

# Results for the year ended 31 December 2010

Tuesday, 8 February 2011

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# Overview of 2010

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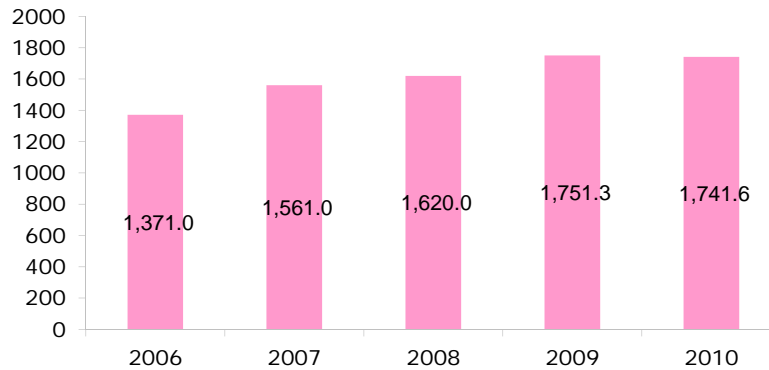
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## Strong profits and underwriting performance

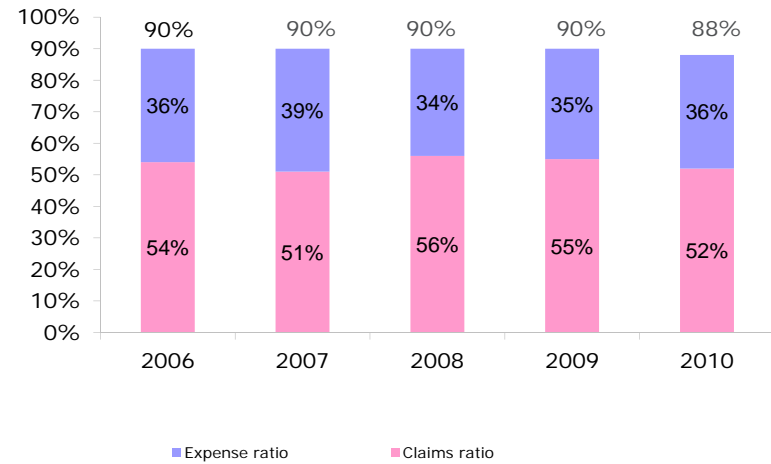
- Profit before income tax of \$250.8m (2009: \$158.1m)
- Return on equity of 21% (2009: 16%)
- Profit excluding exceptional FX items of \$217.1m and return on equity of 19%
- Gross written premiums reduced by 1% to \$1,741.6m (2009: \$1,751.3m)
- Combined ratio of 88% (2009: 90%)
- Rate decrease on renewal portfolio of 2% (2009: 3% increase)
- Prior year reserve releases of \$144.6m (2009: \$105.5m)
- Investment income of \$37.5m, or 1.0% (2009: \$88.1m)
- Second interim dividend of 5.1p taking full year dividend to 7.5p (2009: 7p) up 7% plus a special dividend of 2.5p

# Sustained high performance – Total ROE over 5 years of 100% !

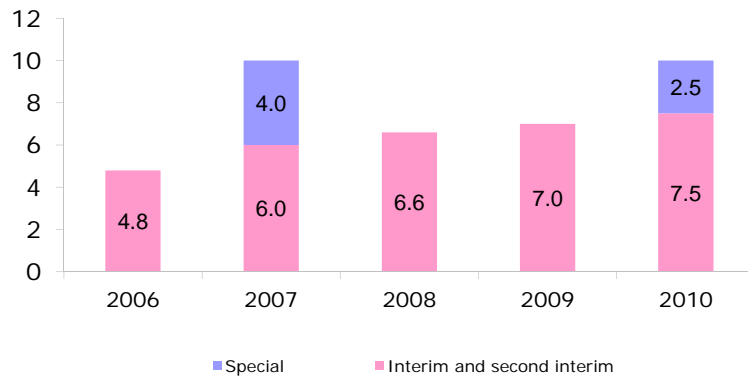
Gross premiums written (\$m)



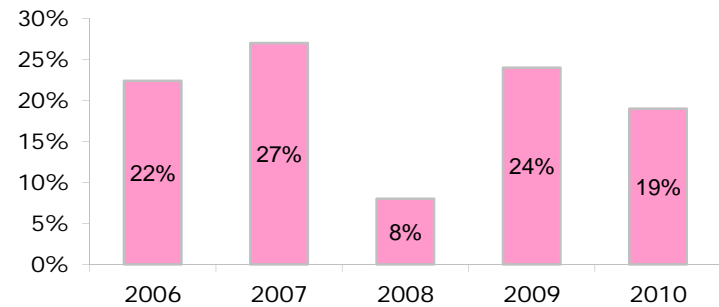
Combined ratio (%)



Dividends per share (p)



Return on equity (%)



## Focus on capital discipline and new opportunities

- Returned capital through share buy-backs and special dividends;
- We have hired new non-executive directors, Ken Sroka and Rolf Tolle, and appointed Dan Jones to head up broker relations;
- Progress made in new areas: -
  - Reps and warranties;
  - US admitted accident & health;
  - Marine professional liability; and
  - Environmental risks
- Growth areas: -
  - Reinsurance business;
  - Data breach insurance; and
  - Life, accident & health

# Financials

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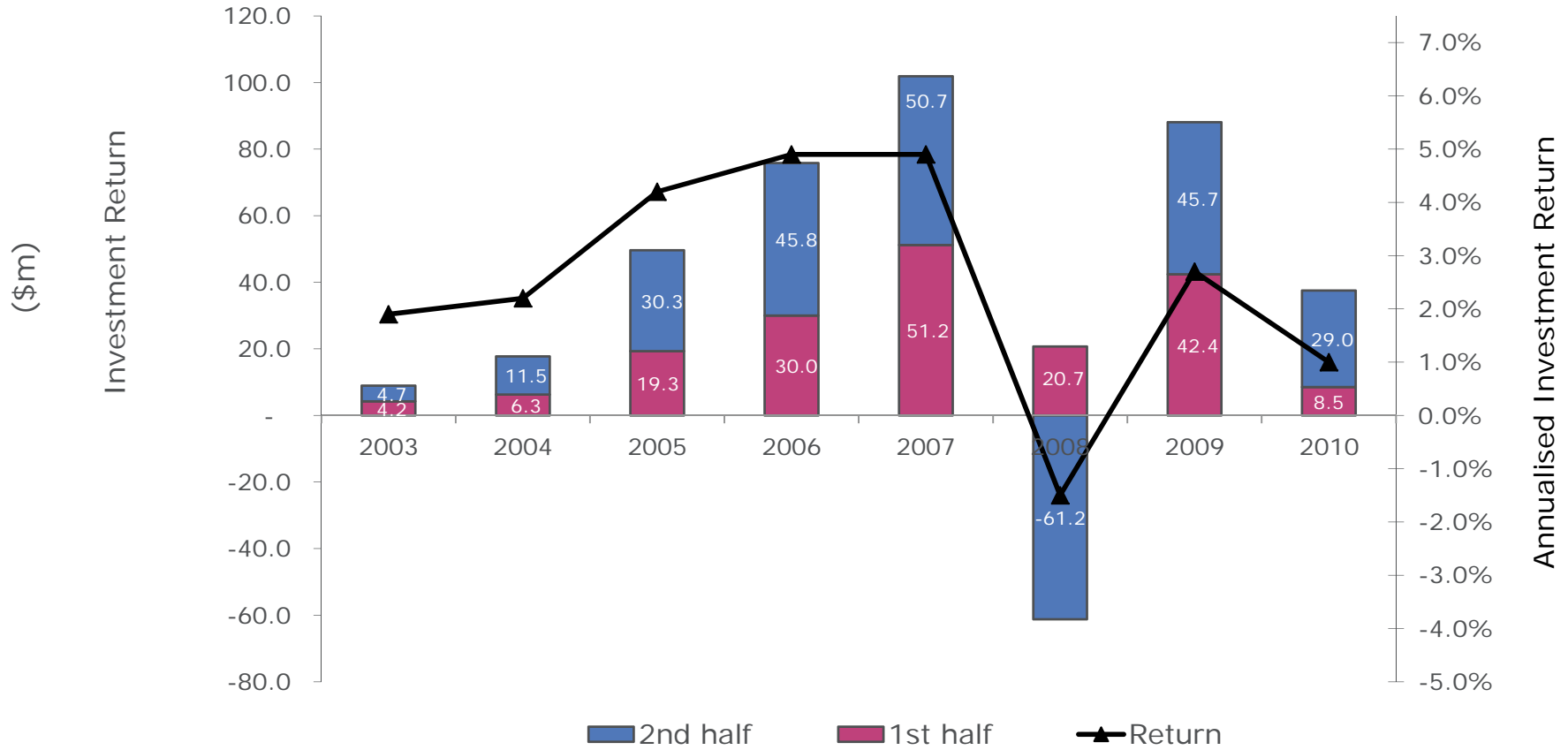
## Strong profits

	Year ended 31 Dec 2010	Year ended 31 Dec 2009	% increase/ (decrease)
Gross premiums written (\$m)	<b>1,741.6</b>	<b>1,751.3</b>	(1%)
Net premiums written (\$m)	<b>1,402.1</b>	<b>1,331.3</b>	5%
Net earned premiums (\$m)	<b>1,405.2</b>	<b>1,313.6</b>	7%
Profit before income tax (\$m)	<b>250.8</b>	<b>158.1</b>	59%
Earnings per share	<b>27.4p</b>	<b>18.4p</b>	
Dividend per share *	<b>10.0p</b>	<b>7.0p</b>	
Net assets per share (pence)	<b>139.5p</b>	<b>119.0p</b>	
Net tangible assets per share (pence)	<b>124.4p</b>	<b>105.5p</b>	

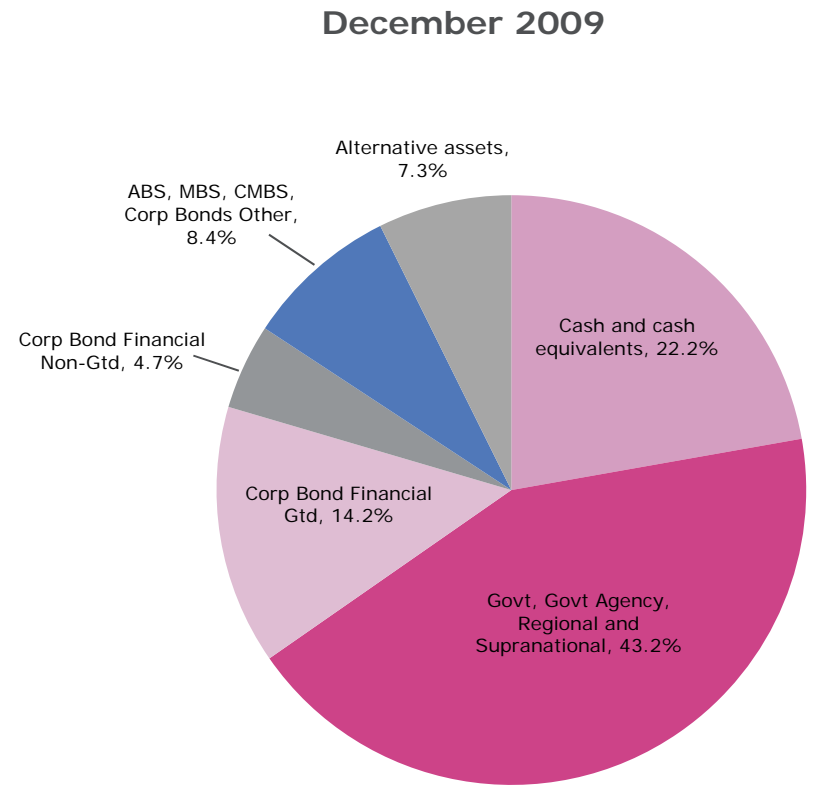
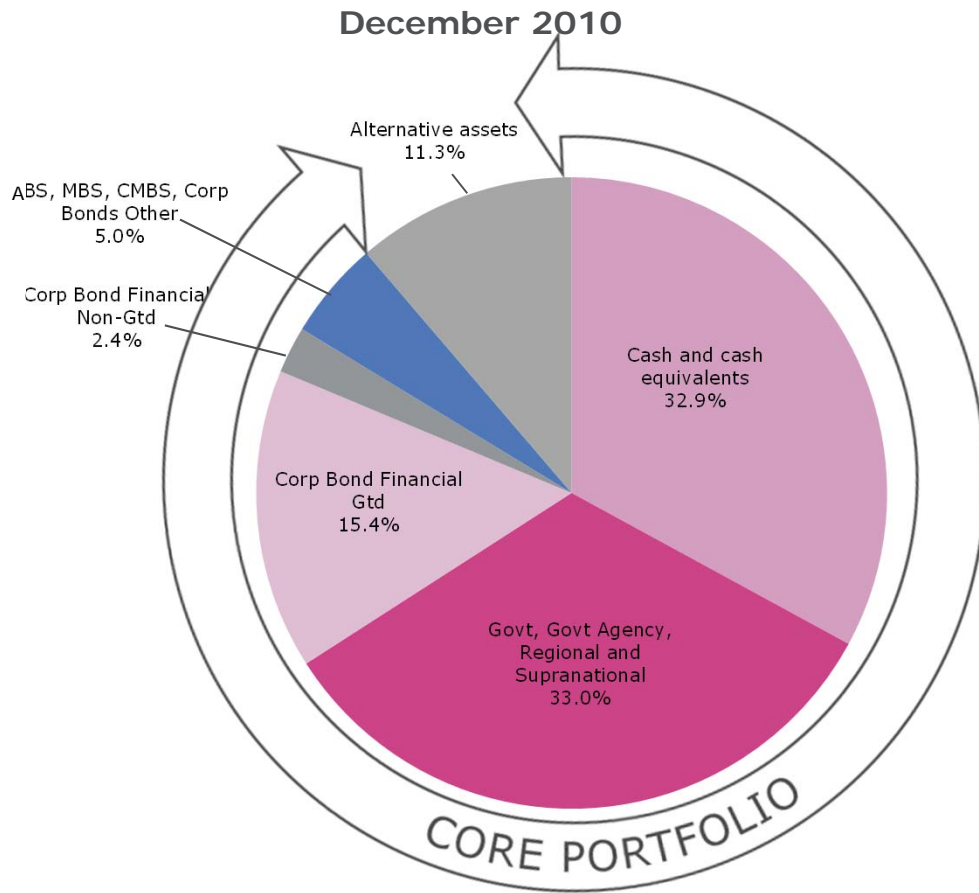
\* Includes 2.5 pence per share special dividend

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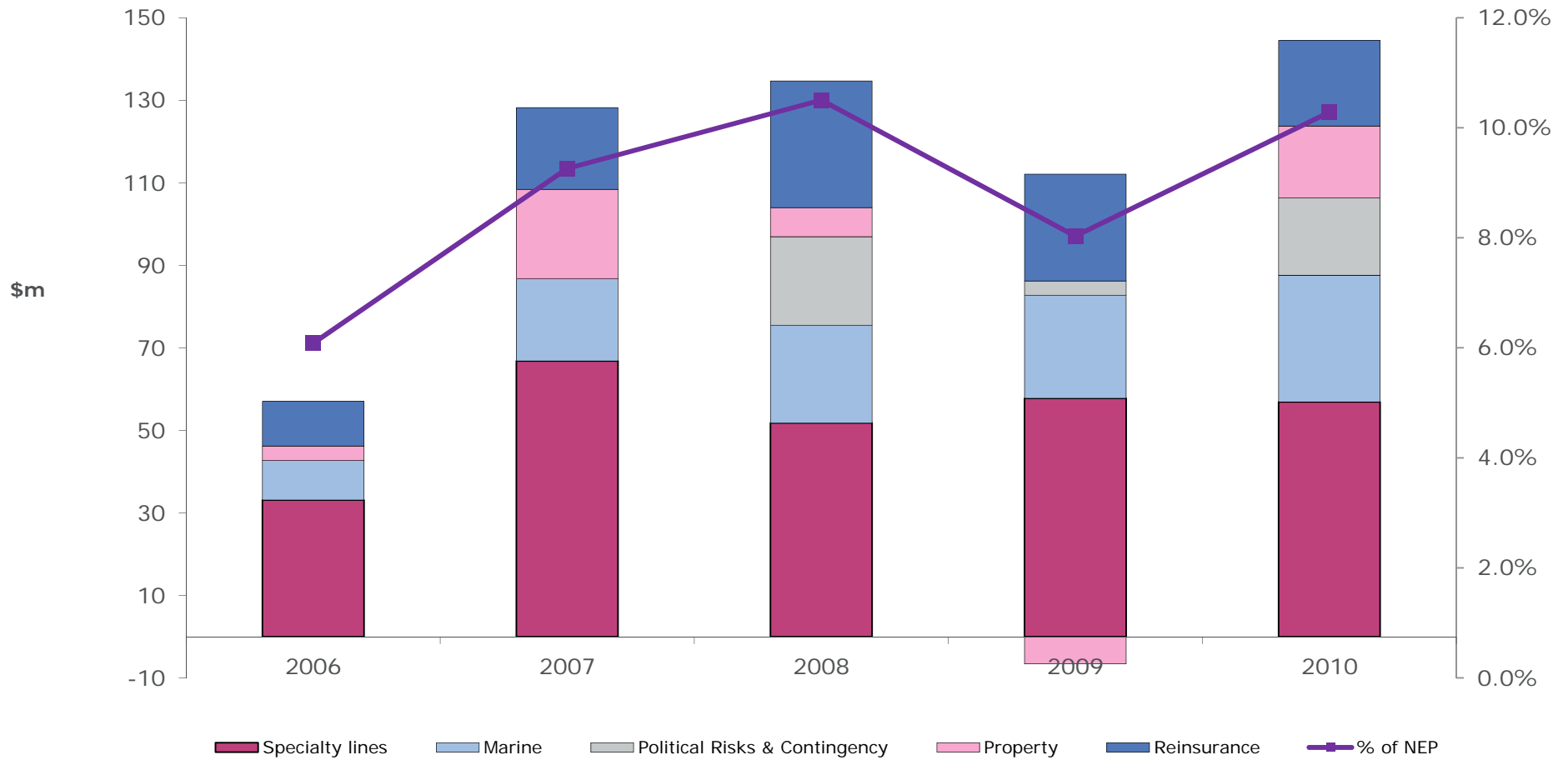
## Annualised 1.0% investment return delivered in 2010



# Capital growth assets and duration increased

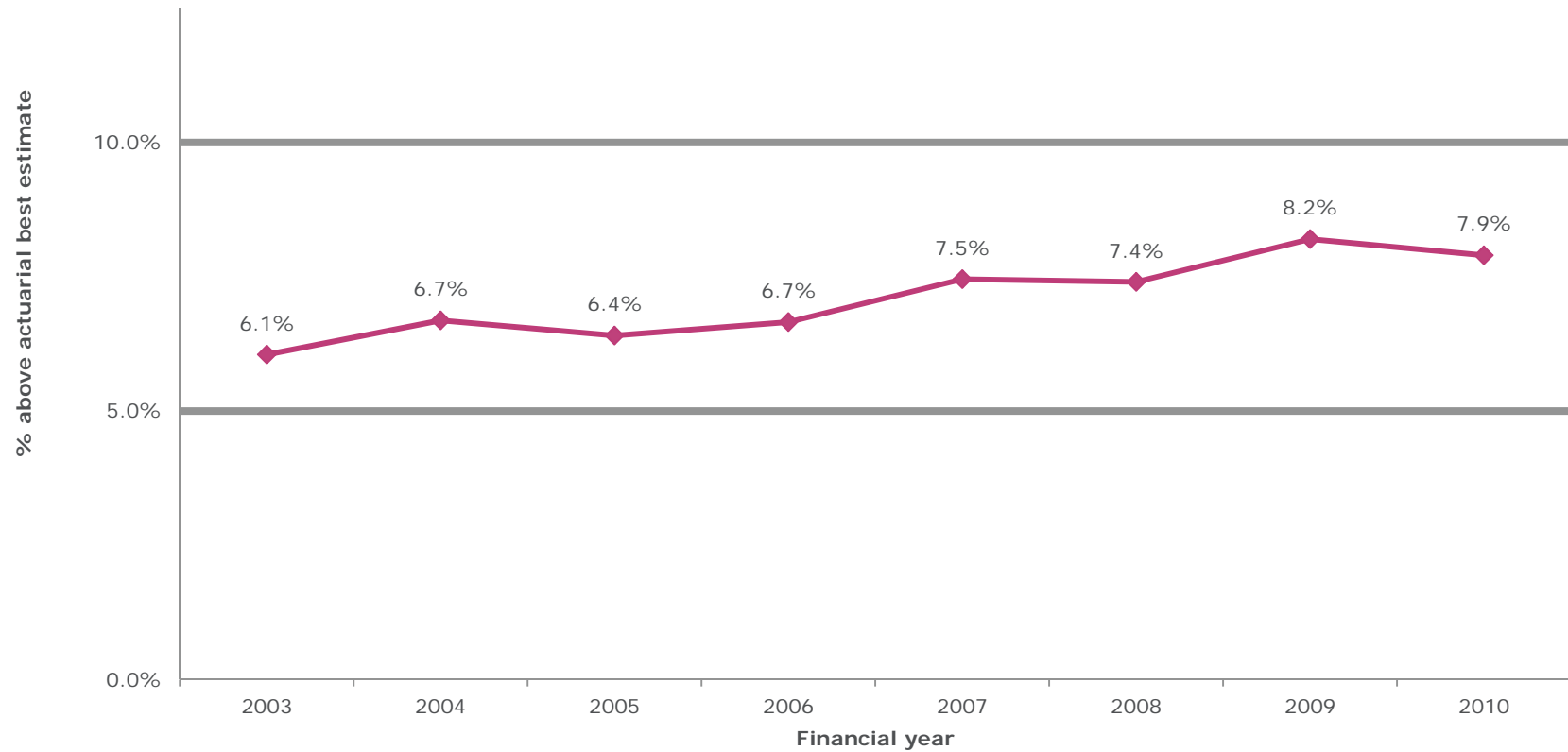


# Consistent prior year reserve releases



# Whole account reserve strength remains high

Margin in net held reserves



Our objective is to hold booked reserves within a range above actuarial best estimate maintaining a consistent and transparent level of reserve margin over time.

## Strong capital position and distribution

<u>Sources of funds</u>	Year Ended 31 Dec 2010	Year Ended 31 Dec 2009
Shareholders funds (\$m)	1,082.9	995.9
Debt (\$m)	248.8	259.5
	<b>1,331.7</b>	<b>1,255.4</b>
<u>Uses of funds</u>		
Lloyd's underwriting (\$m)	776.9	792.4
US Insurance Company (\$m)	107.7	110.9
	<b>884.6</b>	<b>903.3</b>
Surplus (\$m)	447.1	352.1
Unavailable surplus (\$m)	(206.8)	(200.1)
Surplus available for underwriting	<b>240.3</b>	<b>152.0</b>
<u>Capital Returns</u>		
Share buy backs	29.4	-
Regular dividends	59.1 *	57.6 **
Special dividends	19.7	-
<b>Total</b>	<b>108.2</b>	<b>57.6</b>

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\* Includes both 2010 interims \*\* includes both 2009 interims

## Solvency II – significant investments continue

- ❖ Substantial SII programme remains on track
  - Budget £4.6m of external spend over three years; and
  - 4,000 man days of key technical and management personnel
  
- ❖ We remain alert for any growth opportunities SII might create
  
- ❖ We are already getting benefits from programme

# Underwriting review

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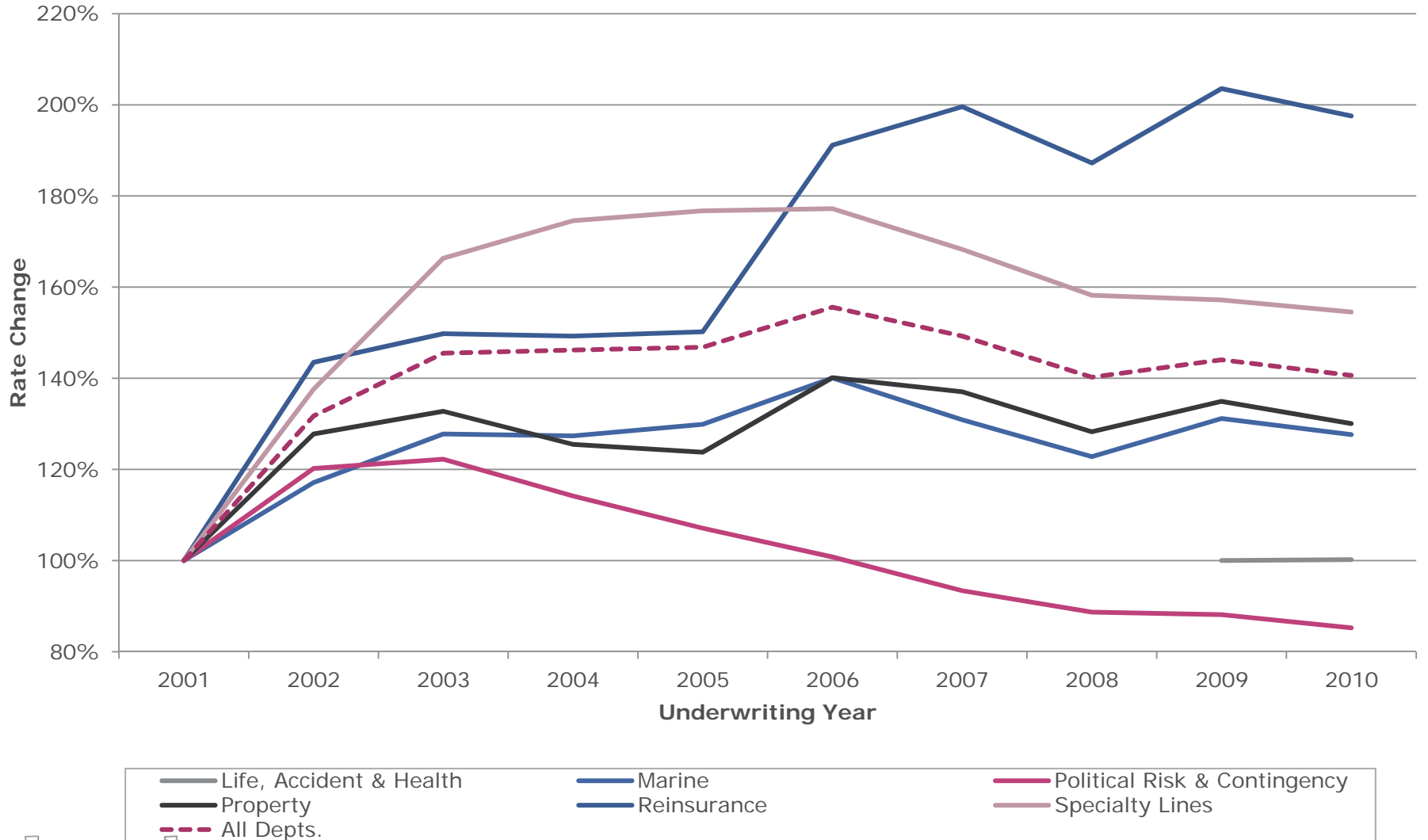
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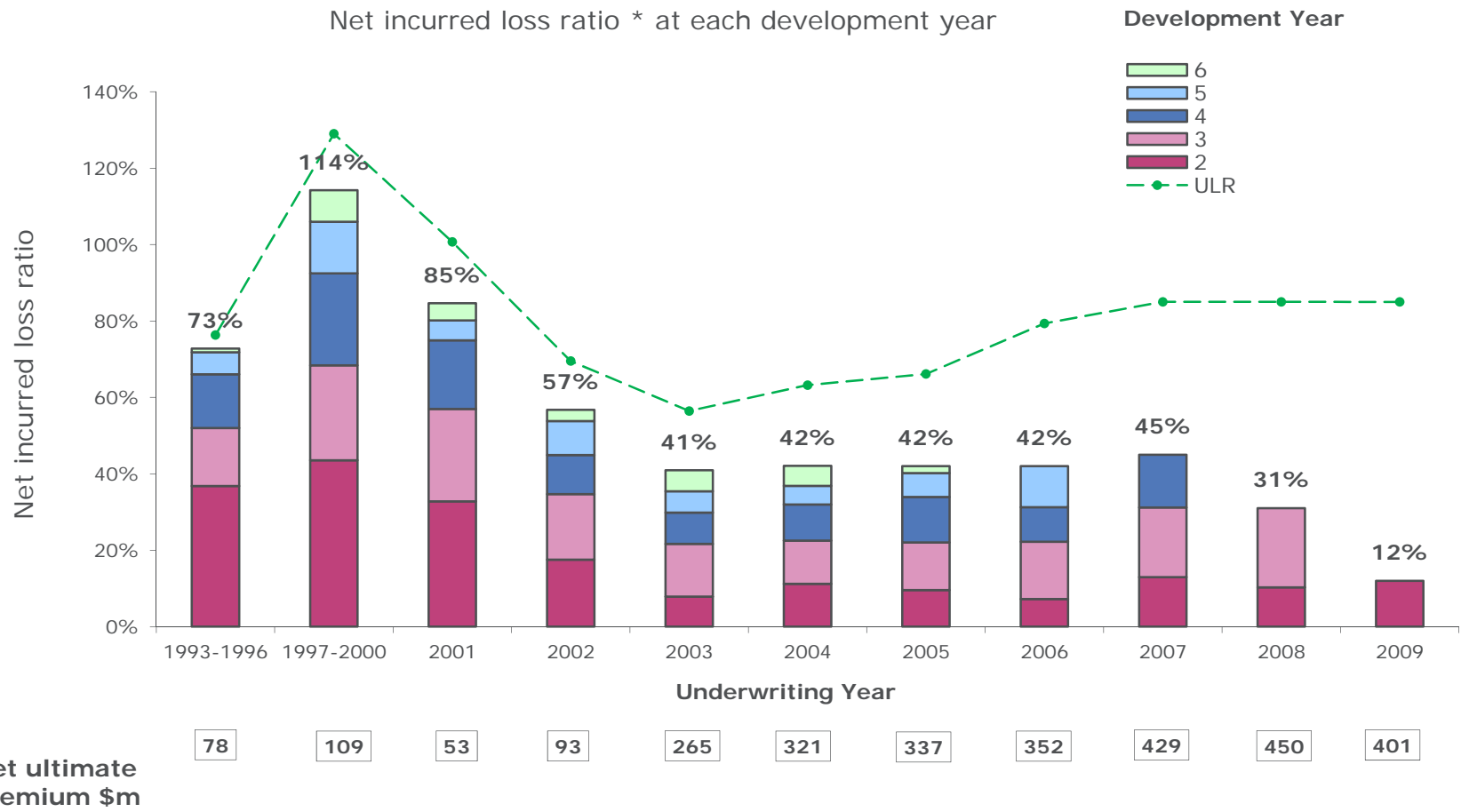
## Underwriting review

	Year Ended 31 December	
	2010	2009
Gross premiums written (\$m)	1,741.6	1,751.3
Net premiums written (\$m)	1,402.1	1,331.3
Net earned premiums (\$m)	1,405.2	1,313.6
Combined ratio	88%	90%
Rate change on renewals	(2%)	3%

## Cumulative rate changes since 2001



# Specialty Lines incurred claims remain encouraging

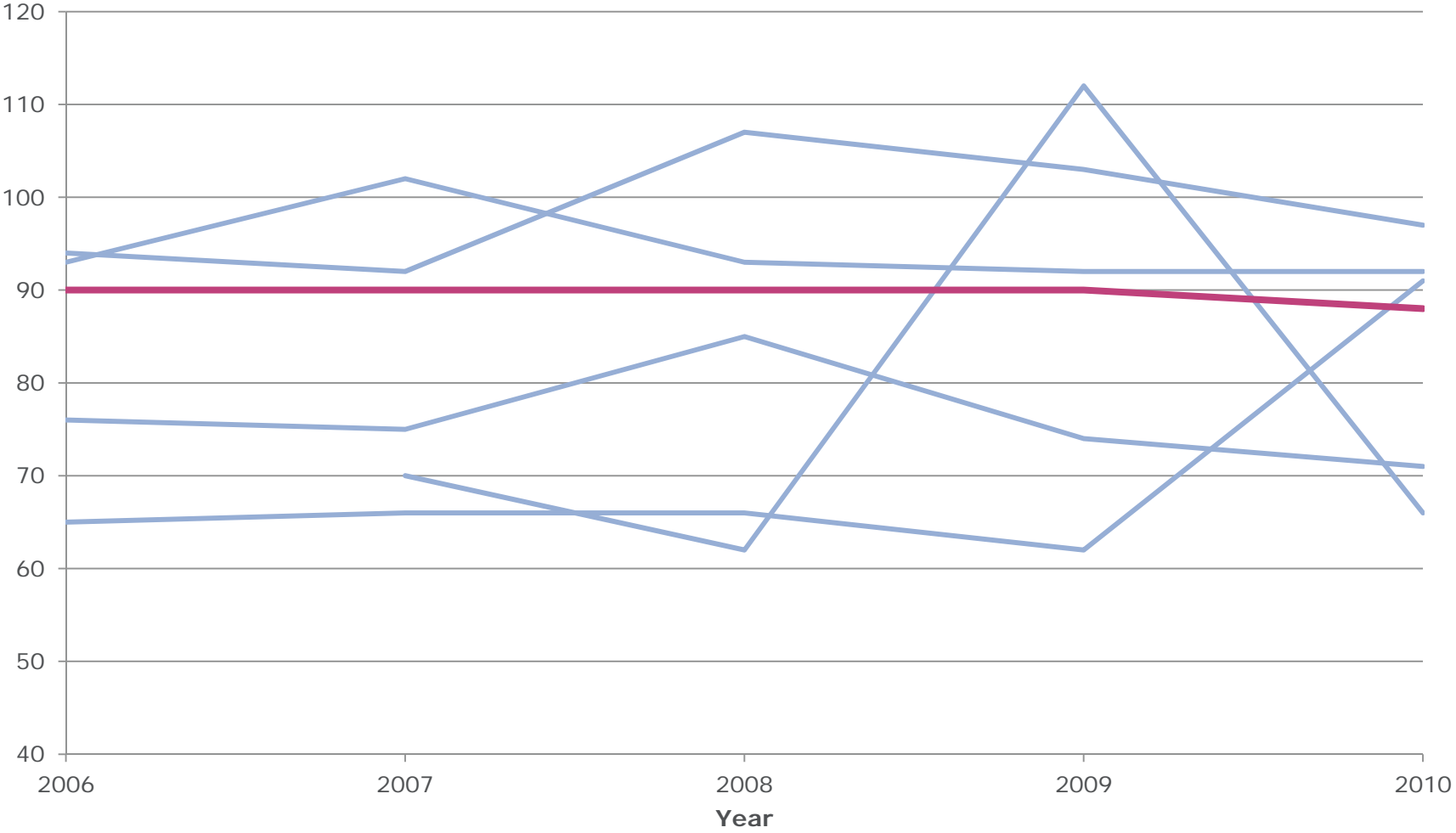


\* Ratio is incurred claims as a percentage of premiums net of brokerage and reinsurance costs



# Portfolio management achieves consistent combined ratio through market cycles

Combined Ratio %



## Outlook

- The industry is operating in challenging conditions
  - Weak global economy is keeping demand low
  - The market is competitive and rates are continuing to decline but from good levels
  - Forecast for rates to decrease by 2% across 2011
  - The threat of inflation remains whilst interest rates are low
- We will thrive in these conditions through our internal expertise and discipline
  - Underwriting discipline
  - Expense discipline
  - Capital management discipline

Any questions?

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# Appendix

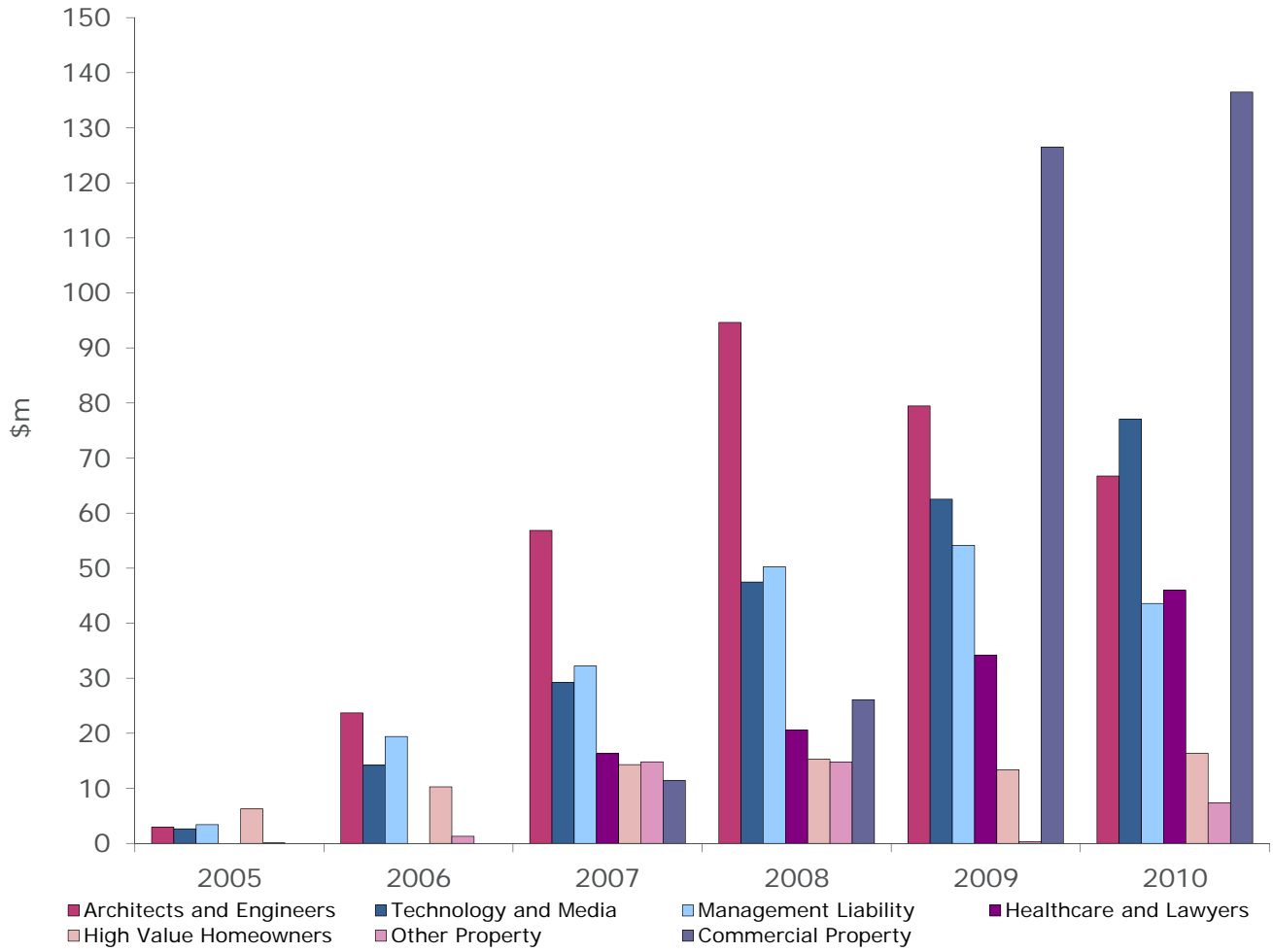
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# US originated business delivers \$393.6m

## GWP by Product

## Commentary

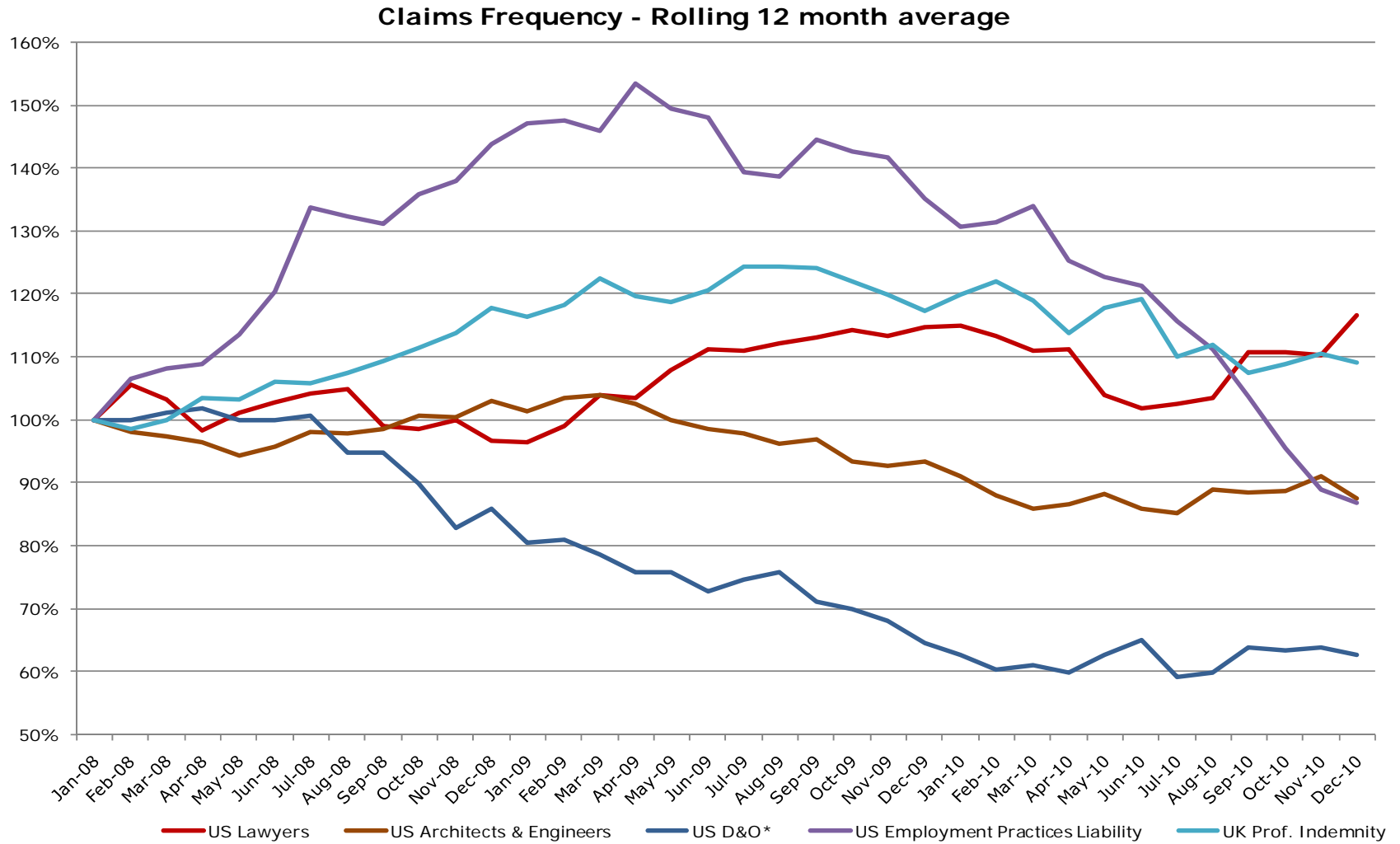


- Commercial property includes \$110.0m written by First State
- Significant contributions in 2010 from:
  - Architects & Engineers - \$66.7m
  - Technology & Media - \$77.1m
  - Management Liability - \$43.6m
  - Healthcare & Lawyers - \$46.0m





# Recession planning: Frequency has reverted to normal levels



\*US D&O statistics are market-wide

## Life accident & health

Year Ended 31 December

	2010	2009
Gross premiums written (\$m)	<b>78.1</b>	67.9
Net premiums written (\$m)	<b>71.4</b>	63.4
Net earned premiums (\$m)	<b>65.9</b>	35.4
Claims ratio	<b>53%</b>	54%
Rate change on renewals	-	NA
Percentage of business led	<b>58%</b>	65%

- Strong premium growth achieved in 2010 in our life portfolio and in personal accident business via our Brisbane office
- Developing our US admitted business, headed by Paul Gulstrand, which is due to start writing business in 2011
- Claims ratios in line with expectations

## Marine

### Year Ended 31 December

	2010	2009	
Gross premiums written (\$m)	<b>261.7</b>	265.0	• Gross premiums down 1% in a generally softening market
Net premiums written (\$m)	<b>235.6</b>	228.9	• War premiums up on the back of increasing threats
Net earned premiums (\$m)	<b>234.7</b>	239.9	• Energy account seeing rating rebound post Deepwater loss. Successful launch of our Oslo office
Claims ratio	<b>38%</b>	39%	
Rate change on renewals	<b>(3%)</b>	8%	
Percentage of business led	<b>53%</b>	52%	

## Political risks and contingency

Year ended 31 December

	2010	2009	
Gross premiums written (\$m)	<b>100.9</b>	127.6	• Terrorism: significant market losses in Thailand avoided
Net premiums written (\$m)	<b>79.9</b>	98.6	• Contingency: team continues to build with additional underwriting resources deployed in UK and Australia
Net earned premiums (\$m)	<b>87.7</b>	112.9	• Political: claims reserves on 2007/2008 are stable
Claims ratio	<b>29%</b>	76%	
Rate change on renewals	<b>(2%)</b>	(1%)	
Percentage of business led	<b>67%</b>	67%	

# Property

## Year ended 31 December

	2010	2009	
Gross premiums written (\$m)	<b>382.5</b>	394.4	• Rate change down driven by large risk property
Net premiums written (\$m)	<b>283.8</b>	283.1	• Claims ratio improved, good results from First State
Net earned premiums (\$m)	<b>286.9</b>	272.4	• Market continues to be competitive into 2011
Claims ratio	<b>49%</b>	58%	
Rate change on renewals	<b>(4%)</b>	6%	
Percentage of business led	<b>77%</b>	62%	

## Reinsurance

Year ended 31 December

	2010	2009	
Gross premiums written (\$m)	<b>174.4</b>	142.2	<ul style="list-style-type: none"> <li>• Strong growth in premiums achieved due mainly to special purpose syndicate 6017</li> <li>• Munich office continues to develop well writing \$10.5m</li> <li>• Claims ratio impacted by earthquake in Chile and New Zealand</li> </ul>
Net premiums written (\$m)	<b>134.4</b>	117.3	
Net earned premiums (\$m)	<b>132.1</b>	117.0	
Claims ratio	<b>63%</b>	33%	
Rate change on renewals	<b>(3%)</b>	10%	
Percentage of business led	<b>36%</b>	38%	

## Specialty Lines

Year Ended 31 December

	2010	2009
Gross premiums written (\$m)	<b>744.0</b>	754.2
Net premiums written (\$m)	<b>597.1</b>	540.1
Net earned premiums (\$m)	<b>602.7</b>	571.3
Claims ratio	<b>61%</b>	61%
Rate change on renewals	<b>(2%)</b>	(1%)
Percentage of business led	<b>93%</b>	91%

- Strong performance in technology, offset by reduction in architects and engineers and directors and officers
- Prior year releases of \$56.9m (2009; \$57.8m)
- A number of new product lines successfully launched including environmental and reps & warranties insurance