Keeping balance

Premier Partner of BRITISH FENCING

In insurance, as in fencing, good balance is essential. In 2011, the worst year on record for insured natural catastrophes, Beazley kept its balance, sustained by a well diversified business portfolio, strong broker relationships, and an entrepreneurial spirit that has attracted talented individuals to the company for more than 25 years.

Cover illustration: The dramatic fencing exchange shown on the front cover of this report is a drawing by artist Geoff Appleton based on an earlier drawing by Jenny Osbaldeston. That in turn was based on a photograph taken by Graham Morrison during the final of the 1991 Martini International épée tournament in London between Cuomo of Italy, making the flèche attack, and Sandegren of Sweden.

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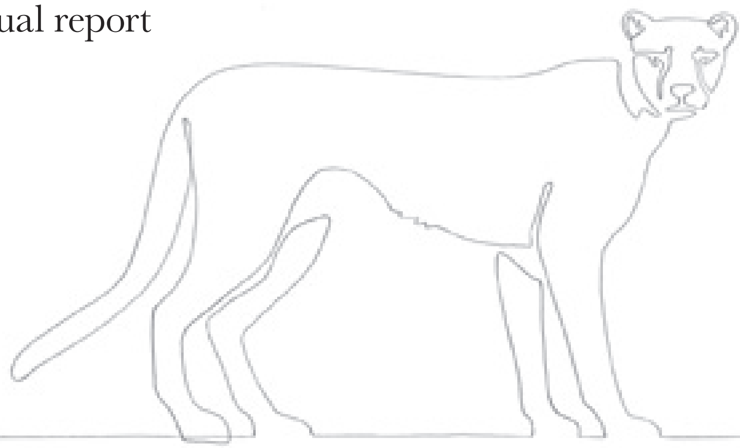
For a condensed view of this annual report please read the next 8 pages.



☛ Who we are

Operating since 1986, we are market leaders in many of our chosen lines of business, which include:

- Life, accident & health – life, personal accident and sports;
- Marine – energy, hull, cargo, liability and war;
- Political and contingency risks;
- Property – commercial and private;
- Reinsurance – insurance of insurance companies covering risks such as hurricanes and other natural catastrophes; and
- Specialty lines – insurance for professional and management liabilities.

Beazley plc is the parent company of our global specialist insurance businesses with operations in the UK, US, France, Norway, Germany, Ireland, Singapore, Hong Kong and Australia. Beazley is a proud participant in the Lloyd's market, the largest and oldest insurance market in the world. Through the Lloyd's broker network and the market's trading licences, we are able to access a wide range of insurance and reinsurance business from around the world. Many of the lines of business we underwrite, such as marine and energy, political risks and contingency, were pioneered at Lloyd's.

Beazley manages five Lloyd's syndicates: syndicates 2623 and 623 underwrite a broad range of insurance and reinsurance business worldwide; syndicate 3623 focuses on personal accident and sport insurance along with providing reinsurance to Beazley Insurance Company Inc. in the US; 3622 is a dedicated life syndicate; and 6107, the special purpose syndicate, writes reinsurance business.

We also underwrite business directly in the US admitted market through Beazley Insurance Company, Inc., an admitted carrier licenced to write in all 50 states.

☛ Why we exist

Beazley's vision is to become, and be recognised as, the highest performing specialist insurer.

We measure our progress towards achieving our vision by a variety of financial metrics, laid out on pages 4 and 5 of this report. But these metrics are underpinned by a business model that has stood the test of time and an environment that makes working at Beazley challenging and enjoyable. Combined with our focus on talent management, this has enabled Beazley to attract and retain people who rank among the best insurance professionals in the world.

The components of our business model are described in detail elsewhere in this report. To summarise:

Diversified business: For our shareholders, Beazley aims to deliver sector leading returns on equity with relatively low volatility. The key to this performance over time is the balance of Beazley's portfolio across specialist classes driven by different cycles. This enables us to target an average combined ratio of 90% with low volatility and to underwrite more premium and have more invested assets per dollar of capital than our peers.

Entrepreneurial spirit: Our open, collegial and collaborative culture means our clients and brokers interact with entrepreneurial underwriters who give straight answers and make decisions quickly.

Strong partnerships: Strong broker relationships are the lifeblood of our business. In the past two years, Dan Jones and his broker relations team have focused on deepening our relationships with brokers around the world. For brokers and clients alike, we offer stable cover, year after year, in our core lines of business – even through the deepest troughs of market cycles.

☛ Our portfolio

Since Beazley's establishment in 1986 – and particularly since 2001 – our business has grown and diversified significantly. The chart below shows the growth of gross written premiums for all business managed by the group. The group share of this premium was 82%, or $1,712.5m in 2011.

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

Marine
We help insure in excess of 20% of the world's ocean-going tonnage and are the prominent leader of voyage and tow business in the London market. We insure 30% of the top 200 oil and gas companies and are a major lead for upstream energy clients. We have extensive experience insuring a wide variety of cargoes including project, fine art and specie.

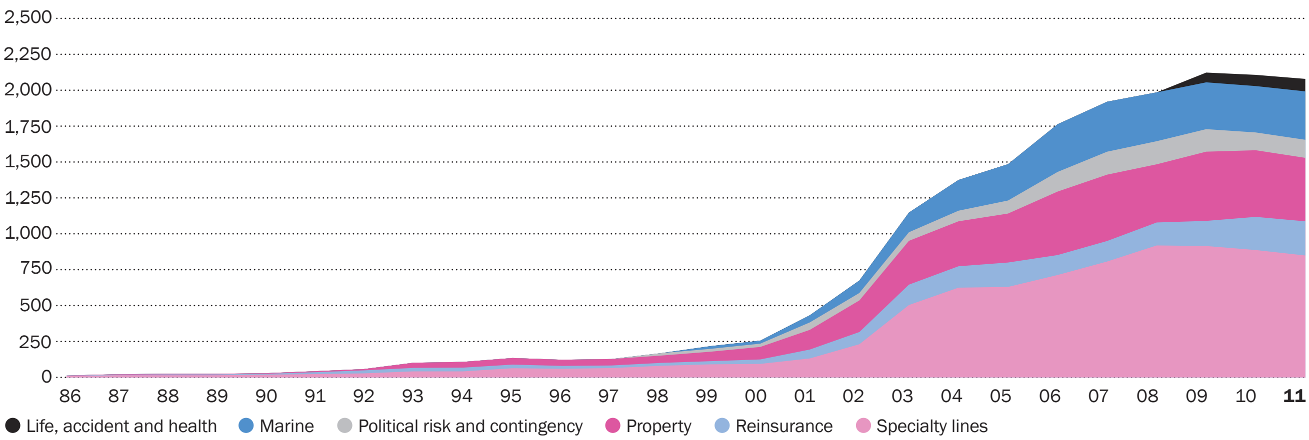
Political risks & contingency
In addition to traditional lines such as contract frustration, expropriation and credit, we insure a growing number of businesses against terrorism and political violence. Our contingency team is one of the strongest in the London market. We specialise in event cancellation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

Property
We've protected clients ranging from Fortune 1000 companies to homeowners through 19 years of natural and man-made catastrophes. We underwrite this business through three geographic platforms; Lloyd's, the US, and Singapore with a business focus on commercial property, coverholders' business, engineering and construction risks, and select homeowners business.

Reinsurance
The reinsurance team specialises in writing worldwide property catastrophe; per risk; aggregate excess of loss and pro-rata business; and casualty clash. More than 80% of our top 20 clients have reinsured with us for 15 years or more.

Specialty lines
Specialty lines comprises professional liability and management liability risks underwritten for clients on both a primary and excess basis in North America, Europe and around the world. Our US clients are served both by our underwriters at Lloyd's and by our local US-based underwriters, including our dedicated small business team that focuses on the needs of smaller scale clients.

☛ Managed gross premiums growth by division $m



Quick read *Our performance*

Beazley's diversified underwriting portfolio performed well, delivering a profit before tax of $62.7m in the worst year on record for insured natural catastrophes.

☛ Financial and operational highlights

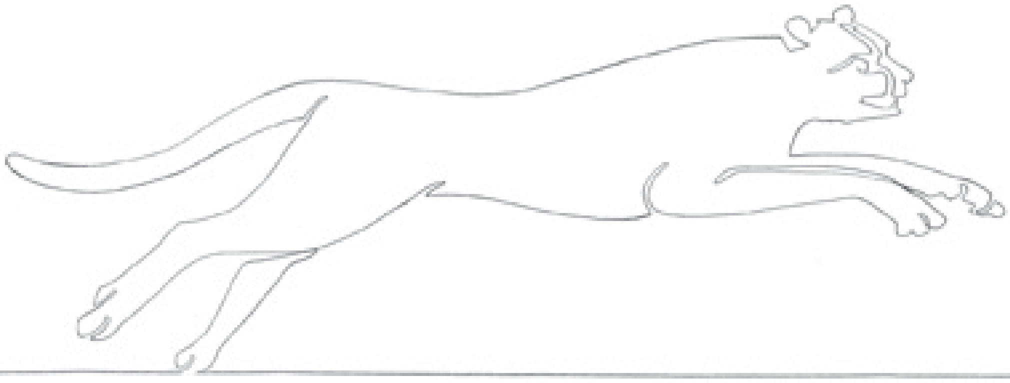
- Profit before income tax of $62.7m (2010: $250.8m)
- Return on equity of 6.1% (2010: 18.7%)
- Gross written premiums decreased by 2% to $1,712.5m
- Combined ratio of 99% (2010: 88%)
- Rate increase on renewal portfolio of 1% (2010: decrease of 2%)
- Investment income of $39.3m (2010: $37.5m)
- Second interim dividend of 5.4p, taking total dividends for the year to 7.9p (2010: 7.5p dividends plus special dividend of 2.5p)

Profit before income tax

$62.7m

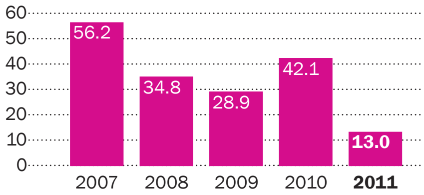
Return on equity

6.1%

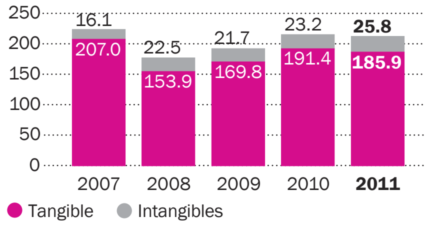


☛ Key performance indicators

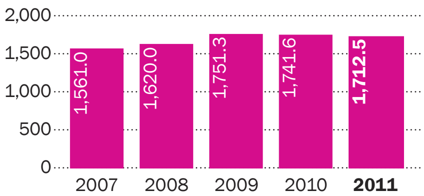
Earnings per share (c)



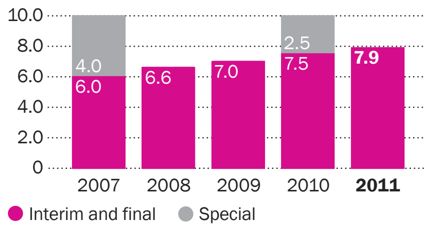
Net assets per share (c)



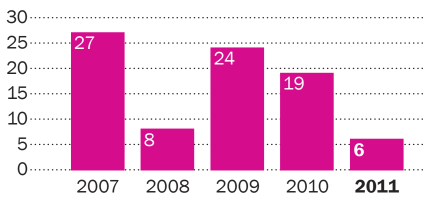
Gross premiums written ($m)



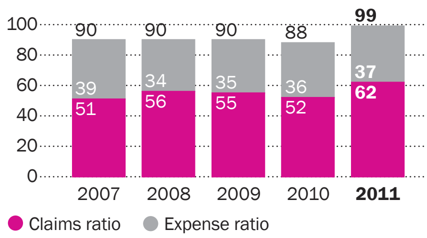
Dividends per share (p)



Return on equity (%)



Combined ratio (%)



☛ How we're rewarded

The executive remuneration policy is set by the remuneration committee and is governed by two guiding principles:

- Alignment to shareholder interests; and
- Performance of the group.

Reward at Beazley is centred around the following incentive initiatives:

- Long-term incentive plans (LTIPs) – these represent performance linked share options which are dependent on the group achieving pre-defined financial targets;
- Performance related pay (PRP) – allocated to underwriters based on the profitability of their portfolios; and
- Enterprise bonus pool – a discretionary annual bonus determined by group performance and distributed both in cash and shares.

Further details of the remuneration policy are set out on pages 57 to 72.

Quick read *26 years of profitable growth*

Beazley group began life in 1986 as Beazley, Furlonge & Hiscox. The Hiscox group was bought out in 1992. The company has grown steadily in terms of the risks we cover, the clients we serve and our geographic reach. Beazley today is a mature insurance business with a well diversified portfolio. During this time we have weathered some of the toughest times the Lloyd's market has seen in more than three centuries and our underwriting operations have an unbroken record of profitability.

1986
13.4m
Managed gross premiums $US

Lloyd's Active members: 28,242

Capacity: £8,291m

Syndicates: 370

Begin trading at the 'old' 1958 Lloyd's building in 1985

Beazley Furlonge and Hiscox established and takes over managing Syndicate: 623

Specialty lines and Treaty accounts started

1987
22.1m
Managed gross premiums $US

UK windstorms US $3.5bn

1988
24.7m
Managed gross premiums $US

1989
24.1m
Managed gross premiums $US

1990
29.5m
Managed gross premiums $US

European storms US $10bn

1991
42.5m
Managed gross premiums $US

Lloyd's Active members: 26,539

Capacity: £11,063m

Syndicates: 354

1992
58.8m
Managed gross premiums $US

Commercial Property account started

US hurricane Andrew US $17bn

2000
256.1m
Managed gross premiums $US

2001
431.6m
Managed gross premiums $US

Management buyout of minority shareholders EPL and UK PI accounts started

Lloyd's Active members: 3,746

Capacity: £11,263m

Syndicates: 122

US 9/11 terrorist attack US $20.3bn

2002
675.6m
Managed gross premiums $US

Flotation raised £150m to set up Beazley Group plc

2003
1,148.7m
Managed gross premiums $US

574.3m
Group share $US

D&O Healthcare, Energy, Cargo and Specie accounts started

SARS outbreak in Asia US $3.5bn

2004
1,374.9m
Managed gross premiums $US

736.2m
Group share $US

Engineering and Construction account started

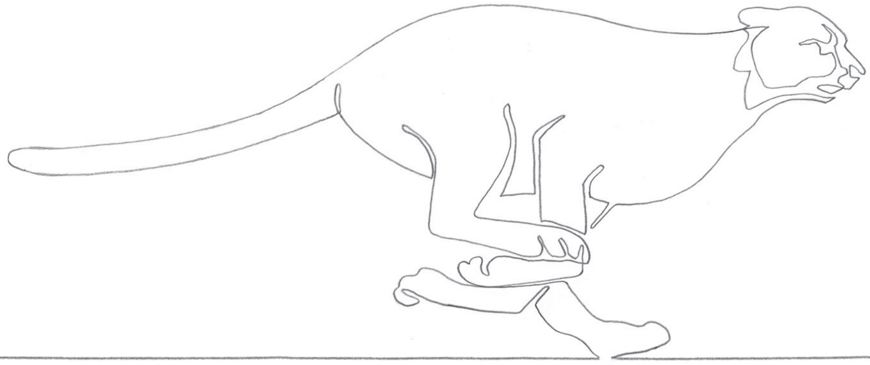
2005
1,485.1m
Managed gross premiums $US

1,015.6m
Group share $US

Beazley MGA started in US

Beazley acquires Omaha P&C and renames it Beazley Insurance Company, Inc. (BICI)

US hurricanes Katrina, Rita and Wilma US $101.0bn



1993
101.4m
Managed gross premiums $US

Total Beazley syndicates' capacity

UK Bishopsgate explosion US $750m

1994
107.6m
Managed gross premiums $US

Corporate capital introduced to Lloyd's

US Northridge earthquake US $12.5bn

1995
135.2m
Managed gross premiums $US

Lloyd's Reconstruction and Renewal introduced

Lloyd's Active members: 13,062

Capacity: £9,994m

Syndicates: 167

1996
124.2m
Managed gross premiums $US

1997
128.4m
Managed gross premiums $US

Beazley Dedicated established

APUA, based in Hong Kong, forms a strategic partnership with Beazley Furlonge

Lloyd's Reconstruction and Renewal concluded

1998
168.8m
Managed gross premiums $US

Recall, Contingency and Political Risk accounts started

1999
217.1m
Managed gross premiums $US

Marine account started

European storms US $12bn

2006
1,762.0m
Managed gross premiums $US

1,371.0m
Group share $US

Beazley takes full ownership of APUA and renames it Beazley Limited

Expansion of Construction & Engineering team into Singapore

Beazley opens new office in Paris

Lloyd's Active members: 2,211

Capacity: £14,788m

Syndicates: 65

2007
1,919.6m
Managed gross premiums $US

1,561.0m
Group share $US

2008
1,984.9m
Managed gross premiums $US

1,620.0m
Group share $US

Political Risk & Contingency Group formed as new division

Acquisition of Momentum Underwriting Management

Accident & Life formed as a new division

US hurricane Ike US $20bn

2009
2,121.7m
Managed gross premiums $US

1,751.3m
Group share $US

Raised £150m through rights issue to develop our business at Lloyd's and in the US

Acquisition of First State Management Group, Inc., a US underwriting manager focusing on surplus lines commercial property business

Beazley plc becomes the new holding company for the group, incorporated in Jersey and tax resident in Ireland

2010
2,108.5m
Managed gross premiums $US

1,741.6m
Group share $US

Andrew Beazley, co-founder of Beazley Group and chief executive until September 2008, dies at the age of 57

Beazley changes functional and presentational currency to US dollars

Special purpose syndicate 6107 formed to grow reinsurance business

Chile and NZ earthquakes US $5-8bn

Deepwater Horizon explosion triggers biggest oil spill in history

2011
2,079.2m
Managed gross premiums $US

1,712.5m
Group share $US

Expanded Australian accident and health business through acquisition of two MGAs

Launch of the Andrew Beazley Broker Academy

Nick Furlonge, co-founder, retires as an executive member but becomes a non-executive of Beazley Furlonge Limited

Beazley remains profitable in worst year ever for insured natural catastrophe losses

Tohoku earthquake in Japan US $35bn

Floods in Thailand US $10-20bn

US tornadoes US $14bn

NZ earthquake US $12bn

Our key differentiators

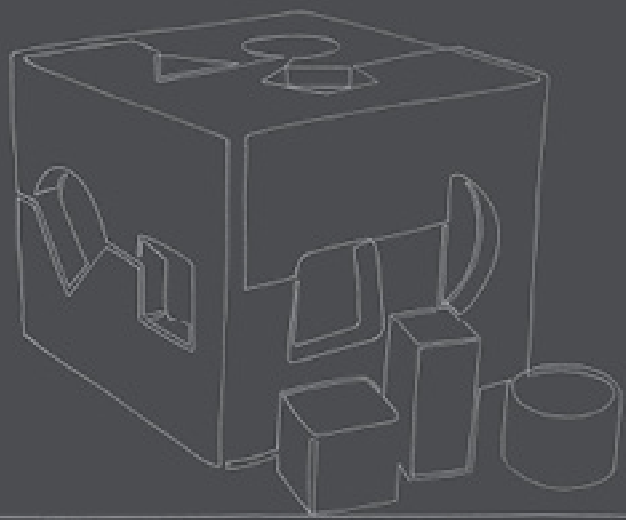
Beazley is differentiated less by the measures we take to secure competitive advantage than by the way we implement these measures.

To take one example, all insurers aim to assemble a diversified portfolio of risks: indeed, Lloyd's is an attractive place in which to do business partly because an insurer at Lloyd's can assemble a diversified portfolio, sourced by the London market's brokers, quite quickly. But our approach goes well beyond diversification by line of business, as explained opposite.

The same is true of entrepreneurial spirit (open flap). For us it has a very specific meaning, a meaning that guides us in evaluating new hires to our underwriting teams around the world. We look for individuals who have a strong sense of ownership for the business that they underwrite and are willing – indeed keen – to be accountable for their underwriting decisions. And we look for individuals who have a broad understanding of the ways in which economic, political and social changes can impact their book.

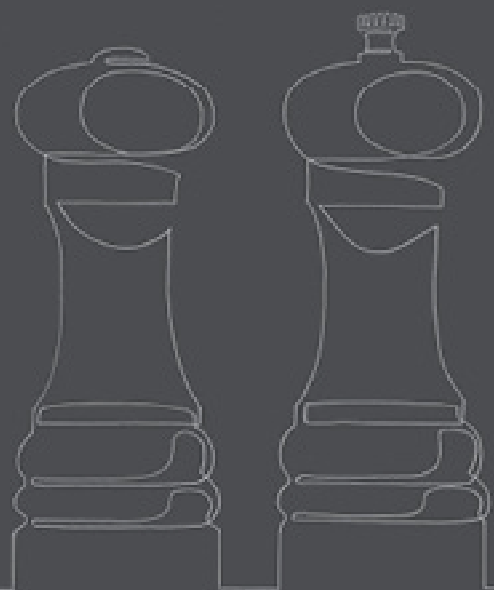
Our third area of differentiation – strong partnerships – is also claimed by many. But for us, it is the reciprocity of the relationships – with both brokers and clients – that matters. Strong partnerships with clients are based on the expectation that Beazley will be prepared to provide continuity of coverage over the years. Our clients understand that, for us to deliver on this expectation, we need to charge a fair premium to cover the risk even if, for a time, a competitor may be willing to write the same risks at an uneconomic rate. By adopting this approach, we have been able to provide clients with reliable cover year after year.

Diversified business

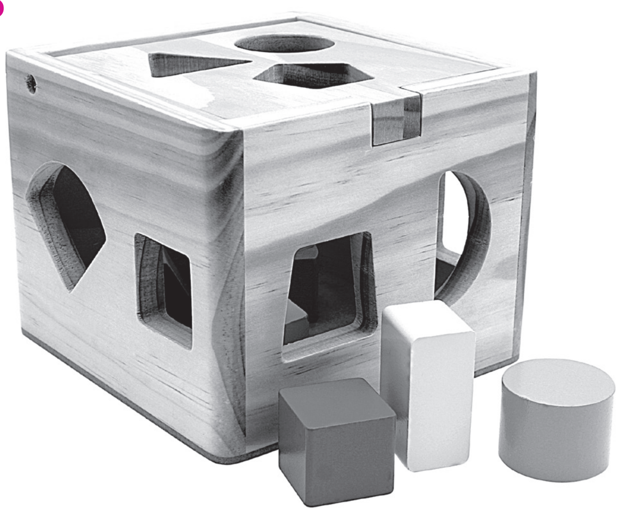


Entrepreneurial spirit

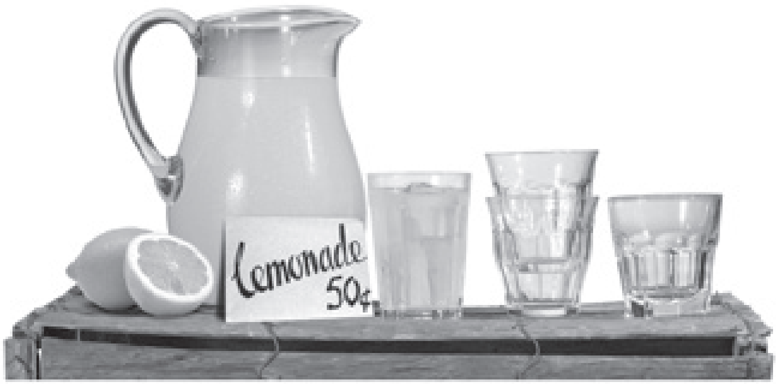
Strong partnerships



Diversified business



Entrepreneurial spirit



Strong partnerships

☛ At Beazley, diversification has been deliberately and carefully built into our insurance and reinsurance portfolio in a variety of ways. We diversify by geography, by class of business, by size of risk, and by the speed with which the cost of claims emerges. Our business is a balance of 'short-tail,' meaning that claims usually emerge within a year of the policy's inception and 'medium-tail,' which means that claims can take up to six years to crystallise fully.

This mix served us well in 2011, enabling the company to record an underwriting profit during a year that proved very challenging for more catastrophe exposed insurers.

☛ Entrepreneurial spirit is something we value highly. Over 26 years we have found that the greatest success comes from taking highly motivated and experienced individuals and giving them the tools and resources to develop their business.

The complexity of the underwriters' job has increased significantly over time as the information available to make decisions has expanded. But the core competences – the ability to assess a risk from all possible angles and, equally, to spot an opportunity that others may have missed – remain unchanged.

☛ The success of our business depends on strong client relationships. In our reinsurance business, for example, 80% of our top 20 clients have been with us for more than 15 years. Almost a third of the large law firms that rely on us for lawyers' professional liability insurance – a sector in which we are a market leader – have insured with Beazley for more than a decade.

Our broker relationships are also critically important to us. Many of the broking firms we work with are larger and more complex than was the case even a decade ago. And as we have expanded internationally, the number of our broker relationships has increased. Understanding the needs of brokers and maximising the flow of profitable business are key to the success of all our underwriters. From a corporate perspective, they are also strategic priorities that are the focus of Dan Jones and his broker relations team.

Chairman and chief executive's review

Beazley delivered a creditable performance, recording a profit before income tax of $62.7m.

Jonathan Agnew
Chairman

Andrew Horton
Chief executive

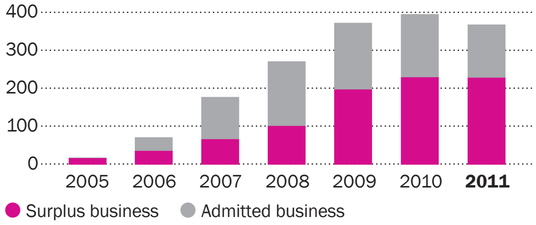
In a year that severely tested the world's insurers and reinsurers, Beazley delivered a creditable performance, recording a profit before income tax of $62.7m (2010: $250.8m) on gross premiums of $1,712.5m (2010: $1,741.6m). With a combined ratio of 99% (2010: 88%), our underwriting operations remained in profit despite heavy catastrophe claims in Asia, Australasia and the United States.

The board is pleased to announce a second interim dividend of 5.4p per ordinary share. Together with the first interim dividend of 2.5p this takes the total dividends declared in 2011 to 7.9p per ordinary share (2010: first interim dividend of 2.4p, second interim dividend of 5.1p, totalling 7.5p, plus a special dividend of 2.5p per ordinary share).

The catastrophe losses began with the Queensland floods in Australia and ended, also with floods, in Thailand in November. In between, we incurred claims from the Christchurch, New Zealand earthquake (the second to hit the city in less than six months); the Tohoku earthquake in Japan; and the deadliest succession of tornadoes to hit the US in more than 70 years. The catastrophe loss estimates previously reported in our third quarter interim management statement, excluding flooding in Thailand, have in fact improved slightly. In total, catastrophe events in 2011, including the Thai floods, cost the group an estimated $215m, more than twice the cost for 2010.

At times like this, a well balanced business portfolio shows its worth. Two of our six divisions (property and reinsurance) have significant exposures to natural catastrophes. In 2011, our property and reinsurance teams moved swiftly to meet claims from policyholders that generated combined ratios for their business of 109% and 157% respectively. But the impact of these losses was cushioned by underwriting profits generated by our other divisions, notably specialty lines, our largest division, which recorded a combined ratio of 94%; marine 72%; and life, accident and health 95%. Our political risks and contingency division incurred claims as a result of the civil war in Libya and some event cancellation claims stemming from the Tohoku earthquake but still achieved a 79% combined ratio.

Locally underwritten US premiums (US $m)



Prudent reserving has been a hallmark of Beazley's approach to business over more than a quarter of a century. In 2011, total prior year reserve releases were $186.5m (2010: $144.6m) of which specialty lines accounted for $61.8m (2010 $56.9m).

In light of the claims experience of the past year, rates are now rising across catastrophe exposed classes of business. The rate increases are smaller than they would have been had the market not been very well capitalised at the beginning of the year. But the change has nevertheless been significant. We accordingly plan to increase our property and reinsurance underwriting in 2012 and, across the group, expect to see premium growth of between 5% and 10%.

Growth in non-catastrophe lines of business will be selective in 2012, in line with our stringent profitability requirements. In the US, we continue to see robust demand for data breach protection policies – a market in which we hold a leading position. We also see opportunities for growth in the healthcare sector, described in detail on page 28. This covers a wide variety of professional liability risks run by medical service providers, including blood and tissue banks, contract research organisations, dialysis clinics, and ground and air ambulances.

Our focus in lines of business in which competition is currently intense, including professional liability for architects and engineers (A&E) and lawyers, and directors and officers insurance, remains on maintaining price discipline while providing excellent service to our clients. We have witnessed numerous new entrants into these markets in recent years, some writing business on a basis that we view as uneconomic, and we expect to see withdrawals occurring as this becomes apparent. The continuing low level of investment returns means that subsidising underwriting losses with investment returns is not a viable strategy.

Our own investment strategy remains conservative, with 81.5% of our assets held in AA or better securities (with no exposure to those eurozone countries that have recently been the direct subject of solvency concerns). Our investment yield in 2011 remained stable at 1.0% and benefited from the decision taken in 2010 to increase the portfolio duration. Our alternative asset portfolio, comprising 10.3% of our investments, made a small loss in 2011 which compared favourably to the HFRI fund of funds index.

The US remains by far our most important market, accounting for 57% of our gross written premiums in 2011. Of this, $366.2m was underwritten locally by our US underwriters (2010: $393.6m). In March we decided to withdraw from underwriting admitted commercial property business to focus on the development of our non admitted, or surplus lines property business, where we saw stronger profit opportunities. We plan to grow our surplus lines property business in 2012 to take advantage of the more attractive rates that now prevail for catastrophe exposed risks.

Outside the US, we made significant investments in the growth of our business in 2011. In April we expanded our presence in the Australian group disability market through the purchase of two managing general agencies, Australian Income Protection and Blue-GUM Special Risks. Combining these businesses with our existing Australian accident and health operation enables us to offer a full product range, including permanent and temporary disability benefits, to superannuation funds, employers and affinity groups.

Continental Europe is another region that we see as offering real growth potential, particularly for our specialty lines division. Our initial focus is on the French market: we are hiring or transferring new underwriters to our Paris office and working to strengthen our local broker relationships. Our focus in France, as elsewhere, is to develop products tailored to local needs, rather than assuming that products developed in the UK or US can simply be exported into markets with very different characteristics.

Chairman and chief executive's review *continued*

Delivery against strategic priorities

Our vision is to become, and be recognised as, the highest performing specialist insurer; and we made good progress against this objective in 2011. Our business model was strenuously tested and still delivered positive shareholder returns.

Our strategy focuses on three areas. The first – prudent capital allocation to achieve diversified profitability across the group – was well illustrated in 2011 by our acquisitions in Australia. The performance of our Australian group disability business is uncorrelated with that of our other businesses – even in the Australian market, where we also write event cancellation insurance. The diversification of our underwriting portfolio – across lines of business, geographies, and sizes of risk – has underpinned the consistency of our underwriting performance in recent years.

Our second area of focus is to nurture and enhance our skills base. Since the company was founded in 1986, we have sought to create an environment at Beazley in which talented individuals with entrepreneurial spirit can build successful businesses. One of the most striking examples in the past three years has been our technology, media and business services (TMB) team within our specialty lines division. Under the leadership of Mike Donovan, based in our San Francisco office, this team's premiums have grown from $108.9m in 2010 to $120.8m last year.

The environment in which Beazley underwriters work today is different in character from that of a decade, or even five years, ago. Regulatory demands have grown and a business with underwriters in multiple locations is inevitably more challenging to manage than a business operated entirely from the Beazley box at Lloyd's. Our talent management team under the leadership of Penny Malik therefore focuses not just on attracting and retaining the best underwriting and claims specialists in the market but also on giving them the training and resources they need to realise their potential.

Our third strategic priority is to scale our operations to ensure that, as we grow, we can continue to provide the very high level of service that our brokers and clients have come to expect. Technologies that help us to respond rapidly to broker submissions and adjust claims efficiently are clearly critical in this context, but equally important are strong, trust-based broker relationships. Dan Jones heads our team responsible for broker relations at Beazley and it is a key part of our business.

In 2011 we launched an important initiative that we hope will strengthen broker relationships, not just for Beazley but for the entire Lloyd's market in years to come. The inaugural Andrew Beazley Broker Academy, hosted by Beazley and Hiscox in September, welcomed 21 young US brokers to London where, for a week, they were able to stand in the shoes of Lloyd's underwriters, gaining a detailed understanding of how risks are written and claims are adjusted in the Lloyd's market. The initiative was very well received by the brokers who participated and we are planning to merge it with the existing Lloyd's broker programme – while retaining the Andrew Beazley name – from 2012 onwards.

Our broker relationships go back years in many cases. A newer partnership for Beazley is the one we established in 2010 with British Fencing, which we are sponsoring for five years. This will be an exciting and challenging year for the national team, with the best fencers in the world converging on London for the Olympics. We wish the team luck.

Solvency II

Solvency II is an EU-wide proposal on capital adequacy and risk management for insurers. Throughout 2011 Beazley's dedicated project management team and subject matter experts have continued to build our framework. In particular the Solvency II internal model was built and tested.

Board and executive changes

In 2011 we celebrated the 25th anniversary of the founding of Beazley and it was also the year in which Nick Furlonge, who co-founded the company with Andrew Beazley in 1986, chose to retire from the Beazley board. Nick's contribution to Beazley is inestimable: we are delighted that we continue to benefit from his wisdom and insight through his remaining on the board of Beazley Furlonge Limited, our Lloyd's managing agency. Nick was named 'industry achiever of the year' at the Insurance Day awards in December, and the accolade was well deserved.

Andy Pomfret, who joined the Beazley board in 2003, left the board in July to concentrate on his role as chief executive officer of Rathbone Brothers Plc. In addition to his other board responsibilities, Andy had made considerable contributions to the company as chairman of the remuneration committee and as senior independent director, for which we are very grateful. He was succeeded as chairman of the remuneration committee by Padraic O'Connor and as senior independent director by George Blunden.

As previously announced, Jonathan Agnew will step down from the board after the annual general meeting on 27 March, by which time he will have been a non-executive director for ten years and chairman for nearly nine years. During that period the group's written premium has more than trebled and the principal managed syndicates maintained their record of continuous profitability, which goes back to the founding of Beazley and which is now unrivalled in Lloyd's. Jonathan Agnew considers it an honour and a privilege to have been associated with Andrew Beazley and Nick Furlonge, who founded the business, and with all those who have subsequently contributed to its success. The board and senior management at Beazley would like to thank Jonathan for his leadership during a period that has seen the company develop and flourish.

In July we also welcomed Dennis Holt to the Beazley board as a non executive director. Dennis is expected to take up the position of non-executive chairman following the annual general meeting in March 2012, succeeding Jonathan Agnew, who wishes Dennis Holt, Andrew Horton and their colleagues every success in the future.

Additionally, we welcomed two new members of the executive committee in the course of the year: Ian Fantozzi and Penny Malik. Ian was promoted to the executive management team as chief operating officer, succeeding David Marock, who left the company to assume the role of chief executive of Charles Taylor Consulting.

The 805 employees of Beazley have reason to be proud of our achievements in 2011 – achievements recognised at the Insurance Day awards in December, when Beazley was named company of the year.

There can be no guarantee that the tempestuous market conditions we have witnessed in 2011 will not recur – if the future was predictable, insurance would be unnecessary. But we have every confidence that our clients and brokers will continue to find Beazley well prepared to meet their needs.

Jonathan Agnew
Chairman

Andrew Horton
Chief executive

6 February 2012

Andrew Horton reviews Beazley's performance and describes the risks and opportunities he foresees in 2012.

Q Beazley has weathered the worst year ever for natural catastrophes with a 99% combined ratio. How do you view – and explain – this performance?

A We performed relatively well in 2011 because we have a diversified book and we had managed our catastrophe aggregates very prudently in readiness for such a scenario. We were prepared for a quick-fire succession of catastrophe losses of the kind that we saw, from all around the world, last year.

Q Where is growth going to come from in the year ahead?

A We'll see some growth in our short-tail, catastrophe exposed business – principally commercial property and reinsurance. Rates are going up so, for the same risk appetite, we will receive more premium income.

I am excited by the opportunities available to our accident and health teams in Australia and the US. We have excellent people in both locations and we're selling into growing markets.

We'll continue to be alert to acquisition opportunities, providing they meet our strict criteria. I've described these before, but they bear repetition. They have to be in lines of business that we understand well. They have to have great underwriting skills and a track record to prove it. They have to fit well with our culture – people with real entrepreneurial energy and enthusiasm. And of course the price has to be right.

But even if we don't find a single such opportunity in 2012, there will still be areas in which we can grow organically. That growth will come from innovation – very broadly defined. It may take the form of a totally new product or service. Or it may take the form of a product that is old hat in one part of the world but new and exciting in another. I have every confidence in our people to identify such opportunities.

Q How do you see the problems of the eurozone affecting Beazley?

A The eurozone countries are not an enormous source of business for us – they account for less than 15% of our total premium income. And we have been extremely cautious in our investment strategy and hold no Greek, Spanish, Portuguese, Irish or Italian bonds.

However, if the problems of the eurozone worsen dramatically, that will clearly have an impact – albeit an indirect impact – on Beazley. Global trade is far from robust right now. Our marine team tells me that, for many shipowners, the cost of keeping their vessels afloat exceeds what they can earn from the cargoes they are carrying. So they are putting vessels into lay-up, which reduces the amount of hull and cargo insurance business we can underwrite. The same logic applies to other lines of business. Inevitably, if the world were to move back into recession as a result of a major contraction in demand in Europe, that would have an impact on us.

Q Your locally underwritten US business contracted in 2011. Why was this?

A Most of the reduction was in our property insurance business. We withdrew from underwriting commercial property insurance on an admitted basis because it was difficult to compete against much larger domestic carriers despite having an excellent team of underwriters. We continue our focus on our London-based large risks property business and our US-based excess and surplus (E&S) property business. And our appetite in the admitted market was fairly narrow so we weren't a particularly attractive partner to our brokers. At the same time, we scaled down our E&S property underwriting a little because the rates were inadequate. But that's changing and we expect to write more of this business this year.

We continue to see great growth potential in the US. The coming year may be tough but when market conditions are right our growth trajectory will resume. The preconditions for growth – strong broker relationships and really first class service capabilities – are in place. We have a good deal of headroom in many of the lines of business in which we compete.

Andrew Horton
Chief executive

Q We are said by some to be in the 'cheating phase' of the insurance cycle where claims reserve releases are still being made when the underlying business dynamics don't support this. Is that your view?

A We've seen reserve releases continue for longer than many market analysts had expected so there are some legitimate questions to be asked about the adequacy of the reserves that remain. The key here really is disclosure. Levels of disclosure about reserving strength vary widely across the market. We are among the less reticent by providing to analysts a good deal more detail on the development of incurred claims within our specialty lines division than many insurers are willing to do. We also disclose loss development tables by lines of business (pages 123 to 126) and the percentage margin by which our claims reserve in total exceeds our actuarial estimate (page 33). I hope that our levels of disclosure – combined with the fact that we've been writing these classes of business for a very long time through multiple market cycles – is a source of reassurance to our investors.

Q Have you modified your very conservative investment stance in the course of the past year?

A 2011 has been a year which has demonstrated why we have been relatively conservative recently – there is a lot of risk and uncertainty about. Our strategy remains unchanged and has performed as we expected in 2011.

Q Most insurers – and particularly Lloyd's insurers – claim to be innovative. What does the word mean to you and do you think Beazley is innovative?

A It's interesting to read the report that Lloyd's itself has just produced. It lists the most feared risks around, according to over 500 senior executives who were polled by the Economist Intelligence Unit. And like an awful lot of these reports, it's very difficult to see what part insurance plays in addressing the top risks – the risks that really keep these business leaders up at night. You have to go all the way down to risk number 9 – corporate liability – before reaching a risk that is really addressed by insurance.

So for me innovation in our industry has a simple meaning. It's making ourselves more relevant to the most pressing needs of our clients. And if that means that when a claim is made, our response is not a cash payment but a service of some kind, so be it. Cash is wonderful, but what clients sometimes need most is expertise. I think that, as an industry, we have to be much smarter about this.

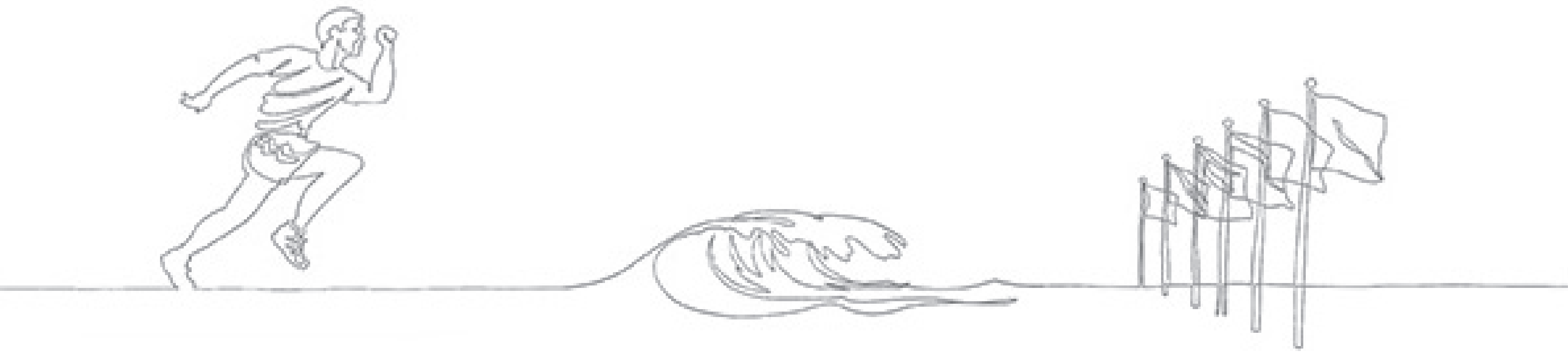
Seen in this context, Beazley is innovative but we could certainly be more so. I think our focus on claims service is – and this may be a sad reflection on our industry – quite innovative. For the professional and management liability business we underwrite, the client's most important question is not 'When will my claim get paid?' It is 'Do I want this insurer in my corner when I get sued?' And the advice and expertise we can offer in that situation is critical. So there's a lot of scope for innovation on the claims side as well as on the underwriting side.

Q Solvency II is now looming. How prepared is Beazley and what impact do you see Solvency II's tighter capital requirements having on the industry as a whole?

A We believe we're ready. We've put a significant effort into preparing for Solvency II across our organisation. We've had seven people working on it full time and 43 people devoting part of their time to it. I am confident that we will secure approval for our internal model, which will maintain our flexibility and competitiveness. And we're looking for ways in which, as a business, we can achieve a competitive advantage over insurers that are maybe not quite as well diversified as we are.

Performance by division

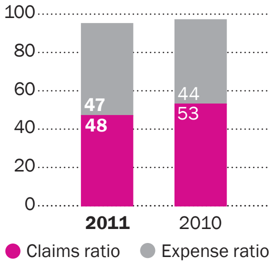
The diversification of our portfolio stood us in good stead in a very challenging year.



Life, accident & health

Chris Branch
Head of life, accident & health

Combined ratio (%)

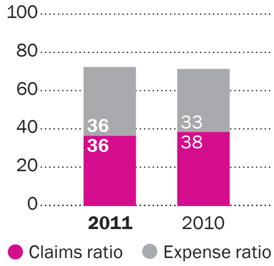


	2011 $m	2010 $m
Gross premiums written	86.9	78.1
Net premiums written	80.3	71.4
Results from operating activities	6.5	4.5
Claims ratio	48%	53%
Expense ratio	47%	44%
Combined ratio	95%	97%
Rate change	1%	–

Marine

Clive Washbourn
Head of marine

Combined ratio (%)

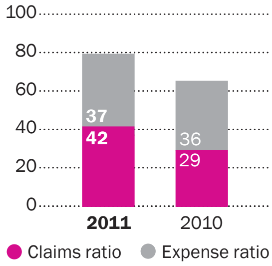


	2011 $m	2010 $m
Gross premiums written	274.2	261.7
Net premiums written	245.1	235.6
Results from operating activities	69.3	74.6
Claims ratio	36%	38%
Expense ratio	36%	33%
Combined ratio	72%	71%
Rate change	–	(3%)

Political risks & contingency

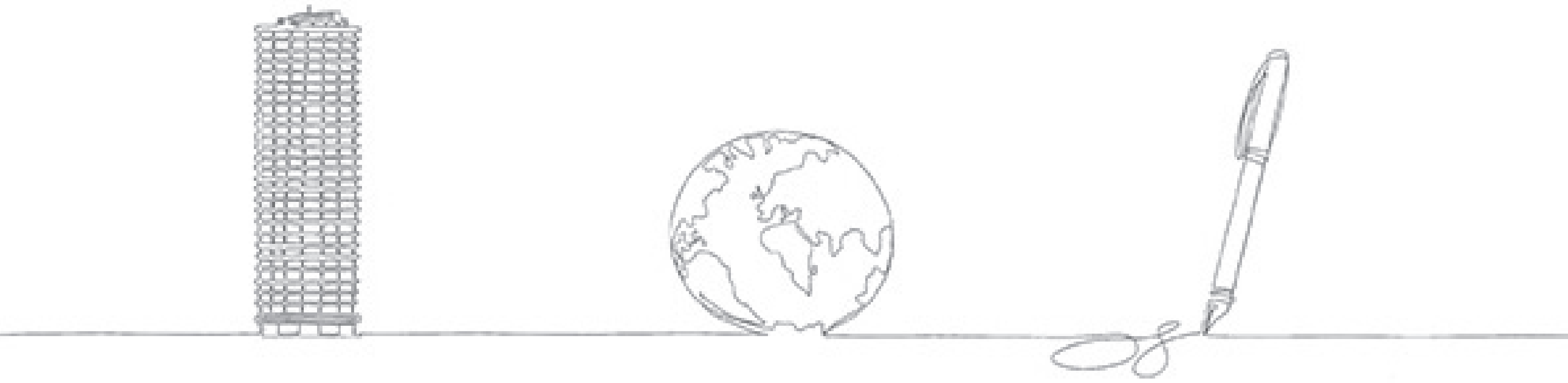
Adrian Lewers
Head of political risks & contingency

Combined ratio (%)



	2011 $m	2010 $m
Gross premiums written	102.5	100.9
Net premiums written	85.2	79.9
Results from operating activities	20.7	34.4
Claims ratio	42%	29%
Expense ratio	37%	36%
Combined ratio	79%	65%
Rate change	(1%)	(2%)

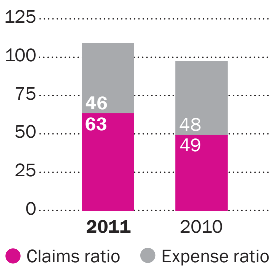
Neil Maidment
Chief underwriting officer



☛ Property

Jonathan Gray
Head of property

Combined ratio (%)

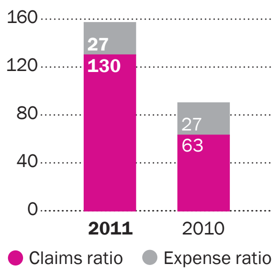


	2011 $m	2010 $m
Gross premiums written	359.4	382.5
Net premiums written	273.9	283.8
Results from operating activities	(9.5)	23.3
Claims ratio	63%	49%
Expense ratio	46%	48%
Combined ratio	109%	97%
Rate change	3%	(4%)

☛ Reinsurance

Patrick Hartigan
Head of reinsurance

Combined ratio (%)

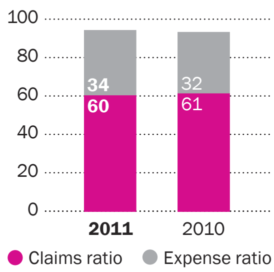


	2011 $m	2010 $m
Gross premiums written	178.3	174.4
Net premiums written	130.4	134.4
Results from operating activities	(71.3)	18.8
Claims ratio	130%	63%
Expense ratio	27%	27%
Combined ratio	157%	90%
Rate change	3%	(3%)

☛ Specialty lines

Adrian Cox
Head of specialty lines

Combined ratio (%)



	2011 $m	2010 $m
Gross premiums written	711.2	744.0
Net premiums written	559.1	597.0
Results from operating activities	63.8	76.4
Claims ratio	60%	61%
Expense ratio	34%	32%
Combined ratio	94%	93%
Rate change	(1%)	(2%)

Life, accident & health

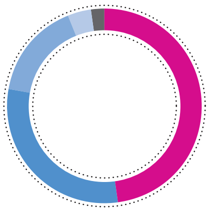
Presence in Australia grows as a result of the acquisition of Australian Income Protection.

Chris Branch
Head of life, accident & health

$86.9m

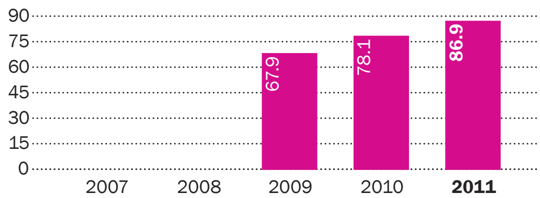
Gross premiums written

Portfolio mix



PA direct	48%
PA reinsurance	30%
Life direct	16%
Life reinsurance	4%
Sports disability	2%

Gross premiums written ($m)



☛ Locked out, but not out in the cold

On 1 July 2011, the owners of the clubs comprising the National Basketball Association (NBA) began a standoff with players that would last 161 days. The fourth lockout in the NBA's history meant that professional basketball – one of the most popular spectator sports in the US – was suspended until December.

While owners and players held countless negotiations to resolve what, at times, became a very acrimonious dispute, several players looked overseas to play. Europe and Asia were the preferred destinations. Such a move was particularly attractive to foreign players in the NBA who could play in their home countries until the lockout ended. The risks associated with this migration were not lost on David Stern, the NBA commissioner, who warned that players' contracts could be jeopardised if they were seriously injured.

As a recognised market leader in the provision of disablement cover to sports players and their governing associations, Beazley was well equipped to offer the players cover that would protect their earnings from a temporary injury and also provide cover for a career ending injury. Beazley's sports personal accident underwriters, Peter Thompson and Charlotte Garner, worked closely with the players, the European clubs and their brokers to provide appropriate cover.

Beazley's underwriters have been providing this type of cover to a variety of sports – most notably cricket, rugby union and football – for more than 15 years.

Highlights

- We expanded our presence in the Australian group disability market through acquisition of two MGAs – AIP and Blue-GUM.
- Beazley opened a Minneapolis office in 2011 where we will begin writing admitted accident and health business in 2012.
- We lead the sports consortium in the Lloyd's market, covering personal accident risk for professional athletes outside the US. As consortium leader, we set the terms, conditions and price the risk on behalf of the rest of the market participants.

Our life, accident and health division, led by Chris Branch, recorded a third year of growth in 2011, boosted by a significant acquisition in Australia, and achieved a combined ratio of 95% (2010: 97%) on gross premiums of $86.9m (2010: $78.1m). The team has been a pioneer in the recent development of a specialist life insurance market at Lloyd's, establishing in 2008 the first new life syndicate at Lloyd's in two decades. We are also a London market leader for personal accident business, underwritten on both a direct and reinsurance basis. Across our portfolio, we led 68% of the business we underwrote in 2011.

Claims experience on our London market core account was generally benign last year and the string of natural catastrophes that affected other lines of business had no impact on us. Competition remained stiff in a number of areas, but still, overall rates on renewal business increased by 1%. We continued to identify profitable opportunities, particularly for our life syndicate, which focuses on renewable group life business that cannot readily be placed in the mainstream market.

Market conditions for sports disability insurance have been challenging in recent years with intense competition. We lead the Lloyd's sports consortium, the largest insurer of sports liability risks for professional athletes outside the US, focusing primarily on rugby, cricket and football. Peter Thompson, who underwrites this account, is a consummate professional who is well respected across the London market. His disciplined underwriting approach has ensured that we have significantly outperformed the market in terms of profitability.

Looking beyond the Lloyd's market, Australia was a major area of focus for us in 2011. In April we significantly expanded our presence in the Australian group disability market through the purchase of two managing general agencies (MGAs), Australian Income Protection (AIP) and Blue-GUM Special Risks (Blue-GUM), which focus on these business lines.

Since 2003, AIP has built a successful business specialising in providing group disability insurance to industry superannuation funds, retirement funds run by industry associations and trade unions. Blue-GUM, a smaller firm, focuses on the distribution and management of life insurance-based group disability and death benefit policies. We are combining the two companies with our existing Australian accident and health business, enabling us to offer a full product range – including permanent and temporary disability benefits – to superannuation funds, employers and affinity groups. With an extremely capable team led by Noel Nosworthy, we underwrote $30.5m in gross premiums in Australia in 2011 and see significant growth opportunities in what remains an extremely vibrant economy.

Growth opportunities also exist in the US, where our team will be rolling out a suite of 'gap protection' products during the course of 2012 to provide employers with flexible and cost-effective benefit options, while helping employees offset expenses or replace lost income when it is needed most. In the coming year we will be offering supplemental medical expense (out-of-pocket) and limited medical (fixed indemnity), critical illness and short term disability cover. Our team, led by Paul Gulstrand, has been working hard to put in place the infrastructure to service this business efficiently, including a convenient web portal for enrolling in and maintaining benefit plans, which is intuitive to use.

All of these products will be offered in the US admitted market. We also continue to underwrite group personal accident cover on a reinsurance basis locally in the US from our Chicago office.

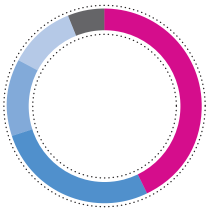
Marine

Another profitable year with a combined ratio of 72%.

Clive Washbourn
Head of marine

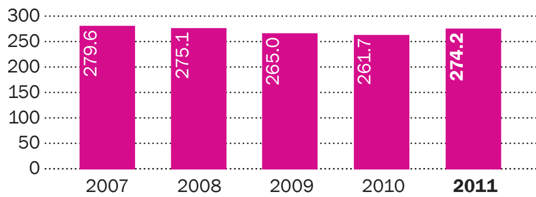
$274.2m
Gross premiums written

Portfolio mix



Energy	43%
Hull & misc	27%
Cargo	13%
War	11%
Liability	6%

Gross premiums written ($m)



☛ Lifeline to Misrata

During the Libyan civil war, vessels delivering medical supplies and medical assistance provided a lifeline to anti-government militia in the central coastal city of Misrata. With the rebel forces pegged back, sea transportation provided the only route for evacuating the wounded and refugees.

War perils such as this are usually excluded from traditional hull and machinery policies, with only a limited market available for those looking to arrange cover. Beazley has been writing a marine war book since 1998 and is the largest insurer for this type of risk in the world. With the support of insurance cover provided by Beazley and other London market insurers, numerous voyages were successfully completed to and from Misrata.

Beazley's market leading position is underpinned by a wealth of knowledge and expertise to understand and price war risks. Tailored policies were put together for Mediterranean ferry operators to protect their vessels and crew, often at very short notice, allowing them to perform a vitally important role.

Marine war policies are not just purchased when a conflict is raging. Cover can also include confiscations and detention of the vessel which is a pre-requisite for vessels entering potentially dangerous waters such as the Indian Ocean where piracy is an ever present danger or a port where the political situation is volatile or uncertain.

Highlights

- Matthew Holmes joined Beazley in October 2011 to head the energy team. He has more than a decade's experience in the Lloyd's energy market.
- The marine team has consistently delivered underwriting profits, achieving an average combined ratio of 77% over the last seven years.

Our marine division, led by Clive Washbourn, has established over many years a reputation as one of the strongest performers at Lloyd's, and 2011 was no exception. The team achieved a combined ratio of 72% (2010: 71%) at a time of flat or declining premium rates for all main classes of cover except for energy risks. In addition to energy, the team insures a broad array of hull, cargo and marine liability risks, as well as war and terrorism risks for both ships and aircraft. In 2011, we led the cover for 52% of the business by volume that we underwrote.

The breadth of the team's expertise served us well in 2011. Demand for tanker and container shipments declined, while trade in bulk goods and liquefied petroleum gas – sectors in which Beazley specialised – remained relatively robust. Across our hull and cargo accounts, we saw renewal rates fall by an average of 1%. However, demand for war risks cover was high, particularly as a result of the civil war in Libya (see case study). Beazley insures around a fifth of all war risks business placed in the London market.

Piracy in the Gulf of Aden and around the Horn of Africa – a severe menace to shipping since 2008 – continued unabated, with an increasing number of attacks in 2011. However, owing to improved security on ships the incidence of vessel captures fell and we saw lower claims frequency than in 2010.

Energy risks accounted for 43% of the business underwritten by the division in 2011, or $106.2m, up from $94.2m in 2010. In October, we welcomed Matthew Holmes to Beazley as the new head of our energy team. Energy risks have accounted for a growing proportion of the business underwritten by the division in recent years and we expect this share to continue to grow, market conditions permitting. Rates for energy business rose by 4% in 2011, driven by the tightening in capacity that followed the Deepwater Horizon explosion in the Gulf of Mexico in 2010. Our Oslo office, opened early in 2010 to access locally placed Scandinavian energy business, wrote $8.0m of premium in 2011.

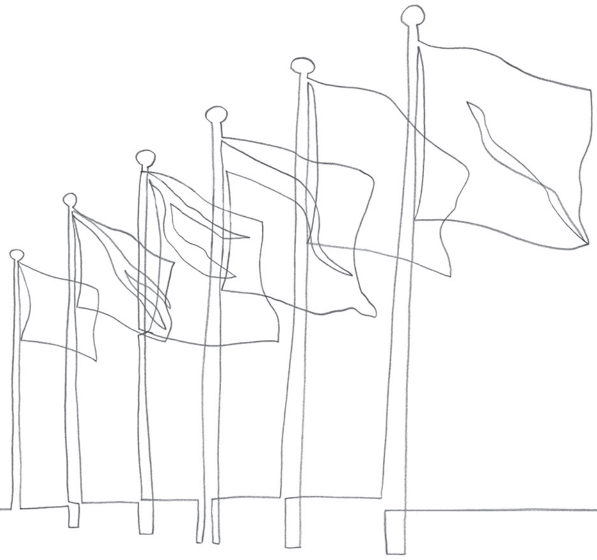
We have historically taken a very cautious approach to energy liability business, seeing it as substantially underpriced. Following the strong focus on this section of the market from the Lloyd's performance management directorate in 2011, this may change in 2012 and we will be alert to opportunities. Overall, we expect energy premium rates to remain flat in 2012 in the absence of further catastrophe losses.

An important initiative that we launched in 2009 – the creation of underwriting capacity and expertise for marine professional liability risks within the Lloyd's market – continued to develop well under the leadership of Zareena Hussain, who has headed our entire marine liability team since 2010. The team underwrites a broad range of professional liability risks for a wide array of maritime professionals, from average adjustors to yacht brokers. The Beazley name is of course extremely strong in the wider world of professional liability and we have found the strong broker relationships forged by our colleagues in Beazley's specialty lines division very valuable.

Our UK marine unit continues to grow under the leadership of Stephen Smyth. In addition to serving Lloyd's brokers, the team also partners with UK regional brokers, offering a wide range of products including cargo, freight liability, hull and machinery, and marine liability. Many segments of this market are highly competitive but by careful risk selection Steve and his team have succeeded in growing the account profitably.

Political risks & contingency

Continued expansion of our global presence, with underwriters in the US, Singapore and Australia, and plans for France.

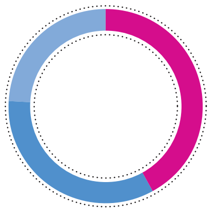


Adrian Lewers
Head of political risks & contingency

$102.5m

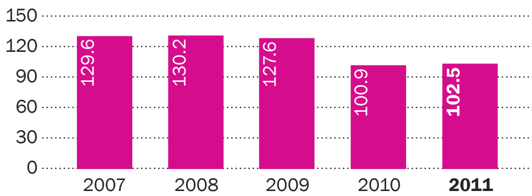
Gross premiums written

Portfolio mix



Terrorism	42%
Political	34%
Contingency	24%

Gross premiums written ($m)



☛ Claims service tested in eventful year

Political risks claims (including contract frustration and trade credit risks) are traditionally low frequency but, when they occur, they can be significant.

2011 was an active year for political risks claims and the PCG claims team handled claims arising from the unrest in the Middle East and North Africa (MENA) region as the events of the Arab Spring took their toll on foreign investments in the region, notably in the oil and defence industries. The claims team also dealt with claims in both the MENA and West Africa regions for property damage and business interruption losses arising from civil commotion.

Additionally, the contingency account was impacted by claims arising from the raft of natural catastrophes during 2011, including the earthquakes in Japan and New Zealand which forced the cancellation or relocation of events insured by the team. There were no claims arising from the Thai flooding at the end of 2011.

Beazley's PCG claims team, led by Hannah Purves, has built up a strong reputation in the London market for speed and efficiency of claims settlement. The team also handles recoveries on claims paid in earlier years, which were substantial in 2011, amounting to over $20m.

The claims team enjoys a close working relationship with Beazley's underwriters – ensuring that claims experience can be swiftly reflected in enhanced policy wordings – and with London market brokers, ensuring that insureds are kept fully informed as claims are processed.

Highlights

- Crispin Hodges will relocate from Singapore to the Paris office in 2012 to help grow the European business of the political risks and contingency team.
- Chris Parker joined Beazley to head up the terrorism and political violence underwriting team. Chris started his career in the marine LMX reinsurance market in 1990 and then joined the political risk market in 1995. He was responsible for the terrorism and political violence business of Marsh from 2006 to 2011.

Beazley's political risks and contingency division, led by Adrian Lewers, insures a broad array of exposures, including conventional political risks (confiscation, nationalisation and expropriation); political violence and terrorism; and costs arising from the cancellation of events ranging in size from major sports tournaments to specialist trade shows and fairs. In 2011, despite significant political turbulence in many parts of the world and a series of natural catastrophes that had knock-on effects on our event cancellation business, the team achieved a combined ratio of 79% on gross premiums of $102.5m.

The political risks market remained highly competitive in 2011, reflecting a 40% increase in available capacity for trade related risks since the financial crisis of 2008. We have, however, maintained our disciplined approach to risk assessment and pricing, and continued to make sizeable recoveries on claims paid out in earlier years. It is possible that this pattern of recoveries will be repeated in Libya, where in the course of 2011 we incurred a number of claims to European exporters for contract frustration in respect of their relationships with the previous government.

Our claims team under the leadership of Hannah Purves is one of the most experienced in the Lloyd's market and continued in 2011 to win praise from brokers and clients alike for our sensitive handling of complex claims. In the case of Libya, for example, many of our clients have a strong interest in establishing good relationships rapidly with the new regime and we are supporting their efforts to do this.

Political violence was also widespread last year, particularly in the Middle East and North Africa. In April, we strengthened our team with the arrival of Chris Parker, who joined us from Marsh to head the team, and Andrew Page. The largest single component of our political violence account is not in developing economies but in the US and Europe, where we underwrite specialist terrorism cover for property owners – a risk that has not been easily insurable under standard property policies since the terrorist attacks of 2001. Premium rates on this business have declined in recent years but it continues to be profitable. We have a well diversified book with prudently managed aggregate exposures.

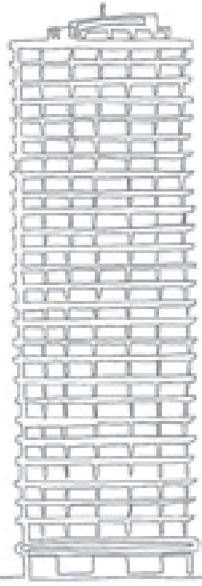
Beazley's contingency team is one of the largest and most experienced in the Lloyd's market. Given the breadth of business insured by the team, it is not surprising that the exceptional sequence of natural catastrophes that occurred in 2011 should have had some impact, and we received contingency claims from both Japan and New Zealand following the earthquakes in those countries. In the main, the claims that we paid were not for outright event cancellation but for rescheduling and relocating events out of harm's way. Premium rates have generally held up better than we expected, with renewal rates for the contingency book as a whole declining by 1%.

In addition to event cancellation insurance, which accounted for 72% of our $27m contingency book in 2011, we are a major market for promotional events such as prize indemnity and over-redemption risks.

The past year saw us continue to expand our global presence outside Lloyd's, although 95% of our premiums are still underwritten at the Beazley box, reflecting the strong reputation of the London market in the political risks and contingency lines. We now have political risks underwriters in New York and Singapore and plan to establish an underwriting presence in Paris in 2012. Our contingency team has an underwriter in Australia and we are expanding our business in the UK regional broker market through Beazley Access, an online platform for small and mid sized event cancellation risks.

Property

Rate improvements follow the restructuring of our US portfolio to focus on excess and surplus lines business.

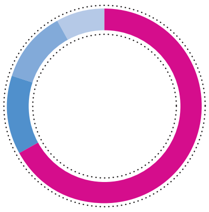


Jonathan Gray
Head of property

$359.4m

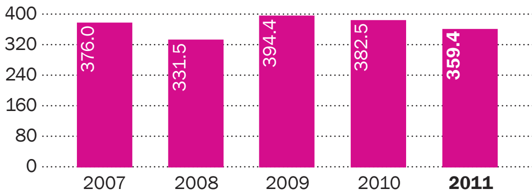
Gross premiums written

Portfolio mix



Commercial property	67%
Jewellers & homeowners	13%
Small property business	12%
Engineering	8%

Gross premiums written ($m)



☛ Beazley Singapore: In the vanguard

Beazley's Singapore office opened its doors in 2006, as it was beginning to dawn on London insurers that if they wanted a share of business from one of the fastest growing regions in the world, they would have to come and get it. At that time there were only three Lloyd's businesses with a local presence in Singapore. Beazley was in the vanguard.

Today there are 18 service companies representing 21 Lloyd's syndicates and, outside London, Singapore is the biggest concentration of Lloyd's underwriting expertise in the world. Lloyd's Asia underwriters are established local service companies and may deal directly with clients, brokers and agents, both local and foreign.

The focus of Beazley's Singapore office has historically been engineering and construction risks, tapping into the fast growing economies of the region. In 2008 Beazley began to underwrite political risks locally, and in 2009 commercial property business was added to the mix. In 2011, Beazley's team in Singapore underwrote in total S$15.8m (US$12.6m) in premiums.

Construction business is unusual in comprising one-off risks that do not renew. The key to success, according to Byran Lee, Beazley's regional underwriting manager, construction and engineering, is strong local broker relationships. Beazley Singapore derives approximately two-thirds of its business from global broking firms such as Aon, Marsh, Willis and Jardine Lloyd Thompson, and the balance from local indigenous brokers, particularly from Taiwan, Korea and Indonesia.

Highlights

- All global property teams saw rates rise in 2011. Whereas we had originally anticipated rates to fall by 3%, we in fact saw continuous rate rises in 2011 averaging 3% over the year – a total six percentage point upswing.
- Will Roscoe joined Beazley as an underwriter on the open market property team. Will joined Beazley from the global markets international division of Willis, where he had held a series of senior positions, including most recently director of broking.

Beazley's property division, led by Jonathan Gray, is a major underwriter of commercial property risks in the London market and, as such, was not immune to the catastrophe losses that pummelled the market in 2011. No one event was of major significance for us, but their cumulative effect weighed on our performance. The division's diversified premium base – comprising large, medium and small scale commercial property risks, homeowners business in the UK and US, and construction and engineering risks underwritten in London, Singapore and the US – maintained balance in our portfolio. The division recorded a 109% combined ratio for the year.

After such an eventful year, premium rates are rising, notwithstanding the substantial capacity still available in the market. Having budgeted for rate declines of 3% in 2011, we have in fact seen rates rise by approximately 3%. Premium rates for all of the teams within the property division, regardless of product or geography, were in positive territory by the end of the year. The sharpest upswing was in our open market property book, comprising large scale property risks underwritten at the Beazley box at Lloyd's, where rates have risen by 5% on average over the year.

The strength and variety of our Lloyd's broker relationships remain important assets for Beazley's property team. The global reach of our broker partners was once again demonstrated in 2011 as we opportunistically expanded our portfolio in a number of regions, notably Mexico, where premium rates on government owned properties have increased significantly. In September we further strengthened our open market team with the arrival of Will Roscoe, who joined us from Willis.

The exceptional series of natural catastrophes in 2011 was doubly unusual in occurring predominantly outside the United States, although the tornadoes that hit a number of southern states in April and May were the most destructive and deadly since 1936. Premium rates for medium sized US property risks, which we underwrite locally through our Beazley E&S (excess and surplus) team, have not risen nearly as steeply as have rates for the larger risks, and we reduced our underwriting in this segment in 2011. However, we expect rates to strengthen during 2012 and our premium volume once again to increase.

In March we also made the decision to withdraw from the admitted market for US commercial property business. Capacity for these risks, which contain little or no catastrophe exposure, continues to be abundant, and we took the view that we could achieve higher margins across the cycle by focusing on the more catastrophe exposed business underwritten by Beazley E&S. Business brought to us by coverholders – agents underwriting on our behalf through delegated authorities – has always been important to Beazley, and during the course of 2011 we consolidated this business into a new small business unit, led by Paul Bromley. Paul and his team proactively manage their coverholder relationships, around half of which relate to small scale commercial property business from around the world, a quarter to homeowners' risks (predominantly in the UK and US), and a quarter to jewellers' block business, where we are the UK market leader.

The focus of our small business unit is to seek out the best, most experienced coverholders we can find and support them with exceptional service. The rating environment in the United States for our covers book has been positive and, although we paid some jewellers block claims in the UK as a result of the riots that swept through parts of the country in August, we expect to recover most of this under the terms of the UK Riot Act.

Our construction and engineering team enjoyed mixed fortunes in 2011. We continue to see growth opportunities for our locally based underwriters in London and in Asia. In Singapore we have a successful and growing team that has been able to access regional business that we would not normally see in London (see case study). However, market conditions for construction and engineering risks have been challenging, particularly in London. We experienced some claims deterioration on certain large and complex multi-year projects and have scaled down our underwriting of such business, focusing instead on shorter term projects.

Looking ahead, we see numerous areas of opportunity in 2012 in the context of a much more positive rate environment. Our premium retention rates testify to the service we provide. We continue to invest in claims expertise and in underwriters who, while being sensitive to market conditions, are also alive to the importance of strong broker and client relationships.

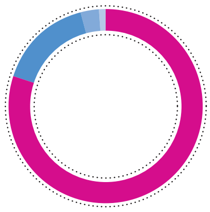
Reinsurance

Multiple events impacted the performance of this division during the worst year on record for insured natural catastrophes.

Patrick Hartigan
Head of reinsurance

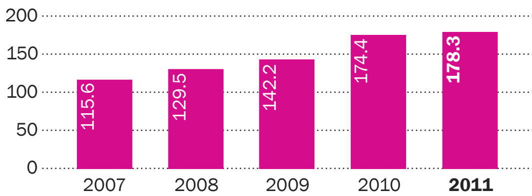
$178.3m
Gross premiums written

Portfolio mix



Property catastrophe	80%
Property risk/pro rata	16%
Misc	3%
Casualty clash	1%

Gross premiums written ($m)



☛ Supporting our clients following the catastrophe Japanese losses in 2011

Rarely in history have insurers been confronted by challenges comparable to that facing them on Saturday 12 March, the day after a massive earthquake and tsunami that devastated the Tohoku region of Japan.

More than 15,000 people died during and after the quake, which registered nine on the moment magnitude scale, destroying or damaging 125,000 buildings, according to the Japanese national police agency. The Japanese prime minister, Naoto Kan, described the disaster as the greatest crisis to hit the country since World War Two.

Insured market losses for these events are estimated to have cost $35bn to $40bn. Beazley's share of the loss, although modest by comparison with many reinsurers, nevertheless accounted for our largest catastrophe loss event in 2011.

Beazley has been reinsuring Japanese insurance companies since 1993. Events such as the Tohoku earthquake and tsunami are what the cover is for.

Highlights

- The exceptional series of natural catastrophes witnessed in 2011 drained an estimated $105bn from the resources of the world's insurers and reinsurers. This has fuelled significant increases in reinsurance premium rates ranging from 30% to 300% in areas affected.
- Beazley's reinsurance team has been at the forefront of driving changes to the catastrophe risk environment by limiting territorial coverage and more closely assigning a rate per peril.

In the worst year ever for insured natural catastrophes, it was inevitable that our reinsurance division, led by Patrick Hartigan, would incur substantial losses. Beazley's reinsurance losses were in line with our market share, resulting in a combined ratio of 157% (2010: 90%) on gross premium income of $178.3m.

A succession of severe events impacted the reinsurance market in 2011, beginning with widespread flooding in Queensland, Australia during January costing approximately $2.3bn. In February, a shallow but deadly earthquake hit Christchurch, New Zealand causing in the region of $12bn in insured damage. Less than three weeks later, the Tohoku earthquake, with a magnitude of 9.0 – the strongest ever recorded in Japan – devastated the north east coast of Japan through the combination of shock and, more overwhelmingly, tsunami. Insured damage has been estimated at $35bn-$40bn with economic damage of some $200bn. While the US was spared a significant hurricane in 2011 (Hurricane Irene proved less costly than at first feared, at $7bn), the combination of winter storms in the first quarter followed by two of the most violent tornadoes on record in the second quarter caused insured losses of approximately $14bn, double the figure of the previous year. The last quarter of the year provided no respite as prolonged rainfall in Thailand led to flooding in the industrial parks north of Bangkok. While the event is still being assessed, insured losses are estimated at $10bn-$20bn.

Beazley's reinsurance team manages its exposures to strict territorial limits with a bias towards the world's more mature insurance economies. This enables us to manage our risk in areas where data quality is strong, counterparties are experienced and effective in their own risk management, and profit margins are generally more robust. This also mitigates the risk of a private catastrophe (from which our share of a loss would be disproportionate to our market share). Our strategy has mitigated the effect of the losses of 2011 to the reinsurance team, ensuring that they are both proportionate to our market share and within our risk appetite.

Reinsurance rates, as a consequence of the events described above, have increased by approximately 50% to 100% in Australia; 150% to 300% in New Zealand; 50% to 100% in Japan; 25% in the US; and more than 100% in Thailand. In other areas, rate increases have been more modest.

An additional consequence of these events has been to drive a significant improvement in terms for low frequency, high severity areas, typically exposed to earthquake or extreme flood. Beazley's reinsurance team has been at the forefront of driving changes to the catastrophe risk environment by limiting territorial coverage and more closely assigning a rate per peril, which has enabled us to calibrate the price of cover more accurately with the exposures we are running.

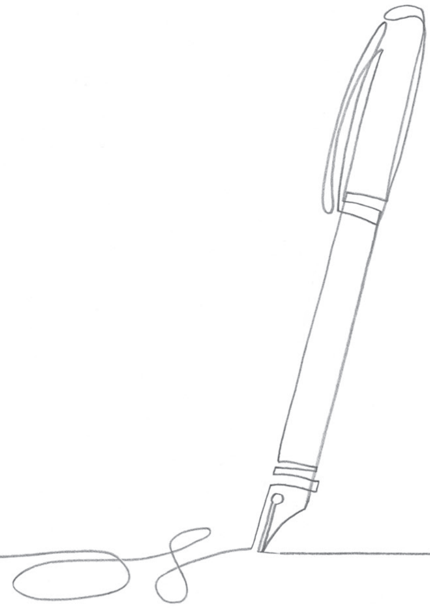
Estimating the scale of natural catastrophe losses, particularly in the early days after the event, is notoriously difficult. Our methodology in catastrophe loss assessment and reserving is primarily based on using a ground-up approach to our portfolio. We apply a probable maximum loss (PML) factor to the insured values for the clients in the region affected and subsequently relate this to the relevant reinsurance programmes in which we participate. We also apply a loss amplification factor to account for any uncertainties associated with the loss, which we adjust depending on the complexity of the event. By these means, we aim to provide our investors with robust loss estimates that do not require subsequent upward revision.

Beazley's reinsurance account benefits from two other important features. We have very strong, long term client relationships: 80% of our top 20 reinsureds have been buying cover from us for more than 15 years. We also have a very well diversified account by geography and peril.

One element in this diversification is our continental European business, which we underwrite both at Lloyd's and through our Munich office, opened in October 2008. The Munich office, which underwrote just under $20m in premiums last year, enables us to access business from continental Europe that would not normally come to Lloyd's.

Specialty lines

Cycle management expertise contributed to a 94% combined ratio in often challenging markets.

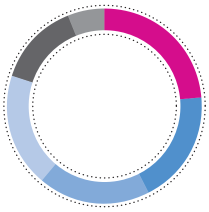


Adrian Cox
Head of specialty lines

$711.2m

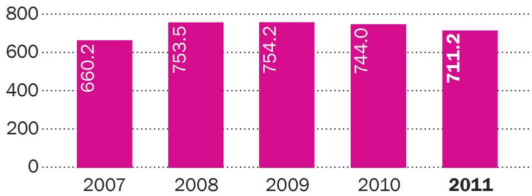
Gross premiums written

Portfolio mix



Professions	24%
Small business	19%
Management liability	19%
Technology media and business	19%
Healthcare	14%
Treaty	5%

Gross premiums written ($m)



☛ Healthcare team targets growing market

Miscellaneous medical risks – often abbreviated to 'misc med' and also known in the insurance market as 'allied healthcare' – is a label that applies to a broad range of professional liability risks. For Beazley, it is a market with significant growth potential that plays to our strengths as a specialist insurer.

Led by Evan Smith in Beazley's Chicago office, the misc med team currently comprises four underwriters supported by five claims professionals, and quotes for business in both the US and London. The team insures professional liability risks for a wide array of service providers, including healthcare staffing agencies, home care providers, mental health services, chemical detox facilities, tissue and blood banks, organ procurement organisations, contract research organisations, correctional healthcare (care provided in penal institutions), medi-spas, dialysis clinics, and ground and air ambulances.

The team's message to brokers is simple: if you have an unusual healthcare risk, we can probably find a solution. The message is welcome because many of the risks the team handles on a daily basis are unfamiliar to brokers that lack experience in this sector of the market. Flexibility is the team's watchword: Beazley's underwriters pride themselves on being able to tailor coverage to the specific needs of individual clients. Unlike some insurers, the team can consider risks with operations and exposures outside the US.

Providing exceptional service is a major focus of the team, which includes two underwriting assistants in Chicago to help ensure a rapid response to brokers' submissions and enquiries. As medical science advances and the US population ages, the status of healthcare as America's largest and fastest growing industry looks secure. And demand from brokers for well designed insurance cover for the industry's more unusual and hard to place risks looks likely to grow.

Highlights

- Beazley launched a new fidelity and crime unit led by Bill Jennings. The unit writes limits of up to $25m for fidelity bond coverage for financial institutions and for commercial crime coverage for non-financial organisations.
- We were chosen as preferred cyber liability insurer for UHC, an alliance of America's leading non-profit academic medical centres for their 114 centres and 255 affiliate hospitals.
- Beazley leads 95% of the specialty lines risks it writes.

Specialty lines, led by Adrian Cox, is Beazley's largest division, accounting for 42% of the company's gross written premiums in 2011. At a time of frequent and severe natural catastrophes, specialty lines – representing in the main professional liability, management liability, and medical malpractice business – has been a source of stable and consistent underwriting returns. The division recorded a combined ratio of 94% (2010: 93%).

The price of long term success in our markets is constant vigilance. We manage our portfolio actively to maximise our profitability over the cycle. For our clients we are not a fair weather friend – we aim to provide them with continuity of cover in a volatile market where capacity can become scarce very quickly. The corollary of this is that, when capacity is abundant, as has been the case in many lines of business recently, we will not be among the lowest priced markets. Ours is a well diversified portfolio across geographies, lines of business, and size of risks.

An important contribution to our performance in 2011 – $61.8m – derived from reserves released from prior years' underwriting after it became evident that they were no longer required to meet potential claims. Beazley has historically adopted a conservative reserving approach and our reserve release this year, which was in line with our 2010 release, bears witness to this.

Underwriting conditions remain highly competitive for many of the lines of business in which the team specialises. Insurance capital is still plentiful – even excessive in some markets such as architects' and engineers' (A&E) professional liability and directors and officers (D&O) insurance. Simultaneously, demand for many of the services our clients provide remains depressed due to low rates of economic growth in our principal markets, notably the United States. Both of these forces put downward pressure on premium rates. Furthermore the low level of insurers' investment returns provides little cushion to absorb underwriting losses. Overall, we saw renewal rates across our specialty lines business decline by 1% in 2011.

Our claims experience has also to some extent reflected the broader economic malaise affecting our clients. In 2008 we introduced a new and very rigorous underwriting approach to recession planning which has paid off since. The first class of business affected was employment practices liability (EPL), where claims commonly increase at times of rising unemployment. However, we saw premium rates begin to rise for EPL risks at the end of 2011 and we expect to grow in this class next year.

In 2011, as we had foreseen, we saw recession related claims against lawyers and architects and engineers continue to increase. Lawyers who advised on corporate transactions initiated in the boom years have also found themselves targets of litigation when those deals subsequently soured. Our very experienced specialist claims staff have been working closely with our clients to support them during these challenging times. This focus, combined with our recession planning, has had a beneficial effect on our loss ratios.

We are also seeing a change in the types of claim brought against directors and officers, away from traditional SEC class actions and towards claims deriving from M&A activity and increased regulatory scrutiny. We have begun to see this trend contribute to a modest upturn in rates in the D&O market.

Claims experience in other lines of business in which Beazley has long specialised has proved more benign. We are a leading insurer of US hospitals and hospital systems, with a strong focus on the best managed institutions. Extensive claims data is a significant asset in pricing these risks accurately and our database is one of the most extensive in existence, covering more than 455,000 claims.

In 2011, we insured a quarter of the top hospitals in the US as ranked by Healthgrades, the leading independent healthcare ratings company. We are increasingly providing insurance to comparably well managed institutions outside the US, particularly in Europe. Our miscellaneous medical business, although far smaller in premium terms, is a major growth area (see case study).

Healthcare providers are vulnerable to another risk that is a major specialist focus of Beazley – data breaches. In October we were selected by UHC, an alliance of America's leading non-profit academic medical centres, as the preferred cyber liability insurer for UHC's 114 academic medical centres and 255 affiliate hospitals. Beazley Breach Response, our flagship product, will be offered to all UHC members.

Outside the United States, we have continued to develop niche markets where our underwriting expertise and high service standards give us a competitive advantage. In India we are a leading insurer of business processing outsourcing firms, to which we are increasingly offering three-in-one policies combining D&O, EPL, and errors and omissions (E&O) cover. In France, we see significant growth potential in a number of lines and are strengthening our underwriting and business development capabilities. And our environmental risks team has provided high level excess protection for parent and holding companies with global portfolios, after the Deepwater Horizon oil spill revealed the range of suppliers that could potentially be implicated in the wake of major pollution events.

Financial review

Group performance

Beazley maintained its track record of unbroken profitability despite the worst ever year of insured natural catastrophes.

Martin Bride
Finance director

Income statement

	2011 $m	2010 $m	Movement %
Gross premiums written	1,712.5	1,741.6	(2%)
Net premiums written	1,374.0	1,402.1	(2%)
Net earned premiums	1,385.0	1,405.2	(1%)
Net investment income	39.3	37.5	5%
Other income	28.1	28.1	–
Revenue	**1,452.4**	**1,470.8**	**(1%)**
Net insurance claims	850.5	738.2	15%
Acquisition and administrative expenses	517.3	500.6	3%
One-off foreign exchange gain*	–	(33.7)	–
Foreign exchange loss/(gain)	4.1	(0.9)	–
Expenses	**1,371.9**	**1,204.2**	**14%**
Share of loss of associate	(1.0)	(0.9)	11%
Finance costs	(16.8)	(14.9)	13%
Profit before tax	**62.7**	**250.8**	**(75%)**
Income tax credit/(expense)	3.1	(33.8)	–
Profit after tax	**65.8**	**217.0**	**(70%)**
Claims ratio	62%	52%	–
Expense ratio	37%	36%	–
Combined ratio	99%	88%	–
Rate increase/(reduction)	1%	(2%)	–
Investment return	1.0%	1.0%	–

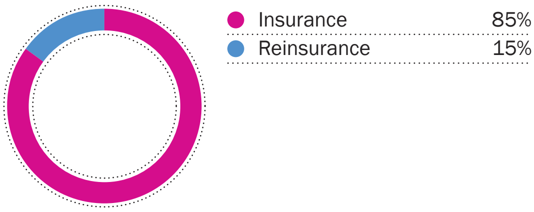
*The $33.7m non-recurring foreign exchange gain in 2010 arose as a result of the decision to more closely match our regulatory capital position in US dollars prior to the change in our functional currency from Sterling to US dollars.

Premiums

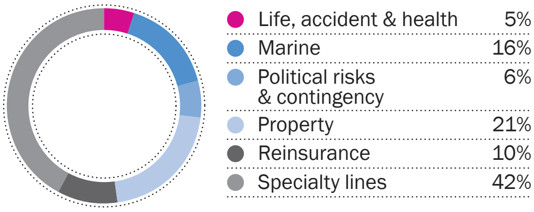
Gross premiums written have reduced by 2% in 2011 to $1,712.5m. However, rates on renewal business on average increased by 1% across the portfolio. We have continued to adjust our underwriting appetite in areas where competition is most intense.

The balance of our business has remained broadly unchanged from 2011. We continue to operate a diversified portfolio by type of business and geographical location, and have sought out new opportunities in 2011 to complement our existing books of business. In April 2011 we announced our acquisition of two Australian disability insurance managing general agents: Australian Income Protection and Blue-GUM Special Risks. This acquisition has made a $10.1m contribution to our full year premiums written via our Lloyd's platform and will significantly add to our Australian business and our life, accident and health portfolio. In addition we have set up a life, accident and health business operation in Minneapolis, Minnesota, writing admitted business through our US insurance company, Beazley Insurance Company Inc.

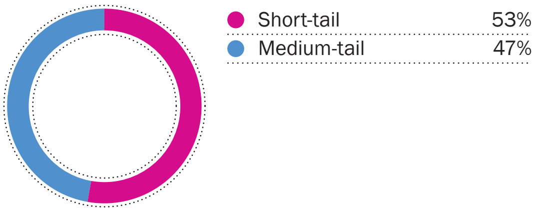
Insurance type



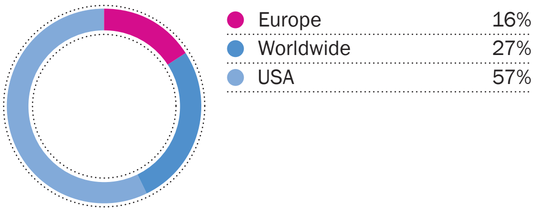
Business by division



Premium written by claim settlement term



Geographical distribution



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

Premium retention rates

Retention of business from existing brokers and clients is a key feature of Beazley's strategy. It enables us to maintain a deep understanding of our clients' businesses and requirements, affording greater insight into the risks involved in each policy we write and enabling us to price risk most accurately to achieve profit. The table below shows our retention rates by division compared to 2010.

Retention rates*	2011	2010
Life, accident and health	85%	83%
Marine	84%	78%
Political risks and contingency	64%	60%
Property	72%	73%
Reinsurance	90%	93%
Specialty lines	82%	84%
Overall	80%	80%

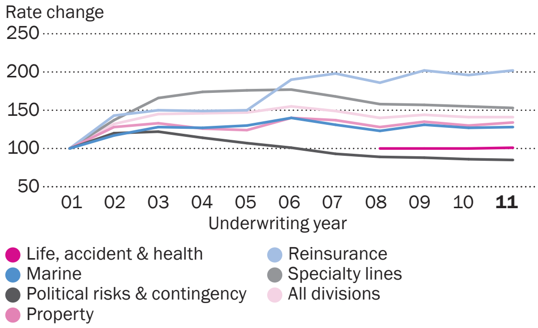
* Based on premiums due for renewal in each calendar year.

Rating environment

Premium rates charged for renewal business increased by 1% during 2011 across the portfolio (2010: a decrease of 2%). The largest rate changes were seen within our catastrophe-exposed classes; reinsurance (3% increase) and property (3% increase). Life, accident and health saw a 1% rate increase, whilst political risks and contingency and specialty lines had a 1% decrease and marine was unchanged. Market conditions remain competitive across the portfolio.

Financial review
Group performance *continued*

Cumulative renewal rate changes since 2001* (%)



*Unaudited

Reinsurance purchased
The amount the group spent on reinsurance in 2011 was $338.5m (2010: $339.5m). The slight decrease was due to the group ceasing to underwrite admitted commercial property business in the US and accordingly no purchase of external reinsurance for this business was made. The only significant new reinsurance purchased was the professions' aggregate excess of loss cover which protects the group against an unexpected increase in the frequency of losses across most of the specialty lines business.

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

Combined ratio
The combined ratio of an insurance company is a measure of its operating performance and represents the ratio of its total costs (including claims and expenses) to total net earned premium. Consistent delivery of operating performance across the market cycle is clearly a key objective for an insurer. Beazley's combined ratio has increased in 2011 to 99% (2010: 88%). This increase was driven by the cost of catastrophes in 2011; nevertheless a combined ratio of below 100% is a notable achievement under these circumstances and demonstrates the value in our diversified operating model in challenging years. It is worth pointing out that the calculation of the combined ratio for Beazley includes all claims and other costs to the group but excludes foreign exchange gains or losses. We believe this represents the most transparent and useful measure of operating performance as it ensures that all of the costs of being in business are captured, whether directly linked to underwriting activity or not.

Claims
2011 saw an unusually large incidence of natural catastrophes resulting in significant market losses. The group was impacted by the catastrophe losses in the first quarter of 2011 in Japan, New Zealand and Australia. Taken together with the US tornadoes in April and May, we reported catastrophe losses of $183m in the first half of 2011.

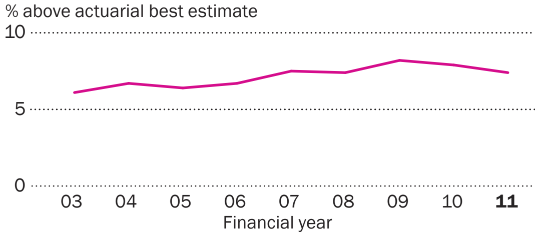
Political unrest in Libya led to losses in the first half in political risks. Despite this, the political risks and contingency division recorded a combined ratio of 79%, which was achieved following the first recoveries on the 2008 political losses. The second half of the year saw loss activity continue with hurricane Irene and flooding in Thailand. We incurred minor losses as a result of hurricane Irene and we estimate the cost of Thailand to be $42m. Thanks to a $10m improvement in the estimate for the previously reported losses, this brings the total for these catastrophe events to $215m in 2011.

These losses have affected our reinsurance and property divisions and, to a lesser extent, the political risks and contingency division.

Our investments in our claims infrastructure will enable us to work closely with our clients and insureds to ensure claims are handled in an efficient and timely manner and to enable affected communities to start to rebuild.

Losses from 2010, including the earthquakes in Chile and New Zealand have developed well and contributed positively to prior year reserve releases during 2011.

Margin in net held reserves (%)



Reserve releases

Beazley has a consistent reserving philosophy with initial reserves being set to include risk margins that may be released over time as and when any uncertainty reduces. Historically these margins have given rise to held reserves within the range 5-10% above the actuarial estimate. We continue to maintain our reserve strength across the portfolio at 7.4% (2010: 7.9%).

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

During 2011 we were able to make the following prior year reserve adjustments across divisions, with the overall net impact being an increased release to the group.

	2011 $m	2010 $m
Life, accident and health	4.5	(1.3)
Marine	39.9	30.7
Political risks and contingency	22.1	18.8
Property	20.2	17.4
Reinsurance	38.0	22.1
Specialty lines	61.8	56.9
Total	186.5	144.6
Releases as a percentage of net earned premium	13.5%	10.3%

Reserve releases increased slightly on specialty lines, reflecting the continuing satisfactory development of the significant volumes of business underwritten over the last ten years. The releases in 2011 came mainly from the 2003 through 2006 underwriting years, reinforcing that they are exceptionally profitable.

The political risks and contingency reserve releases continued, with the 2010 underwriting year in particular developing well. Marine reserve releases rose significantly, with the relatively benign 2009 underwriting year dominating.

The reinsurance and property releases increased with favourable development of past catastrophe events and the utilisation of earned catastrophe reserves offsetting the cost of the events of 2011.

Refer to note 24 for more details on the treatment of the claims related to 2011 catastrophe events.

Financial review
Group performance *continued*

Acquisition costs and administrative expenses
Business acquisition costs and administrative expenses increased to $517.3m from $500.6m in 2010. The breakdown of these costs is shown below:

	2011 $m	2010 $m
Brokerage costs	299.3	292.9
Other acquisition costs	91.4	88.5
Total acquisition costs	**390.7**	**381.4**
Administrative expenses	126.6	119.2
Total acquisition costs and administrative expenses	**517.3**	**500.6**

Brokerage costs are the premium commissions paid to insurance intermediaries for providing business. As a percentage of net earned premium they remain between 21% and 22%. Brokerage costs are deferred and expensed over the life of the associated premiums in accordance with accounting guidelines.

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

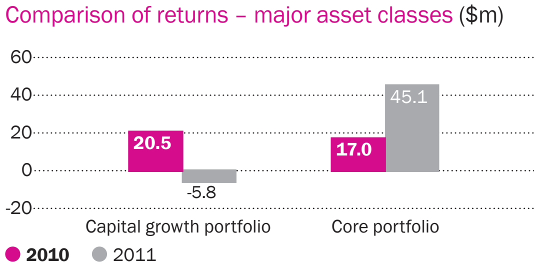
Administrative expenses comprise primarily IT costs, facilities costs, Lloyd's central costs and other support costs. These increased in 2011, the main reason being that a large proportion of the group's expenses are in sterling and on average sterling was stronger against the US dollar in 2011 compared to 2010.

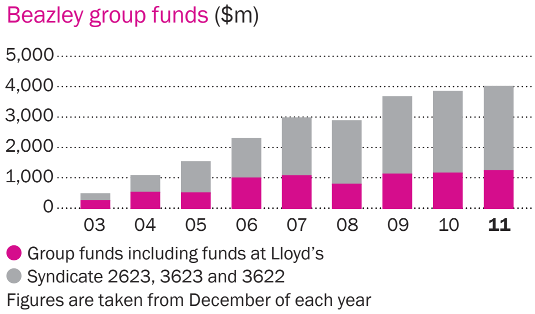
Investment performance
Investment income for the year ended 31 December 2011 was $39.3m, or an annualised return of 1.0%, compared with $37.5m or 1.0% over the same period in 2010.

Investment conditions continued to be difficult over the course of the year. Financial markets experienced elevated levels of volatility as the effects of global overleveraging continued to manifest themselves via the European sovereign debt crisis. This issue, coupled with the relatively lacklustre levels of global growth, contributed to interest rate levels falling further from already record low levels – providing some boost to short-term returns, but decreasing the outlook for future returns.

In this environment the investment strategy focused on containing potential downside, whilst working to target absolute returns above short-term treasury bills. We have paid particular attention to avoiding risks arising from the eurozone crisis, primarily those arising from peripheral sovereign debt as well as from the overall banking sector. Our eurozone sovereign bond exposures are restricted to Germany, France, Austria, Belgium, Finland, Luxembourg and the Netherlands.

The strategy continues to be implemented together with Falcon Money Management Limited, our associated company, and is unchanged from last year. Our core portfolio, which amounted to 89.7% of fixed income investments, continues to be primarily allocated to core sovereign, supranational and agency debt whilst retaining elevated levels of cash. We have marginally increased our allocations to US non-financial corporate and asset-backed credits to take advantage of wider spreads in the latter part of the year. Duration of the portfolio as at the year end was 1.3 years (2010: 12 months) with a yield to maturity of 0.8% (2010: 0.7%). Our decision late in 2010 to increase and maintain duration worked well as interest rates fell further during 2011. The investment committee does expect to further extend the duration of assets to more closely match liabilities in the future. The balance of our investments remains invested in a diversified portfolio of capital growth assets with a focus on delivering absolute investment returns.





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

	31 Dec 2011		31 Dec 2010	
	$m	%	$m	%
Cash and cash equivalents	650	16.2	745	19.4
Government, agency and supranational	2,004	50.0	1,731	45.0
AAA	493	12.3	646	16.9
AA+ to AA-	121	3.0	157	4.1
A+ to A-	237	6.0	113	2.9
BBB+ to BBB-	86	2.1	17	0.4
Derivative financial assets	5	0.1	–	–
Core portfolio	3,596	89.7	3,409	88.7
Capital growth assets	411	10.3	433	11.3
Total	**4,007**	**100.0**	**3,842**	**100.0**

Comparison of return by major asset class:

	31 Dec 2011		31 Dec 2010	
	$m	%	$m	%
Core portfolio	45.1	1.3	17.0	0.5
Capital growth assets	(5.8)	(1.4)	20.5	5.8
Overall return	**39.3**	**1.0**	**37.5**	**1.0**

The funds managed by the Beazley group have grown by 4% in 2011, with financial assets of $4,006.9m at the end of the year (2010: $3,842.3m). The chart above shows the increase in our group funds since 2003.

Tax

Beazley is liable to corporation tax in a number of jurisdictions, notably the UK and Ireland. Our effective tax rate is thus a composite tax rate between the Irish and UK tax rates.

In 2011, the UK corporation tax rate was reduced from 27% to 25%. This 2% reduction in the UK tax rate has been applied to our UK deferred tax liability brought forward. This reduction in our deferred tax liability has offset our current tax charge to create an effective tax rate of (5%) for the year.

Financial review
Balance sheet management

Summary statement of financial position

	2011 $m	2010 $m	Movement %
Intangible assets	130.7	117.0	12%
Reinsurance assets	1,197.9	1,034.9	16%
Insurance receivables	558.7	527.1	6%
Other assets	224.5	253.0	(11%)
Financial assets and cash and cash equivalents	4,006.9	3,842.3	4%
Total assets	**6,118.7**	**5,774.3**	**6%**
Insurance liabilities	4,334.6	4,046.8	7%
Financial liabilities	266.9	268.2	–
Other liabilities	446.2	376.4	19%
Total liabilities	**5,047.7**	**4,691.4**	**8%**
Net assets	**1,071.0**	**1,082.9**	**(1%)**
Net assets per share (cents)	**211.7c**	**214.6c**	**(1%)**
Net tangible assets per share (cents)	**185.9c**	**191.4c**	**(3%)**
Net assets per share (pence)	**137.6p**	**139.5p**	**(1%)**
Net tangible assets per share (pence)	**120.8p**	**124.4p**	**(3%)**
Number of shares*	**505.9m**	**504.6m**	**–**

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

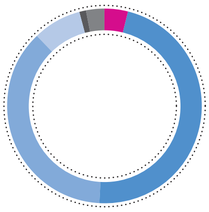
Intangible assets
Intangible assets consist of goodwill on acquisitions of $72.3m and renewal rights of $16.3m, purchased syndicate capacity of $10.8m, US admitted licences of $9.3m and capitalised expenditure on IT projects of $22.0m. The increase in intangibles is primarily due to the acquisition of AIP in Australia for $20.6m, this included deferred consideration. We also acquired additional syndicate capacity of $1.4m, taking the split of business between syndicates 2623 and 623 to 82%:18% for 2012. This was offset by a decrease of $8.6m as we disposed of a business. As part of the sale agreement we secured the renewal rights for this business for the next five years, accordingly we have capitalised this asset as renewal rights within intangible assets.

Reinsurance assets
Reinsurance assets represent recoveries from reinsurers in respect of incurred claims of $995.7m, and the unearned reinsurance premiums reserve of $202.2m. The reinsurance receivables from reinsurers are split between recoveries on claims paid or notified of $252.4m and an actuarial estimate of recoveries on claims that have not yet been reported of $743.3m. The group's exposure to reinsurers is managed through:

- Minimising risk through selection of reinsurers who meet strict financial criteria (eg minimum net assets, minimum 'A' rating by S&P). These criteria vary by type of business (short vs medium-tail). The chart on page 37 shows the profile of these assets (based on S&P rating) at the end of 2011;
- Timely calculation and issuance of reinsurance collection notes from our ceded reinsurance team; and
- Regular monitoring of outstanding debtor position by our reinsurance security committee and credit control committees.

We continue to provide against impairment of reinsurance recoveries, and at the end of 2011 we had provided $15.7m (2010: $17.3m) in respect of reinsurance recoveries.

Reinsurance debtor credit quality



AA+	4%
AA-	47%
A+	37%
A	8%
A-	1%
Not rated	3%

Insurance receivables

Insurance receivables are amounts receivable from brokers in respect of premiums written. The balance at 31 December 2011 was $558.7m, an increase of 6% over 2010 ($527.1m). We continue to outsource the collection of our Lloyd's premium broker balances to Randall and Quilter Investment Holdings plc, which operates within the Lloyd's market as specialist credit controllers.

Other assets

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

- Deferred acquisition costs of $159.7m;
- Deferred tax assets available for use against future taxes payable of $12.5m; and
- Profit commissions receivable from syndicate 623 of $10.1m.

Insurance liabilities

Insurance liabilities of $4,334.6m consist of two main elements, being the unearned premium reserve (UPR) and gross insurance claims liabilities.

Our unearned premiums reserve has reduced by 2% to $808.4m. The majority of the UPR balance relates to current year premiums that have been deferred and will be earned in future periods. Current indicators are that this business is profitable.

Gross insurance claims reserves are made up of claims which have been notified to us but not yet paid and an estimate of claims incurred but not yet reported (IBNR). These are estimated as part of the quarterly reserving process involving the underwriters and group actuary. Gross insurance claims reserves have increased by 9% to $3,526.2m.

Financial liabilities

Financial liabilities comprise borrowings and derivative financial liabilities. The group utilises two long-term debt facilities:

- In 2006 we raised £150m of lower tier 2 unsecured fixed rate debt that is payable in 2026 and callable in 2016. The initial interest rate payable is 7.25% and the current carrying value of this debt is $246.8m; and
- A US$18m subordinated debt facility raised in 2004. This loan is also unsecured and interest is payable at the US interbank offered rate (LIBOR) plus 3.65%. These subordinated notes are due in 2034 and have been callable at the group's option since 2009.

In July 2011 we renewed and extended our existing syndicated short-term banking facility led by Lloyds Banking Group Plc. The facility provides potential borrowings up to $225m. The new agreement is based on a commitment fee of 0.7% per annum and any amounts drawn are charged at a margin of 1.75% per annum. The cash element of the facility will last for three years, expiring on 31 December 2014, whilst letters of credit issued under the facility can be used to provide support for the 2012 and 2013 underwriting years. The facility is currently unutilised.

Financial review
Capital structure

The information on this page forms an integral part of the audited financial statements.

Beazley has a number of requirements for capital at a group and subsidiary level. Capital is primarily required to support underwriting at Lloyd's and in the US and is subject to prudential regulation by local regulators (FSA, Lloyd's, Central Bank of Ireland, and the US state level supervisors).

Further capital requirements come from rating agencies on a groupwide basis and for Beazley Insurance Company Inc. and the Lloyd's syndicates on a standalone basis. In both cases we aim to manage our capital to obtain a financial 'A' rating from the rating agencies for these entities.

Beazley holds a level of capital over and above its regulatory requirements and targets a level of surplus capital that would enable it to take advantage of new underwriting opportunities such as the acquisition of insurance companies or managing general agents (MGAs) whose strategic goals are aligned with our own.

The group actively seeks to manage its capital base to target capital levels. Our preferred use of capital is to deploy it on opportunities to underwrite profitably. However there may be times in the cycle when the company will generate excess capital and not have the opportunity to deploy it. If such a point were reached the board would consider returning capital to shareholders.

In 2011 Beazley acquired 0.7m of its own shares. These were acquired at an average price of 117.4p and the cost to the group was $1.2m.

Our funding comes from a mixture of our own equity of $1,071.0m alongside £150m of tier 2 subordinated debt and $18m subordinated long-term debt and an undrawn banking facility of $225m mentioned above. This facility was renewed in July 2011 to cover the 2012 and 2013 underwriting years and converted to a $225m facility.

The following table sets out the group's sources and uses of capital:

	2011 $m	2010 $m
Sources of funds		
Shareholders' funds	1,071.0	1,082.9
Tier 2 subordinated debt	231.0	230.8
Long-term subordinated debt	18.0	18.0
	1,320.0	1,331.7
Uses of funds		
Lloyd's underwriting	742.9	776.9
Capital for US insurance company	107.7	107.7
	850.6	884.6
Surplus	**469.4**	**447.1**
Unavailable surplus*	(129.5)	(80.2)
Fixed and intangible assets	**(137.8)**	**(126.6)**
Available surplus	**202.1**	**240.3**
Unutilised banking facility	**225.0**	**150.0**

* Unavailable surplus primarily represents profits earned that have not yet been transferred from the Lloyd's syndicates. The cash transfers occur half-yearly in arrears and are reflected as unavailable until the cash is received into Beazley corporate accounts. In addition certain items other than fixed and intangible assets such as deferred tax assets are not immediately realisable as cash and have also accordingly been reflected as unavailable surplus.

Individual capital assessment

The group is required to produce an individual capital assessment (ICA) which sets out the amount of capital that is required to reflect the risks contained within the business. Lloyd's reviews this assessment to ensure that ICAs are consistent across the market.

In order to determine the ICA, we have made significant investments in both models and process:

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

The decrease in our funds at Lloyd's from £505.0m to £482.9m in spite of the broadly unchanged level of premium reflects the changes in our reinsurance programmes (particularly the professions programme) and the increased duration on our bond portfolio. These numbers are presented in the table on the previous page in US dollars, being $742.9m and $776.9m for 2011 and 2010 respectively, which have been translated at the spot exchange rate at reporting dates.

Solvency II

Solvency II is a proposed EU-wide legislation on capital adequacy and risk management for all insurers. The central elements of Solvency II are:

- Pillar 1: Demonstrating adequate financial resources – quantification
- Pillar 2: Demonstrating an adequate system of governance – risk assessment
- Pillar 3: Public disclosure and regulatory reporting requirements.

Beazley has set two guiding principles for Solvency II, namely:

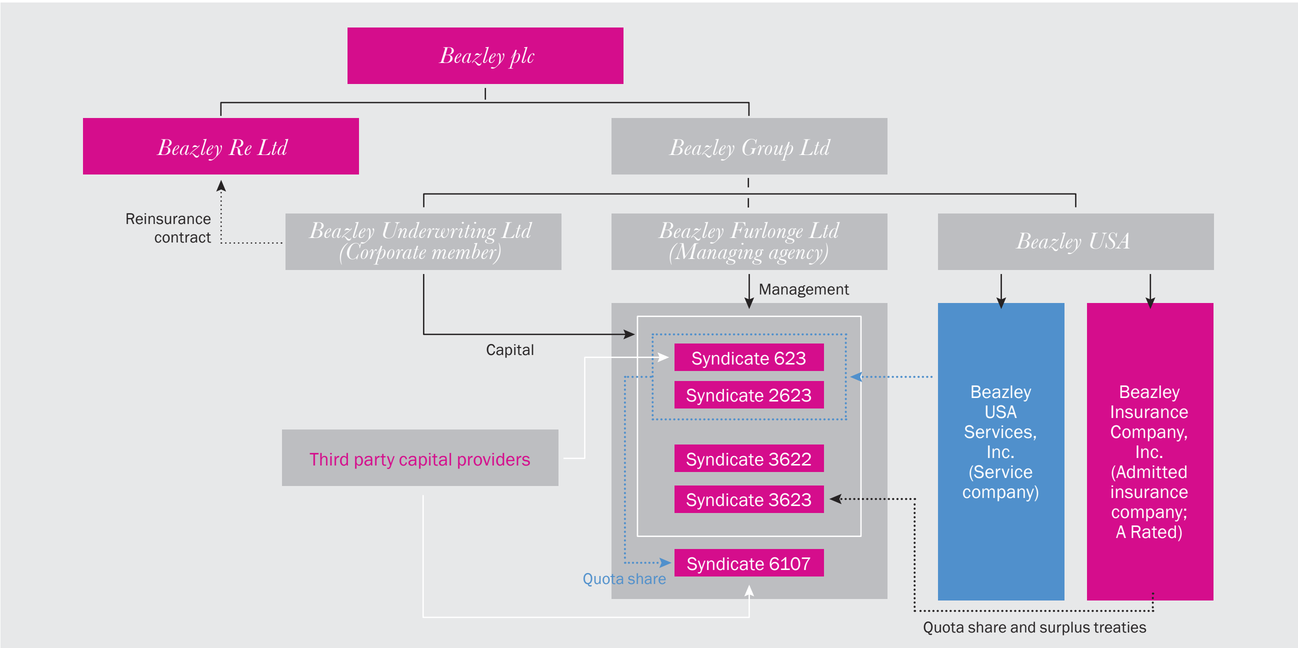
- to develop a framework that can be used to inform management and assist with business decision making; and
- to hold an appropriate and efficient level of capital for the agreed risk appetite through risk identification and mitigation.

Beazley's dedicated project management team and subject matter experts have continued throughout 2011 to build the framework required to make Beazley Solvency II compliant. The Solvency II internal model, which calculates our solvency capital requirements based on Beazley's risk profile in line with the new principles, was built and tested. The internal model has incorporated new design characteristics which increase the level of sophistication and granularity. The Solvency II Final Application Pack for the syndicates was submitted to Lloyd's on 16 December 2011, containing our estimated capital requirements under the new regime, as well as detailed information on the status of the programme and the activities remaining to be completed in order to reach the full Solvency II standard. The team also completed a comprehensive training programme tailored to educate all our staff on their specific knowledge requirements as well as what business as usual will look like under Solvency II.

Our objective for 2012 is to complete our outstanding activities in line with the Lloyd's plan and to embed the model and the changes into the business. This will include going through a review process with the FSA in relation to the Lloyd's application, and with the Central Bank of Ireland to achieve Beazley Re model approval. We will also continue to take advantage of the benefits delivered by the programme, such as better management information and strengthened decision making.

Financial review
Capital structure *continued*

Group structure
The group operates across both Lloyd's and the US through a variety of legal entities and structures. The main entities within the legal entity structure are as follows:
- Beazley plc – group holding company and investment vehicle; quoted on the London Stock Exchange;
- Beazley Underwriting Limited – corporate member at Lloyd's writing business through syndicates 2623, 3622 and 3623;
- Beazley Furlonge Limited – managing agency for the group's five syndicates (623, 2623, 3622, 3623 and 6107);
- Beazley Re Limited – reinsurance company that accepts reinsurance premium ceded by the corporate member, Beazley Underwriting Limited;
- Syndicate 2623 – corporate body regulated by Lloyd's through which the group underwrites its general insurance business excluding accident and life. Business is written in parallel with syndicate 623;
- Syndicate 623 – corporate body regulated by Lloyd's which has its capital supplied by third-party Names;
- Syndicate 6107 – special purpose syndicate writing reinsurance business on behalf of third-party Names;
- Syndicate 3622 – corporate body regulated by Lloyd's through which the group underwrites its life insurance and reinsurance business;
- Syndicate 3623 – corporate body regulated by Lloyd's through which the group underwrites its personal accident and BICI reinsurance business;
- Beazley Insurance Company, Inc. (BICI) – insurance company regulated in the US. Licensed to write insurance business in all 50 states; and
- Beazley USA Services Inc. (BUSA) – managing general agent based in Farmington, Connecticut. Underwrites business on behalf of Beazley syndicates and BICI.



Operational update

Strength and efficiency of operations have never been so important.

Ian Fantozzi
Chief operating officer

My aim is to ensure we have an efficient and cost effective operating platform that also provides readiness and scalability to support business growth. With this in mind, we continue to invest in our employee talent, technology, processing and physical infrastructure. We do this while keeping a close watch on our operational expense budget and routinely measuring the value that each support service or project brings.

As our business grows into new product lines and geographies, we place great emphasis on operating with consistency across the group. We promote core employee values, uphold groupwide standards in underwriting and claims processing, and leverage value from a core set of technology platforms. Not only does this consistency lead to increased efficiency and service levels, it helps to maintain visibility and control of operating risk.

Creating the technology to support growth

Philippe Mazas, chief information officer, and the IT team have delivered a number of important projects in 2011 that provide technology platforms to support our growth initiatives. For our Lloyd's operation, we have successfully consolidated and upgraded legacy policy systems into one technology platform, called Synergy, and integrated to a group document management system. This has improved back-office efficiency by eliminating data rekeying, providing automation to support group underwriting standards and delivering management information into our strategic data analytics suite, named 'Beazley Intelligence'.

As well as providing management information on all Beazley Lloyd's policy transaction data, the Beazley Intelligence programme, led by Paolo Cuomo, now provides reports on our claims activity and on delegated underwriting. Having this single source of management information provides us with a competitive advantage by highlighting trends in underwriting performance, and identifying higher margin products where we should focus our growth. Beazley Intelligence has also played a vital role in supporting our Solvency II programme, with the implementation of a robust data quality governance framework.

Our new exposure management system is another source of competitive advantage, enabling us to report aggregated insurance exposures quickly and accurately, which is key to effective underwriting and claims management. The new system enables rapid identification of exposure to specific environmental, economic or political events to a higher level of precision.

In the US, we continue to support growth with our BeazleyPro system. During 2011, we delivered automated end-to-end quote and policy fulfilment to several product lines. Not only does this provide efficiency savings, it also enhances our ability to provide a highly responsive service to brokers as our business grows. Similarly, we are now supporting our growth in Europe with a new international underwriting platform which has already been deployed to our UK regional and Paris offices.

Maintaining processing efficiency

A key focus is to ensure that our back-office processing harnesses the economies that can be achieved through our increasing scale and geographical footprint. By this we mean making sure that processing is done by appropriately skilled people, at the most cost effective location, whilst providing the best service levels. To do this we make use of both outsource service providers and through centralised service centres. Over the last three years we have built a highly efficient transaction processing centre in Connecticut. Headed by Bryan Falchuk, this team continues to take on and refine the processing tasks to service both our US and London businesses.

Providing high quality work space and facilities

As we expand globally, it is important to provide a high quality working environment that is conducive to team working. Our offices are open plan, bright and airy with a style and consistency that supports our global brand. We want to make our work space somewhere that our people want to be, and to provide meeting space in which brokers want to do business. Meeting this requirement is Beazley's commercial management team, which, under the leadership of Munira Hirji, strives to get the best quality offices at the best lease and facility cost. In support of our growth in Lloyd's, we recently signed the lease for an additional floor in our London office at Plantation Place.

Operational update *continued*

Moving forward

In 2012, we will continue to invest in developing our talent, technology and infrastructure. We will also be reviewing the back-office processes that underpin our underwriting and claims management and seeking new ways to refine our service delivery and responsiveness to growth opportunities.

Each year, a core driver behind our planning for operational investment is the close review of the annual underwriting business plans. We believe this is vital to ensure tight alignment to the business direction for providing effective and responsive operational support.

With the platform we have developed and the plans for further investment, I feel confident that we have the strength and efficiency to support our ongoing profitability into 2012.

Risk management

Challenging years, such as 2011, demonstrate the importance of having embedded an effective risk management culture throughout the business.

Andrew Pryde
Chief risk officer

Year in review

The past year saw the continuing evolution of both the risk management framework and the risk management function, with Andrew Pryde being appointed chief risk officer from 1 January 2011 as Nicholas Furlonge moved from director of risk to a non-executive director role in Beazley Furlonge Limited. The risk management function was appropriately resourced throughout 2011 with additional personnel recruited to ensure there is the appropriate combination of skills and experience for Beazley to operate in a Solvency II regulatory environment. To reflect the increasing size and importance of the US operations to the group, we now have two US based risk managers to ensure good risk management practices are embedded in all US operations.

A risk and regulatory committee was introduced at the beginning of 2011, meeting on a monthly basis throughout the year with immediate oversight of the risk management framework at Beazley. The members of this committee include the risk owners from across the business and are joined on a quarterly basis by three non-executive directors to provide independent challenge.

For much of 2011, the risk management team focused on refining the risk management framework which we established in 2010. This included working closely with all risk owners and control owners and developing a partnership model with our colleagues in the various business departments. Risk management and Solvency II training has been provided to all staff by way of a bespoke e-learning module. This training has been supplemented for personnel with specific risk management responsibilities. Challenging years, such as 2011, demonstrate the importance of having embedded an effective risk management culture throughout the business. Important elements for 2011 were our diversified portfolio of insurance risks, executing on our cycle management expertise, employing a conservative investment strategy and operating a robust underwriting and claims control environment.

The risk management function has developed and implemented risk management software tailored specifically to meet our needs. This has accelerated and built resilience into the reporting timetable and has enabled the team to provide a consolidated assurance report to executive management on a monthly basis and our boards on a quarterly basis.

A key theme for the risk management function in 2011 was to implement timely and trusted risk management reports. In addition to the monthly consolidated assurance report, the risk management function provided an emerging and strategic risk report for the board strategy day in May, developed risk profiles throughout 2011 on emerging risks and presented a full year's cycle of quarterly Own Risk and Solvency Assessment (ORSA) reports, which have been used by our boards to assist with their oversight and decision making responsibilities. The ORSA is a key requirement of Solvency II and uses output from both the risk management framework, which provides the qualitative aspects, and the internal model, which provides the quantitative aspects. It demonstrates the link between these two elements, showing they are of consistent design, with feedback loops between the two processes.

An important feature of the internal model that is used to establish capital is the objective and transparent link between actions taken by underwriters and the capital estimated and allocated to the underwriting teams. This means that the business is more comfortable using the internal model as part of its decision making. In 2011, this concept has been extended to operational risk. Therefore, as the control environment strengthens there is an objective link to reduce the capital estimated. Similarly, if the control environment weakens, the capital estimated increases, which reinforces the strong risk management culture.

Looking forward

The top three risks to the group remain relatively static, and are common to many of our peers. These are underwriting and reserving risks (specifically, systematically mispricing across a number of years), catastrophe risk and asset risk. At a high level, the continued soft insurance market caused in part by the availability of capacity, the number of catastrophe losses reported in the year and the continued uncertainty surrounding the global economy and financial markets are the factors that underlie these risks.

We remain on track to meet the regulator's timetable for the implementation of Solvency II. Despite the expected postponement of the implementation of this regulation until at least January 2014, we are pursuing the initial timetable. This will ensure that we are compliant with the regulations by January 2013, at the latest.

The resourcing of the risk management function will also remain under review in 2012, to ensure the right balance of skills and experience is in place to manage our risk environment.

Risk management *continued*

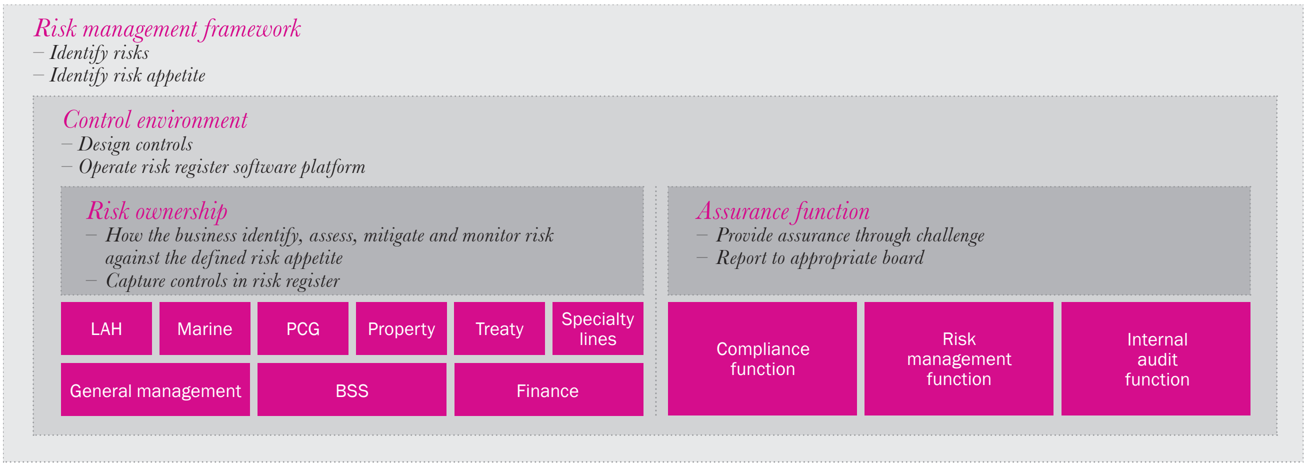
The risk management framework at Beazley

The risk management framework describes how risk is managed at Beazley as illustrated by the diagram below. The framework includes a risk register that captures the risk universe (using eight risk categories and 53 risk events), the risk appetite set by the Beazley plc board and controls that are operated by the business to remain within this risk appetite.

Our risk management framework operates under the principle of the three lines of defence: namely business risk management, the risk management function and the internal audit function. Within business risk management, there are three defined roles: namely risk owner, control owner and control reporter. Each risk event is owned by the risk owner who is a member of the executive committee. Risk owners, supported by the risk management team, formally perform a risk assessment twice a year, including an assessment of emerging risk.

A software tool is used to manage the operation of the control environment and the control performance is recorded in this risk register by the control reporter. The risk management function uses the data in the risk register to provide a suite of risk management reports to the boards and committees that will assist the senior and executive management to discharge its decision making responsibilities.

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



Risk appetite

The Beazley plc board has developed high-level risk appetite statements for each of the eight risk categories. From these qualitative statements, a quantitative risk appetite has been developed for each of the 53 risk events to manage short term risk, which is expressed as acceptable earnings volatility at a 1:10 likelihood. Defining risk appetite at this level of detail allows a natural cascade across the group to help the business understand what is required to operate within the board's risk appetite. The board has approved the risk appetite for 2012 which, for the large part, remains unchanged from 2011. For the insurance category, the Beazley plc board has also established a risk appetite to manage risk at more extreme durations, for example, at the 1:250 likelihood for catastrophe risk as described on pages 94 and 95.

Eight categories of risk

We track risk in the following eight risk categories, across which a total of 53 risk events have been identified. Each risk event is reported to a specific oversight committee to assist them perform their first line of defence obligations. All risk events are reported to the risk and regulatory committee, the audit committees and the boards.

Risk category	Risk definition	Committee
Insurance risk	The risk arising from the inherent uncertainties about the occurrence, amount and timing of insurance premium and claim liabilities.	Underwriting committee
Asset risk	The risk arising from adverse financial market movements of values of investments, interest rates, exchange rates, or external market forces.	Investment committee
Operational risk	The risk arising from inadequate or failed internal or external processes, people and systems.	Underwriting, Investment, Beazley shared services and Executive committees
Credit risk	The risk of failure of another party to perform its financial or contractual obligations to the group in a timely manner.	Underwriting committee
Group risk	The contagion risk that an action or inaction of one part of the group will adversely affect another part or parts. In addition, the risk of dilution of culture and negative impact on brand.	Executive committee
Regulatory and legal risk	The risk arising from not complying with regulatory and legal requirements.	Executive committee
Liquidity risk	The risk from not having available (or access to) the correct level of financial resources to meet obligations.	Investment committee
Strategic risk	The risk of ineffective strategic direction.	Executive committee

Corporate and social responsibility

As an insurer we can exert a strong beneficial influence by promoting effective risk management. We see a clear correlation between forward-looking businesses that have such controls in place and businesses that are good corporate citizens.

Corporate social responsibility at Beazley has two main dimensions: how we conduct our own business and how we influence our clients in the conduct of theirs. Below we describe the measures we took in 2011 to ensure that as a company we met our responsibilities. But as an insurer we can also exert a strong beneficial influence by promoting effective risk management. We see a clear correlation between forward-looking businesses that have such controls in place and businesses that are good corporate citizens.

The responsibilities of our business

In continuing to build Beazley as a premier risk-taking business, we take our corporate, social and environmental responsibility seriously. We constantly consider the ethical implications of how we operate and put policies and procedures in place to sustain our commitment.

Intrinsic to our culture is an ethical approach to business conducted by and towards all our stakeholders. The values that form the essence of our brand and our working culture are professionalism, integrity, effectiveness and dynamism. Our code of ethics comprises the staff handbook, the handling of personal data, whistle blowing, and financial crime policies. Our conflicts of interest policy provides clear guidance to staff on areas such as inducements and handling sensitive data.

Corporate responsibility

We are an equal opportunities employer and make it our policy to offer equal treatment to employees and prospective employees, ensuring that all are treated fairly and with dignity and respect. We do not permit unlawful discrimination of any kind against any person on the grounds of gender, race, nationality or ethnic origin, age, disability, religious beliefs, sexuality, marital status, working patterns or pregnancy.

We are committed to taking positive action to ensure that all employees receive equality of opportunity in recruitment, training, development, promotion and remuneration.

We strive to ensure the health, safety and welfare of our employees and anyone else who may be affected by our operations. Employees are expected to take reasonable care of their own health and safety at work as well as those of others, and to co-operate with management to create a safe and healthy working environment. All employees, contractors and visitors are subject to induction, training and supervision in aspects of health and safety and additional training in ergonomics and fire safety awareness is provided to all employees. All health and safety matters are communicated via notice boards, email memos, the intranet and safety representatives. Overall responsibility for health and safety at Beazley rests with the chief operations officer of the group, Ian Fantozzi.

We believe that the knowledge and skills of our employees are a key element of organisational success and we therefore invest in training and development. Expanding this knowledge and skills is the focus of our 'managing for performance' strategic initiative, which has now been running for three years. We ensure that training is accessible by everyone and recognised as a shared responsibility between individual employees and the organisation. Responsibility for the provision of training and development sits with the head of talent management, Penny Malik. In 2011 we introduced a number of activities with direct executive involvement and sponsorship, reinforcing the importance placed upon training and development throughout the group.

Employees are kept informed of developments in our business through internal communications including formal company-wide briefings that occur twice a month, team meetings, monthly emails updating employees on our strategic initiatives, and an information-rich intranet.

Communication is a two way process. We conduct a detailed annual leadership survey that provides managers, team leaders and senior executives with valuable feedback. In 2011, we participated in the Great Places to Work survey, the world's largest employee engagement programme, which put us among the top 50 companies in the UK for pay and benefits, but identified opportunities for improvement in team coordination and opportunities for recognition. We plan to run this survey biennially. We are proud of our working culture that ensures we achieve our aim to attract, reward and retain talented staff in competitive markets and support and develop them as they strive to perform to an excellent standard.

Volunteering

We encourage employee involvement in a range of community programmes across the group and each employee can take up to two days per year to participate in charitable and local community initiatives. We liaise closely with the Lloyd's Community Programme (LCP) and encourage staff to get involved in helping pupils in schools in the Tower Hamlets area, one of the most deprived areas in the country. Beazley is involved in two schemes on a weekly basis – reading and number partners. During 2011, we had 15 volunteers participating in this very successful scheme at Canon Barnett school in Aldgate and we are targeting 25 readers for 2012. We also had 14 volunteers participating in a student mentoring programme, piloted last year.

Teams are encouraged to get involved with local charities as part of their annual away days. In the UK, 61 members of staff participated in a 'helping hands' volunteering day, coordinated through the LCP. In the US we coordinated our efforts on a national scale: our offices participated in a Beazley Week of Service between September 12 and 16, organising volunteer activities with the charity Feeding America to help food banks sort, evaluate and package donated food.

In 2012, a financial literacy workshop for pupils at Canon Barnett will be held in conjunction with Lloyd's. Andrew Horton is participating with other Beazley volunteers. The workshop is based on the 'How the Real World Works' book series, which included a book written by children about Lloyd's.

Charity

We made total charitable donations during 2011 of $167,702. In the UK, we made charitable donations during the year ended 31 December 2011 of £57,475 (2010: £56,265). The UK charity budget is managed by a charity committee chaired by Jonathan Gray and consideration is given to a wide range of activities, particularly where members of staff are engaged in fund raising activities. We support three chosen charities to which the committee donates an annual payment, Rwanda Aid (international), Concordia (local) and Trees for Cities (ecological); as well as supporting our staff in fundraising for their chosen charities. We have sponsored 24 of our staff with £13,475 and in return they have raised a total of over £50,000 for their selected charities. Events that were completed included the Three Peaks challenge, skydiving, and the Paris Marathon. At the latter alone over £16,000 was raised for Macmillan Cancer Nurses.

We run a payroll-giving scheme in the UK in association with the Charities Aid Foundation. In the year to 1 October 2011, 27 employees took part, donating £42,488 to 33 charities.

Our US charity committee is chaired by Judy Patterson. Again, consideration is given to a wide range of activities, especially where members of staff are actively involved in fund raising themselves. During the year ended 31 December 2011, $75,000 was donated to various charities, notably Susan G. Koman for the Cure (breast cancer) and Feeding America.

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

Corporate and social responsibility *continued*

Environmental responsibility

Beazley strives to achieve environmental best practices in the management of its global offices and in the acquisition of its goods and services. Beazley's commercial management team is responsible for Beazley's global offices and for the procurement of goods and services.

In the procurement area we pursue the following best practices:

- In all requests for proposals over $25,000 for the procurement of commodities we request and evaluate as part of the proposal information each supplier's 'green' and environmentally responsible initiatives in the manufacture and delivery of their products;
- We carefully evaluate and compare each supplier's 'green' initiatives and will give appropriate weighting to the quality and consistency of a supplier's programmes when making an award;
- Once a supplier has been awarded a contract, we track and monitor the supplier's green initiatives to ensure that they are maintaining the standards and programmes represented in the request for proposal and contract; and
- We track and report on the percentage of Beazley's applicable commodity spend that is attributable to green/sustainable commodities.

Progress achieved in 2011 is illustrated below:

GHG report for the UK head office for 2010 emissions

Beazley submitted case studies to Climatewise detailing the environmental measures taken at Beazley. Commercial management (CM) produced a report which indicated a 5.75% emissions reduction based on Scope 1 and Scope 3 greenhouse gas emissions.

GHG report for US for 2010 emissions

The three largest US offices, where more than 60% of our employees are located, were measured and data compared against 2009 (the first year US data was captured). There was a 5% increase in emissions compared to 2009 data which was due to increased business travel as the US business expanded.

New AC units in London datacentre

As reported to ClimateWise, we installed new air conditioning units in the datacentre in the head office in London. These new units are more energy-efficient to operate and reduce the loss of air (and hence emissions) which occurred with the older units.

Travel/video conferencing

We track and report on the number of employees who choose to voluntarily downgrade their business flights from a higher class of services permitted under Beazley's travel policy. These voluntary downgrades result in a decreased carbon footprint for each such employee. During the course of 2011, 149 employees opted to downgrade their flight status.

All our offices are equipped with video conferencing capability. We have been using video conferencing for over five years and employees are encouraged to utilise video conferencing, thereby reducing the necessity of business travel.

Paper/stationery
We receive monthly reports from our UK and US office and stationery suppliers on the environmental impact of using recyclable / FCS paper. In addition to these reports showing us how our buying selections impact the environment, we also monitor our carbon footprint using various metrics including the number of trees saved and the quantity of electricity saved. Throughout all UK offices and our three main US offices, duplex (double-sided) printing is enabled on all copiers/printers and measures are underway to extend this to all other US offices.

UK couriers/cars
We endeavour to use the same couriers and service companies as other tenants in the head office building in London to reduce the carbon footprint of vehicles coming into and out of London. Beazley UK also uses Climatecars as a preferred car transportation company. Climatecars entire fleet of cars consist of hybrid/energy efficient vehicles. Beazley US does not use a company-wide car service. Employees are encouraged to use public transportation.

Reducing consumption and waste
We have, wherever possible, adopted the use of glasses and crockery in place of paper/plastic products. In the UK and some US offices, we provide filtered water and refillable glass water bottles in place of bottled water. This results in less consumption of paper and plastic products, cost savings, and less waste. In most of our UK offices and newer US offices, there are light sensors and/or timed lighting, as well as low-flush toilets. Newer US offices have automatic water faucets in the bathrooms. The London office uses a green electric supply provider. (This is not possible in the US, where electricity is municipally provided.)

Whenever possible, we select furniture for our offices which is made of recycled material, which can be recycled at the end-of-life-cycle. We take into consideration all environmental aspects when building and setting up new office space worldwide and seeks to make environmentally responsible choices whenever possible.

We continue to participate in the ClimateWise programme and, for 2012, are joining Heart of the City, an organisation dedicated to enabling businesses in the City of London to learn from one another how best to develop voluntary and socially responsible programmes in the community.

Board of directors

Executive directors

Andrew Horton
Andrew Horton (aged 49) was appointed chief executive on 1st September 2008. Previously he was finance director and he joined the board in June 2003. Prior to that, he was UK chief financial officer at ING and was deputy global chief financial officer and global head of finance for the equity markets division of ING Barings, having held various financial positions with ING Barings since January 1997. He qualified as a chartered accountant with Coopers and Lybrand in 1987.

Martin Bride
Martin Bride (aged 48) is group finance director having joined Beazley in 2009. Martin has 26 years experience in the insurance industry with more than half of those as a finance director. He trained as a general insurance actuary before pursuing a career in the composite insurance sector with Aviva and Zurich Financial Services. His experience spans personal and commercial lines general insurance, the London market, life insurance and asset management in both the UK and France.

Adrian Cox
Adrian Cox (aged 40) was appointed to the board on 6 December 2010 and heads up the specialty lines division. Prior to joining Beazley in June 2001, Adrian was at General Cologne Re for eight years. He began his career writing short-tail facultative reinsurance before moving to the treaty department in 1997, where he wrote both short and long tail business, specialising in financial lines.

Jonathan Gray
Jonathan Gray (aged 58) is the head of the group's property division. Jonathan has 35 years of experience at Lloyd's, joining Beazley in 1992. He is an active underwriter in his area of expertise, open market commercial property risks.

Neil Maidment
Neil Maidment (aged 49) is the chief underwriting officer of the group. Neil has 27 years of Lloyd's experience. He joined Beazley in 1990 and was appointed to the board in 1993. In 2011 he was elected to the board of the Lloyd's Market Association.

Clive Washbourn
Clive Washbourn (aged 51) is the head of the group's marine division. Clive has over 25 years experience in the marine insurance industry and actively underwrites marine hull, marine liability and marine war risks. He is a member of the LMA Marine Committee and chairman of the Joint War Committee.

Non-executive directors

Jonathan Agnew

Jonathan Agnew (aged 70) is the chairman of the company. Jonathan was formerly a managing director of Morgan Stanley and subsequently the chief executive of Kleinwort Benson. He has been the chairman of Limit plc, Gerrard Group plc, Nationwide Building Society and LMS Capital plc. He is currently chairman of Ashmore Global Opportunities Limited and The Cayenne Trust plc and is senior independent director of Rightmove plc. He was a member of the Council of Lloyd's and of Lloyd's Market Board from 1995 to 1999.

George Blunden

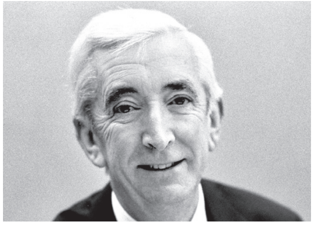
George Blunden (aged 59) was appointed on 1 January 2010. He is currently Chairman of Charity Bank and Chairman of Raglan HA. He retired as senior vice president and director from AllianceBernstein Ltd in December 2009. He had previously been chief executive of Union plc, a director of SG Warburg Securities, Seccombe, Marshall and Campion plc and Meridian Investment Performance Services.

Gordon Hamilton

Gordon Hamilton (aged 66) retired as a senior audit partner in Deloitte & Touche LLP after more than 30 years, principally involved with listed multi-national company audits and major forensic assignments. He is currently a non-executive director of a number of companies including the South African listed Barloworld and the London listed Petra Diamonds and Northamber.

Dennis Holt

Dennis Holt (aged 63) has more than 40 years experience in financial services markets. He was formerly a main board Executive Director at LloydsTSB (2000-2001), Chief Executive of AXA UK and a member of AXA's Global Executive Committee (2001-2006). He has been a Vice Chairman of the Association of British Insurers and Deputy Chairman of Bank of Ireland. He is currently Chairman of Liverpool Victoria and of Bank of Ireland UK.



Padraic O'Connor

Padraic O'Connor (aged 62) is Chairman of the Irish Stock Exchange and a non executive director of Rabobank, JP Morgan Bank Dublin Ltd and a number of other companies. He was Managing Director of NCB Group between 1991 and 1999 prior to which he was Chief Economist at the firm. Before joining NCB, Mr O'Connor worked at the Department of Finance and the Central Bank of Ireland. He holds primary and postgraduate degrees in economics from University College Dublin.

Vincent Sheridan

Vincent Sheridan (aged 63) is currently a non-executive director of FBD Holdings Ltd, Mercer (Ireland) Limited, Canada Life Assurance Ireland Limited and a number of other companies. He retired as Chief Executive of Vhi Healthcare in 2008 and prior to that was Group Chief Executive of the Norwich Union Insurance Group in Ireland for ten years from 1991 to 2001. He is a past president of the Institute of Chartered Accountants in Ireland and a former Director of the Irish Stock Exchange.

Ken Sroka

Ken Sroka (aged 58) was appointed to the board on 12 November 2010. He was formerly head of product development at Zurich Financial Services, retiring in 2008. During his 15 years at Zurich Financial Services, he created and directed Zurich's financial lines business in North America and more recently he focused on the development of specialist products in North America as president and CEO of Zurich North American Specialties Division (products included environmental, excess liability, professional liability, financial lines, healthcare, political risk and accident & health). Prior to joining Zurich in 1993, Mr Sroka's career included roles at Chubb, AIG and USF&G.

Rolf Tolle

Rolf Tolle (aged 64) was appointed to the board on 6 December 2010. He joined the board of Beazley Furlonge Limited in June 2010. He retired as franchise performance director at Lloyd's in December 2008 after nearly seven years in the role, during which time he was widely credited for establishing a new and successful partnership between the Corporation of Lloyd's and the market. Prior to that, he served as chief underwriting officer of Faraday Group, General Re's Lloyd's insurance and reinsurance operation.

Investor relations

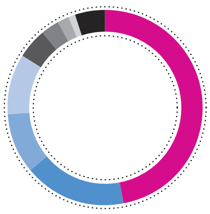
We place great importance on communication with shareholders. The full report and accounts and the interim report are available to shareholders on the company's website (www.beazley.com). A mailed copy of the accounts is also available on request. The company responds to individual letters from shareholders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

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

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

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

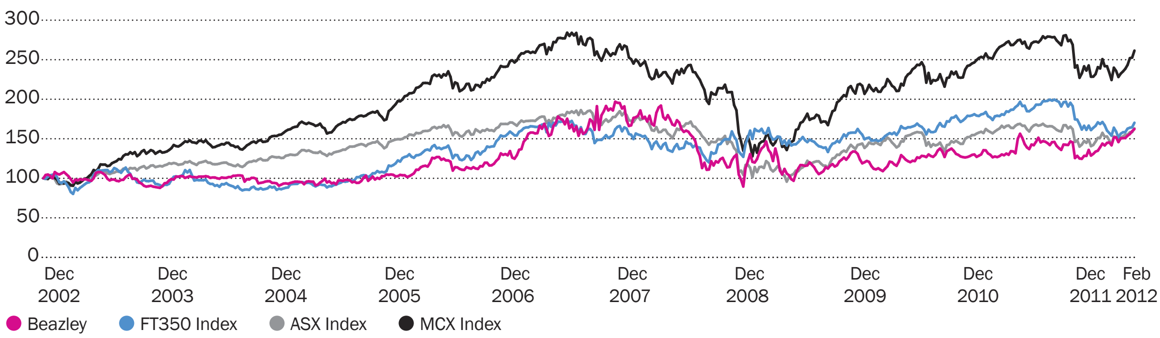
Shareholding by type of investor



Mutual funds	47%
Insurance	17%
Pensions	10%
Retail	10%
Investment trusts	5%
Trading	3%
Directors	2%
Charities	1%
Others	5%

There are currently 11 analysts publishing research notes on the group. In addition to research coverage from Numis and JP Morgan, the company's joint corporate broker, coverage is provided by RBS, Nomura, Keefe Bruyette & Woods, Peel Hunt, Deutsche Bank, Shore Capital, Espirito Santo Investment Bank Research, Collins Stewart and Edison Investment Research.

Share price performance



Financial calendar

2 March 2012	Second interim dividend record date
27 March 2012	Annual general meeting
30 March 2012	Second interim dividend payment date for the six months ended 31 December 2011
20 July 2012	First interim dividend announcement for the six months ended 30 June 2012

Statement of corporate governance

Application of principles of good corporate governance

There is, and historically there has been, throughout the company and the group, a commitment to high standards of corporate governance. The directors continue to develop procedures which ensure that, where the board considers it appropriate, the Beazley group will comply with the UK Corporate Governance Code.

Compliance with code provisions

The board confirms that the company and the group has complied with the provisions set out in the UK Corporate Governance Code for the year ended 31 December 2011.

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

The board

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

Biographies of current board members appear on pages 50 to 51 of this report. These indicate the high level and wide range of business experience that are essential to manage a business of this size and complexity. A well defined operational and management structure is in place and terms of reference exist for all board committees. The roles and responsibilities of senior executives and key members of staff are clearly defined.

The full board meets at least five times each year and more frequently where business needs require. The board has a schedule of matters reserved for its decision. This includes, inter alia strategic matters; statutory matters intended to generate and preserve value over the longer term; approval of financial statements and dividends; appointments and terminations of directors, officers and auditors; appointments of committees and setting of terms of reference. It is responsible for the review of group performance against budgets; approving of risk management strategy and material contracts; determining of authority levels within which management is required to operate; reviewing the group's annual forecasts and approval of the group's corporate business plans, including capital adequacy and the own risk solvency assessment. The board has also appointed an executive committee with delegated responsibility for particular matters such as considering the business plan, the underwriting, risk and regulations (included the effectiveness of the internal control and risk management systems), investments and operations.

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

To enable the board to function effectively and directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of board meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussion documents regarding specific matters.

The composition of and appointments to the board of both executive and non-executive directors are considered by the nomination committee. The recommendations of the nomination committee are ultimately made to the full board, which considers them before any change is made. The remuneration committee considers any remuneration package of executive directors before it is offered to a potential appointee. The members of the audit, remuneration and nomination committees are set out below.

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

Full details of directors' remuneration and a statement of the company's remuneration policy are set out in the directors' remuneration report on pages 57 to 72. The members of the remuneration committee and the principal terms of reference of the committee appear on page 55.

Statement of corporate governance *continued*

Meetings with non-executive directors
The chairman holds meetings as required with the non-executive directors without the executive directors being present.

Board performance evaluation
Under the UK Corporate Governance Code, the board is required to undertake a formal and rigorous evaluation of its own performance and that of its committees and individual directors. A self assessment of the board and its committees was carried out in 2011.

Individual attendance by directors at regular meetings of the board and of committees
In addition to the five regular board meetings, there was a further meeting to consider potential corporate transactions. Attendance at the meeting was high.

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

	Board		Audit committee		Remuneration committee		Nomination committee	
Director	No. of meetings	No. attended	No. of meetings	No. attended	No. of meetings	No. attended	No. of meetings	No. attended
J G W Agnew	5	5	–	–	–	–	5	5
G P Blunden	5	5	6	6	5	5	5	5
M L Bride	5	5	–	–	–	–	–	–
A P Cox	5	5	–	–	–	–	–	–
N H Furlonge	2	2	–	–	–	–	–	–
J G Gray	5	5	–	–	–	–	–	–
A G K Hamilton	5	5	6	6	5	5	5	5
D Holt	2	2	–	–	–	–	2	1
D A Horton	5	5	–	–	–	–	–	–
P J O'Connor	5	5	–	–	5	5	–	–
N P Maidment	5	5	–	–	–	–	–	–
A D Pomfret	3	3	–	–	3	3	3	3
V J Sheridan	5	5	6	6	–	–	–	–
K P Sroka	5	5	–	–	5	5	–	–
R W Tolle	5	5	6	5	–	–	–	–
C A Washbourn	5	4	–	–	–	–	–	–

On 21 July 2011 Andy Pomfret resigned from the board and the remuneration and nomination committees. Dennis Holt was appointed to the board and the nomination committee on 21 July 2011. Nick Furlonge retired from the board on 30 June 2011.

Board committees
The company has established properly constituted audit, remuneration and nomination committees of the board.

Audit committee
The audit committee currently comprises Gordon Hamilton (committee chairman), Vincent Sheridan, George Blunden and Rolf Tolle. The committee regularly meets without any executive management being present and the committee holds regular meetings with the head of internal audit and with the external auditor.

The committee's main objectives are, inter alia: to monitor the integrity of the company's financial statements and any other formal announcements relating to the company's financial performance; review significant financial reporting judgements contained in them, before submission to and approval by, the board, and before clearance by the external auditors; review the company's internal financial controls and the company's internal control and risk management systems including risk appetite; approve the appointment or termination of appointment, of the head of internal audit and monitor and review the effectiveness of the company's internal audit function; and review the arrangements by which employees of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

The committee also reviews any matters raised by the external auditors and internal audit. The chief executive, the finance director, and the chief risk officer are invited to attend part of each meeting of this committee. The audit committee received a number of presentations during the year on operational and underwriting activities. The external auditors are invited to attend meetings regularly. The auditors have unrestricted access to the members of the audit committee, and the committee ensures that meetings are used as a forum for discussion and communication between compliance, internal audit, the external auditors and the board. The committee receives regular updates and monitors the status of actions taken by management to address issues raised by both external and internal audit. Risk management provides reports to the audit committee on the risk assessment and the self-certification from risk owners of the operating effectiveness of internal controls. The audit committee undertakes a regular appraisal of its performance in relation to best practice. Findings of this review are formally reported to the board.

In respect of any firm of external auditors and consulting actuaries which may be appointed by any group company, the audit committee is also responsible for recommending their appointment and termination; recommending their terms of reference; receiving regular reports, independent of management where necessary; determining their independence; monitoring their performance; and approving their fees.

Following a recommendation from the audit committee, the board has adopted a policy in relation to the provision of non-audit services by the auditors. The objective is to ensure that the provision of such services does not impair the external auditor's objectivity. The policy specifically disallows certain activities to be provided by the auditors such as bookkeeping and accounting services, internal actuarial services and executive remuneration services. The policy requires pre-approval for all other material services such as due diligence assistance, tax services and advice on accounting and audit matters.

The aim is to limit the total spend on non-audit services to a maximum of the annual audit fee unless it is deemed to be in the shareholders' interest from an efficiency and effectiveness point of view.

The split between audit and non-audit fees for the year under review is disclosed on page 108. All of these are considered by the audit committee not to affect the auditors' independence or objectivity.

The committee's terms of reference are published on the company's website.

Remuneration committee

The remuneration committee comprises Padraic O'Connor (who was appointed committee chairman following the departure of Andy Pomfret on 21 July 2011), Gordon Hamilton, George Blunden and Ken Sroka. The work of the remuneration committee is covered further in the directors' remuneration report on pages 57 to 72.

Copies of executive directors' service contracts and the terms and conditions of appointment of the non-executive directors are available for inspection at the company's office during normal business hours.

The terms of reference of the remuneration committee are published on the company's website.

Nomination committee

The nomination committee consists of Jonathan Agnew as the chairman, together with George Blunden, Gordon Hamilton and Dennis Holt (from 21 July 2011). Andy Pomfret left the committee on 21 July 2011. It meets as required and makes recommendations to the board on all board appointments, including the selection of non-executive directors. During 2011 the nomination committee carried out the search for a new chairman. Independent external advisors were engaged to support the search which resulted in the nomination committee recommending the appointment of Dennis Holt. The committee has reviewed the constitution of the committees and recommended the appointment of Dennis Holt to the nomination committee. The committee also recommended the appointment of Padraic O'Connor as chairman of the remuneration committee and George Blunden as senior independent director. In response to challenges to ensure diversity within in the UK board room, the board is seeking to appoint one female director by 2015 at the latest and the nomination committee will seek to ensure that this happens. The committee has also considered the performance of and succession plans for the executive directors. A full board and committee assessment has been carried out in 2011 and matters arising are being appropriately addressed.

The terms of reference of the nomination committee are published on the company's website.

Statement of corporate governance *continued*

Shareholder communication

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

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

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

Audit and internal control

The respective responsibilities of the directors and the auditors in connection with the accounts are explained on pages 76 to 78, and the statement of directors on going concern on page 74.

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

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

The key procedures that the directors have established to ensure that internal controls are effective and commensurate with a group of this size include:
- the day-to-day supervision of the business by the executive directors;
- review and analysis by the various group committees of standard monthly, quarterly and periodic reporting as prescribed by the board;
- review of financial, operational and assurance reports from management; and
- the review of any significant issues arising from external audits.

Further information on the role of the audit committee is set out above. The committee, on behalf of the board, approves the internal audit plan and any subsequent changes. Internal audit reports directly to the audit committee, whose terms of reference include approving the appointment or termination of appointment, of the head of internal audit and monitoring and reviewing the effectiveness of the company's internal audit function.

Further information on risk management at Beazley is contained on pages 43 to 45.

Directors' remuneration report

This report has been prepared by the remuneration committee (the committee) of Beazley plc and approved by the board of Beazley plc. The report complies with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

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

Dear shareholder

In the following pages the committee's report on directors' remuneration for 2011 is presented.

2011 has been a challenging year for the insurance market. However, the strength of Beazley's business model has been clearly demonstrated. The breadth of our product portfolio allowed the industry-wide catastrophe losses affecting certain lines to be offset by profits from insurance products where profitability was driven by different factors. Market conditions emphasised the skill of our underwriters in identifying profitable underwriting opportunities and in optimising the portfolio mix. Annual results reflected Beazley's resilient performance with a profit before tax of $62.7m and we have maintained our track record of over 25 years of unbroken profitability.

Our resilience in a challenging year has been achieved by virtue of our greatest asset: our people. Talent management is one of the cornerstones of Beazley's business success, as we seek to recruit and retain people who rank among the best insurance professionals in the world. Against that background, ensuring Beazley has a competitive remuneration mix that rewards sustainable performance remains important to our future success.

Our executive remuneration policy is governed by two guiding principles – alignment to shareholder interests and performance of the group. The committee considers the overall package to be appropriate, responsible and balanced.

The remuneration committee regularly reviews whether our approach to remuneration is consistent with and takes account of the risk profile of the company. The committee receives an annual report from the chief risk officer on remuneration policy designed in respect of risk to ensure it is consistent with and promotes effective risk management.

We have made no significant changes to our executive remuneration policies during this year.

The average salary increase for executive directors was 4%, which is in line with the average increase throughout the organisation.

Our bonus framework is aligned to group performance. Notwithstanding that we consider we have performed well in a challenging year for the insurance market, the bonus awards are significantly lower than previous years reflecting our return on equity (ROE) and the profit before tax result for the year.

The long-term incentive plan (LTIP) is due to be renewed at this year's annual general meeting. The new plan retains the key features of the old LTIP. We have marginally adjusted the performance targets and new features include the introduction of a 'clawback' provision, dividend equivalents and a 5% dilution limit in a ten-year period for executive schemes.

We remain committed to employees throughout the organisation having an opportunity to share in Beazley's success. A new save as you earn (SAYE) plan, which maintains the same features as the current scheme, is due to be approved at this year's AGM.

We are keen to encourage an on going dialogue on our policies and continue to welcome our shareholders' views.

Padraic O'Connor
Remuneration committee chairman

6 February 2012

Directors' remuneration report *continued*

Summary of remuneration elements

The main elements of the remuneration package payable to each executive director is comprised of basic salary, short-term incentive payments, pension contributions, long-term share-based incentives and other benefits. A summary of the key elements of remuneration for executive directors across the group is as follows:

Executive directors

Element	Objective	Summary
Base salary	To recognise responsibilities	Reviewed annually. For 2011, average executive director salary increases are 4%.
Enterprise bonus	To link reward to group profit and return on equity	Incentive pool calculated as a percentage of profit subject to a minimum return on equity target. Portion deferred into shares for three years (between 0% and 35% of bonus) dependent on level of bonus.
LTIP (following adoption of the new plan in 2012)	To align the senior management team to the out-performance of the group by setting stretching performance targets over the longer term	Awards of 200% of salary for CEO and 150% of salary for other executive directors. 50% of an award is subject to performance over three years and 50% over five years. Vesting dependent on net asset value per share (NAVps) performance against the risk-free rate: • No vesting if NAVps growth is less than the risk-free rate plus 7.5% p.a. • 10% vest if NAVps growth exceeds the risk-free rate by 7.5% p.a. • 25% vest if NAVps growth exceeds the risk-free rate by 10% p.a. • 100% vest if NAVps growth exceeds the risk-free rate by 15% p.a. • Pro-rating between points.
Shareholding requirements	To align with shareholders' interests	Shareholding requirements (as part of the LTIP) of 200% of salary for CEO and 150% of salary for other executive directors. To be built up over three years.
Investment in underwriting	To align personal capital with underwriting performance	Executive directors and selected staff may voluntarily defer part of their bonuses into an underwriting syndicate. Capital commitments can be lost if underwriting performance is poor.
Benefits	To provide market levels of benefits	Benefits include a company car or car allowance, private medical insurance and permanent health insurance.
Pension	To provide market levels of pension provision	Defined contribution of 15% of salary for executive directors.
Service contracts	Company policy is that notice periods do not exceed 12 months	No specific provision for compensation amounts. Policy includes consideration of mitigation and phasing.

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

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

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

Policy going forward is that existing executive directors do not participate in these plans. However, some executive directors have subsisting legacy retention shares.

All-employee arrangements (including executive directors)

Element	Objective	Summary
SAYE	To create staff alignment with the group and promote a sense of ownership	HMRC-approved monthly savings scheme facilitating the purchase of shares at a discount.
US SAYE	As above but for US employees	

Remuneration committee

The committee consists of only non-executive directors and during the year the members included Andy Pomfret, Gordon Hamilton, George Blunden, Padraic O'Connor and Ken Sroka. Andy Pomfret was chairman of the committee until July 2011 when Padraic O'Connor replaced him as chairman. The board views each of these directors as independent. The committee met five times during the year.

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

The committee receives advice from a variety of sources. During the year the committee was advised by remuneration consultants from Deloitte LLP. Other organisations providing specialist advice and services to the company and the committee are: Bluefin Advisory Services Limited (for benefits and pensions advice), Towers Watson (for salary data) and Equiniti (for employee share incentives matters and registrar services). Other than the above, the advisors provide no other services to the group.

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

Remuneration policy

The committee has oversight of the remuneration policy. The general philosophy underlying the reward strategy for executive directors is the same as that applied to all other employees. Pay and employment conditions elsewhere in the company and data on comparable positions in other similar organisations are taken into consideration when determining executive directors' remuneration.

The main aim of the policy is to ensure that management and staff are remunerated fairly and in such a manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel.

Directors' remuneration report *continued*

We believe that:
- performance-related remuneration is an essential motivation to management and staff and should be structured to ensure that executives' interests are aligned with shareholders;
- individual rewards should reflect the group objectives but be dependent on the profitability of the group as well as take account of the operational risks;
- the structures of packages should support meritocracy, an important part of Beazley's culture;
- reward potentials should be market-competitive; and
- executives' pay should include an element of downside risk.

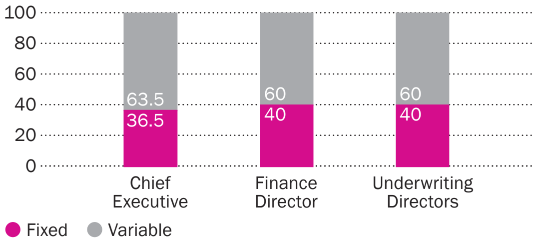
Remuneration and the non-life insurance market

The group's market for talent is primarily specialist underwriters at Lloyd's and internationally. In line with practice within the Lloyd's market, there are no upper limits on the amounts payable to executives under short-term incentives. The bonus pool approach closely aligns bonuses with group performance and a share deferral policy operates. The committee has previously considered whether it is appropriate to set an upper limit and has agreed that such a limit would adversely affect the group's competitive position and would not be in the interests of shareholders. However, the committee continues to monitor developing practice in this area.

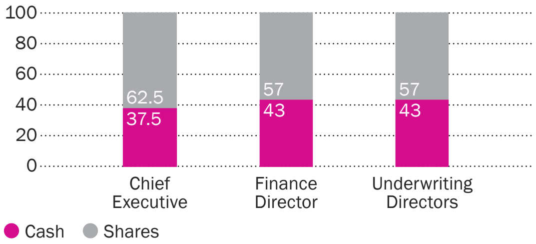
Fixed and variable remuneration

The balance between fixed and variable elements of executive directors' remuneration changes with performance. The anticipated normal mix between fixed and variable remuneration is c.40% fixed and c.60% variable. A significant portion of variable pay is delivered in shares. This mix is illustrated in the following charts.

Balance of fixed versus variable pay (%)



Incentives: cash versus shares (%)



Risk and reward at Beazley

Although the group is not subject to the FSA's Remuneration Code, the committee takes the Code into account when considering remuneration, along with developing remuneration governance in the context of Solvency II, other corporate governance developments and institutional shareholders' guidance. The committee continues to review remuneration against various guidelines and to monitor developments. The chief risk officer reports annually to the remuneration committee on risk and remuneration as part of the regular agenda. The committee believes the group is adopting an approach which is consistent with and takes account of the risk profile of the group. We believe reward at Beazley is appropriately balanced in light of risk considerations, particularly in the following areas:

Features aligned with risk considerations	
Share deferral	A portion of bonus is normally deferred into shares for three years. These deferred shares, together with shares awarded under the LTIP, mean that a significant portion of total remuneration is delivered in the form of shares deferred for a period of years.
Extended performance periods	A portion of the LTIP has performance measured over an extended five-year period, in line with the Walker recommendations and FSA guidelines.
Shareholding requirements	Executive directors are expected to build up and maintain a shareholding of 150% of salary (200% for the CEO). LTIP awards may be forfeited if shareholding requirements are not met.
Investment in underwriting	Management and underwriters defer part of their bonuses into the Beazley staff underwriting plan providing alignment with capital providers. Capital commitments can be lost if underwriting performance is poor.
Underwriters' remuneration aligned with profit achieved	Under the profit related bonus plan payments are aligned with the timing of profits achieved on the account. For long-tail accounts this may be in excess of six years. If the account deteriorates then payouts are 'clawed back' through adjustments to future payments.
'Clawback' of deferred and LTIP shares	For deferred share awards from 2011 onwards, a 'clawback' provision has been introduced, so that shares may be forfeited in certain circumstances, including material misstatement of accounts or significant adverse company performance developments. This provision is being included in the new LTIP and will apply for awards from 2012.

Salary ▪

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

For 2012, the average salary increase is 4%. This is in line with average salary increases across the group. Martin Bride and Adrian Cox received a salary increase of 6% reflecting development in the role and increased responsibility, respectively. All other executive directors received a salary increase of 3%.

The annualised base salaries for 2011 and 2012 are as set out below:

	2011 base salary £	2012 base salary £
M L Bride	255,000	270,000
A P Cox	255,000	270,000
J G Gray	306,000	315,000
D A Horton	408,000	420,000
N P Maidment	306,000	315,000
C A Washbourn	306,000	315,000

Directors' remuneration report *continued*

Bonus plans ▪

Enterprise bonus plan

The enterprise bonus plan is a discretionary plan in which all employees are eligible to participate.

The pool is based on a percentage of profit subject to a minimum group return on equity target. The proportion of profit allocated to the pool increases as higher returns on equity (ROE) are achieved. The proportion of the pool awarded to executive directors takes into account the individual's contribution and the performance of their division (if appropriate).

The pool is based on the results for the financial year having being adjusted for the enterprise pool payment. The approach to the calculation of bonuses is aligned to shareholders' interests and ensures that bonuses are affordable, while the ROE targets increase the performance gearing.

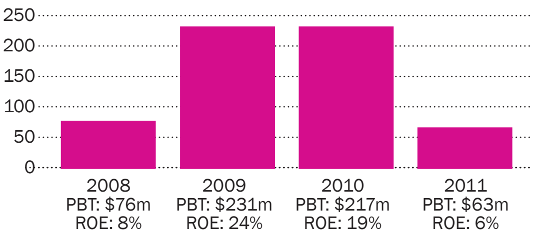
The committee reviews the bonus pool framework each year to ensure it remains appropriate, taking into account the prevailing environment, interest rates and expected investment returns, headcount and any other relevant factors.

The following table and graph illustrates the way in which bonuses reflect profit and ROE performance.

	Pre-tax profit*	Post-tax ROE	Average executive director bonus as a percentage of salary
2011	$63m	6%	c.64%
2010	$217m	19%	c.230%
2009	$231m	24%	c.230%
2008	$76m	8%	c.75%

* Profit for years prior to 2010 has been converted from sterling based on the average prevailing exchange rate for that year.

Average executive director bonus payout (% of salary)



A portion of the bonus will generally be deferred into shares for three years. The deferral will range from 0% to 35% dependent on the level of bonus. Deferred share awards from 2011 onwards include a 'clawback' provision. The committee may determine that unvested shares will be forfeited in certain circumstances, such as a material misstatement of accounts or a significant adverse group development. A portion of bonus may also be deferred under the Beazley Staff Underwriting Plan, and this capital can be lost if underwriting performance is poor.

Underwriter bonus plan – profit related pay plan

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

The objective of the plan is to align the interests of the group and the individual through aligning an underwriter's reward to the long-term profitability of their portfolio.

Underwriters who have significant influence over a portfolio may be offered awards under the plan. There is no automatic eligibility. Profit related pay is awarded irrespective of the results of the group and is capped at a maximum of 150% of salary.

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

If the account deteriorates as it develops any payouts are 'clawed back' through reductions in future profit related pay bonuses.

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

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

Support bonus plan

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

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

Share plans ▪

Long-term incentive plan (LTIP)

The LTIP is being renewed in 2012. The new plan is largely the same as the previous plan and retains its key features. In particular there have been no changes to the level of awards. Further details of the new LTIP can be found in the shareholder circular.

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

The key features of the plan are as follows:

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

In good leaver circumstances and on change of control, awards take into account time and performance.

The award level policy for 2012 is set out in the table below:

	Chief executive	Other executive directors
Maximum annual award (as a percentage of base salary)	200%	150%

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

Directors' remuneration report *continued*

The performance condition for awards from 2012 is as follows:

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

Growth in NAVps is calculated taking into account any payment of dividends by the company. In line with our reporting to shareholders, NAVps is denominated in US dollars. For 2012 awards, the performance targets are equivalent to 2011 save that a modest level of vesting (10% of maximum) has been introduced for NAVps growth of RFR + 7.5% p.a. This level of performance is considered to be a challenging threshold, particularly for that part of the award where it must be sustained over five years.

For 2012 awards, participants will be entitled to dividend equivalents on vested shares.

A 'clawback' provision has been introduced to the new LTIP. The committee may determine that unvested shares will be forfeited in certain circumstances, such as a material misstatement of accounts or a significant adverse company development.

The LTIP awards that were granted on 3 March 2008 were based on NAVps growth and TSR performance. These awards met the performance criteria in part and 50% of the awards vested in March 2011. The results were independently calculated by Deloitte LLP.

SAYE
The company operates an HMRC-approved SAYE scheme for the benefit of UK-based employees. The scheme offers a three-year savings contract period with options being offered at a 20% discount to the share price on grant. Monthly contributions are made through payroll deduction on behalf of participating employees. A new SAYE which retains these features is due to be approved at this year's AGM.

US SAYE
The Beazley plc savings-related share option plan for US employees permits all eligible US-based employees to purchase shares of Beazley plc at a discount of up to 15% to the shares' fair market value. Participants may exercise options after a two-year period, although the shares are non-transferable for a further 12 months following exercise. The plan is compliant with the terms of Section 423 of the US Internal Revenue Code and is similar to the SAYE scheme operated for UK-based Beazley employees.

Retention shares
The retention plan is now only used in exceptional circumstances for recruitment or retention purposes. Any awards vest at 25% per annum over years three to six. Policy going forward is that existing executive directors do not participate in this plan. However, some executive directors have subsisting legacy awards.

Option plan
The option plan does not form part of Beazley's current remuneration policy. The plan comprises an HMRC-approved plan and an unapproved plan. All options granted under this plan have vested or lapsed. It is the committee's intention to only grant options under this plan in exceptional circumstances. No options have been granted since 2005. This plan is due to expire on 12 November 2012 and it is not intended that it will be renewed.

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

Following the adoption of the new LTIP, the company will adhere to a dilution limit of 5% in a ten-year period for executive schemes.

Investment in underwriting ▪

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

The group funds the initial capital for the participants in the scheme. The initial capital outlay is then reimbursed by individual bonus deferral. The aim is for individuals to fund their capital within three years.

To date over 130 employees of the group have committed to put at risk £6.7m of bonuses to the underwriting results of syndicate 623. Of the total at risk, £5.8m has already been deferred from the bonuses awarded.

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

	Total bonuses deferred and at risk £	2010 year of account underwriting capacity £	2011 year of account underwriting capacity £	2012 year of account underwriting capacity £
M L Bride	150,000	400,000	350,000	400,000
A P Cox	216,000	400,000	350,000	400,000
J G Gray	216,000	400,000	350,000	400,000
D A Horton	216,000	400,000	350,000	400,000
N P Maidment	216,000	400,000	350,000	400,000
C A Washbourn	216,000	400,000	350,000	400,000

Pensions ▪

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

Following changes to pension tax legislation that came into force from April 2011, an equivalent cash alternative may be offered if an individual exceeds the lifetime allowance. No cash alternative will be offered on pension payments above the new annual limit and individuals are responsible for any tax implications arising.

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

No other pension provisions are made.

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

	Accrued benefit at 31 Dec 2011 £	Increase in accrued benefits excluding inflation (A) £	Increase in accrued benefits including inflation £	Transfer value of (A) less directors' contributions £	Transfer value of accrued benefits at 31 Dec 2011 £	Increase in transfer value less directors' contributions £
A P Cox	11,084	–	644	–	162,605	41,230
J G Gray	31,151	–	1,811	–	739,075	86,899
N P Maidment	37,840	–	2,200	–	664,052	115,069
C A Washbourn	16,818	–	978	–	308,900	50,809

Directors' remuneration report *continued*

Benefits ▪

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

Service contracts ▪

Executive directors have service contracts with Beazley Management Limited. In June 2009, following the redomiciliation to Ireland, the directors were issued with new service contracts from Beazley Management Limited and appointment letters as directors of Beazley plc.

It is company policy that such service contracts with executive directors contain notice periods, from the company or employee, of not more than 12 months. The current contracts in place for executive directors are as follows:

	Date of contract
M L Bride	9 June 2009
A P Cox	6 Dec 2010
J G Gray	9 June 2009
D A Horton	9 June 2009
N P Maidment	9 June 2009
C A Washbourn	9 June 2009

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

Subject to the notice requirements described above, there is no provision in the service agreements for compensation to be payable on early termination of the contract. Any payments of compensation will be subject to negotiation and the group policy includes consideration of appropriate mitigation, including phasing of payments.

Executive directors' other interests

Nick Furlonge also held a non-executive appointment with the Lloyd's franchise board. He was appointed to this role on 4 February 2008. He received and retained a fee of £55,000 per annum in respect of this appointment.

Non-executive directors' fees ▪

The fees of non-executive directors, other than the chairman, are determined by the board. The fees for the chairman are determined by the board, following a recommendation from the remuneration committee. When setting fee levels consideration is given to levels in comparable companies for comparable services in addition to the time commitment and responsibilities of the individual director.

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

Non-executive directors are appointed for fixed terms, normally for three years, and may be reappointed for future terms. Non-executive directors are typically appointed through a selection process that assesses whether the candidate brings the desired competence and skills to the group.

The board has identified several key competencies for non-executive directors to complement the existing skill-set of the executive directors. These competencies are as follows:
- Insurance sector expertise;
- Asset management skills;
- Public company and corporate governance experience;
- Risk management skills; and
- Finance skills.

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

The board reviews fees annually. During the year fees were increased by 3%.

In July Dennis Holt joined the Beazley board as a non-executive director. Dennis is expected to take up the position of non-executive chairman following the annual general meeting in March 2012, succeeding Jonathan Agnew. His fees on appointment as a non-executive director were the basic fee for a Beazley plc non-executive director and for non-executive director of Beazley Furlonge Limited and on taking up appointment as chairman the fees would be equivalent to the current chairman fees.

Details of the non-executive directors' terms of appointment and their fees for 2012 are set out below:

				Other fees				
	Current annual fee	Commencement date of appointment	Expires	Senior independent director	Audit committee chair	Remuneration committee chair	Beazley Furlonge Limited	Beazley Re Limited
J G W Agnew (£)	123,500	20 Mar 2009	27 Mar 2012	–	–	–	31,000	–
G P Blunden (£)	52,500	1 Jan 2010	31 Dec 2012	6,250	–	–	15,500	–
A G K Hamilton (£)	52,500	20 Mar 2009	30 Sep 2012	–	15,500	–	15,500	–
D Holt (£)	52,500	21 Jul 2011	21 Jul 2014	–	–	–	15,500	–
P J O'Connor (€)	63,000	20 Mar 2009	12 Mar 2015	–	–	12,250	–	8,250
V J Sheridan (€)	63,000	9 Jun 2009	21 May 2015	–	–	–	–	8,250
K P Sroka (£)	52,500	12 Nov 2010	11 Nov 2013	–	–	–	–	–
R A W Tolle (£)	52,500	6 Dec 2010	5 Dec 2013	–	–	–	15,500	–

Compensation for past directors ▪

Nick Furlonge retired on 30 June 2011. Following his retirement he continues in his role as a non-executive director of Beazley's subsidiary. His emoluments to 30 June 2011 are set out in the emolument tables. The treatment of share awards was as follows:

- Share awards under the long-term incentive plan were pro-rated for time and performance. Calculations were performed independently by Deloitte LLP.
- The committee determined that the share awards under the Deferred Share Plan (representing the deferred portion of bonuses earned in previous years) should not be released at retirement and will subsist and be released at the normal vesting date subject to his continuing role as a non-executive director of BFL.

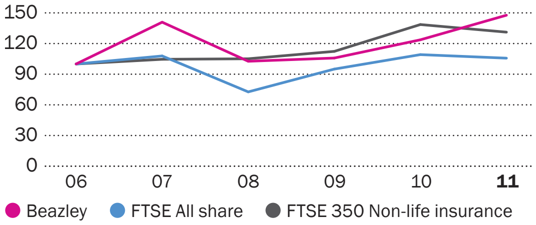
Treatment of outstanding amounts for the staff underwriting plan will follow normal rules applicable to leavers of the scheme.

Following his retirement, during the past financial year Nick Furlonge's fees in respect of his role as non-executive director of BFL were £20,500.

Dan Jones is a former non-executive director of Beazley plc who stood down from the Board on 2 June 2010. He was subsequently appointed in an executive capacity to serve on the executive committee. During the past financial year his compensation in respect of this executive role was $647,310 comprising his annual salary, bonus, benefits and pension (US 401K scheme). He was made an LTIP award over 304,431 shares subject to performance conditions.

Total shareholder return performance*

Value of £100 invested on 31st December 2006



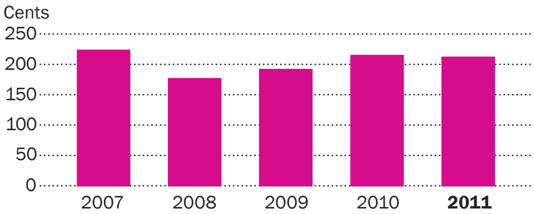
Figures are taken from 31 December of each year

*Unaudited

Governance

Directors' remuneration report *continued*

Net assets per share performance*



*Unaudited

Directors' emoluments ▪

The emoluments in respect of qualifying services and compensation of each person who served as a director during the year were as follows:

£	Salary and fees[1]	Enterprise cash bonus	Enterprise deferred shares	Staff underwriting deferred bonus[2]	Staff underwriting distribution[3]	Notional dividend on shares[4]	Benefits	Total for 12 months to 31 December 2011	Company pension contribution	Total for 12 months to 31 December 2010
J G W Agnew	150,000	–	–	–	–	–	–	150,000	–	105,000
G P Blunden[5]	68,661	–	–	–	–	–	–	68,661	–	50,000
M L Bride	255,000	87,500	18,000	37,500	–	–	11,248	409,248	38,250	758,026
A P Cox	255,000	175,000	18,000	–	65,683	31,870	11,073	556,626	38,250	68,448
N H Furlonge[6]	130,000	–	–	–	49,522	16,967	10,921	207,410	–	831,800
J G Gray	306,000	100,000	20,000	–	49,490	29,393	16,165	521,048	46,307	878,116
A G K Hamilton	81,000	–	–	–	–	–	–	81,000	–	60,000
D Holt[7]	29,277	–	–	–	–	–	–	29,277	–	–
D A Horton	408,000	200,000	25,000	–	49,522	107,419	16,534	806,475	61,200	1,571,639
N P Maidment	306,000	150,000	20,000	–	49,490	28,077	16,229	569,796	45,900	1,176,772
P J O'Connor[8]	64,803	–	–	–	–	–	–	64,803	–	51,282
A D Pomfret[9]	45,731	–	–	–	–	–	–	45,731	–	64,000
V J Sheridan[8]	60,174	–	–	–	–	–	–	60,174	–	51,282
K Sroka	51,000	–	–	–	–	–	–	51,000	–	6,849
R A W Tolle	66,000	–	–	–	–	–	–	66,000	–	3,562
C A Washbourn	306,000	300,000	20,000	–	49,490	86,098	11,633	773,221	46,187	1,424,839
Total	**2,582,646**	**1,012,500**	**121,000**	**37,500**	**313,197**	**299,824**	**93,803**	**4,460,470**	**276,094**	**7,101,615**

1. Other than for the chairman, fees include fees paid for chairmanship of the audit and remuneration committees and for the role of senior independent director.
2. The directors defer bonus entitlements to support their underwriting through Beazley Staff Underwriting Limited.
3. This is return on a voluntary investment which is at risk.
4. The notional dividend is a cash bonus equal to dividends the directors would have received during the vesting period of the deferred and retention shares.
5. Mr Blunden was appointed as senior independent director on 21 July 2011 and his fees include his earnings as a senior independent director fee from this date.
6. Mr Furlonge retired on 30 June 2011 from his executive role and his salary, bonus and benefits relate to his earnings as executive director up to this date.
7. Mr Holt was appointed to the board on 21 July 2011 and his fees relate to his earnings from this date.
8. For Mr O'Connor and Mr Sheridan, their non-executive director fee was based on €69,200 and has been converted into sterling for this table at the average exchange rate of 1.15. Mr O'Connor was appointed remuneration committee chairman on 21 July and his fees also include his earnings as remuneration committee chairman from this date.
9. Mr Pomfret stood down as a non-executive director on 21 July 2011 and his fees relate to his earnings to this date.

Directors' share plan interests ▪

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

	At 31 Dec 2010	Awarded	Exercised	Lapsed	Outstanding options at 31 Dec 2011	Exercise price	Closing share price on date of exercise	Earliest date of exercise	Expiry date
M L Bride									
Deferred bonus:									
27 Apr 2009	200,000	–	–	–	200,000	–	–	27/04/2012	27/05/2012
23 Feb 2010	93,284	–	–	–	93,284	–	–	23/02/2013	23/03/2013
14 Feb 2011	–	94,197	–	–	94,197	–	–	14/02/2014	14/03/2014
LTIP (see notes):									
27 Apr 2009	100,000	–	–	–	100,000	–	–	27/04/2012	27/04/2019
18 Feb 2010 – 3 year	174,907	–	–	–	174,907	–	–	18/02/2013	18/02/2020
18 Feb 2010 – 5 year	174,907	–	–	–	174,907	–	–	18/02/2015	18/02/2020
14 Feb 2011 – 3 year	–	144,122	–	–	144,122	–	–	14/02/2014	14/02/2021
14 Feb 2011 – 5 year	–	144,122	–	–	144,122	–	–	14/02/2016	14/02/2021
Retention shares:									
27 Apr 2009	150,000	–	–	–	150,000	–	–	27/04/2012	27/05/2015
SAYE:									
2010	10,591	–	–	–	10,591	0.8568	–	01/07/2013	01/01/2014
A P Cox									
Deferred bonus:									
03 Mar 2008	74,108	–	74,108	–	–	–	1.24341	03/03/2011	03/04/2011
23 Feb 2010	139,925	–	–	–	139,925	–	–	23/02/2013	23/03/2013
14 Feb 2011	–	131,876	–	–	131,876	–	–	14/02/2014	14/03/2014
LTIP (see notes):									
16 Feb 2009	204,725	–	–	–	204,725	–	–	16/02/2012	16/02/2019
18 Feb 2010 – 3 year	174,907	–	–	–	174,907	–	–	18/02/2013	18/02/2020
18 Feb 2010 – 5 year	174,907	–	–	–	174,907	–	–	18/02/2015	18/02/2020
14 Feb 2011 – 3 year	–	144,122	–	–	144,122	–	–	14/02/2014	14/02/2021
14 Feb 2011 – 5 year	–	144,122	–	–	144,122	–	–	14/02/2016	14/02/2021
Retention shares:									
21 Mar 2006	18,002	–	18,002	–	–	–	1.29500	21/03/2009	21/04/2011
13 Mar 2007	137,220	–	45,740	–	91,480	–	1.31400	13/03/2010	13/04/2013
SAYE:									
2009	13,071	–	–	–	13,071	0.7000	–	01/07/2012	01/01/2013
N H Furlonge									
Deferred bonus:									
03 Mar 2008	62,896	–	62,896	–	–	–	1.24341	03/03/2011	03/04/2011
23 Feb 2010	93,284	–	–	–	93,284	–	–	23/02/2013	23/03/2013
14 Feb 2011	–	75,357	–	–	75,357	–	–	14/02/2014	14/03/2014
LTIP (see notes):									
03 Mar 2008	62,896	–	31,448	31,448	–	–	1.27600	03/03/2011	03/03/2018
16 Feb 2009	204,725	–	81,890	122,835	–	–	1.29500	16/02/2012	16/02/2019
18 Feb 2010 – 3 year	178,405	–	81,549	96,856	–	–	1.29500	18/02/2013	18/02/2020
18 Feb 2010 – 5 year	178,405	–	48,383	130,022	–	–	1.29500	18/02/2015	18/02/2020
14 Feb 2011 – 3 year	–	146,948	–	146,948	–	–	–	14/02/2014	14/02/2021
14 Feb 2011 – 5 year	–	146,948	–	146,948	–	–	–	14/02/2016	14/02/2021
Retention shares:									
21 Mar 2006	24,635	–	24,635	–	–	–	1.29500	21/03/2009	21/04/2011
SAYE:									
2009	13,071	–	10,779	2,292	–	0.7000	1.33400	01/07/2012	01/01/2013

Directors' remuneration report *continued*

	At 31 Dec 2010	Awarded	Exercised	Lapsed	Outstanding options at 31 Dec 2011	Exercise price	Closing share price on date of exercise	Earliest date of exercise	Expiry date
J G Gray									
Deferred bonus:									
03 Mar 2008	107,554	–	107,554	–	–	–	1.24341	03/03/2011	03/04/2011
23 Feb 2010	116,604	–	–	–	116,604	–	–	23/02/2013	23/03/2013
14 Feb 2011	–	94,197	–	–	94,197	–	–	14/02/2014	14/03/2014
LTIP (see notes):									
03 Mar 2008	113,214	–	56,607	56,607	–	–	1.27600	03/03/2011	03/03/2018
16 Feb 2009	204,725	–	–	–	204,725	–	–	16/02/2012	16/02/2019
18 Feb 2010 – 3 year	209,888	–	–	–	209,888	–	–	18/02/2013	18/02/2020
18 Feb 2010 – 5 year	209,888	–	–	–	209,888	–	–	18/02/2015	18/02/2020
14 Feb 2011 – 3 year	–	172,946	–	–	172,946	–	–	14/02/2014	14/02/2021
14 Feb 2011 – 5 year	–	172,946	–	–	172,946	–	–	14/02/2016	14/02/2021
Retention shares:									
21 Mar 2006	47,104	–	47,104	–	–	–	1.29500	21/03/2009	21/04/2011
SAYE:									
2009	13,071	–	–	–	13,071	0.7000	–	01/07/2012	01/01/2013
D A Horton									
Deferred bonus:									
03 Mar 2008	105,038	–	105,038	–	–	–	1.24341	03/03/2011	03/04/2011
23 Feb 2010	233,209	–	–	–	233,209	–	–	23/02/2013	23/03/2013
14 Feb 2011	–	188,394	–	–	188,394	–	–	14/02/2014	14/03/2014
LTIP (see notes):									
03 Mar 2008	78,621	–	39,310	39,311	–	–	1.27600	03/03/2011	03/03/2018
16 Feb 2009	204,725	–	–	–	204,725	–	–	16/02/2012	16/02/2019
18 Feb 2010 – 3 year	363,207	–	–	–	363,207	–	–	18/02/2013	18/02/2020
18 Feb 2010 – 5 year	363,207	–	–	–	363,207	–	–	18/02/2015	18/02/2020
14 Feb 2011 – 3 year	–	307,460	–	–	307,460	–	–	14/02/2014	14/02/2021
14 Feb 2011 – 5 year	–	307,460	–	–	307,460	–	–	14/02/2016	14/02/2021
Retention shares:									
21 Mar 2006	41,057	–	41,057	–	–	–	1.29500	21/03/2009	21/04/2011
09 Oct 2007	783,075	–	261,025	–	522,050	–	1.19200	09/10/2010	09/11/2013
SAYE:									
2009	13,071	–	–	–	13,071	0.7000		01/07/2012	01/01/2013
N P Maidment									
Deferred bonus:									
03 Mar 2008	106,925	–	106,925	–	–	–	1.24341	03/03/2011	03/04/2011
23 Feb 2010	186,567	–	–	–	186,567	–	–	23/03/2013	23/03/2013
14 Feb 2011	–	150,715	–	–	150,715	–	–	14/03/2014	14/03/2014
LTIP (see notes):									
03 Mar 2008	62,896	–	31,448	31,448	–	–	1.27600	03/03/2011	03/03/2018
16 Feb 2009	204,725	–	–	–	204,725	–	–	16/02/2012	16/02/2019
18 Feb 2010 – 3 year	209,888	–	–	–	209,888	–	–	18/02/2013	18/02/2020
18 Feb 2010 – 5 year	209,888	–	–	–	209,888	–	–	18/02/2015	18/02/2020
14 Feb 2011 – 3 year	–	172,946	–	–	172,946	–	–	14/02/2014	14/02/2021
14 Feb 2011 – 5 year	–	172,946	–	–	172,946	–	–	14/02/2016	14/02/2021
Retention shares:									
21 Mar 2006	31,782	–	31,782	–	–	–	1.29500	21/03/2009	21/04/2011
SAYE:									
2010	10,591	–	–	–	10,591	.8568	–	01/07/2013	01/01/2014

	At 31 Dec 2010	Awarded	Exercised	Lapsed	Outstanding options at 31 Dec 2011	Exercise price	Closing share price on date of exercise	Earliest date of exercise	Expiry date
C A Washbourn									
Deferred bonus:									
03 Mar 2008	125,794	–	125,794	–	–	–	1.24341	03/03/2011	03/04/2011
23 Feb 2010	233,209	–	–	–	233,209	–	–	23/02/2013	23/03/2013
14 Feb 2011	–	188,394	–	–	188,394	–	–	14/02/2014	14/03/2014
LTIP (see notes):									
03 Mar 2008	132,084	–	66,042	66,042	–	–	1.27600	03/03/2011	03/03/2018
16 Feb 2009	204,725	–	–	–	204,725	–	–	16/02/2012	16/02/2019
18 Feb 2010 – 3 year	209,888	–	–	–	209,888	–	–	18/02/2013	18/02/2020
18 Feb 2010 – 5 year	209,888	–	–	–	209,888	–	–	18/02/2015	18/02/2020
14 Feb 2011 – 3 year	–	172,946	–	–	172,946	–	–	14/02/2014	14/02/2021
14 Feb 2011 – 5 year	–	172,946	–	–	172,946	–	–	14/02/2016	14/02/2021
Retention shares:									
21 Mar 2006	41,848	–	41,848	–	–	–	1.29500	21/03/2009	21/04/2011
04 Dec 2006	522,050	–	261,025	–	261,025	–	1.36600	04/12/2009	04/01/2013
SAYE:									
2009	13,071	–	–	–	13,071	0.7000	–	01/07/2012	01/01/2013

Notes to share plan interests table

1. **2008 LTIP award details.** Awards were made on 3 March 2008 at a mid-market share price of 166p. 50% of the award is based on NAVps performance in excess of the risk-free rate (RFR) and 50% is based on TSR performance versus a comparator group (Amlin, Brit, Catlin, Chaucer, Hardy, Highway, Hiscox, Lancashire and Novae). Different vesting schedules apply for shares worth up to 50% of salary ('basic shares') and shares worth more than 50% of salary ('additional shares'). For basic shares, for the NAV portion, NAVps < RFR+5% p.a. results in 0% vesting and NAVps >= RFR+5% p.a. results in 100% vesting. For the TSR portion, below median TSR results in 0% vesting, median TSR performance results in 50% vesting and upper quartile TSR performance results in 100% vesting. For additional shares, for the NAV portion, NAVps < RFR+5% p.a. results in 0% vesting and NAVps >= RFR+10% p.a. results in 100% vesting. For the TSR portion, below upper quartile TSR performance results in 0% vesting and upper decile TSR results in 100% vesting. Straight-line pro-rating applies between all points. Final vesting for 2008 LTIP awards was 50%.

   Note – The above is a correction in only the description of the performance condition from the description provided in the 2009 and 2010 Directors' Remuneration Reports. In relation to the TSR portion of the basic shares only, the reports incorrectly described vesting at median for the basic shares portion as 25% rather than 50%.

2. **2009 LTIP award details.** Awards were made on 16 February 2009 and 27 April 2009 at a mid-market share price of 102p and 101p respectively. Performance conditions are as for the 2008 LTIP awards except that the TSR comparator group is as follows: Amlin, Brit, Catlin, Chaucer, Hardy, Hiscox, Lancashire and Novae.

3. **2010 LTIP award details.** Awards were made on 18 February 2010 at a mid-market share price of 107.2p (110.13p D A Horton only). Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+10% p.a. equates to 0% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points.

4. **2011 LTIP award details.** Awards were made on 14 February 2011 at a mid-market share price of 132.7p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+10% p.a. equates to 0% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points.

5. **Retention plan and deferral plan.** Awards were made on 27 April 2009 at the time of M L Bride's recruitment. The 150,000 shares will vest in four equal tranches on each of the third, fourth, fifth and sixth anniversaries of the date of grant and the 200,000 shares will normally vest in full on the third anniversary of the date of grant.

6. **Share prices.** The market price of Beazley ordinary shares at 31 December 2011 was 134.3p and the range during the year was 109.6p to 139.2p.

Directors' remuneration report *continued*

Directors' interests in shares ▪

	Number of ordinary shares held as at 1 Jan 2011	Options exercised	Options sold	Shares purchased	Shares sold	Number of ordinary shares held as at 31 Dec 2011	Shareholding as a percentage of the total issued ordinary share capital as at 31 Dec 2011
J G W Agnew	226,147	–	–	–	–	226,147	0.04
M L Bride	219,616	–	–	7,694	–	227,310	0.04
N H Furlonge	1,689,651	341,580	174,856	–	600,000	1,256,375	0.24
J G Gray	2,487,026	211,265	188,742	–	1,250,000	1,259,549	0.24
A G K Hamilton	37,991	–	–	–	–	37,991	0.01
D A Horton	973,491	446,430	234,038	–	–	1,185,883	0.23
N P Maidment	3,462,526	170,155	89,424	–	–	3,543,257	0.68
P O'Connor	30,000	–	–	–	–	30,000	0.01
A D Pomfret	24,315	–	–	–	–	24,315	0.00
V J Sheridan	20,000	–	–	–	–	20,000	0.00
C A Washbourn	378,852	494,709	494,709	–	–	378,852	0.07
G P Blunden	107,156	–	–	–	–	107,156	0.02
A P Cox	254,089	137,850	71,191	–	–	320,748	0.06
R A W Tolle	–	–	–	60,000	–	60,000	0.01
K P Sroka	–	–	–	–	–	–	0.00
D Holt	–	–	–	–	–	–	0.00
Total	**9,910,860**	**1,801,989**	**1,252,960**	**67,694**	**1,850,000**	**8,677,583**	**1.65**

No changes in the interests of directors have occurred between 31 December 2011 and 6 February 2012.

Annual general meeting

A resolution will be proposed at the forthcoming annual general meeting to be held on 27 March 2012 to approve this directors' remuneration report.

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

By order of the board

Padraic O'Connor
Chairman of the remuneration committee

6 February 2012

Directors' report

The directors have pleasure in presenting their report and the audited financial statements of the group for the year ended 31 December 2011.

Principal activity

Beazley plc is the ultimate holding company for the Beazley group, a global specialist risk insurance and reinsurance business operating through its managed syndicates 2623, 6107, 3623, 3622 and 623 at Lloyd's in the UK and Beazley Insurance Company, Inc., a US admitted carrier in the US.

Review of business

A more detailed review of the business for the year and a summary of future developments are included in the chairman and chief executive's letter on pages 10 to 13 and the financial review on pages 30 to 40.

Results and dividends

The consolidated profit before taxation for the year ended 31 December 2011 amounted to $62.7m (2010: $250.8m)

The directors announce a second interim dividend of 5.4 pence per ordinary share (2010 second interim dividend: 5.1 pence plus a special dividend of 2.5 pence). This dividend, together with the first interim dividend of 2.5 pence per ordinary share (2010 first interim dividend 2.4 pence), gives a total of 7.9 pence.

The second interim dividend will be paid on 30 March 2012 to shareholders on the register on 2 March 2012 (save to the extent that shareholders on the register of members on 2 March 2012 are to be paid a dividend by a subsidiary of the company (being Beazley DAS Limited) resident for tax purposes in the United Kingdom pursuant to elections made or deemed to have been made and such shareholders shall have no right to this second interim dividend).

Directors

The directors of the company at 31 December 2011, who served during the year and to the date of this report, were as follows:

Jonathan Geoffrey William Agnew	(non-executive chairman)
David Andrew Horton	(chief executive)
George Patrick Blunden	(non-executive director)
Martin Lindsay Bride	(finance director)
Adrian Peter Cox	(director)
Nicholas Hill Furlonge	(director) (retired 30 June 2011)
Jonathan George Gray	(director)
Alexander Gordon Kelso Hamilton	(non-executive director)
Dennis Holt	(non-executive director) (appointed 21 July 2011)
Neil Patrick Maidment	(director)
Padraic Joseph O'Connor	(non-executive director)
Andrew David Pomfret	(non-executive director) (resigned 21 July 2011)
Vincent Joseph Sheridan	(non-executive director)
Kenneth Paul Sroka	(non-executive director)
Rolf Albert Wilhelm Tolle	(non-executive director)
Clive Andrew Washbourn	(director)

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

Details of directors' service contracts and beneficial interests in the company's share capital are given in the directors' remuneration report on pages 57 to 72. Biographies of directors are set out on pages 50 to 51.

Directors' report *continued*

Corporate governance
The company's compliance with corporate governance is disclosed in the corporate governance statement on pages 53 to 56.

Going concern
A review of the financial performance of the group is set out on pages 30 to 40. The financial position of the group, its cash flows and borrowing facilities are included therein.

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

Supplier payment policy
The company and group's policy for the year ending 31 December 2011, for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction, to ensure the supplier is aware of those terms and to abide by the agreed terms of payment. The group had an average 50 days purchases included in trade creditors at 31 December 2011 (2010: 47 days).

Corporate, social and environmental responsibility
The company's corporate, social and environmental policy is disclosed on pages 46 to 49.

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

Risk management
The group's approach to risk management is set out on pages 43 to 45 and further detail is contained in note 2 to the financial statements on pages 94 to 103.

Substantial shareholdings
As at 2 February 2012, the board had been notified of, or was otherwise aware of, the following shareholdings of 3% or more of the company's issued ordinary share capital:

	Number of ordinary shares	%
Invesco Perpetual	99,016,671	19.1
Jupiter Asset Management	41,339,387	8.0
MFS Investment Management	31,974,868	6.2
Dimensional Fund Advisors	21,504,578	4.1
Legal & General Investment Management	20,081,959	3.9
Aberforth Partners	18,308,668	3.5
Aviva Investors	18,036,052	3.5

Annual general meeting
The notice of the annual general meeting to be held at 12.00 noon on Tuesday, 27 March 2012 at 2 Northwood Park, Santry, Dublin is set out in the circular to shareholders.

At 6 February 2012 there are outstanding options to subscribe for 14.9m ordinary shares pursuant to employee share schemes, representing 2.9% of the issued share capital. If the authority to purchase shares were exercised in full, these options would represent 3.2% of the enlarged issued share capital.

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

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

By order of the board

S A Coope
Company secretary
2 Northwood Avenue
Northwood Park
Santry Demense
Santry
Dublin 9

6 February 2012

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

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

The directors are required to prepare group and parent company financial statements for each financial year. They are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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

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

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

The directors are responsible for the preparation of the directors' report and corporate governance statement. The directors have also elected to prepare a directors' remuneration report on a voluntary basis.

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

J G W Agnew
Chairman

M L Bride
Finance director

6 February 2012

Independent auditor's report to the members of Beazley plc

We have audited the accompanying group and parent company financial statements (the ''financial statements'') of Beazley plc for the year ended 31 December 2011 which comprise the Group Income Statements, the Consolidated and Parent Company Statements of Comprehensive Income, the Consolidated and Parent Company Statement of Financial Position, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity for the year then ended, and the related notes. The financial reporting framework that has been applied in the preparation of financial statements is applicable law and International Financial Reporting Standards as adopted by the EU.

In addition to our audit of the financial statements, the directors have engaged us to audit the information in the Report of the Remuneration Committee that is described as having been audited, which the directors have decided to prepare (in addition to that required to be prepared) as if the Company were required to comply with the requirements of Schedule 8 to the UK Companies Act 2006 The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) and as if the company were a continuation of the previous holding company Beazley Group plc (the 'Directors' Remuneration Report').

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991 and, in respect of the separate opinion in relation to the Directors' Remuneration Report, on terms that have been agreed. 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, in respect of the separate opinion in relation to the Directors' Remuneration Report and reporting on corporate governance, those matters that we have agreed to state to them in our report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 76, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

We also report to you whether the part of the Report of the Remuneration Committee to be audited has been properly prepared as if the Company were required to comply with the requirements of UK company law.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion

In our opinion:
- the financial statements give a true and fair view of the state of the groups' and parent company's affairs as at 31 December 2011 and of its consolidated profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the EU;
- the financial statements have been prepared in accordance with the Companies (Jersey) Law 1991; and
- the Directors' Remuneration Report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to the Companies Act 2006 The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as if those requirements were to apply to the company.

Independent auditor's report to the members of Beazley plc *continued*

Matters on which we are required to report by exception

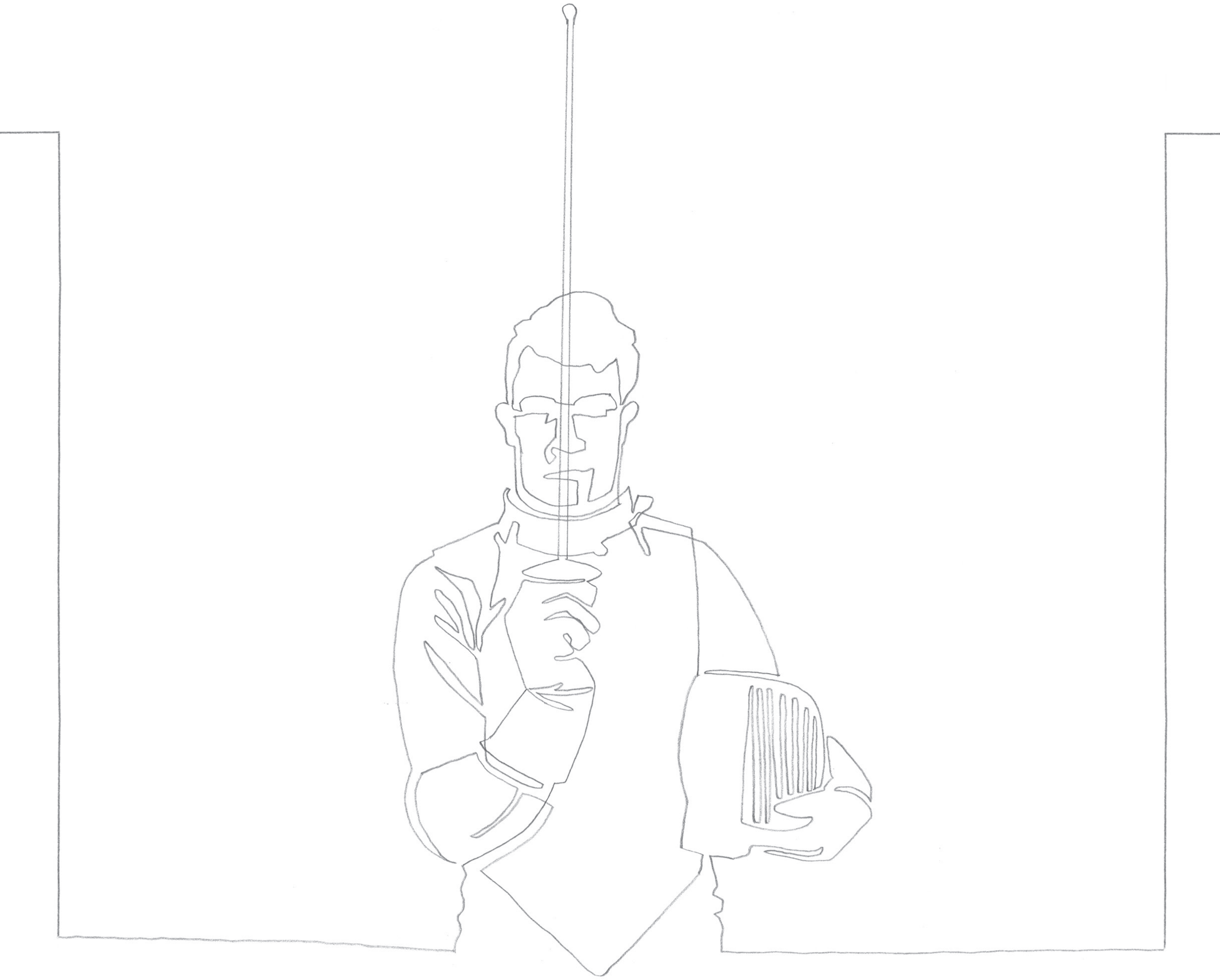
We have nothing to report in respect of the following matters.

The Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company; or
- returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Under the listing rules of the Financial Services Authority we are required to review:
- the directors statement, set out on page 74 in relation to going concerns; and
- the part of the corporate governance statements on page 53 relating to the company's compliance with the provisions of the UK corporate governance code specified for our review.

Brian Clavin
For and on behalf of
KPMG
Chartered Accountants and Recognised Auditors
1 Harbourmaster Place,
International Financial Services Centre,
Dublin 1,
Ireland

6 February 2012



Financial statements

Group income statement

for the year ended 31 December 2011

	Notes	2011 $m	2010 $m
Gross premiums written	3	1,712.5	1,741.6
Written premiums ceded to reinsurers		(338.5)	(339.5)
Net premiums written	3	**1,374.0**	**1,402.1**
Change in gross provision for unearned premiums		20.6	38.4
Reinsurer's share of change in the provision for unearned premiums		(9.6)	(35.3)
Change in net provision for unearned premiums		**11.0**	**3.1**
Net earned premiums	3	**1,385.0**	**1,405.2**
Net investment income	4	39.3	37.5
Other income	5	28.1	28.1
		67.4	65.6
Revenue		**1,452.4**	**1,470.8**
Insurance claims		1,168.9	860.6
Insurance claims recoverable from reinsurers		(318.4)	(122.4)
Net insurance claims	3	**850.5**	**738.2**
Expenses for the acquisition of insurance contracts	3	390.7	381.4
Administrative expenses		126.6	119.2
Foreign exchange loss/(gain)	3	4.1	(34.6)
Operating expenses		**521.4**	**466.0**
Expenses	3	**1,371.9**	**1,204.2**
Share of loss in associate	14	(1.0)	(0.9)
Results of operating activities		**79.5**	**265.7**
Finance costs	8	(16.8)	(14.9)
Profit before income tax		**62.7**	**250.8**
Income tax credit/(expense)	9	3.1	(33.8)
Profit for the year attributable to equity shareholders		**65.8**	**217.0**
Earnings per share (cents per share):			
Basic	10	13.0	42.1
Diluted	10	12.4	40.2
Earnings per share (pence per share):			
Basic	10	8.1	27.4
Diluted	10	7.7	26.1

Statement of comprehensive income

for the year ended 31 December 2011

	2011 $m	2010 $m
Group		
Profit for the year attributable to equity shareholders	65.8	217.0
Other comprehensive income		
Change in net investment hedge	–	(5.4)
Foreign exchange translation differences	2.5	12.6
Reversal of exceptional foreign exchange gain	–	(33.7)
Foreign exchange gain arising on change in presentational currency	–	(22.0)
Total other comprehensive income	2.5	(48.5)
Total comprehensive income recognised	**68.3**	**168.5**

Statement of comprehensive income

for the year ended 31 December 2011

	2011 $m	2010 $m
Company		
Profit for the year attributable to equity shareholders	76.2	59.6
Other comprehensive income		
Foreign exchange translation differences	–	(44.3)
Total other comprehensive income	–	(44.3)
Total comprehensive income recognised	76.2	15.3

Statement of changes in equity

for the year ended 31 December 2011

	Notes	Share capital $m	Share premium $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Group							
Balance at 1 January 2010		**42.6**	**0.5**	**(42.5)**	**(25.9)**	**1,021.2**	**995.9**
Total comprehensive income recognised		–	–	(48.5)	–	217.0	168.5
Dividends paid		–	–	–	–	(55.5)	(55.5)
Issue of shares	21	0.1	0.2	–	–	–	0.3
Equity settled share based payments	22	–	–	–	9.1	–	9.1
Acquisition of own shares in trust	22	–	–	–	(6.5)	–	(6.5)
Purchase of treasury shares	22	–	–	–	(28.9)	–	(28.9)
Balance at 31 December 2010		**42.7**	**0.7**	**(91.0)**	**(52.2)**	**1,182.7**	**1,082.9**
Total comprehensive income recognised		–	–	2.5	–	65.8	68.3
Dividends paid		–	–	–	–	(82.8)	(82.8)
Issue of shares	21	0.1	0.4	–	–	–	0.5
Equity settled share based payments	22	–	–	–	9.3	–	9.3
Acquisition of own shares in trust	22	–	–	–	(6.0)	–	(6.0)
Purchase of treasury shares	22	–	–	–	(1.2)	–	(1.2)
Balance at 31 December 2011		**42.8**	**1.1**	**(88.5)**	**(50.1)**	**1,165.7**	**1,071.0**

Statement of changes in equity

for the year ended 31 December 2011

	Notes	Share capital $m	Share premium $m	Foreign currency translation reserve $m	Other reserves $m	Retained earnings $m	Total $m
Company							
Balance at 1 January 2010		**42.6**	**0.5**	**8.4**	**(35.1)**	**777.8**	**794.2**
Total comprehensive income recognised		–	–	(44.3)	–	59.6	15.3
Dividends paid		–	–	–	–	(55.5)	(55.5)
Issue of shares	21	0.1	0.2	–	–	–	0.3
Equity settled share based payments	22	–	–	–	9.1	–	9.1
Acquisition of own shares in trust	22	–	–	–	(6.5)	–	(6.5)
Purchase of treasury shares	22	–	–	–	(28.9)	–	(28.9)
Balance at 31 December 2010		**42.7**	**0.7**	**(35.9)**	**(61.4)**	**781.9**	**728.0**
Total comprehensive income recognised		–	–	–	–	76.2	76.2
Dividends paid		–	–	–	–	(82.8)	(82.8)
Issue of shares	21	0.1	0.4	–	–	–	0.5
Equity settled share based payments	22	–	–	–	9.3	–	9.3
Acquisition of own shares in trust	22	–	–	–	(6.0)	–	(6.0)
Purchase of treasury shares	22	–	–	–	(1.2)	–	(1.2)
Balance at 31 December 2011		**42.8**	**1.1**	**(35.9)**	**(59.3)**	**775.3**	**724.0**

Statements of financial position

as at 31 December 2011

	Notes	2011 Group $m	2011 Company $m	2010 Group* $m	2010 Company $m
Assets					
Intangible assets	12	130.7	–	117.0	–
Plant and equipment	13	7.1	1.4	9.6	1.7
Investment in subsidiaries	31	–	747.2	–	747.2
Investment in associates	14	8.9	1.4	6.5	1.4
Deferred acquisition costs	15	159.7	–	164.0	–
Deferred tax asset	28	12.5	–	9.5	–
Retirement benefit asset	27	4.6	–	3.1	–
Current income tax asset		9.8	–	26.4	–
Reinsurance assets	19,24	1,197.9	–	1,034.9	–
Financial assets*	16	3,356.8	–	3,097.3	–
Insurance receivables	18	558.7	–	527.1	–
Other receivables		21.9	–	33.9	0.5
Cash and cash equivalents*	20	650.1	2.5	745.0	4.0
Total assets		**6,118.7**	**752.5**	**5,774.3**	**754.8**
Equity					
Share capital	21	42.8	42.8	42.7	42.7
Share premium		1.1	1.1	0.7	0.7
Foreign currency translation reserve		(88.5)	(35.9)	(91.0)	(35.9)
Other reserves	22	(50.1)	(59.3)	(52.2)	(61.4)
Retained earnings		1,165.7	775.3	1,182.7	781.9
Total equity		**1,071.0**	**724.0**	**1,082.9**	**728.0**
Liabilities					
Insurance liabilities	24	4,334.6	–	4,046.8	–
Financial liabilities	16,25	266.9	–	268.2	–
Other payables	26	366.0	28.5	285.4	26.8
Deferred tax liabilities	28	80.2	–	91.0	–
Total liabilities		**5,047.7**	**28.5**	**4,691.4**	**26.8**
Total equity and liabilities		**6,118.7**	**752.5**	**5,774.3**	**754.8**

*The composition of group cash and cash equivalents and financial assets have been restated as at 31 December 2010 (see note 20).

The financial statements were approved by the board of directors on 6 February 2012 and were signed on its behalf by:

J G W Agnew
Chairman

M L Bride
Finance director

6 February 2012

Financial statements

Statements of cash flows

for the year ended 31 December 2011

	Notes	2011 Group $m	2011 Company $m	2010 Group* $m	2010 Company $m
Cash flow from operating activities					
Profit before income tax		**62.7**	**76.2**	**250.8**	**59.6**
Adjustments for:					
Amortisation of intangibles	12	11.1	–	3.5	
Equity settled share based compensation	23	9.3	9.3	9.1	9.1
Net fair value losses/(gains) on financial assets		(6.3)	–	(6.2)	–
Loss on disposal of plant and equipment		–	–	0.3	–
Loss in associate	14	1.0	–	0.9	–
Depreciation of plant and equipment	13	3.8	0.3	4.2	0.4
Increase in insurance and other liabilities		367.1	1.7	19.2	26.8
(Increase)/decrease in insurance, reinsurance and other receivables		(182.6)	0.5	83.8	0.3
Decrease/(increase) in deferred acquisition costs		4.3	–	(8.5)	–
Financial income	4	(64.8)	–	(60.2)	–
Financial expense	8	16.8	–	14.9	–
Income tax received/(paid)		5.9	–	(26.2)	–
Contribution to pension fund		(1.6)	–	(1.5)	–
Net cash from operating activities		**226.7**	**88.0**	**284.1**	**96.2**
Cash flow from investing activities					
Purchase of plant and equipment	13	(1.0)	–	(2.0)	(1.6)
Purchase of syndicate capacity	12	(1.4)	–	(0.2)	–
Acquisition of subsidiary (net of cash acquired)		(3.8)	–	–	–
Sale of business unit		5.0	–	–	–
Expenditure on software development	12	(11.1)	–	(7.9)	–
Purchase of investments*		(3,912.4)	–	(5,042.7)	–
Proceeds from sale of investments		3,649.2	–	4,799.9	–
Investment in associate	14	(3.4)	–	(6.0)	–
Interest and dividends received		64.8	–	60.2	–
Net cash used in investing activities		**(214.1)**	–	**(198.7)**	**(1.6)**
Cash flow from financing activities					
Proceeds from issue of shares		0.5	0.5	0.3	0.3
Purchase of treasury shares	22	(1.2)	(1.2)	(28.9)	(28.9)
Acquisition of own shares in trust	22	(6.0)	(6.0)	(6.5)	(6.5)
Interest paid		(16.8)	–	(14.9)	–
Dividends paid		(82.8)	(82.8)	(55.5)	(55.5)
Net cash used in financing activities		**(106.3)**	**(89.5)**	**(105.5)**	**(90.6)**
Net (decrease)/increase in cash and cash equivalents		(93.7)	(1.5)	(20.1)	4.0
Cash and cash equivalents at beginning of year*		745.0	4.0	813.4	–
Effect of exchange rate changes on cash and cash equivalents		(1.2)	–	(48.3)	–
Cash and cash equivalents at end of year	20	**650.1**	**2.5**	**745.0**	**4.0**

*The composition of group cash and cash equivalents and the related effects on the purchase of investments have been restated as at 31 December 2010 (see note 20).

Notes to the financial statements

1 Statement of accounting policies
Beazley plc is a company incorporated in Jersey and domiciled in Ireland. The group financial statements for the year ended 31 December 2011 comprise the parent company and its subsidiaries and the group's interest in associates.

Both the financial statements of the parent company, Beazley plc, and the group financial statements have been prepared and approved by the directors in accordance with IFRSs as adopted by the EU ('Adopted IFRSs').

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

All new standards and interpretations released by the International Accounting Standards Board (IASB) have been considered and of these the following new and amended standards have been adopted by the group during the period:

IFRS 7 (amended), 'Financial instruments: Disclosures'. The amendments require an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial instruments.

IAS 1 (amended), 'Presentation of financial statements'. IAS 1 is amended to clarify that reconciliation from opening to closing balances is required to be presented in the statement of changes in equity for each component of equity. IAS 1 is also amended to allow the analysis of the individual other comprehensive income line items by component of equity to be presented in the notes.

IAS 32 (amended), 'Financial instruments: Presentation'. The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.

IFRIC 19,' Extinguishing financial liabilities with equity instruments'. IFRIC 19 deals with measurement of equity instruments issued in a debt for equity swap. It addresses the accounting for such a transaction by the debtor only.

IFRIC 14 (amended), 'Prepayment of a minimum funding requirement'. The amendment to IFRIC 14 removes unintended consequences arising from the treatment of prepayments when there is a minimum funding requirement (MFR). The amendment results in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense.

In addition, the following is a list of standards that are in issue but are not effective in 2011, and have not yet been adopted in the EU, together with the effective date of application to the group:
- IAS 12 Amendment: Deferred tax: Recovery of underlying assets (effective 1 January 2012)
- IAS 1 Amendment: Presentation of items of other comprehensive income (effective 1 July 2012)
- IFRS 9: Financial Instruments (effective 1 January 2015)
- IFRS 10: Consolidated financial statements (effective 1 January 2013)
- IFRS 11: Joint arrangements (effective 1 January 2013)
- IFRS 12: Disclosure of interests in other entities (effective 1 January 2013)
- IFRS 13: Fair Value Measurement (effective 1 January 2013)
- IAS 19 Amendment: Defined benefit plans (effective 1 January 2013)
- IAS 32 Amendment: Offsetting financial assets and financial liabilities (effective 1 January 2014)
- IFRS 7: Amendment: Offsetting financial assets and liabilities (effective 1 January 2013).

The implications of these standards and interpretations are under review.

Basis of presentation
The consolidated financial statements are prepared using the historical cost convention except that financial investments and derivative financial instruments are stated at their fair value. All amounts presented are stated in US dollars and millions, unless stated otherwise.

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

Reclassifications of short-term investments have been made between cash and cash equivalents and financial investments resulting in a restatement of balances in the statement of financial position and statement of cash flows for the comparative period. Full details are set out in note 20.

Notes to the financial statements *continued*

Use of estimates and judgements

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in this statement of accounting policies and specifically in note 24 (on insurance liabilities and reinsurance assets).

The most critical estimate included within the group's financial position is the estimate for losses incurred but not reported. The total estimate as at 31 December 2011 is $1,697m (2010: $1,783m) and is included within total insurance liabilities in the statement of financial position.

Consolidation

a) Subsidiary undertakings

Subsidiary undertakings, which are those entities in which the group, directly or indirectly, has the power to exercise control over financial and operating policies so as to obtain benefits from their activities, have been consolidated. They are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control ends.

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

For all business combinations from 1 January 2010:

(i) Transaction costs, other than those associated with the issue of debt or equity securities, that the group incurs in connection with a business combination are expensed as incurred.

(ii) In addition, any consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognised in profit or loss.

(iii) Any contingent consideration is measured at fair value at the acquisition date.

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

Certain group subsidiaries underwrite as corporate members of Lloyd's on syndicates managed by Beazley Furlonge Limited. In view of the several liability of underwriting members at Lloyd's for the transactions of syndicates in which they participate, only attributable shares of transactions, assets and liabilities of those syndicates are included in the group financial statements.

b) Associates

Associates are those entities in which the group has power to exert significant influence but which it does not control. Significant influence is generally presumed if the group has between 20% and 50% of voting rights.

Investments in associates are accounted for using the equity method of accounting. Under this method the investments are initially measured at cost and the group's share of post-acquisition profits or losses is recognised in the income statement. Therefore the cumulative post-acquisition movements in the associates' net assets are adjusted against the cost of the investment.

When the group's share of losses equals or exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition for the losses is discontinued except to the extent that the group has incurred obligations in respect of the associate.

Equity accounting is discontinued when the group no longer has significant influence over the investment.

c) Intercompany balances and transactions
All intercompany transactions, balances and unrealised gains or losses on transactions between group companies are eliminated in the consolidated group accounts. Transactions and balances between the group and associates are not eliminated.

Foreign currency translation
a) Functional and presentation currency
Items included in the financial statements of the parent and the subsidiaries are measured using the currency of the primary economic environment in which the relevant entity operates (the 'functional currency'). The consolidated financial statements are presented in US dollars, being the functional currency of the parent and its main trading subsidiaries.

Following the change in functional currency of Beazley plc and its main trading subsidiaries to US dollars on 1 April 2010 and the change in presentation currency to US dollars on 1 January 2010, all comparative information is stated in US dollars in accordance with the guidance defined in IAS 21. For further information on this change please refer to the 2010 annual report which gives a detailed explanation of the main factors that led to this change.

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

c) Group companies
The results and financial position of the group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
- assets and liabilities are translated at the closing rate ruling at the statement of financial position date;
- income and expenses for each income statement are translated at average exchange rates for the reporting period where this is determined to be a reasonable approximation of the actual transaction rates; and
- all resulting exchange differences are recognised in other comprehensive income as a separate component of equity.

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

Insurance contracts
Insurance contracts (including inwards reinsurance contracts) are defined as those containing significant insurance risk. Insurance risk is considered significant if, and only if, an insured event could cause Beazley to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

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

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

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

Notes to the financial statements *continued*

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

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

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

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

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

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

Revenue
Revenue consists of net earned premium, net investment income, profit commissions earned and managing agent's fees.

Managing agent's fees are recognised as the services are provided. Profit commissions are recognised as profit is earned.

Dividends paid
Dividend distribution to the shareholders of the group is recognised in the period in which the dividends are paid as a first interim dividend or as a second interim dividend approved by the group's shareholders at the group's annual general meeting.

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

Fixtures and fittings	Three to ten years
Computer equipment	Three years

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

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

Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses. The determination of the amount to be treated as goodwill per IFRS 3 (revised 2008) has changed; however the group decided to apply the revised standard prospectively to all business combinations from 1 January 2010 and therefore there is no impact on accounting for the acquisition of subsidiaries made in prior periods.

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

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

b) Syndicate capacity

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

c) Licences

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

d) IT development costs

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

e) Renewal rights

Renewal rights comprise future profits relating to insurance contracts acquired and the expected renewal of those contracts. The costs directly attributable to acquire the renewal rights are recognised as intangible assets where they can be measured reliably and it is probable that they will be recovered by directly related future profits. These costs are subject to impairment and are amortised on a straight-line basis, based on the estimated useful life of the assets which is estimated to be between five and ten years.

Financial instruments

Financial instruments are recognised in the statement of financial position at such time that the group 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 group'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 group commits to purchase or sell the asset.

a) Financial assets

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

b) Financial assets at fair value through income statement

Except for derivative financial instruments, all financial assets are designated as fair value through the income statement upon initial recognition because they are managed and their performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the group's key management. The group's investment strategy is to invest and evaluate their performance with reference to their fair values.

Notes to the financial statements *continued*

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

d) Fair value measurement
Fair value is the 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 group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available 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 group 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 group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, ie 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 (ie 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 group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the group entity and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the group believes a third-party market participant would take them into account in pricing a transaction.

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

e) Hedge funds
The group participates in a number of hedge funds and related financial instruments for which there are no available quoted market prices. The valuation of these hedge funds is based on fair value techniques (as described above). The fair value of our hedge fund portfolio is calculated by reference to the underlying net asset values (NAVs) of each of the individual funds. Consideration is also given in valuing these funds to any restriction applied to distributions, the existence of side pocket provisions, and the timing of the latest available valuations.

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

g) Other receivables
Other receivables principally consist of prepayments, accrued income and sundry debtors and are carried at amortised cost less any impairment losses.

h) Investment income
Investment income consists of dividends, interest, realised and unrealised gains and losses and foreign exchange gains and losses on financial assets at fair value through the income statement. Dividends on equity securities are recorded as revenue on the ex-dividend date. Interest is recognised on an amortised cost basis using the effective interest rate method for financial assets at fair value through the income statement. The realised gains or losses on disposal of an investment are the difference between the proceeds and the original cost of the investment. Unrealised investment gains and losses represent the difference between the carrying value at the reporting date, and the carrying value at the previous period end or purchase value during the period.

i) Borrowings
Borrowings are initially recorded at fair value less transaction costs incurred. Subsequently borrowings are stated at amortised cost and interest is recognised in the income statement 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 income statements using the effective interest method.

j) Other payables
Other payables are stated at amortised cost determined on the effective interest rate method.

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

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

The group designates certain derivatives as fair value hedges or net investment hedges.

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are being used in hedging transactions are expected to be and have been highly effective in offsetting changes in fair values or cash flows of hedged items.

a) Fair value hedges
When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm commitment, changes in the fair value of the derivative are recognised immediately in the income statement together with the changes in the fair value of the hedged item that are attributable to the hedged risk.

If the derivative expires or is sold, terminated, exercised, or no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

No fair value hedges are utilised in 2011.

Notes to the financial statements *continued*

b) Net investment hedges
Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and presented within equity in other reserves; the gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'net fair value gains/(losses) on financial investments' through the income statement.

Gains and losses accumulated in other comprehensive income are transferred to the income statement as part of the gain or loss on disposal of the foreign operation.

No net investment hedges are utilised in 2011.

Impairment of financial assets
The group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the assets and that event has an impact on the estimated cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

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.

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

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

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors like age, years of service and compensation. The pension costs are assessed using the projected unit credit method. Under this method the costs of providing pensions are charged to the income statement so as to spread the regular costs over the service lives of employees in accordance with the advice of the qualified actuary, who values the plans annually. The pension obligation is measured at the present value of the estimated future net cash flows and is stated net of plan assets.

Actuarial gains or losses arising subsequent to 1 January 2004 are accounted for using the 'corridor method'. Actuarial gains or losses at the end of the previous accounting periods that exceed 10% of the greater of the fair value of the plan assets or the present value of the gross defined benefit obligations in the scheme at that date are recognised in the income statement over the average remaining working lives of employees participating in the scheme.

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

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

b) Share-based compensation

The group offers option plans over Beazley plc's ordinary shares to certain employees, including the SAYE scheme, details of which are included in the directors' remuneration report.

The group accounts for share compensation plans that were granted after 7 November 2002. The cost of providing share-based compensation is based on the fair value of the share options at grant date, which is recognised in the income statement over the vesting period of the share options and a corresponding entry is recognised in reserves. The fair value of the share options is determined using the Black Scholes method.

When the options are exercised, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and share premium.

Income taxes

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

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

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

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

Earnings per share

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

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares such as share options granted to employees.

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

Provisions and contingencies

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

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

Notes to the financial statements *continued*

2 Risk management

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

2.1 Insurance risk

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

a) Underwriting risk

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

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

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

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

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

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

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

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

The group uses a number of modelling tools to monitor its exposures against the agreed risk appetite set and to simulate catastrophe losses in order to measure the effectiveness of its reinsurance programmes. Stress and scenario tests are also run using these models. The range of scenarios considered 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 group measures geographic accumulations and uses its knowledge of the business, historical loss behaviour and commercial catastrophe modelling software to assess the expected range of losses at different return periods. Upon application of the reinsurance coverage purchased, the key gross and net exposures are calculated on the basis of extreme events at a range of return periods.

The group's high-level catastrophe risk appetite is set by the board and the business plans of each team are determined within these parameters. The board may adjust these limits over time as conditions change. Currently, the group operates to a catastrophe risk appetite for a probabilistic 1-in-250 year US event of $510m net of reinsurance.

Lloyd's has also defined its own specific set of realistic disaster scenario (RDS) events for which all syndicates with relevant exposures must report. Of these the three largest events which impact Beazley are:

Unaudited

	2011		2010	
Lloyd's prescribed natural catastrophe event	Modelled PML (before reinsurance) $m	Modelled PML (after) reinsurance) $m	Modelled PML (before) reinsurance) $m	Modelled PML (after) reinsurance) $m
San Francisco quake ($78bn, 2010:$78bn)	600.3	224.2	712.0	265.7
Gulf of Mexico windstorm ($112bn, 2010:$113bn)	457.9	250.6	557.3	303.8
Florida Pinellas windstorm ($125bn, 2010:$125bn)	438.6	237.6	532.2	277.0

The exposures during 2011 have reduced across property and reinsurance in anticipation of the increase in risk appetite utilisation following the adoption of RMS v.11. The reduction in exposure in these regions have resulted in lower modelled losses for these specific events. With the adoption of RMS v.11, the RDS events for the Gulf of Mexico and Florida Pinellas scenarios have changed and are therefore different events to those used in 2010.

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

To manage underwriting exposures, the group has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry. In 2011, the normal maximum gross probable maximum loss (PML) line that any one underwriter could commit the managed syndicates to was $100m. In most cases, maximum lines for classes of business were much lower than this.

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

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

Binding authority contracts

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

Operating divisions

In 2011, the group's business consisted of six operating divisions. The following table provides a breakdown of gross written premiums by division, and also provides a geographical split based on placement of risk.

2011	UK (Lloyd's)	US (Non-Lloyd's)	Total
Life, accident and health	5%	–	5%
Marine	16%	–	16%
Political risks and contingency	6%	–	6%
Property	20%	1%	21%
Reinsurance	10%	–	10%
Specialty lines	34%	8%	42%
Total	**91%**	**9%**	**100%**

2010	UK (Lloyd's)	US (Non-Lloyd's)	Total
Life, accident and health	4%	–	4%
Marine	15%	–	15%
Political risks and contingency	6%	–	6%
Property	20%	1%	21%
Reinsurance	10%	–	10%
Specialty lines	35%	9%	44%
Total	**90%**	**10%**	**100%**

Notes to the financial statements *continued*

b) Reinsurance risk

Reinsurance risk to the group arises where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated, result in coverage disputes or prove inadequate in terms of the vertical or horizontal limits purchased. Failure of a reinsurer to pay a valid claim is considered a credit risk which is detailed separately below.

The group's reinsurance programmes complement the underwriting team business plans and seek to protect group capital from an adverse volume or volatility of claims on both a per risk and per event basis. In some cases the group deems it more economic to hold capital than purchase reinsurance. These decisions are regularly reviewed as an integral part of the business planning and performance monitoring process.

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

c) Claims management risk

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

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

d) Reserving and ultimate reserves risk

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

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

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

2.2 Asset risk

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

a) Foreign exchange risk

The functional currency of Beazley plc and its main trading entities is the US dollar and the presentation currency in which the group reports its consolidated results is the US dollar. The effect of this on foreign exchange risk is that the group is exposed to fluctuations in exchange rates for non-dollar denominated transactions and net assets.

The group deals in four main currencies: US dollars, UK sterling, Canadian dollars and euros. Transactions in all currencies are converted to US dollars on initial recognition and revalued at the reporting date. Remaining foreign exchange risk is still actively managed as described on the next page.

In 2011, the group 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. As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure across the group. In particular we hedged our potentially significant exposure to the Japanese yen following the Tohoku earthquake in Japan. Details of all foreign currency derivative contracts entered into with external parties are disclosed in note 17. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk.

With effect from January 2010 Beazley took the decision to match the group's underwriting capital by currency to the principal underlying currencies of its written premiums. This helps to mitigate the risk that the group's capital required to underwrite business is not materially affected by any future movements in exchange rates. To achieve this, the group has increased the US dollar component of its capital base (Funds at Lloyd's) by $492.7m since the start of 2010 with an equivalent decrease in the sterling component.

The group also has subsidiaries with functional currencies that are different from the presentation currency. The effect of this on foreign exchange risk is that the group is exposed to fluctuations in exchange rates for US dollar denominated transactions and net assets arising in those foreign currency subsidiaries. It also gives rise to a currency translation exposure to UK sterling, Hong Kong dollars, Singapore dollars and Australian dollars on translation to the group's presentational currency, although these exposures are minimal.

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

31 December 2011	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	910.0	131.4	237.2	1,278.6	4,840.1	6,118.7
Total liabilities	(803.7)	(105.7)	(288.0)	(1,197.4)	(3,850.3)	(5,047.7)
Net assets	**106.3**	**25.7**	**(50.8)**	**81.2**	**989.8**	**1,071.0**

31 December 2010	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	976.4	168.8	293.1	1,438.3	4,336.0	5,774.3
Total liabilities	(1,000.4)	(109.4)	(258.6)	(1,368.4)	(3,323.0)	(4,691.4)
Net assets	**(24.0)**	**59.4**	**34.5**	**69.9**	**1,013.0**	**1,082.9**

Sensitivity analysis

Fluctuations in the group's trading currencies against the US dollar would result in a change to profit after tax and net asset value. The table below gives an indication of the impact on profit after tax and net assets of a percentage change in relative strength of US dollar against the value of sterling, canadian dollar and euro, simultaneously. The analysis is based on the current information available and our assumptions in performing this analysis for 2010 include an estimate of the impact on our cross currency swaps.

	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	2011 $m	2010 $m	2011 $m	2010 $m
Dollar weakens 30% against other currencies	11.6	21.0	11.6	21.0
Dollar weakens 20% against other currencies	7.8	14.0	7.8	14.0
Dollar weakens 10% against other currencies	3.9	7.0	3.9	7.0
Dollar strengthens 10% against other currencies	(3.9)	(7.0)	(3.9)	(7.0)
Dollar strengthens 20% against other currencies	(7.8)	(14.0)	(7.8)	(14.0)
Dollar strengthens 30% against other currencies	(11.6)	(21.0)	(11.6)	(21.0)

b) Interest rate risk

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

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

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

Notes to the financial statements *continued*

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

Duration 31 December 2011	<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	1,817.2	392.7	269.7	209.9	187.5	64.1	–	2,941.1
Cash and cash equivalents	650.1	–	–	–	–	–	–	650.1
Derivative financial instruments	2.7	–	0.1	(0.1)	–	(0.1)	–	2.6
Borrowings	–	–	–	–	(246.8)	–	(18.0)	(264.8)
Total	**2,470.0**	**392.7**	**269.8**	**209.8**	**(59.3)**	**64.0**	**(18.0)**	**3,329.0**

31 December 2010	<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	1,903.0	207.1	185.0	225.7	86.9	56.5	–	2,664.2
Cash and cash equivalents	745.0	–	–	–	–	–	–	745.0
Borrowings	–	–	–	–	–	(250.2)	(18.0)	(268.2)
Total	**2,648.0**	**207.1**	**185.0**	**225.7**	**86.9**	**(193.7)**	**(18.0)**	**3,141.0**

Borrowings include tier 2 subordinated debt that are due in October 2026 with a first call at the group's option on October 2016. If the debt is settled when due in October 2026 the duration of the debt falls within the >10 yrs category. If the debt is called in October 2016, the duration of the debt falls within the 4-5 yrs category. Also included in borrowings is $18m of a subordinated debt facility raised in 2004 which is unsecured. The subordinated notes are due in 2034 and have been callable at the group's option since 2009.

Sensitivity analysis

The group 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 the value of borrowings and derivative financial instruments. This would affect reported profits and net assets as indicated in the below table:

	Impact on profit after income tax for the year		Impact on net assets	
	2011 $m	2010 $m	2011 $m	2010 $m
Shift in yield (basis points)				
150 basis point increase	(44.6)	(23.7)	(44.6)	(23.7)
100 basis point increase	(29.7)	(15.7)	(29.7)	(15.7)
50 basis point increase	(15.0)	(8.0)	(15.0)	(8.0)
50 basis point decrease	15.0	8.0	15.0	8.0
100 basis point decrease	27.0	15.7	27.0	15.7

c) Price risk

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

Financial assets include fixed and floating securities and hedge funds depending on the group's appetite for risk. The fixed income securities are well diversified across high quality, liquid securities. The price risk associated with these securities is predominantly interest, foreign exchange and credit risk related. The sensitivity to price risk that relates to the group's hedge fund investments is presented below. The investment committee has established comprehensive guidelines with investment managers setting out maximum investment limits, diversification across industries and concentrations in any one industry or company.

Listed investments are recognised in the statement of financial position at quoted bid price. If the market for the investment is not considered to be active, then the group 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.

	Impact on profit after income tax for the year		Impact on net assets	
	2011 $m	2010 $m	2011 $m	2010 $m
Change in fair value of hedge fund portfolios				
30% increase in fair value	101.1	106.1	101.1	106.1
20% increase in fair value	67.4	70.7	67.4	70.7
10% increase in fair value	33.7	35.4	33.7	35.4
10% decrease in fair value	(33.7)	(35.4)	(33.7)	(35.4)
20% decrease in fair value	(67.4)	(70.7)	(67.4)	(70.7)
30% decrease in fair value	(101.1)	(106.1)	(101.1)	(106.1)

2.3 Credit risk
Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the group are:
- Reinsurers – whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the group;
- Brokers and coverholders – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the group;
- Investments – whereby issuer default results in the group losing all or part of the value of a financial instrument and derivative financial instrument; and
- Cash and cash equivalents.

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

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

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

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

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

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

Notes to the financial statements *continued*

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

31 December 2011	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets						
– financial investments	2,855.9	85.2	–	–	411.0	3,352.1
– derivative financial instruments	–	–	–	–	4.7	4.7
Insurance receivables	–	–	–	–	558.7	558.7
Reinsurance assets	1,197.9	–	–	–	–	1,197.9
Other receivables	21.9	–	–	–	–	21.9
Cash and cash equivalents	650.1	–	–	–	–	650.1
Total	**4,725.8**	**85.2**	**–**	**–**	**974.4**	**5,785.4**

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

31 December 2010	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial assets						
– financial investments	2,649.2	15.0	–	–	433.1	3,097.3
– derivative financial instruments	–	–	–	–	–	–
Insurance receivables	–	–	–	–	527.1	527.1
Reinsurance assets	1,034.9	–	–	–	–	1,034.9
Other receivables	33.9	–	–	–	–	33.9
Cash and cash equivalents	745.0	–	–	–	–	745.0
Total	**4,463.0**	**15.0**	**–**	**–**	**960.2**	**5,438.2**

Insurance receivables and other receivables balances held by the group have not been impaired, based on all evidence available, and no impairment provision has been recognised in respect of these assets. An analysis of the overall credit risk exposure indicates that the group has reinsurance assets that are impaired at the reporting date. The total impairment provision made in respect of these assets at 31 December 2011 totals $15.7m (2010: $17.3m).

Insurance receivables in respect of coverholder business are credit controlled by third-party managers. We monitor third party coverholders' performance and their financial processes through the group's coverholder management team. These assets have been individually impaired after considering information such as the occurrence of significant changes in the counterparties' financial position, pattern of historical payment information and disputes with counterparties.

Financial investments falling within the unrated category comprise hedge funds for which there is no readily available market data to allow classification within the respective tiers. Additionally, insurance receivables are classified as unrated in accordance with Lloyd's guidelines.

The group has insurance receivables and reinsurance assets that are past due but not impaired at the reporting date. An aged analysis of these is presented below:

31 December 2011	Up to 30 days past due $m	30-60 days past due $m	60-90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance receivables	12.6	3.6	1.6	3.6	21.4
Reinsurance assets	2.9	1.5	0.5	9.8	14.7

31 December 2010	Up to 30 days past due $m	30-60 days past due $m	60-90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance receivables	10.9	1.9	1.9	2.8	17.5
Reinsurance assets	2.2	3.7	2.9	11.1	19.9

2.4 Liquidity risk

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

The group's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (details of the group's exposure to realistic disaster scenarios (RDS) are provided on page 95). This means that the group 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 group also makes use of loan facilities and borrowings, details of which can be found in note 25. Further information on the group's capital resources is contained on pages 38 and 39. The sources and uses of funds table on page 38 shows the level of surplus capital that the group currently holds. This is the surplus over expected working capital and regulatory capital requirements and represents a buffer that could be used to meet unforeseen costs or take advantage of new opportunities.

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:

31 December 2011	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Life, accident and health	20.8	10.0	1.6	0.4	32.8	1.1
Marine	91.8	86.7	26.1	2.1	206.7	1.5
Political risks and contingency	42.1	51.1	18.1	2.4	113.7	1.8
Property	144.3	100.0	19.7	8.1	272.1	1.4
Reinsurance	119.6	104.1	29.4	3.5	256.6	1.5
Specialty lines	394.3	681.5	403.7	169.1	1,648.6	2.5
Net insurance liabilities	**812.9**	**1,033.4**	**498.6**	**185.6**	**2,530.5**	

* For a breakdown of net claims liabilities refer to note 24.

31 December 2010	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Life, accident and health	18.4	8.6	1.4	0.3	28.7	1.1
Marine	91.6	87.9	26.9	2.1	208.5	1.6
Political risks and contingency	34.9	44.2	20.1	1.8	101.0	1.9
Property	125.6	87.0	16.8	6.8	236.2	1.4
Reinsurance	88.2	80.1	23.3	3.0	194.6	1.5
Specialty lines	376.7	676.7	406.0	170.4	1,629.8	2.5
Net insurance liabilities	**735.4**	**984.5**	**494.5**	**184.4**	**2,398.8**	

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

31 December 2011	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total
Net insurance liabilities	812.9	1,033.4	498.6	185.6	2,530.5
Borrowings	–	–	246.8	18.0	264.8
Other payables	366.0	–	–	–	366.0
Deferred tax liability	–	80.2	–	–	80.2

31 December 2010	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total
Net insurance liabilities	735.4	984.5	494.5	184.4	2,398.8
Borrowings	–	–	–	268.2	268.2
Other payables	285.4	–	–	–	285.4
Deferred tax liability	–	91.0	–	–	91.0

Notes to the financial statements *continued*

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

Maturity 31 December 2011	<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	1,470.3	443.9	373.3	248.0	206.8	198.8	–	2,941.1
Derivative financial instruments	2.7	–	0.1	(0.1)	–	(0.1)	–	2.6
Cash and cash equivalents	650.1	–	–	–	–	–	–	650.1
Other receivables	21.9	–	–	–	–	–	–	21.9
Other payables	(366.0)	–	–	–	–	–	–	(366.0)
Borrowings	–	–	–	–	(246.8)	–	(18.0)	(264.8)
Total	**1,779.0**	**443.9**	**373.4**	**247.9**	**(40.0)**	**198.7**	**(18.0)**	**2,984.9**

31 December 2010	<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	1,553.1	470.9	206.7	220.6	140.4	58.2	14.3	2,664.2
Cash and cash equivalents	745.0	–	–	–	–	–	–	745.0
Other receivables	33.9	–	–	–	–	–	–	33.9
Other payables	(285.4)	–	–	–	–	–	–	(285.4)
Borrowings	–	–	–	–	–	(250.2)	(18.0)	(268.2)
Total	**2,046.6**	**470.9**	**206.7**	**220.6**	**140.4**	**(192.0)**	**(3.7)**	**2,889.5**

Borrowings include tier 2 subordinated debt that are due in October 2026 with a first call at the group's option on October 2016. If the debt is settled when due in October 2026 the maturity date of the debt falls within the >10 yrs category. If the debt is called in October 2016, the maturity date of the debt falls within the 4-5 yrs category.

The group makes additional interest payments for borrowings. Further details are provided in notes 8 and 25..

2.5 Operational risk

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

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

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

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

Key components of the group's operational control environment include:
- ICA modelling of operational risk exposure and scenario testing;
- Management review of activities;
- Documentation of policies and procedures;
- Preventative and detective controls within key processes;
- Contingency planning; and
- Other systems controls.

Capital management
The group follows a risk-based approach to determine the amount of capital required to support its activities. Recognised stochastic modelling techniques are used to measure risk exposures, and capital to support business activities is allocated according to risk profile. Stress and scenario analysis is regularly performed and the results are documented and reconciled to the board's risk appetite where necessary.

The group has several requirements for capital, including:
- To support underwriting at Lloyd's through the syndicates in which it participates, being 2623, 3623 and 3622. This is based on the group's own individual capital assessment. This may be provided in the form of either the group's cash and investments or debt facilities;
- To support underwriting in Beazley Insurance Company, Inc. in the US; and
- To make acquisitions of insurance companies or MGAs whose strategic goals are aligned with our own.

The capital structure section of the financial review on pages 38 to 39 provide further background to the group's management of capital.

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

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

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

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

2.8 Strategic risk
This is the risk that the group's strategy is inappropriate or that the group is unable to implement its strategy. There is limited appetite for any breach of guidance issued by the board, and where events supersede the group's strategic plan this is escalated at the earliest opportunity through the group's monitoring tools and governance structure.

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

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

Notes to the financial statements *continued*

3 Segmental analysis

a) Reporting segments

Segment information is presented in respect of reportable segments. These are based on the group's management and internal reporting structures and represent the level at which financial information is reported to the Board, being the chief operating decision-maker as defined in IFRS 8.

Previously we reported the IFRS non-monetary items adjustment in respect of unearned premium and deferred acquisition costs in the unallocated column of the segmental analysis as we believed this adjustment was subject to significant volatility and could distort our reported segmental results. This volatility was driven by the majority of our business being US dollar denominated when our functional currency was sterling. Since we changed the functional currency of the group's principal operating entities to the US dollar on 1 April 2010 the volatility and materiality of this adjustment has significantly reduced and as such we now allocate the IFRS non-monetary items adjustment between our business segments. The 2010 segmental analyses have been restated on this basis. The remaining item disclosed in the unallocated column is in respect of a $33.7m non-recurring foreign exchange gain the details of which are disclosed in our 31 December 2010 report and accounts. Accordingly, all subsequent segmental analyses will not contain an unallocated column.

The operating segments are based upon the different types of insurance risk underwritten by the group as described below:

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

Marine
This segment underwrites a broad spectrum of marine classes including hull, energy, cargo and specie and war risks.

Political risks and 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 engineering property insurance on a worldwide basis.

Reinsurance
This division specialises in writing property catastrophe, property per risk, aggregate excess of loss and pro-rata business.

Specialty lines
This segment mainly underwrites professional lines, employment practices liability, specialty liability, directors' and officers' liability and healthcare.

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 between each other. There are no individual policyholders who comprise greater than 10% of the group's total gross premiums written.

b) Segment information

2011	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Segment results							
Gross premiums written	86.9	274.2	102.5	359.4	178.3	711.2	1,712.5
Net premiums written	80.3	245.1	85.2	273.9	130.4	559.1	1,374.0
Net earned premiums	74.0	231.7	84.3	283.7	131.7	579.6	1,385.0
Net investment income	1.3	3.4	2.0	5.7	4.0	22.9	39.3
Other income	1.6	2.4	1.2	11.0	0.7	11.2	28.1
Revenue	**76.9**	**237.5**	**87.5**	**300.4**	**136.4**	**613.7**	**1,452.4**
Net insurance claims	35.6	82.6	35.4	179.0	171.7	346.2	850.5
Expenses for the acquisition of insurance contracts	21.2	66.5	22.6	104.4	25.6	150.4	390.7
Administrative expenses	13.4	18.4	8.6	25.6	10.0	50.6	126.6
Foreign exchange loss	0.2	0.7	0.2	0.9	0.4	1.7	4.1
Expenses	**70.4**	**168.2**	**66.8**	**309.9**	**207.7**	**548.9**	**1,371.9**
Share of loss of associate	–	–	–	–	–	(1.0)	(1.0)
Segment result	**6.5**	**69.3**	**20.7**	**(9.5)**	**(71.3)**	**63.8**	**79.5**
Finance costs							(16.8)
Profit before income tax							**62.7**
Income tax credit							3.1
Profit for the year attributable to equity shareholders							**65.8**
Claims ratio	48%	36%	42%	63%	130%	60%	62%
Expense ratio	47%	36%	37%	46%	27%	34%	37%
Combined ratio	95%	72%	79%	109%	157%	94%	99%
Segment assets and liabilities							
Segment assets	200.3	949.8	729.8	965.8	365.9	2,907.1	6,118.7
Segment liabilities	(140.8)	(636.8)	(608.8)	(859.9)	(327.2)	(2,474.2)	(5,047.7)
Net assets	**59.5**	**313.0**	**121.0**	**105.9**	**38.7**	**432.9**	**1,071.0**
Additional information							
Capital expenditure	0.7	1.4	0.5	3.4	1.1	6.4	13.5
Amortisation & depreciation	0.8	0.9	0.8	2.5	0.5	9.4	14.9
Net cash flow	(5.0)	(22.9)	(9.5)	(11.2)	(10.9)	(35.4)	(94.9)

Notes to the financial statements *continued*

2010	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total reportable segments $m	Unallocated $m	Total $m
Segment results									
Gross premiums written	78.1	261.7	100.9	382.5	174.4	744.0	1,741.6	–	1,741.6
Net premiums written	71.4	235.6	79.9	283.8	134.4	597.0	1,402.1	–	1,402.1
Net earned premiums	65.7	233.9	87.4	285.9	131.6	600.7	1,405.2	–	1,405.2
Net investment income	0.9	3.3	2.2	4.9	2.9	23.3	37.5	–	37.5
Other income	2.0	3.1	1.3	10.3	2.3	9.1	28.1	–	28.1
Revenue	68.6	240.3	90.9	301.1	136.8	633.1	1,470.8	–	**1,470.8**
Net insurance claims	35.1	89.6	25.1	140.6	82.9	364.9	738.2	–	738.2
Expenses for the acquisition of insurance contracts	19.7	58.9	23.7	106.1	24.7	148.3	381.4	–	381.4
Administrative expenses	9.3	17.2	7.8	31.4	10.6	42.9	119.2	–	119.2
Non-recurring foreign exchange gain	–	–	–	–	–	–	–	(33.7)	(33.7)
Foreign exchange gain	–	–	(0.1)	(0.3)	(0.2)	(0.3)	(0.9)	–	(0.9)
Expenses	**64.1**	**165.7**	**56.5**	**277.8**	**118.0**	**555.8**	**1,237.9**	**(33.7)**	**1,204.2**
Share of loss of associate	–	–	–	–	–	(0.9)	(0.9)	–	(0.9)
Segment result	**4.5**	**74.6**	**34.4**	**23.3**	**18.8**	**76.4**	**232.0**	**33.7**	**265.7**
Finance costs									(14.9)
Profit before income tax									**250.8**
Income tax expense									(33.8)
Profit for the year attributable to equity shareholders									**217.0**
Claims ratio	53%	38%	29%	49%	63%	61%			52%
Expense ratio	44%	33%	36%	48%	27%	32%			36%
Combined ratio	97%	71%	65%	97%	90%	93%			88%
Segment assets and liabilities									
Segment assets	180.6	860.2	692.7	921.7	323.1	2,768.5	5,746.8	27.5	5,774.3
Segment liabilities	(124.8)	(605.6)	(587.3)	(796.9)	(201.8)	(2,375.0)	(4,691.4)	–	(4,691.4)
Net assets	**55.8**	**254.6**	**105.4**	**124.8**	**121.3**	**393.5**	**1,055.4**	**27.5**	**1,082.9**
Additional information									
Capital expenditure	0.2	0.7	0.4	1.9	0.5	6.4	10.1	–	10.1
Amortisation & depreciation	0.1	0.2	0.3	1.8	0.3	5.0	7.7	–	7.7
Net cash flow	(3.8)	(15.0)	(6.0)	(8.5)	(8.8)	(26.3)	(68.4)	–	(68.4)

c) Information about geographical areas

The group's operating segments are also managed geographically by placement of risk. UK earned premium in the analysis below represents all risks placed at Lloyd's and US earned premium represents all risks placed at the group's US insurance company, Beazley Insurance Company Inc. An analysis of earned premium split geographically by placement of risk and by reportable segment is provided in note 2 on page 95.

	2011 $m	2010 $m
Net earned premiums		
UK (Lloyd's)	1,356.1	1,369.4
US (Non-Lloyd's)	28.9	35.8
	1,385.0	**1,405.2**

	2011 $m	2010 $m
Segment assets		
UK (Lloyd's)	5,821.2	5,468.5
US (Non-Lloyd's)	297.5	305.8
	6,118.7	**5,774.3**

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

	2011 $m	2010 $m
Capital expenditure		
UK (Lloyd's)	12.7	8.1
US (Non-Lloyd's)	0.8	2.0
	13.5	**10.1**

4 Net investment income

	2011 $m	2010 $m
Interest and dividends on financial investments at fair value through income statement	64.8	60.2
Realised losses on financial investments at fair value through income statement	(22.0)	(19.3)
Net unrealised fair value gains on financial investments at fair value through the income statement	10.0	6.2
Investment income from financial investments	**52.8**	**47.1**
Fair value loss on derivative financial instruments	(3.7)	–
Investment income	**49.1**	**47.1**
Investment management expenses	(9.8)	(9.6)
	39.3	**37.5**

Notes to the financial statements *continued*

5 Other income

	2011 $m	2010 $m
Commissions received	19.2	15.4
Profit commissions	5.0	10.5
Agency fees	2.1	1.8
Other income	1.8	0.4
	28.1	**28.1**

6 Operating expenses

	2011 $m	2010 $m
Fees payable to the company's auditor for the audit of the group's annual accounts	0.5	0.4
Fees payable to the company's auditor and its associates for other services:		
– Audit of the company's subsidiaries	0.6	0.6
– Tax services	–	0.1
– Actuarial services	0.2	0.2
– Other services	–	0.3
Operating leases	7.5	9.4

7 Employee benefit expenses

	2011 $m	2010 $m
Wages and salaries	93.8	83.9
Short-term incentive payments	28.7	34.0
Social security	9.3	8.5
Share-based remuneration	10.6	9.3
Pension costs*	6.1	6.1
	148.5	141.8
Recharged to syndicate 623	(16.1)	(14.4)
	132.4	**127.4**

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

8 Finance costs

	2011 $m	2010 $m
Interest expense	15.8	13.0
Other finance costs	1.0	1.9
	16.8	**14.9**

9 Income tax expense

	2011 $m	2010 $m
Current tax expense		
Current year	8.4	23.4
Prior year adjustments	(0.5)	(44.9)
	7.9	(21.5)
Deferred tax expense		
Origination and reversal of temporary differences	(1.3)	11.5
Prior year adjustments	(9.7)	43.8
	(11.0)	55.3
Income tax expense	**(3.1)**	**33.8**

	2011	2010
Profit before tax	**62.7**	**250.8**
Tax calculated at Irish rate	7.8	31.4
Rates applied	12.5%	12.5%
Effects of:		
– Tax rates in foreign jurisdictions	0.7	7.8
– Non-deductible expenses	(0.1)	0.7
– Tax relief on share based payments – current and future years	(0.3)	0.7
– Under/(over) provided in prior years	(2.8)	(1.2)
– Change in UK tax rates*	(7.5)	(3.4)
– Foreign exchange on tax	(0.9)	(2.2)
Tax charge for the period	**(3.1)**	**33.8**

The weighted average applicable tax rate was 13.0% (2010: 12.5%).

*The emergency budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of four years from 2011. It is now expected that the UK corporation tax rate will be reduced to 23% by the end of this four year period. The rate was reduced to 26% with effect from 1 April 2011 and has been further reduced to 25% with effect from 1 April 2012. Accordingly, this rate reduction to 25% has been reflected in the deferred tax liability which forms part of the statement of financial position.

10 Earnings per share

	2011	2010
Basic (cents)	13.0c	42.1c
Diluted (cents)	12.4c	40.2c
Basic (pence)	8.1p	27.4p
Diluted (pence)	7.7p	26.1p

Basic

Basic earnings per share are calculated by dividing profit after tax of $65.8m (2010: $217.0m) by the weighted average number of shares in issue during the year of 505.4m (2010: 515.1m). The shares held in the Employee Share Options Plan (ESOP) of 12.6m (2010: 11.3m) have been excluded from the calculation, until such time as they vest unconditionally with the employees. The weighted average number of treasury shares of 17.4m (2010: 8.2m) have been excluded from the calculation.

Diluted

Diluted earnings per share are calculated by dividing profit after tax of $65.8m (2010: $217.0m) by the adjusted weighted average number of shares of 530.4m (2010: 540.2m). The adjusted weighted average number of shares assumes conversion of dilutive potential ordinary shares, being shares from the SAYE, retention and deferred share schemes. The shares held in the ESOP of 12.6m (2010: 11.3m) have been excluded from the calculation, until such time as they vest unconditionally with the employees. The weighted average number of treasury shares of 17.4m (2010: 8.2m) have been excluded from the calculation.

Notes to the financial statements *continued*

11 Dividends per share

A second interim dividend of 5.4p per ordinary share (2010: 7.6p, including a special dividend of 2.5p) will be payable on 30 March 2012 to shareholders registered at 5.00pm on 2 March 2012 in respect of the six months ended 31 December 2011. These financial statements do not provide for the second interim dividend as a liability.

Together with the interim dividend of 2.5p (2010: 2.4p) this gives a total dividend for the year of 7.9p (2010: 10.0p, including a special dividend of 2.5p).

The second interim dividend will be payable on 30 March 2012 to shareholders registered at 5.00pm on 2 March 2012 (save to the extent that shareholders on the register of members on 2 March 2012 are to be paid a dividend by a subsidiary of the company (being Beazley DAS Limited) resident for tax purposes in the United Kingdom pursuant to elections made or deemed to have been made and such shareholders shall have no right to this second interim dividend).

12 Intangible assets

	Goodwill $m	Syndicate capacity $m	Licences $m	IT development costs $m	Renewal rights $m	Total $m
Cost						
Balance at 1 January 2010	77.1	9.7	9.3	29.3	–	125.4
Other additions	–	0.2	–	7.9	–	8.1
Foreign exchange loss	–	(0.5)	–	(1.1)	–	(1.6)
Balance at 31 December 2010	**77.1**	**9.4**	**9.3**	**36.1**	–	**131.9**
Balance at 1 January 2011	77.1	9.4	9.3	36.1	–	131.9
Acquired through business combinations	10.3	–	–	–	10.3	20.6
Other additions	–	1.4	–	11.1	–	12.5
Disposals	(8.6)	–	–	–	–	(8.6)
Transfers	(6.7)	–	–	–	6.7	–
Foreign exchange gain/(loss)	0.2	–	–	(0.3)	–	(0.1)
Balance at 31 December 2011	**72.3**	**10.8**	**9.3**	**46.9**	**17.0**	**156.3**
Amortisation						
Balance at 1 January 2010	–	–	–	(11.9)	–	(11.9)
Amortisation for the year	–	–	–	(3.5)	–	(3.5)
Foreign exchange gain	–	–	–	0.5	–	0.5
Balance at 31 December 2010	**–**	**–**	**–**	**(14.9)**	–	**(14.9)**
Balance at 1 January 2011	–	–	–	(14.9)	–	(14.9)
Amortisation for the year	–	–	–	(10.4)	(0.7)	(11.1)
Foreign exchange gain	–	–	–	0.4	–	0.4
Balance at 31 December 2011	**–**	**–**	**–**	**(24.9)**	**(0.7)**	**(25.6)**
Carrying amount						
31 December 2011	**72.3**	**10.8**	**9.3**	**22.0**	**16.3**	**130.7**
31 December 2010	77.1	9.4	9.3	21.2	–	117.0

During 2011 we disposed of a business unit for $8.6m. As part of this sale agreement we secured the renewal rights for this business for five years.

Impairment tests

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

2011	Life, accident and health $m	Marine $m	Political risks and contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Goodwill	39.5	2.3	1.0	24.3	0.8	4.4	72.3
Capacity	0.3	1.7	0.8	2.5	0.7	4.8	10.8
Licences	–	–	–	1.9	–	7.4	9.3
Total	**39.8**	**4.0**	**1.8**	**28.7**	**1.5**	**16.6**	**92.4**

2010	Life, accident and health $m	Marine $m	Political risks and contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Goodwill	29.1	2.3	1.0	24.2	0.8	19.7	77.1
Capacity	0.2	1.5	0.7	2.2	0.6	4.2	9.4
Licences	–	–	–	1.9	–	7.4	9.3
Total	**29.3**	**3.8**	**1.7**	**28.3**	**1.4**	**31.3**	**95.8**

When testing for impairment, the recoverable amount of a CGU is determined based on value in use. Value in use is calculated using projected cash flows based on financial budgets approved by management covering a five-year period taking into account historic growth rates and expected future market conditions. A discount rate of 9% (2010: 10%) has been used to discount the projected cash flows. The same discount rate has been applied to all operating segments as these segments all undertake underwriting activities supported by the same capital base. The discount rate of 9% (2010: 10%) is the group's weighted average cost of capital. It has been calculated using independent measures of the risk-free rate of return and the group's risk profile relative to the risk-free and market rates of return and as such is considered representative of the rate appropriate to the risk specific to the CGU.

The impairment tests have been performed assuming the group's operating segments are the cash-generating units to which the intangible assets have been allocated. The tests indicate that there is significant headroom in respect of the value in use of all the group's intangible assets and it is not expected that any realistic change in market conditions would give rise to an impairment.

Notes to the financial statements *continued*

13 Plant and equipment

	Company Fixtures & fittings $m	Fixtures & fittings $m	Group Computer equipment $m	Total $m
Cost				
Balance at 1 January 2010	0.5	18.4	7.7	26.1
Additions	–	1.5	0.5	2.0
Disposals	–	(1.0)	(0.1)	(1.1)
Transfer of assets from group companies	1.6	–	–	–
Foreign exchange loss	–	(0.6)	(0.2)	(0.8)
Balance at 31 December 2010	**2.1**	**18.3**	**7.9**	**26.2**
Balance at 1 January 2011	**2.1**	**18.3**	**7.9**	**26.2**
Additions	–	0.7	0.3	1.0
Additions from business combinations	–	0.5	–	0.5
Disposals	–	–	(0.3)	(0.3)
Foreign exchange loss	–	–	–	–
Balance at 31 December 2011	**2.1**	**19.5**	**7.9**	**27.4**
Accumulated depreciation				
Balance at 1 January 2010	–	(8.5)	(5.2)	(13.7)
Depreciation charge for the year	(0.4)	(2.6)	(1.6)	(4.2)
Disposals	–	0.7	0.1	0.8
Foreign exchange gain	–	0.2	0.3	0.5
Balance at 31 December 2010	**(0.4)**	**(10.2)**	**(6.4)**	**(16.6)**
Balance at 1 January 2011	**(0.4)**	**(10.2)**	**(6.4)**	**(16.6)**
Depreciation charge for the year	(0.3)	(2.6)	(1.2)	(3.8)
Additions from business combinations	–	(0.2)	–	(0.2)
Disposals	–	–	0.3	0.3
Foreign exchange gain	–	–	–	–
Balance at 31 December 2011	**(0.7)**	**(13.0)**	**(7.3)**	**(20.3)**
Carrying amounts				
31 December 2011	**1.4**	**6.5**	**0.6**	**7.1**
31 December 2010	1.7	8.1	1.5	9.6

14 Investment in associates

	2011 $m	2010 $m
As at 1 January	**6.5**	**1.4**
Acquisition of associate	–	6.0
Additional investment in Capson Corp., Inc.	3.4	–
Share of loss after tax	(1.0)	(0.9)
As at 31 December	**8.9**	**6.5**

The group's investment in associates consists of:

	Country of incorporation	% interest held	Carrying value $m
2011			
Falcon Money Management Holdings Limited (and subsidiaries)	Malta	25	1.4
Capson Corp., Inc. (and subsidiary)	USA	31	7.5
			8.9

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

	2011 $m	2010 $m
Assets	22.4	16.3
Liabilities	5.9	5.7
Equity	16.5	10.6
Revenue	7.8	6.2
Loss after tax	(3.4)	(3.4)

All of the investments in associates are unlisted and are equity accounted using financial information as at 31 December 2011.

15 Deferred acquisition costs

	2011 $m	2010 $m
Balance at 1 January	164.0	155.5
Additions	386.4	389.9
Amortisation charge	(390.7)	(381.4)
Balance at 31 December	**159.7**	**164.0**

16 Financial assets and liabilities

	2011 $m	2010 $m
Financial assets at fair value		
Hedge funds	411.0	433.1
Debt securities		
– Fixed rate	2,444.5	2,208.4
– Floating rate	496.6	455.8
Total financial investments at fair value through income statement	**3,352.1**	**3,097.3**
Derivative financial instruments	4.7	–
Total financial assets at fair value	**3,356.8**	**3,097.3**
Current	1,886.0	1,993.7
Non-current	1,470.8	1,103.6
	3,356.8	**3,097.3**
Financial liabilities		
Subordinated debt	18.0	18.0
Tier 2 subordinated debt	246.8	250.2
Derivative financial instruments	2.1	–
Total financial liabilities	**266.9**	**268.2**
Current	4.4	2.4
Non-current	262.5	265.8
	266.9	**268.2**

A breakdown of the group's investment portfolio is provided on page 35.
A breakdown of derivative financial instruments is disclosed in note 17.

As noted on page 90 consideration is also given when valuing the hedge funds to any restriction applied to distributions, the existence of side pocket provisions and the timing of the latest valuations. The adjustment to the underlying net asset value of the funds as a result of these considerations was $nil at 31 December 2011 (2010: $nil).

The group has given a fixed and floating charge over certain of its investments and other assets to secure obligations to Lloyd's in respect of its corporate member subsidiary. Further details are provided in note 32.

Notes to the financial statements *continued*

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 major G8 government and government agencies.

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 (eg interest rates, exchange rates). Included within Level 2 are non-G8 government bonds and treasury bills, 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 on which to measure fair value.

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

Included within Level 3 are investments in capital growth assets such as hedge funds.

The majority of the group's investments are valued based on quoted market information or other observable market data. Hedge funds that comprise 12.2% of financial assets and are recorded at fair value are based on estimates and recorded as Level 3 investments. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible. While such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.

The table below analyses financial instruments measured at fair value at 31 December 2011 and 31 December 2010, based on the level in the fair value hierarchy at which the financial instrument is categorised:

2011	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets				
Fixed rate securities	1,334.2	1,110.3	–	2,444.5
Floating rate securities	35.5	461.1	–	496.6
Hedge funds	–	–	411.0	411.0
Derivative financial instruments	0.1	4.6	–	4.7
Total financial assets at fair value	1,369.8	1,576.0	411.0	3,356.8
Financial liabilities				
Derivative financial instruments	0.3	1.8	–	2.1

2010	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets				
Fixed rate securities	1,208.7	999.7	–	2,208.4
Floating rate securities	54.0	401.8	–	455.8
Hedge funds	–	–	433.1	433.1
Derivative financial instruments	–	–	–	–
Total financial assets at fair value	1,262.7	1,401.5	433.1	3,097.3
Financial liabilities				
Derivative financial instruments	–	–	–	–

The table below shows the movement in Level 3 assets during 2011 and 2010:

	2011 $m	2010 $m
Level 3 balance at 1 January	433.1	268.8
Purchases	84.6	213.8
Settlements	(100.9)	(70.0)
Fair value (loss)/gain reflected in the income statement	(5.8)	20.5
Level 3 balance at 31 December	**411.0**	**433.1**

There were no transfers from fair value hierarchies one and two to three and vice-versa during the year. Refer to price sensitivity note 2 for the impact of changes in value of these assets on reported profits and net assets.

The value of the investments in the Level 3 category are sensitive to changes in fair value of assets within the underlying hedge funds. This relationship is such that, for example, a 10% reduction in the fair value of hedge fund investments will result in a 10% fall in value of the Level 3 balance.

The above qualitative and quantitative disclosure along with the risk management discussions in note 2 enables more accurate evaluation of Beazley's exposure to risks arising from financial instruments.

17 Derivative financial instruments

In 2011 the group entered into both exchange-traded and over-the-counter derivative contracts. The group had the right and the intention to settle each contract on a net basis.

The assets and liabilities of these contracts at 31 December 2011 are detailed below:

2011 **Derivative financial instrument assets**	Gross contract amount $m	Fair value of assets $m
Short-term interest rate future contracts	35.4	0.1
Foreign exchange swaps	80.1	4.3
Foreign exchange forward contracts	69.0	0.3
	184.5	**4.7**

2011 **Derivative financial instrument liabilities**	Gross contract amount $m	Fair value of liabilities $m
Foreign exchange swaps	16.3	1.2
Bond future contracts	24.4	0.3
Foreign exchange forward contracts	95.0	0.6
	135.7	**2.1**

Short-term interest rate future contracts

During the year the group entered into short-term interest rate futures trades to manage the investment portfolio duration. The trades were executed in order to economically hedge the interest rate duration exposure of certain fixed income securities or resulted from cash flows expected to be paid or received in the near future.

Foreign exchange swaps

During the year the group entered into over-the-counter FX swaps agreements in order to hedge the foreign currency exposure resulting from investment portfolio holdings denominated in non-base currency.

Foreign exchange forward contracts

During the year the group entered into over-the-counter FX forward agreements in order to hedge the foreign currency exposure resulting from investment portfolio holdings denominated in non-base currency.

Bond future contracts

During the year the group entered in bond futures trades to manage the investment portfolio duration. The vast majority of the trades were executed in order to partially hedge the duration of fixed income securities held at the same time. Occasionally, bond futures contracts were traded in order to gain interest rate duration exposure to certain areas of the yield curve.

Notes to the financial statements *continued*

In 2010 the group entered into a number of long and short exchange-traded interest rate futures contracts denominated in a range of currencies to manage the interest rate duration of the investment portfolio. The gross notional amount entered into was $375.6m and the fair value was settled daily in cash by way of margin accounts.

18 Insurance receivables

	2011 $m	2010 $m
Insurance receivables	558.7	527.1
	558.7	**527.1**

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

19 Reinsurance assets

	2011 $m	2010 $m
Reinsurers' share of claims	1,011.4	841.1
Impairment provision	(15.7)	(17.3)
	995.7	823.8
Reinsurers' share of unearned premium reserve	202.2	211.1
	1,197.9	**1,034.9**

Further analysis of the reinsurance assets is provided in note 24.

20 Cash and cash equivalents

Group	2011 $m	2010 $m
Cash at bank and in hand	212.4	272.1
Short-term deposits and highly liquid investments	206.8	278.4
Overseas deposits	230.9	194.5
	650.1	745.0

Company	2011 $m	2010 $m
Cash in bank and in hand	2.5	4.0
	2.5	4.0

Cash and cash equivalents at 31 December 2010 has been reduced from $1,264.7m to $745.0m due to the reclassification of $519.7m of short-term investments into financial assets. While the reclassified investments are all highly liquid instruments and have a maturity date of three months or less from the 31 December 2010 reporting date, they were purchased at various dates during that financial year. This reclassification has been made so as to better reflect the requirements of IAS 7 and our accounting policy as described on page 92. The reclassification increases financial assets as at 31 December 2010 to $3,097.3m. All notes relating to these captions in the statement of financial position at 31 December 2010 have been updated.

In the statement of cash flows, the 2010 comparatives have been revised to reduce the closing cash and cash equivalents balance and increase the purchase of investments by $519.7m. This decreases the net cash used in investing activities from $321.0m to ($198.7m).

Cash and cash equivalents and financial assets as at 31 December 2009 were appropriately stated. The reclassification has no impact on the consolidated assets, net assets or profits as previously reported.

21 Share capital

	2011 No. of shares (m)	2011 $m	2010 No. of shares (m)	2010 $m
Ordinary shares of 5p each				
Authorised	700.0	55.8	700.0	55.8
Issued and fully paid	535.9	42.8	534.9	42.7
Balance at 1 January	**534.9**	**42.7**	**533.8**	**42.6**
Issue of shares	**1.0**	**0.1**	1.1	0.1
Balance at 31 December	**535.9**	**42.8**	**534.9**	**42.7**

22 Other reserves

	Merger reserve	Treasury shares	Employee share options reserve	Employee share trust reserve	Total
Group					
Balance at 1 January 2010	**1.7**	–	**4.9**	**(32.5)**	**(25.9)**
Share based payments	–	–	9.1	–	9.1
Acquisition of own shares held in trust	–	–	–	(6.5)	(6.5)
Purchase of treasury shares	–	(28.9)	–	–	(28.9)
Transfer of shares to employees	–	–	(8.0)	8.0	–
Balance at 31 December 2010	**1.7**	**(28.9)**	**6.0**	**(31.0)**	**(52.2)**
Share based payments	–	–	9.3	–	9.3
Acquisition of own shares held in trust	–	–	–	(6.0)	(6.0)
Purchase of treasury shares	–	(1.2)	–	–	(1.2)
Transfer of shares to employees	–	–	(8.1)	8.1	–
Balance at 31 December 2011	**1.7**	**(30.1)**	**7.2**	**(28.9)**	**(50.1)**

	Merger reserve	Treasury shares reserve	Employee share options reserve	Employee share trust reserve	Total
Company					
Balance at 1 January 2010	**(35.4)**	**–**	**(1.8)**	**2.1**	**(35.1)**
Share based payments	–	–	9.1	–	9.1
Acquisition of own shares held in trust	–	–	–	(6.5)	(6.5)
Purchase of treasury shares	–	(28.9)	–	–	(28.9)
Transfer of shares to employees	–	–	(8.0)	8.0	–
Balance at 31 December 2010	**(35.4)**	**(28.9)**	**(0.7)**	**3.6**	**(61.4)**
Share based payments	–	–	9.3	–	9.3
Acquisition of own shares held in trust	–	–	–	(6.0)	(6.0)
Purchase of treasury shares	–	(1.2)	–	–	(1.2)
Transfer of shares to employees	–	–	(8.1)	8.1	–
Balance at 31 December 2011	**(35.4)**	**(30.1)**	**0.5**	**5.7**	**(59.3)**

Notes to the financial statements *continued*

23 Equity compensation plans

23.1 Employee share trust

	2011		2010	
	Number (m)	$m	Number (m)	$m
Costs debited to employee share trust reserve				
Balance at 1 January	13.5	31.0	14.2	32.5
Additions	3.2	6.0	3.6	6.5
Transfer of shares to employees	(4.2)	(8.1)	(4.3)	(8.0)
Balance at 31 December	**12.5**	**28.9**	**13.5**	**31.0**

The shares are owned by the employee share trust to satisfy awards under the group's deferred share plan and retention plan. These shares are purchased on the market and carried at cost.

On the third anniversary of an award the shares under the deferred share plan are transferred from the trust to the employees. Under the retention plan, on the third anniversary, and each year after that, 25.0% of the shares awarded are transferred to the employees.

The deferred share plan is recognised in the income statement on a straight-line basis over a period of three years, while the retention share plan is recognised in the income statement on a straight-line basis over a period of six years.

23.2 Employee share option plans

The group has a long-term incentive plan (LTIP), approved share option plan and SAYE that entitle employees to purchase shares in the group. In accordance with these plans, options are exercisable at the market price of the shares at the date of the grant.

The terms and conditions of the grants are as follows:

Share option plan	Grant date	No. of options (m)	Vesting conditions	Contractual life of options
LTIP	14/02/2011	2.6	Five years service + NAV +	10 years
	18/02/2010	2.9	minimum shareholding requirement	
LTIP	14/02/2011	2.6	Three years service + NAV +	10 years
	18/02/2010	2.9	minimum shareholding requirement	
LTIP	21/03/2005	0.1	Three years service + NAV +	10 years
	21/03/2006	0.1	TSR comparator	
	16/02/2009	1.0		
	27/04/2009	0.1		
Approved share option plan	29/03/2004	0.1	Three years service + NAV	10 years
SAYE (UK)	01/07/2009	1.3	Three years service	N/A
	12/04/2010	0.4		
	11/04/2011	0.4		
SAYE (US)	15/05/2010	0.1	Two years service	N/A
	11/04/2011	0.2		
Total share options outstanding		**14.8**		

Vesting conditions

In summary the vesting conditions are defined as:

Two years service	An employee has to remain in employment until the second anniversary from the grant date.
Three years service	An employee has to remain in employment until the third anniversary from the grant date.
NAV	The NAV growth, after adjusting for the effect of dividends, is greater than the risk-free rate of return plus a premium per year.
TSR comparator	The group's TSR growth is compared with that of members of the comparator group over a three-year period starting with the year in which the award is made.

Further details of equity compensation plans can be found in the directors' remuneration report on pages 57 to 72.
The number and weighted average exercise prices of share options are as follows:

	2011		2010	
	Weighted average exercise price (pence per share)	No. of options (m)	Weighted average exercise price (pence per share)	No. of options (m)
Outstanding at 1 January	17.1	12.5	37.6	6.4
Forfeited during the year	10.4	(3.2)	32.3	(0.8)
Exercised during the year	28.6	(1.0)	33.3	(1.1)
Granted during the year	8.8	6.5	7.5	8.0
Outstanding at 31 December	**14.0**	**14.8**	**17.1**	**12.5**
Exercisable at 31 December	–	0.3	–	0.4

The share option programme allows group employees to acquire shares of the company. The fair value of options granted is recognised as an employee expense with a corresponding increase in the employee share options reserve. The fair value of the options granted is measured at grant date and spread over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except where forfeiture is due to the share option achieving the vesting conditions.

The following is a summary of the assumptions used to calculate the fair value:

	2011 $m	2010 $m
Share options charge to income statement	**9.3**	**9.1**
Weighted average share price (pence per option)	116.0	102.5
Weighted average exercise price (pence per option)	14.0	12.4
Weighted average expected life of options	5.7yrs	5.4yrs
Expected volatility	25.0%	25.0%
Expected dividend yield	4.0%	4.0%
Average risk-free interest rate	4.0%	4.1%

The expected volatility is based on historic volatility over a period of at least two years.

24 Insurance liabilities and reinsurance assets

	2011 $m	2010 $m
Gross		
Claims reported and loss adjustment expenses	1,085.6	818.5
Claims incurred but not reported	2,440.6	2,404.1
Gross claims liabilities	3,526.2	3,222.6
Unearned premiums	808.4	824.2
Total insurance liabilities, gross	**4,334.6**	**4,046.8**
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	252.4	202.4
Claims incurred but not reported	743.3	621.4
Reinsurers share of claims liabilities	995.7	823.8
Unearned premiums	202.2	211.1
Total reinsurers' share of insurance liabilities	**1,197.9**	**1,034.9**

Notes to the financial statements *continued*

	2011 $m	2010 $m
Net		
Claims reported and loss adjustment expenses	833.2	616.1
Claims incurred but not reported	1,697.3	1,782.7
Net claims liabilities	2,530.5	2,398.8
Unearned premiums	606.2	613.1
Total insurance liabilities, net	**3,136.7**	**3,011.9**

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

24.1 Movements in insurance liabilities and reinsurance assets

a) Claims and loss adjustment expenses

	2011			2010		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
Claims reported and loss adjustment expenses	818.5	(202.4)	616.1	888.7	(255.3)	633.4
Claims incurred but not reported	2,404.1	(621.4)	1,782.7	2,258.3	(640.9)	1,617.4
Balance at 1 January	**3,222.6**	**(823.8)**	**2,398.8**	**3,147.0**	**(896.2)**	**2,250.8**
Claims paid	(871.7)	188.8	(682.9)	(702.4)	161.3	(541.1)
Increase in claims						
– Arising from current year claims	1,386.4	(349.4)	1,037.0	1,091.6	(208.8)	882.8
– Arising from prior year claims	(217.5)	31.0	(186.5)	(231.0)	86.4	(144.6)
– Reinsurance to close	–	–	–	–	–	–
Net exchange differences	6.4	(42.3)	(35.9)	(82.6)	33.5	(49.1)
Balance at 31 December	**3,526.2**	**(995.7)**	**2,530.5**	**3,222.6**	**(823.8)**	**2,398.8**
Claims reported and loss adjustment expenses	1,085.6	(252.4)	833.2	818.5	(202.4)	616.1
Claims incurred but not reported	2,440.6	(743.3)	1,697.3	2,404.1	(621.4)	1,782.7
Balance at 31 December	**3,526.2**	**(995.7)**	**2,530.5**	**3,222.6**	**(823.8)**	**2,398.8**

b) Unearned premiums reserve

	2011			2010		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
Balance at 1 January	**824.2**	**(211.1)**	**613.1**	**876.7**	**(259.9)**	**616.8**
Increase in the year	1,712.5	(338.5)	1,374.0	1,741.6	(339.5)	1,402.1
Release in the year	(1,728.3)	347.4	(1,380.9)	(1,794.1)	388.3	(1,405.8)
Balance at 31 December	**808.4**	**(202.2)**	**606.2**	**824.2**	**(211.1)**	**613.1**

24.2 Assumptions, changes in assumptions and sensitivity analysis

a) Process used to decide on assumptions

The peer review reserving process

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

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

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

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

Actuarial assumptions

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

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

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

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

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

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

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

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

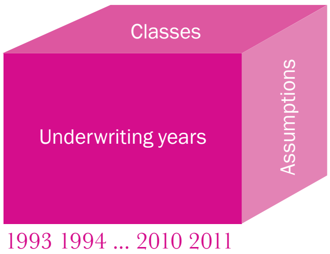
Notes to the financial statements *continued*

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

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

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

- *Life, accident and health*
- *Marine*
- *Political risks and contingency*
- *Property*
- *Reinsurance*
- *Specialty lines*



- *Premium rate change*
- *Claims inflation*
- *Mix of business*
- *Reporting patterns*
- *Settlement patterns*
- *Judicial decisions*
- *Professional judgment*

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

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

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

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

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

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

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of these financial statements are cautioned against extrapolating past redundancies or deficiencies on current claims liabilities. The group believes that the estimate of total claims liabilities as at 31 December 2011 is adequate. However, due to inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Gross ultimate claims	2002 ae %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %
Life, accident and health										
12 months								53.1	52.7	50.3
24 months								52.4	52.3	
36 months								45.1		
48 months										
60 months										
72 months										
84 months										
96 months										
108 months										
Marine										
12 months		59.2	62.1	82.7	57.1	58.0	69.1	55.9	50.6	55.0
24 months		45.1	65.6	80.7	42.3	60.1	65.2	52.1	49.7	
36 months		39.0	62.5	71.0	32.7	50.6	59.1	45.4		
48 months		36.2	61.9	69.1	29.0	48.1	62.9			
60 months		35.8	60.8	66.9	28.7	49.5				
72 months		35.7	56.3	65.0	26.4					
84 months		34.9	55.9	64.2						
96 months		35.4	55.7							
108 months		34.8								
Political risks and contingency										
12 months		59.1	67.3	61.0	57.5	57.2	57.5	61.1	61.4	58.7
24 months		36.3	55.7	38.2	36.2	38.9	68.5	38.6	40.2	
36 months		31.6	52.4	28.5	32.6	56.4	73.5	35.3		
48 months		28.7	38.3	24.9	43.3	52.8	87.3			
60 months		31.2	37.3	18.3	39.3	53.5				
72 months		25.2	35.2	17.9	39.0					
84 months		24.3	26.7	17.9						
96 months		21.4	26.5							
108 months		21.4								
Property										
12 months		50.9	65.6	87.9	58.4	58.3	70.9	53.9	58.6	59.1
24 months		37.4	65.3	84.6	44.1	56.4	65.8	42.7	61.7	
36 months		34.6	65.9	83.1	43.0	54.2	64.8	37.6		
48 months		34.0	64.1	88.2	50.3	55.0	62.7			
60 months		33.7	64.5	87.6	50.4	58.6				
72 months		33.7	63.2	85.9	50.2					
84 months		34.8	63.0	85.1						
96 months		34.6	63.6							
108 months		34.3								

Notes to the financial statements *continued*

Gross ultimate claims	2002 ae %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	
Reinsurance											
12 months		58.7	88.2	198.4	52.4	59.6	60.0	60.8	68.1	77.3	
24 months		34.2	82.7	190.4	25.3	26.0	52.0	48.5	148.9		
36 months		28.4	77.3	188.0	24.9	21.5	43.1	40.4			
48 months		28.6	74.9	181.5	23.3	19.8	39.8				
60 months		25.6	72.9	177.6	21.4	18.9					
72 months		25.6	71.9	175.0	21.1						
84 months		24.5	70.8	173.8							
96 months		23.7	69.8								
108 months		23.7									
Specialty lines											
12 months		73.0	71.9	72.0	72.6	72.8	72.2	72.7	73.9	75.6	
24 months		70.1	71.3	72.0	72.7	72.4	72.2	72.7	73.9		
36 months		68.9	67.6	69.8	72.6	72.5	71.9	71.8			
48 months		60.0	64.4	66.3	72.6	72.1	71.9				
60 months		53.2	59.4	62.8	70.8	72.3					
72 months		52.3	58.3	56.1	65.7						
84 months		50.5	56.5	52.3							
96 months		47.2	54.5								
108 months		46.2									
Total											
12 months		63.0	69.1	90.9	62.9	63.6	68.7	62.6	64.7	67.0	
24 months		52.6	69.3	88.3	53.0	59.2	67.7	57.4	72.7		
36 months		49.4	66.6	84.5	50.7	58.1	66.2	53.6			
48 months		44.8	63.6	82.9	52.3	58.4	67.5				
60 months		41.5	61.1	80.1	51.8	59.5					
72 months		40.9	59.3	76.3	49.1						
84 months		40.0	58.0	74.4							
96 months		38.4	57.1								
108 months		37.8									
Total ultimate losses ($m)	1,832.5	448.2	765.5	1,115.1	815.1	1,073.9	1,272.4	1,129.6	1,491.3	1,230.5	11,174.1
Less paid claims ($m)	(1,688.9)	(377.6)	(647.3)	(951.8)	(503.1)	(659.5)	(657.5)	(419.6)	(326.9)	(72.6)	(6,304.8)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	(74.4)	(505.9)	(580.3)
Gross claims liabilities (100% level) ($m)	**143.6**	**70.6**	**118.2**	**163.3**	**312.0**	**414.4**	**614.9**	**710.0**	**1,090.0**	**652.0**	**4,289.0**
Less unaligned share ($m)	(28.2)	(13.4)	(22.5)	(31.0)	(59.3)	(78.7)	(116.8)	(117.7)	(187.7)	(107.5)	(762.8)
Gross claims liabilities, group share	**115.4**	**57.2**	**95.7**	**132.3**	**252.7**	**335.7**	**498.1**	**592.3**	**902.3**	**544.5**	**3,526.2**

Net ultimate claims	2002 ae %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %
Life, accident and health										
12 months								51.7	51.4	49.1
24 months								50.6	51.8	
36 months								44.5		
48 months										
60 months										
72 months										
84 months										
96 months										
108 months										
Marine										
12 months		55.4	57.8	55.5	54.0	55.2	61.3	54.4	52.3	55.9
24 months		44.8	53.2	49.1	41.9	56.4	57.0	48.4	49.4	
36 months		40.2	48.6	42.9	32.8	49.4	50.7	39.6		
48 months		39.1	47.8	39.7	31.3	46.6	47.7			
60 months		39.0	46.6	39.2	30.9	47.4				
72 months		39.1	44.2	38.1	29.1					
84 months		38.0	43.8	36.7						
96 months		37.5	43.1							
108 months		37.3								
Political risks and contingency										
12 months		56.7	63.9	63.4	56.1	55.4	55.9	59.0	57.3	54.9
24 months		37.4	58.4	46.7	40.4	39.6	76.3	35.1	37.7	
36 months		34.8	54.2	36.0	37.0	55.1	75.9	32.6		
48 months		33.0	41.3	30.1	47.1	53.8	80.0			
60 months		35.1	40.9	24.4	41.3	52.1				
72 months		27.4	36.2	23.3	39.8					
84 months		25.7	26.3	23.3						
96 months		22.6	25.5							
108 months		22.6								
Property										
12 months		48.6	59.7	65.0	61.1	61.0	67.2	53.6	58.9	60.4
24 months		41.4	60.8	62.0	48.7	59.4	67.2	48.4	65.9	
36 months		39.0	60.3	58.4	47.1	58.6	65.0	45.0		
48 months		38.4	58.5	61.1	50.8	59.2	63.9			
60 months		38.0	58.3	61.7	50.0	62.0				
72 months		38.0	57.4	59.9	50.0					
84 months		39.5	57.3	59.0						
96 months		39.3	57.2							
108 months		39.1								

Notes to the financial statements *continued*

Net ultimate claims	2002 ae %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	
Reinsurance											
12 months		60.1	88.7	152.6	54.3	55.2	67.5	55.6	76.9	86.9	
24 months		39.5	86.4	134.1	37.0	30.1	57.9	52.6	133.8		
36 months		33.9	83.1	128.5	34.8	25.0	48.5	46.7			
48 months		34.6	76.9	119.2	32.5	22.7	46.4				
60 months		31.7	73.6	112.9	31.0	22.1					
72 months		31.7	72.0	111.6	31.0						
84 months		30.3	71.4	106.2							
96 months		29.4	70.0								
108 months		29.4									
Specialty lines											
12 months		68.6	68.7	69.2	68.6	69.7	70.1	69.8	71.2	72.7	
24 months		67.2	68.5	69.2	68.5	68.8	70.1	69.7	71.2		
36 months		66.0	65.7	67.4	68.6	68.8	70.0	69.0			
48 months		57.7	62.1	63.8	68.5	67.3	70.0				
60 months		52.7	56.9	58.8	63.7	67.3					
72 months		50.8	53.5	53.7	56.6						
84 months		48.9	51.0	49.3							
96 months		45.2	48.7								
108 months		45.0									
Total											
12 months		60.1	65.3	73.1	62.1	63.1	66.3	60.3	64.4	66.5	
24 months		53.0	65.4	69.0	54.3	59.2	66.9	56.9	69.7		
36 months		50.5	62.7	65.1	51.6	58.6	64.3	53.3			
48 months		46.4	59.4	62.4	52.2	57.5	63.9				
60 months		43.7	56.4	59.3	50.0	58.1					
72 months		42.6	53.9	56.4	46.5						
84 months		41.8	52.1	53.4							
96 months		39.8	50.8								
108 months		39.6									
Total ultimate losses ($m)	993.8	377.9	573.3	626.7	631.2	910.2	976.5	852.9	1,167.8	1,057.7	8,168.0
Less paid claims ($m)	(922.0)	(329.2)	(476.0)	(502.3)	(423.1)	(574.4)	(571.2)	(374.1)	(301.6)	(69.3)	(4,543.2)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	–	–	(75.2)	(474.4)	(549.6)
Net claims liabilities (100% level) ($m)	**71.8**	**48.7**	**97.3**	**124.4**	**208.1**	**335.8**	**405.3**	**478.8**	**791.0**	**514.0**	**3,075.2**
Less unaligned share ($m)	(14.5)	(9.2)	(18.5)	(23.6)	(39.5)	(63.8)	(77.1)	(78.4)	(135.2)	(84.9)	(544.7)
Net claims liabilities, group share	**57.3**	**39.5**	**78.8**	**100.8**	**168.6**	**272.0**	**328.2**	**400.4**	**655.8**	**429.1**	**2,530.5**

Analysis of movements in loss development tables

We have updated our loss development tables to show the ultimate loss ratios as at 31 December 2011 for each underwriting year.

Generally, the claims experience has been in line with expectation. We are cautiously reserved for natural catastrophes and the claims frequency on our specialty lines classes has been stable to reducing.

Life, accident and health

The 2009 underwriting year has continued to develop favourably and the claims development to date has been in line with or better than that experienced historically by the team.

Marine

With the exception of 2007 where there was a late developing shipbuilding claim, all other years have continued to exhibit a reducing net ultimate loss ratio trend. The gross development on the 2008 underwriting year arose on a liability account claim, which benefited heavily from inuring reinsurance.

This team continues to report profitable loss ratios on all underwriting years despite the impact of increased piracy, the 2005 and 2008 hurricanes and the Deepwater Horizon disaster.

Political risks and contingency

In 2009 we reported that the ultimate claims on the 2006, 2007 and 2008 underwriting years had increased as a result of the deterioration in the claims environment of our political class, particularly from financial crisis exposed contracts. During 2011, those claim estimates have remained robust and we have continued to see improvement. This has been somewhat masked by setting claim reserves earlier this year in respect of exposure to the uprising in Libya.

The 2009 and 2010 underwriting years show a reversion to more benign claims experience. We continue to monitor claim frequency on a calendar month basis as an early indicator for future development.

Property

Ultimate claims increased on the 2010 underwriting year as a result of the catastrophe events of 2011. The development on the 2007 underwriting year arose from our engineering class and relates to the construction of a power generation plant.

All other underwriting years showed downward movement in claim estimates.

Reinsurance

The reserves for the 2005 hurricanes and the 2010 Chilean earthquake have been reduced during the year as more certainty has been gained. This has benefited the 2004, 2005, 2009 and 2010 underwriting years.

The 2010 and 2011 underwriting year ultimate loss ratios have been set higher to reflect the claims experience on the 2011 catastrophes.

Specialty lines

The trend of consistent releases across underwriting years has continued, particularly on the 2003, 2004, 2005 and 2006 underwriting years. The incurred claims development remains favourable on these years.

During 2011 the team maintained its vigilance regarding the potential impact of the recession on claims experience in the 2007, 2008 and 2009 underwriting years. The conclusion remains that the ultimate loss ratios are robust.

Our 2010 and 2011 underwriting year loss ratios have opened slightly higher than in previous years. This reflects the rating and claims environment and allows consistency to be maintained in our reserving philosophy.

Notes to the financial statements *continued*

Claim releases

The table below analyses our net claims between current year claims and adjustments to prior year net claims reserves. These have been broken down by department and period.

The Tohoku earthquake in Japan, the Christchurch earthquake in New Zealand, the political unrest in Libya, the tornados in the US, and the floods in Australia and Thailand are all current year events. The claims arising in respect of these events have been classified as current year losses and the related claims have been disclosed as such in the table below.

Beazley's reserving policy is to maintain catastrophe margins either until the end of the exposure period or until catastrophe events occur. Therefore margins have been released on those classes affected by the 2011 catastrophe events which has resulted in a higher than average prior year reserve release.

The net of reinsurance estimates of ultimate claims costs on the 2010 and prior underwriting years has improved by $186.5m during 2011 (2010: $144.6m). This movement has arisen from a combination of better than expected claims experience coupled with small changes to the many assumptions reacting to the observed experience and anticipating any changes as a result of the new business written.

2011	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	40.1	122.5	57.5	199.2	209.7	408.0	1,037.0
Prior year							
– 2008 underwriting year and earlier	0.7	(11.4)	(10.2)	4.6	(10.1)	(61.8)	(88.2)
– 2009 underwriting year	(3.9)	(24.6)	(2.8)	(15.9)	(10.0)	–	(57.2)
– 2010 underwriting year	(1.3)	(3.9)	(9.1)	(8.9)	(17.9)	–	(41.1)
	(4.5)	(39.9)	(22.1)	(20.2)	(38.0)	(61.8)	(186.5)
Net insurance claims	**35.6**	**82.6**	**35.4**	**179.0**	**171.7**	**346.2**	**850.5**

2010	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	33.8	120.3	43.9	158.1	105.0	421.7	882.8
Prior year							
– 2007 underwriting year and earlier	–	(10.2)	(8.0)	(2.0)	(6.8)	(56.9)	(83.9)
– 2008 underwriting year	1.8	(12.6)	1.3	(9.5)	(12.0)	–	(31.0)
– 2009 underwriting year	(0.5)	(7.9)	(12.1)	(5.9)	(3.3)	–	(29.7)
	1.3	(30.7)	(18.8)	(17.4)	(22.1)	(56.9)	(144.6)
Net insurance claims	**35.1**	**89.6**	**25.1**	**140.7**	**82.9**	**364.8**	**738.2**

25 Borrowings

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

	2011 $m	2010 $m
Carrying value		
Subordinated debt	18.0	18.0
Tier 2 subordinated debt	246.8	250.2
	264.8	**268.2**
Fair value		
Subordinated debt	18.0	18.0
Tier 2 subordinated debt	189.1	184.6
	207.1	**202.6**

The fair value of the Tier 2 subordinated debt is based on quoted market prices. For the subordinated debt that is not quoted, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

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

In October 2006, the group issued £150m of unsecured fixed/floating rate subordinated notes that are due in October 2026 with a first callable at the group's option in October 2016. Interest of 7.25% per annum is paid annually in arrears for the period up to October 2016. From October 2016, the notes will bear annual interest at the rate of 3.28% above LIBOR. The notes were assigned a credit rating of BBB- by S&P's rating services.

In April 2010 the group traded out of the interest rate swap and cross currency swap transactions. We traded out of the currency component of the original derivative transaction since this was originally intended to act as a hedge against the group's investment in its US subsidiaries. Following the change in functional and presentation currency to US dollars this hedge was no longer required.

In addition to these borrowings we operate a syndicated short-term banking facility, managed through Lloyds Banking Group plc. In June 2011 we renewed our existing syndicated short-term banking facility led by Lloyds Banking Group plc. The facility provides potential borrowings up to $225m. The new agreement is based on a commitment fee of 0.7% per annum and any amounts drawn are charged at a margin of 1.75% per annum. The cash element of the facility will last for three years, expiring on 31 December 2014, whilst letters of credit issued under the facility can be used to provide support for the 2011, 2012 and 2013 underwriting years. The facility is currently unutilised.

26 Other payables

Group	2011 $m	2010 $m
Reinsurance premiums payable	251.7	179.3
Accrued expenses including staff bonuses	66.9	70.8
Other payables	5.3	13.9
Deferred consideration payable on acquisition of MGAs	27.7	13.6
Due to syndicate 6107	11.4	7.8
Due to syndicate 623	3.0	–
	366.0	**285.4**

Company	2011 $m	2010 $m
Other payables	28.5	26.8
	28.5	**26.8**

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

27 Retirement benefit obligations

	2011 $m	2010 $m	2009 $m	2008 $m	2007 $m
Retirement benefit obligations	–	–	–	–	1.8
Present value of funded obligations	27.4	26.0	24.8	14.8	34.8
Fair value of plan assets	26.6	24.2	20.8	14.4	30.8
Experience (losses)/gains on scheme liabilities	(0.3)	(0.2)	0.5	1.6	0.2

Beazley Furlonge Limited operates a defined benefit pension scheme ("the Beazley Furlonge Limited Pension Scheme") providing benefits based on final pensionable pay, with contributions being charged to the income statement so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary using the projected unit method and the most recent valuation was at 31 December 2011.

Pension benefits

Notes to the financial statements *continued*

Amount recognised in the statement of financial position

	2011 $m	2010 $m
Present value of funded obligations	27.4	26.0
Fair value of plan assets	(26.6)	(24.2)
	0.8	1.8
Unrecognised actuarial losses	(5.4)	(4.9)
Asset in the statement of financial position	**(4.6)**	**(3.1)**

The asset in the pension scheme arose due to a prepayment of $4.6m (2010: $3.1m).

Amounts recognised in the income statement		
Current service cost	–	–
Interest cost	1.4	1.4
Expected return on plan assets	(1.4)	(1.2)
	0.0	**0.2**

Movement in present value of funded obligations recognised in the statement of financial position		
Balance at 1 January	**26.0**	**24.8**
Current service cost	–	–
Interest cost	1.4	1.4
Actuarial losses	0.5	0.9
Benefits paid	(0.4)	–
Foreign exchange loss	(0.1)	(1.1)
Balance at 31 December	**27.4**	**26.0**

Movement in fair value of plan assets recognised in the statement of financial position		
Balance at 1 January	**24.2**	**20.8**
Expected return on plan assets	1.4	1.2
Actuarial gains	(0.2)	1.6
Employer contributions	1.6	1.6
Benefits paid	(0.4)	–
Foreign exchange loss	-	(1.0)
Balance at 31 December	**26.6**	**24.2**

	2011 $m	2010 $m
Plan assets are comprised as follows:		
Equities	13.8	16.5
Bonds	12.7	7.7
Cash	0.1	–
Total	**26.6**	**24.2**

The actual gain on plan assets was $1.2m (2010: $2.8m).

	2011 $m	2010 $m
Principal actuarial assumptions		
Discount rate	4.7%	5.4%
Inflation rate	2.7%	3.4%
Expected return on plan assets	3.7%	5.5%
Future salary increases	5.5%	6.2%
Future pensions increases	2.3%	3.0%
Life expectancy	88 years	88 years

28 Deferred tax

	2011 $m	2010 $m
Deferred tax asset	12.5	9.5
Deferred tax liability	(80.2)	(91.0)
	(67.7)	**(81.5)**

The movement in the net deferred income tax is as follows:

	2011 $m	2010 $m
Balance at 1 January	(81.5)	(26.2)
Income tax credit/(charge)	11.0	(55.3)
Foreign exchange translation differences	2.8	–
Balance at 31 December	**(67.7)**	**(81.5)**

	Balance 1 Jan 11 $m	Recognised in income $m	FX translation differences $m	Balance 31 Dec 11 $m
Plant and equipment	0.7	–	–	0.7
Intangible assets	(0.5)	(0.2)	–	(0.7)
Other receivables	–	–	–	–
Trade and other payables	2.7	0.5	–	3.2
Underwriting profits	(348.8)	(52.9)	11.8	(389.9)
Tax losses	264.4	63.6	(9.0)	319.0
Net deferred income tax account	**(81.5)**	**11.0**	**2.8**	**(67.7)**

	Balance 1 Jan 10 $m	Recognised in income $m	FX translation differences $m	Balance 31 Dec 10 $m
Plant and equipment	0.2	0.5	–	0.7
Intangible assets	(0.8)	0.3	–	(0.5)
Other receivables	0.1	(0.1)	–	–
Trade and other payables	2.9	(0.2)	–	2.7
Underwriting profits	(37.5)	(311.3)	–	(348.8)
Tax losses	8.9	255.5	–	264.4
Net deferred income tax account	**(26.2)**	**(55.3)**	**–**	**(81.5)**

The group has recognised deferred tax assets on unused tax losses to the extent that it is probable that future taxable profits will be available against which unused tax losses can be utilised, as supported by financial projections.

29 Operating lease commitments

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

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

	2011 $m	2010 $m
No later than one year	6.8	6.0
Later than one year and no later than five years	20.1	18.0
Later than five years	8.8	4.7
	35.7	**28.7**

Notes to the financial statements *continued*

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

30.1 Syndicates 623 and 6107
The group received management fees and profit commissions for providing a range of management services to syndicates 623 and 6107, which are managed by the group. In addition, the group ceded portions or all of a group of insurance policies to syndicate 6107.

Details of transactions entered and the balances with these syndicates are as follows:

	2011 $m	2010 $m
Written premium ceded to syndicates	13.8	13.3
Other income received from syndicates	25.3	25.8
Services provided	26.3	23.6
Balances due:		
Due (to)/from syndicate 623	(3.0)	12.2
Due (to) syndicate 6107	(11.4)	(7.8)

30.2 Key management compensation

	2011 $m	2010 $m
Salaries and other short-term benefits	10.7	15.4
Post-employment benefits	0.7	0.6
Share-based remuneration	4.8	4.4
	16.3	**20.4**

Key management include executives and non-executive directors and other senior management.

Further details of directors' shareholdings and remuneration can be found in the directors' remuneration report on pages 57 to 72.

30.3 Other related party transactions
At 31 December 2011, the group had a balance receivable from the associate (Falcon Money Management Limited) of $1.0m (2010: $nil) and purchased services from the associate of $7.0m (2010: $6.2m) throughout the year. All transactions with the associate and subsidiaries are priced on an arm's length basis.

31 Parent company and subsidiary undertakings

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

The following is a list of all the subsidiaries in the group:

	Country of incorporation	Ownership interest	Nature of business	Functional currency	Beazley plc direct investment in subsidiary (m)
Beazley Group Limited*	England	100%	Intermediate holding company	USD	*
Beazley Furlonge Holdings Limited	England	100%	Intermediate holding company	USD	
Beazley Furlonge Limited	England	100%	Lloyd's underwriting agents	GBP	
Beazley Investments Limited	England	100%	Investment company	USD	
Beazley Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Management Limited	England	100%	Intermediate management company	GBP	
Beazley Staff Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Solutions Limited	England	100%	Insurance services	GBP	
Beazley Finance Ltd	England	100%	Intermediate holding company	GBP	
Beazley Capital Management Ltd	England	100%	Investment services	GBP	
Beazley Underwriting Services Ltd	England	100%	Insurance services	GBP	
Beazley DAS Limited	England	100%	Dividend access scheme	GBP	
Tasman Corporate Limited	England	100%	Underwriting at Lloyd's	GBP	
Beazley Re Limited	Ireland	100%	Underwriting at Lloyd's	USD	747.2
Beazley Underwriting Pty Ltd	Australia	100%	Insurance services	AUD	
Beyond Group Holdings Pty Ltd	Australia	100%	Intermediate holding company	AUD	
Blue-GUM Special Risks Pty Ltd	Australia	100%	Insurance services	AUD	
Australian Income Protection Pty Ltd	Australia	100%	Insurance services	AUD	
Beazley USA Services, Inc.	USA	100%	Insurance services	USD	
Beazley Holdings, Inc.	USA	100%	Holding company	USD	
Beazley Group (USA) General Partnership	USA	100%	General partnership	USD	
Beazley Insurance Company, Inc.	USA	100%	Underwrite admitted lines	USD	
Beazley Limited	Hong Kong	100%	Insurance services	HKD	
Beazley Pte. Limited	Singapore	100%	Underwriting at Lloyd's	SGD	
					747.2

*Beazley plc holds direct investment in Beazley Group Limited of $1.

32 Contingencies

32.1 Funds at Lloyd's

The following amounts are subject to a deed of charge in favour of Lloyd's to secure underwriting commitments.

	Underwriting year 2012 £m	Underwriting year 2011 £m	Underwriting year 2010 £m
Debt securities and other fixed income securities	482.9	505.0	492.2

32.2 Financial guarantee

The parent company has provided a financial guarantee in favour of its subsidiary Beazley Insurance Company, Inc. which unconditionally guarantees the payment of amounts due to third-party reinsurers in the event of the inability of the subsidiary company to meet its obligations.

Notes to the financial statements *continued*

33 Foreign exchange rates

The group used the following exchange rates to translate foreign currency assets, liabilities, income and expenses into US dollars, being the group's presentation currency:

	2011		2010	
	Average	Year end spot	Average	Year end spot
Pound sterling	0.62	0.65	0.65	0.65
Canadian dollar	0.99	1.02	1.03	1.00
Euro	0.72	0.77	0.77	0.75

34 Business combination

On 19 April 2011 Beazley plc through its 100% subsidiary Beazley Underwriting Pty Limited purchased the entire share capital of two managing general agencies (MGAs), Australian Income Protection (AIP) and Blue-GUM Special Risks (Blue-GUM), along with the holding company of Blue-GUM, Beyond Group Holdings Pty Ltd, for a an initial cash consideration of $11.7m and a deferred cash consideration of $13.7m, bringing the total expected consideration to $25.4m. The deferred cash consideration is contingent on the business acquiring specific targets linked to premium growth and profitability over a four year period ending on 31 December 2014. The combined purchases have been accounted for as an acquisition.

The fair value of the tangible net assets acquired was $4.9m, and the fair value of intangible assets acquired was $10.3m, resulting in goodwill on acquisition of $10.3m. The intangible assets acquired relate to the existing customer relationships of the business.

This acquisition had no material impact on the revenue or loss of the group for the period. In accordance with IFRS 3 'Business combinations' the assets and liabilities as at the acquisition date are stated at their initial fair values and may be remeasured as and when further evidence of the appropriate fair values emerges within a period of 12 months from the date of acquisition.

35 Subsequent events

There are no events that are material to the operations of the group that have been announced since the reporting date.

Glossary

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

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

A.M. Best
A.M. Best is a worldwide insurance-rating and information agency whose ratings are recognised as an ideal benchmark for assessing the financial strength of insurance related organisations, following a rigorous quantitative and qualitative analysis of a company's balance sheet strength, operating performance and business profile. Beazley plc obtained an A rating as did Beazley Insurance Company, Inc.

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

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

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

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

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

Claims ratio
Ratio, in percentage terms, of net insurance claims to net earned premiums. The calculation is performed excluding the impact of foreign exchange on non-monetary items.

Combined ratio
Ratio, in percentage terms, of the sum of net insurance claims, expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. This is also the sum of the expense ratio and the claims ratio. The calculation is performed excluding the impact of foreign exchange on non-monetary items.

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

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

Earnings per share (EPS) – basic/diluted
Ratio, in pence and cents, calculated by dividing the consolidated profit after tax by the weighted average number of ordinary shares issued, excluding shares owned by the group. For calculating diluted earnings per share the number of shares and profit or loss for the year is adjusted for all dilutive potential ordinary shares such as share options granted to employees.

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

Expense ratio
Ratio, in percentage terms, of the sum of expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. The calculation is performed excluding the impact of foreign exchange on non-monetary items.

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

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

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

Horizontal limits
Reinsurance coverage limits for multiple events.

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

Glossary *continued*

International accounting standards board (IASB)
An international panel of accounting experts responsible for developing IAS/IFRS.

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

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

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

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

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

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

Net assets per share
Ratio, in pence and cents, calculated by dividing the net assets (total equity) by the number of shares issued.

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

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

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

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

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

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

Return on equity (ROE)
Ratio, in percentage terms calculated by dividing the consolidated profit after tax by the average daily total equity.

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

Risk
This term may variously refer to:

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

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

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

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

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

Total shareholder return (TSR)
The increase in the share price plus the value of any first and second dividends paid and proposed during the year.

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

Unearned premiums reserve
The portion of premium income in the business year that is attributable to periods after the balance date is accounted for as unearned premiums in the underwriting provisions.

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