

Beazley Group plc

Annual report
and accounts
2008

embracing risk reducing uncertainty

Embracing risk, reducing uncertainty

Risk and uncertainty are often confused, but they are not the same. Risk can be measured and managed. Uncertainty cannot.

We turn our clients' uncertainties into risks – ones that we can quantify and manage. We specialise in complex risks because that is where, very often, we can most reduce the uncertainties that threaten our clients' livelihoods and peace of mind.

In the management of our own affairs, the distinction between risk and uncertainty is also important. For 2009 we have increased our risk appetite in many lines of business, while taking measures to reduce the potential volatility of our investment returns.

Embracing risk, reducing uncertainty – we do both.

we do both.

About Beazley: Based in London since 1986 and floated on the London Stock Exchange in 2002, Beazley (BEZ.L) is the parent company of a global specialist risk insurance and reinsurance business operating through Lloyd's and Beazley Insurance Company, Inc., a US admitted carrier in all 50 states. Beazley also has offices in Hong Kong, Singapore, Paris, Munich and Brisbane.

Beazley is a market leader in many of its chosen lines of business, which include professional indemnity, marine, reinsurance, commercial property, political and contingency risk and accident and life insurance.

Further information about us is available at www.beazley.com

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We **aim** to become, and be

Financial highlights: The group has achieved a profit before tax of £87.2m.

Profit before tax	Return on equity
£87.2_m	16⁰%

Profit before tax (excluding the effect of foreign exchange on non-monetary items)	Return on equity (excluding the effect of foreign exchange on non-monetary items)
£41.0_m	8%

	2008	2007	2006
Profit before tax and foreign exchange adjustments on non-monetary items (£m)	41.0	130.3	96.2
Profit before tax (£m)	87.2	138.5	86.8
Combined ratio	90%	90%	90%
Cash and investments (£m)	1,994.2	1,490.6	1,167.8
Average investment return	(1.5%)	4.9%	4.9%
Average rate (reduction)/increase	(6%)	(4%)	6%

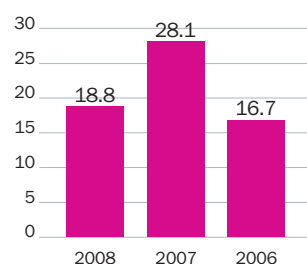
recognised as, the highest performing specialist insurer.



performance

Key performance indicators

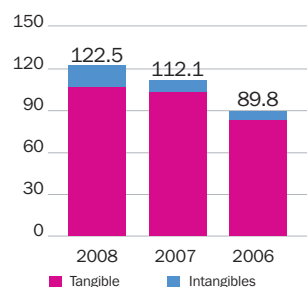
Earnings per share (p)



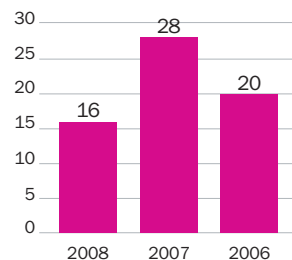
Dividends per share (p)



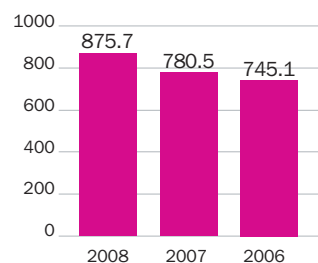
Net assets per share (p)



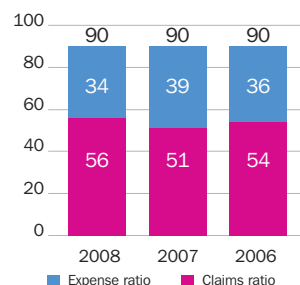
Return on equity (%)



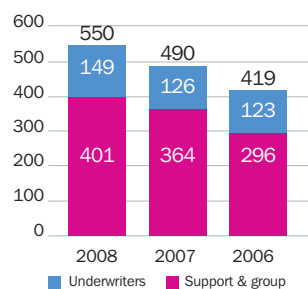
Gross premiums written (£m)



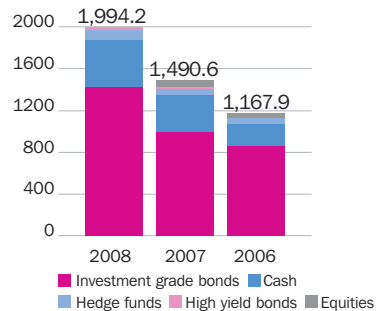
Combined ratio (%)



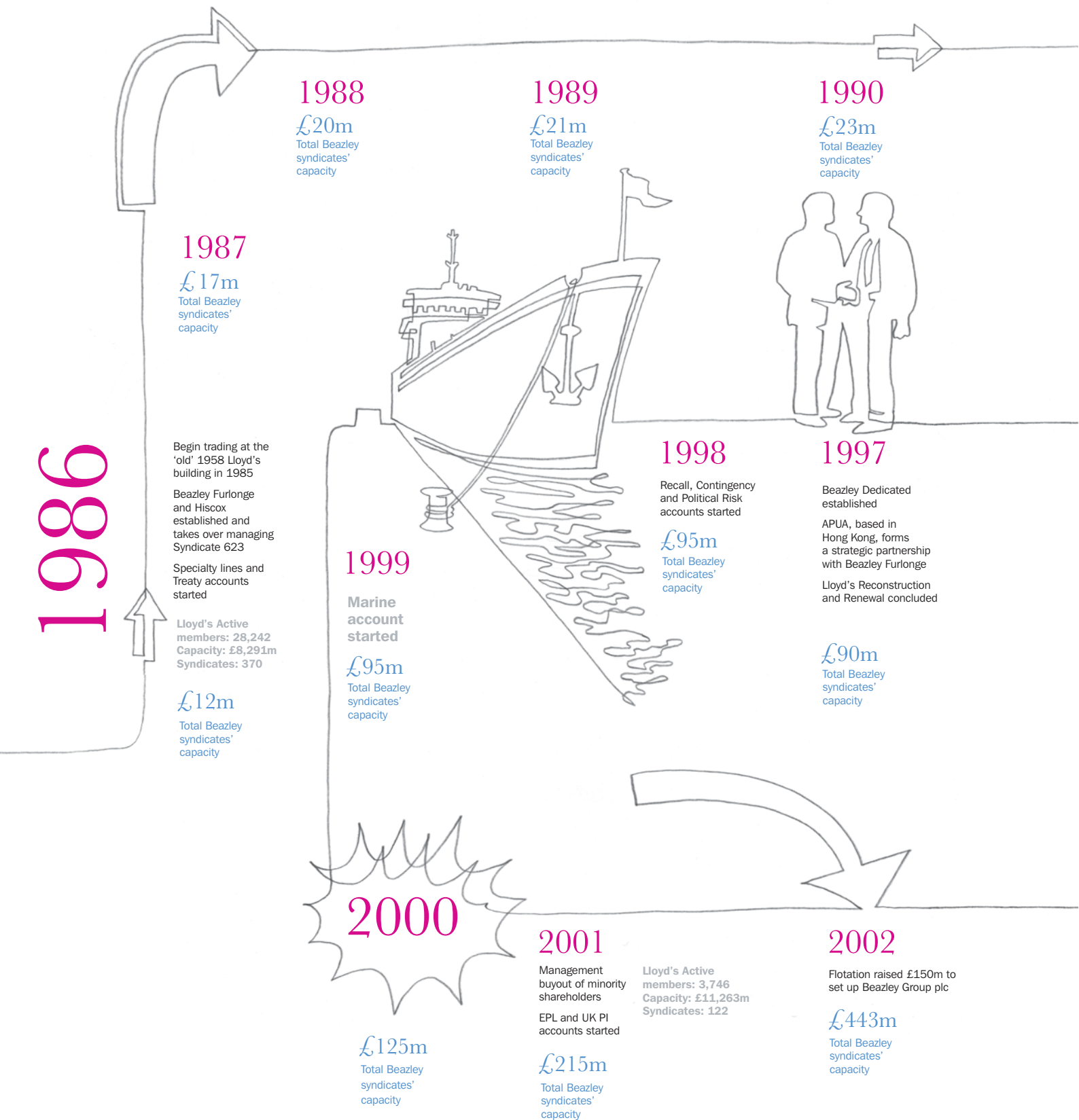
Employee numbers



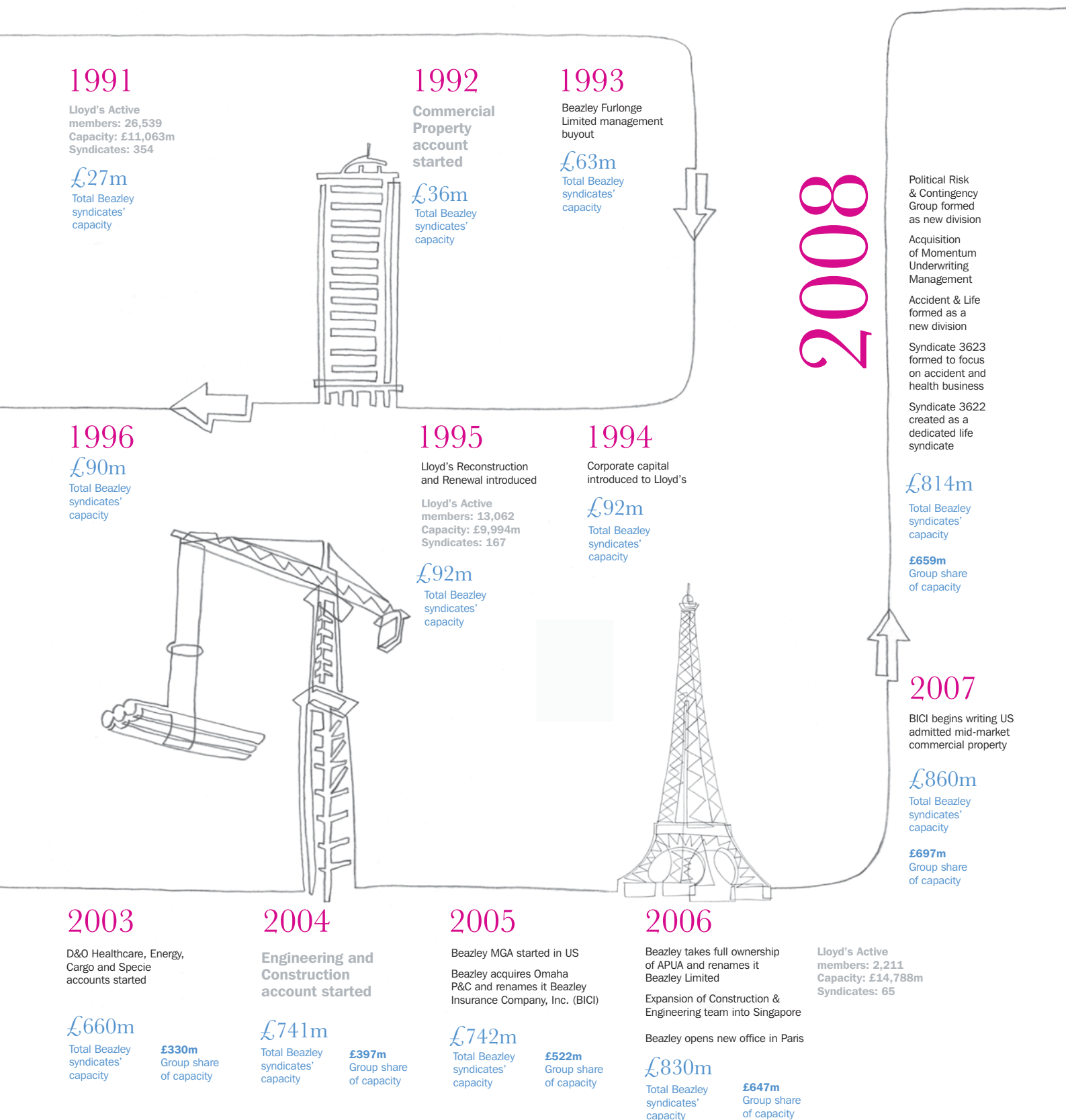
Investment mix (£m)



Our company has a powerful **history** and has



consistently turned a profit every year since inception in 1986.





Jonathan Agnew
Chairman

2008 has presented a number of challenges to the group both in our underwriting and investment returns. Notwithstanding these challenges, we achieved a profit before tax of £87.2m.

Overall

The board announces a profit before tax of £87.2m (2007: £138.5m). This includes a foreign exchange gain on non-monetary items of £46.2m (2007: £8.2m). The year proved a test for both underwriting and investment returns. Core underwriting activity remained robust in both our Lloyd's and US operations despite the losses sustained during the US hurricane season. Investment returns fell as a consequence of the ongoing credit crisis and turbulence in investment markets.

We believe that the scale of recent underwriting and investment losses and corporate distress incurred by major insurers has led to a significant fall in global underwriting capacity. This reduction has been compounded by the withdrawal of capital owing to liquidity constraints within the wider financial services industry. It is likely these factors will lead to improved pricing levels, terms and conditions.

In order to scale up our activities and make the most of the changes in underwriting conditions the group is proposing to raise £150m (net of expenses) through a rights issue and placing. As well as expanding our existing underwriting platforms, we will use part of the proceeds to fund the acquisition of First State Management Group Inc (First State), a subsidiary of Hartford Financial Services Group Inc, for cash consideration of \$35.4m payable upon completion.

The group also intends to change its corporate structure by establishing a new parent company, incorporated in Jersey and tax resident in the Republic of Ireland. The tax residence move to Ireland will provide a favourable base from which to develop the group's business.

Market conditions

Overall, rates on our renewal business fell by 6% in 2008, with reductions in the first nine months being slightly offset by a stronger performance in the last quarter. We initially saw fierce competition and rate reductions across all classes of business in both Lloyd's and the US. However, the credit crisis and to a lesser extent the impact of the 2008 US hurricane season have changed our marketplace and we are already seeing rate increases together with new business opportunities in many parts of our portfolio.

The financial events of 2008 have refocused the attention of insurance buyers on the financial strength of their carriers as well as on the need to diversify their sources of insurance and reinsurance protection. As the rating and reputation of Lloyd's and the rating of our US admitted carrier remain strong, we stand to benefit from these trends during 2009.

The Gulf of Mexico hurricanes in 2008 served as a reminder to our clients of the importance of insurance and reinsurance, with the loss estimates recorded as a result of hurricane Ike making it the fourth largest insured catastrophe in history. Latest estimates put this loss alone at \$20bn. Our energy, US commercial property and reinsurance accounts are all experiencing rate increases as a result, with renewals delivering increases of around 10%, 8% and 8% respectively.

US operations

We continued to make good progress in developing our US platform in 2008 with premium growth in the year of 54% to \$269.1m. As Andrew Horton explains in the business review, the development of our US operations remains a key strategic objective for the group, enabling us to access more business in the largest non-life

insurance market in the world. The focus of these operations is to win business that would not traditionally have come through Lloyd's.

The US operations were established in 2005, and we have seen sustained growth since we started. Business is written through our wholly owned managing general agent, based in Farmington, Connecticut. Surplus lines premiums flow to our Lloyd's syndicates while admitted business is underwritten by our US insurance company (Beazley Insurance Company Inc., "BICI"), which is licensed to write insurance business in all 50 states. BICI is separately capitalised to \$111.0m. In November, AM Best affirmed the financial strength rating for BICI as A (Excellent). During 2008 our US operations generated surplus lines premiums of \$98.8m (2007: \$64.3m) for our Lloyd's syndicates, with the admitted business underwritten by BICI higher at \$170.3m (2007: \$110.9m).

We saw growth across the full range of specialty lines and property business that we underwrite locally in the US market in 2008, and were especially pleased to see the progress made in our professional liability architects and engineers account, where we increased premiums written by 66% to \$94.6m, and in our technology and media professional liability business, where we expanded our premiums written by 62% to \$47.5m.

We expect our US operations to continue to grow in 2009 with premiums target of \$450m, of which First State is expected to contribute \$150m after the acquisition.

Combined ratio

The group's combined ratio held steady at 90% in 2008 (2007: 90%). Within this we saw our claims ratio increase to 56% from 51% in 2007, and our expense ratio fall to 34% from 39%. Hurricanes Gustav and Ike in

the third quarter of 2008 added 4% to the claims ratio, reducing net profits by £25.2m. We did however, continue to see positive development in our other lines, especially in the specialty lines account which generated reserve releases of £28.0m in 2008 (2007: £24.5m).

Our expense ratio has reduced as a result of increased net earned premiums, reduced variable incentive costs in line with the reduced profit, and a change in business mix reducing combined brokerage.

The combined ratio, that comprises the claims ratio and the expense ratio, has been calculated excluding the foreign exchange impact on non-monetary items as we believe this is a more transparent representation of operating performance. The 2006 and 2007 ratios have also been re-calculated on this basis.

Investment performance

2008 was a tumultuous year for investments as almost all asset classes, with the notable exception of government bonds, declined in value. The steady deterioration in the investment environment in the first half of the year accelerated dramatically in the third quarter as Lehman Brothers was forced to file for bankruptcy and AIG, among others, was bailed out by the US government.

As has been well documented, these events proved to be "game changers" in the financial system: the wholesale funding markets froze, triggering a rolling collapse among financial institutions, with the system only held together by ever larger mergers and the provision of government support. Against the backdrop of this crisis, we have been working with our managers further to reduce risk in our portfolio, including reducing our equity exposure. Despite these efforts, our

investment portfolio returned a loss of £25.8m (-1.5%) during 2008, compared with a positive return of £64.9m (4.9%) in 2007.

We are currently in the process of increasing our investment management resources with an objective of enhancing investment returns and minimising investment risk. We are investing in the setup of an associated investment management firm Falcon Money Management (Falcon). Falcon will be regulated by the FSA and will provide investment management and advisory services, initially solely to Beazley, and at a later stage to third party institutional clients.

Momentum Underwriting Management (Renamed Beazley Underwriting Services Limited)

In November we completed the acquisition of Momentum Underwriting Management Ltd, a leading specialist personal accident and life underwriting management agency based in London with an office in Australia.

To support this acquisition, we established two new Lloyd's syndicates. Syndicate 3623 focuses on personal accident including insuring sports business. Syndicate 3622 is a dedicated life syndicate. We expect to underwrite approximately \$100m in gross premiums through these two new syndicates in 2009.

Our approach to acquisition opportunities remains measured and targeted. We look for teams with a strong underwriting track record who will fit with our culture. Our focus is on businesses that specialise in lines that we know well, and where we have an appetite to expand our presence.

Capital

The group requires capital for a number of reasons: to support our underwriting at Lloyd's, to support our US operations, and to fund acquisitions of insurance

companies or managing general agents which strategically fit with our business. In the financial review, we describe how these are financed – a mixture of shareholders' funds, long-term debt and short-term banking facilities.

The group has an active capital management policy, maximising the available capital within the group during periods when capital can be deployed to support profitable underwriting and returning surplus capital to shareholders when underwriting conditions are considered less favourable.

Consistent with this strategy, during the early part of 2008, the group repaid £24.9m surplus capital to shareholders through a share buyback programme and paid a special dividend of £14.0m. At the end of 2008 the group had a surplus over required capital of £58.7m.

Now that trading conditions have improved, and we have identified opportunity to exploit these conditions, the group proposes to raise a further £150m (net of expenses) through a rights issue and placing. We will use the proceeds to:

- fund the acquisition of First State, a US-based underwriting manager specialising in commercial property insurance. First State provides access to one of the most experienced property teams in the US market with an extensive distribution network. The team have built a strong track record of consistent profitability and are well-known to the group; and
- provide additional capital to support the expansion of the group's existing underwriting activities driven by current and anticipated rating improvements and the effects of recent foreign exchange rate movements.

Dividend

The board proposes a final dividend of 4.4p per share. This brings the full year dividend, including the interim

dividend, to 6.6p per share. In 2007, the group proposed ordinary dividends of 6.0p, together with a special dividend of 4.0p. The final dividend will be paid on 30 April 2009 to shareholders registered on 13 March 2009.

Management update

During the year we announced a number of changes to the senior executive team. Andrew Horton, formerly the group's finance director, replaced Andrew Beazley as chief executive officer. Andrew Horton has been with the group for over five years, and has extensive financial services experience. I believe he is exceptionally well placed to lead the group through these testing times. At the same time I was delighted that Andrew Beazley, who co-founded and has led the group since its creation in 1986, took up a new executive role as deputy Chairman – providing support and insight to the new management team and the group's underwriters.

Johnny Rowell, who managed the specialty lines team and chaired the group's underwriting committee, left the company in June 2008. Johnny has been succeeded by Adrian Cox, who joined the group in 2001, and has been in charge of the majority of the team since 2007.

Neil Maidment who has run the reinsurance business since 1996 now chairs the underwriting committee and also manages the political risks and contingency group and the accident and life team.

Jonathan Gray who manages the property business now chairs a new US management team focusing on the development of the group's US business whether underwritten at Lloyd's or locally in the US market.

We also appointed David Marock to a new role of chief operating officer. As the group has expanded and become more complex, the need for a strategic,

centralised approach to all our operations became more apparent. David, who was formerly with McKinsey and Co, has been with the company for three years leading our claims team in specialty lines.

Marty Becker, a non-executive director, resigned from the company in October 2008. Marty joined the board in May 2006 and the board would like to thank him for his valuable contribution during this period.

In addition to these changes we recently appointed a new finance director, Martin Bride. Martin joins us from Zurich Financial Services (Zurich) where he was CFO of the UK Life business. Prior to joining Zurich, he was CFO of Aviva France and his career includes a number of senior level finance and general management roles in insurance.

Conclusion

2008 has been a difficult year. Despite challenging market conditions, we have achieved a creditable profit. Our underwriting performance, both at Lloyd's and in the US, remains solid and we are starting to see price increases in most markets.

We are actively reviewing our investment portfolio to determine an approach that enables us to focus on underwriting for profit while achieving the best returns for a restricted risk appetite.

I am confident that the initiatives described above will further enhance the group and enable us to take full advantage of the more attractive rating environment and the growth opportunities now in prospect.

Jonathan Agnew
Chairman

13 February 2009



Andrew Horton
Chief executive

In September last year, as the outlook for financial markets darkened, our executive team met to reassess our vision for the company, not just for the turbulent times ahead but for the longer term.

Our vision

In last year's annual report we described our vision to build a premier risk-taking business measured by results and reputation. Since then, public awareness of the risks run by all businesses has grown. We thought it would be beneficial to state clearly the risks we are willing to assume and, within this context, to articulate our commitment even more strongly.

Accordingly, in September last year, as the outlook for financial markets darkened, our executive team met to reassess our vision for the company, not just for the turbulent times ahead but for the longer term. We agreed that our revised vision should be "to become, and be recognised as, the highest performing specialist insurer".

For our investors, this means that we aim to achieve the highest total shareholder returns and return on equity over the insurance cycle in our sector. Clearly this is a demanding objective that requires a coordinated effort from all parts of the group. If we outperform for our investors it will only be because we have first met and exceeded the expectations of our clients and brokers. And that in turn will depend on putting the considerable talents of our people to the best possible use.

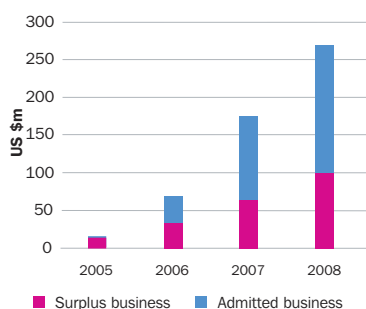
We have confidence that our vision is realistic because, in all the above respects, we are making good progress. For example, we see claims service as an important

differentiator. A claim is a moment of truth in which client relationships can be strengthened or weakened, and we have invested heavily in claims expertise to maximise our value to our clients. Similarly, relevant and practical risk management advice is a win-win for us and our clients. It reduces our cost of claims and, for our clients, prevention is always better than cure. We like clients that take risk management seriously and we are glad to provide them with tools and resources to help them do so.

For brokers, our focus is on making their lives easier and helping them to enhance their service to clients. To take one example, in a recent survey among US commercial property insurance brokers conducted by Conning Research & Consulting, more than three quarters of respondents said that insurance policies that take months to arrive (a common occurrence in the US market) were either very or extremely frustrating to their clients. We have engineered our US commercial property underwriting systems to issue policies within 24 hours of binding in over 90% of cases.

At root, our biggest differentiator is our people. We take extreme care to hire the right people at Beazley – individuals who are not only skilled at what they do, but who can work well together in teams. And we combine the skills of our people in ways that are still uncommon in the insurance industry, bringing underwriters and claims experts together in integrated teams.

US premiums written since 2005



Our revised vision is important for what it excludes as well as for what it includes. We are not simply a “risk-taking business”; we are a specialist insurer. As such, our primary focus is on the underwriting of insurance risks. We invest the premiums paid by our clients carefully, seeking to mitigate our potential for underwriting losses rather than aggravate it. This conservatism has been a feature of Beazley’s investment management since the company’s foundation 22 years ago. We may occasionally have foregone exceptional profits on higher risk assets, but – more importantly – we have never posted a combined underwriting and investment loss.

Finally, we are a *specialist* insurer. In our industry, the word “specialist” sometimes needs to be taken with a grain of salt as no insurer would willingly admit to being a generalist. But we can claim more justification than most. We do not write all classes of business and in recent years our caution about certain lines – notably financial institutions D&O – has proved justified.

Growing with our brokers

As a broker-focused insurer, our success depends on our ability to offer brokers products and services that will enhance their perceived value in the eyes of clients. This is something we have sought to do throughout our history, but as our brokers’ own businesses have become more complex, the task of optimising our value to brokers has also become more complex.

In 2008 we concluded that the development of these relationships would benefit from a more structured approach. The objectives of our broker relations programme are to make Beazley the easiest insurer for brokers to do business with, and the insurer that they have most confidence in recommending to their clients.

As a Lloyd’s insurer our relationships with Lloyd’s brokers are clearly critical to our long-term success. The rationale for our international offices – whether in the US, Asia or, most recently, in Munich, Germany – has been to gain access to business that would not normally come to London through Lloyd’s brokers. For most of the lines of business in which we specialise, the Lloyd’s brand and the expertise of Lloyd’s brokers are invaluable assets and we will play our part in maintaining – and, wherever possible, increasing – the lead that London enjoys over other competing insurance and reinsurance centres.

Risk appetite

The group has undertaken a thorough review of its risk appetite in each of its lines of business. Consistent with our stated strategy, we are seeking to capitalise on market dislocation and achieve growth in those lines of business where underwriting terms and conditions are most attractive. In the near term, these include the offshore energy, large US commercial property and reinsurance accounts. Furthermore, we expect that the rate improvements already being experienced in our catastrophe exposed lines will extend to other specialist businesses during 2009.

The group will increase its catastrophe risk appetite for a probabilistic 1 in 250 year US event to \$510m (net of reinsurance) (2008: \$340m). We believe that this increase in the estimated probable maximum loss represents an appropriate increase to the group's risk appetite during times of attractive pricing conditions.

US business

Our locally underwritten US business increased significantly in 2008, growing to \$269.1m from \$175.2m the previous year and beating our full year target of \$250m. Of this, \$170.3m was written for the account of our US admitted insurance company, Beazley Insurance Company, Inc., while the remaining \$98.8m was written on a non admitted basis for the account of our Lloyd's syndicates.

The growth of our local US operations in 2008 played a key role in our cycle management strategy, giving us access to smaller risks that are generally less price sensitive than the large scale risks we typically underwrite at Lloyd's. To take one example, while we insured 30 of the top 50 A&E design firms in 2008 (as ranked by *Engineering News-Record*) we also won more than 2,000 new, smaller scale A&E clients.

In addition to professional liability business, we also underwrite a growing volume of management liability and property business locally in the US. In 2008 the gross written premium breakdown was \$165.7m in professional liability; \$47.3m in management liability; and \$56.1m across our property portfolio.

We are delighted to announce the acquisition of First State, which specialises in US surplus lines commercial property insurance. This business is part of Hartford Financial Services Inc, and is well known to the group having been a reinsurance client of ours for many years. It is a business we have always admired and we believe will be an excellent fit with our existing US property teams. It plans to write \$150m in 2009.

Europe

Europe, including the UK, accounted for £180.6m, or 21% of our gross premiums, in 2008. European markets present many of the criteria that are attractive to us in the United States: they are developed insurance and reinsurance markets with significant demand for the products and expertise that we offer. However, broker penetration in many continental European markets is lower than in the US or UK, presenting a challenge to us as a broker-focused insurer. Accordingly, we have proceeded carefully in identifying niche opportunities where we can add substantial value.

In October we opened our second office in continental Europe, in Munich, following the establishment of our Paris office in 2006. Our objective in Munich is to access high quality reinsurance business, not only from Germany but also from Austria and Switzerland, that has not historically come to London. We believe that our underwriting skills and emphasis on long-term client relationships – more than 80% of our top 20 clients have reinsured with Beazley for 15 years or more – will prove attractive in these markets.

Claims service

We have invested significantly in high quality claims service across our lines of business in recent years. When insurance markets are highly competitive, as they were for most of 2008, a reputation for excellent claims service is a means to strengthen client loyalty and retention.

We are unusual among Lloyd's based insurers in having claims staff in the US as well as in the UK, as we believe there is value in locating claims expertise closer to our clients.

We are delighted that Anthony Hobkinson has joined us to lead our specialty lines claims team and build upon the strong foundations that David Marock, our new chief operating officer, has established over the past three years. Anthony brings with him more than 20 years' experience as a senior lawyer helping insurance and reinsurance clients resolve complex claims. He joins Beazley from CMS Cameron McKenna.

Outlook

In order to meet the favourable opportunities presented by enhanced underwriting conditions, we propose to raise £150m of additional capital through a fully underwritten rights issue and placing. The capital raised will be used mainly to profitably expand our existing underwriting operations. As referred to above, part of the proceeds will also be used to acquire First State, thereby expanding our local presence in the US.

We expect to see premium rates continuing to increase in most of our business lines in 2009, a trend that is likely to be accentuated by a continuing flight to quality by clients from insurers perceived as offering less than impeccable security.

Our Lloyd's-based operations are well positioned in this environment but we also expect to see further growth both organically and through the purchase of First State in our US operations.

Andrew Horton

Chief executive

13 February 2009

We underwrite a diverse book of insurance and reinsurance business for clients worldwide out of Lloyd's and from offices in the United States, France, Hong Kong, Singapore and Australia.

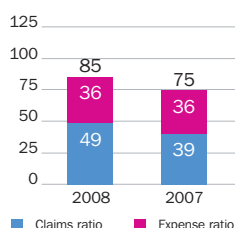
Marine



Clive Washbourn
Head of Marine

	2008 £m	2007 £m
Gross premiums written	148.7	139.8
Net premiums written	128.2	119.0
Results from operating activities	18.1	37.3
Claims ratio	49%	39%
Expense ratio	36%	36%
Combined ratio	85%	75%
Rate decrease	(6%)	(7%)

Combined ratio (%)



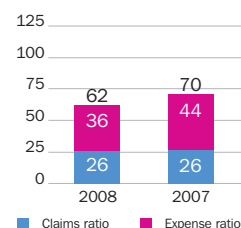
Political risks and contingency



Adrian Lewers
Head of Political risks and contingency

	2008 £m	2007 £m
Gross premiums written	70.4	64.8
Net premiums written	56.0	56.5
Results from operating activities	21.0	17.9
Claims ratio	26%	26%
Expense ratio	36%	44%
Combined ratio	62%	70%
Rate decrease	(6%)	(8%)

Combined ratio (%)



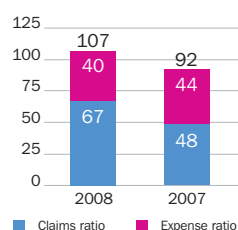
Property



Jonathan Gray
Head of Property

	2008 £m	2007 £m
Gross premiums written	179.2	188.0
Net premiums written	147.2	157.4
Results from operating activities	(10.7)	22.5
Claims ratio	67%	48%
Expense ratio	40%	44%
Combined ratio	107%	92%
Rate decrease	(6%)	(2%)

Combined ratio (%)



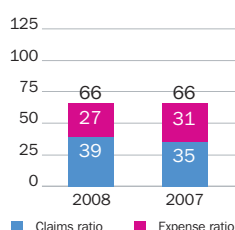
Reinsurance



Neil Maidment
Head of Reinsurance

	2008 £m	2007 £m
Gross premiums written	70.2	57.8
Net premiums written	58.0	49.6
Results from operating activities	17.9	24.6
Claims ratio	39%	35%
Expense ratio	27%	31%
Combined ratio	66%	66%
Rate (decrease)/increase	(6%)	5%

Combined ratio (%)



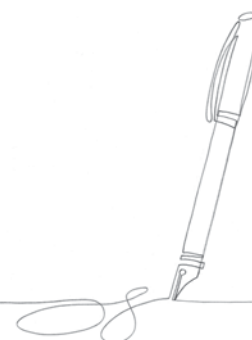
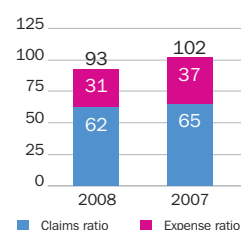
Specialty lines



Adrian Cox
Head of Specialty lines

	2008 £m	2007 £m
Gross premiums written	407.2	330.1
Net premiums written	351.0	269.7
Results from operating activities	7.3	40.0
Claims ratio	62%	65%
Expense ratio	31%	37%
Combined ratio	93%	102%
Rate decrease	(7%)	(5%)

Combined ratio (%)





Clive Washbourn
Head of Marine

marine

Our marine team writes approximately 10% of the world's ocean going tonnage and is the leader of voyage and tow business in the Lloyd's market. We also insure 35% of the world's top 200 oil and gas companies.

Profile

Led by Clive Washbourn, the marine team are established leaders in all the main classes they write, which include marine hull, cargo, war and energy physical damage. We are able to attract the highest quality business through our leadership position and in-depth knowledge of the segment. As the portfolio has grown, we have continued to strengthen our underwriting and claims team.

Market overview

2008 has been a tough year for our marine insurers, with rates on renewal premiums falling consistently in the first nine months. Over the course of the year, our premium rates reduced by 6%, with the offshore energy market being the most severely affected. The hurricanes in the third quarter reversed this trend. Hurricane Ike, which caused catastrophic damage to large areas in the gulf region in September, is being quoted as being the second largest energy loss in history. Our own estimate is that for offshore energy platforms alone, Ike caused in excess of \$3bn of industry insured losses. Since these events we have seen significant price improvements in our energy account – with the Gulf of Mexico exposed renewal business experiencing rate increases of around 50%.

Current performance

Despite the tough rating conditions the marine team had a good year. Gross premiums written increased to £148.7m (2007: £139.8m), largely a result of the higher US dollar exchange rate in 2008.

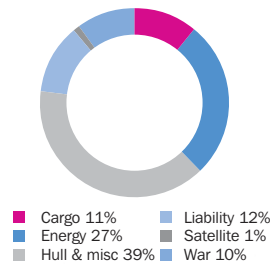
Our hull account has continued to grow, with its rates holding up well all year (down only 4%). Whilst this market is becoming increasingly competitive we have still seen a 12% growth in premiums during 2008. In a number of instances we continued to increase our written line to take advantage of the tail end of an incredibly buoyant shipping market.

As anticipated the energy physical damage market saw increased pressure on pricing in the first nine months of 2008. During this period, prices charged for our renewal accounts fell by up to 14%. Since the hurricane season, our market has turned more favourable, with rates increasing. Limitations in supply will serve to drive prices up even further.

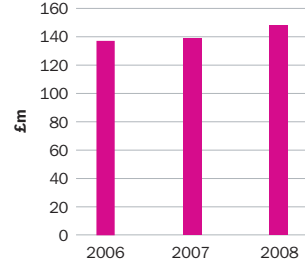
£148.7_m

Gross premiums written

Portfolio mix



Gross premiums written



Our war account, the insurance of ships and aeroplanes against terrorist and war risks, continues to perform well. We write the largest hull, war and terrorism account within Lloyd's and due to our historical experience of low losses we continue to generate a good profit. The pirate activity in the Gulf of Aden has given us considerable premium growth in the last quarter and appears at this stage to be very profitable.

The cargo account has once again had a tough year – with both premium rates and volumes written in decline. From around the middle of 2008, we have focused our attention on positioning the account to be as sheltered from the world's economic crisis as practical.

The UK regional cargo account, which insures freight and land cargo, as well as regional water transport vessels continues to make steady progress. The market in the regions for these types of insurance is particularly competitive and we have been selective in growing the business through writing only well managed risks at rates we believe can meet our return targets.

Outlook

We anticipate 2009 to be a year of rating disparity between our energy portfolio and the rest of our classes.

We expect a growth of income and profitability from our energy account as rates, terms and conditions improve as a reaction to hurricane Ike losses. The hull, war and cargo accounts are going to have a difficult trading year as both values and volumes collapse on the back of the world's economic crisis. Income is expected to be down considerably in these classes. The marine liability portfolio will see small rises on a substantially reduced income as the team have declined to renew three large contracts that are failing to meet our expected profit margins.

Our team is expected to continue to trade profitably in all classes and will continue to seek profitable opportunities where and when they arise.



Adrian Lewers

Head of Political risks and contingency

political risks & contingency

Our innovative product range enables our insureds to achieve their business ambitions and mitigate complications outside their direct control. We set ourselves apart because we make rapid decisions based upon a deep understanding of our clients' business models and the political and economic environments in which they operate.

Profile

Led by Adrian Lewers, the political risks and contingency group (PCG) was formerly included within the specialty lines division at Beazley. In early 2008 PCG became a fifth underwriting division of the group in recognition of the volume of business generated and also the distinctive nature of the business written. During the year PCG delivered 8% of the group's gross premiums written, providing lead capacity in three specialist segments: political risks, contingency and terrorism.

As well as the core team in London, PCG has two underwriters in Singapore. The team continues to identify opportunities globally and ally its expertise across classes of business with other Beazley underwriters.

Market overview

Competition for terrorism business has been intense in recent years with rates falling consistently since the

attacks on the World Trade Centre in 2001. This has been offset partially by lower than expected rate reductions across the political risks and contingency classes where demand continues to be strong. Despite the increased competitive pressures across all classes we have managed to maintain our portfolio of profitable business and believe we are in a strong position to continue to grow our offering of specialist cover and exceptional claims service to clients at a time when the changing political and economic environment demands it.

Current performance

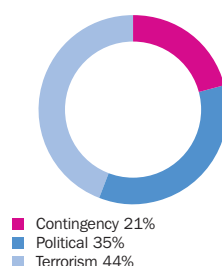
Gross premiums written increased by 9% for PCG to £70.4m for 2008. Rate reductions for PCG as a whole during 2008 were 6% with rates down markedly for terrorism business by 12% and to a lesser extent for contingency of 2% and an increase for political risks business of 6%.

£70.4m

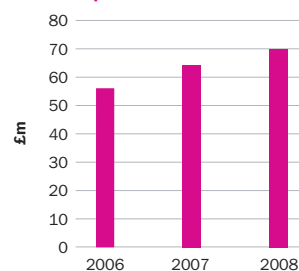
Gross premiums written



Portfolio mix



Gross premiums written



The recent terrorist attacks in Mumbai are only expected to result in a couple of minor claims for the group. It has been possible to make prior year reserve releases from claims in respect of terrorism business amounting to £11.6m during the year, reflecting the benign claims environment in this class up until 2008.

Outlook

The global economic downturn is expected to present attractive underwriting opportunities for some classes of business. Within the political risks business we anticipate that there will be an increased demand for insurance cover from banks, commodity traders and other financial institutions as they look to achieve capital efficiency and to some extent diversify from capital markets in order to more effectively manage their risk. The pricing environment is very favourable at present and this is expected to continue through 2009.

We expect that the contingency business will continue to see downward pressure on rates as the impact of recession affects demand, particularly in areas such as event cancellation.

Within the terrorism account we see underwriting innovation as a key differentiator in this competitive area, and we see particular scope to develop the business into emerging markets as they increasingly form a more important part of the world economy.



Jonathan Gray
Head of Property

property

The acquisition of First State Management Group Inc represents an excellent opportunity which is consistent with the group's cycle management strategy of expanding its underwriting activities in catastrophe related classes at times of attractive underwriting conditions.

Profile

Led by Jonathan Gray, our specialist underwriting teams lead the programmes of US Fortune 1000 clients and insure some of the world's largest construction projects. In addition we insure homeowners, jewellers' risks and small commercial property clients and account for 20% of the group's gross premiums written.

With expansion in the US, we are also able to write commercial property risks on both an admitted and surplus lines basis locally, as well as high value homeowners' risks on a surplus lines basis. The diverse nature of our clients, class types and distribution platforms enable us to provide the group with a well-balanced portfolio and manage the cycle.

Market overview

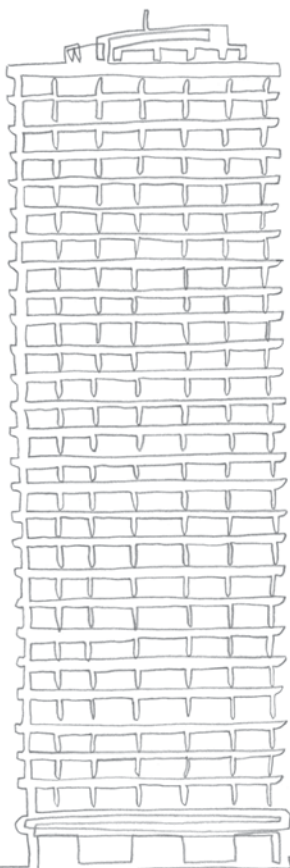
As with other lines of business, the property group experienced a tough rating environment in the first nine months of 2008. Rates fell as a result of low claims incidence in 2006 and 2007, with both years having benign hurricane seasons with large commercial property risks seeing the greatest reductions. Overall, during 2008 property group saw rates fall by 6% on their portfolio.

2008 saw a marked increase in loss activity, with a number of large single risk losses in the first half of the year followed by hurricanes Gustav and Ike in the second half of 2008: this increased loss activity, together with the turmoil in financial markets and the difficulties faced by some insurers, is expected to lead to increased opportunities, with rates hardening and an improvement in terms and conditions. We saw some evidence of this in late 2008 and January 2009, but do not expect to witness the full impact of these market-changing events until the second quarter of 2009 and beyond.

In January 2009, we have already seen rate increases in our US commercial property account averaging 8%.

Current performance

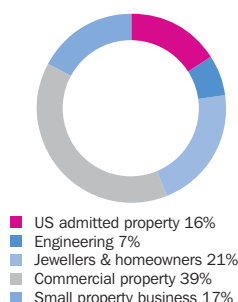
Gross premiums written fell in 2008 by 5% to £179.2m as a result of the pressure on rates highlighted above, our declining risks which no longer met our rating requirements and reduced new business volumes. We restructured our homeowner's account, with loss-making accounts not being renewed and our UK revised postcode rating tables being implemented with rates increasing on average between 10% and 15%.



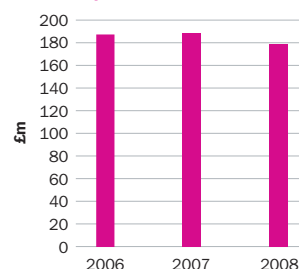
£179.2_m

Gross premiums written

Portfolio mix



Gross premiums written



Our engineering & construction account had a tough year, with a number of construction projects either being postponed or cancelled because of global recessionary conditions. Our Singapore office, which opened in November 2006, continues to be well received and is gaining traction in the local market.

In the US we saw further growth in premiums written to \$56.2m in 2008 (2007: \$39.3m) in testing markets. Business is accessed through our US managing general agent, and is insured through either the combined syndicate (on a surplus lines basis) or the US insurance company (on an admitted basis). Our high value homeowners team, based in Florida, had a successful year, writing \$15.2m (2007: \$14.3m) despite very competitive conditions. Our commercial property business, underwritten from three main offices in the US, continues to gather momentum writing \$26.1m (2007: \$11.5m). We are finding that this market is responsive to our commercial product offering of experienced underwriting, broad coverage and rapid policy issuance.

Outlook

The property group is well positioned to take advantage of the likely increase in rates and improved market conditions in 2009. Catastrophe losses, lower investment returns, and higher costs of capital for insurance providers, when taken together can be expected to create a rating environment that will be more favourable for insurers. 2009 is therefore expected to see improved terms and conditions in our US markets, particularly those risks which are catastrophe exposed.

We anticipate further growth for our US operations in 2009 as these business units take advantage of the turmoil in some domestic insurance markets, offering stable and secure capacity in an improved rating environment, as customers look to diversify their insurance and credit risk.

We also believe that the acquisition of First State Management Group Inc represents an excellent opportunity which is consistent with the group's cycle management strategy of expanding its underwriting activities in catastrophe related classes at times of attractive underwriting conditions; and diversifying its portfolio of specialist business into niche international markets which benefit from high barriers to entry.



Neil Maidment
Head of Reinsurance

reinsurance

Our newly established underwriting presence in Munich will provide access to the smaller and mid-sized commercial market in Germany and continental Europe that would not ordinarily place business at Lloyd's.

Profile

Led by Neil Maidment, the reinsurance division provides protection to a significant proportion of the world's leading general insurers, some of which have been clients for over 20 years. Specialising in property catastrophe, property risk excess, casualty catastrophe, aggregate excess of loss and pro-rata business, the team's main exposures outside the US are in the UK, Europe, Japan, Canada and Australasia. The reinsurance division represents 8% of the group's 2008 gross premiums written.

Market overview

After the significant price increases in the reinsurance market in 2006 and 2007, pricing reductions were experienced in the first nine months of 2008 following two years of a benign claims environment.

Hurricanes Ike and Gustav, in the third quarter of 2008, served to reinforce our longstanding relationships with clients and confirm their requirements for catastrophe

reinsurance. We are already seeing an improvement in rating conditions in our markets, with rates charged for renewal business increasing by 8% in January 2009.

2008 also saw a tightening of capital availability as part of the wider turmoil in financial markets. We expect this to impose a constraint on the risk appetite of reinsurers, reducing supply in the market at a time of increased demand. This presents an opportunity for strongly capitalised, proven carriers such as Beazley.

Current performance

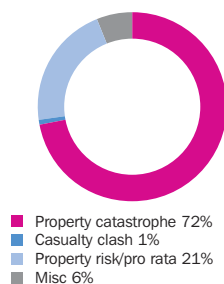
Despite the challenges presented to us in 2008, the reinsurance team has delivered a significant contribution to the group profit for the year. Gross premiums written increased by 21% to £70.2m for the year. Overall, rate reductions across the division of 6% were in line with expectations. These were driven by underlying reductions in rates for US-domiciled business of 8% and reductions of 4% in economies outside of the US.



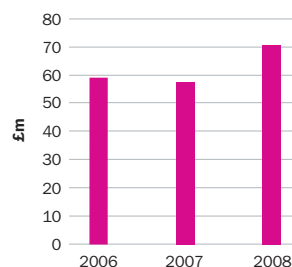
£70.2m

Gross premiums written

Portfolio mix



Gross premiums written



The 2008 hurricanes are expected to have caused combined losses of over \$20bn across the insurance industry as a whole. The cost of these events to the reinsurance account, net of the planned catastrophe margin which has been released, was £4.1m. In pro-actively managing the insurance cycle, dealing with well understood clients and risks, and learning from the experience of the 2005 hurricanes, we have limited our exposure to manageable levels.

Other significant reinsurance claims incurred during 2008 include a series of large industrial commercial risk losses totalling in excess of \$6bn across the market. It is not anticipated that these will have a material impact on the results of the division. Prior years continue to develop well for the catastrophe account enabling releases from claims reserves of £16.6m during the year, including £4.2m from the hurricanes of 2005 as there is more clarity regarding coverage.

Outlook

Recognising the impact of the financial crisis on the insurance and reinsurance markets we are positive about the prospects for the future as we move into the next stage of the insurance cycle.

We have continued to diversify our portfolio, establishing an underwriting presence in Munich. This will provide access to the smaller and mid-sized commercial market in Germany and continental Europe that would not ordinarily place business at Lloyd's. The valued support that we provide to our established long-term client base resulting in high business retention rates stands us in good stead for continued future profitability.



Adrian Cox

Head of Specialty lines

specialty lines

We see opportunities arising within our Lloyd's business as the strength of the Lloyd's brand and capital structure, coupled with Beazley's proven track record, provide comfort for insureds looking to manage their exposures in the economic downturn.

Profile

Led by Adrian Cox, specialty lines concentrates on errors & omissions and management liability. It is the largest underwriting division within the group, delivering 47% of gross premiums written. Prior to 2008 specialty lines included the political risks and contingency group (PCG) which has now been established as a separate division of Beazley. The 2007 comparative figures have been restated to reflect this change.

Our philosophy is to deploy small teams of experienced, able, empowered underwriters in specialist classes where such a structure provides competitive advantage. Many of our clients and broker partners value direct access to decision-makers, both on the underwriting and claims side. Over the cycle, teams of senior, professional underwriters will produce better results.

We are market leaders in many of the fields in which we operate. Our flagship products are lawyers, architects and engineers, healthcare and technology professional liability. We underwrite 30 of the top 50 architects and engineering firms, a third of the AmLaw 200 roster of top law firms, three of the top 10 US News and World Honor Roll hospitals and three of their top six paediatric hospitals, and four of the top five global management consulting firms.

Market overview

2008 was a year of change in our markets. Premium rates were down 7% across all lines during 2008, flattening considerably during the last quarter. However, the increasing dislocation during 2008 presented business opportunities as insureds looked to manage their counterparty exposures by diversifying further.

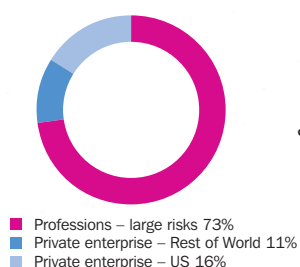
We have continued to invest in the global infrastructure of our business. The US is by far the largest market for professional and management liability insurance in the world and we have continued to significantly grow our business there on both an admitted and surplus lines basis. The global nature of the division and well co-ordinated interaction between teams serves us well as we draw on the collective expertise and experience of our underwriters and claims professionals.

Our penetration of the small business segments is also increasing. The private enterprise teams in total comprise one of the largest in Lloyd's and the traction gained by the teams in the US has been very exciting. This business generates a stable underwriting profit across the cycle and was a key driver in the decision to establish a local presence in the US.

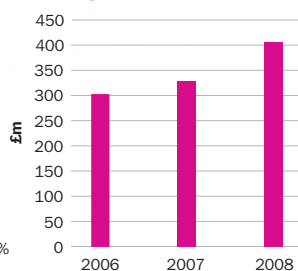
£407.2m

Gross premiums written

Portfolio mix



Gross premiums written



The management liability group had very little exposure to financial institutions, and the US errors and omissions teams has, for a long time, avoided professions in the real estate markets. We continue to closely monitor the situation but over the last 12 months there has been limited additional claims activity.

Current performance

Gross premiums written increased by 23% to £407.2m for 2008. This was achieved despite the weaker rating environment as we grew our locally sourced US business at target rates and applied pricing discipline over larger risks underwritten at Lloyd's. Getting business retention right and looking to grow small scale and mid-sized risks is an important element of our cycle management strategy.

The claims teams operating within the specialty lines division are beginning to prove their value. We see exceptional claims service as a key competitive differentiator as we continue to work hard defending our clients and influencing claims. Our claims reserves have again proven to be robust, enabling the group to release £28.0m in 2008 (2007: £24.5m).

We also see innovation as key to gaining competitive advantage and we are continuously enhancing our insurance products to provide broader coverage where clients require it. An example of our innovative approach to risk management is our healthcare product – QUIRP (Quality Indicator Return Premium) programme – which actively seeks to reward our clients for adopting a strong risk management culture by returning premium to them subject to achieving certain measurable quality standards.

Outlook

We expect markets to remain stable in 2009 but also expect premium prices to increase as the wide reaching impact of the recent financial turmoil ripples through to the insurance market. In particular we see opportunities arising within our Lloyd's business as the strength of the Lloyd's brand and capital structure, coupled with Beazley's proven track record, provide comfort for insureds looking to manage their exposures in the economic downturn.

We think this is an opportunity to broaden our product suite whilst remaining vigilant about underwriting discipline.

We have achieved a profit of £87.2m that is consistent with our record of unbroken profitability.

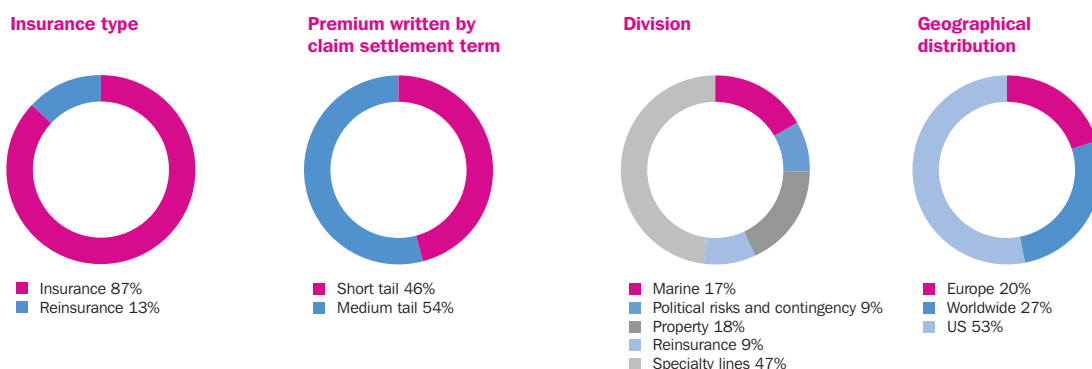
	2008 £m	2007 £m	Movement %
Gross premiums written	875.7	780.5	12%
Net premiums written	740.4	652.2	14%
Net earned premiums	683.1	617.2	11%
Net investment income	(25.8)	64.9	(140%)
Other income	10.1	10.1	
Revenue	667.4	692.2	(4%)
Net insurance claims	401.1	307.4	30%
Acquisition and administrative expenses	237.3	237.4	–
Foreign exchange gain	(70.8)	(3.1)	–
Expenses	567.6	541.7	5%
Finance costs	12.6	12.0	5%
Profit before tax	87.2	138.5	(37%)
Claims ratio*	56%	51%	–
Expense ratio*	34%	39%	–
Combined ratio*	90%	90%	–
Rate reduction	(6%)	(4%)	–
Investment return	(1.5%)	4.9%	–

* excludes the impact of foreign exchange on non-monetary items

The group reported a profit before tax of £87.2m (2007: £138.5m), a 37% decrease on 2007. Included within the result is a foreign exchange gain on non-monetary items of £46.2m (2007: a gain of £8.2m).

Highlights include:

- Gross premiums increased by 12% to £875.7m
- US Premiums grew by 54% to \$269.1m
- Reinsurance purchased by the group increased by 5% to £135.3m
- Combined ratio remained unchanged at 90%
- Claims releases from prior years' claims reserves increased to £72.8m (2007: £64.1m)
- Investment return of -1.5% resulted in a loss on invested assets of £25.8m



Gross premiums written

Gross premiums written increased in 2008 by 12% to £875.7m (2007: £780.5m). The increase is largely explained by the strengthening of the US dollar and euro against sterling during the year. This devaluation of sterling increased the sterling value of premiums written by 7% at 2007 rates of exchange. The remaining increase was due to growth in our underlying business. The group utilises four main currencies – sterling, US dollar, euro and Canadian dollars. Around 68% of our business is written in US dollars, 8% in euros, 3% in Canadian dollars, with the remainder in sterling.

Premium rates fell in our Lloyd's business from the record highs of previous years. Overall rate reductions in our Lloyd's business were around 6%. Such conditions made our underwriters much more selective in the risks they write – applying some of the pricing tools and techniques built up whilst the market was more sturdy.

The reduction in our UK premiums was offset by growth in our US operations. The balance of business written between our Lloyd's business and our US operations is a key part of our strategy in managing the insurance cycle. The US operation provides diversity to our product mix, enabling us to market our products through different, but complementary channels. We can thereby achieve a less volatile product mix than purely "Lloyd's" only.

The business remains well diversified – both by type of business and geographical location. This diversity provides protection from exceptional events, such as the US hurricanes seen in 2008, as well as enabling us to hold lower levels of capital to support the business.

The charts above show the composition of our portfolio in 2008, across types of insurance, settlement terms, classes of business and geographical regions.

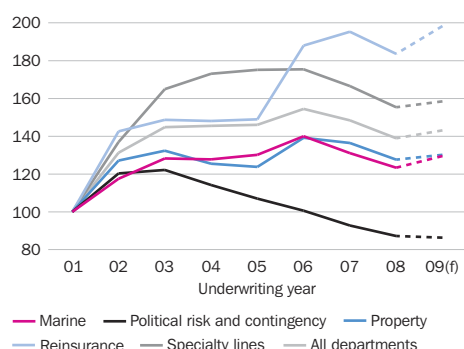
Premium retention rates

A large proportion of the business written within the group is generated from existing relationships with brokers and clients. In 2008 we retained 80% of premium due for renewal during the year. By sourcing business this way we are able to build up an understanding of our clients' business and requirements, as well as giving us greater insights into the risks involved in each policy. Historically, it is this renewal account which generates the most profitable business, as we are able to price this most accurately to achieve profit. The table below shows our renewal rates by team compared to 2007.

Retention rates*	2008	2007
Marine	77%	75%
Political risks and contingency	61%	58%
Property	70%	73%
Reinsurance	86%	88%
Specialty lines	88%	88%
Overall	80%	80%

* based on premiums due for renewal in each calendar year

Cumulative renewal rate changes since 2001 (%)



Rating environment

2008 was a year of change in our markets, with initially weakening rating environments being replaced with increasing pricing in the last quarter. Overall, rates charged for business we renewed fell by 6% during 2008 (2007: a reduction of 4%). These reductions were in line with previous announcements and met our predictions at the start of 2008.

In the last quarter of the year we saw premium rates start to improve in most lines. We expect this trend to continue and expect that we will see increases in rates in our business lines in 2009. We believe the reasons for the increase are twofold:

- With the credit crisis and subsequent financial turbulence, we have seen increasing demand for cover in our specialty lines business – particularly in errors and omission insurance for law firms, engineers and other professionals. There is also an increased demand for highly rated insurance cover in these uncertain times, and we are finding many clients are turning to Beazley both within Lloyd's and in our US admitted insurance company.
- In our catastrophe lines (reinsurance, offshore energy and US commercial property), rates have been adjusted upwards following the US hurricane season in 2008. The hurricanes served as a timely reminder of the important role insurance and reinsurance plays in this region of the world. Pricing of these risks has been adjusted accordingly as carriers struggle to maintain competitive margins at original pricing. Of the business we have renewed in 2009 we have already seen rates charged for renewed business increase by 10% in energy, 8% in US commercial property and 8% in reinsurance.

Reinsurance purchased

Reinsurance is purchased for a number of reasons:

- To minimise 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.

In 2008, reinsurance spend increased by 5% to £135.3m. This increase was driven by increased protections being purchased in respect of the specialty lines portfolio, which offset savings secured in respect of the group's other core programmes.

Reinsurance pricing is expected to increase during 2009 reflecting a demand and supply mismatch. A combination of weakened balance sheets arising from investment losses, a restricted ability to raise new capital post-event and reduced capital market activity in the reinsurance space have contributed to this mismatch.

Supply is expected to be further restricted by counterparty credit issues as balance sheets are further impaired by recent economic and catastrophe events. The group is rigorous in its selection and utilisation of potential reinsurance counterparties and this will continue to be a core focus in 2009.

Claims

The claims ratio increased by 5% in 2008 mainly driven by the impact of the 2008 US hurricane season (the impact of this event alone increased the claims ratio by 4%).

Hurricanes

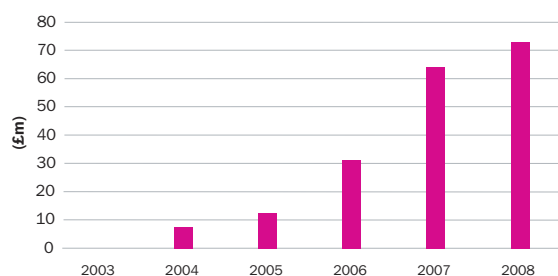
The US hurricane season started in May 2008 and there were 13 named storms, six of which reached hurricane strength. As in 2005, these storms caused catastrophic damage to the gulf region, this time extending from Florida into parts of Texas.

Beazley was most heavily impacted by hurricanes Ike and Gustav. The net profit impact of these two storms to the group was £25.2m. This figure is calculated by taking the cost of the storms themselves, net of any reinsurance recoveries we can make, less any hurricane margins we would ordinarily hold for these types of event. We have applied the same approach in calculating this cost as we did in 2005, leaving some reserving margin to cover other events which may still occur.

The table below illustrates how the cost of the two hurricanes has been estimated.

	Hurricane Ike £m	Hurricane Gustav £m	Total £m
Gross loss	63.4	7.7	71.1
Reinstatement premiums payable	1.2	–	1.2
Reinsurance recovery	(21.9)	(0.2)	(22.1)
Net Loss	42.7	7.5	50.2
Release of catastrophe margin			(25.0)
Net loss after release of catastrophe margin			25.2

We insure against hurricane damage in a number of our divisions, notably reinsurance, commercial property and offshore energy. The costs to each of the teams varied, with the property group incurring the largest share at £15.7m, followed by the offshore energy account at £5.4m, and reinsurance at £4.1m. The marine and property teams both benefited from reinsurance protection. The release of catastrophe margin referred to above mainly relates to reserves the group would normally hold against the 2008 underwriting year. A small proportion (approximately £5m) relates to releases from the prior periods' reserves.

Prior year reserve releases**Prior year reserve releases**

Aside from the hurricanes, we have continued to observe better than expected claims experience across our business lines. This has allowed us to release the following claims reserves during 2008 (with a comparison to that released in 2007).

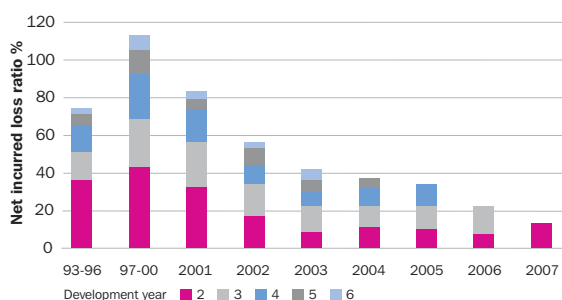
	2008 £m	2007 £m
Marine	12.8	10.0
Political risks and contingency group	11.6	8.9
Property	3.8	10.8
Reinsurance	16.6	9.9
Specialty lines	28.0	24.5
Total	72.8	64.1
Releases as a percentage of net earned premiums	10.7%	10.4%

Beazley has a conservative reserving philosophy. Initial reserves are set to include prudent margins which are released consistently over time as the uncertainty reduces. To facilitate this, reserves are reviewed on a quarterly basis. Whilst underwriters and claim managers estimate reserves on a bottom up claim by claim basis, the actuarial team estimate reserves on a top down statistical basis. By comparing the results from these different approaches, we are able to investigate areas of concern at an early stage or areas where the claims performance suggests reserve releases are possible.

In addition, at the end of 2004 we introduced a framework to monitor that we are maintaining this philosophy. A “reserve strength indicator” is estimated for each class and underwriting year to quantify the reserve margin at a particular stage of development. Establishing a risk appetite for the reserve strength indicator has produced a transparent and consistent reserve margin across underwriting years for each of our business lines and has led to objective reserve releases over time. As it helps explain how pricing, reserving and capitalisation levels are interacting and changing over the market cycle it is also an important cycle management tool.

The chart above shows the reserve releases made to date since 2003 and is consistent with the growth in business written.

Net incurred loss ratio at each development year



Specialty lines claims reserve releases

During 2008, our specialty lines claims have continued to develop favourably, enabling us to make further releases during the year of £28.0m (2007: £24.5m).

The chart above shows the values of incurred claims by underwriting year for specialty lines. As can be seen the underwriting years since 2003 have performed extremely well with incurred loss ratios (claims as a percentage of premiums written) consistently below prior years at each stage of development. The chart also shows the ultimate loss ratio being held and premium written by the group for each underwriting year. Premiums in this section are net of external commission.

The 2007 underwriting year is currently two percentage points above the 2004 underwriting year after two years of development. Given the nature of the claims, we do expect some volatility in the progression of incurred loss ratios across the underwriting years. As an illustration, the 2006 underwriting year after three years of development is in line with the 2003-2005 underwriting years despite relatively lower development after two years. Analysis of the 2007 underwriting year indicates that the six claims with gross incurred claims over £1m that dominate the incurred loss ratio have been identified early by our claims managers and case reserves set up. Separate analysis of claim frequency corroborates that this is a timing phenomenon rather than a trend.

The loss development tables set out in note 23 of our financial statements demonstrate how we have been able to release reserves over time against each of these years.

Sub-prime exposures and recessionary planning

As we previously explained, the group established an internal working party in 2007 tasked with monitoring the sub-prime mortgage issue in the US. In recent years, Beazley has had a limited appetite for professional liability risks within the financial institution sector which are viewed as the highest impacted areas. Whilst the number of sub-prime related lawsuits (as reported by Advisen) has recently been updated to exceed 450, we provide directors and officers (D&O) coverage for only seven of the affected entities and other types of professional or liability related coverage for a further seven. As such, we currently expect that our exposure will remain within our reserves.

During 2008, all relevant business areas have specifically analysed the potential impact of a recessionary environment on their account in order to make the most of opportunities and mitigate the risks. Execution of these plans is progressing well.

Our philosophy of having senior and experienced underwriters with a deep understanding of their industries is particularly important in a turbulent marketplace as risk selection is the first line of defence. Technical pricing techniques are also used to supplement the underwriting decisions.

A consequence of a recessionary environment is the potential for increased claims frequency. As such, we have recently performed a detailed review within our specialty lines team and report that, in the majority of business areas, claim frequency to date is stable across years. In the few cases where we have seen the start of a trend, we have implemented remedial action. It is important to distinguish between trends in claims numbers and trends in claims frequency. To produce robust analysis, it is important to compare the claim numbers to the underlying exposure measures.

It is very difficult to predict changes in claims frequency and so we will continue to monitor not only the claims frequency but also changes to the underlying drivers of claims. Feeding the results of these analyses back into the underwriting process is a further example of a cycle management tool being used.

Expenses

The group's expenses ratio fell in 2008 from 39% to 34% due to four main factors:

- Lower short term incentive costs. The bonus and incentive costs are based on the group's profitability, which has reduced from a profit before tax of £138.5m in 2007 to £87.2m in 2008. Total short term incentives costs, which include the bonuses, profit related pay and share grants, have reduced from £19.6m to £10.5m.
- Reduced brokerage due to a small change in business mix toward specialty lines. Brokerage rates in this line are traditionally lower than our property teams which reduced its premium written in 2008.
- Higher net earned premiums, which rose from £617.2m to £683.1m.
- In 2007 the ratio was impacted by the US office which was still in a start-up phase. A number of one-off items were incurred in 2007 such as recruitment costs, information technology infrastructure, building costs and facilities expenses.

Employee numbers

In 2008 we continued to build the business organically through growth in headcount particularly in the US. By the end of 2008 we employed 550 people globally (2007: 490), a growth of 12% during the year. The largest growth area was in the US where we increased headcount by 38 to 191. Of the 550 group wide employees, 149 were underwriters (2007: 126), 50 worked as claims managers or claims administrators (2007: 43), whilst the remaining 351 (2007: 321) were employed in group and support roles.

Talent management remains one of the group's core principles. During 2008, as the market softened we commenced a programme of initiatives focusing on productivity of existing staff. We held a series of workshops involving staff employed in underwriting, talent management, finance, information technology, marketing and operations.

The objective of each workshop was to identify ways in which the organisation could free up time and resource enabling the group to focus on activities that benefit the business. Savings have subsequently been made across these areas.

The table below sets out where our employees are utilised and also where, geographically they are employed.

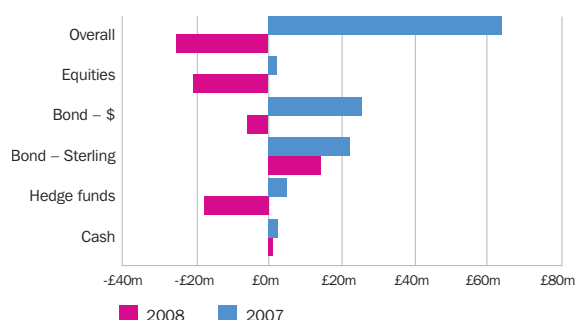
Employee numbers	2008	2007
Accident and Life	17	–
Marine	26	25
Political risks and contingency group	15	11
Property	76	71
Reinsurance	12	10
Specialty lines	207	194
Finance (including actuarial, compliance and internal audit)	73	63
IT	62	52
Ceded reinsurance	11	13
Talent management	11	12
General management and other support	40	39
Total	550	490
UK	341	326
US	191	153
Other (Hong Kong, Singapore, Paris and Munich)	18	11
	550	490

Investment performance

The implosion of the global financial markets in the second half of 2008 has resulted in the group posting an investment loss for the year of £25.8m or a return of -1.5% (2007 was a gain of £64.9m, a return of 4.9%).

The development of the financial crisis of 2008 has been well documented, with its origins in the excessive debt and loose lending strategies of the major Anglo-Saxon economies and the escalating losses in US sub-prime mortgages in 2007. During the first half of 2008 it was the weaker institutions such as Northern Rock in the UK and Bear Stearns in the US that succumbed as the credit and wholesale banking markets began to freeze up. However, the fact that neither was permitted to “fail”, with one being nationalised and the other hastily being taken over by JP Morgan, gave markets some confidence that certain institutions were genuinely too big or too interconnected to fail and that, while equity holders would suffer, senior creditors and bond holders were reasonably protected. This view was reinforced in early September when two key US mortgage financing institutions, Fannie Mae and Freddie Mac, were taken into “conservatorship” by the US Treasury.

Comparison of returns – major asset classes



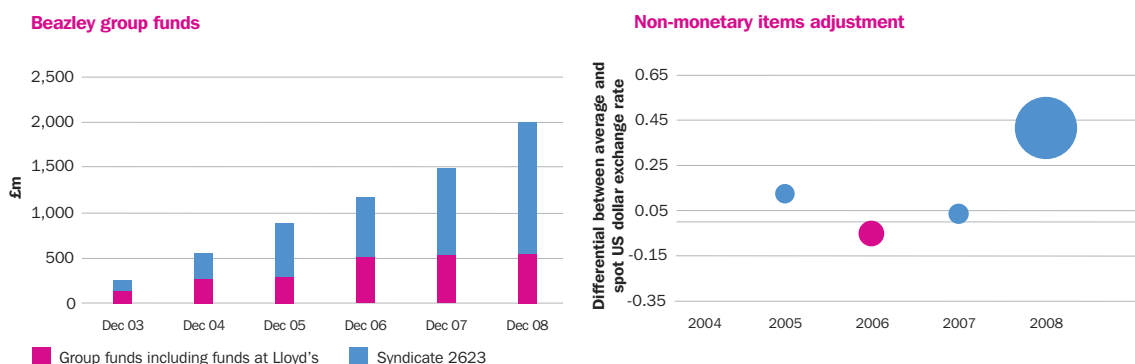
However, the crisis was escalated into an avalanche just over a week later by the rapid bankruptcy of Lehman Brothers, and the virtual nationalisation of the world's largest insurance group, AIG. The failure of Lehman was truly a game-changing event, as it precipitated a devastating loss of confidence throughout the global financial system and a complete seizure of credit and wholesale funding markets. Interbank lending all but dried up and US three month Libor (the rate banks borrow from each other) rose from 2.8% in mid September to 4.8% in October. Despite sharp cuts in official interest rates and various government assistance plans, the financial system remained moribund. It was only the coordinated bail out and government guarantee of much of the global banking system that prevented a wholesale financial meltdown.

Despite Beazley's relatively modest exposure to equities and hedge funds, and our efforts to reduce the risk in the portfolios, our exposure to credit, in the form of corporate bonds and asset backed and mortgage backed securities, as well as to equities and hedge funds, has resulted in mark to market losses that have severely impacted our investment returns. In addition, our holdings of £11m nominal of Lehman senior debt as of the end of December has been marked down to a value just under £1m and our exposure to a Madoff feeder fund, valued at £3.8m, has been written to zero. In both cases, we are working to recover maximum practicable value from these holdings.

During the second half of the year, we have reduced our exposure to corporate bonds and structured securities, while in November we cut our equity holdings by selling our position in the AllianceBernstein Global Style Blend fund, taking our equity weighting below 1%. These proceeds have been largely kept in cash and short term government bonds.

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

	2008	2007
Corporate Bond (Financial)	24.2%	27.1%
Government	21.5%	14.1%
Corporate Bond (non Financial)	5.8%	9.2%
Government Agency	2.9%	5.3%
Asset Backed	2.8%	4.6%
CMBS	1.4%	0.8%
MBS (non-Agency)	1.3%	1.5%
Regional and Supranational	1.0%	0.6%
MBS (Agency)	0.6%	0.8%
Bond Portfolio	61.5%	64.0%
Fixed Income Pooled Vehicles	9.1%	3.5%
Hedge Funds	5.2%	4.8%
Equities	0.9%	3.6%
Cash + Money Market	23.3%	24.1%
	100.0%	100.0%



The breakdown of our bond portfolios was:

	2008	2007
Government, Agency & Supranational	25.5%	19.8%
AAA	12.3%	12.3%
AA+ to AA-	6.8%	10.4%
A+ to A-	13.5%	14.5%
BBB+ to BBB-	3.4%	5.9%
Sub investment grade	–	1.1%
Total	61.5%	64.0%

At 31 December 2008 the weighted average duration of our bond and cash portfolio was nine months.

For regulatory and legal reasons, certain trust funds and deposits are required to be managed centrally by Lloyd's on behalf of the syndicates. These funds are invested in high-grade, fixed income securities and their performance is detailed separately in the table above.

The group maintains funds in cash for various operational purposes. Certain of these cash balances are invested in money market funds.

The chart on page 34 highlights the returns received by currency and by investment type.

The group's cash and investment balance grew during 2008 mainly due to a benign two years for major claims, and the translation effect of our dollar balances being expressed in sterling at a lower exchange rate.

The 'Beazley group funds' chart above highlights the growth in investment balances over the past five years.

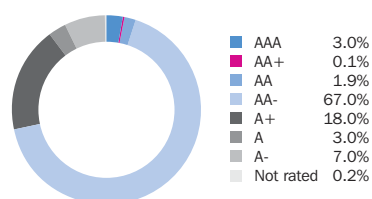
Foreign exchange differences arising on non-monetary items

In 2008 the impact of the foreign exchange adjustment on non-monetary items is a credit to our income statement of £46.2m (2007: a credit of £8.2m). Non-monetary items include unearned premium reserves, reinsurers' share of unearned premium reserves, and deferred acquisition costs. Under International Financial Reporting Standards (IFRS), these balances are carried at historic exchange rates, while monetary items are translated at closing rates.

This imbalance creates volatility in our accounts which cannot be hedged as the mismatch is not monetary in nature. It is for this reason that we have always disclosed the item separately, through the segmental analysis in note 3, as well as on the face of our income statement.

The chart above illustrates the impact of the changes in exchange rate on the income statement for the group. In the chart we have concentrated on our largest foreign currency exposure, US dollars and the impact this has on earnings. Under IFRS, non-monetary items are recorded at exchange rates prevailing on the date of the transactions or rates approximating this rate. In a period of strengthening US dollars, such as 2008, the adjustment results in a positive profit impact as compared to revaluing all assets and liabilities at closing exchange rates. The size of each balloon represents the size of the adjustment in each year, while the colour represents the profit before tax impact of the adjustment, blue being a positive impact and pink being a negative impact.

Reinsurance debtor credit quality



Summary balance sheet

	2008 £m	2007 £m	Movement %
Intangible assets	52.5	28.7	83%
Investments and cash	1,994.2	1,490.6	34%
Insurance receivables	287.8	199.9	44%
Reinsurance assets	538.6	353.3	52%
Other assets	124.4	108.2	15%
Total assets	2,997.5	2,180.7	37%
Insurance liabilities	2,246.7	1,471.9	53%
Borrowings	177.5	156.7	13%
Other liabilities	160.6	153.5	5%
Total liabilities	2,584.8	1,782.1	45%
Net assets	412.7	398.6	4%
Net assets per share	122.5p	112.1p	9%
Net tangible assets per share	106.9p	104.0p	3%
Number of shares*	337.0m	355.4m	–

* number of shares in issue excluding treasury shares (19.9m) and ESOP shares (12.6m)

Intangible assets

Intangible assets consist of goodwill on acquisitions £35.9m, purchased capacity in the combined syndicate £4.9m, US insurance licences £6.4m and capitalised expenditure on IT projects £5.3m. The total balance on intangibles increased by £23.8m in 2008 principally due to the acquisition of Momentum Underwriting Management Limited (MUM) (see section below).

Acquisition of Momentum Underwriting Management Ltd

Beazley completed its acquisition of MUM in November 2008. Established in 2000, MUM is a leading specialist personal accident and life underwriting management agency based in London with an office in Australia. MUM has recently changed its name to Beazley Underwriting Services Ltd, and plans to write \$100m of gross premium for 2009 through our two new Lloyd's syndicates 3622 and 3623. MUM also has plans to add underwriting capabilities through Beazley offices in the US.

The consideration payable, which will be met through Beazley's internal cash, comprises an upfront cash payment of \$15m plus £2.4m (representing net assets acquired), and further deferred payments of up to \$22.5m payable in instalments between 2012 and 2014. Goodwill recognised in respect of this transaction is £17.9m. The deferred consideration is subject to the profitability of the business during the 2009, 2010 and 2011 underwriting years.

Investments and cash

The group's portfolio remains mainly invested in high quality, short duration bonds. We invest 6.1% (2007: 8.4%) in alternative investments and equities to further diversify risks associated with investing solely in bonds.

The group's strategy is to use a number of specialists to manage the portfolios in order to diversify manager risk and to give us access to different investment styles and skill sets.

Manager	Investment type	2008 £m	2008 % of total
AllianceBernstein	\$, £, Euro €, CAD\$ fixed income	657.6	33.0%
Conning Asset Management	US fixed income	394.9	19.8%
Wellington Management	US fixed income	266.1	13.3%
Union Bancaire Privée	Alternative investments including hedge funds	234.2	11.7%
BlackRock Investment Management	UK fixed income	240.5	12.1%
Lloyd's Corporation	Fixed income	106.2	5.3%
Scottish Widows Investment Partnership	Money market funds	1.6	0.1%
AIM Global	Money market funds	4.0	0.2%
Bank of America	Money market funds	12.9	0.7%
Other cash balances	Current account and deposits	76.2	3.8%
Total		1,994.2	100%

The performance of the managers and the structure of the investment portfolio are monitored by the chief investment officer who reports to the investment committee, which holds delegated responsibility from the board for all investment matters.

Following a strategic review, the board has decided to change our investment strategy in 2009. The group is setting up an associate investment management firm, Falcon Money Management with the objective of enhancing investment returns while minimising investment risk. Falcon will initially provide investment management and advisory services solely to Beazley and at a later stage to third party institutional clients.

Insurance receivables

Insurance receivables represent broker balances receivable in respect of premiums we have written. During 2008, broker balances increased by 44% to £287.8m primarily due to an increase in business written and the effect of foreign exchange movements. We continue to outsource the collection of our Lloyd's premium broker balances to JMD Specialist Insurance Services Limited, which operates within the Lloyd's market as specialist credit controllers.

Reinsurance assets

Reinsurance assets represent recoveries from reinsurers in respect of incurred claims £452.7m, and the unearned premiums reserve on reinsurance £85.9m.

Of the recoveries from our reinsurers, £109.4m is in respect of claims paid or reported to us, and a further £343.3m is an actuarial estimate of the recoveries on claims not yet reported. These assets are managed through:

- Minimising risk through selection of reinsurers who meet strict financial criteria (e.g. minimum net assets, minimum 'A' rating by S&P). These criteria vary by type of business (short vs. medium tail). The chart on page 36 shows the profile (based on S&P rating) of these assets at the end of 2008;
- 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.

We continue to provide against impairment of reinsurance recoveries, and at the end of 2008 we had provided £9.0m (2007: £5.7m) in respect of reinsurance recoveries. The growth in this balance is primarily due to the strengthening of the US dollar against sterling (the reserve is held in US dollars), together with an additional reserve due to additional reinsurance purchased in 2008.

Other assets

These are separately analysed in the notes to the accounts. The largest items included in the balance are:

- Deferred acquisition costs £91.5m;
- Deferred tax assets, either against UK or US taxes paid £6.8m; and
- Profit commissions receivable from syndicate 623 £8.1m.

Insurance liabilities

Insurance liabilities of £2,246.7m consist of two main elements: unearned premiums reserve ("UPR"), and gross insurance claims.

- Our unearned premiums reserve has increased by 19% in 2008 to £457.8m, mainly due to increased net premiums written. The bulk of the UPR relates to the current year. Current indicators are that this is profitable and will earn through to the income statement in future years.
- Gross insurance claims are made up of claims which have been notified to us but not yet paid and an estimate of incurred but not yet reported claims (IBNR). These are estimated by both the underwriter and the syndicate actuary through the quarterly peer review process, a description of which is included in note 23. Gross insurance claims increased by 64% in 2008 to £1,788.9m, mainly due to the increase in business written and the impact of foreign exchange movements.

Borrowings

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 £165m; and
- A \$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 callable in 2009.

At the time of the £150m bond issue we entered into a derivative transaction, whereby we matched our investment and currency risk by swapping the sterling fixed rate loan into the equivalent of:

- £108m of floating rate sterling loans; and
- \$80m of floating rate US dollar loans.

These items have been accounted for using hedge accounting for both the floating rate and currency elements of the transaction.

In addition to these borrowings we operate a £100m (2007: £50m) syndicated short term banking facility, managed through Lloyds Banking Group plc. The facility was successfully renegotiated for two and a half years in July 2008 and is currently unutilised.

Currency profit hedging

The group minimises its exposure to US dollars, the group's largest currency risk, by selling on a monthly basis, dollar profits as these are estimated to earn during the year. By the end of each year we aim for US dollar exposure to be minimal. At the end of 2008 we had £101.5m of US dollar net assets, which mainly relates to our investment in the US. These are largely matched through a hedging transaction, taken out in 2006 – an \$80m cross-currency swap (see above for details).

In 2008, the group sold \$187m at an average exchange rate of 1.97. We also sell year-end unhedged profits for the second largest currency exposure, euros, once a year. In 2008, we sold €19.7m at an exchange rate of 1.27.

The group has several requirements for capital:

1. To support underwriting at Lloyd's through syndicates 2623, 3622 (commences trading in 2009) and 3623. This is based on the group's individual capital assessment. This may be provided in the form of either the group's cash and investments or debt facilities;
2. To support underwriting in BICI in the US; and
3. To make acquisitions of insurance companies or MGAs whose strategic goals are aligned with our own.

Our funding comes from a variety of sources:

1. £412.7m comes from shareholders' funds. Of this balance, £78.6m is unavailable to the group because it relates to intangible assets, fixed assets or undistributable syndicate profits;
2. £150m of tier 2 subordinated debt;
3. \$18m subordinated long-term debt. This has a first call date of 2009, and at this stage is likely to be repaid in full; and
4. An undrawn banking facility of £100m.

In total, £60.3m has been repaid to shareholders during 2008. We repaid £24.9m of shareholders' funds, via a share buyback programme. We repurchased 16.5m shares, at an average price of 147.7p, which the group now holds as treasury shares. In addition, we paid a final dividend of 4.0p and a special dividend of 4.0p in May 2008, and an interim dividend of 2.2p, making a total distribution of £35.4m.

	2008 £m	2007 £m
Sources of funds		
Shareholders' funds	412.7	398.6
Tier 2 subordinated debt	150.0	150.0
Long-term subordinated debt (\$18.0m)	12.5	9.0
	575.2	557.6
Uses of funds		
Lloyd's underwriting	360.8	306.2
Capital for US insurance company	77.1	55.5
	437.9	361.7
Surplus	137.3	195.9
Unavailable surplus	(78.6)	(113.3)
Available surplus	58.7	82.6

The above capital analysis is presented before any change to the group's capital requirements that will result from the purchase of First State Management Group Inc. in 2009 and the proposed rights issue.

Proposed rights issue and placing

As mentioned in the chairman's statement, at a time when rates are improving, certain market players have a diminished appetite for risk and prospective insureds are seeking placement diversification. We are well positioned to access new business opportunities as a result of:

- our extensive US office network;
- our ability to offer diversification through the syndicate structure within Lloyd's; and
- the strength of the Lloyd's franchise which attracts business by being able to provide greater underwriting capacity through its subscription market approach.

With such access and Beazley's record of unbroken profitability since establishment, the group is confident in its ability to leverage our underwriting expertise to take advantage of the current and expected market opportunity in its core lines of business.

To support this growth, we are proposing to raise £150m (net of expenses) by a fully underwritten rights issue and placing. These funds will be used to:

- provide capital support due to the revision in the exchange rate for dollar-denominated business;
- support the expansion of the group's existing underwriting activities to take advantage of the improving rating environment; and
- fund the acquisition of First State Management Group Inc.

Individual capital assessment

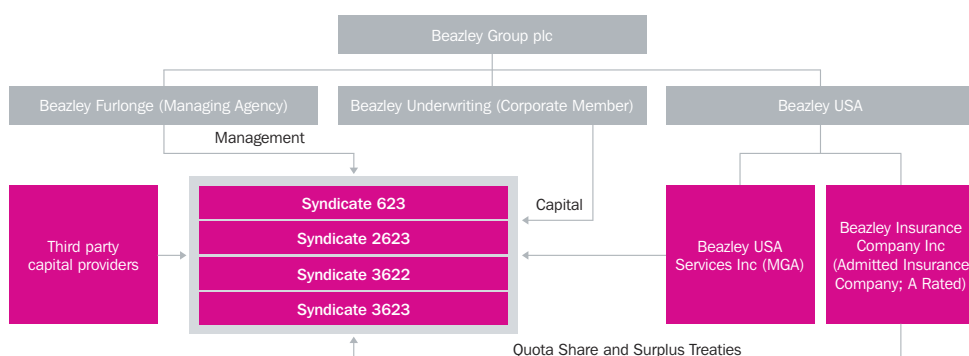
The group is required to produce an individual capital assessment (ICA) which sets out the amount of capital that is required to reflect the risks contained within the business. Lloyd's reviews this assessment to ensure that ICAs are consistent across the market.

In order to determine the ICA, we made significant investment 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 ICA has increased from £306m to £360m to support the new 3623 and 3622 syndicates and to reflect the more challenging underwriting and investment environments.

Group structure



Group structure

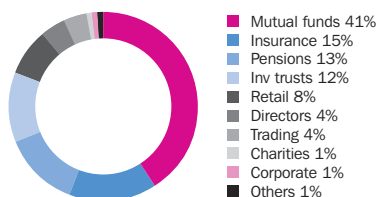
The group operates across both Lloyd's and the US through a variety of legal entities and structures. The main entities within the legal entity structure are as follows:

- Beazley Group plc – group holding company and investment vehicle
- Beazley Underwriting Limited – corporate member at Lloyd's supplying capital to write business through syndicates 2623, 3622, and 3623
- Beazley Furlonge Limited – managing agency at Lloyd's which writes business through the group's four managed syndicates (623, 2623, 3622, 3623)
- 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
- Syndicates 3622/3623 – corporate body regulated by Lloyd's through which the group underwrites its accident and life insurance business
- Beazley Insurance Company Inc (BICI) – insurance company regulated in the US through the state of Connecticut. Licensed to write insurance business in all 50 states
- Beazley USA Services Inc (BUSA) – managing general agent based in Farmington, Connecticut. Underwrites business on behalf of Beazley syndicates and BICI.

The diagram above shows how the various entities are related.

Investor relations

Shareholding by type of investor



Source: Numis Securities Limited (January 2009)

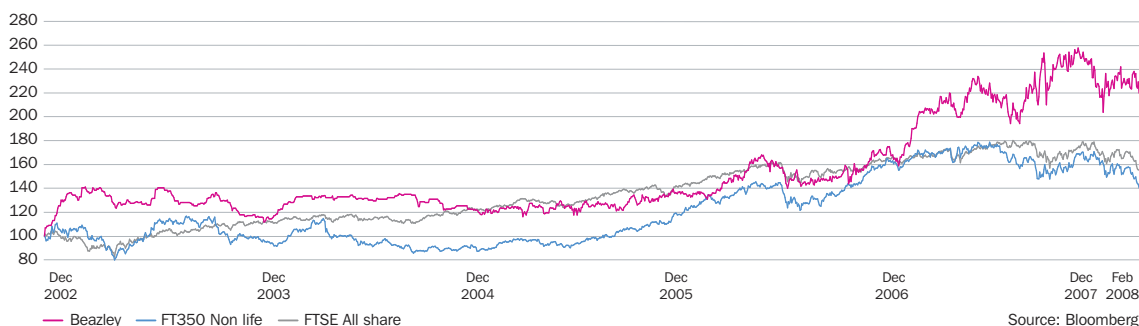
We place great importance on communication with shareholders. The full report and accounts and the interim report are available to shareholders on the company's website (www.beazley.com). Alternatively, shareholders can elect to receive a mailed copy of the accounts on request. The company responds to 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, 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 them 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*.

Share price performance



There are currently nine analysts publishing research notes on the group. In addition to research coverage from Numis, the company's corporate broker, coverage is provided by ABN Amro, Fox Pitt Kelton, Credit Suisse, JP Morgan, Keefe Bruyette & Woods, KBC Peel Hunt, Clear Capital and UBS.

Financial calendar

23 April 2009	Annual general meeting
30 April 2009	Final dividend payment
27 July 2009	Interim announcement
27 July 2009	Interim dividend announcement



Nicholas Furlonge
Director, risk management

What does risk management mean for Beazley?

At Beazley, we operate an enterprise wide risk management culture that is integral to the way we run our business. Risk management is and always has been part of what we do and our risk framework facilitates communication and dialogue across each of our business areas to help achieve the group's overall strategic objectives.

Our business is based on controlled and informed risk taking across a diverse range of specialist classes of insurance. Our risk appetite allocation methodology is clearly understood and articulated to ensure that where appropriate it is fully utilised to give maximum reward. Our framework is centred on the following principles:

- *Transparency* – to ensure all risks are clearly understood, measured and controlled by setting limits and monitoring against these;
- *Accountability* – the organisational structure ensures all risks are owned by appropriate individuals and everyone takes responsibility for managing their risks; and
- *Culture* – to promote a risk aware culture and to ensure that every decision we take is based upon an evaluation of risk versus reward.

Risk governance and reporting

During 2008, the risk management team combined with the actuarial team to further increase our focus on the management of insurance risk across the group. The primary goal of the combined team remains to help the group achieve a consistent approach to identifying, measuring and managing risk.

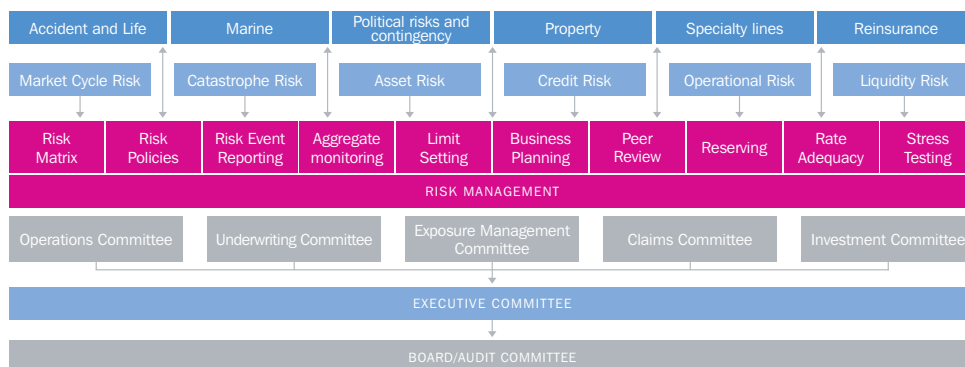
We believe the combined function will enable us to more accurately analyse both the quantitative impact and effectiveness of key underwriting and operational controls and help us to focus our attention on those controls that really matter.

These benefits, in addition to the work already performed in developing a market leading Individual Capital Assessment (ICA) framework, puts us in a strong position to implement the proposed Solvency II regulatory regime. We will report progress as we work towards the 2012 deadline. This is further demonstrated by our “Strong” Standard and Poor’s rating for risk management, which ranks our practices in the top 15% of companies rated by them.

The team uses an online risk management tool, the BeazleyRiskMatrix, to support its work. This captures all key controls operating within the business and allows risk and control owners to sign off the controls they are responsible for on a regular basis. Risk Management are able to monitor the effectiveness of these controls in real time across all worldwide locations.

Both the board of directors (the “Board”) and the Audit Committee have the responsibility for defining the group’s risk appetite, with key individuals and committees accountable for day-to-day management of risks and controls. Regular reporting and active participation by the risk management team in all board meetings and senior management committees ensures that risks are monitored and managed as they arise.

Risk management



Areas for focus in 2009 are outlined in more detail below.

Managing the cycle

Market cycle risk is characterised by the periodic rise and fall in insurance prices and is driven largely by changes in supply and demand rather than the actual cost of cover. The cycle varies between a soft market where insurance is readily available and premium rates fall as a result of increased competition and a hard market, where clients find insurance coverage more difficult to obtain and rates rise and terms and conditions become more restrictive. Our focus on managing market cycle risk lies at the heart of our underwriting philosophy and this is demonstrated by our strong and consistent trading record.

On a day-to-day basis, market cycle risk is managed in the following ways:

- *Business planning* – transitioning the portfolio of business to ensure a sufficiently diverse range of good quality products, whose profitability is aligned to the correct position in the cycle. During a hard market we maximise profits by targeting growth on the best opportunities available and in a soft market we focus our portfolio on less volatile business;
- *Cascaded peer review* – monitoring of individual risks against limits allocated to each underwriter and performing a “second pair of eyes” check to ensure that there is sufficient oversight of the whole portfolio and that it remains in line with the business plan;
- *Reserving* – having a clear view of the underlying profitability of individual products with transparent links to capital allocation; and
- *Rate adequacy and benchmark pricing* – quantitative monitoring of risks to ensure that we are charging appropriate premiums for the risks we are taking.

Catastrophe risk

Catastrophe risk is assessed both in terms of modelled losses and the risk of losing more than expected through poor exposure management. Our portfolio is analysed for classes of business where accumulations of losses can result from a single large catastrophic event.

Risk appetite limits are set by the board and calculated on a probabilistic basis using external catastrophe models. We acknowledge the uncertainty present within these models and therefore also monitor deterministic output using Lloyd’s Realistic Disaster Scenarios (RDSs) and our aggregate position. Risk appetite is set based upon the impact on earnings and capital, whilst being mindful of potential opportunities that exist following the event.

The controls in place serve to ensure that we remain within these risk appetite levels set by the board.

Our largest risk appetite relates to a modelled probabilistic 1 in 250 year US natural catastrophe event, such as wind storm or earthquake, and in 2009 we will manage to a loss of \$340m after reinsurance.

Asset risk

Asset risk is viewed as the risk arising from adverse changes in the value of or income from assets and changes in exchange rates and interest rates. Through setting comprehensive investment guidelines via the Investment Committee and monitoring against these, reviewing the performance of our investment managers and stress testing our investment portfolio we can assess if our overall risk and return targets are being met.

By category, key risks are mitigated as follows:

- Asset – investment manager limits in place combined with clear investment guidelines; and
- Cash – limits in place to minimise concentration risk.

To minimise the risk of an event impacting both our claims liabilities and our investment portfolios, we endeavour to limit investments in areas which correlate with our insurance portfolios.

Liquidity risk

Liquidity risk is the risk that we do not have sufficient financial resources to meet our obligations as they fall due. Strategically, we seek to maintain sufficient liquid assets or assets that can be liquidated at short notice and without capital loss to meet our expected cash flow requirements. Our RDSs are stress tested on a regular basis and results are monitored through the BeazleyRiskMatrix.

Credit risk

Our exposure to credit risk is mitigated by the vetting of all of our key counterparties before trading with them. Performance is closely monitored and managed through our committee structure. We consider our key counterparties to be reinsurers and brokers as outlined below:

- Reinsurers – exposure monitored by the Reinsurance Security Committee and ratings assigned to each reinsurer according to internally agreed criteria;
- Brokers – robust broker approval process underpinned by Lloyd's approval process.

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.

The group actively manages operational risks and minimises them where appropriate by implementing and communicating guidelines to staff and other third parties. The impact of control failure is quantified and compared to the effectiveness of these controls to allow us to see where our attention should be focused.

Emerging risk identification

We employ specialist teams to support our underwriters to help identify external trends and issues. Using this research improves our underwriting risk selection, allows us to avoid markets in decline and improves our claims management capabilities.

Internal audit and compliance

Our internal audit and compliance teams reinforce our comprehensive risk management strategies. They work closely with the risk management team and the business to co-ordinate activity, avoid duplication and deliver a targeted risk-based approach.

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 in our day-to-day business and put policies and procedures in place that reflect our commitment. We also recognise the regulatory and reputational risks associated with ethical practice and adhere closely to the Association of British Insurers (ABI) guidelines published in October 2001 on the disclosure of listed companies' social responsibility policies and endeavours.

Intrinsic to our culture is an ethical approach to business conducted by and towards all our stakeholders, including management, staff, clients, suppliers and shareholders. The values that form the essence of our brand and our working culture are professionalism, integrity, effectiveness and dynamism. We have appointed Nicholas Furlonge as the group sponsor of our corporate and social responsibility programme.

During 2008 we enhanced our documentation in relation to our code of ethics. This code comprises the staff handbook, the handling of personal data, whistle blowing, anti fraud and anti money laundering policies. We have a conflicts of interest policy which 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, whether full-time or part-time, 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 for 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 via safety representatives. Overall responsibility for health and safety at Beazley rests with the chief operations officer of the group, David Marock.

We believe that the knowledge and skills of our employees are a key element of organisational success and therefore invest in training and development. We ensure that this is accessible by everyone and recognised as a shared responsibility between individual employees and the organisation. Responsibility for the provision of training and development at Beazley sits with the head of talent management, Penny Malik.

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

We are proud of our working culture that ensures that 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.

Social responsibility

We encourage employee involvement in a range of community programmes. Nicholas Furlonge is the chairman of the Lloyd's Community Programme Management Board in London, and encourages staff to involve themselves 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 Maths partners. Currently we have 13 volunteers participating in total in what is proving to be a very successful scheme. In 2008 two individuals were involved in mentoring teenagers from Tower Hamlets and Hackney on a one to one basis to offer them help and advice as they near the end of school and need to prepare for the next step whether that is going to university or entering the work place.

In 2008, we sent volunteers to a school in Hackney to help students understand the process of getting paid – what it means to write a CV, a covering letter and the 'do's and don'ts' of interviews.

In 2008 we also participated in cricket and football coaching and are looking at some of our business teams participating in Lloyd's community programme days in 2009.

The group made charitable donations during the year ended 31 December 2008 of £67,112 (2007: £59,232). The group's 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. For example, our staff raised over £2,000 competing in the Great River Boat Race, over £2,000 in a white-water rafting competition and over £3,000 in the annual JP Morgan Chase Challenge. Also, our annual Christmas card is distributed electronically to over 20,000 key clients and contacts, giving them the opportunity to indicate the charity that they wish us to support.

As previously reported we run a payroll-giving scheme in the UK in association with the Charities Aid Foundation. By the end of December 2008, 10% of staff had joined the scheme, donating £23,570 annually to 33 different charities.

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

Environmental responsibility

We are committed to achieving best practice in all the areas of the business where there may be an impact on the environment and where possible we will endeavour to reduce the environmental impact of physical assets under our control. We have engaged our employees through a series of company wide presentations and we will continue to actively seek their input into our activities. Overall responsibility for environmental issues rests with Nicholas Furlonge.

From our head office in Plantation Place in London we encourage environmentally aware behaviour including:

- A policy for minimising waste by scanning risks and claims which enables employees worldwide to view documents electronically rather than on paper;
- Extensive video conferencing is available at the London offices and some US offices to reduce requirements for business travel and air travel;

- Recycling facilities for plastics, glass, paper, cardboard and used toner cartridges are located throughout the building;
- Glasses are used within the offices and refillable glass bottles are used for the meeting rooms in lieu of disposable ones;
- Recycling bins for old mobile telephones for charity;
- Multi-functional scanner, printing, copying and faxing facilities exist and double-sided printing is set as a default on all copiers and printers;
- In the London office, motion detectors are fitted to lighting systems to ensure electricity usage is kept to a minimum and lighting levels have been reduced by 25%;
- The landlord for the London office procures the electricity from a green supplier;
- The London offices have changed the paper supplies to 100% recycled;
- We also actively encourage the use of public transport and provide ample cycle racks, shower facilities and locker storage for those employees who cycle into work and we provide a cycle to work scheme.

In 2007 we signed up to the ClimateWise principles and we continue to monitor our progress against these. The principles are: lead in risk analysis; inform public policy making; support climate awareness amongst our customers; incorporate climate change into our investment strategies; reduce the environmental impact of our business; report and be accountable. Where more appropriate (for example informing public policy and incorporating climate change into our investment strategies) we will be placing reliance on the activities of Lloyd's ClimateWise team. This team is also working with us to enhance the measurement and reporting of our activities during 2009. We have engaged with a third party to conduct an environmental impact assessment of all our UK operations, including an assessment of carbon emissions. This will enable us to set a benchmark level against which we can set targets and measure progress. Compliance with the ClimateWise principles is subject to annual independent review, which in 2008 was conducted by Forum for the Future.

Board of directors

Executive directors



Andrew Horton

(aged 46) 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.



Andrew Beazley

(aged 55) is the deputy chairman of the company having been chief executive since 1986. Andrew is a co-founder of Beazley Furlonge Limited. He has 32 years' experience at Lloyd's.



Nicholas Furlonge

(aged 58) is responsible for the risk management of the Beazley group. Nicholas is a co-founder of Beazley Furlonge Limited, and has 35 years' experience at Lloyd's and has recently been appointed as a non-executive director of the Lloyd's Franchise Board. He is also chairman of the Lloyd's Community Programme Management Board and a director of the LMA. He is also responsible for brand and communications and the ceded reinsurance department.



Jonathan Gray

(aged 55) is head of the group's property division. Jonathan has 33 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

(aged 45) is head of the group's reinsurance division, chairman of the underwriting committee and has responsibility for the political risks and contingency group and accident and life division. Neil has 23 years of Lloyd's experience. He joined Beazley in 1990 and is the active underwriter for the managed syndicates.



Clive Washbourn

(aged 48) is head of the group's marine division. Clive has 24 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, the LMA Underwriting & the Claims Committee and is the chairman of the Joint War Committee.

Non-executive directors



Jonathan Agnew

(aged 67) is the chairman of the company. Jonathan was formerly a managing director of Morgan Stanley and subsequently chief executive of Kleinwort Benson. He has been chairman of Limit plc, Gerrard Group plc, and Nationwide Building Society. He is currently chairman of Ashmore Global Opportunities Limited, The Cayenne Trust plc and LMS Capital plc and senior independent director of Rightmove plc. He was a member of the Council of Lloyd's from 1995 to 1998.



Dudley Fishburn

(aged 62) is a non-executive of HSBC Bank plc. He is an independent director of Philip Morris International Inc. In the US he is chairman of Henderson Smaller Companies Investment Trust plc.



Andy Pomfret

(aged 48) was appointed chief executive of Rathbone Brothers Plc in 2004 having held the position of finance director since 1999. Prior to that, he held positions at Peat, Marwick, Mitchell & Co (now KPMG) and Kleinwort Benson.



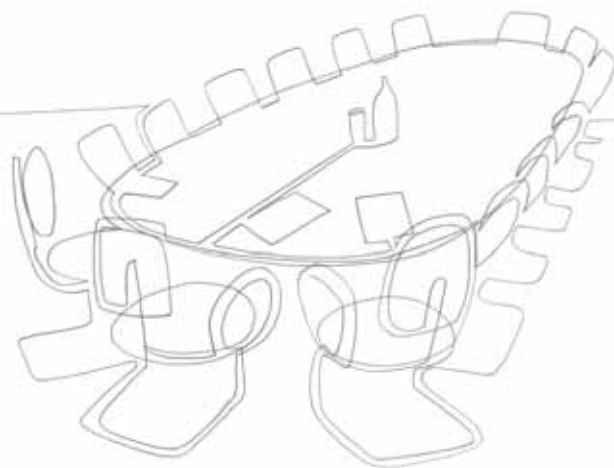
Gordon Hamilton

(aged 63) recently 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 director of the listed South African group Barloworld Limited, and is a member of the Financial Reporting Review Panel (FRRP).



Dan Jones

(aged 57) retired in 2003 as vice-chairman for Marsh, Inc., responsible for non-North American operations, strategic planning, and mergers/acquisitions, based in London. In 2006 he re-entered the broking business as chief executive for the broking operations of Fred A. Moreton & Co., a Salt Lake City-based regional financial services concern focusing on the western United States.



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 Combined Code on corporate governance.

Compliance with code provisions

The board confirms that the company and the group has, save for the composition of the board, complied with the provisions set out in the Combined Code for the year ended 31 December 2008. The board intends during the course of 2009 to seek to abide by the provisions of the Combined Code and have a majority of non-executive directors on its board, provided that this can be achieved without significantly impairing the underwriting experience of its board.

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 Combined Code have been applied by the group.

The board

The board consists of a non-executive chairman, Jonathan Agnew, together with four independent non-executive directors, of which Andy Pomfret is the senior non-executive director, and six executive directors, of which Andrew Horton is chief executive. All four of 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 judgment.

Andrew Beazley indicated that he wished to step down as chief executive during the year. The nomination committee carried out a review of both internal and external candidates to identify a suitable replacement. Two internal candidates presented to the nomination committee in June 2008 and Andrew Horton was selected as the preferred candidate. He assumed the role of chief executive on 1 September 2008.

Subsequently, the nomination committee undertook a search for a new group finance director. Again both internal and external candidates were considered and it was announced on 14 November that Martin Bride, currently chief financial officer of the UK Life business at Zurich Financial Services, is to be appointed group finance director. It is expected that he will join Beazley in April 2009.

Johnny Rowell left the company on 11 December 2008 and Marty Becker resigned with effect from 31 October 2008. The appointment of further non-executive directors is being considered.

Biographies of current board members appear on page 48 of this report. These indicate the high levels and 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 including, *inter alia*: statutory matters; approval of financial statements and dividends; appointments and terminations of directors, officers and auditors; appointments of committees and setting of terms of reference; review of group performance against budgets; approving of risk management strategy and material contracts; and the determining of authority levels within which management is required to operate.

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.

Any director appointed during the year is required, under the provisions of the company's articles of association, to retire and seek re-election by shareholders at the next annual general meeting. The articles also require that one third of the directors retire by rotation each year and seek re-election at the annual general meeting, and the directors required to retire are those in office longest since their previous re-election. In addition, each director is required to retire at least once in any three-year period.

Full details of directors' remuneration and a statement of the company's remuneration policy are set out in the directors' remuneration report on pages 54 to 63. The members of the remuneration committee and the principal terms of reference of the committee appear on page 52.

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

In accordance with the requirements of the Combined Code, the board undertook a formal and rigorous evaluation of its own performance and that of its committees and individual directors in 2007 and the issues identified and recommendations from the evaluation, in particular in relation to the composition of the board have been implemented. A further evaluation will be carried out in 2009.

Individual attendance by directors at regular meetings of the board and of committees

Director	Board		Audit		Remuneration		Nomination		Investment	
	No. of meetings	No. attended	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	—	—	—	—	6	6	4	4
A F Beazley	5	5	—	—	—	—	—	—	—	—
M Becker	4	3	7	5	—	—	4	4	3	2
J D Fishburn	5	5	8	6	4	4	6	5	—	—
N H Furlonge	5	5	—	—	—	—	—	—	—	—
J G Gray	5	5	—	—	—	—	—	—	—	—
A G K Hamilton	5	5	8	8	4	4	5	5	—	—
D A Horton	5	5	—	—	—	—	—	—	4	4
D Jones	5	5	—	—	4	4	6	4	—	—
N P Maidment	5	5	—	—	—	—	—	—	4	4
A D Pomfret	5	5	8	8	4	4	6	5	—	—
J G B Rowell	4	2	—	—	—	—	—	—	—	—
C A Washbourn	5	4	—	—	—	—	—	—	—	—

Gordon Hamilton and Marty Becker were appointed to the nominations committee on 12 May 2008. Jonny Rowell resigned on 3 October 2008 and Marty Becker resigned on 31 October 2008.

Board committees

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

Audit committee

The audit committee currently comprises Andy Pomfret (committee chairman), Dudley Fishburn and Gordon Hamilton. Marty Becker was also a member of this committee and attended meetings until his resignation on 31 October 2008. 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 judgments 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; 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 auditors and internal audit. The chief executive, the finance director, and the risk management director are invited to attend part of each meeting of this committee. 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 an open avenue of 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 an annual 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, independently 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 auditor such as bookkeeping and accounting services, internal actuarial service, internal audit outsourcing services and executive remuneration services. The policy requires pre-approval for all material other 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 88. 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 Dudley Fishburn as chairman, together with Andy Pomfret, Gordon Hamilton, Dan Jones and Gordon Hamilton. The work of the remuneration committee is covered further in the directors' remuneration report on pages 54 to 63.

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 chairman, together with Dudley Fishburn, Andy Pomfret, Gordon Hamilton and Dan Jones. Gordon Hamilton and Marty Becker joined the committee in May 2008 prior to the discussions regarding the appointment of a new chief executive. Marty Becker left this committee following his resignation from the company on 31 October 2008. It meets as required and makes recommendations to the board on all board appointments, including the selection of non-executive directors.

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

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 them 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 66 to 67, and the statement of directors on going concern on page 64.

The board confirms that there is a continuous process for identifying, evaluating and managing any compliance issues and significant risks faced by the group. The internal capital assessment process maps risks to capital requirements through review and challenge and sign-off 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 parameters 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. Other internal control procedures and reviews for effectiveness by the board include the:

- Preparation of standard monthly, quarterly and periodic reporting as prescribed by the board for review by the various group committees;
- Review of financial, operational and compliance reports from management; and
- Review of any significant issues arising from the 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 project 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 78 to 85.

Consideration of matters relating to directors' remuneration

The remuneration policy is set by the board and is described below. Individual remuneration packages of executive directors and the chairman are determined by the remuneration committee within the framework of this policy. The remuneration committee consists of the non-executive directors and during the year the members included Dudley Fishburn as the chairman, Andy Pomfret, Dan Jones and Gordon Hamilton. The company views each of these directors as independent. The committee met four times during the year.

The committee receives advice from a variety of sources on issues where it considers it appropriate. Hewitt New Bridge Street advised the committee on ongoing issues. The committee also calls on specialist advice from a variety of additional sources including Bluefin Advisory Services Limited for pensions advice, Watson Wyatt publications for salary data, Equiniti for employee share incentives matters, and internal advisers including the chief executive and the company secretary who present to the committee on specific issues.

Remuneration policy statement

The directors believe that performance-related remuneration is an essential motivation to management and staff, and this policy will form the basis for determining executive directors' remuneration for the current and forthcoming financial years. 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 company's policy is to remunerate the executive directors and other management fairly in such a manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel. The Talent Management function has an input into the design of the remuneration arrangements and the operational risk is taken into account when setting performance targets. The measurement of the executive directors' performance and the determination of their annual remuneration package is undertaken by the remuneration committee. The main elements of the remuneration package payable under the service agreement of each executive director comprise basic salary, short-term incentive payments, pension contributions, share-based incentives and other benefits. Other benefits include private medical insurance for the director and his immediate family, permanent health insurance, death in service benefit at four times annual salary, accident and travel insurance, healthclub membership, season ticket, car parking and the provision of either a company car or a monthly car allowance.

In line with Lloyd's market practice, there are no upper limits on the amounts payable to individuals under short-term incentives. The committee has considered whether it is appropriate to set an upper limit and has agreed that such a limit would adversely affect the company's competitive position and would not be in the interests of shareholders. The incentive payments, which comprise short-term incentive payments and share incentive plans, are awarded on a discretionary basis and are determined by the committee in respect of performance of both the individual and the company. The main factor influencing bonus/share awards is the return on equity of the group. The policy is to ensure that a material proportion of each executive director's overall remuneration is performance-based to align executive directors' interests with those of shareholders. Therefore, as the return on equity of the group has reduced this year, the committee reflected this in the bonus payments made to directors in relation to 2008 which are lower than in previous years.

The board, on a bi-annual basis, determines the remuneration of the non-executive directors with details set out below. No director plays a part in any discussion about his own remuneration.

The directors believe that a key element of the remuneration strategy is the share incentive plans that further align the interests of participants in the plans with shareholders' interests. Entitlements under certain plans are subject to the achievement of performance conditions as described below under share incentive plans.

Traditionally, Lloyd's underwriters participated in the provision of their personal capital to syndicates in which they worked. With the move to corporate provision of capital, individual membership of Lloyd's has declined dramatically. 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 currently all the executive directors are participants with between 30% and 50% of their salaries "at risk" as capital commitments. These capital commitments can be lost in full if underwriting performance is poor.

Section headings marked **B** indicate the information in that section has been audited.

B Service contracts

The company has service contracts with executive directors. It is company policy that such contracts contain notice periods of not more than 12 months. Details of the contracts currently in place for executive directors and their basic salary for 2009 are as follows:

	Annual salary £	Date of contract	Unexpired term*	Notice period	Provision for compensation
A F Beazley	450,000	6 Nov 2002	n/a	12 months	Nil
N H Furlonge	255,000	6 Nov 2002	n/a	12 months	Nil
J G Gray	285,000	6 Nov 2002	n/a	12 months	Nil
D A Horton	350,000	1 Jun 2003	n/a	12 months	Nil
N P Maidment	260,000	6 Nov 2002	n/a	12 months	Nil
C A Washbourn	260,000	6 Dec 2006	n/a	12 months	Nil

* the unexpired term is not applicable as each of the executive director's contract 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. The company will normally phase any payments of compensation which will also be subject to negotiation and mitigation.

Non-executive directors

The fees of non-executive directors, other than the chairman, are determined by the board. When setting fee levels consideration is given to levels in comparable companies for comparable services.

No non-executive director participates in the company'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 includes the candidate bringing 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.

A bi-annual review of the fees and other income payable was carried out by the board in December 2008.

Details of the non-executive directors' terms of appointment and their fees for 2009 are set out below:

	Current annual fees £	Term of appointment	Expires	Other income* £
J G W Agnew	105,000	3 years	31 Dec 2011	–
J D Fishburn	50,000	1 year	31 Dec 2009	8,000
A D Pomfret	50,000	3 years	31 Dec 2011	16,000
D L Jones	50,000	3 years	30 June 2009	–
A G K Hamilton	50,000	3 years	7 Sept 2009	–

* other income relates to the additional fee payable to A D Pomfret in respect of his chairmanship of the audit committee (£10,000) and as senior non-executive director (£6,000) and to J D Fishburn in respect of his chairmanship of the remuneration committee

Individual aspects of remuneration

A summary of the key elements of short and long-term remuneration are as follows:

Element	Objective	Conditions
Base salary	To recognise responsibilities	None
Benefits	To provide basic benefit	Reviewed annually with increases dependent on group and individual performance
Pension	To provide funding for retirement	Defined contribution based on salary
Enterprise bonus	To link cash reward to company return on equity	Minimum return on equity to be achieved
Deferred shares	To defer a proportion of Enterprise bonus in shares	Vesting dependent on continued employment for three years
Retention shares	To retain key staff	Full vesting dependent on continued employment over six years
Long-term incentive plan (LTIP)	To provide an incentive linked to long-term shareholder return	Vesting based on total shareholder return (TSR) relative to peer group and NAV performance over a three-year period and continued employment
Staff underwriting	To put at risk to future underwriting results a proportion of incentives awarded	Deferred bonuses at risk from underwriting results

Details of individual emoluments and compensation

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

	Salary & fees ¹ £	Enterprise bonus pool £	Staff underwriting distribution £	Staff underwriting deferred bonus ³ £	Benefits ² £	Salary supplements in lieu of pension contributions £	Payments in connection with termination of employment £	Total for 12 months to 31 Dec 2008 £	Personal pension contributions £	Total for 12 months to 31 Dec 2007 £
J G W Agnew	75,000	—	—	—	—	—	—	75,000	—	75,000
A F Beazley	450,000	225,000	44,448	—	13,503	179,521	—	912,472	—	1,997,590
J D Fishburn	49,000	—	—	—	—	—	—	49,000	—	49,000
N H Furlonge	255,000	150,000	32,821	—	17,969	124,340	—	580,131	—	1,012,570
J G Gray	285,000	105,000	17,579	45,000	18,114	—	—	470,693	42,750	1,223,543
D A Horton	303,333	293,222	21,520	6,778	14,686	—	—	639,539	45,500	1,075,901
N P Maidment	260,000	196,022	17,579	53,978	21,218	—	—	548,797	39,000	1,142,791
A D Pomfret	56,000	—	—	—	—	—	—	56,000	—	56,000
J G Rowell (Note 4)	380,513	—	75,207	—	14,147	—	928,000	1,397,867	57,077	2,068,280
C A Washbourn	260,000	194,628	17,265	55,372	11,018	—	—	538,283	39,000	1,265,486
D L Jones	42,000	—	—	—	—	—	—	42,000	—	42,000
W M Becker	35,000	—	—	—	—	—	—	35,000	—	42,000
A G K Hamilton	42,000	—	—	—	—	—	—	42,000	—	42,000
Total	2,492,846	1,163,872	226,419	161,128	110,655	303,862	928,000	5,386,782	223,327	10,092,161

1 Other than for the chairman, fees include fees paid for membership of board committees (investment, audit, remuneration and nomination committees)

2 The benefits comprise those detailed in the service contracts of the executive directors and relate to the standard benefits such as private medical insurance, car allowance, etc.

3 The directors have deferred bonus entitlements to support their underwriting through Beazley Staff Underwriting Limited.

4 JG Rowell left the Group on 11 December 2008. The termination payment comprises amounts payable in respect of Johnny Rowell's 2008 bonus and in lieu of notice.

Salary

The remuneration committee reviews salaries annually, taking into account levels in comparable positions in other similar financial companies. It also considers the performance of the group, individual and average salary increases for employees across the whole group. The annual salary reviews take place in December of each year and the remuneration committee decided that there should be no salary increases awarded for 2009 for the executive directors for the second year running, as a measure to contain costs and to reflect the lower profits delivered in 2008 as well as increase awareness for cost management in the business.

Short-term incentives

Enterprise bonus pool

A scheme based on achieving stretching target returns on group equity with minimum hurdles to be met has been established that better aligns the interests of directors and staff with shareholders.

A proportion of this pool is allocated among executive directors at the discretion of the committee. In determining the award levels for 2008, as the group's return on equity had reduced compared with 2007, the bonus pool was smaller and the level of awards made was reduced.

No awards of deferred shares were made to directors in respect of 2008 financial year.

Retention plan

In addition to the enterprise bonus pool, senior executives will be eligible to receive conditional awards of ordinary shares under the retention plan.

The retention plan is operated on a discretionary basis based on performance to ensure key individuals have an adequate retention package and the first grant of awards was made in April 2005. The remuneration committee has concluded that the award of retention shares should be targeted at key staff where retention is essential to the business.

The total number of shares awarded to date has been 8,619,330 of which 7,806,055 ordinary shares are held by the employee benefit trust.

Pensions

The company provides pension entitlements to directors that are defined benefit in nature. Details of the entitlements of those who served as directors during the year are as follows:

	Accrued benefit at 31 Dec 2008 £	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 2008 £	Increase in transfer value less directors' contributions £
N H Furlonge	139,243	–	–	–	2,617,080	(300,905)
J G Gray	27,982	–	1,359	–	486,657	(50,016)
N P Maidment	32,273	–	1,566	–	360,235	(13,373)
CA Washbourn	15,107	–	734	–	182,972	(6,239)

The trustees agreed the new transfer value regime basis in January 2009. During the year Andrew Beazley transferred his pension entitlement out of the scheme at a valuation of £4.2m

The transfer values have reduced during the year despite a stronger mortality basis because the discount rates in payment have been increased and inflationary expectations reduced.

Future service accruals ceased on 31 March 2006 for the Beazley Furlonge Limited Final Salary Pension Scheme.

The pension benefits for directors and staff are now provided by way of a defined contribution scheme arranged through Fidelity, which is non-contributory. The company contributes 15% of salary for directors. Andrew Beazley and Nick Furlonge do not participate in this plan but, instead, receive a salary supplement in lieu of pension.

No other pension provisions are made. 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.

Share incentive plans

The company operates a variety of long-term, share-based incentives, including tax-approved and unapproved option plans, a long-term incentive plan (LTIP) and a save-as-you-earn scheme (SAYE), which are detailed below.

In 2005 it was agreed that in the future share option grants (other than those under the Beazley SAYE scheme which have substantial tax advantages for participants) are to be made only in exceptional circumstances, e.g. recruitment, when the terms of those share options will reflect best practice prevailing at that time. In particular, there will be no retesting of performance conditions on those grants. Existing options will be honoured and allowed to run their full course.

6 The long-term incentive plan

Participation in the LTIP is restricted to employees and full-time executive directors of the Beazley Group. Participants are selected on a discretionary basis and receive awards of free shares in the form of a nil-cost option, thus, no exercise price is payable. The options will normally be exercisable (subject to meeting the performance conditions set out below and provided that the participant continues in the employment of the company at that date) between the third and tenth anniversaries of grant.

The LTIP awards that were granted in March 2005 met the performance criteria established in part and over 90% of the options vested.

The maximum normal levels of grants that may be made under the LTIP to one individual is one times salary in any financial year, measured by the value of ordinary shares put under award at the time of the award. Dividends are not currently accrued on ordinary shares prior to vesting and the number of shares awarded is not therefore adjusted. The committee will keep this issue under review for future awards.

Awards are measured by total shareholder return (TSR) and net asset value (NAV) performance. The company decided upon these measures as TSR aligns the interests of directors with shareholders by requiring superior TSR performance and NAV is a key measure of the company's financial performance.

The LTIP performance conditions were originally set when the scheme was established by board resolution on 6 November 2002. The performance conditions were amended at an extraordinary general meeting on 14 March 2005 for grants made after that date.

Shares worth up to 50% of salary
("Basic Shares")

NAV

Regardless of the TSR performance, 50% of the Basic Shares will be received if NAV growth is at least the risk free rate of return plus 5% per year.

TSR

Regardless of the NAV growth, 25% of the Basic Shares will be received for median TSR performance and 50% of the Basic Shares will be received for upper quartile TSR performance.

For TSR performance between median and upper quartile the number of Basic Shares which will be received is determined on a straight-line basis.

Shares worth more than 50%
of salary
("Additional Shares")

NAV

Regardless of TSR performance, 50% of the Additional Shares will be received if NAV growth is at least the risk-free rate of return plus 10% per year.

For out-performance of the risk-free rate of return of between 5% and 10%, the number of Additional Shares which will be received is determined on a straight-line basis.

TSR

Regardless of NAV growth, 50% of the Additional Shares will be received if top decile TSR performance is achieved.

For TSR performance between upper quartile and top decile performance, the number of Additional Shares which will be received is determined on a straight-line basis.

The company's TSR growth is compared with that of members of a comparator group comprising eight companies from the insurance sector (the "comparator group") over a three-year period starting with the year in which the award is made. The comparator group is defined as the Lloyd's vehicles listed on the London Stock Exchange and includes the following companies:

- Amlin
- Brit Insurance
- Catlin Group
- Chaucer
- Hardy
- Highway
- Hiscox
- Lancashire Holdings
- Novae Group

Details of entitlements under this plan, which are all subject to the above performance conditions, for directors who served during the period, are set out in the next table.

§ The unapproved share option plan

Participation in the unapproved plan is restricted to employees and full-time executive directors of the Beazley Group, although it is the committee's intention to only make awards under this plan in exceptional circumstances. Participants are selected on a discretionary basis. No payment is required for the grant of an option and the limit on grants when aggregated with awards under the LTIP is shares with a face value of one times salary or two times salary in exceptional circumstances.

Under both the approved and unapproved share option plans, options are subject to performance conditions and typically vest on the third anniversary of the date of grant, provided that the participant has remained in employment to that date. The performance conditions require the company's NAV plus dividends per share growth to increase as follows over a three-year period:

- An option may be exercised over all ordinary shares under option if the cumulative growth in NAV plus dividends per share is equal to or exceeds the risk-free rate of return (this being defined as the average yield of UK gilts with maturity dates within the next five years) in the relevant period plus 10% per annum;
- An option may be exercised over half the ordinary shares under option if the cumulative growth in NAV plus dividends per share is equal to the risk-free rate of return plus 5% per annum;
- For performance where the cumulative growth in NAV plus dividends per share equals a number between the risk-free rate of return plus 5% and 10% per annum, the number of ordinary shares over which an option can be exercised will be calculated on a straight-line basis between these two points;
- For options granted before 2005, if the option is not fully exercisable at the end of the three-year period, it will be re-tested once, on the fourth anniversary of the date of grant, from a fixed base. The option is exercisable over whichever is the higher number of options vesting. No options have been granted since 2005; and
- The option will lapse if NAV plus dividends per share performance is below the risk-free rate of return plus 5% per annum in both periods.

The performance conditions above were set when these plans were established by board resolution on 6 November 2002. These performance conditions were considered to be appropriate as they impose demanding performance requirements, while ensuring that shareholders also receive attractive returns over the performance period.

The unapproved (and approved) options granted in 2004 vested in part following the announcement of the results for the year ended 31 December 2006 and the balance of the options were available to be re-tested following the announcement of the results for the year ended 31 December 2007. Overall 100% of the options vested.

§ The approved share option plan

Participation in the approved plan is restricted to employees and full-time executive directors of the Beazley Group. The terms and conditions are consistent with the unapproved plan, except that the plan has been approved by HM Revenue and Customs (HMRC).

Save-as-you-earn scheme

A SAYE scheme was launched in May 2003 for the benefit of staff. The scheme rules were approved by HMRC. The grants made up to 2007 schemes were administered by Yorkshire Building Society and the 2008 award administration has been undertaken by Equiniti.

The scheme offered a three-year savings contract period with options being offered at a price of 93p for grants in 2006, 114.5p for the grants in 2007 and 126.5p for grants in 2008 representing the maximum allowed discount of 20%. Monthly contributions are made through payroll deduction directly to individual bank accounts on behalf of participating employees.

All employees who had completed their probationary period prior to the closure of the invitation period were considered eligible to participate in the scheme.

Savings-related share option plan for US employees

The Beazley Group plc savings-related share option plan for US employees (the Plan) permits all eligible US-based employees to purchase shares of Beazley Group at a discount of up to 15% of the shares' fair market value. The plan is designed to comply with the terms of Section 423 of the US Internal Revenue Code.

Participants elect to participate by entering into a savings contract under which the participant agrees to have a portion of his or her compensation withheld in a savings plan for the purpose of exercising options granted under the Plan. The maximum amount of compensation that may be withheld each month under all savings contracts for any participant may not exceed £250.

After a two-year period, participants may exercise their options to purchase Beazley shares at the exercise price. The shares purchased are non-transferable for at least 12 months following exercise. Unexercised options lapse 27 months after the date on which the options were granted.

Options may be exercised early in the event of an employee's death or retirement, certain other cessations of employment and certain Beazley Group change in control events. The Plan, by its terms, will terminate on 5 May 2016, which is the tenth anniversary of its adoption.

The share plans permit 10% of the company's share capital to be issued pursuant to options/LTIP awards in a 10-year period. Since November 2002, 2.6% of this allowance (*2.6%) has been allocated for option and LTIP awards.

8 Directors' share scheme interests

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

	Scheme	At 31 Dec 2007	Awarded	Exercised	Lapsed	At 31 Dec 2008	Ex. price	Earliest date of exercise	Expiry date
A F Beazley	ESOS Unapp	30,179	–	30,179	–	Nil	93.95	29/03/07	–
	LTIP	19,840	–	19,840	–	Nil	Nil	29/06/07	–
	LTIP	140,449	–	140,097	352	Nil	Nil	21/03/08	–
	LTIP	133,698	–	–	–	133,698	Nil	21/03/09	21/03/16
	LTIP	140,186	–	–	–	140,186	Nil	13/03/10	13/03/17
	LTIP	–	120,481	–	–	120,481	Nil	13/03/11	13/03/18
	SAYE 2006	10,083	–	–	–	10,083	92.73	01/07/09	01/01/10
	Retention plan	112,359	–	37,449	–	74,910	Nil	21/03/08	–
	Retention plan	222,831	–	–	–	222,831	Nil	21/03/09	–
	Deferred Plan	140,186	–	–	–	140,186	Nil	13/03/10	13/04/10
	Deferred Plan	–	90,361	–	–	90,361	Nil	13/03/11	13/04/11
N H Furlonge	ESOS Unapp	9,145	–	9,145	–	Nil	93.95	29/03/07	–
	ESOS App	11,431	–	11,431	–	Nil	93.95	29/03/07	–
	LTIP	184,831	–	158,095	26,736	Nil	Nil	21/03/08	–
	LTIP	70,781	–	–	–	70,781	Nil	21/03/09	21/03/16
	LTIP	70,093	–	–	–	70,093	Nil	13/03/10	13/03/17
	LTIP	–	60,240	–	–	60,240	Nil	13/03/11	13/03/18
	SAYE 2007	–	8,253	–	–	8,253	114.5	01/06/10	01/12/10
	Retention plan	28,089	–	9,362	–	18,727	Nil	21/03/08	–
	Retention plan	70,781	–	–	–	70,781	Nil	21/03/09	–
	Deferred plan	70,093	–	–	–	70,093	Nil	13/03/10	–
	Deferred plan	–	60,240	–	–	60,240	Nil	13/03/11	–

	Scheme	At 31 Dec 2007	Awarded	Exercised	Lapsed	At 31 Dec 2008	Ex. price in pence	Earliest date of exercise	Expiry date
J G Gray	ESOS Unapp	11,889	–	11,889	–	Nil	93.95	29/03/07	–
	ESOS App	11,431	–	11,431	–	Nil	93.95	29/03/07	–
	LTIP	190,730	–	163,141	27,589	Nil	Nil	21/03/08	–
	LTIP	101,506	–	–	–	101,506	Nil	21/03/09	21/03/16
	LTIP	105,140	–	–	–	105,140	Nil	13/03/10	13/03/17
	LTIP	–	108,433	–	–	108,433	Nil	13/03/11	13/03/18
	SAYE 2007	8,253	–	–	–	8,253	114.5	01/06/10	01/12/10
	Retention plan	84,269	–	28,086	–	56,183	Nil	21/03/08	–
	Retention plan	135,341	–	–	–	135,341	Nil	21/03/09	–
	Deferred Plan	119,158	–	–	–	119,158	Nil	13/03/10	–
	Deferred Plan	–	103,012	–	–	103,012	Nil	13/03/11	–
D A Horton	ESOS Unapp	23,321	–	23,321	–	Nil	93.95	29/03/07	–
	LTIP	189,606	–	157,688	31,918	Nil	93.95	21/03/08	–
	LTIP	88,476	–	–	–	88,476	Nil	21/03/09	21/03/16
	LTIP	70,093	–	–	–	70,093	Nil	13/03/10	13/03/17
	LTIP	–	75,301	–	–	75,301	Nil	13/03/11	13/03/18
	SAYE 2007	8,253	–	–	–	8,253	114.5	01/06/10	01/12/10
	Retention plan	95,505	–	31,831	–	63,674	Nil	21/03/08	–
	Retention plan	117,968	–	–	–	117,968	Nil	21/03/09	–
	Retention plan	1,000,000	–	–	–	1,000,000	Nil	09/10/10	–
	Deferred Plan	119,158	–	–	–	119,158	Nil	13/03/10	–
	Deferred Plan	–	100,602	–	–	100,602	Nil	13/03/11	–
N P Maidment	ESOS Unapp	11,889	–	11,889	–	Nil	93.95	29/03/07	–
	ESOS App	11,431	–	11,431	–	Nil	93.95	29/03/07	–
	LTIP	186,404	–	159,581	26,823	Nil	Nil	21/03/08	–
	LTIP	68,487	–	–	–	68,487	Nil	21/03/09	21/03/16
	LTIP	70,093	–	–	–	70,093	Nil	13/03/10	13/03/17
	LTIP	–	60,240	–	–	60,240	Nil	13/03/11	13/03/18
	SAYE 2006	10,083	–	–	–	10,083	92.73	01/07/09	01/01/10
	Retention Plan	84,269	–	28,086	–	56,183	Nil	21/03/08	–
	Retention Plan	91,317	–	–	–	91,317	Nil	21/03/09	–
	Deferred Plan	119,158	–	–	–	119,158	Nil	13/03/10	–
	Deferred Plan	–	102,409	–	–	102,409	Nil	13/03/11	–

	Scheme	At 31 Dec 2007	Awarded	Exercised	Lapsed	At 31 Dec 2008	Ex. price in pence	Earliest date of exercise	Expiry date
J G Rowell	ESOS Unapp	54,677	–	54,677	–	Nil	90.04	15/05/06	–
	ESOS Unapp	33,209	–	33,209	–	Nil	93.95	29/03/07	–
	ESOS App	31,931	–	31,931	–	Nil	93.95	29/03/07	–
	LTIP	210,112	–	186,108	24,004	Nil	Nil	21/03/08	11/06/09
	LTIP	121,639	–	–	66,369	55,270	Nil	11/12/08	11/06/09
	LTIP	140,186	–	–	99,320	40,866	Nil	11/12/08	11/06/09
	LTIP	–	120,481	–	104,912	15,569	Nil	11/12/08	11/06/09
	SAYE 2007	8,253	–	–	–	8,253	114.5	01/06/10	01/12/10
	Retention plan	84,269	–	28,086	–	56,183	Nil	11/06/09	11/12/09
	Retention plan	162,186	–	–	–	162,186	Nil	11/06/09	11/12/09
	Deferred Plan	245,327	–	–	–	245,327	Nil	11/06/09	–
	Deferred Plan	–	180,722	–	–	180,722	Nil	11/06/09	–
C A Washbourn	ESOS Unapp	37,085	–	37,085	–	Nil	90.04	15/05/06	–
	ESOS Unapp	65,141	–	41,821	–	23,320	93.95	29/03/07	–
	LTIP	15,331	–	15,331	–	Nil	Nil	29/03/07	–
	LTIP	169,101	–	–	24,460	144,641	Nil	21/03/08	21/03/15
	LTIP	90,181	–	–	–	90,181	Nil	21/03/09	21/03/16
	LTIP	147,196	–	–	–	147,196	Nil	13/03/10	13/03/17
	LTIP	–	126,506	–	–	126,506	Nil	13/03/11	13/03/18
	Retention plan	95,505	–	31,831	–	63,674	Nil	21/03/08	–
	Retention plan	120,241	–	–	–	120,241	Nil	21/03/09	–
	Retention plan	1,000,000	–	–	–	1,000,000	Nil	04/12/09	–
	Deferred Plan	105,140	–	–	–	105,140	Nil	13/03/10	–
	Deferred Plan	–	120,481	–	–	120,481	Nil	13/03/11	–

LTIP awards mid-market price at 18 March 2005 was 89p (Source: Bloomberg)

LTIP awards mid-market price at 21 March 2006 was 116p (Source: Bloomberg)

LTIP awards mid-market price at 13 March 2007 was 142p (Source: Bloomberg)

LTIP awards mid-market price at 3 March 2008 was 116p (Source: Bloomberg)

β Directors' interests in shares

Details of the ordinary shareholdings of the directors who held office during the year are as follows:

	Number of ordinary shares held as at 1 Jan 2008	Options exercised	Options sold	Shares acquired/(sold)	Number of ordinary shares held as at 31 Dec 2008	Shareholding as a percentage of the total issued ordinary share capital as at 31 Dec 2008
J G W Agnew	114,263	–	–	20,737	135,000	0.04%
A F Beazley	2,552,370	227,565	(117,613)	205,000	2,867,322	0.82%
J D Fishburn	15,714	–	–	–	15,714	0.00%
N H Furlonge	1,308,052	188,033	(182,529)	100,000	1,413,556	0.40%
J G Gray	2,389,598	214,547	(214,547)	14,051	2,403,649	0.69%
D A Horton	88,505	212,840	(108,466)	200,000	392,879	0.11%
N P Maidment	2,966,099	210,987	(194,457)	100,000	3,082,629	0.88%
A D Pomfret	16,500	–	–	–	16,500	0.00%
J G Rowell	4,904,010	334,011	(317,481)	(4,920,540)	–	0.00%
C A Washbourn	12,736	126,068	(126,068)	–	12,736	0.00%
W M Becker	20,000	–	–	–	20,000	0.01%
A G K Hamilton	10,000	–	–	–	10,000	0.00%
D L Jones	90,000	–	–	–	90,000	0.00%

With a total of 349,581,443 issued shares at 31 December 2008 (net of shares held in Treasury) the directors held 3.0%.

As beneficiaries of the employee benefit trust, the executive directors are deemed to be interested in the shares held by the trust which at 31 December 2008 amounted to 12,584,189 ordinary shares.

8 Underwriting interests on syndicate 623

The incentive arrangements for directors and key decision makers in the business include an element of downside risk through the deferment of future bonuses that will be at risk if the syndicate declares losses through the participation in Beazley Staff Underwriting. To date, over 80 employees of the group have committed to put at risk £3.9m of bonuses to the underwriting results of syndicate 623. Of the total at risk, £2.5m has already been deferred from the bonuses awarded.

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

	2008 year of account capacity £	2009 year of account capacity £
A F Beazley	454,545	283,661
N H Furlonge	300,000	283,661
J G Gray	300,000	283,661
D A Horton	300,000	283,661
N P Maidment	300,000	283,661
C A Washbourn	300,000	283,661

The directors believe that it is important that the incentive arrangements include an element of downside risk to align further with the interests of capital providers. The directors participate in the underwriting and have exposure to underwriting results through participation in Beazley Staff Underwriting Limited that provides an indirect involvement in the results of the syndicate.

Annual general meeting

A resolution will be proposed at the forthcoming annual general meeting to be held on 23 April 2009 to approve this directors' remuneration report.

By order of the board

Dudley Fishburn

Chairman of the remuneration committee

Plantation Place South

60 Great Tower Street

London EC3R 5AD

13 February 2009

Directors' report

The directors have pleasure in presenting their report and the audited financial statements of the group for the year ended 31 December 2008.

Principal activity

The company is the ultimate holding company for the Beazley group, a global specialist risk insurance and reinsurance business operating through its managed syndicates 2623, 3623, 3622 and 623 at Lloyd's in the UK and BICI, 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's statement on pages 6 to 9 and the business review on pages 10 to 13.

Results and dividends

The consolidated profit before taxation for the year ended 31 December 2008 amounted to £87.2m (2007: £138.5m).

The directors recommend a final dividend of 4.4p (2007: 4.0p) per ordinary share. This, when taken with the interim dividend of 2.2p (2007: 2.0p) per share, gives a total ordinary dividend of 6.6p per share for the year ended 31 December 2008 (2007: 6.0p). No special dividend is proposed this year (2007: 4.0p).

Directors

The directors of the company at 31 December 2008, who served during the year and to the date of this report, were as follows:

Jonathan Geoffrey William Agnew	(non-executive chairman)
Andrew Frederick Beazley	(deputy chairman)
David Andrew Horton	(chief executive)
Nicholas Hill Furlonge	(director)
Jonathan George Gray	(director)
Neil Patrick Maidment	(director)
Jonathan George Benton Rowell	(director) – resigned 3 October 2008
Clive Andrew Washbourn	(director)
John Dudley Fishburn	(non-executive director)
Andrew David Pomfret	(non-executive director)
Daniel Lawrence Jones	(non-executive director)
William Marston Becker	(non-executive director) – resigned 31 October 2008
Alexander Gordon Kelso Hamilton	(non-executive director)

In accordance with the articles of association Andrew Horton, Clive Washbourn, Jonathan Agnew and Andrew Pomfret retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Details of directors' service contracts and beneficial interests in the company's share capital are given in the directors' remuneration report on pages 54 to 63. Biographies of directors seeking re-election are set out on pages 48 to 49.

Corporate governance

The company's compliance with corporate governance is disclosed in the corporate governance statement on pages 50 to 53.

Going concern

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

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.

Supplier payment policy

The company and group's policy for the year ending 31 December 2008, 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 2008 (2007: 47 days).

Corporate, social and environmental responsibility

The company's corporate, social and environmental policy is disclosed on pages 46 to 47.

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

Financial instruments and risk management

The board agrees and reviews policies and financial instruments for risk management.

Further information on reinsurance, borrowings and financial instruments is contained in notes 23, 24 and 25 to the financial statements.

Substantial shareholdings

As at 1st February 2009, 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	40,105,897	11.5
Jupiter Asset Management	34,627,367	9.9
BGI	22,978,590	6.6
Legal & General Investment Management	20,968,413	6.0
Aberforth Partners	18,754,861	5.4
JPMorgan Asset Management	16,965,646	4.9
Standard Life Investments	13,187,183	3.8
Dimension Fund Advisors	13,056,840	3.8
LSV Asset Management	10,719,399	3.1
Threadneedle Investments	10,534,614	3.0

Annual general meeting

The notice of the annual general meeting to be held at 4.00pm on Thursday, 23 April 2009 at Plantation Place South is set out in the circular to shareholders regarding the annual general meeting.

At 13 February 2009 the company held 19,923,246 ordinary shares in treasury.

At 13 February 2009 there are outstanding options to subscribe for 4.7m ordinary shares pursuant to employee share schemes, representing 1.3% of the issued share capital. If the authority to purchase shares were exercised in full, these options would represent 1.4% of the enlarged issued share capital.

Auditors

A resolution to re-appoint KPMG Audit plc as auditors will be proposed at the forthcoming 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

A R Manners

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

13 February 2009

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

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

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

The group and parent company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the group and the parent company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 judgments 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Statement of Corporate Governance that comply with that law and those regulations.

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

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

We confirm that to the best of our knowledge:

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

D A Horton

Chief executive officer

13 February 2009

Independent auditors' report to the members of Beazley Group plc

We have audited the group and parent company financial statements (the "financial statements") of Beazley Group plc for the year ended 31 December 2008 which comprise the group Income Statement, the group and Parent Company Balance Sheets, the group and Parent Company Cash Flow Statements, the group and Parent Company Statements of Changes in Equity, and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 66.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and Business Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

Chartered Accountants, Registered Auditor

8 Salisbury Square, London

EC4Y 8BB United Kingdom

13 February 2009

Consolidated income statement

for the year ended 31 December 2008

	Notes	2008 £m	2007 £m
Gross premiums written	3	875.7	780.5
Written premiums ceded to reinsurers		(135.3)	(128.3)
Net premiums written	3	740.4	652.2
Change in gross provision for unearned premiums		(53.4)	(24.7)
Reinsurer's share of change in the provision for unearned premiums		(3.9)	(10.3)
Change in net provision for unearned premiums		(57.3)	(35.0)
Net earned premiums	3	683.1	617.2
Net investment (loss) income	4	(25.8)	64.9
Other income	5	10.1	10.1
		(15.7)	75.0
Revenue		667.4	692.2
Insurance claims		522.1	338.6
Insurance claims recoverable from reinsurers		(121.0)	(31.2)
Net insurance claims	3	401.1	307.4
Expenses for the acquisition of insurance contracts	3	182.6	179.2
Administrative expenses		54.7	58.2
Foreign exchange loss/(gain)		(70.8)	(3.1)
Operating expenses		166.5	234.3
Expenses	3	567.6	541.7
Results of operating activities		99.8	150.5
Finance costs	8	(12.6)	(12.0)
Profit before income tax		87.2	138.5
Comprises:			
Profit before income tax and foreign exchange adjustments on non-monetary items		41.0	130.3
Foreign exchange on non-monetary items	3	46.2	8.2
Income tax expense	9	(22.8)	(38.1)
Profit for the year attributable to equity shareholders		64.4	100.4
Earnings per share (pence per share):			
Basic	10	18.8	28.1
Diluted	10	18.0	27.1

Balance sheet

as at 31 December 2008

		2008		2007	
	Notes	Group £m	Company £m	Group £m	Company £m
Assets					
Intangible assets	12	52.5	–	28.7	–
Plant and equipment	13	8.1	–	7.2	–
Investment in subsidiaries		–	104.0	–	97.9
Investment in associates	14	–	–	1.3	–
Deferred acquisition costs	15	91.5	–	82.0	–
Deferred income tax	28	6.8	–	4.5	–
Financial investments	16	1,550.6	386.8	1,132.3	341.8
Derivative financial instruments	25	2.7	2.7	1.2	1.2
Insurance receivables	17	287.8	–	199.9	–
Reinsurance assets	18,23	538.6	–	353.3	–
Current income tax		–	6.8	–	3.0
Other receivables		15.3	78.0	12.0	103.7
Cash and cash equivalents	19	443.6	5.4	358.3	20.9
Total assets		2,997.5	583.7	2,180.7	568.5
Equity					
Share capital	20	18.5	18.5	18.4	18.4
Other reserves	21,22	208.1	193.0	223.1	224.1
Retained earnings		186.1	76.9	157.1	129.3
Total equity		412.7	288.4	398.6	371.8
Liabilities					
Insurance liabilities	23	2,246.7	–	1,471.9	–
Borrowings	24	177.5	172.8	156.7	156.9
Other payables	26	115.7	122.5	106.6	39.8
Retirement benefit obligations	27	–	–	0.9	–
Deferred income tax	28	37.1	–	34.0	–
Current income tax liabilities		7.8	–	12.0	–
Total liabilities		2,584.8	295.3	1,782.1	196.7
Total equity and liabilities		2,997.5	583.7	2,180.7	568.5

The financial statements were approved by the board of directors on 13 February 2009 and were signed on its behalf by:

J G W Agnew, Chairman

A F Beazley, Deputy chairman

D A Horton, Chief executive officer



Statement of changes in equity

for the year ended 31 December 2008

	Notes	Share capital £m	Other reserves £m	Retained earnings £m	Total £m
Group					
Balance at 1 January 2007		18.1	225.8	75.6	319.5
Profits for the year		–	–	100.4	100.4
Change in net investment hedge		–	0.1	–	0.1
Total recognised income/(expense) for year		–	0.1	100.4	100.5
Dividends paid	11	–	–	(18.6)	(18.6)
Issue of shares	20,21	0.3	4.0	–	4.3
Equity settled share-based payments	21	–	3.4	(0.3)	3.1
Acquisition of own shares in trust	21	–	(5.4)	–	(5.4)
Purchase of treasury shares	21	–	(5.1)	–	(5.1)
Transfer of shares to employees	21	–	0.3	–	0.3
Balance at 31 December 2007		18.4	223.1	157.1	398.6
Profits for the year		–	–	64.4	64.4
Change in net investment hedge		–	11.6	–	11.6
Total recognised income/(expense) for year		–	11.6	64.4	76.0
Dividends paid	11	–	–	(35.4)	(35.4)
Issue of shares	20,21	0.1	0.8	–	0.9
Equity settled share-based payments	21	–	3.4	–	3.4
Acquisition of own shares in trust	21	–	(7.1)	–	(7.1)
Purchase of treasury shares	21	–	(24.9)	–	(24.9)
Transfer of shares to employees	21	–	1.2	–	1.2
Balance at 31 December 2008		18.5	208.1	186.1	412.7
Company					
Balance at 1 January 2007		18.1	230.9	14.9	263.9
Profits for the year		–	–	131.9	131.9
Total recognised income/(expense) for year		–	–	131.9	131.9
Dividends paid	11	–	–	(18.6)	(18.6)
Issue of shares	20,21	0.3	4.0	–	4.3
Equity settled share-based payments		–	5.0	1.1	6.1
Purchase of treasury shares	21	–	(5.1)	–	(5.1)
Acquisition of own shares in trust	21	–	(11.0)	–	(11.0)
Transfer of shares to employees	21	–	0.3	–	0.3
Balance at 31 December 2007		18.4	224.1	129.3	371.8
Profits for the year		–	–	(17.0)	(17.0)
Total recognised income/(expense) for year		–	–	(17.0)	(17.0)
Dividends paid	11	–	–	(35.4)	(35.4)
Issue of shares	20,21	0.1	0.8	–	0.9
Equity settled share-based payments		–	3.4	–	3.4
Purchase of treasury shares	21	–	(24.9)	–	(24.9)
Acquisition of own shares in trust	21	–	(7.1)	–	(7.1)
Transfer of shares to employees	21	–	1.2	–	1.2
Foreign exchange translation differences		–	(4.5)	–	(4.5)
Balance at 31 December 2008		18.5	193.0	76.9	288.4

Cash flow statement

for the year ended 31 December 2008

	Notes	2008		2007	
		Group £m	Company £m	Group £m	Company £m
Cash flow from operating activities					
Profit before tax		87.2	(23.7)	138.5	132.3
Adjustments for:					
Amortisation of intangibles		3.5	–	2.4	–
Equity settled share-based compensation		3.4	3.4	3.1	6.2
Retranslation of overseas net assets		(5.6)	(8.8)	(1.2)	–
Net fair value losses/(gains) on financial assets		38.1	0.3	(14.3)	(4.6)
Depreciation of plant & equipment		2.6	–	1.6	–
Transfer of own shares in trust		–	–	–	(5.6)
Transfer of shares to employees		1.2	1.2	0.3	0.3
Increase in insurance and other liabilities		775.4	82.9	197.2	2.0
Decrease/(increase) in insurance, reinsurance and other receivables		(276.4)	25.8	38.4	(78.3)
Increase in deferred acquisition costs		(9.5)	–	(3.1)	–
Financial income		(65.1)	(21.6)	(53.0)	(13.9)
Financial expense		12.6	12.6	12.0	12.0
Income tax paid		(26.2)	2.8	(18.7)	(2.7)
Contribution to pension fund		(0.9)	–	(1.0)	–
Acquisition of own shares in trust	21	(7.1)	(7.1)	(5.4)	(5.4)
Change in fair value of borrowings		–	14.4	–	(3.7)
Net cash from operating activities		533.2	82.2	296.8	38.6
Cash flow from investing activities					
Purchase of plant and equipment	13	(3.5)	–	(1.8)	–
Purchase of syndicate capacity	12	(0.5)	–	–	–
Acquisition of subsidiary (net of cash acquired)	12	(9.4)	–	(5.7)	–
Purchase of investments		(2,873.1)	(211.9)	(2,522.5)	(411.8)
Expenditure on software development	12	(3.3)	–	(1.7)	–
Proceeds from sale of investments		2,415.7	166.6	2,363.0	414.5
Capital injection in subsidiary		–	(6.1)	–	(32.8)
Interest and dividends received		65.1	21.6	53.0	13.9
Net cash used in investing activities		(409.0)	(29.8)	(115.7)	(16.2)
Cash flow from financing activities					
Proceeds from issue of shares		0.8	0.8	4.4	4.4
Purchase of treasury shares		(24.9)	(24.9)	(5.1)	(5.1)
Interest paid		(12.6)	(12.6)	(12.0)	(12.0)
Dividends paid	11	(35.4)	(35.4)	(18.6)	(18.6)
Net cash used in financing activities		(72.1)	(72.1)	(31.3)	(31.3)
Net (decrease)/increase in cash and cash equivalents		52.1	(19.7)	149.8	(8.9)
Cash and cash equivalents at beginning of year		358.3	20.9	209.4	29.8
Effect of exchange rate changes on cash and cash equivalents		33.2	4.2	(0.9)	–
Cash and cash equivalents at end of year	19	443.6	5.4	358.3	20.9

1 Statement of accounting policies

Beazley Group plc is a group domiciled in England and Wales. The consolidated financial statements of the group for the year ended 31 December 2008 comprise the parent company and its subsidiaries and the group's interest in associates.

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

On publishing the parent company financial statements here together with the group financial statements, the parent company is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements. The following accounting policies apply to both the group and parent company unless otherwise indicated.

These consolidated financial statements have been prepared on the basis of adopted IFRSs in issue that are effective or available for early adoption at 31 December 2008. Based on these adopted IFRSs and interpretations, the directors have applied the accounting policies, as set out below.

The following new standard and interpretations released by the International Accounting Standards Board (IASB) have not been early adopted but are expected to be of relevance to future financial years. None of these are expected to have any significant impact on the future consolidated financial statements of the group:

IAS 1 (amended) "Presentation of Financial Statements"

IAS 23 (amended) "Borrowing costs"

IAS 27 (amended) "Consolidated and Separate Financial Statements"

IAS 32 (amended) "Financial Instruments: Presentation"

IAS 39 (amended) "Financial Instruments: Recognition and Measurement – Eligible Hedged Items"

IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

Revised IFRS 3 "Business Combinations (2008)" incorporates the following changes that are likely to be relevant to the group's operations:

- The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss.
- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the group's 2010 consolidated financial statements.

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

Basis of presentation

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

Use of estimates and judgments

The preparation of financial statements requires management to make judgments, 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 judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 2 and 23 (on risk management, insurance liabilities and reinsurance assets).

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 ceases.

1 Statement of accounting policies continued

The group has used the purchase method of accounting for the acquisition 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 plus costs 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.

Financial investments made by the parent company in group undertakings are stated at cost 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 have been included in the 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 group's share of post-acquisition profits or losses is recognised in the income statement. 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 have been eliminated. 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 sterling, which is the group's presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using average exchange rates applicable to this period and which the group considers 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 balance sheet date;
- income and expenses for each income statement are translated at average exchange rates for the reporting period; and
- all resulting exchange differences are recognised as a separate component of equity.

The exchange differences on disposal of foreign entities 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 an insurer 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.

Financial guarantees provided by the parent company to subsidiaries are treated as insurance contracts under IFRS 4.

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.

1 Statement of accounting policies continued

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 balance sheet date and recognised in later periods when the related premiums are earned.

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.

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 balance sheet 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 confirmed.

Dividends paid

Dividend distribution to the shareholders of the group is recognised in the period in which the dividends are approved by the shareholders in the group's annual general meeting. Interim dividends are recognised in the period in which they are paid.

Plant and equipment

All plant and equipment is recorded at cost less accumulated depreciation. 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 balance sheet date and adjusted if appropriate.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstance 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.

1 Statement of accounting policies continued

Goodwill has an indefinite life and is annually tested for impairment. Goodwill is allocated to each cash-generating unit (being Lloyd's and non-Lloyd's business) for the purpose of impairment testing. Goodwill is impaired when the net present value of the forecast future cash flows is insufficient to support its carrying value. On transition to IFRS at 1 January 2004, any goodwill previously amortised or written off was not reinstated.

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 balance sheet. 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 syndicate 2623 and provision is made for any impairment.

c) Licences

Licences are shown at fair value. They have an indefinite useful life and are carried at cost less accumulated impairment. Licences are annually tested for impairment and provision is made for any impairment when the net present value of future cash flows 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 programmes. These costs are amortised over their estimated useful life (three years) on a straight-line basis. Other non-qualifying costs are expensed as incurred.

Financial instruments

Financial instruments are recognised in the balance sheet 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.

The fair value option in IAS 39 has been used to eliminate measurement or recognition inconsistency that would result from measuring assets or liabilities or recognising gains or losses on them on different bases.

Financial assets

On acquisition of a financial asset, the group is required to classify the asset into 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.

Financial assets at fair value through income statement

This category has two sub-categories: financial assets held for trading and those designated at fair value through the income statement at inception.

Trading assets are those assets which are acquired principally for the purpose of selling in the short term, or which are held as part of a portfolio in which there is evidence of short-term profit taking or if it is designated so by management. Derivatives are classified as held for trading unless they are designated as hedging instruments.

A financial asset is designated as fair value through the income statement upon initial recognition if it is managed and its 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.

Upon initial recognition, attributable transaction costs 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.

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.

1 Statement of accounting policies continued

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When 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 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.

Hedge funds

The group participates in a number of hedge funds and related financial instruments. 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.

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. These 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.

Other receivables

Other receivables principally consist of prepayments, accrued income and sundry debtors and are carried at amortised cost.

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 accruals basis for financial assets at fair value through the income statement. The realised gains or losses on disposal of an investment is the difference between the proceeds and the carrying value of the investment. Unrealised investment gains and losses represent the difference between the carrying value at the balance sheet date, and the carrying value at the previous period end or purchase value during the period.

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 payable, fees paid for the arrangement of debt and letter of credit facility and commissions charged for the utilisation of letters of credit. These costs are recognised in the income statements using the effective interest method.

Other payables

Other payables are stated at amortised cost.

Hedge accounting and derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting fair value gains or losses depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in active markets, recent market transactions, and 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 cash flow hedges or net investment hedges.

1 Statement of accounting policies continued

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) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to any ineffective portion is recognised immediately in the income statement within "net fair value gains/(losses) on derivative financial instruments".

If the derivative expires or is sold, terminated, exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognised in equity remains in equity until the forecast transaction affects the income statement. If the forecast transaction is no longer expected to occur, then the hedge accounting is discontinued and the balance in equity is recognised immediately in the income statement.

b) 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.

c) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; 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 equity are included in the income statement on disposal of the foreign operation.

Impairment of financial assets

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets 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. 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, bank overdrafts 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 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 that exceed 10 per cent of the greater of the fair value of the plan assets or the present value of the gross defined benefit obligations in the scheme are recognised in the income statement over the average remaining working lives of employees participating in the scheme.

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 the group's ordinary shares to certain employees, including the SAYE scheme, details of which are included in the directors' remuneration report.

1 Statement of accounting policies continued

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 expected service period of the related employees and a corresponding entry 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 directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the balance sheet 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 balance sheet date.

Deferred tax assets are recognised in the balance sheet 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) 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 if the amount of the obligation cannot be measured with sufficient reliability.

2 Risk management

The group has identified the risks arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite. The group categorises its risks into six areas: insurance, credit, market, liquidity, operational and group risk. 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.

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 in which business is to be written and the industry sectors to which the group is prepared to expose itself. 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.

2 Risk management continued

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 aggregation 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 flood damage, 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 probable maximum loss (PML). 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 catastrophe risk appetite for a probabilistic 1 in 250 year US event of \$340m net of reinsurance.

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

Lloyd's prescribed natural catastrophe event	2008		2007	
	Modelled PML (before reinsurance)	Modelled PML (after reinsurance)	Modelled PML (before reinsurance)	Modelled PML (after reinsurance)
	\$m	\$m	\$m	\$m
San Francisco quake (\$74bn, 2007: \$69bn)	480.3	204.4	447.2	188.3
Gulf of Mexico windstorm (\$113bn, 2007: \$108bn)	418.0	189.8	413.3	202.9
Florida Pinellas windstorm (\$119bn, 2007: \$106bn)	387.7	172.5	359.6	186.4

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 2008, the normal maximum gross 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 2008, the group's business is divided into five operating divisions and the following table provides a geographical split of gross premiums written.

2008	UK	North America	Europe (Excl UK)	ROW	Total
Marine	12%	23%	22%	43%	100%
Political risks and contingency	5%	9%	16%	70%	100%
Property	21%	42%	6%	31%	100%
Reinsurance	5%	55%	12%	28%	100%
Specialty lines	9%	81%	6%	4%	100%
Total	11%	55%	10%	24%	100%

2 Risk management continued

2007	UK	North America	Europe (Excl UK)	ROW	Total
Marine	11%	24%	22%	43%	100%
Political risks and contingency	4%	9%	17%	70%	100%
Property	24%	41%	6%	29%	100%
Reinsurance	6%	56%	10%	28%	100%
Specialty lines	9%	80%	6%	5%	100%
Total	12%	54%	10%	24%	100%

b) Reinsurance risk

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

The group's reinsurance programmes compliment 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, 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 experienced 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 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 intermediaries – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the group; and
- Investments – whereby issuer default results in the group losing all or part of the value of a financial instrument.

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.

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

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

2 Risk management continued

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

	Tier 1 £m	Tier 2 £m	Tier 3 £m	Tier 4 £m	Unrated £m	Total £m
31 December 2008						
Financial investments	1,366.0	63.0	–	1.0	120.6	1,550.6
Insurance receivables	–	–	–	–	287.8	287.8
Reinsurance assets	537.4	–	–	–	1.2	538.6
Cash and cash equivalents	441.9	–	–	–	1.7	443.6
Total	2,345.3	63.0	–	1.0	411.3	2,820.6
31 December 2007						
Financial investments	907.0	85.8	6.9	–	132.6	1,132.3
Insurance receivables	–	–	–	–	199.9	199.9
Reinsurance assets	343.3	–	–	–	10.0	353.3
Cash and cash equivalents	358.3	–	–	–	–	358.3
Total	1,608.6	85.8	6.9	–	342.5	2,043.8

The valuation methodology of the financial investments is described in the statement of accounting policies.

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

The group has insurance receivables that are past due but not impaired at the reporting date. The group believes that impairment of these receivables is not appropriate on the basis of stage of collection of amounts owed. An aged analysis of insurance receivables that are past due but not impaired is presented below:

Premium debtors*	Not yet due	Up to 30 days	30 – 60 days	60 – 90 days	Greater than 90 days	Total
31 December 2008	71%	16%	7%	2%	4%	100%
31 December 2007	72%	18%	4%	2%	4%	100%

*This analysis excludes binder and treaty reinsurance receivables.

An analysis of the overall credit risk exposure indicates that the group has reinsurance assets, insurance receivables and other debtors that are impaired at the reporting date. The total impairment provision made in respect of these assets at 31 December 2008 totals £9.0m (2007: £5.7m).

These assets have been individually impaired after considering information such as the occurrence of significant changes in the counterparty's financial position, pattern of historical payment information and disputes with counterparties.

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

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.

2.3 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. 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 24. Further information on the group's capital resources is contained on page 39.

2 Risk management continued

The following is an analysis by business segment of the estimated timing of the net cash flows based on the claims liabilities balance held at 31 December 2008:

31 December 2008	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Marine	44%	41%	14%	1%	100%	1.3
Political risks and contingency	37%	40%	20%	3%	100%	1.9
Property	53%	38%	7%	2%	100%	1.3
Reinsurance	45%	44%	10%	1%	100%	1.5
Specialty lines	21%	42%	26%	11%	100%	2.6

31 December 2007	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Marine	44%	42%	13%	1%	100%	1.6
Political risks and contingency	37%	40%	20%	3%	100%	1.9
Property	53%	38%	7%	2%	100%	1.3
Reinsurance	45%	44%	10%	1%	100%	1.5
Specialty lines	21%	42%	26%	11%	100%	2.6

2.4 Market risk

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

Foreign exchange risk

The group is exposed to changes in the value of assets and liabilities due to movements in foreign exchange rates. The group deals in four main currencies, US dollars, UK sterling, Canadian dollars and euros. Transactions in all other currencies are converted to UK sterling on initial recognition and revalued at the balance sheet date.

The group manages foreign exchange exposure by projecting forward its US dollar profits for each calendar year and selling one twelfth of the expected amount each month. The amounts sold are periodically validated against actual exposure and additional "top up" trades of US dollars are made if required. The foreign exchange exposure to Canadian dollars and euros is closely monitored by the group and a similar approach will be taken to manage the risk as our exposure grows in the future.

The group also has investment in foreign subsidiaries with functional currencies that are different from the presentational currency. This gives rise to a currency translation exposure to US dollars, Hong Kong dollars and Singapore dollars, although the exposures to Hong Kong dollars and Singapore dollars are minimal. The US dollar translation exposure is managed by borrowing funds denominated in the same currency.

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

31 December 2008	US \$ £m	CAD \$ £m	EUR € £m	Subtotal £m	UK £ £m	Total £m
Total assets	2,439.4	81.3	204.8	2,725.5	272.0	2,997.5
Total liabilities	(2,337.9)	(55.4)	(164.2)	(2,557.5)	(27.3)	(2,584.8)
Net assets	101.5	25.9	40.6	168.0	244.7	412.7

31 December 2007	US \$ £m	CAD \$ £m	EUR € £m	Subtotal £m	UK £ £m	Total £m
Total assets	1,438.5	72.8	144.3	1,655.6	525.1	2,180.7
Total liabilities	(1,370.7)	(58.4)	(125.1)	(1,554.2)	(227.9)	(1,782.1)
Net assets	67.8	14.4	19.2	101.4	297.2	398.6

The net assets have been stated net of the cross-currency swap as explained in note 24.

2 Risk management continued

Sensitivity analysis

Fluctuations in the group's main trading currencies would result in a change to net asset value. The table below gives an indication of the impact on net assets of a % change in the value of the US dollar, Canadian dollar and euro, simultaneously, relative to UK sterling, with all other variables constant. The analysis is based on the current information available and our assumptions in performing this analysis are:

- the analysis includes an estimate of the impact on our foreign borrowings and cross currency swaps; and
- the impact of foreign exchange on non-monetary items will be nil.

	Impact on net assets £m	
	2008	2007
Change in exchange rate of US dollar, Canadian dollar and euro relative to UK sterling		
30%	(25.9)	(14.1)
20%	(18.7)	(10.2)
10%	(10.2)	(5.6)
(10%)	12.5	6.8
(20%)	28.1	15.3
(30%)	48.2	26.2

Interest rate risk

Some of the group's financial instruments, including financial investments, 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 investments and cash and cash equivalents. The investment committee monitors the duration of these assets on a regular basis.

The following table shows the average duration 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	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-10 yrs	>10 yrs	Total
31 December 2008	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	1,013.2	179.0	132.4	60.0	30.6	14.3	0.4	1,429.9
Cash and cash equivalents	443.6	—	—	—	—	—	—	443.6
Derivative financial instruments	—	—	—	—	—	2.7	—	2.7
Borrowings	—	—	—	—	—	(165.0)	(12.5)	(177.5)
Total	1,456.8	179.0	132.4	60.0	30.6	(148.0)	(12.1)	1,698.7

Duration	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-10 yrs	>10 yrs	Total
31 December 2007	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	583.9	183.7	95.8	78.5	53.5	11.1	—	1,006.5
Cash and cash equivalents	358.3	—	—	—	—	—	—	358.3
Derivative financial instruments	—	—	—	—	—	1.2	—	1.2
Borrowings	—	—	—	—	—	(147.7)	(9.0)	(156.7)
Total	942.2	183.7	95.8	78.5	53.5	(135.4)	(9.0)	1,209.3

The next two tables summarise the carrying amount of financial instruments exposed to interest rate risk by maturity at the balance sheet date.

Maturity	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-10 yrs	>10 yrs	Total
31 December 2008	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	767.1	185.1	180.1	106.2	40.7	69.8	80.9	1,429.9
Cash and cash equivalents	443.6	—	—	—	—	—	—	443.6
Derivative financial instruments	—	—	—	—	—	2.7	—	2.7
Borrowings	—	—	—	—	—	(165.0)	(12.5)	(177.5)
Total	1,210.7	185.1	180.1	106.2	40.7	(92.5)	68.4	1,698.7

Maturity	<1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	5-10 yrs	>10 yrs	Total
31 December 2007	£m	£m	£m	£m	£m	£m	£m	£m
Debt securities	388.9	209.2	75.0	75.1	99.0	77.7	81.6	1,006.5
Cash and cash equivalents	358.3	—	—	—	—	—	—	358.3
Derivative financial instruments	—	—	—	—	—	1.2	—	1.2
Borrowings	—	—	—	—	—	(147.7)	(9.0)	(156.7)
Total	747.2	209.2	75.0	75.1	99.0	(68.8)	72.6	1,209.3

2 Risk management continued

The group makes interest payments for borrowings and derivative financial instruments. Further details are provided in notes 24 and 25.

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 a loss of capital on debt securities and a change in value of borrowings and derivative financial instruments. This will affect net assets as indicated in the table below.

	Impact on investments value £m	Impact on borrowings and derivative value £m	Total impact on net assets £m
Shift in yield (basis points)			
150	(22.8)	(6.2)	(29.0)
100	(15.3)	(4.8)	(20.1)
50	(7.7)	(3.2)	(10.9)
-50	7.2	0.1	7.3
-100	13.2	1.8	15.0

Price risk

Debt securities, equities and hedge funds that are recognised on the balance sheet at their fair value are susceptible to losses due to adverse changes in prices. This is referred to as price risk.

Investments are made in debt securities, equities and hedge funds depending on the group's appetite for risk. These investments are well diversified with high quality, liquid securities. 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 on the balance sheet 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.

Sensitivity analysis

The market price of debt securities have an inverse relationship to interest yields. Sensitivity analysis on interest yields is provided above.

At 31 December 2008, the fair value of hedge funds and equities recognised on the balance sheet was £120.7m (2007: £125.8m). If the fair value of the group's hedge fund and equity portfolios were to change, then the overall pre-tax impact on net assets would be impacted as indicated in the below table:

Change in fair value of equity and hedge fund portfolios	Impact on net assets £m 2008	2007
30%	36.2	37.7
20%	24.1	25.2
10%	12.1	12.6
(10%)	(12.1)	(12.6)
(20%)	(24.1)	(25.2)
(30%)	(36.2)	(37.7)

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.

2 Risk management continued

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.

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 four main components of group risk which are explained below.

Strategic

This is the risk that the group's strategy is inappropriate or that the group is unable to implement its strategy. There is no tolerance for any breach of guidance issued by the board, and where events supersede the group strategic plan this is escalated at the earliest opportunity through the group's monitoring tools and governance structure.

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 and Asia. 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.

Management stretch

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 business worldwide, management stretch may make the identification, analysis and control of group risks more complex.

On a day-to-day basis, the group's management structure encourages organisational flexibility and adaptability, while ensuring that activities are appropriately coordinated and controlled. By focusing on the needs of their customers and demonstrating both progressive and responsive abilities, staff, management and outsourced service providers are expected to excel in service and quality. Individuals and teams are also expected to transact their activities in an open and transparent way. These behavioral 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.

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:

- 1 To support underwriting at Lloyd's through syndicates 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;
- 2 To support underwriting in Beazley Insurance Company, Inc. in the US; and
- 3 To make acquisitions, such as Momentum Underwriting Management Ltd in 2008, of insurance companies or MGAs whose strategic goals are aligned with our own.

3 Segmental analysis

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

Marine

This segment underwrites a broad spectrum of marine classes including hull, energy, cargo & 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.

3 Segmental analysis continued

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.

Foreign exchange differences on non-monetary items have been left unallocated. This has been separately disclosed as it provides a fairer representation of the loss ratios, which would otherwise be distorted by the mismatch arising under IFRSs whereby unearned premium reserve, reinsurers' share of unearned premium reserve and DAC are treated as non-monetary items and claims reserves are treated as monetary items. Non-monetary items are carried at historic exchange rates, while monetary items are translated at closing rates. This imbalance creates volatility in our accounts which cannot be hedged as the mismatch is not monetary in nature.

Finance costs and taxation are not allocated to operating segments as these items are determined by entity level factors and do not relate to operating performance.

	Marine £m	Political risks & contingency £m	Property £m	Reinsurance £m	Specialty lines £m	Total reportable segments £m	Unallocated £m	Total £m
2008								
Gross premiums written	148.7	70.4	179.2	70.2	407.2	875.7	–	875.7
Net premiums written	128.2	56.0	147.2	58.0	351.0	740.4	–	740.4
Net earned premiums	127.4	55.0	157.8	55.9	316.8	712.9	(29.8)	683.1
Net investment income	(2.9)	(0.3)	(2.8)	(1.7)	(18.1)	(25.8)	–	(25.8)
Other income	1.5	0.6	2.7	0.7	4.6	10.1	–	10.1
Revenue	126.0	55.3	157.7	54.9	303.3	697.2	(29.8)	667.4
Net insurance claims	61.8	14.4	105.2	21.8	197.9	401.1	–	401.1
Expenses for the acquisition of insurance contracts	37.8	13.8	53.8	10.5	71.0	186.9	(4.3)	182.6
Administrative expenses	8.2	6.0	9.1	4.6	26.7	54.6	0.1	54.7
Foreign exchange loss/(gain)	0.1	0.1	0.3	0.1	0.4	1.0	(71.8)	(70.8)
Expenses	107.9	34.3	168.4	37.0	296.0	643.6	(76.0)	567.6
Segments result	18.1	21.0	(10.7)	17.9	7.3	53.6	46.2	99.8
Finance costs								(12.6)
Profit before tax								87.2
Income tax expense								(22.8)
Profit after tax								64.4
Claims ratio	49%	26%	67%	39%	62%	56%	–	–
Expense ratio	36%	36%	40%	27%	31%	34%	–	–
Combined ratio	85%	62%	107%	66%	93%	90%	–	–
Segment assets and liabilities								
Segment assets	413.2	359.4	485.8	206.0	1,498.3	2,962.7	34.8	2,997.5
Segment liabilities	(333.2)	(309.4)	(435.6)	(149.0)	(1,357.6)	(2,584.8)	–	(2,584.8)
Net assets	80.0	50.0	50.2	57.0	140.7	377.9	34.8	412.7
Additional information								
Capital expenditure	0.2	0.6	0.6	0.2	4.6	6.2	17.9	24.1
Depreciation	0.3	0.1	1.2	0.2	2.7	4.5	–	4.5
Net cash flow	16.3	8.4	15.0	10.8	34.8	85.3	–	85.3

The unallocated capital expenditure relates to the acquisition of Momentum Underwriting Management Limited.

The unallocated segment assets relate to the foreign exchange adjustment to non-monetary items. This adjustment is not allocated by segment.

3 Segmental analysis continued

2007	Marine £m	Political risks & contingency £m	Property £m	Reinsurance £m	Specialty lines £m	Total reportable segments £m	Unallocated £m	Total £m
Gross premiums written	139.8	64.8	188.0	57.8	330.1	780.5	–	780.5
Net premiums written	119.0	56.5	157.4	49.6	269.7	652.2	–	652.2
Net earned premiums	116.1	43.3	158.0	45.9	243.2	606.5	10.7	617.2
Net investment income	6.0	3.0	8.6	7.1	40.2	64.9	–	64.9
Other income	1.6	1.4	2.1	1.3	3.7	10.1	–	10.1
Revenue	123.7	47.7	168.7	54.3	287.1	681.5	10.7	692.2
Net insurance claims	45.2	11.1	76.6	16.2	158.3	307.4	–	307.4
Expenses for the acquisition of insurance contracts	33.6	12.2	56.3	10.1	64.0	176.2	3.0	179.2
Administrative expenses	8.3	6.8	13.7	3.9	25.5	58.2	–	58.2
Foreign exchange gain	(0.7)	(0.3)	(0.4)	(0.5)	(0.7)	(2.6)	(0.5)	(3.1)
Expenses	86.4	29.8	146.2	29.7	247.1	539.2	2.5	541.7
Segment result	37.3	17.9	22.5	24.6	40.0	142.3	8.2	150.5
Finance costs								(12.0)
Profit before tax								138.5
Income tax expense								(38.1)
Profit after tax								100.4
Claims ratio	39%	26%	48%	35%	65%	51%	–	–
Expense ratio	36%	44%	44%	31%	37%	39%	–	–
Combined ratio	75%	70%	92%	66%	102%	90%	–	–
Segment assets and liabilities								
Segment assets	263.1	282.8	348.0	106.8	1,178.5	2,179.2	1.5	2,180.7
Segment liabilities	(186.9)	(243.9)	(278.2)	(56.5)	(1,016.6)	(1,782.1)	–	(1,782.1)
Net assets	76.2	38.9	69.8	50.3	161.9	397.1	1.5	398.6
Additional information								
Capital expenditure	0.6	1.8	0.8	0.3	7.6	11.1	–	11.1
Depreciation	0.7	0.4	1.0	0.3	1.6	4.0	–	4.0
Net cash flow	41.1	9.8	48.7	8.5	40.8	148.9	–	148.9

b) Secondary reporting segment – geographical segments

The group's operating segments are managed geographically by placement of risk, i.e. Lloyd's and non-Lloyd's.

	2008 £m	2007 £m
Net earned premiums		
Lloyd's	664.7	609.4
Non-Lloyd's	18.4	7.8
	683.1	617.2
Segment assets		
Lloyd's	2,785.1	2,035.4
Non-Lloyd's	212.4	145.3
	2,997.5	2,180.7

3 Segmental analysis continued

Capital expenditure

	2008 £m	2007 £m
Lloyd's	24.1	9.7
Non-Lloyd's	–	1.4
	24.1	11.1

4 Net investment income

	2008 £m	2007 £m
Investment income at fair value through income statement	65.1	53.1
Realised gains/(losses) on financial investments at fair value through income statement	(49.5)	7.4
Net fair value gains/(losses) on financial investments through income statement	(38.1)	6.9
Investment management expenses	(3.3)	(2.5)
	(25.8)	64.9

5 Other income

	2008 £m	2007 £m
Profit commissions	5.0	7.6
Agency fees	1.0	1.0
Other income	4.1	1.5
	10.1	10.1

6 Operating expenses

	2008 £m	2007 £m
Fees payable to the company's auditor for the audit of the group's annual accounts	0.2	0.2
Fees payable to the company's auditor and its associates for other services:		
– Audit of the company's subsidiaries	0.2	0.1
– Tax services	0.1	0.1
– other services	0.2	0.2
Operating leases	2.4	2.0

7 Employee benefit expenses

	2008		2007	
	Group £m	Company £m	Group £m	Company £m
Wages and salaries	34.6	0.3	30.7	0.3
Short-term incentive payments	10.5	–	19.6	–
Social security	4.4	–	3.8	–
Share-based remunerations	4.7	–	3.0	–
Pension costs	3.0	–	3.9	–
	57.2	0.3	61.0	0.3
Recharged to syndicate 623	(7.8)	–	(7.0)	–
	49.4	0.3	54.0	0.3

Further information on employees is provided on page 33.

8 Finance costs

	2008 £m	2007 £m
Interest expense	12.2	11.8
Arrangement fees	0.4	0.2
	12.6	12.0

9 Income tax expense

	2008 £m	2007 £m
Current tax expense		
Current year	20.7	20.2
Prior year adjustments	(0.7)	(2.1)
	20.0	18.1
Deferred tax expense		
Origination and reversal of temporary differences	3.0	19.2
Prior year adjustments	(0.2)	0.8
	2.8	20.0
Income tax expense	22.8	38.1
Profit before tax	87.2	138.5
Tax calculated at UK tax rates	24.9	39.9
Effects of:		
– Tax rates in foreign jurisdictions	0.2	0.5
– Non-deductible expenses	1.5	0.2
– Tax relief on share-based payments – current and future years	(2.9)	(1.2)
– Under/(over) provided in prior years	(0.9)	(1.3)
Tax charge for the period	22.8	38.1

The weighted average applicable tax rate was 28.5% (2007: 28.3%).

10 Earnings per share

	2008	2007
Basic	18.8p	28.1p
Diluted	18.0p	27.1p

Basic

Basic earnings per share are calculated by dividing profit after tax of £64.4m (2007: £100.4m) by the weighted average number of issued shares during the year of 342.6m (2007: 357.4m). The shares held in the Employee Share Options Plan (ESOP) have been excluded from the calculation, until such time as they vest unconditionally with the employees. In addition, the treasury shares have been excluded from the calculation.

Diluted

Diluted earnings per share are calculated by dividing profit after tax of £64.4m (2007: £100.4m) by the adjusted weighted average number of shares of 358.7m (2007: 366.0m). 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 have been excluded from the calculation, until such time as they vest unconditionally with the employees. In addition, the treasury shares have been excluded from the calculation.

11 Dividends per share

The final dividend of 4.4p (2007: 4.0p final and 4.0p special) per ordinary share, will be payable on 30 April 2009 to shareholders registered on 13 March 2009 in respect of the year ended 31 December 2008. Together with the interim dividend of 2.2p (2007: 2.0p) this brings the total ordinary dividend to 6.6p (2007: 10.0p including 4.0p special). These financial statements do not provide for the final dividend as a liability.

12 Intangible assets

	Goodwill £m	Syndicate capacity £m	Licences £m	IT development costs £m	Total £m
Cost					
Balance at 1 January 2007	7.9	4.4	4.6	6.5	23.4
Acquired through business combinations	7.6	–	–	–	7.6
Other additions	–	–	–	1.7	1.7
Amounts written off	–	–	–	(0.2)	(0.2)
Balance at 31 December 2007	15.5	4.4	4.6	8.0	32.5
Balance at 1 January 2008	15.5	4.4	4.6	8.0	32.5
Acquired through business combinations	17.9	–	–	–	17.9
Other additions	–	0.5	–	3.3	3.8
Foreign exchange gain	3.8	–	1.8	–	5.6
Amounts written off	(1.3)	–	–	–	(1.3)
Balance at 31 December 2008	35.9	4.9	6.4	11.3	58.5
Amortisation					
Balance at 1 January 2007	–	–	–	(1.5)	(1.5)
Amounts written off during the year	–	–	–	0.1	0.1
Amortisation for the year	–	–	–	(2.4)	(2.4)
Balance at 31 December 2007	–	–	–	(3.8)	(3.8)
Balance at 1 January 2008	–	–	–	(3.8)	(3.8)
Amounts written off during the year	–	–	–	–	–
Amortisation for the year	–	–	–	(2.2)	(2.2)
Balance at 31 December 2008	–	–	–	(6.0)	(6.0)
Carrying amount					
31 December 2008	35.9	4.9	6.4	5.3	52.5
31 December 2007	15.5	4.4	4.6	4.2	28.7

Impairment tests

Goodwill, syndicate capacity and licences are deemed to have indefinite life. Consequently, they are not amortised but annually tested for impairment. They are allocated to the group's cash generating units (CGUs) as follows:

	2008		2007	
	Lloyd's £m	Non-Lloyd's £m	Lloyd's £m	Non-Lloyd's £m
Goodwill	35.9	–	15.5	–
Syndicate capacity	4.9	–	4.4	–
Licences	–	6.4	–	4.6

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. This growth rate is consistent with the long-term average growth rate for the industry. A discount rate of growth of 6%, being the group's weighted average cost of capital, has been used to discount the projected cash flows.

The split of Lloyd's/Non-Lloyd's business is the most appropriate level at which these intangible assets can be allocated since the assets were purchased in respect of future revenue streams to the Lloyd's syndicates and the US admitted insurance company (Non-Lloyd's).

13 Plant and equipment

	Fixtures & fittings £m	Computer equipment £m	Total £m
Cost			
Balance at 1 January 2007	7.3	0.9	8.2
Additions	0.9	0.9	1.8
Balance at 31 December 2007	8.2	1.8	10.0
Balance at 1 January 2008	8.2	1.8	10.0
Additions	1.0	1.4	2.4
Foreign exchange gain	0.8	0.3	1.1
Balance at 31 December 2008	10.0	3.5	13.5
Accumulated depreciation			
Balance at 1 January 2007	(1.0)	(0.2)	(1.2)
Depreciation charge for the year	(1.2)	(0.4)	(1.6)
Balance at 31 December 2007	(2.2)	(0.6)	(2.8)
Balance at 1 January 2008	(2.2)	(0.6)	(2.8)
Depreciation charge for the year	(1.5)	(0.8)	(2.3)
Foreign exchange loss	(0.2)	(0.1)	(0.3)
Balance at 31 December 2008	(3.9)	(1.5)	(5.4)
Carrying amounts			
31 December 2008	6.1	2.0	8.1
31 December 2007	6.0	1.2	7.2

14 Investment in associates

On 12 December 2008, Beazley Furlonge Holdings Limited (BFHL) purchased the remaining share capital that it did not already own in Beazley Finance Limited. BFHL previously owned 5,000,000 ordinary shares in Beazley Finance Limited representing 22.7% of its entire share capital reflecting this investment as an associate. Following the transaction on 12 December 2008, BFHL owned 22,000,000 ordinary shares in Beazley Finance Limited, being 100% of its share capital. Beazley Finance and its wholly owned subsidiary, Beazley Dedicated Limited, now represent wholly owned subsidiaries of the ultimate parent, Beazley Group plc.

The consideration for this transaction was £1 and the net assets acquired were nil. Beazley Finance Limited and Beazley Dedicated Limited are not active trading companies and it is anticipated that they will become dormant.

15 Deferred acquisition costs

	2008 £m	2007 £m
Balance at 1 January	82.0	78.9
Additions	192.1	182.3
Amortisation charge	(182.6)	(179.2)
Balance at 31 December	91.5	82.0

16 Financial investments

	2008		2007	
	Group £m	Company £m	Group £m	Company £m
Financial investments at fair value through income statement				
Equity securities-listed	18.1	–	54.7	–
Hedge funds	102.6	–	71.1	–
Debt securities				
– Fixed interest	1,089.8	307.9	778.4	298.1
– Floating interest	340.1	78.9	228.1	43.7
Total financial investments at fair value through income statement	1,550.6	386.8	1,132.3	341.8
Current	795.2	247.3	483.8	192.8
Non-current	755.3	139.5	648.5	149.0
	1,550.6	386.8	1,132.3	341.8

A further breakdown of the group's investment portfolio is provided on pages 34 and 35.

The group has given a fixed and floating charge over 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.

17 Insurance receivables

	2008 £m	2007 £m
Insurance receivables	287.8	199.9
	287.8	199.9

These are receivable within one year and relate to business transacted with brokers and intermediaries. All insurance receivables are designated as loans and receivables.

18 Reinsurance assets

	2008 £m	2007 £m
Reinsurers' share of claims	461.7	286.1
Impairment provision	(9.0)	(5.7)
	452.7	280.4
Reinsurers' share of unearned premium reserve	85.9	72.9
	538.6	353.3

Further analysis of the reinsurance asset is provided in note 23.

19 Cash and cash equivalents

	2008		2007	
	Group £m	Company £m	Group £m	Company £m
Cash at bank and in hand	124.4	3.8	39.5	0.6
Short-term deposits	212.9	1.6	245.8	20.3
Overseas deposits	106.3	–	73.0	–
Cash and cash equivalents	443.6	5.4	358.3	20.9

20 Share capital

	2008		2007	
	No. of shares (m)	£m	No. of shares (m)	£m
Ordinary shares of 5p each				
Authorised	450.0	22.5	450.0	22.5
Issued and fully paid	369.5	18.5	367.1	18.4
Balance at 1 January	367.1	18.4	361.0	18.1
Issue of shares	2.4	0.1	6.1	0.3
Balance at 31 December	369.5	18.5	367.1	18.4

21 Reserves

	Share premium £m	Merger reserve £m	Foreign currency translation reserve £m	Employee share options reserve £m	Treasury shares £m	Employee share trust reserve £m	Total £m
Group							
Balance at 1 January 2007	230.8	1.6	(2.6)	1.6	–	(5.6)	225.8
Issue of shares	4.0	–	–	–	–	–	4.0
Share-based payments	–	–	–	3.4	–	–	3.4
Acquisition of own shares held in trust	–	–	–	–	–	(5.4)	(5.4)
Purchase of treasury shares	–	–	–	–	(5.1)	–	(5.1)
Foreign exchange translation differences	–	–	0.1	–	–	–	0.1
Transfer of shares to employees	–	–	–	–	–	0.3	0.3
Balance at 31 December 2007	234.8	1.6	(2.5)	5.0	(5.1)	(10.7)	223.1
Issue of shares	0.8	–	–	–	–	–	0.8
Share-based payments	–	–	–	3.4	–	–	3.4
Acquisition of own shares held in trust	–	–	–	–	–	(7.1)	(7.1)
Purchase of treasury shares	–	–	–	–	(24.9)	–	(24.9)
Foreign exchange translation differences	–	–	11.6	–	–	–	11.6
Transfer of shares to employees	–	–	–	–	–	1.2	1.2
Balance at 31 December 2008	235.6	1.6	9.1	8.4	(30.0)	(16.6)	208.1

The above movements in reserves are stated net of any related taxation.

21 Reserves continued

	Share premium £m	Merger reserve £m	Foreign currency translation reserve £m	Employee share options reserve £m	Treasury shares £m	Employee share trust reserve £m	Total £m
Company							
Balance at 1 January 2007	230.8	–	0.1	–	–	–	230.9
Issue of shares	4.0	–	–	–	–	–	4.0
Share-based payments	–	–	–	5.0	–	–	5.0
Purchase of treasury shares	–	–	–	–	(5.1)	–	(5.1)
Acquisition of own shares held in trust	–	–	–	–	–	(11.0)	(11.0)
Transfer of shares to employees	–	–	–	–	–	0.3	0.3
Balance at 31 December 2007	234.8	–	0.1	5.0	(5.1)	(10.7)	224.1
Issue of shares	0.8	–	–	–	–	–	0.8
Share-based payments	–	–	–	3.4	–	–	3.4
Purchase of treasury shares	–	–	–	–	(24.9)	–	(24.9)
Acquisition of own shares held in trust	–	–	–	–	–	(7.1)	(7.1)
Transfer of shares to employees	–	–	–	–	–	1.2	1.2
Foreign exchange translation differences	–	–	(4.5)	–	–	–	(4.5)
Balance at 31 December 2008	235.6	–	(4.4)	8.4	(30.0)	(16.6)	193.0

22 Equity compensation plans

22.1 Employee share trust

	2008		2007	
	No. of shares (m)	£m	No. of shares (m)	£m
Costs debited to employee share trust reserve				
Balance at 1 January	8.4	10.7	5.2	5.6
Additions	5.1	7.1	3.5	5.4
Transfer of shares to employees	(0.9)	(1.2)	(0.3)	(0.3)
Balance at 31 December	12.6	16.6	8.4	10.7

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% 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.

22.2 Employee share option plans

The group has a long-term incentive plan (LTIP), approved share option plan, unapproved 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.

22 Equity compensation plans continued

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	21/03/2005	0.4	Three years' service + NAV + TSR comparator	10 years
	21/03/2006	1.5		
	21/03/2007	0.7		
	21/03/2008	0.6		
Approved share option plan	29/03/2004	0.1	Three years' service + NAV	10 years
Unapproved share option plan	29/03/2004	0.1	Three years' service + NAV	10 years
	06/12/2004	0.1		
SAYE	13/04/2006	0.5	Three years' service	–
	11/04/2007	0.6		
	18/04/2008	0.4		
Total share options outstanding		5.0		

Vesting conditions

In summary the vesting conditions are defined as:

Three years' service	An employee has to remain in employment until the third anniversary from the grant date.
NAV	The NAV growth 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 54 to 63.

The number and weighted average exercise prices of share options are as follows:

	2008		2007	
	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	33.8	6.9	43.2	10.2
Forfeited during the year	25.8	(0.7)	49.7	(2.8)
Exercised during the year	33.5	(2.4)	77.4	(1.9)
Granted during the year	47.6	1.2	55.9	1.4
Outstanding at 31 December	37.6	5.0	33.8	6.9
Exercisable at 31 December	–	0.8	–	0.9

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 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.

22 Equity compensation plans continued

The following is a summary of the assumptions used to calculate the fair value:

	2008 £m	2007 £m
Share options charge to income statement	4.7	3.1
Weighted average share price (pence per option)	123.8	108.7
Weighted average exercise price (pence per option)	37.6	33.8
Weighted average expected life of options	5.6yrs	5.7yrs
Expected volatility	25.0%	25.0%
Expected dividend yield	4.0%	4.0%
Average risk-free interest rate	4.3%	4.2%

The expected volatility is based on historic volatility over a period of at least two years.

23 Insurance liabilities and reinsurance assets

	2008 £m	2007 £m
Gross		
Claims reported and loss adjustment expenses	497.3	302.0
Claims incurred but not reported	1,291.6	785.6
Gross claims liabilities	1,788.9	1,087.6
Unearned premiums	457.8	384.3
Total insurance liabilities, gross	2,246.7	1,471.9
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	109.4	89.1
Claims incurred but not reported	343.3	191.3
Reinsurers share of claims liabilities	452.7	280.4
Unearned premiums	85.9	72.9
Total reinsurers' share of insurance liabilities	538.6	353.3
Net		
Claims reported and loss adjustment expenses	387.9	212.9
Claims incurred but not reported	948.3	594.3
Net claims liabilities	1,336.2	807.2
Unearned premiums	371.9	311.4
Total insurance liabilities, net	1,708.1	1,118.6

The gross claims reported, the loss adjustment liabilities and the liabilities for claims incurred but not reported are net of expected recoveries from salvage and subrogation.

23 Insurance liabilities and reinsurance assets continued

23.1 Movements in insurance liabilities and reinsurance assets

a) Claims and loss adjustment expenses

	2008			2007		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Claims reported and loss adjustment expenses	302.0	(89.1)	212.9	278.2	(103.1)	175.1
Claims incurred but not reported	785.6	(191.3)	594.3	587.8	(166.8)	421.0
Balance at 1 January	1,087.6	(280.4)	807.2	866.0	(269.9)	596.1
Claims paid	(276.7)	62.0	(214.7)	(224.0)	55.5	(168.5)
Increase in claims						
– Arising from current year claims	631.5	(157.6)	438.2	425.0	(53.5)	371.5
– Arising from prior year claims	(109.4)	36.6	(37.2)	(86.4)	22.3	(64.1)
– Reinsurance to close	66.4	(20.4)	46.0	109.1	(37.6)	71.5
Net exchange differences	389.5	(92.9)	296.6	(2.1)	2.8	0.7
Balance at 31 December	1,788.9	(452.7)	1,336.2	1,087.6	(280.4)	807.2
Claims reported and loss adjustment expenses	497.3	(109.4)	387.9	302.0	(89.1)	212.9
Claims incurred but not reported	1,291.6	(343.3)	948.3	785.6	(191.3)	594.3
Balance at 31 December	1,788.9	(452.7)	1,336.2	1,087.6	(280.4)	807.2

b) Unearned premiums reserve

	2008			2007		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	384.3	(72.9)	311.4	359.6	(83.2)	276.4
Increase in the year	875.7	(135.3)	740.4	780.5	(128.3)	652.2
Release in the year	(822.3)	139.2	(683.1)	(755.8)	138.6	(617.2)
Net exchange differences arising in overseas subsidiary	20.1	(16.9)	3.2	–	–	–
Balance at 31 December	457.8	(85.9)	371.9	384.3	(72.9)	311.4

23.2 Assumptions, changes in assumptions and sensitivity

a) Process used to decide on assumptions

The peer review reserving process

Beazley uses a quarterly dual track process to set its reserve:

- 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 specific reserve estimates for identified claims and utilise their detailed understanding of the risks underwritten to establish an alternative estimate of ultimate claims cost which are compared to the actuarially established figures.

23 Insurance liabilities and reinsurance assets continued

A formal internal peer review process is then undertaken to determine the reserves held for accounting purposes which, in totality, is not lower than the actuarially established figure. The group also commissions an annual independent review to ensure that the reserves established are reasonable.

Actuarial assumptions

Chain-ladder techniques are applied to premiums, paid claims and incurred claims (i.e. paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on historical patterns. The selected development factors are then applied to cumulative claims data for each underwriting year that is not yet fully developed to produce an estimated ultimate claims cost for each underwriting year.

Chain-ladder techniques are most appropriate for classes of business that have a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business or for underwriting years that are still at immature stages of development where there is a higher level of assumption volatility.

The Bornhuetter-Ferguson method uses a combination of a benchmark/market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims observed to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used in situations where developed claims experience was not available for the projection (i.e. 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 adjustment can be made to mitigate any subsequent over or under reserving. To date, this analysis indicates no systematic change to the outstanding claim strength across underwriting years.

Where a significantly large loss impacts an underwriting year (e.g. the events of 11 September 2001 and the hurricanes in 2004, 2005 and 2008), its development is usually very different from the attritional losses. In these situations, the large loss 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.

b) Major assumptions

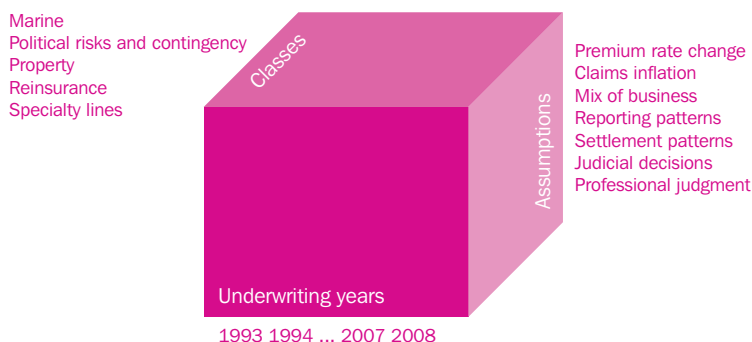
The main assumption underlying these techniques is that the groups past claims development experience (with appropriate adjustments for known changes) can be used to project future claims development and hence ultimate claims costs. As such these methods extrapolate the development of premiums, paid and incurred losses, average costs per claim and claim numbers for each underwriting year based on the observed development of earlier years.

Throughout, judgment 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.

23 Insurance liabilities and reinsurance assets continued

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.



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 additional capital as ICA.

The net of reinsurance estimates of ultimate claims costs on the 2007 and prior underwriting years has improved by £72.8m during 2008 (2007: £64.1m). 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.

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 ICA process. Comparing these with our pricing assumptions and reserving estimates gives our management team increased clarity into our perceived reserving strength and 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 five segments – 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 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 balance sheet.

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 redundancies or deficiencies of the past on current claims liabilities. The group believes that the estimate of total claims liabilities as at 31 December 2008 are adequate. However, due to inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

23 Insurance liabilities and reinsurance assets continued

	2002ae	2003	2004	2005	2006	2007	2008	
Gross ultimate claims		%	%	%	%	%	%	
Marine								
12 months		59.5	62.2	82.5	57.2	58.1	69.0	
24 months		45.6	65.9	80.7	42.3	59.7		
36 months		38.9	62.7	70.8	32.3			
48 months		36.1	62.1	69.0				
60 months		35.7	61.0					
72 months		35.6						
Political risks and contingency								
12 months		59.1	67.0	61.0	57.7	57.3	57.5	
24 months		36.4	55.7	38.2	36.3	38.3		
36 months		31.8	52.5	28.4	32.9			
48 months		29.0	38.1	25.2				
60 months		31.6	37.0					
72 months		25.6						
Property								
12 months		50.6	65.7	88.6	58.3	58.1	68.8	
24 months		37.0	65.2	85.1	43.5	55.6		
36 months		34.2	66.0	83.8	42.4			
48 months		33.6	64.1	88.9				
60 months		33.2	64.6					
72 months		33.3						
Reinsurance								
12 months		58.6	87.8	198.6	52.3	59.5	59.8	
24 months		34.2	82.8	191.4	25.4	25.8		
36 months		28.4	77.4	188.3	24.8			
48 months		28.7	74.9	182.2				
60 months		25.6	72.9					
72 months		25.7						
Specialty lines								
12 months		73.0	72.1	71.9	72.6	72.7	72.2	
24 months		70.1	71.0	71.9	72.6	72.4		
36 months		69.0	67.4	69.7	72.6			
48 months		60.0	64.5	66.5				
60 months		53.2	59.5					
72 months		52.5						
Total								
12 months		63.0	69.2	91.0	62.9	63.5	68.5	
24 months		52.5	69.2	88.4	52.9	58.9		
36 months		49.4	66.5	84.6	50.5			
48 months		44.8	63.7	83.2				
60 months		41.4	61.1					
72 months		40.8						
Total ultimate losses (£m)	1,310.0	331.1	575.7	858.8	589.1	739.2	836.1	5,240.0
Less paid claims (£m)	(1,095.3)	(222.7)	(374.2)	(535.8)	(182.3)	(133.8)	(25.9)	(2,570.0)
Less unearned portion of ultimate losses (£m)	–	–	–	–	–	(54.3)	(371.9)	(426.2)
Gross claims liabilities (100% level) (£m)	214.7	108.4	201.5	323.0	406.8	551.1	438.3	2,243.8
Less unaligned share (£m)	(47.2)	(24.0)	(44.3)	(71.0)	(88.1)	(103.3)	(77.0)	(454.9)
Gross claims liabilities, group share	167.5	84.4	157.2	252.0	318.7	447.8	361.3	1,788.9

23 Insurance liabilities and reinsurance assets continued

Net ultimate claims	2002ae	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	
Marine								
12 months		55.3	57.7	55.3	54.1	55.2	61.2	
24 months		45.4	53.3	48.8	41.8	56.1		
36 months		40.1	48.6	42.5	32.4			
48 months		39.1	47.7	39.3				
60 months		39.0	46.5					
72 months		39.1						
Political risks and contingency								
12 months		56.8	63.7	63.4	56.3	55.5	56.0	
24 months		37.5	58.4	46.6	40.5	39.1		
36 months		35.0	54.2	35.9	37.4			
48 months		33.3	41.0	30.4				
60 months		35.6	40.6					
72 months		27.8						
Property								
12 months		48.3	59.8	65.1	60.9	60.8	65.8	
24 months		41.0	60.5	61.9	48.1	51.6		
36 months		38.5	60.2	58.4	46.4			
48 months		37.8	58.3	61.1				
60 months		37.4	58.0					
72 months		37.5						
Reinsurance								
12 months		59.9	88.6	152.3	54.2	55.2	67.6	
24 months		39.7	86.8	134.6	37.1	29.9		
36 months		33.9	83.2	128.1	34.8			
48 months		34.6	76.9	119.3				
60 months		31.7	73.5					
72 months		31.7						
Specialty lines								
12 months		68.4	69.0	69.1	68.5	69.7	70.2	
24 months		67.1	68.2	69.1	68.5	68.8		
36 months		66.1	65.5	67.3	68.5			
48 months		57.7	62.2	64.0				
60 months		52.7	56.9					
72 months		50.8						
Total								
12 months		59.9	65.4	73.0	61.9	63.0	66.0	
24 months		52.9	65.3	68.8	54.0	59.0		
36 months		50.4	62.6	64.9	51.3			
48 months		46.2	59.3	62.5				
60 months		43.7	56.3					
72 months		42.5						
Total ultimate losses (£m)	654.7	279.5	434.4	509.2	471.3	629.1	678.5	3,656.7
Less paid claims net of reinsurance (£m)	(573.5)	(194.4)	(281.5)	(271.9)	(164.6)	(125.7)	(25.0)	(1,636.6)
Less unearned portion of ultimate losses (£m)	–	–	–	–	–	(49.1)	(295.0)	(344.1)
Net claims liabilities (100% level) (£m)	81.2	85.1	152.9	237.3	306.7	454.3	358.5	1,676.0
Less unaligned share (£m)	(17.9)	(18.7)	(33.6)	(52.2)	(67.1)	(84.9)	(65.4)	(339.8)
Net claims liabilities, group share (£m)	63.3	66.4	119.3	185.1	239.6	369.4	293.1	1,336.2

23 Insurance liabilities and reinsurance assets continued

Analysis of movements in loss development tables

We have updated our loss development tables to show the ultimate loss ratios as at 31 December 2008 for each underwriting year

During 2008, there have been an increased number of large single risk losses within the market. Beazley's relatively light participation has meant that the general trend of reducing loss ratios across our business has continued.

The impact of hurricanes Gustav and Ike has increased our initial net estimates for 2008 (relative to 2007) on the marine, property and reinsurance classes of business. Our claim managers have performed detailed exposure and case by case claim analyses to set cautious estimates.

The 2008 hurricanes have also affected the 2007 underwriting year of the marine and property classes of business. However, this impact has largely been offset by the release of the catastrophe margin that remained on the 2007 underwriting year.

The reserves established for the 2004 and 2005 hurricanes continue to remain sufficient and some reserve releases have been possible. The level of paid claims has now reached 93% and 88% of the estimated ultimate claims costs respectively.

Marine

Most years have exhibited a stable or reducing trend. The slight increase in 2007 has been caused by the 2008 hurricanes affecting that underwriting year more than anticipated. Our initial analysis indicates that the case-specific hurricane reserves proposed by the surveyors are conservative following deficiencies that arose from the 2005 hurricanes. As such, we expect that the 2008 hurricane reserves will reduce over time. Nevertheless, any savings will affect gross estimates only as the hurricane claims are currently within our catastrophe reinsurance programme.

Political risks and contingency

Reductions have been seen on all years as claims continue to develop favourably.

Property

Despite the increase in claims within the market, most years have exhibited a relatively stable or reducing trend. The slight increases on the 2005 underwriting year have arisen from the homeowners class where we have experienced a general deterioration on two large accounts on which we no longer participate. The 2008 hurricanes have meant that the opening position for 2008 is slightly higher than for 2007.

Reinsurance

The reduction on the 2005 year has arisen following an updated review of the remaining exposures to the 2005 hurricanes by our claims managers. The remaining catastrophe margin on 2007 has now been released. The 2007 net ultimate loss ratio is lower than the corresponding 2006 net ultimate ratio because of lower reinsurance costs in 2007. The opening net position for 2008 is higher than for 2007 due to the 2008 hurricanes.

Specialty lines

Whilst the releases have started to slow down on the 2003 underwriting year (a year of exceptional performance), the ultimate loss ratios have continued to reduce on the more recent years. Whilst reductions made to date have been lower on each subsequent year (to reflect the uncertainty caused by the prevailing market conditions), this does not imply that the final position on each subsequent underwriting year once all claims are closed will be worse.

The table below illustrates movements in our net claims recognised in the income statement in 2008 by both underwriting year and by business segments:

	Marine £m	Political risks & contingency £m	Property £m	Reinsurance £m	Specialty lines £m	Total £m
2008						
Current year	74.6	26.0	109.0	38.4	225.9	473.9
Prior year						
– 2005 and earlier	(2.3)	(5.8)	2.1	(6.0)	(27.2)	(39.2)
– 2006 year of account	(10.5)	(1.1)	(3.5)	(0.3)	–	(15.4)
– 2007 year of account	–	(4.7)	(2.4)	(10.3)	(0.8)	(18.2)
	(12.8)	(11.6)	(3.8)	(16.6)	(28.0)	(72.8)
Net insurance claims	61.8	14.4	105.2	21.8	197.9	401.1

23 Insurance liabilities and reinsurance assets continued

Year to 31 December 2007	Marine £m	Political risks & contingency £m	Property £m	Reinsurance £m	Specialty lines £m	Total £m
Current year	55.2	20.0	87.4	26.1	182.8	371.5
Prior year						
– 2004 and earlier	(0.3)	(4.5)	(2.0)	(3.0)	(21.0)	(30.8)
– 2005 year of account	(4.6)	(2.2)	(3.5)	(1.7)	(3.2)	(15.2)
– 2006 year of account	(5.1)	(2.2)	(5.3)	(5.2)	(0.3)	(18.1)
	(10.0)	(8.9)	(10.8)	(9.9)	(24.5)	(64.1)
Net insurance claims	45.2	11.1	76.6	16.2	158.3	307.4

24 Borrowings

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

	2008		2007	
	Group £m	Company £m	Group £m	Company £m
Carrying value				
Subordinated debt	12.5	12.5	9.0	9.0
Tier 2 subordinated debt	165.0	160.3	147.7	147.9
	177.5	172.8	156.7	156.9
Fair value				
Subordinated debt	12.5	12.5	9.0	9.0
Tier 2 subordinated debt	116.8	116.8	144.6	144.6
	129.3	129.3	153.6	153.6

The fair value of the borrowings is based on quoted market prices. When quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity. The discount rates used in the valuation techniques are based on the borrowing rates.

In November 2004, the group issued subordinated debt of US \$18m to JPMorgan Chase Bank, N.A (JPMorgan). The loan was unsecured and interest was payable at the US London interbank offered rate (LIBOR) plus a margin of 3.65% per annum. The subordinated notes are due in November 2034.

In October 2006, the group issued £150m of unsecured fixed/floating rate subordinated notes that are due in October 2026 with a first callable date of 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.

The group entered into a cross currency swap transaction with Lloyds Banking Group and JPMorgan in October 2006. In exchange for £42.3m the group received \$40m from each party which will be finally exchanged on termination of the contract, being October 2016. Lloyds Banking Group charges interest at US three-month LIBOR plus 2.25%, while JPMorgan charges interest at US three-month LIBOR plus 2.23%. As part of the agreement, the group receives interest at 7.25% from both parties. There is an option, exercisable by both parties, to terminate the swaps in October 2011 and annually thereafter until October 2016.

The group also entered into an interest rate swap transaction with Lloyds Banking Group and JPMorgan in October 2006. Under this agreement, the fixed interest rate of 7.25% on the balance of £107.7m (£53.8m from each party) is exchanged for floating interest rate of UK LIBOR plus 2.24% with Lloyds Banking Group and UK LIBOR plus 2.23% with JPMorgan. This agreement terminates on 17 October 2016 with an optional early termination in October 2011 and annually thereafter, exercisable by both parties.

In addition to these borrowings we operate a £100m syndicated short-term banking facility, managed through Lloyds Banking Group. The facility was successfully renegotiated for three years in July 2008; if funds are drawn the charge is 1.25% above UK LIBOR; letters of credit raised against the facility are charged at 1.25%. At the end of 2008, no drawings had been made against this facility.

25 Derivative financial instruments

The group uses fair value interest rate hedges and net investment hedges to manage some of its exposures. The group entered into derivative financial instruments to manage this risk.

	2008 £m	2007 £m
Fair value		
Interest rate swap	16.7	(0.4)
Cross currency swap	(14.0)	1.6
	2.7	1.2

a) Fair value hedges

As described in note 24, the group has hedged its fixed rate borrowing using fixed-to-floating interest rate swaps. In 2008, the hedge was effective and therefore the group did not recognise any gain or loss in the income statement in respect of the hedge.

b) Hedge of net investment in foreign entity

The group's US dollar denominated borrowing is designated as a hedge of the net investment in the group's US subsidiaries. The foreign exchange loss of £14.0m on translation of the borrowing to sterling at the balance sheet date was recognised in "foreign currency translation reserve". This offsets the gain or loss on translation of the net investment in the group's US based subsidiaries. In 2008, the hedge was effective and therefore the group did not recognise any gain or loss in the income statement in respect of the hedge.

26 Other payables

	2008		2007	
	Group £m	Company £m	Group £m	Company £m
Reinsurance premiums payable	54.8	–	59.3	–
Accrued expenses including staff bonuses	30.4	–	34.2	–
Other payables	11.9	–	6.8	0.8
Amounts due to subsidiaries	–	122.5	–	39.0
Deferred consideration payable on acquisition of MGAs	8.5	–	2.0	–
Due to syndicate 623 and associates	10.1	–	4.3	–
	115.7	122.5	106.6	39.8

All other payables are payable within one year of the balance sheet date other than deferred consideration which is payable after one year.

27 Retirement benefit obligations

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Retirement benefit obligations	–	0.9	1.9	2.9	3.9

Beazley Furlonge Limited operates a funded 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 2008.

27 Retirement benefit obligations continued

Pension benefits

Amount recognised in the balance sheet

	2008 £m	2007 £m
Present value of funded obligations	10.3	17.5
Fair value of plan assets	(10.0)	(15.5)
	0.3	2.0
Unrecognised actuarial losses	(0.3)	(1.1)
Liability in the balance sheet	–	0.9

Amounts recognised in the income statement

Current service cost	–	–
Interest cost	1.0	0.8
Expected return on plan assets	(0.9)	(0.9)
	0.1	(0.1)

Movement in present value of funded obligations recognised in the balance sheet

Balance at 1 January	17.5	16.0
Current service cost	–	–
Interest cost	1.0	0.8
Actuarial (losses)/gains	(8.2)	0.7
Balance at 31 December	10.3	17.5

Movement in fair value of plan assets recognised in the balance sheet

Balance at 1 January	15.5	13.3
Expected return on plan assets	0.9	0.9
Actuarial losses	(3.0)	(0.4)
Employer contributions	0.9	1.7
Balance at 31 December	14.3	15.5

	2008 £m	2007 £m
Plan assets are comprised as follows:		
Equities	6.9	12.5
Bonds	3.1	3.0
Total	10.0	15.5

The actual loss on plan assets was £2.2m (2007: £0.4m return).

Principal actuarial assumptions

Discount rate	6.2%	5.5%
Inflation rate	2.7%	3.4%
Expected return on plan assets	5.3%	6.2%
Future salary increases	5.5%	6.2%
Future pensions increases	2.3%	3.0%
Life expectancy	84 years	84 years

28 Deferred income tax

	2008 £m	2007 £m
Deferred income tax asset	6.8	4.5
Deferred income tax liability	(37.1)	(34.0)
	(30.3)	(29.5)

The movement in the net deferred income tax is as follows:

Balance at 1 January	(29.5)	(8.1)
Income tax charge	(2.8)	(21.4)
Foreign exchange translation differences	2.0	–
Balance at 31 December	(30.3)	(29.5)

	Balance 1 Jan 08 £m	Recognised in income £m	Recognised in equity £m	Balance 31 Dec 08 £m
Plant and equipment	0.3	(0.4)	–	(0.1)
Intangible assets	(0.7)	0.4	–	(0.3)
Other receivables	0.2	(0.1)	–	0.1
Share options	–	2.3	–	2.3
Syndicate profits	(34.1)	(5.0)	–	(39.1)
Retirement benefit obligations	0.3	(0.3)	–	–
Tax losses	4.5	0.3	2.0	6.8
Net deferred income tax account	(29.5)	(2.8)	2.0	(30.3)

	Balance 1 Jan 07 £m	Recognised in income £m	Balance 31 Dec 07 £m
Plant and equipment	1.2	(0.9)	0.3
Intangible assets	(0.7)	–	(0.7)
Other receivables	(0.1)	0.3	0.2
Trade and other payables	2.2	(2.2)	–
Syndicate profits	(14.8)	(19.3)	(34.1)
Retirement benefit obligations	0.6	(0.3)	0.3
Tax losses	3.5	1.0	4.5
Net deferred income tax account	(8.1)	(21.4)	(29.5)

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 a non-cancellable operating lease agreement.

The future minimum lease payments under the non-cancellable operating lease are as follows:

	2008 £m	2007 £m
No later than 1 year	2.5	1.3
Later than 1 year and no later than 5 years	9.5	6.6
Later than 5 years	3.0	5.8
	15.0	13.7

30 Related party transactions

The group and company have related party relationships with syndicate 623, its subsidiaries, associates and its directors.

30.1 Syndicate 623

Beazley Furlonge Limited, a wholly owned subsidiary of the group, received management fees and profit commissions for providing a range of management services to syndicate 623 in which the corporate member subsidiaries participated.

The value of the services provided and the balances with the syndicate are as follows:

	2008 £m	2007 £m
Services provided:		
Syndicate 623	13.6	13.2
Balances due:		
Due to syndicate 623	(10.1)	(1.9)

30.2 Key management compensation

	2008 £m	2007 £m
Salaries and other short-term benefits	6.5	9.2
Post employment benefits	0.3	0.9
Share-based remuneration	2.3	1.5
	9.1	11.6

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 54 to 63.

30.3 Other related party transactions

At 31 December 2008, the group did not have any balances payable to associates (2007: £2.5m). All transactions with associates and subsidiaries are priced on an arm's length basis.

31 Parent company and subsidiary undertakings

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

The following is a list of all the subsidiaries:

	Country of incorporation	Ownership interest	Nature of business
Beazley Furlonge Holdings Limited	England	100%	Intermediate holding company
Beazley Furlonge Limited	England	100%	Lloyd's underwriting agents
BFHH Limited	England	100%	Dormant
Beazley Investments Limited	England	100%	Investment company
Beazley Corporate Member Limited	England	100%	Underwriting at Lloyd's
Beazley Dedicated No.2 Limited	England	100%	Underwriting at Lloyd's
Global Two Limited	England	100%	Underwriting at Lloyd's
Beazley Underwriting Limited	England	100%	Underwriting at Lloyd's
Beazley Management Limited	England	100%	Intermediate management company
Beazley Staff Underwriting Limited	England	100%	Underwriting at Lloyd's
Beazley Solutions Limited	England	100%	Insurance services
Beazley Corporate Member No. 2	England	100%	Dormant
Beazley Corporate Member No. 3	England	100%	Dormant
Deltaland Limited	England	100%	Dormant
Beazley Finance Limited	England	100%	Intermediate holding company
Beazley Dedicated Limited	England	100%	Underwriting at Lloyd's
Beazley Capital Management Limited	England	100%	Investment services
Beazley Underwriting Services Limited	England	100%	Insurance services
Beazley Underwriting Pty Limited	Australia	100%	Insurance services
Beazley USA Services, Inc.	USA	100%	Insurance services
Beazley Holdings, Inc.	USA	100%	Holding company
Beazley Group (USA) General Partnership	USA	100%	General partnership
Beazley Insurance Company, Inc.	USA	100%	Underwrite admitted lines
Beazley Limited	Hong Kong	100%	Insurance services
Tasman Corporate Limited	England	100%	Underwriting at Lloyd's
Beazley Pte. Limited	Singapore	100%	Underwriting at Lloyd's

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:

	2008 £m	2007 £m
Company		
Debt securities and other fixed income securities	360.8	306.2
	360.8	306.2

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.

33 Foreign exchange rates

The group used the following exchange rates to translate foreign currency assets, liabilities, income and expenses into the group's presentation currency:

	2008		2007	
	Average	Year end spot	Average	Year end spot
US dollar	1.85	1.44	2.00	1.99
Canadian dollar	1.96	1.77	2.15	1.96
Euro	1.26	1.03	1.46	1.36

34 Acquisition of subsidiaries

34.1 Momentum Underwriting Management Limited

On 4 November 2008, the group acquired all the shares in Momentum Underwriting Management Ltd (MUML) for initial consideration of \$15.0m and £2.3m in cash. Further consideration up to a maximum of \$22.5m is payable in the future subject to certain performance criteria being achieved. The wholly owned subsidiary of MUML, Momentum Underwriting Management Australia Limited (MUMAL), was acquired as part of the transaction.

MUML and MUMAL were subsequently renamed as Beazley Underwriting Services Ltd and Beazley Underwriting Pty Ltd respectively.

The acquisition had the following effect on the group's assets and liabilities:

Fair value of net assets on acquisition	£m
Fixed assets	0.1
Cash and cash equivalents	1.5
Other receivables	2.3
Other payables	(1.6)
Intangible assets – goodwill	17.9
Consideration paid*	20.2

* The consideration paid of £20.2m represents amounts paid at the time of the transaction and an estimate of the most probable amount that is expected to be paid in respect of contingent consideration. Contingent consideration arises subject to the acquired business meeting specific performance criteria over a five-year period from the transaction date.

34.2 Beazley Finance Limited

On 12 December 2008, Beazley Furlonge Holdings Limited (BFHL) purchased the remaining share capital that it did not already own in Beazley Finance Limited. BFHL previously owned 5,000,000 ordinary shares in Beazley Finance Limited representing 22.7% of its entire share capital reflecting this investment as an associate. Following the transaction on 12 December 2008, BFHL owned 22,000,000 ordinary shares in Beazley Finance Limited being 100% of its share capital. Beazley Finance and its wholly owned subsidiary, Beazley Dedicated Limited, now represent wholly owned subsidiaries of the ultimate parent, Beazley Group plc.

The consideration for this transaction was £1 and the net assets acquired were nil. Beazley Finance Limited and Beazley Dedicated Limited have ceased active trading and it is anticipated that they will become dormant.

35 Events after the balance sheet date

The following events that are material to the operations of the group have been announced since the balance sheet date and are all subject to shareholder approval. These events are non-adjusting events in that they have not been reflected in the financial statements of the group for the year ended 31 December 2008.

35.1 Capital raising

The group has announced its proposal to raise £150m net of expenses through a rights issue and placing.

35.2 Acquisition of business portfolio

The group has announced its intention to purchase First State Management Group Inc., a US domiciled underwriting manager, for total consideration of \$35.4m.

Admitted carrier

An insurance company licensed by a particular US state, monitored by the state for financial stability, covered by the state's guaranty fund, and subject to the state's regulations for licensed insurance companies.

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 Group plc obtained an A rating, while Beazley Insurance Company, Inc., received a rating of A.

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.

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 percent, of net insurance claims to net earned premiums. *

Combined ratio

Ratio, in percent, 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. *

Coverholder/managing general agent

A firm either in the United Kingdom or overseas authorised by a managing agent under the terms of a binding authority to enter into contracts of insurance in the name of the members of the syndicate concerned, subject to certain written terms and conditions. A Lloyd's broker can act as a coverholder.

Deferred acquisition costs (DAC)

Costs incurred for the acquisition or the renewal of insurance policies (e.g. brokerage, premium levy and staff related costs) which are capitalised and amortised over the term of the contracts.

Earnings per share (EPS) – Basic/Diluted

Ratio, in pence, 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 like 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 of each risk involved in each loss.

Expense ratio

Ratio, in percent, of the sum of expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. *

Facultative reinsurance

A reinsurance risk that is placed by means of a separately negotiated contract as opposed to one that is ceded under a reinsurance treaty.

Gross premiums written

Amounts payable by the insured, excluding any taxes or duties levied on the premium, including any brokerage and commission deducted by intermediaries.

Hard market

An insurance market where prevalent prices are high, with restrictive terms and conditions offered by insurers.

Horizontal limits

Reinsurance coverage limits for multiple events.

Incurred but not reported (IBNR)

These are anticipated or likely claims that may result from an insured event although no claims have been reported so far.

International accounting standards (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).

International accounting standards board (IASB)

An international panel of accounting experts responsible for developing IAS/IFRS.

* The calculation is performed excluding the impact of foreign exchange on non-monetary items.

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.

Managed syndicate

The combination of syndicate 2623, 3623, 3622 and 623 through which the group underwrites insurance business.

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 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 balance sheet 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 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 percent calculated by dividing the consolidated profit after tax by the average 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.

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.

Stamp capacity

The volume of business measured in gross written premiums net of acquisition costs underwritten by the group through its managed syndicates at Lloyd's of London.

Surplus lines insurer

An insurer that underwrites surplus lines insurance in the US. Lloyd's underwriters are surplus lines insurers in all jurisdictions of the US except Kentucky and the US Virgin Islands.

Total shareholder return

The increase in the share price plus the value of any 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 sheet date is accounted for as unearned premiums in the underwriting provisions.

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a difficult and changing economic market place.



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