary acts as secretary to the committee. The internal and external auditors attend committee meetings and regularly meet in private with the committee. In addition the chairman of the audit and risk committee has regular contact with the external and internal auditors throughout the year and members of the committee met individually with the Central Bank of Ireland and the Prudential Regulation Authority during 2016.

As part of the appointments process the nomination committee reviewed the membership of the committee during the year. Taken as a whole, the committee has an appropriate balance of skills, including recent and relevant financial experience as required by the UK Corporate Governance Code. All committee members are independent non-executives.

There is representation from the plc audit and risk committee on the group's regulated entity audit and/or risk committees which further demonstrates our proactive approach to understanding our control and risk environment at all levels of the organisation.

Responsibilities of the committee

The committee's main audit-related responsibilities are detailed in the section below:

The primary role of the audit and risk committee in relation to financial reporting is to monitor the integrity of the financial statements of the group and any formal announcements relating to the group's financial performance, and to review significant financial reporting judgements. The committee has continued to approach its review of the annual report as a whole with focus on behalf of the board on considering the concept of 'fair, balanced and understandable'. We have challenged ourselves to ensure the key messages about the performance of the business are delivered in a manner consistent with our own understanding and interpretation of the information we receive.

Statement of corporate governance *continued*

Audit and risk committee *continued*

Specific committee responsibilities are set out below:

a) Financial and narrative reporting

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

b) Internal control and risk management systems

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

c) Compliance

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

d) Internal audit

- recommend the appointment or termination of appointment of the head of internal audit;
- monitor and review the effectiveness of the company's internal audit function; and
- review and approve the internal audit plan, charter and ensure the function has the necessary resources and access to information.

e) External audit

- recommend to the board, to be put to the shareholders for approval, the appointment, reappointment and removal of the external auditors;
- oversee the relationship with the external auditor including planning, reviewing of findings and assessing overall effectiveness; and
- approve auditor's remuneration for audit, assurance and non-audit services.

f) Actuaries

- recommend to the board the appointment and termination of any firm of consulting actuaries used for the provision of Syndicate Actuarial Opinions and/or review of insurance reserving; and
- monitor performance, determine independence and approve fees.

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

Principal activities

The principal activities undertaken by the committee in discharging its responsibilities in 2016 are described below.

a) Significant financial statement reporting issues

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

i) Valuation of insurance liabilities

As further explained in note 1 to the financial statements, the group's policy is to hold sufficient provisions, including those to cover claims which have been incurred but not reported (IBNR) to meet all liabilities as they fall due. Similar to 2015, the past year has seen a relatively benign claims environment in terms of large risk, catastrophe exposed classes of business. In this regard, our consideration of catastrophe losses has therefore been focused on developments in relation to the more significant catastrophes of previous years.

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

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

On the basis of the information provided by the group actuary throughout the year and at the year end, the consistent application of Beazley's reserving philosophy, and the review work carried out by our external auditor, the committee is satisfied that the reserves held on the group statement of financial position at 31 December 2016 are reasonable.

ii) Financial close process

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

During the year and at year end, we received updates from management on the level of estimations used in our close process and the controls carried out to review these estimates retrospectively. As mentioned in note 1 to the financial statements, IBNR represents the most crucial estimate included within the group's financial position and our claims reserves are specifically discussed in point a) on the previous page. Aside from claims, the audit committee also reviewed process and control information around expenses, actuarial premium projections and other premium adjustments, investments and other key income statement and balance sheet captions.

The committee has received updates and commentary from management in relation to updates from both Lloyd's of London and the Central Bank of Ireland in respect of Solvency II reporting dates and requirements as well as associated audit requirements. The committee also considered the appropriateness of the group's proposed governance processes around these financial statements.

On the basis of the reporting received and reviewed during the last 12 months, the audit and risk committee remains satisfied that the estimation and control processes deployed by the group are appropriate and leave us well placed to meet the increasingly challenging reporting deadlines under Solvency II.

iii) Valuation of financial assets at fair value

The board is responsible for setting the investment strategy, defining the risk appetite and overseeing the internal and outsourced providers via the chief investment officer. The committee receives updates from the group finance director and/or the chief investment officer and it has reported for 2016 that the investment portfolio is in line with the board approved risk appetite and that carrying values of the portfolio as at 31 December 2016 are appropriate. Committee members are invited to and regularly attend the investment committee.

No misstatements that were material in the context of the financial statements as a whole were identified and the committee is satisfied with the approach employed by management in valuing the financial assets at fair value on the balance sheet at 31 December 2016.

iv) Recoverability of insurance receivables

Management has continued the progress made in the prior year in respect of aged debt analysis and reporting, and we note that management continues to focus attention and resource on our processes and reporting of aged debt as the group continues to grow. The analysis reviewed in 2016 did not identify any material instances of default in relation to our insurance debtors.

On this basis, the committee is satisfied that insurance receivables are materially correct and that no adjustment is required at 31 December 2016.

v) Recoverability of reinsurance assets

The committee received confirmation from management that the majority of Beazley's reinsurance receivables are due from highly rated institutions. Based on previous experience, the committee has not noted any instances where poor quality reinsurers have led to a material financial loss and is comfortable with the monitoring processes management have described and put in place to ensure this continues.

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

vi) Dividends, going concern and viability

During key reporting periods, management outlined to the committee in detail their support for the basis of preparation adopted in the financial statements and any statements around the future viability of the group. In addition, the committee considers the appropriateness of management's dividend strategy of growing the ordinary dividend each year and the appropriateness of applying this strategy in the current year.

Statement of corporate governance *continued*

Audit and risk committee *continued*

The committee reviews detailed projections of future cash flows, profit forecasts and capital requirements under various scenarios, including scenarios stressed in terms of claims frequency and liquidity. In the current year, we also considered, and discussed with management, the impact of the result of the EU referendum in June. We also consider the appropriateness of management's viability statement and the period over which this analysis is performed. The committee is satisfied by the level of analysis presented during the year, and the related approach taken and statements made in the group's key external reporting.

vii) Tax

The audit and risk committee discussed management's updates on the continually developing tax environment and in particular reviewed management's approach to Diverted Profits Tax in the UK and developments in this area generally. The committee is satisfied that the approach taken by management (see note 9) at the balance sheet date is reasonable.

viii) Intangible asset valuation

The audit and risk committee received an overview of management's valuation of intangibles. The audit and risk committee discussed the carrying value of goodwill, in particular relating to the group's life, accident and health division and is satisfied that the underlying assumptions used by management in respect of future profitability and cash flows were reasonable. The committee also reviewed management's accounting for movements in other intangibles during the year and is satisfied that management's accounting for these intangibles appears appropriate.

b) Other updates

During 2016, in addition to the financial reporting matters mentioned above the following items were key topics of discussion for the committee:

- oversight of the reporting and control processes and procedures relating to the increased Solvency II reporting requirements;

- overview of key reporting and regulatory updates, including updates on accounting standards, changes in tax legislation and changes in regulatory requirements;
- management's accounting approach in relation to the scheme of arrangement executed by the group during the year;
- enhancements to key process and reconciliation procedures, in particular in relation to technical balances due to/from internal coverholders;
- compliance, financial crime and assurance reporting including risk incident information;
- quarterly reserving and actuarial data; and
- the consideration of emerging risks and the processes and controls in place to mitigate these risks.

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

Function updates

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

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

a) Risk management

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

- risk appetite: The committee has monitored the actual risk profile against risk appetite throughout 2016 and can confirm that Beazley plc has been operating within risk appetite as at 31 December 2016. The committee has also reviewed the proposed 2017 risk appetite and commended it to the Beazley plc board for approval;
- risk assessment: The committee has performed a review of the group's risk profile to ensure it covers the complete universe of risk and that all major underlying risks are visible and are being monitored;

- risk profiles: The committee and the risk committees of the subsidiary boards have reviewed Beazley's risk profiles, which are focused risk assessments of specific topics. In 2016, the committee received a review of cyber risk aimed at ensuring our suite of realistic disaster scenarios are appropriate. There was also a number of other operational risk profiles presented which supported the committee's oversight of the on-going business processes.
- emerging risk: The committee supported the identification of strategic and emerging risks which were discussed at the board meeting in May 2016 and have been subsequently monitored and reported in the quarterly Own Risk and Solvency Assessment (ORSA);
- oversight of the control environment: The committee has received a quarterly consolidated assurance report which provides commentary on the status of the control environment with perspective from the business, risk management, compliance and internal audit. It also includes entries from the risk incident log;
- reverse stress testing: The committee has received the results of the reverse stress testing exercise, which explores what would have to happen for the group to be unviable and has been able to provide assurance to the board that this work has been performed with the appropriate level of depth and expertise; and
- oversight of the internal model: The committee and the risk committees of the subsidiary boards have reviewed regular reports associated with the internal model. These have included a standing report on internal model output, and a validation report featuring both internal and independent validation and themed reviews, for example, on the approach used to aggregate risk. These assessments have supported the boards' use of the internal model; and
- quarterly ORSA: The committee has received a quarterly ORSA report and has reviewed it as part of the quality assurance process before commending it to the board.

b) Compliance

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

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

During 2016, the committee:

- monitored the implementation of the 2016 compliance plan;
- reviewed and approved the 2017 annual compliance plan, including the compliance monitoring programme;
- reviewed changes in the regulatory environment applicable to Beazley;
- received updates on relationships with key group regulators, and oversight of regulatory requests;
- provided oversight to regulatory responses to corporate developments;
- reviewed updates from the Money Laundering Reporting Officer on the adequacy and effectiveness of the company's anti-money laundering systems and controls;
- provided oversight of the progress of the business in addressing identified enhancements to compliance requirements;
- approved the group policies and controls in respect of whistleblowing, anti-bribery and corruption, and fraud; and
- received updates on the structure and effectiveness of the company's compliance function.

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

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

c) Internal audit

The group's internal audit function reports directly to the committee, in addition the head of internal audit has direct access to the committee chairman and is accountable to the committee. The committee has reviewed the effectiveness of the function and remains satisfied that the internal audit function had sufficient resources during the year to undertake its duties.

During 2016, the committee:

- considered the results of all internal audit reports and monitored the progress of the business in addressing the findings of internal audit;
- monitored the implementation of the 2016 internal audit plan;
- reviewed and approved the basis for audit planning and approved the 2017 internal audit plan;
- reviewed and approved the internal audit charter;
- reviewed and approved the internal audit budget for 2017;
- received and reviewed an overall summary assessment of 2016 internal audit activity; and
- monitored on-going amendments to the internal audit function's activities in light of emerging best practice in the financial sector.

d) External audit*i) Audit tendering*

Following in depth consideration during 2016, the board have committed to changing group auditor no later than for the 2019 financial year. Given KPMG's length of service (group auditor since 2002) and because the board have not sought to formally tender KPMG's services the committee requested KPMG to submit a non-competitive tender outlining their approach, value proposition and areas of focus over the next two years up until their rotation. Following careful consideration of KPMG's proposal, the assessment of the auditors effectiveness through the 2016 cycle as part of the committee's routine activities and taking into account the operational challenges the business faces which are in progress (such as Solvency II reporting and major finance system developments), the committee decided that it would be beneficial to retain KPMG for the time being. It is therefore proposed to put the audit out to tender no later than 2018 to allow new auditors to take over for the 2019 reporting period.

ii) Assessing the effectiveness of the external auditor

The committee places great emphasis on ensuring there are high standards of quality and effectiveness in the external audit process. Audit quality is assessed throughout the year, with a focus on strong audit governance and the quality of the team. The effectiveness of the audit is assessed through discussion throughout the year, taking into account considerations such as:

- reviewing the quality and scope of the audit planning and its responsiveness to changes in the business;
- monitoring of the auditor's independence;
- considering the level of challenge evidenced in discussions and reporting; and
- discussing the output of the FRC's Audit Quality Review with our auditors.

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

Statement of corporate governance *continued*

Audit and risk committee *continued*

iii) Non-audit services

The audit and risk committee's responsibility to monitor and review the objectivity and independence of the external auditor is supported by a policy that we have developed in relation to the provision of non-audit services by the auditor.

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

The committee receives a report from the external auditors twice a year setting out all non-audit services undertaken, so that it can monitor the types of services being provided, and the fees incurred for that work. The aim is to limit the total spend on non-audit services to a maximum of the annual audit fee, unless it is deemed that not doing so is in shareholders' interest from an efficiency and effectiveness point of view.

The split between audit and non-audit fees for the year under review is disclosed in note 6 to the financial statements. In the year the audit fees for the statutory audit of the consolidated financial statements were \$1.0m (2015: \$1.1m) while fees paid for non audit and assurance services were \$1.2m (2015: \$0.8m). Fees for non audit and assurance services include work related to the accounts and regulatory reporting of the syndicates managed by Beazley. Also included, as a one-off in 2016, is reporting accountant work in relation to the change of domicile and comfort letters to support the debt issuance. Both of these are assignments normally performed by the incumbent auditors.

KPMG is a panel member eligible to provide services under our cyber breach response service. To date KPMG has not been called upon to provide any services under this arrangement and the committee receives regular updates to monitor the level of activity and to ensure conflicts of interest do not occur.

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

Committee effectiveness

The committee considers its effectiveness regularly. An assessment was facilitated in November 2016 using an online survey completed by members of the committee. The review concluded that the committee was operating effectively and efficiently and there were no major issues highlighted for attention. It was noted there had been an increase in the work load of the committee driven by Solvency II and other regulatory requirements and additional training may be useful.

Fair, balanced and understandable assessment

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

CMA Order 2014 statement of compliance

The committee confirms that during 2016 the group complied with the mandatory audit processes and audit committee responsibilities provisions of the Competition and Markets Authority Statutory Audit Services Order 2014 as presented in this report.

Statement of corporate governance *continued*

Remuneration committee



Sir Andrew Likierman

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

Responsibilities of the committee

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

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

Membership and attendance

	Appointment	Attendance at full meetings during 2016
Sir Andrew Likierman	25 March 2015	4/4
George Blunden	1 January 2011	4/4
Padraig O'Connor	13 March 2009	1/1
John Sauerland ¹	11 May 2016	3/3

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

Key activities in 2016

During 2016 the committee:

- reviewed the key aspects of the remuneration policy, and oversaw its implementation and application;
- satisfied itself that the current remuneration structure is appropriate to attract and retain talented people;
- considered the chief risk officer's report that confirmed that the design of remuneration promotes appropriate risk behaviour throughout the organisation. In addition, the analysis considered the performance of the control environment, profit related pay targets, calculation of the bonus pool, share awards, a suite of risk metrics for each solvency II member of staff and any individual who has created a higher than expected level of risk;
- ensured incentives continued to be appropriate and to align company and shareholders;
- approved the grant of share awards under the group's deferred, retention and LTIP plans;
- considered the salary and bonus awards for 2016 for executive directors, heads of control functions, material risk takers and other officers;
- reviewed remuneration policies in light of emerging requirements for Solvency II;
- approved the chairman's fees; and
- reviewed the executive director employment contracts.

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

Nomination committee



Dennis Holt

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

Responsibilities of the committee

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

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

Membership and attendance

	Appointment	Attendance at full meetings during 2016
Dennis Holt	21 July 2011	5/5
George Blunden	1 January 2010	5/5
Sir Andrew Likierman	25 March 2015	5/5

The nomination committee meets at least twice annually and at such other times during the year as is necessary to discharge its duties. In 2016 there were five scheduled meetings, reflecting the workload of the committee during the year. Only members of the committee have the right to attend meetings, however other individuals, such as the chief executive and external advisers, may be invited to attend for all or part of any meeting.

The specific responsibilities and duties of the committee are set out in its terms of reference which were updated in July 2016 to include specific responsibility to keep under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to compete effectively in the market place. The terms of reference are available to download from the company's website.

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

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

Policy on gender, diversity and inclusion

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

The committee has agreed the establishment of goals for gender diversity for both the board and the broader organisation. The board approved goals for gender diversity for the Beazley plc board of two female members by AGM 2016, and a third female member by AGM 2017. This goal has been achieved through the appointments of Catherine Woods and Christine LaSala. Female representation on the board has gone from zero to three within the last five years. The committee has established 2020 goals for increasing diversity across the wider organisation through a series of initiatives looking at recruitment, development and succession. Having achieved our goal of having three female directors by the 2017 AGM, the committee has established new goals of a minimum of 35% female senior managers within the organisation by 2020 and of 33% female board members at group level by 2021.

The 2016 board review was overseen by the committee and was facilitated in November 2016 using a survey completed by board and committee members. No material matters were identified and the committee will oversee the implementation of an action plan to further strengthen the board's overall effectiveness in 2017.

Key activities in 2016

Tasks which the committee carried out in 2016 were to:

- recommend the appointment of three additional non-executive directors. The appointments to the board were made on merit and against objective criteria. For the recruitment process, the committee was assisted by Korn Ferry for Bob Stuchbery and Spencer Stuart for John Sauerland. Both of these search firms are wholly independent of the company and of the group. No consultant was used in the recruitment of Christine LaSala;
- review of the performance of management by inviting all non-executive directors to attend a nomination committee meeting to review the performance of the executive management team;
- consider the board and committee succession plans;
- assess the collective skills and competency of the board and consider the proposed reappointment of directors;
- ensure that director development plans were implemented and that the board collectively received relevant training; and
- ensure board members were able to allocate sufficient time to the company to discharge their responsibilities effectively.

Letter from the chairman of our remuneration committee



Dear shareholder

The quality of our people is at the heart of Beazley's success and we want those who are among the best insurance professionals in the world. We want to keep them through a shared culture and values as well as competitive remuneration which rewards sustained performance.

Remuneration policy and link to strategy

Our remuneration policy is due for renewal at the forthcoming Annual General Meeting (AGM). After reviewing it carefully in 2016 we concluded that it continues to support our business and is aligned to shareholder interests. So we have not made significant changes since the overall package is appropriate and responsible.

The policy has two guiding principles – alignment to shareholders' interests and performance of the group. The key features and basis of alignment are:

Net Asset Value per share (NAVps) growth. This is a key performance indicator, and is the measure used for our Long term Incentive Plan (LTIP) since it is aligned to shareholders' interest. For the maximum awards to vest, NAVps growth of 15% above the risk-free return has to be sustained for five years.

Five year performance. For a number of years we have operated an LTIP where performance is measured over five years as well as three. This longer period aligns reward with the long term performance of the business.

Risk. The features which align remuneration with risk include a long time horizon, deferral of bonus into shares and personal shareholding requirements. The committee gets an annual report from the chief risk officer on remuneration policy to ensure it is consistent with, and promotes, effective risk management.

Long term time horizons

As part of the 2016 policy review, the committee looked at whether to introduce holding periods on the LTIPs and in particular whether to move from a five year to a three year performance period with a two year holding period. We concluded that the five years was a strength of the existing arrangements and, with an additional clawback period taking reclaim provisions to seven years, there was alignment with longer term decision-taking.

Directors' Remuneration Report reporting and operation of our policy

The remuneration policy from 2017 and the 2016 annual remuneration report follow this letter. Recognising UK regulations, the policy report will be subject to a binding vote at the AGM.

As noted above, there are no significant changes proposed to the policy approved by shareholders at the 2014 AGM. The key change is that clawback provisions – introduced in 2016 – will now be part of the policy.

Annual bonus framework and reporting

Beazley's approach to the annual bonus reflects an emphasis on teamwork. The bonus pool is based on profit before tax and return on equity (ROE) and is therefore aligned to shareholders' interests. A broad senior management group receives awards from the pool, reinforcing our collegiate culture.

As previous years show, bonuses are strongly aligned with ROE performance. Allocations for the senior team are based on their individual performance during the year and not through a formula.

Over the years the company has disclosed more about the annual bonus performance framework and targets. There is full disclosure of the group financial targets that have determined the annual bonus. This year more is disclosed about individual objectives and achievements.

Solvency II

This was the first year in which the remuneration requirements of Solvency II applied. The committee reviewed remuneration across Beazley in 2015 and found that we were already significantly compliant with the Prudential Regulatory Authority's (PRA's) guidance based on existing risk-aligned features. There was more guidance from the PRA during 2016. No substantive changes were needed as a result.

Salary increases

The average executive director salary increase for 2017 was 2% – below the average salary increase of the organisation as a whole.

Performance out-turns

Beazley has reported a pre-tax profit of \$293.2m and ROE of 18% for 2016. Remuneration reported in the single total figure, reflects that performance and bonuses reflect performance year on year. The second tranche of our 2012 five year LTIP is due to vest during 2017, reflecting an NAVps growth of 19.85% p.a.

Our LTIP policy maximum continues to be 200% of salary. As last year, our approach is to award shares subject to performance conditions of 200% of salary for the CEO and 150% for other executive directors. This year, however, we are proposing to award 175% to the head of speciality lines in recognition of his contribution to the group. Our expectation is that his award level will revert to 150% next year.

Shareholders

The committee is determined to follow best practice developments and considers – indeed welcomes – the views of shareholders. It was encouraged by, and grateful for, a favourable vote of 97% on last year's annual remuneration report, and 98% on our remuneration policy when it was approved in 2014.

Sir Andrew Likierman

Remuneration committee chairman

Directors' remuneration report

Directors' remuneration policy

This part of the report sets out Beazley's directors' remuneration policy which will be subject to a binding vote at the 2017 AGM.

Changes to the remuneration policy

The key change between this policy and the policy which was approved by shareholders at Beazley's 2014 AGM is that clawback provisions, which were introduced in 2016, will now form part of the policy.

Remuneration policy table

The following table sets out descriptions of each component of executive director remuneration packages comprised in the Beazley directors' remuneration policy, and, at the bottom of the table, the policy for non-executive directors.

Executive directors

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Base salary	Salaries are set at a level to appropriately recognise responsibilities and to be broadly market competitive.	Salaries are normally reviewed annually. Salaries for 2017 are: <ul style="list-style-type: none">• D A Horton: £457,000• M L Bride: £320,000• A P Cox: £342,500• N P Maidment: £342,500• C A Washbourn: £342,500	There is no maximum salary opportunity. Any salary increases will generally reflect our standard approach to all-employee salary increases across the group. Higher increases may be made in a range of circumstances where the committee considers that a larger increase is appropriate, including (but not limited to): <ul style="list-style-type: none">• a new appointment;• a change in role or adoption of additional responsibilities;• development of the individual in the role; and• alignment to market levels.	None.

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Annual bonus	<p>To link reward to short term financial performance and individual contribution.</p> <p>Additional alignment with shareholders' interests through the operation of bonus deferral.</p>	<p>Discretionary annual bonus to individuals. Bonuses are determined by reference to both financial and individual performance.</p> <p>Portion generally deferred into shares for three years (between 0% and 37.5% of bonus) dependent on level of bonus.</p> <p>Deferred shares may have dividend equivalents.</p> <p>In certain circumstances deferred share awards may be subject to malus provisions and annual bonus payments may be subject to clawback.</p>	<p>An individual overall cap of 400% of salary will apply. Cash bonuses will normally be capped at 250% of salary with any amount above this deferred into shares.</p>	<p>Solvency II requires that performance measures for incentives be based on a combination of group, business unit and individual performance.</p> <p>For 2017, an incentive pool will be calculated as a percentage of profit and by reference to group return on equity, subject to a minimum return on equity and risk adjustment.</p> <p>Individual payouts to executive directors are discretionary and take into account the individual's contribution and, where relevant, the performance of their division.</p> <p>For heads of divisions, a bonus may be awarded outside the incentive pool in circumstances where the performance of a division in relation to the group is very strong.</p> <p>While bonus awards are determined by reference to the profit pool, the bonus plan is discretionary and the committee may take into account any other factors it considers appropriate.</p> <p>The committee may make year-on-year adjustments to the performance framework, in particular to take into account developments in Solvency II requirements.</p>
LTIP	To align the senior management team's interests to the long term performance of the group by setting performance targets over the longer term.	<p>Awards of shares with performance conditions.</p> <p>Awards are normally in the form of nil-cost options with a ten-year term, but may also be in the form of a conditional award.</p> <p>LTIP shares may have dividend equivalents.</p> <p>Normally LTIP awards are subject to shareholding requirements to be built up over three years. LTIP awards may be forfeited if shareholding requirements are not met.</p> <p>In certain circumstances LTIP awards may be subject to malus and clawback provisions.</p>	<p>Awards of up to 200% of salary.</p>	<p>Vesting of LTIP awards is dependent on net asset value per share (NAVps) performance against the risk-free rate of return.</p> <p>No more than 25% of the award may vest for threshold performance.</p> <p>A portion of the award is subject to performance over three years and a portion over five years.</p>
Investment in underwriting	To align personal capital with underwriting performance.	Under the plan executive directors and selected staff may voluntarily defer part of their bonus into an underwriting syndicate. Capital commitments can be lost if underwriting performance is poor.	Payments are limited to the returns on the investment in the underwriting syndicate. The level of capital commitment is limited by the bonus opportunity.	The plan mirrors investment in an underwriting syndicate.

Directors' remuneration report *continued*

Directors' remuneration policy *continued*

Element	Purpose and link to strategy	Operation	Maximum	Performance conditions
Benefits	To provide market levels of benefits.	Benefits include, but are not limited to, a company car or car allowance, season ticket, private medical insurance, death in service benefit and income protection insurance. Further benefits may be provided, if the committee considers it appropriate. Executive directors may participate in Beazley's all-employee share plans on the same basis as other employees. Tax equalisation policies may apply.	There is no overall maximum as the cost of insurance benefits will vary depending on the individual's circumstances and the cost of relocation will vary depending upon the jurisdiction.	None.
Relocation benefits	To support Beazley's growth as an international business.	Benefits in the event of relocation may include, but are not limited to, relocation allowance, housing allowance and school fees.		
Pension	To provide market levels of pension provision.	Current policy is to contribute to a defined contribution pension plan. An equivalent cash alternative may be offered. Legacy defined benefit pension arrangements are in place for certain executives (A P Cox, N P Maidment and C A Washbourn). Further service accruals ceased on 31 March 2006.	For defined contribution plans, maximum company contribution of 15% of salary. Legacy defined benefit pension arrangements will be honoured.	None.

Legacy matters

Payments can also be made to executive directors under the following legacy remuneration arrangements. It is not intended that these components of remuneration policy will be used to grant any future awards.

Marine share incentive plan (MSIP)	To align the head of the marine division with the sustained outstanding performance of the marine division.	A share award in 2013 for the head of marine made in two tranches. The first tranche has now vested. The second tranche of 500,000 shares vests after five years. Shares under award may have dividend equivalents. Awards are subject to a malus provision in certain circumstances.	500,000 shares.	The remaining award is subject to pre-tax divisional return on equity (ROE) performance and continued employment, measured over five years: 20% vesting for 15% divisional ROE performance, 100% vesting for 25% divisional ROE performance, with straight line vesting between points.
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Non-executive directors

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

Basic fee	Payment of a basic annual fee
Additional fees	<p>Additional fees are paid to reflect additional responsibilities of certain non-executive directors, as follows:</p> <ul style="list-style-type: none"> - senior independent director - audit and risk committee chairman - remuneration committee chairman - subsidiary board membership and chairmanship fees.
<p>Non-executive directors may receive additional fees in the future if in the view of the board this was considered appropriate, including in circumstances of additional committees, other non-executive director positions, or to reflect additional time commitments in certain circumstances.</p>	
<p>Expenses incurred in the performance of non-executive duties for the company may be reimbursed or paid for directly by the company, including any tax due on the expenses. Non-executive directors do not normally receive any benefits however these may be provided in the future if in the view of the board this was considered appropriate.</p>	
<p>Total fees paid to non-executive directors will remain within the limit stated in the Articles of Association.</p>	

Notes to the remuneration policy table

Recovery provisions (clawback and malus) may apply where stated in the above table. Other elements of remuneration are not subject to recovery provisions. Clawback provisions apply only for incentives made in respect of 2015 and thereafter. Further detail on the recovery provisions, including the circumstances and timeframe for which they can be applied are set out in the annual remuneration report.

The committee may increase the proportion of bonus deferred into shares at any time.

For future incentive awards the committee may adjust the performance measures to take into account developments in Solvency II remuneration requirements, or, in the event of a significant event or changing business circumstance. Major shareholders would be consulted prior to any significant changes.

LTIP, MSIP and deferred share awards will be operated in accordance with the rules of the plan. In accordance with those rules the committee has discretion in the following areas:

- in the event of a variation of Beazley's share capital or a demerger, delisting, special dividend, rights issue or other similar event, which may, in the committee's opinion, affect the current or future value of shares, the number of shares subject to an award and/or any performance condition attached to awards, may be adjusted. Awards under Beazley's other share plans have similar adjustment provisions;
- the committee may determine that awards may be settled in cash;
- the committee may substitute or amend a performance condition if one or more events occur which cause the committee to consider that a substituted or amended condition would be more appropriate and would not be materially more or less difficult to satisfy;
- the committee may determine the treatment of awards on a winding up, a change of control or similar event in accordance with the rules of the plan; and
- the committee may determine the basis on which dividends will be calculated which may include notional reinvestment.

Legacy commitments

The committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out in this report where the terms of the payment were agreed (i) before 26 March 2014 AGM (the date Beazley's first shareholder-approved directors' remuneration policy came into effect); (ii) before the policy set out in this report comes into effect, provided that the terms of the payment were consistent with the shareholder-approved directors' remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a director of Beazley and, in the opinion of the committee, the payment was not in consideration for the individual becoming a director of Beazley. For these purposes 'payments' includes the committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

Directors' remuneration report *continued*

Directors' remuneration policy *continued*

Performance measures and targets

The following table provides further detail on why performance measures are chosen and how targets are set.

Incentive plan	Performance measures	Why performances measures were chosen and target is set
Annual bonus plan	Profit and ROE, risk adjustment, individual performance.	<ul style="list-style-type: none">• The committee believes the approach to the determination of bonuses creates alignment to shareholders' interests and ensures that bonuses are affordable, while the ROE targets increase the performance gearing and the risk adjustment is consistent with and promotes effective risk management.• The committee reviews the bonus pool framework each year to ensure that it remains appropriate and targets are set taking into account the prevailing environment, interest rates and expected investment returns, headcount and any other relevant factors.• A key principle of the process is that the committee exercises its judgement in determining individual awards taking into account the individual's contribution and performance.
Long term incentive plan	Growth in net asset value per share (NAVps) over three years and five years.	<ul style="list-style-type: none">• Creates alignment to one of Beazley's key performance indicators.• The committee reviews the NAVps targets periodically to ensure they remain appropriate with reference to the internal business plan, the external environment and market practice.• In the event that NAVps were to become unsuitable as a performance measure in the opinion of the committee (for example due to a change in accounting standards) the committee would substitute a measure which followed broadly similar principles.
Investment in underwriting	The plan mirrors investment in an underwriting syndicate.	<ul style="list-style-type: none">• The Beazley staff underwriting plan provides for participants to contribute personal capital to Beazley syndicates. Selected staff are invited to participate through bonus deferral with an element of cash incentives 'at risk' as capital commitments.

Differences in policy from broader employee population

The policy for executive directors follows the same broad principles in place for all employees in Beazley. Differences in policy for executive directors and senior management as compared to the broader employee population reflect different market levels for seniority, as well as their group responsibilities. For example, incentive performance conditions for executive directors and senior management are more closely aligned to group performance, whereas underwriters participate in incentive plans linked to the performance of their business area.

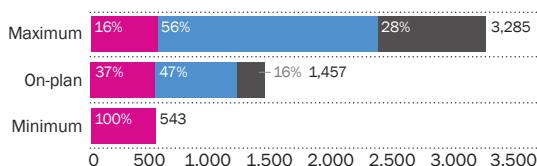
All employees in the group may participate in a defined contribution pension plan, and are offered benefits such as private medical insurance and permanent health insurance. Beazley also operates all-employee share plans to create staff alignment and promote a sense of ownership.

Illustrations of application of remuneration policy

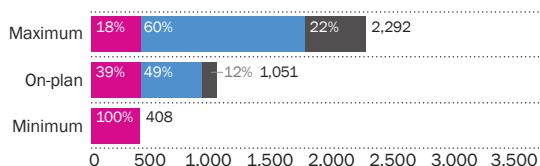
The charts below set out an illustration of the operation of the remuneration policy for 2017 and include base salary, pension, benefits and incentives.

Note that, as prescribed by the legislation, the illustrations are based on initial award value and therefore do not reflect potential share price growth or any dividends received over deferral periods, which may impact the overall value of deferred annual and long term remuneration delivered.

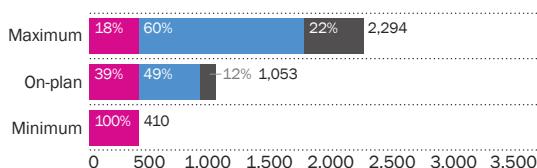
Chief executive officer (£'000)



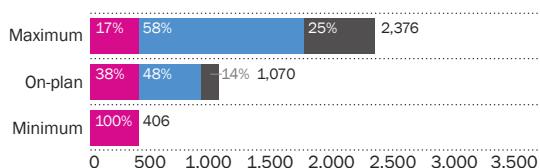
Head of marine (£'000)



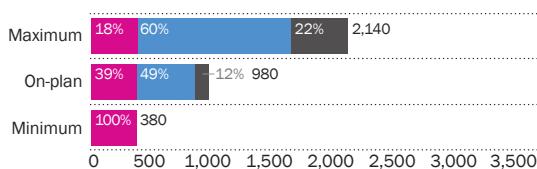
Chief underwriting officer (£'000)



Head of specialty lines (£'000)



Group finance director (£'000)



● Minimum remuneration ● Long term remuneration
● Annual variable remuneration

Element

'Minimum' 'On-plan' 'Maximum'

	Base salary	Annual base salary
Fixed remuneration	Pension	15% of base salary
	Benefits	Taxable value of annual benefits provided in 2016
Annual variable remuneration (cash and deferred shares)	0% of salary	150% of salary
Long term remuneration (LTIP)	0% vesting	25% vesting
		100% vesting

Approach to recruitment remuneration

The committee would have regard to the following principles when agreeing the components of a remuneration package upon the recruitment of a new director:

- in order to facilitate the future success of the company it is important that we are able to recruit directors of the calibre required to deliver our strategic priorities. Although the company operates in a highly competitive market for executive talent, the committee remains conscious of the need to avoid paying more than is necessary on recruitment;
- the committee will, so far as practical, seek to align the remuneration package for any incoming executive with the remuneration policy table set out above;
- on recruitment salaries will be set to take into account role and responsibilities. For interim positions a cash supplement may be paid rather than salary (for example a non-executive director taking on an executive function on a short term basis);
- the committee may, on appointing an executive director, need to 'buy out' remuneration arrangements forfeited on joining the company;
- any buyout would take into account the terms of the arrangements (e.g. form of award, performance conditions, timeframe) being forfeited in the previous package. The form of any award would be determined at the time and the committee could if necessary make use of LR 9.4.2 of the Listing Rules (for the purpose of buyout awards only). The committee would seek to structure buyout awards to be in line with Beazley's remuneration framework so far as practical. The overriding principle will be that any replacement buyout awards would be of comparable commercial value to the awards which had been forfeited;

Directors' remuneration report *continued*

Directors' remuneration policy *continued*

- all buyout awards would normally be liable to forfeiture or 'clawback' on early departure. For executive directors early departure is defined as being within the first two years of employment;
- the maximum level of variable remuneration which may be granted in the first year (excluding buyouts) is in line with the aggregate maximums set out in the policy table. The committee retains the flexibility to determine that for the first year of appointment any annual bonus award will be subject to such conditions as it may determine; and
- where an executive is appointed from within the organisation, the normal policy of the company is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, if an executive director is appointed following Beazley's acquisition of or merger with another company, legacy terms and conditions would be honoured.

Service contracts and loss of office payment policy

It is company policy that service contracts with executive directors contain notice periods, from the company or employee, of not more than 12 months. The company may at its absolute discretion elect to terminate an executive director's employment by making a payment in lieu of notice of the individual's salary for that period.

Subject to notice requirements, there is no provision in the service agreements for compensation to be payable on early termination of the contract. The committee has discretion to structure any compensation payments in such a way as it deems appropriate taking into account the circumstances of departure. Any payments of compensation will be subject to negotiation, and the group policy is to consider whether mitigation and phasing of payments is appropriate.

The committee reserves the right to make any other payments in connection with a director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a settlement of any claim arising in connection with the cessation of a director's office or employment. Any such payments may include amounts in respect of accrued leave, paying any fees for outplacement assistance and/or the director's legal or professional advice fees in connection with his or her cessation of office or employment.

In the event of a director's departure any outstanding share awards will be treated in accordance with the relevant plan rules.

The following principles apply for the treatment of remuneration elements following loss of office for a director:

Remuneration element	Treatment upon loss of office
Bonus	There is no automatic entitlement to annual bonus. Taking into account the circumstances of leaving, the committee retains the discretion to award a bonus in respect of performance in the financial year with appropriate consideration of time pro-rating.
Deferred shares	If a director ceases office or employment with the group any unvested awards will lapse unless the individual is a good leaver. Good leaver circumstances are cessation by reason of injury, ill-health, permanent disability or retirement (with the agreement of the employing company) and, if the committee so determines, redundancy, the sale of the individual's employing company or business out of the group, or such other circumstances as the committee may determine. In these good leaver circumstances awards may vest in full or be time pro-rated, and be delivered on cessation or at the normal time. If a director dies his or her awards will vest in full.
Staff underwriting participation plan	For leavers, profit results are payable in respect of years of account commencing before cessation. A participant receives repayment of notional capital invested reduced by any loss result for the relevant year of account.
2012 LTIP and MSIP	If a director ceases office or employment with the group any unvested awards will lapse unless the individual is a good leaver. An individual is a good leaver if employment ceases because of death, ill-health, injury, disability, the sale of the individual's employing company or business out of the group or for any other reason at the committee's discretion (except where a participant is dismissed lawfully without notice). Awards will vest on the normal vesting date, unless the committee determines that awards should vest at the time the individual ceases employment. If the participant dies awards will vest as soon as practicable after the date of death. Awards will vest taking into account the satisfaction of any performance condition and, unless the committee determines otherwise, the period of time that has elapsed since the award was granted until the date of cessation of employment.

Remuneration element	Treatment upon loss of office
Pension	The director will be eligible to receive the standard 15% of salary contribution to the defined contribution pension plan during the notice period, or cash equivalent. Under the Beazley Furlonge Limited Final Salary Pension Scheme, on early retirement the director receives a pension which is reduced to reflect early payment in accordance with the rules of the scheme.
HMRC approved all-employee plans (or equivalent overseas plans)	Leavers will be treated in accordance with the approved plan rules.
Recruitment awards	Were a buyout award to be made under LR 9.4.2 (or in other circumstances outside of the existing share plan rules) then the leaver provisions would be determined at the time of award.

In the event of a change of control or winding up of the company, treatment of share awards will be in accordance with the relevant plan rules. In these circumstances LTIP awards, MSIP awards and deferred shares may vest early. The extent to which LTIP and MSIP awards vest would be determined by the committee taking into account the satisfaction of any performance conditions, the period of time that has elapsed since the award was granted until the date of the event and any other factors the committee considers relevant. Deferred shares will vest to the extent determined by the committee taking into account any factors it considers relevant. Alternatively, the committee may determine that LTIP awards, MSIP awards or deferred shares may be exchanged for equivalent awards on such terms as agreed with the acquiring company. If there is a demerger, delisting or other event which may materially affect the company's share price, LTIP awards and MSIP awards may vest on the same basis as for a takeover.

Non-executive directors' fee policy and service contracts

With effect from 2012 the standard approach for non-executive director appointment is that the appointment expires at the AGM following the end of the three year term, notwithstanding the fact that each director is subject to annual re-election at each AGM. Although there is currently no intention to do so, the board reserves the right to introduce notice periods for non-executive directors in the future.

Consideration of conditions elsewhere in the company

As part of the regular cycle, the committee is informed of pay and employment conditions of wider employees in the group and takes these into account when determining the remuneration for executive directors. While the review includes various statistics on the outcome of the wider employee pay review, the review does not currently include any direct comparison measures between executive directors and wider employee pay. The company does not consult with employees on executive director remuneration.

Consideration of shareholders views

The remuneration committee also regularly reviews guidance from shareholder advisory bodies such as the Investment Association, PLSA and ISS, as well as the specific policies of our shareholders. Changes to our policy such as the introduction of a bonus cap have been incorporated into Beazley's policies as a result of these reviews. The committee periodically undertakes gap analyses of Beazley policy against the guidance from shareholder bodies and wider shareholder views.

The committee has consulted with shareholders regarding remuneration policy and shareholder views were taken into account during the formulation of the policy.

Minor changes

The committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax, or administrative purposes, or to take account of a change in legislation) without obtaining shareholder approval for such amendments.

Annual remuneration report

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

This part of the report, the annual remuneration report, sets out the remuneration out-turns for 2016 (and how these relate to our performance in the year) and details of the operation of our policy for 2017.

Please be aware that following a scheme of arrangement on 13 April 2016 the parent company of the Beazley group changed from Beazley Ireland Holdings plc (formerly Beazley plc) to Beazley plc (formerly Swift No.3 Limited). The remuneration disclosed for 2016 within this report are for the director's services to both of the respective parent companies of the Beazley group and to the Beazley group as a whole. The remuneration disclosed for 2015 is for the director's services to the parent company Beazley Ireland Holdings plc (formerly Beazley plc) and to the Beazley group as a whole.

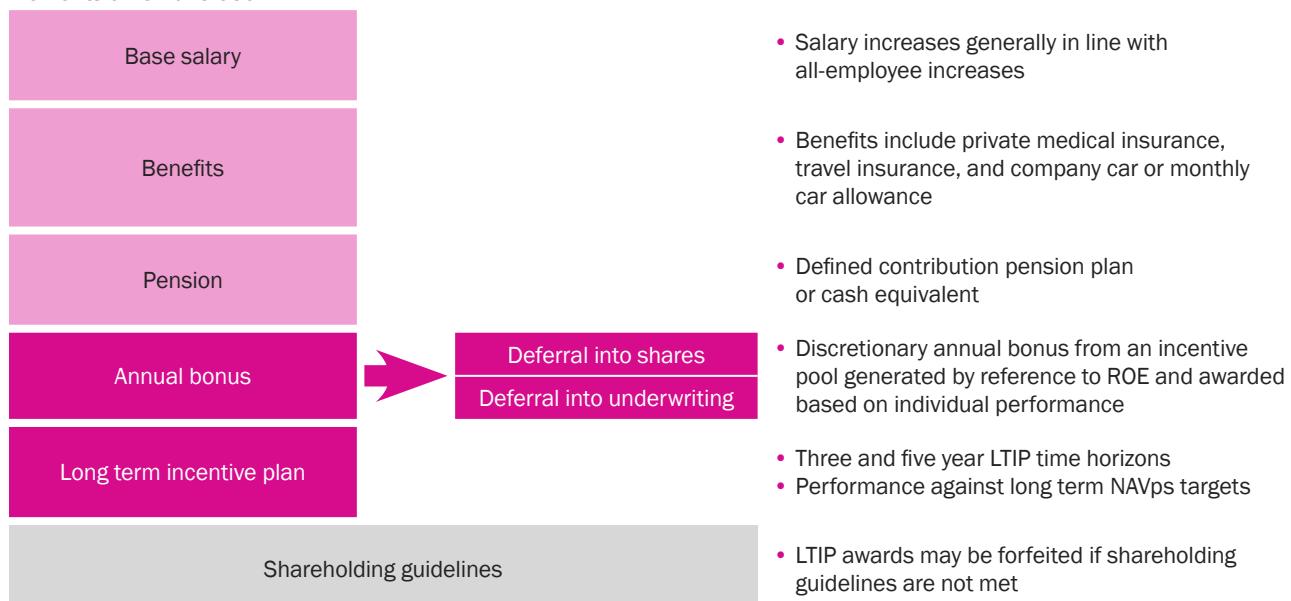
Remuneration principles

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

We believe that:

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

Elements of remuneration



Risk and reward at Beazley

The committee regularly reviews developing remuneration governance in the context of Solvency II remuneration guidance, other corporate governance developments and institutional shareholders' guidance. The chief risk officer reports annually to the remuneration committee on risk and remuneration as part of the regular agenda. The committee believes the group is adopting an approach which is consistent with, and takes account of, the risk profile of the group.

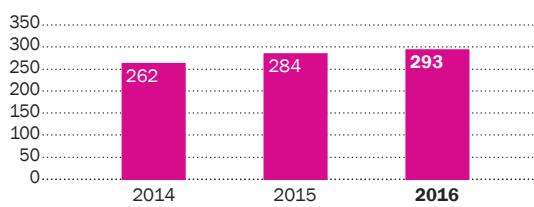
We believe reward at Beazley is appropriately balanced in light of risk considerations, particularly taking into account the following features:

Features aligned with risk considerations

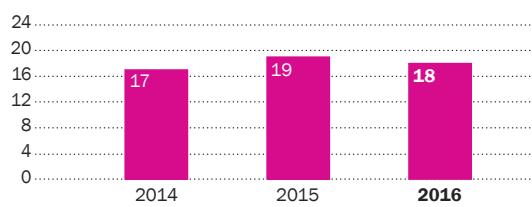
Share deferral	A portion of bonus is normally deferred into shares for three years. These deferred shares, together with shares awarded under the LTIP, mean that a significant portion of total remuneration is delivered in the form of shares deferred for a period of years.
Extended performance periods	A portion of the LTIP has performance measured over an extended five-year period.
Shareholding requirements	Executive directors are expected to build up and maintain a shareholding of 150% of salary (200% for the CEO). LTIP awards may be forfeited if shareholding requirements are not met.
Investment in underwriting	Management and underwriters may defer part of their bonuses into the Beazley staff underwriting plan, providing alignment with capital providers. Capital commitments can be lost if underwriting performance is poor.
Underwriters' remuneration aligned with profit achieved	Under the profit related bonus plan payments are aligned with the timing of profits achieved on the account. For long tail accounts this may be in excess of six years. If the account deteriorates then payouts are 'clawed back' through adjustments to future payments. Since 2012 profit related pay plans may be at risk of forfeiture or reduction if, in the opinion of the remuneration committee, there has been a serious regulatory breach by the underwriter concerned, including in relation to the group's policy on conduct risk.
Clawback and malus provisions for annual bonus and LTIP shares	For deferred share awards and LTIP awards (from 2012) malus provisions were introduced. For LTIP awards from 2015 and annual bonus in respect of 2015 and onwards, clawback provisions also apply.

Performance charts

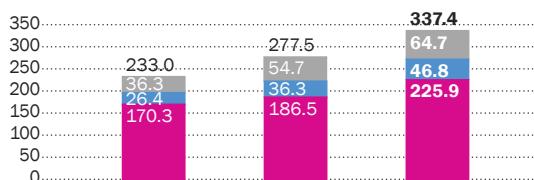
Profit before tax (\$m)



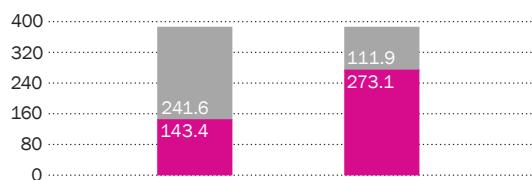
Return on equity (%)



Net assets and cumulative dividend per share (p)



Share price (p)



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

- Share price at grant
- Share price appreciation

Directors' remuneration report *continued*

Annual remuneration report *continued*

Single total figure of remuneration ▪

The tables below set out the single figure of total remuneration for executive directors and non-executive directors for the financial years ending 31 December 2016 and 31 December 2015.

Executive directors

£		Fixed pay			Pay for performance				Total	
		Salary	Benefits	Pension	Cash bonus	Bonus deferred into shares	Total annual bonus	LTI		
Martin L Bride	2016	313,100	11,861	41,270	560,000	240,000	800,000	855,520	2,021,751	
	2015	310,000	11,779	46,500	560,000	240,000	800,000	924,410	2,092,689	
Adrian P Cox ²	2016	336,200	12,347	45,804	770,000	330,000	1,100,000	880,034	2,374,385	
	2015	332,800	119,600	49,920	700,000	300,000	1,000,000	951,112	2,453,432	
D Andrew Horton ³	2016	448,000	17,479	59,051	875,000	375,000	1,250,000	1,723,113	3,497,643	
	2015	443,500	17,667	66,525	910,000	390,000	1,300,000	1,883,955	3,711,647	
Neil P Maidment	2016	336,200	16,503	44,315	686,000	294,000	980,000	969,423	2,346,441	
	2015	332,800	16,811	49,920	700,000	300,000	1,000,000	1,059,893	2,459,424	
Clive A Washbourn ⁴	2016	336,200	14,527	44,315	490,000	210,000	700,000	969,423	2,064,465	
	2015	332,800	13,502	50,243	700,000	300,000	1,000,000	2,877,393	4,273,938	

1 A significant portion of the single figure values shown arises due to the substantial share price appreciation over the period. For 2016 the share price at the time LTI awards were made was 143.4p for the 2012 award and 273.1p for the 2014 award, while the average share price in the last three months of 2016 was 379.9p. This represents share price growth of 165% and 39% over the five and three year periods respectively.

2 Benefits for Adrian Cox in 2015 included an allowance of £95,335 in respect of his secondment in the US. His secondment ended in June 2015.

3 £864,006 of the 2016 single figure for Andrew Horton is a direct result of the significant share price appreciation over the LTI periods, which is directly aligned to shareholders' experience. All other executive directors have corresponding amounts in relation to share price appreciation in their single figure amounts.

4 The LTI figure for Clive Washbourn for 2015 includes the vesting of the first tranche of the MSIP award granted in 2013 to address a commercial risk to the business. For Clive Washbourn, £1,316,643 of the 2015 single figure is also as a direct result of the significant share price appreciation, which is directly aligned to shareholders' experience.

The figures in the preceding table reflect the following:

- salaries for 2016 increased by an average of 1.0%, which was below the average increase for all-employees;
- annual bonus out-turns were similar to last year, with Beazley delivering another strong performance in 2016; and
- LTI out-turns reflect that the LTI performance targets were met in full. Beazley achieved sustained NAV growth of 18.19% per annum and 19.85% per annum over the three and five year periods respectively. Beazley also achieved significant share price appreciation as detailed in the notes to the table.

Non-executive directors

£		Total fees ¹
George P Blunden	2016	83,500
	2015	79,250
Angela D Crawford-Ingle	2016	90,250
	2015	88,750
Dennis Holt	2016	200,000
	2015	164,730
Christine LaSala ²	2016	28,375
	2015	-
Sir J Andrew Likierman ³	2016	68,673
	2015	42,885
Padraic J O'Connor ^{4,6}	2016	18,215
	2015	68,613
John P Sauerland ⁵	2016	37,251
	2015	-
Vincent J Sheridan ⁶	2016	62,500
	2015	55,474
Robert A Stuchbery ⁷	2016	31,785
	2015	-
Rolf A W Tolle ⁸	2016	16,190
	2015	80,500
Catherine M Woods ⁶	2016	62,500
	2015	-

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

2 Christine LaSala was appointed to the board on 1 July 2016 and the figure in the table above represents her fees from this date.

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

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

5 John Sauerland was appointed to the board on 5 May 2016 and the figure in the table above represents his fees from this date.

6 For Padraic O'Connor, Vincent Sheridan and Catherine Woods, their non-executive director fee was based on €22,587 (2015: €94,000), €77,500 (2015: €76,000) and €77,500 (2015: €0) respectively and has been converted into sterling for this table at the average exchange rate of 1.24 (2015: the fee was converted into £68,613 and £55,474 respectively at the average exchange rate in 2015 of 1.37).

7 Robert Stuchbery was appointed to the board on 11 August 2016 and the figure in the table above represents his fees from this date including fees for membership of the subsidiary boards of BFL and the chairmanship of the BFL risk committee.

8 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.

The figures in the preceding table reflect the following:

- chairman fees were increased from £164,730 to £200,000 for 2016 following a review of sector and general market practice and taking into account the scope of the role;
- senior independent director additional fees were increased from £7,000 to £10,000; and
- other non-executive director fees were increased by 2%.

Directors' remuneration report *continued*

Annual remuneration report *continued*

Salary ▪

The committee reviews salaries annually taking into consideration any changes in role and responsibilities, development of the individual in the role and levels in comparable positions in similar financial service companies. It also considers the performance of the group and the individual as well as the average salary increase for employees across the whole group. Salary reviews take place in December of each year, with new salaries effective from 1 January.

For 2017, the average salary increase for executive directors was 2.0%, which was below the average salary increase across the group.

The base salaries for the executive directors in 2016 and 2017 are as set out below:

	2016 base salary £	2017 base salary £	Increase %
Martin L Bride	313,100	320,000	2.2%
Adrian P Cox	336,200	342,500	1.9%
D Andrew Horton	448,000	457,000	2.0%
Neil P Maidment	336,200	342,500	1.9%
Clive A Washbourn	336,200	342,500	1.9%

Benefits ▪

Benefits include private medical insurance for the director and his immediate family, income protection insurance, death in service benefit at four times annual salary, travel insurance, health-club membership, season ticket and the provision of either a company car or a monthly car allowance.

Annual bonus plans ▪

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

The framework for determining bonuses is as follows:

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

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

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

Recommended awards to individuals from the available pool are determined by taking into account performance based on each individual's contribution to the group, including a review of performance against individual objectives. For heads of the business divisions, divisional performance is also taken into account. The bonus is discretionary and, rather than adopting a prescriptive formulaic framework, the committee considers wider factors in its deliberations at the end of the year, for example quality of profit and risk considerations.

In determining awards, the committee will not necessarily award the enterprise bonus pool in aggregate (i.e. the sum of the bonus awards may be less than the enterprise bonus pool).

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

The approach to the calculation of bonuses is aligned to shareholders' interests and ensures that bonuses are affordable, while the ROE targets increase the performance gearing. The committee reviews the bonus pool framework each year to ensure it remains appropriate, taking into account the prevailing environment, interest rates and expected investment returns, headcount and any other relevant factors.

Performance out-turn for 2016

The process for determining 2016 bonuses is described below, including full details of the ROE targets underpinning our bonus approach along with the guideline levels which are used by the committee in its determination for each executive director.

- ROE for 2016 was 18% and the overall enterprise bonus pool (in which executive directors as well as other senior employees participate) was calculated based on this. At the beginning of the financial year, the risk-free return (RFR) was set at 1% taking into account the yield on US treasuries of two to five year maturities;
- the committee then considered the individual bonus award for the executive directors and other senior employees within the committee's remit. In determining the bonus award for each individual the committee took into account the individual's contribution including, where relevant, the performance of their division; and
- in considering individual awards in respect of executive directors for 2016, the committee had regard to the following broad framework:

ROE performance hurdles	Guideline/illustrative bonus award as a % of maximum	
RFR	0%	These percentages are indicative only and based on broad group results. Within the pool framework bonus out-turns may be higher or lower taking into account divisional, strategic and personal performance.
RFR +3%	12.5%	
RFR +10%	37.5%	
RFR +17.5%	75%	
RFR +25%	100%	

The framework is used by the committee as a broad guideline rather than being formulaic and applies to a broader group of executives than board directors. A key principle of the process is that the committee exercises its judgement in determining individual awards taking into account the individual's contribution and performance. In particular, there may be a diverse spread of returns earned across the various divisions within the business which will be reflected in bonus out-turns achieved. The table therefore provides full retrospective disclosure of all the group financial targets that determine the annual bonuses.

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

- the delivery of profit after tax of \$251.0m, and the return of \$132.9m to shareholders by way of dividends;
- delivery of growth in our gross premiums written of 6% in a market where premium rates were under increasing pressures;
- continued strong growth of the US business, with gross premiums written growing 20% in 2016;
- continued focus on attracting new talent including the strengthening of our environmental business in the US and recruitment of team to develop our international specialty lines business;
- continued expansion of new partnerships; and
- successful refinancing including raising \$250m of debt giving the group capital to grow in the future.

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

Martin L Bride	<ul style="list-style-type: none"> • Management of the European strategic initiative • Successfully managed and implemented the re-domiciliation of the group from Ireland to the UK • Investment return of 2% in a very uncertain market • Active capital management including raising \$250m of debt
Adrian P Cox	<ul style="list-style-type: none"> • Strong growth in the core specialty lines book in respect of both income and profit • Continued growth of cyber including partnerships with other insurance companies • Successful realisation of opportunities in market segments such as environmental liability and healthcare liability
D Andrew Horton	<ul style="list-style-type: none"> • Delivery of sustained strong performance and dividends to shareholders of \$132.9m in a very competitive market • Premium growth of 20% in our US business • Good organic growth, attracting people to the organisation and maintaining a low turnover particularly in underwriting and claims • Robust risk management in the face of a highly volatile and competitive market
Neil P Maidment	<ul style="list-style-type: none"> • Achievement of strong underwriting result with a combined ratio of 89%, despite strong competitive markets continuing in 2016 • Growth of 6% in overall portfolio in environment of falling rates in many classes • Active role in achievements in innovation and product development • Acting CEO for two months covering the CEO's sabbatical
Clive A Washbourn	<ul style="list-style-type: none"> • Achievement of a combined ratio of 90% despite further steep decline in rates • Acquisition and integration of Leviathan, an MGA focussing on underwater vehicles • Growth in marine liability and UK cargo

Directors' remuneration report *continued*

Annual remuneration report *continued*

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

The resultant bonuses were as follows:

	Bonus (delivered as a mix of cash and deferred shares)	% of salary
Martin L Bride	£800,000	256%
Adrian P Cox	£1,100,000	327%
D Andrew Horton	£1,250,000	279%
Neil P Maidment	£980,000	291%
Clive A Washbourn	£700,000	208%

The following graph and table sets out the out-turn for 2016 against performance and illustrates the way in which bonuses over time reflect profit and ROE performance.

Average executive director bonus (% of salary)



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

Bonus deferral

A portion of the bonus will generally be deferred into shares for three years. The deferral will range from 0% to 37.5% dependent on the level of bonus. Deferred shares are generally subject to continued employment.

A portion of bonus may also be deferred under the investment in underwriting plan, and this capital can be lost if underwriting performance is poor. No such deferral was made in 2016 (see investment in underwriting on page 111 for further details).

For 2016, the portion of each director's annual bonus deferred into shares was as follows:

	Deferred into shares
Martin L Bride	£240,000
Adrian P Cox	£330,000
D Andrew Horton	£375,000
Neil P Maidment	£294,000
Clive A Washbourn	£210,000

Long term incentive plan (LTIP) ▪

Under the LTIP, executive directors, senior management and selected underwriters receive awards of shares subject to the achievement of stretching performance conditions measured over three and five years.

The key features of the plan are as follows:

- 50% of the award is measured after three years and 50% after five years;
- awards are in the form of nil-cost options with a ten-year term; and
- participants are expected to build a shareholding in Beazley equal to their annual award level. For example the CEO has a shareholding requirement of 200% of salary. Participants have three years to build this shareholding. LTIP awards may be forfeited if shareholding requirements are not met.

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

Vesting of awards is based on growth in net asset value per share (NAVps), one of Beazley's key performance indicators. The committee considers the LTIP NAVps growth targets to be very stretching, particularly taking into account that growth must be over a sustained three and five year period.

Growth in NAVps is calculated taking into account any payment of dividends by the company. In line with our reporting to shareholders, NAVps is denominated in US dollars.

LTIP awards vesting in respect of the year ▪

The LTIP awards shown in the single total figure of remuneration for 2016 include:

- the second tranche of awards granted on 30 March 2012. These are due to vest on 30 March 2017, subject to the achievement of a NAVps growth performance condition over the five years ended 31 December 2016; and
- the first tranche of awards granted on 11 February 2014. These are due to vest on 13 February 2017, subject to the achievement of a NAVps growth performance condition over the three years ended 31 December 2016.

The results were independently calculated by Deloitte LLP.

The NAVps performance conditions for both these awards are as follows:

NAVps performance	% of award vesting
NAVps growth < average risk-free rate +7.5% p.a.	0%
NAVps growth = average risk-free rate +7.5% p.a.	10%
NAVps growth = average risk-free rate +10% p.a.	25%
NAVps growth = average risk-free rate +15% p.a.	100%
Straight-line vesting between points	

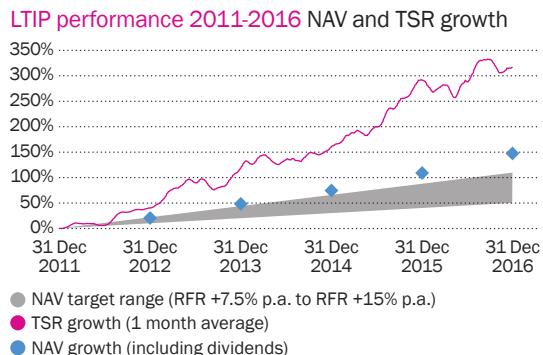
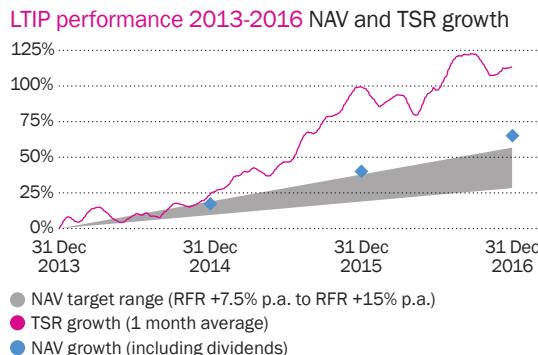
Actual NAVps growth achieved in the five years to 31 December 2016 was 19.85% p.a. which resulted in 100% of the second tranche of the 2012 awards vesting.

Actual NAVps growth achieved in the three years to 31 December 2016 was 18.19% p.a. which resulted in 100% of the first tranche of the 2014 awards vesting.

Directors' remuneration report *continued*

Annual remuneration report *continued*

The graphs below illustrate Beazley's NAVps and TSR performance over the performance periods, where the shaded areas represent the LTIP NAVps growth target range for awards to vest.



Awards for 2016 ▶

During 2016 LTIP awards with a face value equal to 150% of salary were granted to executive directors (200% for CEO), as shown in the table below.

Awards for 2017

It is intended that the performance conditions for the LTIP awards for 2017 will be in line with those granted in 2016 (see below). LTIP awards will be 200% of salary for the CEO and 150% for other executive directors, other than for the head of speciality lines. For the head of speciality lines an LTIP award of 175% of salary will be granted in recognition of his contribution to the group. It is expected that his award level for the following year will revert to 150%.

Share awards granted during the year ▶

Individual	Type of interest	Basis on which award made	Number of shares awarded	Face value of shares (£) ¹	% Vesting at threshold	Performance period end	
						Three years (50%)	Five years (50%)
LTIP							
Martin L Bride	Nil cost option (LTIP)	150% of salary	131,249	469,650	10%	31/12/2018	31/12/2020
Adrian P Cox	Nil cost option (LTIP)	150% of salary	140,932	504,300	10%	31/12/2018	31/12/2020
D Andrew Horton	Nil cost option (LTIP)	200% of salary	250,398	896,000	10%	31/12/2018	31/12/2020
Neil P Maidment	Nil cost option (LTIP)	150% of salary	140,932	504,300	10%	31/12/2018	31/12/2020
Clive A Washbourn	Nil cost option (LTIP)	150% of salary	140,932	504,300	10%	31/12/2018	31/12/2020
Deferred bonus (in respect of 2015 bonus)							
Martin L Bride	Deferred shares		67,070	240,000	-	-	-
Adrian P Cox	Deferred shares	N/A	83,838	300,000	-	-	-
D Andrew Horton	Deferred shares		108,990	390,000	-	-	-
Neil P Maidment	Deferred shares		83,838	300,000	-	-	-
Clive A Washbourn	Deferred shares		83,838	300,000	-	-	-

1 The face value of shares awarded was calculated using the three day average share price prior to grant, which was 357.83p.

The performance condition for LTIP awards was as follows:

NAVps performance	% of award vesting
NAVps growth < risk-free rate +7.5% p.a.	0%
NAVps growth = risk-free rate +7.5% p.a.	10%
NAVps growth = risk-free rate +10% p.a.	25%
NAVps growth = risk-free rate +15% p.a.	100%
Straight-line vesting between points	

Dilution

The share plans permit 10% of the company's issued share capital to be issued pursuant to awards under the LTIP, SAYE and option plan in a ten-year period.

The company adheres to a dilution limit of 5% in a ten year period for executive schemes.

Investment in underwriting ▪

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

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

To date over 240 employees of the group have committed to put at risk £11.8m of bonuses to the underwriting results of syndicate 623. Of the total at risk, £11.1m has already been deferred from the bonuses awarded.

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

	Total bonuses deferred £	2015 year of account underwriting capacity £	2016 year of account underwriting capacity £	2017 year of account underwriting capacity £
Martin L Bride	191,600	400,000	400,000	400,000
Adrian P Cox	191,600	400,000	400,000	400,000
D Andrew Horton	191,600	400,000	400,000	400,000
Neil P Maidment	191,600	400,000	400,000	400,000
Clive A Washbourn	191,600	400,000	400,000	400,000

The executive directors are currently fully funded in the plan and no further bonus deferral was made in 2016.

Malus and clawback

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

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

- material misstatement of results;
- gross misconduct; or
- factual error in calculating vesting or award.

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

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

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

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

Directors' remuneration report *continued*

Annual remuneration report *continued*

Pensions ▾

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

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

Prior to 31 March 2006 the company provided pension entitlements to directors that are defined benefit in nature, based on its legacy policy under the Beazley Furlonge Limited Final Salary Pension Scheme. Future service accruals ceased on 31 March 2006. Only base salary is pensionable, subject to an earnings cap. The normal retirement age for pension calculation purposes is 60 years. A spouse's pension is the equivalent of two-thirds of the member's pension (before any commutation) payable on the member's death after retirement.

Details of the defined benefit entitlements of those who served as directors during the year are as follows:

	Accrued benefit at 31 Dec 2016 £	Increase in accrued benefits excluding inflation (A) £	Increase in accrued benefits including inflation £	Transfer value of (A) less directors' contributions £	Transfer value of accrued benefits at 31 Dec 2016 £	Increase in transfer value less directors' contributions £	Normal retirement date
Adrian P Cox	12,583	–	290	–	434,838	156,512	12 Mar 2031
Neil P Maidment	42,955	–	990	–	1,467,377	434,747	21 Oct 2022
Clive A Washbourn	19,091	–	440	–	656,942	183,980	26 Oct 2020

Under the Beazley Furlonge Limited Final Salary Pension Scheme, on early retirement the director receives a pension which is reduced to reflect early payment in accordance with the rules of the scheme.

No other pension provisions are made.

Service contract and payments for loss of office

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

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

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

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

External appointments

Andrew Horton has been a non-executive director of Man Group plc since 3 August 2013, and he retains the fees in respect of this appointment. Fees for the year were £80,000.

Neil Maidment was appointed to the Council of Lloyd's on 1 February 2016, and he retains the fees in respect of this appointment. Fees for the year were £35,292.

Non-executive directors' fees

The fees of non-executive directors are determined by the board. When setting fee levels consideration is given to levels in comparable companies for comparable services in addition to the time commitment and responsibilities of the individual non-executive director. No non-executive director is involved in the determination of their fees. The board reviews fees annually.

No non-executive director participates in the group's incentive arrangements or pension plan.

Non-executive directors are appointed for fixed terms, normally for three years, and may be reappointed for future terms. Non-executive directors are typically appointed through a selection process that assesses whether the candidate brings the desired competencies and skills to the group. The board has identified several key competencies for non-executive directors to complement the existing skill-set of the executive directors. These competencies may include:

- insurance sector expertise;
- asset management skills;
- public company and corporate governance experience;
- risk management skills;
- finance skills; and
- IT and operations skills.

Beazley operates across Lloyd's and the US markets through a variety of legal entities and structures. Non-executive directors, in addition to the plc board, typically sit on either one of our key subsidiary boards, namely Beazley Furlonge Ltd, our managing agency at Lloyd's, or Beazley Re dac, our reinsurance company. As a result of developments in regulation, the degree of autonomy in the operation of each board has increased in recent years, with a consequent increase in time commitment and scope of the role.

Non-executive directors' service contracts ▶

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

	Commencement date of appointment	Expires
George P Blunden	1 Jan 2010	AGM 2019
Angela D Crawford-Ingle	27 Mar 2013	AGM 2019
Dennis Holt	21 Jul 2011	AGM 2018
Christine LaSala	1 Jul 2016	AGM 2020
Sir J Andrew Likierman	25 Mar 2015	AGM 2018
John P Sauerland	5 May 2016	AGM 2020
Robert A Stuchbery	11 Aug 2016	AGM 2020
Catherine M Woods	1 Jan 2016	AGM 2019

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

Directors' remuneration report *continued*

Annual remuneration report *continued*

Approach to remuneration for employees other than directors

The committee also has oversight of remuneration arrangements elsewhere in the group. The following tables set out the additional incentive arrangements for other staff within the organisation.

Other incentive arrangements at Beazley (not applicable to executive directors):

Element	Objective	Summary
Profit related pay plan	To align underwriters' reward with the profitability of their account.	Profit on the relevant underwriting account as measured at three years and later.
Support bonus plan	To align staff bonuses with individual performance and achievement of objectives.	Participation is limited to staff members not on the executive or in receipt of profit related pay bonus. The support bonus pool may be enhanced by a contribution from the enterprise bonus pool.
Retention shares	To retain key staff.	Used in certain circumstances. Full vesting dependent on continued employment over six years.

Underwriter bonus plan – profit related pay plan

Underwriters participate in a profit related pay plan based upon the profitability of their underwriting account. Executive directors do not participate in this plan.

The objective of the plan is to align the interests of the group and the individual through aligning an underwriter's reward to the long term profitability of their portfolio. Underwriters who have significant influence over a portfolio may be offered awards under the plan. There is no automatic eligibility. Profit related pay is awarded irrespective of the results of the group. Awards are capped.

This bonus is awarded as cash and is based upon a fixed proportion of profit achieved on the relevant underwriting account as measured at three years and later. Any movements in prior years are reflected in future year payments as the account develops after three years. For long-tail accounts the class is still relatively immature at the three-year stage and therefore payments will be modest. Underwriters may receive further payouts in years four, five and six (and even later) as the account matures. Therefore each year they could be receiving payouts in relation to multiple underwriting years.

If the account deteriorates as it develops any payouts are 'clawed back' through reductions in future profit related pay bonuses. From 2012 onwards any new profit related pay plans may be at risk of forfeiture or reduction if, in the opinion of the remuneration committee, there has been a serious regulatory breach by the underwriter concerned, including in relation to the group's policy on conduct risk.

The fixed proportion is calculated based upon profit targets which are set through the business planning process and reviewed by a committee formed of executive committee members and functional specialists including the group actuary. Underwriting risk is taken into account when setting profit targets.

In addition to profit related pay, underwriters are also eligible to receive a discretionary bonus, based upon performance, from the enterprise bonus pool. A proportion of this bonus may be paid in deferred shares, which vest after three years subject to continued employment.

Support bonus plan

Employees who are not members of the executive and who do not participate in the underwriters' profit related pay plan participate in a discretionary bonus pool. This pool provides employees with a discretionary award of an annual performance bonus that reflects overall individual performance including meeting annual objectives.

A proportion of this award may also be dependent on the group's ROE and therefore allocated from the enterprise bonus pool. A proportion of this bonus may be paid in deferred shares, which vest after three years subject to continued employment.

UK SAYE

The company operates an HMRC-approved SAYE scheme for the benefit of UK-based employees. The scheme offers a three-year savings contract period with options being offered at a 20% discount to the share price on grant. Monthly contributions are made through a payroll deduction on behalf of participating employees. The UK SAYE scheme has been extended to eligible employees in Singapore and Ireland. The Irish SAYE scheme has been approved by the Irish Revenue.

US SAYE

The Beazley plc savings-related share option plan for US employees permits all eligible US-based employees to purchase shares of Beazley plc at a discount of up to 15% to the shares' fair market value. Participants may exercise options after a two-year period. The plan is compliant with the terms of Section 423 of the US Internal Revenue Code and is similar to the SAYE scheme operated for UK-based Beazley employees.

Retention shares

The retention plan may be used for recruitment or retention purposes. Any awards vest at 25% per annum over years three to six. Policy going forward is that existing executive directors do not participate in this plan and no executive directors have subsisting legacy awards outstanding.

CEO pay increase in relation to all employees

	Percentage change in remuneration from 31 Dec 2015 to 31 Dec 2016		
	Percentage change in base salary %	Percentage change in benefits %	Percentage change in annual bonus %
CEO	1.0%	-9.1%	-3.8%
All employees	3.3%	0.3%	-3.0%

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

Statement of directors' shareholding and share interests ▶

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

The table below shows the total number of directors' interests in shares as at 31 December 2016 or date of cessation as a director.

Name	Number of shares owned (including by connected persons)	Unvested awards			Vested awards	
		Conditional shares not subject to performance conditions (deferred shares and retention shares)	Nil cost options subject to performance conditions (LTIP and MSIP awards)	Options over shares subject to savings contracts (SAYE)	Unexercised nil cost options	Options exercised in the year
George P Blunden	50,000	-	-	-	-	-
Martin L Bride	316,711	245,980	707,907	4,354	-	347,768
Adrian P Cox	752,705	295,118	749,406	6,742	-	379,186
Dennis Holt	50,000	-	-	-	-	-
D Andrew Horton	1,708,612	432,625	1,375,520	8,154	-	694,580
Angela D Crawford-Ingle	34,207	-	-	-	-	-
Christine LaSala	-	-	-	-	-	-
Sir J Andrew Likierman	10,000	-	-	-	-	-
Neil P Maidment	2,912,834	331,731	774,039	7,725	-	429,114
Padraic J O'Connor	30,000	-	-	-	-	-
John P Sauerland	30,000	-	-	-	-	-
Vincent J Sheridan	20,000	-	-	-	-	-
Robert A Stuchbery	53,000	-	-	-	-	-
Rolf A W Tolle	60,000	-	-	-	-	-
Clive A Washbourn	461,346	331,731	1,274,039	4,354	-	967,878
Catherine M Woods	30,000	-	-	-	-	-

No changes in the interests of directors have occurred between 31 December 2016 and 2 February 2017.

Directors' remuneration report *continued*

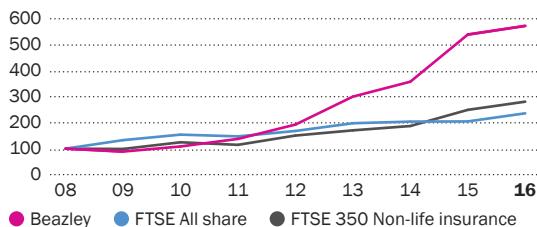
Annual remuneration report *continued*

CEO pay versus performance

The following graph sets out Beazley's eight year total shareholder return performance to 31 December 2016, compared with the FTSE All Share and FTSE 350 Non-Life Insurance indices. These indices were chosen as comparators as they comprise companies listed on the same exchange and, in the case of the Non-Life Insurance index, the same sector as Beazley.

Total shareholder return performance

Value of £100 invested on 31 December 2008



Historical CEO payouts

Year	CEO single figure of total remuneration	Annual variable award (% of maximum opportunity) ¹	Long term incentives vesting (% of maximum opportunity)
2009	£1,458,131	71%	50%
2010	£1,525,102	63%	50%
2011	£1,008,669	14%	99%
2012	£2,339,573	71%	84%
2013	£2,922,392	93%	100%
2014	£3,745,989	74%	100%
2015	£3,711,647	73%	100%
2016	£3,497,643	70%	100%

1. Note: An individual overall cap of 400% of salary was introduced from 2013. Prior to this date and in line with industry practice, there was no formal limit on individual bonuses. To enable comparison, the above graphs assume that a maximum annual variable award of 400% of salary also applied for years prior to 2013.

Relative importance of spend on pay

The following table shows the relative spend on pay compared to distributions to shareholders:

	Overall expenditure on pay	Shareholder distributions (dividends in respect of the year)
2015	\$208.7m	\$219.5m
2016	\$224.3m	\$132.9m

Remuneration committee

The committee consists of only non-executive directors and during the year the members were Padraig O'Connor (chairman, resigned 24 March 2016), Sir Andrew Likierman (chairman, appointed 24 March 2016), George Blunden and John Sauerland (appointed 5 May 2016). The board views each of these directors as independent. The committee met five times during the year.

The committee considers the individual remuneration packages of the chief executive, executive directors and executive committee members. It also has oversight of the salary and bonus awards of individuals outside the executive committee who either directly report to executive committee members or who have basic salaries over £200,000, as well as the overall bonus pool and total incentives paid by the group. The terms of reference of the committee are available on the company's website.

During the year the committee was advised by remuneration consultants from Deloitte LLP. Total fees in relation to executive remuneration consulting were £111,000. Deloitte LLP also provided advice in relation to tax, assurance support and share schemes.

Deloitte LLP was appointed by the committee. Deloitte LLP is a member of the Remuneration Consultants' Group and as such voluntarily operates under a code of conduct in relation to executive remuneration consulting in the UK. The committee agrees each year the protocols under which Deloitte LLP provides advice to support independence. The committee is satisfied that the advice received from Deloitte LLP has been objective and independent.

Input was also received by the committee during the year from the chief executive, head of talent management, company secretary and chief risk officer. However, no individual plays a part in the determination of their own remuneration.

Statement of shareholder voting

The voting outcomes of the 2015 annual remuneration report and 2013 remuneration policy were as follows:

	Votes for	% for	Votes against	% against	Total votes cast	Votes discretionary	Votes withheld (abstentions)
2015 annual remuneration report	386,981,041	96.6%	13,611,016	3.4%	400,615,676	23,619	4,792,797
2013 remuneration policy	404,008,553	98.2%	7,297,769	1.8%	411,334,645	28,323	24,650

Directors' share plan interests ▪

Details of share plan interests of those directors who served during the period are as follows:

	Outstanding options at 1 Jan 2016	Options granted	Options exercised	Lapsed unvested	Outstanding options at 31 Dec 2016
Martin L Bride					
Deferred bonus:	267,059	67,070	88,149	-	245,980
LTIP (see notes):	830,966	131,249	254,308	-	707,907
SAYE:	9,665	-	5,311	-	4,354
Adrian P Cox					
Deferred bonus:	328,812	83,838	117,532	-	295,118
LTIP (see notes):	870,128	140,932	261,654	-	749,406
SAYE:	-	6,742	-	-	6,742
D Andrew Horton					
Deferred bonus:	499,933	108,990	176,298	-	432,625
LTIP (see notes):	1,643,404	250,398	518,282	-	1,375,520
SAYE:	8,154	-	-	-	8,154
Neil P Maidment					
Deferred bonus:	380,116	83,838	132,223	-	331,731
LTIP (see notes):	924,687	140,932	291,580	-	774,039
SAYE:	9,665	3,371	5,311	-	7,725
Clive A Washbourn					
Deferred bonus:	424,191	83,838	176,298	-	331,731
LTIP (see notes):	924,687	140,932	291,580	-	774,039
MSIP:	1,000,000	-	500,000	-	500,000
SAYE:	4,354	-	-	-	4,354

Directors' remuneration report *continued*

Annual remuneration report *continued*

Notes to share plan interests table

Deferred bonus:	Deferred bonus awards are made in the form of conditional shares that normally vest three years after the date of award.
LTIP 2011 – 3/5 year	Awards were made on 14 February 2011 at a mid-market share price of 132.7p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+10% p.a. equates to 0% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points. Awards expire in February 2021.
LTIP 2012 – 3/5 year	Awards were made on 30 March 2012 at a mid-market share price of 143.43p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+7.5% p.a. equates to 0% vesting, NAVps = RFR+7.5% p.a. equates to 10% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points. Awards expire in March 2022.
LTIP 2013 – 3/5 year	Awards were made on 13 February 2013 at a mid-market share price of 204.2p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+7.5% p.a. equates to 0% vesting, NAVps = RFR+7.5% p.a. equates to 10% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points. Awards expire in February 2023.
MSIP 3/5 year	MSIP awards were made on 5 April 2013 to C A Washbourn. Details of the plan are set out in the Policy Report, under legacy matters in the remuneration policy table.
LTIP 2014 – 3/5 year	Awards were made on 11 February 2014 at a mid-market share price of 273.13p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+7.5% p.a. equates to 0% vesting, NAVps = RFR+7.5% p.a. equates to 10% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points. Awards expire in February 2024.
LTIP 2015 – 3/5 year	Awards were made on 10 February 2015 at a mid-market share price of 295.73p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+7.5% p.a. equates to 0% vesting, NAVps = RFR+7.5% p.a. equates to 10% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points. Awards expire in February 2025.
LTIP 2016 – 3/5 year	Awards were made on 9 February 2016 at a mid-market share price of 354.1p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+7.5% p.a. equates to 0% vesting, NAVps = RFR+7.5% p.a. equates to 10% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points. Awards expire in February 2026.

Share prices

The market price of Beazley ordinary shares at 31 December 2016 was 385.8p and the range during the year was 320.0p to 405.1p.

Annual general meeting

At the forthcoming annual general meeting to be held on 24 March 2017, a binding resolution will be proposed to approve the directors' remuneration policy and an advisory resolution will be proposed to approve this annual remuneration report.

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

By order of the board

J A Likierman
Chairman of the remuneration committee

2 February 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 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 Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

We confirm that to the best of our knowledge:

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

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

D Holt
Chairman

M L Bride
Finance director

2 February 2017

Independent auditor's report to the members of Beazley plc

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Beazley plc ('Beazley') for the year ended 31 December 2016 set out on pages 127 to 196.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

2. Overview

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows (unchanged from 2015):

Overview		
Materiality: group financial statements	\$20m (2015: \$20m) 1% (2015: 1%) of gross premiums written as a whole	
Coverage	99% (2015: 99%) of group profit before tax	
Risks of material misstatement vs 2015		
Recurring risks	Valuation of insurance liabilities Recoverability of insurance and reinsurance debtors Existence and valuation of alternative investments Valuation of premium estimates	◀▶ ◀▶ ◀▶ ◀▶

3. Our assessment of risks of material misstatement

3.1 Valuation of insurance liabilities (\$4,657.7m gross, \$3,575.6m net; 2015: \$4,586.7m gross, \$3,487.0m net)

Refer to page 83 (audit committee report), pages 134 to 145 (accounting policy) and pages 127 to 196 (financial disclosures).

Risk vs 2015: ◀►

The risk	Our procedures to address this risk
<p>The valuation of insurance liabilities remains the most significant inherent risk in our audit.</p> <p>Key issues which increase the level of judgement required and subjectivity inherent in the estimation of insurance liabilities:</p> <ul style="list-style-type: none">• The assumptions applied for consistent reserving across underwriting years and lines of business, particularly in setting the estimates of both the gross and net liabilities that have been incurred but not reported (IBNR) and assessing the evidence for the release of provisions for claims set aside in prior years.• The level of subjectivity in the estimated impact of uncertain or unknown future events.• Recent growth in new/innovative products with limited availability of loss experience increases the need to focus on evolving reserving practice, especially in the area of cyber risk.• Soft market conditions within the insurance industry increase the importance of controls over pricing and underwriting discipline, both of which require consideration in assessing the adequacy of insurance liabilities for risks written at the balance sheet date.• The diversity of risks written by Beazley and therefore the granular level of reserving that occurs at a class/line of business level.• The high level of regulatory focus on insurance liabilities (especially the margin above the best estimate).	<p>Our approach included both controls and substantive testing, with more emphasis given to substantive testing.</p> <p><i>Controls:</i></p> <ul style="list-style-type: none">• Evaluated and tested the design and operating effectiveness of key controls around the reserving process, including IT controls over the reserving process.• Inspected papers and minutes to evidence appropriate challenge from the Reserving Committee• Assessed whether the group's actuarial team retain the appropriate level of competence, capability, capacity and objectivity.• Inspected papers from peer review meetings and met with key divisional underwriters to discuss the performance and changes to their portfolios, rating strength and claims experience and outwards reinsurance cover. <p><i>Substantive:</i></p> <ul style="list-style-type: none">• Performed benchmarking of Beazley's ultimate loss ratios, initial expected loss ratio, premium rate change, 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.• Assessed the reserving assumptions and methodology (on a gross basis and net of outwards reinsurance) for reasonableness and consistency, including inspecting the group's margin paper.• Used 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 actuarial and syndicate estimates, to challenge the estimates made taking into account our wider market knowledge and expertise.• Inspected the earning assumptions used to allocate the underwriting year projections to earned and unearned positions.• Challenged the quality of Beazley's historical reserving estimates by monitoring progression of loss ratios against expectations.• Inspected the process used to monitor movements in rates and deviations to pricing assumptions and forecasts.• Tested the assumptions used to allow for reinsurance recoveries.• Checked the completeness, existence, and accuracy of the data used within the reserving process by reconciling the actuarial source data to the financial systems.

Independent auditor's report *continued*

3.2 Recoverability of insurance and reinsurance debtors (reinsurance assets – \$1,082.1m; 2015: \$1,099.7m, insurance receivables – \$794.7m; 2015: \$732.7m)

Refer to page 83 (audit committee report), pages 134 to 145 (accounting policy) and pages 127 to 196 (financial disclosures).

Risk vs 2015: ◀►

The risk

Insurance debtors and reinsurance debtors comprise a significant amount of the assets held by Beazley.

Insurance – key issues:

- The ability to identify, monitor and age insurance debtors relies on the timely availability of reliable data.
- Settlements flow through the system directly as well as via Lloyd's and Xchanging.

Reinsurance – key issues:

- Reinsurers' exposure to underpriced casualty business may lead to uncertainty in the financial strength of certain reinsurers in the market and could point to an increasing risk of counterparty default.
- Major catastrophes could impair the group's ability to recover incurred losses from its reinsurers, depending on the financial strength of the counterparties, which would then impact the recoverability of reinsurance assets.
- Reinsurance contracts are often complex and tailored. Profit commissions and risk transfer need consideration. The calculations of recoveries need to be undertaken by experienced staff and be subjected to robust review.
- In recent years, Beazley has adopted a consistent approach in determining the bad debt provisions to be booked in the financial statements. However, judgement is required in ensuring this approach remains relevant and that any aged balances are being given appropriate attention.

Our procedures to address this risk

Our approach comprised both controls and substantive testing.

Controls:

- Evaluated and tested the data flows and the design and operating effectiveness of key controls in place for:
 - The credit control procedures, which included the ageing of debtors and matching of cash.
 - Reconciliations of settlement messages from Lloyd's.
 - Reinsurance exposures and the monitoring of bad debts, relating to both insurance and reinsurance.
- Inspected minutes of the Reinsurance Security Committee for evidence of assignment of approved exposures and risk ratings for reinsurers.

Substantive:

- Performed procedures on the debtor settlement reconciliations including reperformance of the group's prepared reconciliation.
- Considered Beazley's own analysis of aged debt in light of the ageing profile of the debt and challenged the assumptions made in conducting this analysis.
- Performed testing over the ageing of debtors.
- Performed an analysis over the future premiums and associated debtor balances in order to assess the accuracy of the premiums and the recoverability of the debtors.
- Considered potential indications of non-recovery of reinsurance assets, in light of the credit standing of the counterparty and age of the debt.
- Considered the adequacy of the provisioning policy in place for Beazley by assessing and investigating any material movements in policy and the overall percentage of bad debt.
- Recalculated the profit commission of reinsurance policies on a sample basis.

3.3 Existence and valuation of investments (financial assets at fair value – \$4,195.4m, 2015: \$3,842.2m; including hedge funds – \$317.1m, 2015: \$329m; illiquid credit assets – \$132.4m, 2015: \$92.3m; equity linked funds – \$116.3m, 2015: 147.5m)
Refer to page 83 (audit committee report), pages 134 to 145 (accounting policy) and pages 127 to 196 (financial disclosures).

Risk vs 2015: ◀►

The risk

Beazley holds and manages a significant amount of investments to meet its obligations under insurance contracts and for shareholder investment purposes.

Key issues which increase the level of judgement required and subjectivity inherent in the valuation of investments include:

- Use is made of third party pricing sources in the valuation of investments. The reconciliation process between the third party data and the general ledger is of high importance, as is testing the accuracy of these price estimates in investment valuation.
- Beazley has increased its allocation to illiquid credit assets in recent years, which could be subject to greater volatility in pricing.
- Beazley holds investments in hedge funds which are valued using underlying fund net asset values (NAVs) one month in arrears, making the valuation susceptible to material movements during the one month lag.
- The investments are subject to variations in value between the investment early close date and the period end date. These variations where applicable may require adjustments to the investment carrying values at the period end.
- Classification within the fair value hierarchy for the fair value of investments continues to require careful consideration in terms of the inherent judgement involved.

Our procedures to address this risk

Our approach comprised both controls and substantive testing. There was greater emphasis given to substantive testing.

Controls

- Tested the design and operating effectiveness of controls for monitoring performance and the data integrity in the investment records.
- We reconciled the figures booked in the general ledger to information provided by the external custodian and enquired whether reconciling differences were identified and actioned.
- Tested the design and operating effectiveness of the controls associated with the existence and valuation of the hedge funds and illiquid credit assets.

Substantive

- Agreed the completeness, existence and valuation of the listed investment portfolio to custodian statements and our own revaluation of the portfolio.
- For illiquid credit assets where active prices were not readily available we performed a reconciliation to the latest available third party fund manager valuation reports.
- Inspected the hedge fund managers' valuation reports and considered the historical accuracy of these pricing estimates and discussed any potential valuation issues with Beazley.
- Assessed the extent of any movements in the value of hedge funds during the lag between the valuation and period end dates to assess whether there were any material movements that required adjustment.
- Assessed the quantum of change in the valuation of investments between the investment early close date and the period end date to consider whether there was a material movement post the early close date that required adjustment.
- Critically assessed the results of the allocation of assets into the fair value hierarchies, placing specific emphasis on the higher credit risk assets, hedge funds and illiquid credit assets.

Independent auditor's report *continued*

3.4 Valuation of premium estimates \$2,195.6m (2015: \$2,080.9m)

Refer to page 83 (audit committee report), pages 134 to 145 (accounting policy) and pages 127 to 196 (financial disclosures).

Risk vs 2015: ◀►

The risk

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.

Key issues which increase the level of judgement required and subjectivity inherent in the valuation of premium estimates include:

- There is judgement involved in the estimation of ultimate premiums which forms part of the reserving process.
- Reinstatement premiums and adjustments to ultimate premiums constitute estimates which can be significant.
- Some judgement also underpins the model adopted to recognise inward premiums written and earned through binding authority contracts – the 'binder adjustment'. A large proportion of premium is written through the group syndicates via binders. It is therefore important that this methodology is appropriate when applied to inwards business and consistently applied period on period.
- There is an increased risk of premium estimates being misstated as a result of the early close process which requires Beazley to estimate the premiums relating to the month of December and where necessary make adjustments at the period end.

Our procedures to address this risk

Our testing in this area was predominantly substantive in nature.

Controls:

- We have tested design and operating effectiveness of the controls in place around the setting and challenging of premium estimates booked, with a specific focus on the peer review process within the underwriting department.

Substantive:

- Evaluated the individually material adjustments by leveraging our actuarial testing over the reserving process.
- Continued to challenge and critically assess premium recognition relating to binders through comparison of estimates and actuals for prior years.
- We have inspected the binder adjustment calculation and agreed that the methodology remains consistent and appropriate in the context of the timing of business written throughout the year.
- Performed a more in-depth analysis over data flows, with a particular focus on the classes of business where there has been a recent history of sizeable premium adjustments.
- Recalculated, on a sample basis, the earning of premium and investigated any changes to earnings patterns.
- Assessed the extent of any movements in the value of premium estimates post cut-off versus the projections recorded at the early close date to consider whether there were any material movements that required adjustment.
- Critically assessed the group's analysis of the historical accuracy of the premium estimates by comparing prior year estimates to premium received.

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

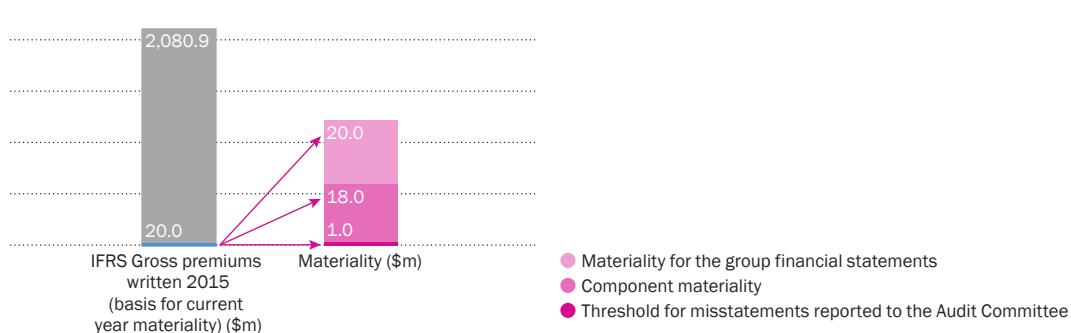
4. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at \$20m (31 December 2015: \$20m), determined with reference to a benchmark of 2015 group gross premiums written (of which it represents 1%; 31 December 2015: 1%). In addition, we applied materiality of \$10m (31 December 2015: \$10m) for balances other than the insurance and reinsurance technical balances and investments, for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could be reasonably expected to influence the company's members' assessment of the financial performance of the group.

Audit work to support this opinion is undertaken primarily by an audit team based at Beazley's head office in London. Of the group's reporting components, we subjected Beazley Holdings Inc, Beazley Services USA and Beazley Insurance Company Inc. to specified risk-focused audit procedures. These entities were not individually financially significant enough to require an audit for group reporting purposes, but did present specific individual risks that needed to be addressed and reported to the group and component auditor. The group audit team instructed component teams as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The group audit team also determined the component's materiality. For components outside the scope of our group audit we performed analytical procedures at the aggregated group level. The group audit team approved component materiality, which was set at \$18m (31 December 2015: \$20m).

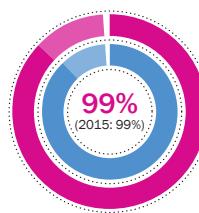
We reported to the audit and risk committee all corrected and uncorrected misstatements we identified through our audit with an individual value in excess of \$1m (\$0.5m for non-technical) (31 December 2015: \$1m (\$0.5m for non-technical)) in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

In regards to the Beazley Insurance Company Inc. component team the interaction with the Group team included calls along with review of the audit work performed.



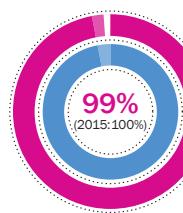
The audit work performed by the group and component auditor covered 99% of group revenue (2015: 100%), 99% of group profit before tax (2015: 99%), 97% of group total assets (2015: 97%) and 99% of group total liabilities (2015: 100%).

Group revenue



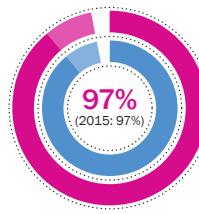
Full scope for group audit purposes 2016	87%
Specified risk-focused audit procedures 2016	12%
Full scope for group audit purposes 2015	88%
Specified risk-focused audit procedures 2015	11%
Residual components	0%

Group profits before tax



Full scope for group audit purposes 2016	97%
Specified risk-focused audit procedures 2016	2%
Full scope for group audit purposes 2015	97%
Specified risk-focused audit procedures 2015	3%
Residual components	0%

Group total assets



Full scope for group audit purposes 2016	89%
Specified risk-focused audit procedures 2016	8%
Full scope for group audit purposes 2015	89%
Specified risk-focused audit procedures 2015	8%
Residual components	0%

Group total liabilities



Full scope for group audit purposes 2016	86%
Specified risk-focused audit procedures 2016	13%
Full scope for group audit purposes 2015	90%
Specified risk-focused audit procedures 2015	10%
Residual components	0%

Independent auditor's report *continued*

5. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the disclosures of principal risks

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

- the directors' statement of viability on pages 55 to 57 concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the 3 years to 2019; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

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

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

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy; or
- the statement of corporate governance does not appropriately address matters communicated by us to the audit and risk committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

The Listing Rules require us to review:

- the directors' statement, set out on page 119, in relation to going concern and long term viability on page 55; and
- the part of the corporate governance statement on page 77 relating to the parent company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

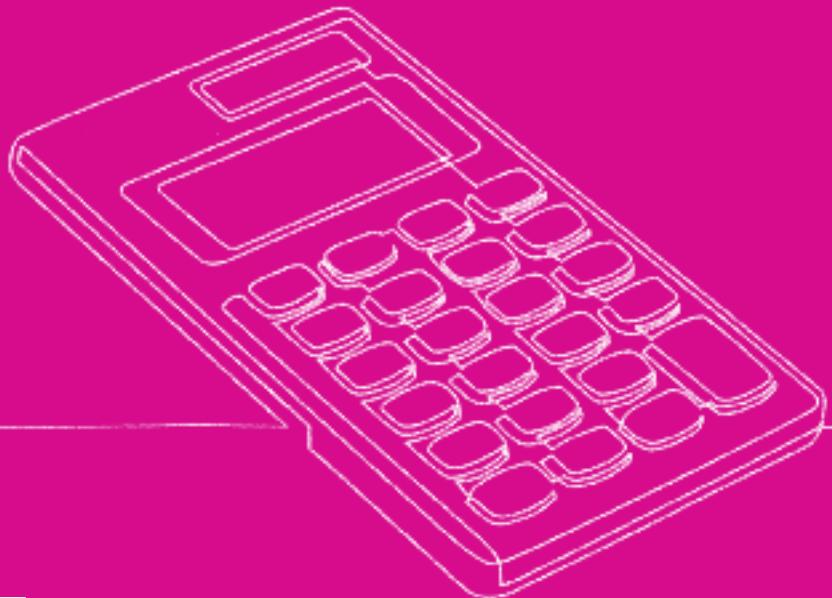
We have nothing to report in respect of the above responsibilities.

8. Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 119, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

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

2 February 2017



Financial statements

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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	247.8	215.2
Foreign exchange loss	3	9.5	9.7
Operating expenses		729.8	673.5
Expenses	3	1,585.4	1,487.4
Share of loss in associates	14	(0.2)	(0.5)
Results of operating activities		308.4	299.3
Finance costs	8	(15.2)	(15.3)
Profit before income tax		293.2	284.0
Income tax expense	9	(42.2)	(35.0)
Profit for the year attributable to equity shareholders		251.0	249.0
Earnings per share (cents per share):			
Basic	10	48.6	48.8
Diluted	10	47.3	47.2
Earnings per share (pence per share):			
Basic	10	35.5	31.9
Diluted	10	34.5	30.9

Statement of comprehensive income

for the year ended 31 December 2016

	2016 \$m	2015 \$m
Group		
Profit for the year attributable to equity shareholders	251.0	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	234.8	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	18.2	-
Total comprehensive income recognised	18.2	-

Statement of changes in equity

for the year ended 31 December 2016

	Notes	Share capital \$m	Merger reserve \$m	Foreign currency translation reserve \$m	Other reserves \$m	Retained earnings \$m	Total \$m
Group							
Balance at 1 January 2015¹		666.7	(628.5)	(85.7)	(16.7)	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		666.7	(628.5)	(87.3)	6.7	1,483.8	1,441.4
Total comprehensive income recognised		-	-	(10.1)	-	244.9	234.8
Dividends paid	11	-	-	-	-	(212.2)	(212.2)
Issue of shares ²		2.5	(2.3)	-	-	-	0.2
Capital reduction ³		(631.5)	630.8	0.7	-	-	-
Equity settled share based payments	22	-	-	-	26.0	-	26.0
Acquisition of own shares in trust	22	-	-	-	(9.7)	-	(9.7)
Tax on share option vestings	9	-	-	-	-	2.1	2.1
Transfer of shares to employees	22	-	-	-	0.4	0.7	1.1
Balance at 31 December 2016		37.7	-	(96.7)	23.4	1,519.3	1,483.7

1 The share capital and merger reserve balances as at 1 January 2015 have been re-presented to reflect, on a continuation basis, the capital position of the new parent company after the scheme of arrangement, as explained in note 1.

2 During the first half of 2016, 1.9m new ordinary shares were issued, as well as 0.1m of preference shares prior to the scheme of arrangement. The preference shares were redeemed by the company during the year.

3 Subsequent to the scheme of arrangement, a capital reduction was executed in April 2016 which involved a reduction in the nominal value of the shares in the new parent from 90 pence per share to 5 pence per share. Please refer to note 1.

Statement of changes in equity

for the year ended 31 December 2016

	Notes	Share capital \$m	Merger reserve \$m	Foreign currency translation reserve \$m	Other reserves \$m	Retained earnings \$m	Total \$m
Company							
Balance at 4 September 2015¹		-	-	-	-	-	-
Total comprehensive income recognised		-	-	-	-	-	-
Dividends paid	11	-	-	-	-	-	-
Equity settled share based payments	22	-	-	-	-	-	-
Acquisition of own shares in trust	22	-	-	-	-	-	-
Transfer of shares to employees	22	-	-	-	-	-	-
Balance at 31 December 2015		-	-	-	-	-	-
Total comprehensive income recognised		-	-	-	-	18.2	18.2
Dividends paid	11	-	-	-	-	(23.9)	(23.9)
Issue of shares ²		669.2	55.4	-	-	-	724.6
Capital reduction ³		(631.5)	-	0.7	-	630.8	-
Equity settled share based payments	22	-	-	-	22.5	-	22.5
Acquisition of own shares in trust	22	-	-	-	(4.6)	-	(4.6)
Transfer of shares to employees	22	-	-	-	2.0	(1.8)	0.2
Balance at 31 December 2016		37.7	55.4	0.7	19.9	623.3	737.0

1 Date of incorporation of Beazley plc (formerly Swift No.3 Limited).

2 On 13 April 2016, the company issued 523.4m ordinary shares at a nominal value of 90 pence per share.

3 Following the issuing of the shares, a capital reduction reduced the nominal value of the shares from 90 pence per share to 5 pence per share. Please refer to note 1.

Statements of financial position

as at 31 December 2016

	Notes	2016		2015	
		Group \$m	Company \$m	Group \$m	Company \$m
Assets					
Intangible assets	12	96.6	-	91.0	-
Plant and equipment	13	5.4	-	4.5	-
Deferred tax asset	28	11.0	-	7.1	-
Investment in subsidiaries	31	-	724.6	-	-
Investment in associates	14	9.9	-	10.0	-
Deferred acquisition costs	15	242.8	-	226.2	-
Reinsurance assets	19, 24	1,082.1	-	1,099.7	-
Financial assets at fair value	16	4,195.4	-	3,842.2	-
Insurance receivables	18	794.7	-	732.7	-
Other receivables		46.4	13.0	31.5	-
Current income tax asset		17.0	-	23.6	-
Cash and cash equivalents	20	507.2	-	676.9	-
Total assets		7,008.5	737.6	6,745.4	-
Equity					
Share capital	21	37.7	37.7	666.7	-
Merger reserve		-	55.4	(628.5)	-
Foreign currency translation reserve		(96.7)	0.7	(87.3)	-
Other reserves	22	23.4	19.9	6.7	-
Retained earnings		1,519.3	623.3	1,483.8	-
Total equity		1,483.7	737.0	1,441.4	-
Liabilities					
Insurance liabilities	24	4,657.7	-	4,586.7	-
Financial liabilities	16, 25	363.8	-	247.3	-
Retirement benefit liability	27	6.2	-	0.7	-
Deferred tax liabilities	28	12.8	-	6.0	-
Other payables	26	484.3	0.6	463.3	-
Total liabilities		5,524.8	0.6	5,304.0	-
Total equity and liabilities		7,008.5	737.6	6,745.4	-

The financial statements were approved by the board of directors on 2 February 2017 and were signed on its behalf by:

D Holt
Chairman

M L Bride
Finance director

2 February 2017

Statements of cash flows

for the year ended 31 December 2016

	Notes	2016		2015	
		Group \$m	Company \$m	Group \$m	Company \$m
Cash flow from operating activities					
Profit before income tax		293.2	18.2	284.0	-
Adjustments for:					
Amortisation of intangibles	12	5.3	-	5.0	-
Equity settled share based compensation	22	23.0	22.5	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	-	2.1	-
Impairment of reinsurance assets written back	6	(1.1)	-	-	-
Increase in insurance and other liabilities		72.4	0.6	235.7	-
Increase in insurance, reinsurance and other receivables		(59.3)	(13.0)	(203.5)	-
Increase in deferred acquisition costs		(16.6)	-	(3.5)	-
Financial income	4	(71.5)	(23.9)	(70.8)	-
Financial expense	8	15.2	0.8	15.3	-
Income tax paid		(39.8)	-	(89.8)	-
Net cash from operating activities		193.9	5.2	195.5	-
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	23.9	70.8	-
Net cash (used in)/from investing activities		(263.6)	23.9	295.8	-
Cash flow from financing activities					
Acquisition of own shares in trust	22	(9.7)	(4.6)	(3.9)	-
Repayment of borrowings	25	(107.1)	-	-	-
Proceeds from debt issue	25	248.7	-	-	-
Interest paid		(15.2)	(0.8)	(15.3)	-
Dividends paid		(212.2)	(23.9)	(164.2)	-
Net cash used in financing activities		(95.5)	(29.3)	(183.4)	-
Net (decrease)/increase in cash and cash equivalents		(165.2)	(0.2)	307.9	-
Cash and cash equivalents at beginning of year		676.9	-	364.2	-
Effect of exchange rate changes on cash and cash equivalents		(4.5)	0.2	4.8	-
Cash and cash equivalents at end of year	20	507.2	-	676.9	-

Notes to the financial statements

1 Statement of accounting policies

Beazley plc (registered number 09763575) is a company incorporated in England and Wales and is resident for tax purposes in the United Kingdom. The company's registered address is Plantation Place South, 60 Great Tower Street, London EC3R 5AD, United Kingdom. The group financial statements for the year ended 31 December 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 plc, and the group financial statements have been prepared and approved by the directors in accordance with IFRSs as adopted by the EU ('Adopted IFRSs'). On publishing the parent company financial statements together with the group financial statements, the company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual statement of profit or loss and related notes that form a part of these approved financial statements.

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

New holding company

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 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.

A reduction in capital was approved by the shareholders of Beazley plc at the scheme general meeting on 24 March 2016. As Beazley plc is incorporated in the UK the reduction of capital also received confirmation from the Companies Court on 20 April 2016. Subsequent to these events, on 21 April 2016, the share capital of Beazley plc was reduced to create distributable reserves broadly similar to those in Beazley Ireland Holdings plc.

In order to appropriately reflect the substance of the transaction outlined above the insertion of a new holding company has been accounted for as a continuation of the previous group using the principles of reverse acquisition accounting, with the existing group being accounted for at its existing book values. 'New' Beazley plc has been incorporated into the group with its identifiable assets and liabilities incorporated at fair value.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

In order to present the equity balances of the group on a continuation basis, the equity balances on the group statement of financial position as at 1 January 2015 have been re-presented as follows:

	Share capital \$m	Share premium \$m	Merger reserve \$m	Foreign currency translation \$m	Other reserves \$m	Retained earnings \$m	Total \$m
1 January 2015 (as previously presented)	41.6	12.0	–	(85.7)	(32.1)	1,406.9	1,342.7
Re-presentation of previous merger reserve	–	–	(15.4)	–	15.4	–	–
Cancellation of shares in the former parent company (521.4m x 5 pence per share)	(41.6)	(12.0)	15.4	–	–	–	(38.2)
Issuance of shares in the new parent company (521.4m x 90 pence per share)	666.7	–	(628.5)	–	–	–	38.2
1 January 2015 (as currently reported)	666.7	–	(628.5)	(85.7)	(16.7)	1,406.9	1,342.7

The group's consolidated financial statements are issued in the name of the legal parent company, Beazley plc. The comparative figures for the financial year ended 31 December 2015 are 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. The company comparative figures for 31 December 2015 are of Beazley plc (formerly Swift No.3 Limited).

Basis of presentation

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

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

Use of estimates and judgements

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

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

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

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

The most critical estimate included within the group's financial position is the estimate for insurance losses incurred but not reported. The total estimate 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.

1 Statement of accounting policies *continued*

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.

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.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

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 Beazley to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Net earned premiums

a) Premiums

Gross premiums written represent premiums on business commencing in the financial year together with adjustments to premiums written in previous accounting periods and estimates for premiums from contracts entered into during the course of the year. Gross premiums written are stated before deduction of brokerage, taxes, duties levied on premiums and other deductions.

b) Unearned premiums

A provision for unearned premiums (gross of reinsurance) represents that part of the gross premiums written that it is estimated will be earned in the following financial periods. It is calculated using the daily pro-rata method, under which the premium is apportioned over the period of risk.

Deferred acquisition costs (DAC)

Acquisition costs comprise brokerage, premium levy and staff-related costs (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.

1 Statement of accounting policies *continued*

Claims

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

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

Liability adequacy testing

At each reporting date, liability adequacy tests are performed 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 to the shareholders of the group are recognised in the period in which the dividends are paid, as a first interim dividend, second interim dividend or special dividend. The second and special dividends are approved by the group's shareholders at the group's annual general meeting.

Notes to the financial statements *continued*

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.

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

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

Upon initial recognition, attributable transaction costs relating to financial instruments at fair value through profit or loss are recognised in the statement of profit or loss when incurred. Financial assets at fair value through profit or loss are continually measured at fair value, and changes therein are recognised in the statement of profit or loss. Net changes in the fair value of financial assets at fair value through profit or loss exclude interest and dividend income, as these items are accounted for separately as set out 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 Lloyds trust accounts and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These investments have less than three months maturity from the date of acquisition. Cash and cash equivalents are measured at fair value through the profit and loss account.

n) Unfunded commitment capital

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

Leases

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

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

Employee benefits

a) Pension obligations

The group operates a defined benefit pension plan that is now closed to future service accruals. The scheme is generally funded by payments from the group, taking account of the recommendations of an independent qualified actuary. All employees now participate in defined contribution pension arrangements, to which the group contributes.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors 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 group offers option plans over Beazley plc’s ordinary shares to certain employees, including the SAYE scheme.

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

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

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.

Earnings per share

Basic earnings per share are calculated by dividing profit after tax available to shareholders by the weighted average number of ordinary shares in issue during the period.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares such as share options granted to employees. Share options with performance conditions attaching to them have been excluded from the weighted average number of shares to the extent that these conditions have not been met at the reporting date.

The shares held in the employee share options plan (ESOP) and treasury shares are excluded from both the calculations, until such time as they vest unconditionally with the employees.

Provisions and contingencies

Provisions are recognised when the group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources or economic benefits will be required to settle the obligation, and a reliable estimate of the obligation can be made. Where the group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Contingent liabilities are present obligations that are not recognised because it is not probable that an outflow of resources will be required to meet the liabilities or because the amount of the obligation cannot be measured with sufficient reliability.

2 Risk management

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

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

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

Notes to the financial statements *continued*

2 Risk management *continued*

2.1 Insurance risk

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

a) Underwriting risk

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

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

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

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

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

Our underwriters calculate premiums for risks written based on a range of criteria tailored specifically to each individual risk. These factors include but are not limited to 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.

2 Risk management *continued*

Lloyd's has also defined its own specific set of RDS events for which all syndicates with relevant exposures must report. Of these the three largest, net of reinsurance, events which could have impacted Beazley in 2015 and 2016 are:

Unaudited

	2016	
	Modelled PML ¹ (before reinsurance) \$m	Modelled PML ¹ (after reinsurance) \$m
Lloyd's prescribed natural catastrophe event (total insured losses)		
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	
	Modelled PML ¹ (before reinsurance) \$m	Modelled PML ¹ (after reinsurance) \$m
Lloyd's prescribed natural catastrophe event (total incurred losses)		
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.

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. 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. 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 Beazley continues to grow its data breach product. The clash reinsurance programme that protects the specialty lines account would partially mitigate the cost of most, but not all, data breach catastrophes.

Beazley also reports on cyber exposure to Lloyd's using the three largest internal realistic disaster scenarios and seven prescribed scenarios which include both data breach and property damage related cyber exposure. Given Beazley 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.

Notes to the financial statements *continued*

2 Risk management *continued*

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

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

Binding authority contracts

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

Operating divisions

In 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 153.

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.

2 Risk management *continued*

c) Claims management risk

Claims management risk may arise within the group in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. These risks may damage the group brand and undermine its ability to win and retain business, or incur punitive damages. These risks can occur at any stage of the claims life cycle. The group's claims teams are focused on delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business's broader interests. Case reserves are set for all known claims liabilities, including provisions for expenses, as soon as a reliable estimate can be made of the claims liability.

d) Reserving and ultimate reserves risk

Reserving and ultimate reserves risk occurs within the group where established insurance liabilities are insufficient through inaccurate forecasting, or where there is inadequate allowance for expenses and reinsurance bad debts in provisions.

To manage reserving and ultimate reserves risk, our actuarial team uses a range of recognised techniques to project gross premiums written, monitor claims development patterns and stress-test ultimate insurance liability balances. An external independent actuary also performs an annual review to produce a statement of actuarial opinion for reporting entities within the group.

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

2.2 Strategic risk †

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

Senior management performance

Management stretch is the risk that business growth might result in an insufficient or overly complicated management team structure, thereby undermining accountability and control within the group. As the group expands its worldwide business in the UK, 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.

Notes to the financial statements *continued*

2 Risk management *continued*

a) Foreign exchange risk

The functional currency of Beazley plc and its main trading entities is 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	539.2	156.2	283.2	978.6	6,029.9	7,008.5
Total liabilities	(512.7)	(166.2)	(304.4)	(983.3)	(4,541.5)	(5,524.8)
Net assets	26.5	(10.0)	(21.2)	(4.7)	1,488.4	1,483.7

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.

Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar	Impact on profit after tax for the year ended		Impact on net assets	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
Dollar weakens 30% against other currencies	(1.2)	(12.3)	(9.5)	(25.7)
Dollar weakens 20% against other currencies	(0.8)	(8.2)	(6.3)	(17.1)
Dollar weakens 10% against other currencies	(0.4)	(4.1)	(3.2)	(8.6)
Dollar strengthens 10% against other currencies	0.4	4.1	3.2	8.6
Dollar strengthens 20% against other currencies	0.8	8.2	6.3	17.1
Dollar strengthens 30% against other currencies	1.2	12.3	9.5	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:

Shift in yield (basis points)	Impact on profit after income tax for the year		Impact on net assets	
	2016 \$m	2015 \$m	2016 \$m	2015 \$m
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

Notes to the financial statements *continued*

2 Risk management *continued*

c) Price risk

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

Financial assets include fixed and floating rate debt securities, hedge funds, illiquid credit assets, equity 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 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

Notes to the financial statements *continued*

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	-	-	-	-	794.7	794.7
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	-	1,372.7	6,625.8

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 recognised/(written back)	(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 147). This means that the group maintains sufficient liquid assets, or assets that can be converted into liquid assets at short notice and without any significant capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return. The group also makes use of loan facilities and borrowings, details of which can be found in note 25. Further information on the group's capital resources is contained on pages 46 to 48.

Notes to the financial statements *continued*

2 Risk management *continued*

The following is an analysis by business segment of the estimated timing of the net cash flows based on the net claims liabilities¹ balance held at 31 December:

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 24.

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	482.9	1.4	–	–	484.3

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 25.

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	794.7	–	–	–	–	–	–	794.7
Other receivables	46.4	–	–	–	–	–	–	46.4
Other payables	(482.9)	(1.4)	–	–	–	–	–	(484.3)
Borrowings	–	–	(94.7)	–	–	(248.3)	(18.0)	(361.0)
Total	1,802.6	694.2	722.1	522.4	485.2	(75.9)	(18.0)	4,132.6

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 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 out to be a key input to the Lloyd's Internal Model.

Notes to the financial statements *continued*

2 Risk management *continued*

The board's strategy is to grow the dividend by between 5% and 10% per year. Our capital management strategy is to carry some surplus capital to enable us to take advantage of growth opportunities which may arise. At 31 December 2016, we have surplus capital of 44% of ECR (unaudited), including Solvency II adjustments. Following payment of the second interim dividend of 7.0p per share and special dividend of 10.0p per share, the surplus reduces 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	35.5	17.7	46.6	14.5	117.8	247.8
Foreign exchange loss	0.6	1.1	0.5	1.4	0.7	5.2	9.5
Expenses	123.2	201.4	78.1	252.1	90.1	840.5	1,585.4
Share of loss of associates	-	-	-	-	-	(0.2)	(0.2)
Segment result	(3.9)	34.5	31.5	51.5	60.9	133.9	308.4
Finance costs							(15.2)
Profit before income tax							293.2
Income tax expense							(42.2)
Profit for the year attributable to equity shareholders							251.0
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	225.2	1,203.2	827.0	1,086.5	431.7	3,234.9	7,008.5
Segment liabilities	(207.8)	(840.2)	(672.3)	(859.3)	(245.4)	(2,699.8)	(5,524.8)
Net assets	17.4	363.0	154.7	227.2	186.3	535.1	1,483.7
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)

Notes to the financial statements *continued*

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 148.

	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)	6,657.3	6,409.3
US (Non-Lloyd's)	351.2	336.1
	7,008.5	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

Notes to the financial statements *continued*

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	1.0	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
	2.2	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.

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	23.0	17.5
Pension costs ¹	9.2	10.4
	262.9	244.8
Recharged to syndicate 623	(38.5)	(36.1)
	224.4	208.7

¹ Pension costs refer to the contributions made under the defined contribution scheme. Further information on the defined benefit pension scheme can be found in note 27.

8 Finance costs

	2016 \$m	2015 \$m
Interest expense	15.2	15.3
	15.2	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 25 for further detail on subordinated debt.

9 Income tax expense

	2016 \$m	2015 \$m
Current tax expense		
Current year	37.1	44.6
Prior year adjustments	2.1	(8.8)
	39.2	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	42.2	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 14.9% (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	293.2		284.0	
Tax calculated at the weighted average of statutory tax rates	43.6	14.9	43.2	15.2
Effects of:				
- non-deductible expenses	1.8	0.6	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	42.2	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.

As noted on page 43, 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.

Notes to the financial statements *continued*

10 Earnings per share

	2016	2015
Basic (cents)	48.6c	48.8c
Diluted (cents)	47.3c	47.2c
Basic (pence)	35.5p	31.9p
Diluted (pence)	34.5p	30.9p

Basic

Basic earnings per share are calculated by dividing profit after tax of \$251.0m (2015: \$249.0m) by the weighted average number of shares in issue during the year of 516.3m (2015: 510.4m). The shares held in the Employee Share Options Plan (ESOP) of 6.1m (2015: 9.7m) have been excluded from the calculation, until such time as they vest unconditionally with the employees.

Diluted

Diluted earnings per share are calculated by dividing profit after tax of \$251.0m (2015: \$249.0m) by the adjusted weighted average number of shares of 531.0m (2015: 527.3m). The adjusted weighted average number of shares assumes conversion of dilutive potential ordinary shares, being shares from the SAYE, retention and deferred share schemes. The shares held in the ESOP of 6.1m (2015: 9.7m) have been excluded from the calculation, until such time as they vest unconditionally with the employees.

As a result of the scheme of arrangement, the basic and diluted earnings per share metrics are calculated with reference to the share structure of the new parent company, as if it has been the parent for all periods presented. The number of shares in issue did not change as a result of the scheme of arrangement, as explained in note 1.

11 Dividends per share

A second interim dividend of 7.0p per ordinary share (2015: 6.6p) and a special dividend of 10.0p (2015: 18.4p) will be payable on 29 March 2017 to Beazley plc shareholders registered at 5.00pm on 3 March 2017 in respect of the six months ended 31 December 2016. The company expects the total amount to be paid in respect of the second interim and special dividend to be approximately £87.9m. These financial statements do not provide for the second interim dividend and the special dividend as a liability.

Together with the interim dividend of 3.5p (2015: 3.3p) this gives a total dividend for the year of 20.5p (2015: 28.3p).

The aforementioned interim and special dividends will be payable on 29 March 2017 to shareholders registered at 5.00pm on 3 March 2017.

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

Notes to the financial statements *continued*

12 Intangible assets *continued*

Impairment tests

Goodwill, syndicate capacity and US insurance authorisation licences are deemed to have indefinite life as they are expected to have value in use that does not erode or become obsolete over the course of time. Consequently, they are not amortised but annually tested for impairment. 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 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 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	-	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	-	20.7	9.8	30.5
Balance at 1 January 2016	-	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	-	21.5	9.2	30.7
Accumulated depreciation				
Balance at 1 January 2015	-	(18.5)	(8.7)	(27.2)
Depreciation charge for the year	-	(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	-	(17.7)	(8.3)	(26.0)
Balance at 1 January 2016	-	(17.7)	(8.3)	(26.0)
Depreciation charge for the year	-	(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	-	(17.3)	(8.0)	(25.3)
Carrying amounts				
31 December 2016	-	4.2	1.2	5.4
31 December 2015	-	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

Notes to the financial statements *continued*

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.

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).

	2016 \$m	2015 \$m
The amounts expected to mature within and after one year are:		
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 141 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).

Notes to the financial statements *continued*

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 43.

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 25 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 32.

Valuation hierarchy

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

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

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

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

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

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

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

16 Financial assets and liabilities *continued*

Level 2 investments

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

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

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

Notes to the financial statements *continued*

16 Financial assets and liabilities *continued*

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

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.

Notes to the financial statements *continued*

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:

	2016		2015	
	Gross contract amount \$m	Market value of derivative position \$m	Gross contract amount \$m	Market value of derivative position \$m
Derivative financial instrument assets				
Foreign exchange forward contracts	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				
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	794.7	732.7
	794.7	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.

Notes to the financial statements *continued*

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 24.

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	-	-
	-	-

21 Share capital

	2016	2015	
	No. of shares (m)	\$m	No. of shares (m)
Ordinary shares of 5p each¹			
Authorised ²	-	-	700.0
Issued and fully paid	523.3	37.7	521.4
			666.7
Balance at 1 January	521.4	666.7	521.4
Issue of shares	1.9	2.5	-
Capital reduction	-	(631.5)	-
Balance at 31 December	523.3	37.7	521.4
			666.7

1 In order to present equity balances of the group on a continuation basis, the share capital balance as at 1 January 2015 has been re-presented. In effect, this reflects the cancelling of 521.4m shares in the former parent company at 5p per share and issuance of 521.4m shares in the new parent company at 90p per share. These shares were reduced during 2016 through a capital reduction to 5p a share. Please refer to note 1 for further details. In addition 0.1m preference shares at £1 a share were issued and redeemed within 2016.

2 After 13 April 2016, following a scheme of arrangement which resulted in Beazley plc (formerly Swift No.3 Limited) becoming the ultimate parent of the Beazley group, the group does not have an authorised share capital.

22 Other reserves

	Employee share options reserve \$m	Employee share trust reserve \$m	Total \$m
Group			
Balance at 1 January 2015	30.2	(46.9)	(16.7)
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	36.5	(29.8)	6.7
Share based payments	26.0	-	26.0
Acquisition of own shares held in trust	-	(9.7)	(9.7)
Transfer of shares to employees	(17.5)	17.9	0.4
Balance at 31 December 2016	45.0	(21.6)	23.4
Company			
Balance at 4 September 2015¹	-	-	-
Share based payments	-	-	-
Acquisition of own shares held in trust	-	-	-
Transfer of shares to employees	-	-	-
Balance at 31 December 2015	-	-	-
Share based payments	22.5	-	22.5
Acquisition of own shares held in trust	-	(4.6)	(4.6)
Transfer of shares to employees	(2.7)	4.7	2.0
Balance at 31 December 2016	19.8	0.1	19.9

1 Date of incorporation of Beazley plc (formerly Swift No.3 Limited).

The merger reserve is now shown within the statement of changes in equity as a separate category and as such has been excluded from the other reserves note.

The employee share option reserve is held in accordance with IFRS 2: Share-based payment. For more information refer to note 23.2.

More information on the employee share trust reserve is included in note 23.

Notes to the financial statements *continued*

23 Equity compensation plans

23.1 Employee share trust

	2016		2015	
	Number (m)	\$m	Number (m)	\$m
Costs debited to employee share trust reserve				
Balance at 1 January	9.7	29.8	16.1	46.9
Additions	2.0	9.7	0.8	3.9
Transfer of shares to employees	(5.6)	(17.9)	(7.2)	(21.0)
Balance at 31 December	6.1	21.6	9.7	29.8

The shares are owned by the employee share trust to satisfy awards under the group's deferred share plan, retention plan and long term incentive plan (LTIP). These shares are purchased on the market and carried at cost.

On the third anniversary of an award the shares under the deferred share plan are transferred from the trust to the employee. Under the retention plan, on the third to the sixth anniversary, and each year after that, 25.0% of the shares awarded are transferred to the employee.

The deferred share plan is recognised in the statement of profit or loss on a straight-line basis over a period of three years, while the retention share plan is recognised in the statement of profit or loss on a straight-line basis over a period of six years.

23.2 Employee share option plans

The group has a long term incentive plan (LTIP), deferred share plan, retention plan and SAYE plan that entitle employees to purchase shares in the group.

The terms and conditions of the grants are as follows:

Share option plan	Grant date	No. of options (m)	Vesting conditions	Contractual life of options
MSIP	04/04/2013	0.5	Five years' service + ROE	10 years
LTIP	09/02/2016	2.2	Five years' service + NAV + minimum shareholding requirement	10 years
	10/02/2015	2.3		
	11/02/2014	1.6		
	13/02/2013	1.9		
	30/03/2012	2.3		
LTIP	09/02/2016	2.2	Three years' service + NAV + minimum shareholding requirement	10 years
	10/02/2015	2.3		
	11/02/2014	1.6		
SAYE (UK)	09/05/2016	0.5	Three years' service	N/A
	07/05/2015	0.5		
	09/05/2014	0.9		
SAYE (US)	01/06/2016	0.1	Two years' service	N/A
	03/06/2015	0.1		
Total share options outstanding		19.0		

Vesting conditions

In summary the vesting conditions are defined as:

- two years' service – an employee has to remain in employment until the second anniversary from the grant date;
- three years' service – an employee has to remain in employment until the third anniversary from the grant date;
- ROE – return on equity, based on the average marine divisional pre-tax return on equity (ROE) over the performance period; and
- NAV – the NAV growth, after adjusting for the effect of dividends, is greater than the risk-free rate of return plus a premium per year.

23 Equity compensation plans *continued*

Further details of equity compensation plans can be found in the directors' remuneration report on pages 94 to 118. The number and weighted average exercise prices of share options are as follows:

	2016	2015		
	Weighted average exercise price (pence per share)	No. of options (m)	Weighted average exercise price (pence per share)	No. of options (m)
Outstanding at 1 January	22.1	19.5	17.9	21.0
Forfeited during the year	74.8	(0.4)	61.3	(0.4)
Exercised during the year	12.9	(4.5)	14.1	(6.6)
Granted during the year	34.2	5.0	29.8	5.5
Outstanding at 31 December	27.8	19.6	22.1	19.5
Exercisable at 31 December	-	-	-	-

The share option programme allows group employees to acquire shares of the company. The fair value of options granted is recognised as an employee expense with a corresponding increase in the employee share options reserve. The fair value of the options granted is measured at grant date and spread over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The following is a summary of the assumptions used to calculate the fair value:

	2016 \$m	2015 \$m
Share options charge to employee share option reserve	23.0	17.5
Weighted average share price (pence per option)	274.9	230.7
Weighted average exercise price (pence per option)	27.8	22.1
Average expected life of options	4.6yrs	4.6yrs
Expected volatility	25.0%	25.0%
Expected dividend yield	3.2%	3.4%
Average risk-free interest rate	1.7%	2.1%

The expected volatility is based on historic volatility over a period of at least two years.

24 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

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

	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.

24.1 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

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

24 Insurance liabilities and reinsurance assets *continued*

24.2 Assumptions, changes in assumptions and sensitivity analysis

a) Process used to decide on assumptions

The peer review reserving process

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

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

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

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

Actuarial assumptions

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

Chain-ladder techniques are most appropriate for classes of business that have a relatively stable development pattern.

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

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

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

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

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

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

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

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

b) Major assumptions

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

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

c) Changes in assumptions

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



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

d) Sensitivity analysis

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

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

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

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

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

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of these financial statements are cautioned against extrapolating past redundancies or deficiencies on current claims liabilities. The group believes that the estimate of total claims liabilities as at 31 December 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.

24 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										

Notes to the financial statements *continued*

24 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

24 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										

Notes to the financial statements *continued*

24 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)											
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
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

24 Insurance liabilities and reinsurance assets *continued*

Analysis of movements in loss development tables

We have updated our loss development tables to show the ultimate loss ratios as at 31 December 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.

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

Claim releases

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

	Life, accident & health \$m	Marine \$m	Political risks & contingency \$m	Property \$m	Reinsurance \$m	Specialty lines \$m	Total \$m
2016							
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

	Life, accident & health \$m	Marine \$m	Political risks & contingency \$m	Property \$m	Reinsurance \$m	Specialty lines \$m	Total \$m
2015							
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

25 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

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.

In addition to these borrowings we operate a syndicated short term banking facility, managed through Lloyds Banking Group plc. In July 2015 we renewed our syndicated short term banking facility led by Lloyds Banking Group plc. The facility provides potential borrowings up to \$225m. The agreement is based on a commitment fee of 0.4375% per annum and any amounts drawn are charged at a margin of 1.25% per annum. The cash element of the facility will last for three years, expiring on 31 July 2017, whilst letters of credit issued under the facility can be used to provide support for the 2015, 2016 and 2017 underwriting years. The facility is currently unutilised.

Notes to the financial statements *continued*

26 Other payables

Group	2016 \$m	2015 \$m
Reinsurance premiums payable	177.8	159.1
Accrued expenses including staff bonuses	148.0	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
	484.3	463.3
Company	2016 \$m	2015 \$m
Other payables	0.6	-
	0.6	-

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.

27 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.

27 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

	2016	2015
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:

	2016	2015
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).

Notes to the financial statements *continued*

27 Retirement benefit obligations *continued*

Sensitivity analyses

Changes in the relevant actuarial assumptions would result in a change in the value of the funded obligation as shown below:

	Increase \$m	Decrease \$m
31 December 2016		
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		
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	–

28 Deferred tax

	2016 \$m	2015 \$m
Deferred tax asset	11.0	7.1
Deferred tax liability	(12.8)	(6.0)
Balance at 31 December	(1.8)	1.1

The movement in the net deferred income tax is as follows:

	1.1	0.5
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

28 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.

29 Operating lease commitments

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

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

	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

30 Related party transactions

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

30.1 Syndicates 623, 6107 and 6050

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

Details of transactions entered into and the balances with these syndicates are as follows:

	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)

30.2 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 and other senior management.

Further details of directors' shareholdings and remuneration can be found in the directors' remuneration report on pages 94 to 118.

Notes to the financial statements *continued*

30 Related party transactions *continued*

30.3 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.

30.4 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. As at 31 December 2016, the ultimate holding company, named Beazley plc, is a company incorporated in England and Wales. The previous holding company of the group is now owned 100% by Beazley plc and has changed its name to Beazley Ireland Holdings plc.

31 Parent company and subsidiary undertakings

Beazley plc, a company incorporated in England and Wales and resident for tax purposes in the United Kingdom, is the ultimate parent and the ultimate controlling party within the group.

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

	Country of incorporation	Ownership interest	Nature of business	Functional currency	Beazley plc direct investment in subsidiary (\$m)
Beazley Ireland Holdings plc ¹	Jersey	100%	Intermediate holding company	USD	724.6
Beazley Group Limited	England	100%	Intermediate holding company	USD	
Beazley Furlonge Holdings Limited	England	100%	Intermediate holding company	USD	
Beazley Furlonge Limited	England	100%	Lloyd's underwriting agents	GBP	
Beazley Investments Limited	England	100%	Investment company	USD	
Beazley Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Management Limited	England	100%	Intermediate management company	GBP	
Beazley Staff Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Solutions Limited	England	100%	Insurance services	GBP	
Beazley Underwriting Services Limited	England	100%	Insurance services	GBP	
Beazley 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	
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	
					724.6

¹ Up until 13 April 2016, Beazley Ireland Holdings plc (formerly Beazley plc) was the parent company of the Beazley group. As part of a 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.

31 Parent company and subsidiary undertakings *continued*

The following is a list of group registered office locations:

Address	City	Postcode	Country
United Kingdom and Continental Europe			
60 Great Tower Street	London	EC3R 5AD	England
2 Northwood Avenue	Dublin	9	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

32 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.

33 Foreign exchange rates

The group used the following exchange rates to translate foreign currency assets, liabilities, income and expenses into US dollars, being the group's presentational currency:

	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

Notes to the financial statements *continued*

34 Subsequent events

There are no other events that are material to the operations of the group that have occurred since the reporting date.

35 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 paid¹	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 \$247.8m (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.

Earnings per share (EPS) – basic/diluted

Ratio, in pence and cents, calculated by dividing the consolidated profit after tax by the weighted average number of ordinary shares issued, excluding shares owned by the group. For calculating diluted earnings per share the number of shares and profit or loss for the year is adjusted for certain dilutive potential ordinary shares such as share options granted to employees.

Economic Capital Requirement (ECR)

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

Glossary *continued*

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 \$247.8m (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 assets per share

Ratio, in pence and cents, calculated by dividing the net assets (total equity) by the number of shares issued.

Net premiums written

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

Private enterprise

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

Provision for outstanding claims

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

Rate

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

Reinsurance special purpose syndicate

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

Reinsurance to close (RTIC)

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

Retention limits

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

Retrocessional reinsurance

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

Return on equity (ROE)

Ratio, in percentage terms, calculated by dividing the consolidated profit after tax by the average daily total equity. In 2016, this was calculated as profit after tax of \$251.0m (2015: \$249.0m) divided by average equity of \$1,381.6m (2015: \$1,330.4m).

Risk

This term may refer to:

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

Short tail

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

Sidecar special purpose syndicate

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

Soft market

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

Solvency Capital Requirement on an ultimate basis (uSCR)

The capital requirement under Solvency II calculated by Beazley's internal model which captures the risk in respect of the planned underwriting for the prospective year of account in full covering ultimate adverse development and all exposures.

Surplus lines insurer

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

Total shareholder return (TSR)

The increase in the share price plus the value of any first and second dividends paid and proposed during the year.

Treaty reinsurance

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

Unearned premiums reserve

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



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