Company No: 464758

BEAZLEY RE DESIGNATED ACTIVITY COMPANY

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2016

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Report of the directors

The directors submit their report, together with the financial statements of the company for the year ended 31 December 2016.

Principal activities and business review

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

The company does not underwrite third party reinsurance.

In November 2016, the company filed an application with the Central Bank of Ireland (CBI) to obtain approval to write direct insurance, enabling the company to broaden its underwriting to European clients.

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

Future developments in the business

The reinsurance contract for 2017 was signed by the company and Beazley Underwriting Limited on 1 December 2016. The company submitted an application to the CBI to convert from a reinsurance company to an insurance company in November 2016. We are working with the CBI with the aim of obtaining approval in the first half of 2017.

Principal risks and uncertainties

Due to the nature of its activities, the principal risks and uncertainties of the company are aligned with those of 'Beazley plc' (the group) and include:
Insurance risk
Asset risk
Operational risk
Liquidity risk
Credit risk
Group risk
Regulatory and legal risk
Strategic risk

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

Key performance indicators ('KPIs')

Gross premiums written in the year were $1,333.6m (2015: $1,237.3m) and profit before tax was $179.2m (2015: $193.5m).

Return on equity for the year was 16% (2015: 16%).

Results and dividends

The company has entered into a number of reinsurance contracts with its sister company, Beazley Underwriting Limited. The result for the year is shown on the profit or loss account on page 7.

The company paid nil dividends in 2016 (2015: $385.5m, $385.5m per share) to its sole shareholder Beazley Ireland Holdings plc during 2016.

Directors

The names of the persons who were directors at any time during the year ended 31 December 2016 are set out below:

Director	
M L Bride (French)	
D A Horton (British)	(Group Non-Executive)
E J McGivney	
D K O'Connor	(Independent Non-Executive – appointed 10 April 2016)
P J O'Connor	(Independent Non-Executive – resigned 24 March 2016)
V J Sheridan	(Independent Non-Executive)
I C Stuart	(Independent Non-Executive)
C M Woods	(Independent Non-Executive)

Directors and secretary and their interests

The directors and secretary who held office at 31 December 2016 had no interests greater than 1% in the shares of, or debentures or loan stock of, the company or group companies.

Statement of directors' responsibilities

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

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

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

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

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

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

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

We confirm that to the best of our knowledge:

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

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

The directors confirm that:

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

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

Political donations
The company made no political donations during the financial year ending 31 December 2016; neither above or below €200.

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

Post balance sheet events
On 3 March the board approved an interim dividend payment to be made to Beazley Ireland Holdings plc of £66m ($83.8m) from the company's distributable reserves. This dividend was paid in cash on 22 March 2017.

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

On behalf of the Board

Catherine Woods	Ed McGivney
Director	*Director*

28 April 2017

Independent auditor's report to the members

of Beazley Re Designated Activity Company

We have audited the financial statements ('financial statements') of Beazley Re for the year ended 31 December 2016 which comprise Profit and Loss Account and Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is Irish law FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS 103 *Insurance Contracts.* Our audit was conducted in accordance with International Standards on Auditing (ISA's) (UK and Ireland).

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

In our opinion the financial statements:

give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2016 and of its profit for the year then ended;

have been properly prepared in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 103 Insurance Contracts; and

have been properly prepared in accordance with the requirements of the Companies Act 2014 and the European Union (Insurance Undertakings: Financial Statements) Regulations 2015

2. Our conclusions on other matters on which we are required to report by the Companies Act 2014 are set out below

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

In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the financial statements are in agreement with the accounting records.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

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

ISAs (UK & Ireland) require that we report to you if, based on the knowledge we acquired during our audit, we have identified 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 addition, the Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act are not made.

Basis of our report, responsibilities and restrictions on use

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and ISAs (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

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

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

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

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Hubert Crehan
for and on behalf of KPMG, Statutory Audit Firm
Chartered Accountants
1 Harbourmaster Place
IFSC
Dublin 1

28 April 2017

Profit or loss account

for the year ended 31 December 2016

Technical account – non-life insurance business

	Notes	2016 $m	2015 $m
Gross premiums written	3	1,333.6	1,237.3
Change in the gross provision for unearned premiums	13	(66.0)	(7.8)
Earned premiums net of reinsurance		**1,267.6**	**1,229.5**
Allocated investment return transferred from the non-technical account	4	137.0	71.4
		1,404.6	**1,300.9**
Gross claims paid		(583.6)	(556.4)
Change in the gross provision for claims	13	(28.4)	(24.7)
Claims incurred net of reinsurance		**(612.0)**	**(581.1)**
Net operating expenses	5	(529.6)	(506.8)
Investment charges transferred from the non-technical account	4	(8.3)	(8.3)
Balance on the technical account		**254.7**	**204.7**

Profit or loss account *continued*

Non-technical account			

Investment income	4	137.0	71.4
Allocated investment return transferred to the non-life technical account		(137.0)	(71.4)
Investment expenses	4	(8.3)	(8.3)
Allocated investment expenses transferred to the non-life technical account		8.3	8.3
Loss on foreign exchange		(75.5)	(11.2)
Profit on ordinary activities before taxation		**179.2**	**193.5**
Tax on profit on ordinary activities	7	(23.0)	(23.8)
Profit for the financial year		**156.2**	**169.7**

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

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

The notes on pages 12 to 33 form part of these financial statements.

Statement of changes in equity

as at 31 December 2016

	Share capital $m	Distributable reserve $m	Foreign exchange reserve $m	Profit or loss account $m	Total equity $m

Balance as at 1 January 2016	536.3	–	(42.8)	466.6	960.1
Profit for the financial year	–	–	–	156.2	156.2
Transfer (from)/to reserves	–	–	–	–	–
Share issue	–	–	–	–	–
Dividend paid	–	–	–	–	–
Balance as at 31 December 2016	536.3	–	(42.8)	622.8	1,116.3

	Share capital $m	Distributable reserve $m	Foreign exchange reserve $m	Profit or loss account $m	Total equity $m
Balance as at 1 January 2015	781.4	–	(42.8)	437.3	1,175.9
Profit for the financial year	–	–	–	169.7	169.7
Transfer (from)/to reserves	(245.1)	245.1	–	–	–
Share issue	–	–	–	–	–
Dividend paid	–	(245.1)	–	(140.4)	(385.5)
Balance as at 31 December 2015	**536.3**	**–**	**(42.8)**	**466.6**	**960.1**

The notes on pages 12 to 33 form part of these financial statements.

Balance sheet

as at 31 December 2016

	Notes	2016 $m	2015 $m

Assets			
Investments			
Financial assets designated at fair value through profit or loss	2, 8	1,278.2	989.8
		1,278.2	**989.8**
Debtors			
Amounts due from group companies		2,588.3	2,560.4
Tax debtor	9	5.1	5.5
		2,593.4	2,565.9
Other assets			
Cash and cash equivalents	10	25.8	239.9
		25.8	239.9
Prepayments and accrued income			
Deferred acquisition costs	11	202.2	183.9
Accrued interest		1.6	3.9
		203.8	187.8
Total assets		**4,101.2**	**3,983.4**

Balance sheet *continued*

	Notes	2016 $m	2015 $m
Equity			
Capital and reserves			

Called up share capital	12	–	–
Capital contribution		536.3	536.3
Foreign exchange translation reserve		(42.8)	(42.8)
Profit or loss account		622.8	466.6
Shareholders' funds attributable to equity interests		**1,116.3**	**960.1**
Liabilities			
Technical provisions			
Provision for unearned premium	13	654.3	599.7
Claims outstanding	13	1,946.6	1,953.6
		2,600.9	2,553.3
Creditors			
Amounts due to group companies		135.7	469.5
Other creditors		–	0.5
		135.7	470.0
Financial liabilities	2, 17	**248.3**	**–**
Total liabilities		**2,984.9**	**3,023.3**
Total equity and liabilities		**4,101.2**	**3,983.4**

Approved on behalf of the board of directors:

Catherine Woods
Director

Ed McGivney
Director

28 April 2017

The notes on pages 12 to 33 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2016

1 Principal accounting policies

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

(a) Basis of preparation

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

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

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

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

As 100% of the voting rights of the company are controlled within the group headed by Beazley plc, the company has taken advantage of the exemption contained in FRS 102.33.1A and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Beazley plc, within which this company is included, can be obtained from the registered address listed on page 34 of these accounts.

(b) Basis of accounting for insurance activities

The company has an aggregate excess of loss reinsurance agreement with Beazley Underwriting Limited. Under the terms of this agreement the company reinsure and indemnify Beazley Underwriting Limited in respect of all losses up to 75% of the declared result of Beazley Underwriting Limited's participation in syndicates 2623, 3623 and 3622. In the event that the declared result is a loss, the extent of the reinsurance is limited to the loss not exceeding 75% of the Funds at Lloyds in addition to an excess of £2m.

The underwriting results are determined on an annual basis. Results reported on an annual basis recognise profits as they are earned instead of at the closure of a particular Lloyd's year of account, normally after three years.

Premiums

Gross premiums written represent a 75% share of:

- premiums notified as due to the syndicates by brokers up to the balance sheet date in respect of contracts commencing in the financial year together with adjustments to premiums written in previous accounting periods and estimates for 'pipeline' premiums;
- gross premiums written are stated before deduction of commissions but exclusive of taxes, duties levied on premiums and other deductions; and
- outward reinsurance premiums are accounted for in the same accounting period as the related direct insurance or inwards reinsurance business except in relation to excess of loss contracts, where the initial premium is charged when paid.

1 Principal accounting policies *continued*

Unearned premiums represent a 75% share of the proportion of premiums written by the syndicates in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.

Claims incurred

Claims incurred represent a 75% share of all claims payments and internal and external settlement expense payments made by the syndicates in the financial year and a 75% share in the movement in the provisions for outstanding claims and settlement expenses, including claims incurred but not reported, net of salvage and subrogation expenses. Where appropriate, statistical methods have been applied to past experience of claims frequency and severity.

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

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

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

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

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

Provisions represent 75% of the provisions as calculated by the syndicates, net of any estimates of amounts that will be recoverable from reinsurers of the syndicates having due regard to collectability.

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

Deferred acquisition costs of Beazley Re represent 75% of the deferred acquisitions costs as calculated by the syndicates.

1 Principal accounting policies *continued*
(c) Financial instruments
Financial instruments are recognised in the balance sheet at such time that the company becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the company’s obligations specified in the contract expire, are discharged or cancelled.

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

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

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

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

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

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

Upon initial recognition, attributable transaction costs relating to financial instruments at fair value are recognised in profit or loss account when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in the profit and loss account. Net changes in the fair value of financial assets at fair value through the profit or loss account exclude interest and dividend income.

Investment income

Investment income consists of dividends, interest, realised and unrealised gains and losses and foreign exchange gains and losses on financial assets at fair value through profit or loss. Interest is recognised on an accruals basis for financial assets at fair value through profit or loss. The realised gains or losses on disposal of an investment are the difference between the proceeds and the original cost of the investment. Unrealised investment gains and losses represent the difference between the carrying value at the balance sheet date, and the carrying value at the previous year end or purchase value during the year.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, recent market transactions, and valuation techniques which include discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of fair value of a derivative at initial recognition is the transaction price.

(d) Cash at bank and in hand

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

(e) Other payables

Other payables are stated at amortised cost.

(f) Taxation

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

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

(g) Foreign currency translation

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

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

2 Risk review

The company has identified the risks arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite. The sections below outline the company's risk appetite and explain how it defines and manages each category of risk.

Risk management framework

Corporate governance

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

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

Capital management

The company is required to maintain minimum capital requirements as set out in the European Communities (Reinsurance) Regulations 2006. Regulations stipulate that the company should maintain capital, allowable for solvency purposes, of at least the calculated threshold amount. At no time in the year has the company failed to meet this requirement.

2.1 Insurance risk

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

a) Underwriting risk

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

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

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

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

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

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

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

The company uses a number of modelling tools to monitor its exposures against the agreed risk appetite set and to simulate catastrophe losses in order to measure the effectiveness of its reinsurance programmes.

Stress and scenario tests are also run using these models. The range of scenarios considered include natural catastrophes, 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 company measures geographic accumulations and uses its knowledge of the business, historical loss behaviour and commercial catastrophe modelling software to assess the expected range of losses at different return periods. Upon application of the reinsurance coverage purchased, the key gross and net exposures are calculated on the basis of extreme events at a range of return periods.

In 2016, the company's business consisted of five operating divisions. The following table provides a breakdown of gross premiums written by division.

	2016	2015
Marine	12%	14%
Political risks & contingency	5%	6%
Property	23%	27%
Specialty lines	54%	47%
Life, accident & health	6%	6%

b) Claims management risk

Claims management risk may arise within the company in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. These risks may damage the Beazley brand and undermine its ability to win and retain business or incur punitive damages. These risks can occur at any stage of the claims life-cycle.

The company's claims teams are focused on delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business's broader interests. Prompt and accurate case reserves are set for all known claims liabilities, including provisions for expenses.

c) Reserving and ultimate reserves risk

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

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

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

2 Risk review *continued*

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

Sensitivity to insurance risk (claims reserves)	5% increase in claims reserves	5% decrease in claims reserves

	2016 $m	2015 $m	2016 $m	2015 $m
Impact on profit	**(97.3)**	**(97.7)**	**97.3**	**97.7**

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

Concentration of insurance risk	2016 %	2015 %
US	63%	58%
Europe	14%	15%
Other	23%	27%
Total	**100%**	**100%**

2.2 Market risk

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

Foreign exchange risk

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

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

In 2010, the company entered into a forward foreign exchange contract with another group company. This contract was superseded and replaced on 18 January 2014, the terms of the contract remained unchanged. Under the terms of the forward foreign exchange agreement, Beazley Re was contracted to pay £150,000,000 and receive $228,000,000 from another group company on 17 October 2016. The forward rate prevailing at the date the contract was entered into was 1.52, and the rate at the settlement date was 1.216.

In 2016, the company managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting net assets to be entirely US dollar denominated. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk.

2 Risk review *continued*

The following table summarises the carrying value of total assets and total liabilities categorised by currency:

31 December 2016	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m		US $ $m	Total $m
Total assets	736.8	190.7	174.0	1,101.5		2,999.7	4,101.2

Total liabilities	(488.0)	(196.0)	(235.8)	(919.8)		(2,065.1)	(2,984.9)
Net assets	**248.8**	**(5.3)**	**(61.8)**	**181.7**		**934.6**	**1,116.3**

31 December 2015	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m		US $ $m	Total $m
Total assets	836.2	96.4	311.7	1,244.3		2,739.1	3,983.4
Total liabilities	(650.4)	(91.4)	(400.7)	(1,142.5)		(1,880.8)	(3,023.3)
Net assets	**185.8**	**5.0**	**(89.0)**	**101.8**		**858.3**	**960.1**

As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure across the company. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk. The company's assets are matched by currency to the principal underlying currencies of its insurance liabilities. This helps mitigate the risk that the company's assets required to cover its insurance liabilities are not materially affected by any future movements in exchange rates.

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

	Impact on profit after tax for the year ended		Impact on net assets	
Change in exchange rate of UK Sterling, Canadian dollar and Euro relative to US dollar	2016 $m	2015 $m	2016 $m	2015 $m
Dollar weakens 30% against other currencies	47.7	26.7	47.7	26.7
Dollar weakens 20% against other currencies	31.8	17.8	31.8	17.8
Dollar weakens 10% against other currencies	15.9	8.9	15.9	8.9
Dollar strengthens 10% against other currencies	(15.9)	(8.9)	(15.9)	(8.9)
Dollar strengthens 20% against other currencies	(31.8)	(17.8)	(31.8)	(17.8)
Dollar strengthens 30% against other currencies	(47.7)	(26.7)	(47.7)	(26.7)

Interest rate risk

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

The company manages interest rate risk by primarily investing in short duration financial investments. The Board of Beazley Re Designated Activity Company monitors the duration of these assets on a regular basis.

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

2 Risk review *continued*

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 securities	456.9	186.2	248.8	166.9	115.0	18.6	–	1,192.4

Cash and cash equivalents	25.8	–	–	–	–	–	–	25.8
Derivative financial instruments	1.1	–	–	–	–	–	–	1.1
Borrowings	–	–	–	–	–	(248.3)	–	(248.3)
Total	**483.8**	**186.2**	**248.8**	**166.9**	**115.0**	**(229.7)**	–	**971.0**

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 securities	390.4	139.8	65.2	126.2	48.9	89.5	–	860.0
Cash and cash equivalents	244.2	–	–	–	–	–	–	244.2
Derivative financial instruments	–	–	–	–	–	–	–	–
Borrowings	–	–	–	–	–	–	–	–
Total	**634.6**	**139.8**	**65.2**	**126.2**	**48.9**	**89.5**	**–**	**1,104.2**

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

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

	Impact on profit after tax for the year ended		Impact on net assets	
Shift in yield (basis points)	2016 $m	2015 $m	2016 $m	2015 $m
150 basis point increase	(13.1)	(18.9)	(13.1)	(18.9)
100 basis point increase	(8.7)	(12.6)	(8.7)	(12.6)
50 basis point increase	(4.4)	(6.3)	(4.4)	(6.3)
50 basis point decrease	4.4	6.3	4.4	6.3
100 basis point decrease	8.7	12.6	8.7	12.6

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

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

2 Risk review *continued*

Listed investments are recognised on the Balance Sheet at quoted bid price. If the market for the investment is not considered to be active, then the company establishes fair value using valuation techniques. This includes using recent arm's length market transactions, reference to current fair value of other investments that are substantially the same, discounted cash flow models and other valuation techniques that are commonly used by market participants.

2.3 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost.

The company's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event. This means that the company maintains sufficient liquid assets, or assets that can be translated into liquid assets at short notice and without any significant capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return.

The following is an analysis by business segment of the estimated timing of the net cash flows based on the net claims liabilities balance held at 31 December 2016 and 31 December 2015:

31 December 2016	Within 1 year $m	2-3 years $m	3-5 years $m	Greater than 5 years $m	Total $m	Weighted average term to settlement (years)
Life, accident & health	28.8	6.4	0.5	4.9	40.6	0.9
Marine	73.8	60.1	17.1	12.8	163.8	1.9
Political risks & contingency	18.6	18.5	5.7	4.5	47.3	2.2
Property	121.4	98.1	27.5	21.9	268.9	1.8
Specialty lines	298.1	488.5	291.7	347.7	1,426.0	3.5
Net insurance liabilities	**540.7**	**671.6**	**342.5**	**391.8**	**1,946.6**	

31 December 2015	Within 1 year $m	2-3 years $m	3-5 years $m	Greater than 5 years $m	Total $m	Weighted average term to settlement (years)
Life, accident & health	33.0	11.9	0.5	–	45.4	0.8
Marine	79.6	64.3	17.6	12.5	174.0	1.9
Political risks & contingency	25.1	25.1	7.2	5.7	63.1	2.0
Property	123.1	99.2	28.2	22.5	273.0	1.9
Specialty lines	296.3	478.4	284.5	338.9	1,398.1	3.5
Net insurance liabilities	**557.1**	**678.9**	**338.0**	**379.6**	**1,953.6**	

Under the terms of the intercompany forward currency contract referred to in note 2.2 above, Beazley Re was contracted to pay £150,000,000 and receive $228,000,000 from another group company on 17 October 2016.

2 Risk review *continued*

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

Maturity

31 December 2016	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-10 yrs	>10 yrs	Total

	$m	$m	$m	$m	$m	$m	$m	$m
Fixed and floating rate securities	235.4	238.5	313.6	195.2	191.1	18.6	–	1,192.4
Cash and cash equivalents	25.8	–	–	–	–	–	–	25.8
Derivative financial instruments	1.1	–	–	–	–	–	–	1.1
Borrowings	–	–	–	–	–	(248.3)	–	(248.3)
Total	**262.3**	**238.5**	**313.6**	**195.2**	**191.1**	**(229.7)**	–	**971.0**

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 securities	296.2	170.9	95.1	144.1	59.2	94.5	–	860.0
Cash and cash equivalents	244.2	–	–	–	–	–	–	244.2
Derivative financial instruments	–	–	–	–	–	–	–	–
Borrowings	–	–	–	–	–	–	–	–
Total	**540.4**	**170.9**	**95.1**	**144.1**	**59.2**	**94.5**	**–**	**1,104.2**

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

2.4 Credit risk

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the company are:

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

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

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

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

2 Risk review *continued*

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

31 December 2016	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets at fair value						

– Fixed and floating rate debt securities	865.4	327.0	–	–	–	1,192.4
– Equity linked funds	–	–	–	–	38.3	38.3
– Hedge funds	–	–	–	–	46.4	46.4
– Derivative financial instruments	–	–	–	–	1.1	1.1
Cash and cash equivalents	25.8	–	–	–	–	25.8
Accrued interest	1.6	–	–	–	–	1.6
Amounts due from group companies	–	–	–	–	2,588.3	2,588.3
Total	**892.8**	**327.0**	**–**	**–**	**2,674.1**	**3,893.9**

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	853.8	10.0	–	–	–	863.8
– Equity linked funds	–	–	–	–	82.3	82.3
– Hedge funds	–	–	–	–	43.6	43.6
– Derivative financial instruments	–	–	–	–	–	–
Cash and cash equivalents	–	239.9	–	–	–	239.9
Accrued interest	3.9	–	–	–	–	3.9
Amounts due from group companies	–	–	–	–	2,560.4	2,560.4
Total	**857.7**	**249.9**	**–**	**–**	**2,686.3**	**3,793.9**

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

At 31 December 2016, the company held no financial assets that were past due or impaired, either for the current year under review or on a cumulative basis.

3 Segmental analysis

a) Reporting segments

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

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.

3 Segmental analysis *continued*

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.

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.

b) Segment information

31 December 2016	Marine $m	Political risks & contingency $m	Property $m	Life, accident & health $m	Specialty lines $m	Total reportable segments $m	Unallocated $m	Total $m
Segment results								
Gross premiums written	164.9	71.2	313.4	73.9	710.2	1,333.6	–	1,333.6
Net earned premiums	166.4	75.0	316.6	73.6	636.0	1,267.6	–	1,267.6
Net investment income	14.1	6.0	32.5	3.4	72.7	128.7	–	128.7
Revenue	**180.5**	**81.0**	**349.1**	**77.0**	**708.7**	**1,396.3**	**–**	**1,396.3**
Net insurance claims	(73.8)	(21.9)	(117.0)	(46.9)	(352.4)	(612.0)	–	(612.0)
Net operating expenses	(77.5)	(36.6)	(143.3)	(30.7)	(241.3)	(529.4)	(0.2)	(529.6)
Foreign exchange loss	–	–	–	–	–	–	(75.5)	(75.5)
Expenses	**(151.3)**	**(58.5)**	**(260.3)**	**(77.6)**	**(593.7)**	**(1,141.4)**	**(75.7)**	**(1,217.1)**
Profit on ordinary activities before tax	**29.2**	**22.5**	**88.8**	**(0.6)**	**115.0**	**254.9**	**(75.7)**	**(179.2)**

Segment assets and liabilities								
Segment assets	538.5	242.5	1,024.5	238.0	2,057.7	4,101.2	–	4,101.2
Segment liabilities	(391.9)	(176.5)	(745.6)	(173.2)	(1,497.7)	(2,984.9)	–	(2,984.9)
Net assets	**146.6**	**66.0**	**278.9**	**64.8**	**560.0**	**1,116.3**	**–**	**1,116.3**

3 Segmental analysis *continued*

31 December 2015	Marine $m	Political risks & contingency $m	Property $m	Life, accident & health $m	Specialty lines $m	Total reportable segments $m	Unallocated $m	Total $m
Segment results								

Gross premiums written	179.2	76.6	327.7	68.8	585.0	1,237.3	–	1,237.3
Net earned premiums	193.4	77.6	323.7	72.0	562.8	1,229.5	–	1,229.5
Net investment income	7.9	3.2	17.2	1.8	33.0	63.1	–	63.1
Revenue	**201.3**	**80.8**	**340.9**	**73.8**	**595.8**	**1,292.6**	**–**	**1,292.6**
Net insurance claims	(73.1)	(21.5)	(109.5)	(42.0)	(335.0)	(581.1)	–	(581.1)
Net operating expenses	(80.3)	(39.4)	(141.9)	(31.3)	(211.1)	(504.0)	(2.8)	(506.8)
Foreign exchange loss	–	–	–	–	–	–	(11.2)	(11.2)
Expenses	**(153.4)**	**(60.9)**	**(251.4)**	**(73.3)**	**(546.1)**	**(1,085.1)**	**(14.0)**	**(1,099.1)**
Profit on ordinary activities before tax	**47.9**	**19.9**	**89.5**	**0.5**	**49.7**	**207.5**	**(14.0)**	**193.5**

Segment assets and liabilities								
Segment assets	626.5	251.5	1,049.1	233.2	1,823.1	3,983.4	–	3,983.4
Segment liabilities	(475.5)	(190.8)	(796.2)	(177.1)	(1,383.7)	(3,023.3)	–	(3,023.3)
Net assets	**151.0**	**60.7**	**252.9**	**56.1**	**439.4**	**960.1**	–	**960.1**

All gross premiums written were ceded to the company by Beazley Underwriting Limited, which is located in the United Kingdom. An analysis of gross premiums written by reference to the location of the risk insured by the ceding company is provided below:

	2016 $m	2015 $m
Risks located in UK	100.5	92.3
Risks located in US	769.9	719.3
Risks located in other countries	463.2	425.7
	1,333.6	**1,237.3**

4 Investment return

	2016 $m	2015 $m
Intercompany share of Lloyd's syndicates investment income	66.1	41.9
Income from funds at Lloyds	12.2	8.6
Income from intercompany financing arrangements	17.3	16.2
Investment income	**95.6**	**66.7**
Fair value gain on derivative	41.4	4.7
	137.0	**71.4**
Investment expenses and charges	(8.3)	(8.3)
	128.7	**63.1**

5 Net operating expenses

	2016 $m	2015 $m
Intercompany share of Lloyd's Syndicates acquisition costs	397.0	379.4
Intercompany share of Lloyd's Syndicates operating expenses	103.1	99.8

Other administration costs	29.5	27.6
Balance on technical account	**529.6**	**506.8**

Administrative expenses include:

	2016 $	2015 $
Auditor's remuneration:		
Fees payable to the company's auditor for the audit of these annual accounts (€22,800)	24,255	25,463
Fees payable to the company's auditor and its associates in respect of: Other services pursuant to legislation (€35,000)	37,234	18,427
	61,489	**43,890**

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

Number of employees	2016	2015
Management	1	1
Finance	1	1
Compliance	1	1
Administration	0.5	1
	3.5	**4**

6 Staff numbers and costs

The aggregate payroll costs of these persons were as follows:

	2016 $m	2015 $m
Wages and salaries	0.4	0.5
Social security costs	–	–
Charged to profit or loss account	**0.4**	**0.5**

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

Non-executive directors of the Company P O'Connor, C Woods and V Sheridan are also non-executive directors of Beazley plc. Their remuneration was borne by Beazley plc, details of which are disclosed in the accounts of Beazley plc.

The table below contains details of remuneration paid to directors E McGivney, D O'Connor and I Stuart.

6 Staff numbers and costs *continued*

	2016 $m	2015 $m
Directors' remuneration	0.3	0.3
Pension contributions	–	–
	0.3	**0.3**

7 Taxation

	2016 $m	2015 $m
Current tax:		
Irish corporation tax charge	22.7	23.3
Adjustment in respect of prior year	0.3	0.5
Tax on profit on ordinary activities	**23.0**	**23.8**

Factors affecting the tax charge for the current period
The tax charge for the year is higher (2015 lower) than the standard rate of corporation tax in Ireland, 12.5% due to the differences explained below.

	2016 $m	2015 $m
Profit on ordinary activities before tax	179.2	193.5
Corporation tax at 12.5%	22.4	24.2
Effect of:		
Permanent differences	0.3	(1.0)
Prior year under provision (2015 over provision)	0.3	0.5
Foreign exchange	–	0.1
	23.0	**23.8**

8 Financial instruments

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

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

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

8 Financial instruments *continued*

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

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

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

31 December 2016 Financial assets at fair value through:	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Fixed and floating rate debt securities				
1) Government issued	447.4	–	–	447.4
2) Quasi-government	19.7	–	–	19.7
3) Supernational	9.5	–	–	9.5
4) Corporate bonds	–	–	–	–
Investment grade	5.9	709.9	–	715.8
High yields	–	–	–	–
5) Syndicated bank loans	–	–	–	–
6) Asset backed securities	–	–	–	–
Equity linked funds	–	38.3	–	38.3
Hedge funds/uncorrelated strategies	–	46.4	–	46.4
Illiquid credit assets	–	–	–	–
Derivative financial instruments	1.1	–	–	1.1
Total financial assets at fair value	**483.6**	**794.6**	**–**	**1,278.2**

8 Financial instruments *continued*

The table below analyses financial instruments measured at fair value at the 31 December 2015, by the level in the fair value hierarchy into which the fair value measurements is categorised:

31 December 2015 Financial assets at fair value through:	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Fixed and floating rate debt securities				
1) Government issued	382.7	10.0	–	392.7
2) Quasi-government	67.4	87.1	–	154.5

3) Supernational	158.3	–	–	158.3
4) Corporate bonds	–	–	–	–
Investment grade	–	158.4	–	158.4
High yields	–	–	–	–
5) Syndicated bank loans	–	–	–	–
6) Asset backed securities	–	–	–	–
Equity linked funds	–	82.3	–	82.3
Hedge funds/uncorrelated strategies	–	–	43.6	43.6
Illiquid credit assets	–	–	–	–
Derivative financial instruments	–	–	–	–
Total financial assets at fair value	**608.4**	**337.8**	**43.6**	**989.8**

9 Current tax receivable

	2016 $m	2015 $m
Current tax receivable	5.1	5.5
	5.1	**5.5**

10 Cash and cash equivalents

	2016 $m	2015 $m
Cash at bank and in hand	8.0	11.1
Short term deposits	17.8	228.8
	25.8	**239.9**

11 Deferred acquisition cost

	2016 $m	2015 $m
Balance at 1 January	183.9	178.8
Additions	18.3	5.1
Balance at 31 December	**202.2**	**183.9**

12 Share capital

	2016 $m	2015 $m
Authorised: 100,000,000 ordinary shares of (€1) each	128.4	128.4
Allotted, issued and fully paid	–	–

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

13 Technical provisions

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

	Provision for unearned premium $m	Claims outstanding $m
Gross technical provisions		
At 1 January 2015	610.6	1,960.3
Exchange adjustments	(18.7)	(31.4)
Movement in provision	7.8	24.7
At 31 December 2015	599.7	1,953.6
Net technical provisions		
At 31 December 2015	599.7	1,953.6
At 1 January 2015	610.6	1,960.3

The company did not purchase reinsurance during the year.

13 Technical provisions *continued*

Claims development tables

Gross claims development	2009	2010	2011	2012	2013	2014	2015	2016	
12 months	60.4%	63.9%	66.8%	64.3%	62.7%	61.3%	61.0%	60.9%	
24 months	56.2%	68.3%	63.6%	58.6%	60.7%	56.8%	57.5%		
36 months	52.5%	65.9%	60.1%	54.1%	57.7%	53.6%			

48 months	50.2%	62.8%	56.9%	51.2%	54.6%				
60 months	49.3%	62.7%	56.4%	49.8%					
72 months	48.7%	61.7%	54.9%						
84 months	48.7%	61.7%							
96 months	48.5%								

	2009	2010	2011	2012	2013	2014	2015	2016	Total
Gross claims liabilities, Beazley managed level	420.8	146.5	157.8	209.5	386.0	549.6	793.3	515.8	3,179.3
Less Group and Non Group entities	(184.3)	(52.9)	(48.4)	(69.8)	(146.8)	(231.6)	(303.1)	(195.8)	(1,232.7)
Gross claims liabilities, Beazley Re share	**236.5**	**93.6**	**109.4**	**139.7**	**239.2**	**318.0**	**490.2**	**320.0**	**1,946.6**

Net claims development	2009	2010	2011	2012	2013	2014	2015	2016	
12 months	**60.4%**	63.9%	66.8%	64.3%	62.7%	61.3%	61.0%	60.9%	
24 months	**56.2%**	68.3%	63.6%	58.6%	60.7%	56.8%	57.5%		
36 months	**52.5%**	65.9%	60.1%	54.1%	57.7%	53.6%			
48 months	**50.2%**	62.8%	56.9%	51.2%	54.6%				
60 months	**49.3%**	62.7%	56.4%	49.8%					
72 months	**48.7%**	61.7%	54.9%						
84 months	**48.7%**	61.7%							
96 months	**48.5%**								

	2009	2010	2011	2012	2013	2014	2015	2016	Total
Net claims liabilities, Beazley managed level	420.8	146.5	157.8	209.5	386.0	549.6	793.3	515.8	3,179.3
Less Group and Non Group entities	(184.3)	(52.9)	(48.4)	(69.8)	(146.8)	(231.6)	(303.1)	(195.8)	(1,232.7)
Net claims liabilities, Beazley Re share	**236.5**	**93.6**	**109.4**	**139.7**	**239.2**	**318.0**	**490.2**	**320.0**	**1,946.6**

14 Funds at Lloyd's

The Funds at Lloyd's to support the underwriting of Beazley Underwriting Limited on syndicates 2623, 3622 and 3623 have been provided by the company by way of deposits of £542.3m (2015: £352.1m).

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

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

15 Related parties

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

16 Ultimate parent undertaking

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

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

The smallest group in which the results of the company are consolidated is that headed by Beazley Ireland Holdings plc. The accounts of Beazley Ireland Holdings plc are available to the public at www.beazley.com and at 2 Northwood Avenue, Santry, Dublin 9.

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

17 Financial liabilities

	2016 $m	2015 $m
Carrying value		
Tier 2 subordinated debt (2016) – issued in 2016	248.3	–
	248.3	**–**

Fair value		
Tier 2 subordinated debt (2016) – issued in 2016	253.3	–
	253.3	**–**

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

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

Interest paid on this debt during 2016 was $2.3m.

18 Post balance sheet events

On 3 March the board approved an interim dividend payment to be made to Beazley Ireland Holdings plc of £66m ($83.8m) from
the company's distributable reserves. This dividend was paid in cash on 22 March 2017.

19 Approval of financial statements

The board of directors approved these financial statements on 28 April 2016.

Directors and advisors

Directors

M L Bride (French)
D A Horton (British)
E J McGivney
P J O’Connor – (resigned 24 March 2016)
D K O’Connor – (appointed 10 March 2016)
V J Sheridan
I C Stuart
C M Woods

Secretary
M Landers – (resigned 6 January 2017)
R Yeoman – (appointed 27 January 2017)

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