

BEAZLEY GROUP LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2018



Beazley Group Limited

Directors and advisors

Directors

M S Goodman
E McGivney
C P Oldridge

Secretary

Hampden Legal Plc,
Hampden House,
Great Hampden,
Buckinghamshire
HP16 9RD

Registered office

Plantation Place South
60 Great Tower Street
London
EC3R 5AD

Registered Number

04082477

Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Banker

Deutsche Bank AG
6 Bishopsgate
London EC2N 4DA

Beazley Group Limited

Strategic report

The directors present their strategic report for Beazley Group Limited ('the company', registered number: 04082477) that accompanies the audited financial statements for the year ended 31 December 2018.

Business review and principal activity

Beazley Group plc was previously the ultimate parent company of the Beazley group until the re-domiciliation to Ireland, at which point it de-listed and became Beazley Group Limited. Beazley plc was incorporated in Jersey on 20 February 2009 under Jersey Company Law as a public company limited by shares and with registered number 102680. With effect from 9 June 2009, under a scheme of arrangement involving a share exchange with the members of Beazley Group plc, Beazley plc became the new holding company of the Beazley group of companies ('the group'). Following a further scheme of arrangement on 13 April 2016, Beazley plc ceased to be the parent company of the group and changed its name to Beazley Ireland Holdings plc. The new parent company, Beazley plc (formerly Swift No.3 Limited), is incorporated in the UK.

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

In 2017, the company was required to produce consolidated accounts due to holding \$18.0m of tradable subordinated debt. During 2018, this debt was recalled. As such the obligation to produce consolidated accounts no longer applies. The financial statements included in this report present the balances as of 31 December 2018 and 31 December 2017 for the company Beazley Group Limited.

Going concern

The directors have prepared these accounts on a going concern basis, as they are of the opinion that the company will be able to pay its debts as and when they fall due.

Key performance indicators ('KPIs')

The company's directors are of the opinion that the KPIs for the company are best represented by the financial statements and related notes set out on pages 8 to 26. In particular, notes 7 (Investment in subsidiaries) and 16 (Related party disclosure) give further information on the company's subsidiaries and related entities.

Signed on behalf of the board



C P Oldridge
Director

28 March 2019

Plantation Place South
60 Great Tower Street
London
EC3R 5AD

Beazley Group Limited

Directors' report

Business review

A review of the company's activities is included in the strategic report.

Results and dividends

The results of the company for the year are shown in the statement of profit or loss on page 8. There were no dividends paid during the year (2017: \$nil). After the balance sheet date a dividend of \$55.0m was declared to the company's parent, Beazley Ireland Holdings plc.

Donations

No charitable or political donations were made by the company in either the current or prior reporting year.

Directors

The directors of the company who served during the year and to the date of this report, were as follows:

M S Goodman
E McGivney
C P Oldridge

Disclosure of information to auditor

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

Social, environmental and ethical risks

Social, environmental and ethical risks are managed on a group basis. More information can be obtained on how the group manages these risks from the financial statements of Beazley plc.

Beazley Group Limited

Directors' report (continued)

Auditor

The group undertook an audit tender process during 2018 in respect of external audit services. EY were proposed for appointment for financial periods on or after 1 January 2019 to the Beazley plc shareholders at the 2019 AGM and were approved. KPMG LLP will resign as auditor following the completion of the 31 December 2018 audit.

Signed on behalf of the board



C P Oldridge
Director

28 March 2019

Plantation Place South
60 Great Tower Street
London
EC3R 5AD

Beazley Group Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the strategic report, the directors' report 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 IFRSs as adopted by the EU and applicable law.

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 company and of the profit or loss of the company for that period. In preparing these 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 company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 company and to prevent and detect fraud and other irregularities.



M S Goodman

Director

28 March 2019

Beazley Group Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BEAZLEY GROUP LIMITED

Opinion

We have audited the financial statements of Beazley Group Limited ("the company") for the year ended 31 December 2018 which comprise the Statement of profit or loss, Statement of changes in equity, Statement of financial position, Statement of cash flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

Beazley Group Limited

- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

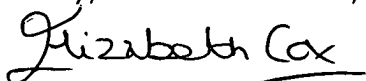
Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Elizabeth Cox (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London
E14 5GL

28 March 2019

Beazley Group Limited

Statement of profit or loss for the year ended 31 December 2018

	Note	2018 \$m	2017 \$m
Revenue		61.4	126.9
Administrative expenses including foreign exchange		<u>(1.6)</u>	<u>(10.6)</u>
Operating profit		59.8	116.3
Finance costs	5	<u>(1.0)</u>	<u>(0.9)</u>
Profit on ordinary activities before taxation	3	58.8	115.4
Taxation (charge)/credit	6	<u>(0.1)</u>	<u>0.2</u>
Profit for the financial year		<u>58.7</u>	<u>115.6</u>

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

The notes on pages 12 to 26 form part of these financial statements. The company has no recognised gains and losses other than recognised in the profit or loss account.

Beazley Group Limited

Statement of changes in equity for the year ended 31 December 2018

	Share capital	Other reserves	Retained earnings	Total
	\$m	\$m	\$m	\$m
Balance at 1 January 2017	-	(21.5)	114.5	93.0
Total comprehensive income recognised	-	-	115.6	115.6
Balance at 31 December 2017	-	(21.5)	230.1	208.6
Total comprehensive income recognised	-	-	58.7	58.7
Balance at 31 December 2018	-	(21.5)	288.8	267.3

The company's foreign exchange reserve relates primarily to the change in functional currency from sterling to US dollars in 2010.

Beazley Group Limited

Statement of Financial Position as at 31 December 2018

	Note	2018 \$m	2017 \$m
Assets			
Investment in subsidiaries	7	191.0	191.0
Other investments	8	24.7	26.0
Other receivables	9	72.6	122.3
Current income tax	6	-	0.4
Cash and cash equivalents	10	1.5	1.4
Total assets		289.8	341.1
Liabilities			
Borrowings	11	-	18.0
Other payables	12	22.5	114.5
Total liabilities		22.5	132.5
Share capital	13	-	-
Foreign currency translation reserves		(21.5)	(21.5)
Retained earnings	14	288.8	230.1
Total capital and equity		267.3	208.6
Total liabilities, capital and equity		289.8	341.1

Signed on behalf of the board of directors



 M S Goodman
 Director

The financial statements were approved by the board of directors on 28 March 2019.

The notes on pages 11 to 25 form part of these financial statements.

Beazley Group Limited

Statement of cash flows for the year ended 31 December 2018

	Note	2018 \$m	2017 \$m
Cash flow from operating activities			
Profit before income tax	3	58.8	115.4
Adjustments for:			
Decrease in insurance and other liabilities		(92.0)	(172.0)
Decrease in insurance, reinsurance and other receivables	9	49.7	81.8
Financial income		(61.4)	(126.9)
Financial expense	5	1.0	0.9
Foreign exchange on intra-group subordinated debt		1.0	(0.6)
Income tax received		0.3	2.2
Net cash from operating activities		(42.6)	(99.2)
Cash flow from investing activities			
Interest and dividends received		61.4	126.9
Purchase of investments		-	(8.1)
Net cash from investing activities		61.4	118.8
Cash flow from financing activities			
Finance costs	5	(1.0)	(0.9)
Set up of intra-group subordinated debt		-	(17.3)
Repayment of subordinated debt		(18.0)	-
Net cash to financing activities		(19.0)	(18.2)
Net (decrease)/ increase in cash and cash equivalents		(0.2)	1.4
Cash and cash equivalents at beginning of year		1.4	0.1
Effect of exchange rate changes on cash and cash equivalents		0.3	(0.1)
Cash and cash equivalents at end of year	10	1.5	1.4

Beazley Group Limited

Notes to the financial statements

1. Accounting policies

Basis of accounting

The financial statements have been prepared and approved by the directors in accordance with IFRSs as adopted by the EU ('Adopted IFRSs').

The financial statements are prepared using the historical cost convention except that derivative financial instruments are stated at their fair value. All amounts presented are stated in US dollars, as the company's functional and presentational currency, and millions, unless stated otherwise.

These financial statements are not consolidated accounts per the exemption contained in IAS 27 (separate financial statements), since Beazley Group Limited is 100% owned and controlled by Beazley Ireland Holdings plc who in turn are owned by Beazley plc. The consolidated financial statements of Beazley plc and Beazley Ireland Holdings plc can be obtained from the website www.beazley.com

Policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

In the current year, the company has applied amendments to IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2018. The new effective requirements are:

- IFRS 2: Amendment: Classification and Measurement of Share-based Payment Transactions (EU effective date: 1 January 2018);
- IFRS 9: Financial Instruments (EU effective date: 1 January 2018)
- IFRIC 22: Foreign Currency Transactions and Advance Consideration (EU effective date: 1 January 2018);
- IAS 40: Amendment: Transfers of Investment Property (EU effective date: 1 January 2018);
- Annual Improvements to IFRS Standards 2014-2016 Cycle (EU effective date: 1 January 2018); and
- IFRS 15 Revenue from Contracts with Customers (EU effective date: 1 January 2018).

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

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 company 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 company is still reviewing the upcoming standards to determine their impact:

- IFRS 9: Amendment: Prepayment Features with Negative Compensation (EU effective date: 1 January 2019);
- IFRS 16: Leases (EU effective date: 1 January 2019);
- IFRIC 23 Uncertainty over Income Tax Treatments (EU effective date: 1 January 2019);
- IFRS 17: Insurance Contracts (IASB effective date: 1 January 2021);¹
- IAS 19: Amendment: Plan Amendment, Curtailment or Settlement (IASB effective date: 1 January 2019);¹
- IAS 28: Amendment: Long-term Interests in Associates and Joint Ventures (IASB effective date: 1 January 2019);¹

Beazley Group Limited

Notes to the financial statements (continued)

1. Accounting policies (continued)

- Annual Improvements to IFRS Standards 2015-2017 Cycle (IASB effective date: 1 January 2019);¹
- Amendments to References to the Conceptual Framework in IFRS Standards (IASB effective date: 1 January 2019);¹
- IFRS 3: Amendment: Business Combinations (IASB effective date: 1 January 2020);¹ and
- IAS 1 and IAS 8: Amendment: Definition of Material (IASB effective date: 1 January 2020).¹

¹ These amendments have not been endorsed by the EU

Going concern

The directors have prepared these accounts on a going concern basis, as they are of the opinion that the company will be able to pay its debts as and when they fall due.

As a wholly owned subsidiary of Beazley plc, the directors expect the company to have adequate resources to remain in existence for the foreseeable future.

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.

Dividends paid

Dividend distributions to the shareholder of the company are recognised in the period in which the dividends are approved by the shareholders at the company's board meeting. Interim dividends are recognised in the period in which they are paid.

Investments in subsidiaries

Investments in subsidiary undertakings and associates are stated at cost less any impairment.

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 directly in equity, in which case it is recognised 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 reporting date and any adjustments to tax payable in respect of prior periods.

Beazley Group Limited

Notes to the financial statements (continued)

1. Accounting policies (continued)

Deferred tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liability 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.

Financial instruments

Financial instruments are recognised in the statement of financial position 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.

a) Financial assets

On acquisition of a financial asset, the company is required to classify the asset into one of the following categories: financial assets at fair value through the statement of profit or loss, financial assets at fair value through other comprehensive income and financial assets carried at amortised cost less any impairment.

A loan between the company and Beazley Canada Ltd transitioned in accordance with IFRS 9 Financial Instruments during the year from loans and receivables to amortised cost less any impairment.

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 \$m	New carrying amount under IFRS 9 \$m
Subordinated debt to Beazley Canada Ltd	8	Loans and receivables	Amortised cost	16.9	16.9

b) Financial assets at fair value through statement of profit or loss

Except for derivative financial instruments and the loan to Beazley Canada Limited, 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 company's key management. The company's investment strategy is to invest and evaluate their performance with reference to their fair values.

c) 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 re-measured at their fair value. 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

Beazley Group Limited

Notes to the financial statements (continued)

1. Accounting policies (continued)

Financial instruments (continued)

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 company has not designated any derivatives as fair value hedges, cash flow hedges or net investment hedges.

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 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 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 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.

Beazley Group Limited

Notes to the financial statements (continued)

1. Accounting policies (continued)

Financial instruments (continued)

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

e) Other receivables

Other receivables principally consist of loans, prepayments, accrued income and sundry debtors and are carried at amortised cost. Other receivables also include intercompany loans carried at amortised cost less any impairment losses.

f) 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 company'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.

g) Other payables

Other payables are stated at amortised cost.

h) Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less from the date of acquisition. Cash at bank and in hand is classified as loans and receivables and carried at amortised cost less any impairment losses.

Foreign currencies

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 and loss account.

Translation differences relating to differences between, or changes to, functional currency and presentational currency are recorded through the foreign exchange reserve on the balance sheet.

Beazley Group Limited

Notes to the financial statements (continued)

2. Risk management

2.1 Foreign exchange risk

The functional currency of the company is the US dollar. The company is mainly exposed to fluctuations in exchange rates for the non-dollar denominated subordinated debt as per note 13. The company manages this by entering into exchange rate derivatives. These derivatives are used to rebalance the currency exposure to sterling.

2.2 Interest rate risk

Some of the company's financial instruments, including cash and cash equivalents and borrowings, are exposed to movements in market interest rates.

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

Duration

	<1 yr	1-2	2-3	3-4	4-5	5-10	>10	Total
	\$m	yrs	yrs	yrs	yrs	yrs	yrs	\$m
31 December 2018								
Cash and cash equivalents	1.5	-	-	-	-	-	-	1.5
Total	1.5	-	-	-	-	-	-	1.5
31 December 2017								
Cash and cash equivalents	1.4	-	-	-	-	-	-	1.4
Borrowings	-	-	-	-	-	-	(18.0)	(18.0)
Total	1.4	-	-	-	-	-	(18.0)	(16.6)

In November 2004, the company issued subordinated debt of US \$18m to JPMorgan Chase Bank, N.A. (JPMorgan) which was due in October 2034 and callable at the company's option since 2009. The loan was unsecured and interest was payable at the US London interbank offered rate (LIBOR) plus a margin of 3.65% per annum. The company repaid the subordinated debt in November 2018.

2.3 Credit risk

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due.

Beazley Group Limited

Notes to the financial statements (continued)

2. Risk management (continued)

The company analyses and examines counterparties when assessing credit risk.

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

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

	Tier 1 \$m	Tier 2 \$m	Tier 3 \$m	Tier 4 \$m	Unrated \$m	Total \$m
31 December 2018						
Cash and cash equivalents	1.5	-	-	-	-	1.5
Other investments	-	-	-	-	24.7	24.7
Other receivables	-	-	-	-	72.6	72.6
Total	1.5	-	-	-	97.3	98.8

	Tier 1 \$m	Tier 2 \$m	Tier 3 \$m	Tier 4 \$m	Unrated \$m	Total \$m
31 December 2017						
Cash and cash equivalents	1.4	-	-	-	-	1.4
Other investments	-	-	-	-	26.0	26.0
Other receivables	-	-	-	-	122.3	122.3
Total	1.4	-	-	-	148.3	149.7

Other investments consist of a CAD \$23.0m subordinated loan issued in 2017 to Beazley Canada Ltd. The debt is due on 2 February 2027 and has annual interest of 8% payable in November each year. Credit risk has been assumed low as both entities are within the Beazley plc group and the credit risk has been assessed on a 1-250 chance of occurring based on the risk appetite Beazley plc has for a large catastrophe event. The provision made for credit losses is less than \$0.1m. The company assumes that credit risk has not significantly increased since initial recognition and remains low at reporting date.

The majority of other receivables consist of amounts owed from other entities within the group. These are classified as unrated as they are unable to be classified under the tiers described above.

2.4 Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The company is exposed to payments on servicing its borrowings.

Beazley Group Limited

Notes to the financial statements (continued)

2. Risk management (continued)

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

31 December 2018	<i>Within 1 year</i> \$m	1-3 years \$m	3-5 years \$m	Greater than 5 years \$m	Total \$m
Other payables	22.5	-	-	-	22.5
	22.5	-	-	-	22.5
31 December 2017	<i>Within 1 year</i> \$m	1-3 years \$m	3-5 years \$m	Greater than 5 years \$m	Total \$m
Borrowings	-	-	-	18.0	18.0
Other payables	114.5	-	-	-	114.5
	114.5	-	-	18.0	132.5

3. Profit or Loss on ordinary activities before taxation

The audit fee in the current financial year was \$11k (2017: \$74k).

Amounts receivable by the company's auditor and its associates in respect of services to the company and its associates, other than the audit of the company's financial statements, have not been disclosed as the information is disclosed on a consolidated basis in the consolidated financial statements of the company's parent, Beazley Ireland Holdings plc and the financial statements of the company's ultimate parent Beazley plc.

All directors are employed by Beazley Management Limited except for Ed McGivney who is employed by Beazley Insurance dac.

4. Directors and employees

None of the directors of the company, or employees of the group, received any remuneration in respect of services rendered to the company. Details of the remuneration paid to the group's directors and employees for their services to the group are shown in the ultimate parent undertaking's accounts, Beazley plc, which can be found at www.beazley.com

5. Finance costs

	2018 \$m	2017 \$m
Interest expense	1.0	0.9
	1.0	0.9

Beazley Group Limited

Notes to the financial statements (continued)

6. Taxation

	2018 \$m	2017 \$m
Current tax:		
UK corporation tax at 19.0% (2017: 19.25%)	0.1	(0.2)
Adjustment in respect of prior periods	-	-
Taxation charge for the year	0.1	(0.2)

Factors affecting the tax charge for the current and prior years

The tax charge for the current year is lower (2017: lower) than the standard rate of corporation tax in the UK of 19.0% (2017: 19.25%) due to the differences explained below.

	2018 \$m	2017 \$m
<i>Corporation tax reconciliation</i>		
Profit on ordinary activities before tax	58.8	115.6
Current tax at 19.0% (2017: 19.25%)	11.2	22.3
<i>Effects of:</i>		
Expenses not deductible for tax purposes	0.6	1.8
Non-taxable dividends	(11.4)	(24.2)
Prior period adjustment	(0.3)	-
Taxation credit for the year	0.1	(0.1)

The Finance Act 2015, which provides for a reduction in the UK corporation tax rates to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. This 17% tax rate will reduce the company's future current tax charge and has been reflected in the calculation of the deferred tax balance as at 31 December 2018.

The company has taxable losses giving rise to an estimated deferred tax asset of \$1.2m, measured at the corporation tax rate of 17%. These tax losses have not been recognised in the year as they are not expected to be realised in the foreseeable future based on current taxable profit forecasts and projections.

7. Investment in subsidiaries

	2018 \$m	2017 \$m
Investment in subsidiaries	191.0	191.0

The investments in subsidiaries consist of an investment in Beazley Furlonge Holdings Limited.

Beazley Group Limited

Notes to the financial statements (continued)

8. Other investments

	2018 \$m	2017 \$m
Loans	16.9	17.9
Funds at Lloyd's	7.8	8.1
Total financial assets at amortised cost less impairment losses	24.7	26.0

The loan consists of subordinated debt issued in 2017 to Beazley Canada Ltd with a value of CAD \$23.0m. The debt is due 2 February 2027 and has annual interest of 8% payable in November each year.

Fair value measurement

The company currently does not have any financial assets measured at fair value. If the company were to have such assets, then the following fair value hierarchy would be used when measuring such assets.

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

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

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

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

There were no transfers in either direction between level 1 and level 2 during the year.

Beazley Group Limited

Notes to the financial statements (continued)

9. Other receivables

	2018 \$m	2017 \$m
Amounts due from group companies	72.6	80.5
Amounts due from syndicate 623	-	41.8
	72.6	122.3

All other receivables are due within one year of the reporting date. The carrying value approximates fair value.

10. Cash and cash equivalents

	2018 \$m	2017 \$m
Cash at bank and in hand	1.5	1.4
	1.5	1.4

11. Borrowings

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

	2018 \$m	2017 \$m
Carrying value		
Subordinated debt	-	18.0
	-	18.0
Fair value		
Subordinated debt	-	18.0
	-	18.0

All borrowings are classified as level 2 in the fair value hierarchy (refer to note 8 for more detail on the fair value hierarchy). The fair values of the subordinated debt and the tier 2 subordinated debt are based on quoted market prices.

In November 2004, the company issued subordinated debt of US \$18m to JPMorgan Chase Bank, N.A. (JPMorgan). The loan was unsecured and interest was payable at the US London interbank offered rate (LIBOR) plus a margin of 3.65% per annum. The company repaid the subordinated debt in November 2018.

Beazley Group Limited

Notes to the financial statements (continued)

12. Other payables

	2018 \$m	2017 \$m
Amounts due to other group companies	22.5	114.7
	22.5	114.7

All other payables are payable within one year of the reporting date and do not incur an interest charge. The carrying value approximates fair values.

13. Share capital

	2018	2017
	No. of shares (m)	No. of shares (m)
	\$m	\$m
Ordinary shares of 5p each		
Authorised*	-	-
Issued and fully paid*	-	-
Balance at 1 January and 31 December	-	-

With effect from 9 June 2009, under a scheme of arrangement involving a share exchange with the members of Beazley Group plc, Beazley plc (now Beazley Ireland Holdings plc) became the new holding company of the Beazley group of companies. This resulted in a share cancellation in Beazley Group plc, it de-listed and became Beazley Group Limited. Subsequently, Beazley plc (formerly Swift No.3 Limited), a UK incorporated company has become the holding company and parent of the Beazley group of companies.

* After the scheme of arrangement mentioned above, the company was left with a minimal amount of 1 ordinary share and 20 deferred shares.

14. Retained earnings

	2018 \$m	2017 \$m
Balance brought forward at 1 January	230.1	114.5
Profit for the financial year	58.7	115.6
Balance carried forward 31 December	288.8	230.1

15. Ultimate parent undertaking

The ultimate parent undertaking is Beazley plc, incorporated in the UK. The largest and the smallest company in which the results of the company are consolidated are those headed by Beazley plc and by Beazley Ireland Holdings plc respectively. No other company financial statements include the results of the company. The consolidated financial statements of Beazley plc and Beazley Ireland Holdings plc can be obtained from the website www.beazley.com

Beazley Group Limited

Notes to the financial statements (continued)

16. Related party disclosure

The company has related party relationships with all subsidiaries and associates in the Beazley group. Details of transactions and contracts entered into by the company with its directors are disclosed in note 4 to the financial statements.

Details of transactions entered into by Beazley Group Limited and the balances with the subsidiaries are as follows:

	2018 \$m	2017 \$m
Balances due from/(to):		
Syndicate 623	-	41.8
Syndicate 2623	-	7.1
Beazley Furlonge Ltd	0.3	(29.3)
Beazley Furlonge Holdings Ltd	59.4	(51.7)
Beazley Management Ltd	(1.7)	(30.4)
Beazley Underwriting Ltd	-	0.1
Beazley Staff Underwriting Ltd	12.8	2.9
Beazley USA Services, Inc.	-	17.1
Beazley Solutions Ltd	-	2.0
Beazley Investments Ltd	(2.8)	2.8
Syndicate 3622	-	9.6
Syndicate 3623	-	36.1
Beazley Pte. Limited	-	(0.1)
Beazley Underwriting Pty Ltd	-	(1.6)
Beazley Insurance dac	(18.0)	(1.6)
Beazley plc	-	0.2
Beazley Canada Limited	0.1	0.2
Beazley Leviathan Ltd	-	0.1
Beazley Ireland Holding plc	-	2.3
	<u>50.1</u>	<u>7.6</u>
Amounts owed by syndicate 623	-	41.8
Amounts owed by group undertakings	72.6	80.5
Amounts owed to group undertakings	(22.5)	(114.7)
	<u>50.1</u>	<u>7.6</u>

Beazley plc is the ultimate parent and the ultimate controlling party within the Beazley group.

Beazley Group Limited

Notes to the financial statements (continued)

16. Related party disclosure (continued)

The following is a list of related parties of Beazley Group Limited:

	Country of Incorporation	Nature of business
Beazley plc	England	Ultimate parent company
Beazley Ireland Holdings plc	Jersey	Parent company
Beazley Furlonge Holdings Limited ¹	England	Intermediate holding company
Beazley Furlonge Limited	England	Lloyd's underwriting agents
Beazley Investments Limited	England	Investment company
Beazley Underwriting Limited	England	Underwriting at Lloyd's
Beazley Management Limited	England	Intermediate management company
Beazley Staff Underwriting Limited	England	Underwriting at Lloyd's
Beazley Solutions Limited	England	Insurance services
Beazley Underwriting Services Limited	England	Insurance services
Beazley Corporate Member (No.2) Limited	England	Underwriting at Lloyd's
Beazley Corporate Member (No.3) Limited	England	Underwriting at Lloyd's
Beazley Corporate Member (No.6) Limited	England	Underwriting at Lloyd's
Beazley Leviathan Limited	England	Underwriting at Lloyd's
Beazley Canada Limited	Canada	Insurance services
Beazley Insurance dac	Ireland	Insurance and reinsurance company
Beazley Solutions International Limited	Ireland	Insurance services
Beazley Underwriting Pty Limited	Australia	Insurance services
Beazley USA Services, Inc.*	USA	Insurance services
Beazley Holdings, Inc. *	USA	Holding company
Beazley Group (USA) General Partnership**	USA	General partnership
Beazley Insurance Company, Inc.***	USA	Underwriting admitted lines
Beazley America Insurance Company, Inc.	USA	Underwriting admitted lines
Lodestone Security LLC****	USA	Consultancy services
Beazley Limited	Hong Kong	Insurance services
Beazley Pte. Limited	Singapore	Underwriting at Lloyd's

Please see page 26 for registered addresses.

¹ Direct Holdings.

The list provides related undertakings as defined in section 409 of the Companies Act 2006. The results of these subsidiary undertakings are included in the group's consolidated financial statements and the group holds 100% interest in these undertakings.

Beazley Group Limited

Notes to the financial statements (continued)

16. Related party disclosure (continued)

The following is a list of group office registered locations:

Address	City	Postcode	Country
Europe			
60 Great Tower Street	London	EC3R 5AD	England
2 Northwood Avenue	Dublin	D09 X5N9	Ireland
22 Grenville Street	Saint Hellier	JE4 8PX	Jersey
North America			
1209 Orange Street*	Wilmington, Delaware	19801	USA
27100 Centerville Road, Suite 400**	Wilmington, Delaware	19808	USA
30 Batterson Park Road***	Farmington, Connecticut	06032	USA
160 Greentree Drive, Suite 101****	Dover, Delaware	19904	USA
55 University Avenue, Suite 550	Toronto, Ontario	M5J 2HJ	Canada
Asia			
138 Market Street, 03-04 Capita Green	Singapore	048946	Singapore
36/F., Tower Two, Times Square, 1 Matheson Street	Causeway Bay	-	Hong Kong
Australia			
Level 15, 1 O'Connell Street	Sydney	NSW 2000	Australia

17. Post balance sheet events

After the balance sheet date, the company declared a dividend of \$55.0m payable to the company's immediate parent company, Beazley Ireland Holdings plc. The dividend has not been reflected in the financial statements for the year ended 31 December 2018.

After the balance sheet date, the company's subsidiary Beazley Furlonge Holdings Limited is expected to pay a dividend of \$13.0m.