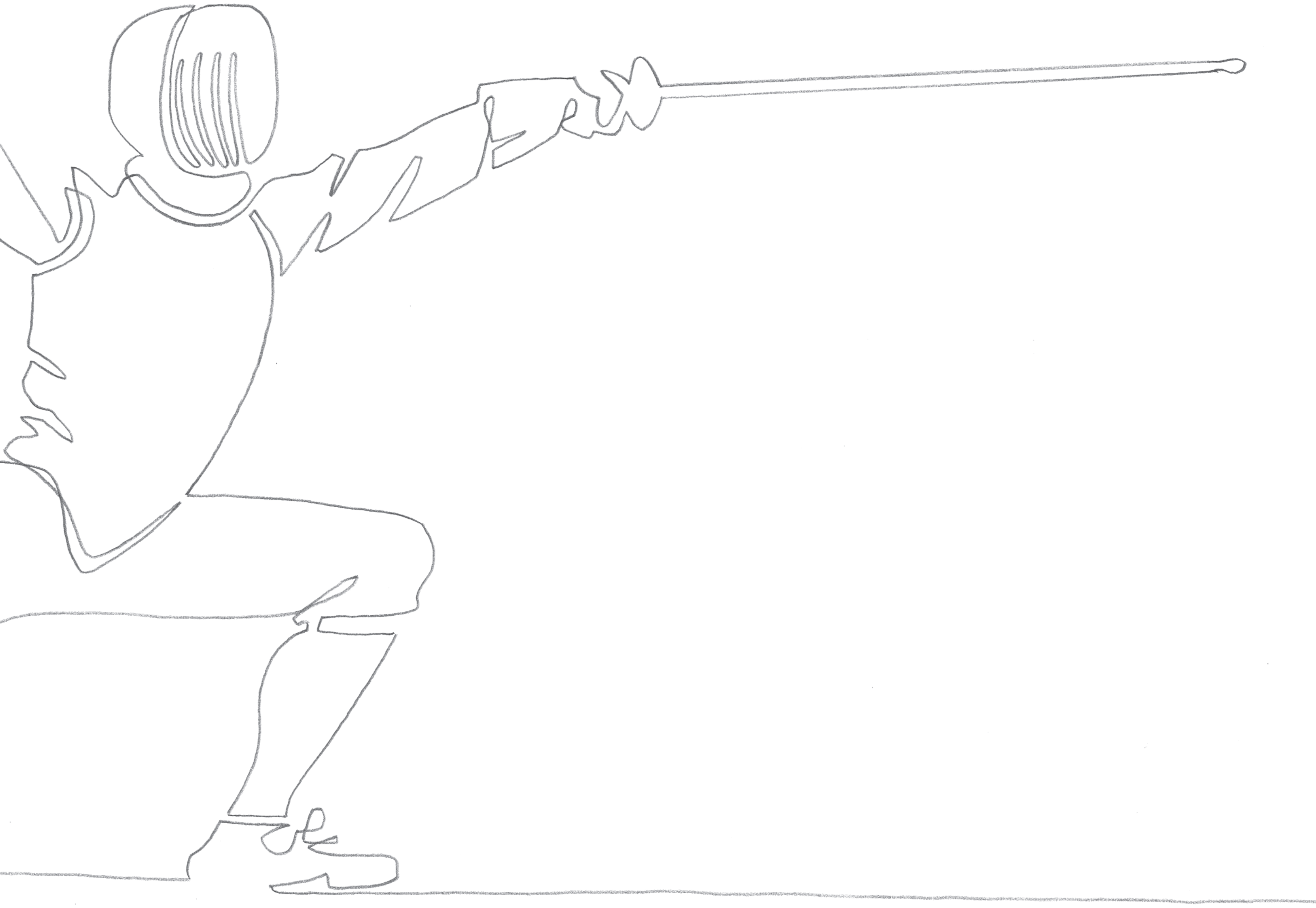
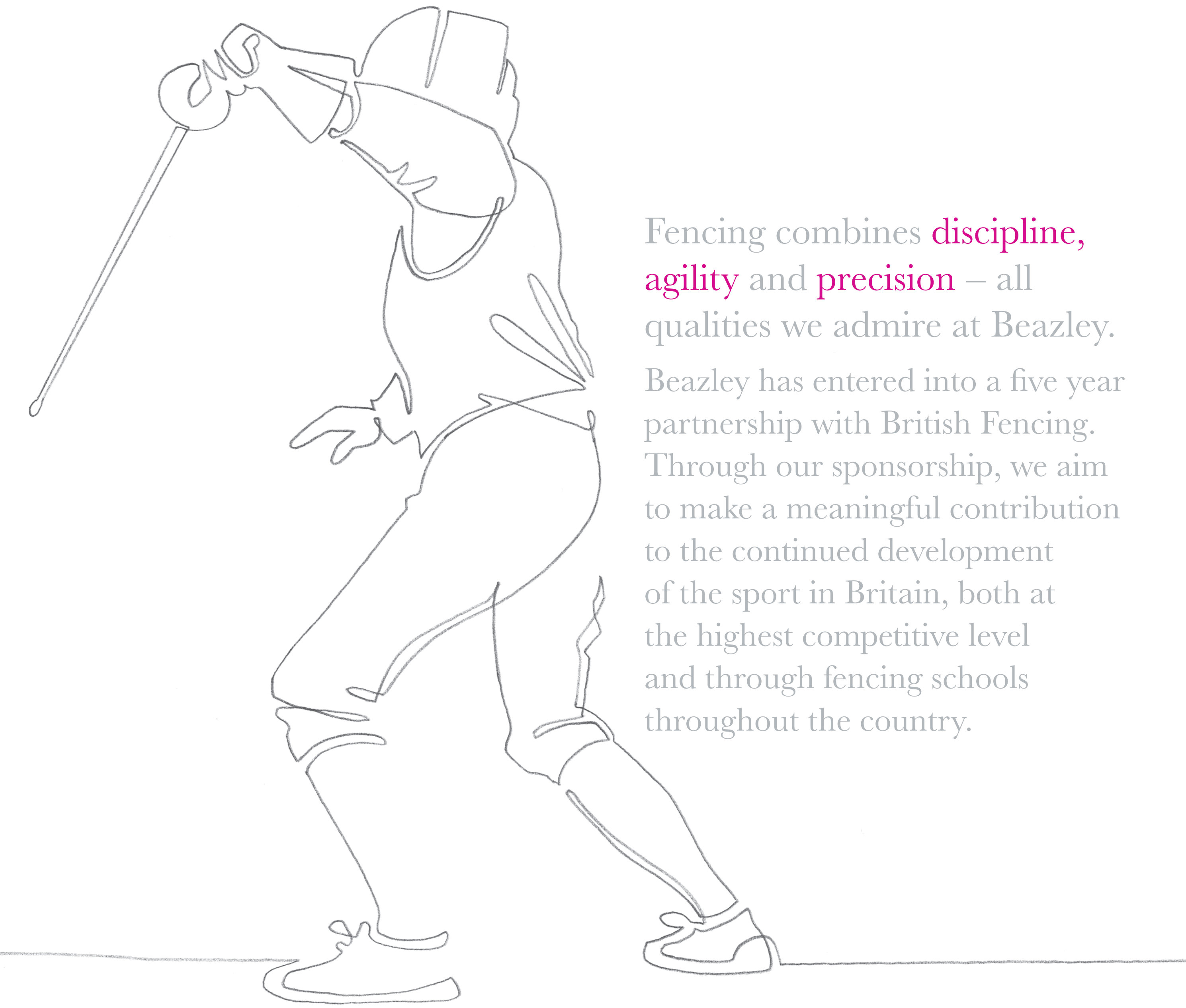
Beazley plc | Annual report and accounts 2010



Premier Partner of BRITISH FENCING



Fencing combines discipline, agility and precision – all qualities we admire at Beazley.

Beazley has entered into a five year partnership with British Fencing. Through our sponsorship, we aim to make a meaningful contribution to the continued development of the sport in Britain, both at the highest competitive level and through fencing schools throughout the country.

25 years of profitable growth

86

13.4m
Managed gross premiums **$US***

Lloyd's Active members: 28,242

Capacity: £8,291m

Syndicates: 370

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

Beazley Furlonge and Hiscox established and takes over managing Syndicate 623

Specialty lines and Treaty accounts started

87

22.1m
Managed gross premiums **$US***

UK windstorms
US $3.5bn

88

24.7m
Managed gross premiums **$US***

89

24.1m
Managed gross premiums **$US***

90

29.5m
Managed gross premiums **$US***

European storms
US $10bn

91

42.5m
Managed gross premiums **$US***

Lloyd's Active members: 26,539

Capacity: £11,063m

Syndicates: 354

92

58.8m
Managed gross premiums **$US***

Commercial Property account tarted

US hurricane Andrew
US $17bn

93

101.4m
Managed gross premiums **$US***

Total Beazley syndicates' capacity

UK Bishopsgate explosion
US $750m

94

107.6m
Managed gross premiums **$US***

Corporate capital introduced to Lloyd's

US Northridge earthquake
US $12.5bn

95

135.2m
Managed gross premiums **$US***

Lloyd's Reconstruction and Renewal introduced

Lloyd's Active members: 13,062 Capacity: £9,994m

Syndicates: 167

96

124.2m
Managed gross premiums **$US***

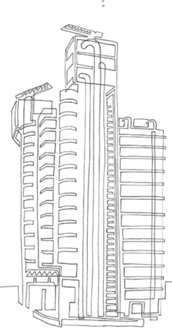
97

128.4m
Managed gross premiums **$US***

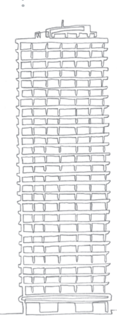
Beazley Dedicated established

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

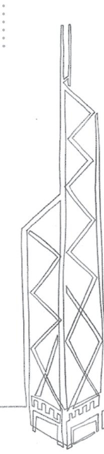
Lloyd's Reconstruction and Renewal concluded



In 1986 Beazley Furlonge and Hiscox established and takes over managing Syndicate 623



Commercial Property account started in 1992



APUA, based in Hong Kong, forms a strategic partnership with Beazley Furlonge in 1997

Our first 25 years

Beazley Group began life in 1986 as Beazley, Furlonge & Hiscox, which was bought out by Andrew Beazley and Nicholas Furlonge in 1992. Since then the company has grown steadily in terms of the risks we cover, the clients we serve and our geographic reach. Beazley today is a mature insurance business with a well diversified portfolio.

During this time we have weathered some of the toughest times the Lloyd's market has seen in more than three centuries and our underwriting operations have an unbroken record of profitability.

98

168.8m
Managed gross premiums **$US***

Recall, Contingency and Political Risk accounts started

99

217.1m
Managed gross premiums **$US***

Marine account started

European storms
US $12bn

00

256.1m
Managed gross premiums **$US***

01

431.6m
Managed gross premiums **$US***

Management buyout of minority shareholders EPL and UK PI accounts started

Lloyd's Active members: 3,746

Capacity: £11,263m
Syndicates: 122

US 9/11 terrorist attack
US $20.3bn

02

675.6m
Managed gross premiums **$US***

Flotation raised £150m to set up Beazley Group plc

03

1,148.7m
Managed gross premiums **$US***

574.3m
Group share **$US***

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

SARS outbreak in Asia
US $3.5bn

04

1,374.9m
Managed gross premiums **$US***

736.2m
Group share **$US***

Engineering and Construction account started

05

1,485.1m
Managed gross premiums **$US***

1,015.6m
Group share **$US***

Beazley MGA started in US

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

US hurricane Katrina
US $56.5bn

06

1,762.0m
Managed gross premiums **$US***

1,371.0m
Group share **$US***

Beazley takes full ownership of APUA and renames it Beazley Limited

Expansion of Construction & Engineering team into Singapore

Beazley opens new office in Paris

Lloyd's Active members: 2,211

Capacity: £14,788m

Syndicates: 65

07

1,919.6m
Managed gross premiums **$US***

1,561.0m
Group share **$US***

BICI begins writing US admitted mid-market commercial property

US hurricane Ike
US $20bn

08

1,984.9m
Managed gross premiums **$US***

1,620.0m
Group share **$US***

Political Risk & Contingency Group formed as new division

Acquisition of Momentum Underwriting Management.

Accident & Life formed as a new division

09

2,121.7m
Managed gross premiums **$US***

1,751.3m
Group share **$US***

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

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

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

10

2,108.5m
Managed gross premiums **$US***

1,741.6m
Group share **$US***

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

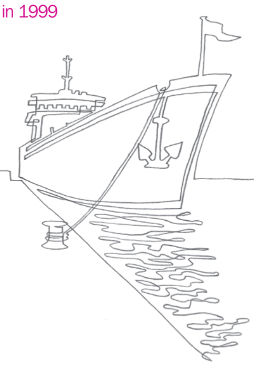
Beazley changes functional and presentational currency to US dollars

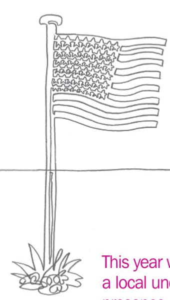
Special purpose syndicate 6107 formed to grow reinsurance business

External events:
Chile and NZ earthquakes
US $5-8bn;

Deepwater Horizon explosion triggers biggest oil spill in history

Marine account started in 1999





This year we established a local underwriting presence in the US

Accident & Life formed as a new division

Contents

Quick read

Our vision is to become, and be recognised as, the highest performing specialist insurer.

For a quick and compressed version of this annual report, please read the next 10 pages. The annual statement and remainder of the report begins on page 12.

Highlights

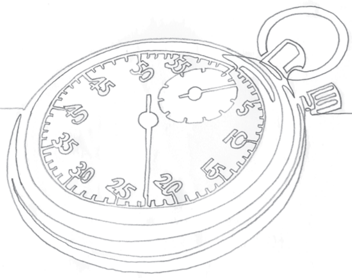
Financial highlights

- Profit before income tax of $250.8m (2009: $158.1m)
- Profit excluding exceptional foreign exchange gain* of $217.1m and return on equity of 18.7%
- Return on equity of 21.4% (2009: 16.0%)**
- Gross written premiums reduced by 1% to $1,741.6m
- Combined ratio 88% (2009: 90%)
- Rate decrease on renewal portfolio of 2% (2009: 3% increase)
- Prior year reserve releases of $144.6m (2009: $105.5m)
- Investment income of $37.5m (2009: $88.1m)
- Second interim dividend of 5.1 pence plus special dividend of 2.5 pence, taking total dividends paid for the year to 10.0 pence (2009: 7.0 pence)

Profit before income tax	Profit before income tax (excluding exceptional foreign exchange gain)*	Return on equity**	Return on equity (excluding exceptional foreign exchange gain)*
$250.8m	$217.1m	21.4%	18.7%

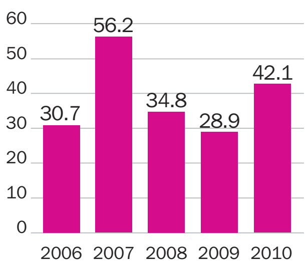
* Profit before income tax and earnings per share includes an exceptional foreign exchange gain of $33.7m, described in notes 1 and 4 to the financial statements.

** Return on equity is calculated as profit after tax divided by average daily shareholders funds during the year.



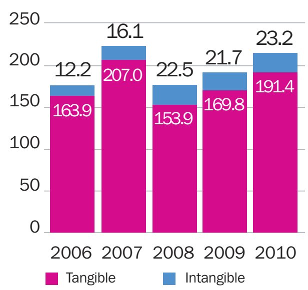
Key performance indicators

Earnings per share (cents)

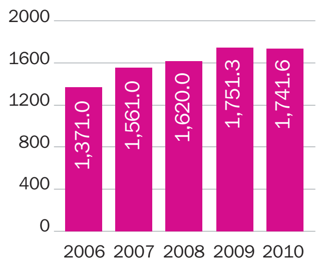


Earnings per share has remained at a healthy level throughout the reporting periods, with a 3 x dividend cover for 2010.

Net assets per share (cents)

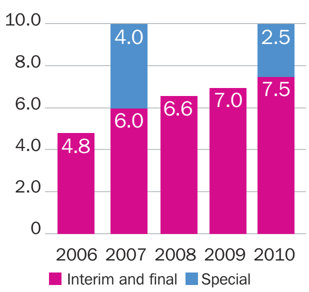


Gross premiums written ($m)



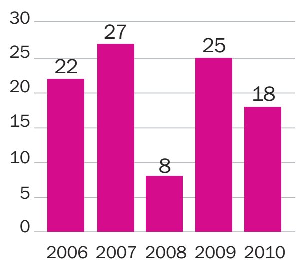
Gross premiums written have remained flat in 2010 having risen steadily since 2006.

Dividends per share (p)



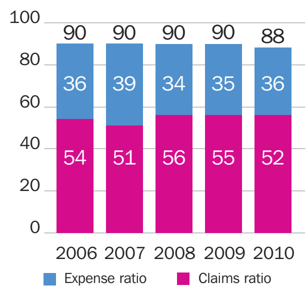
Dividends per share have grown by 56% since 2006 (excluding the special dividend) and by 25% since 2007.

Return on equity (%)



Our average return on equity for the past 5 years has been 20.0%. The above chart excludes the effect of foreign exchange on non-monetary items together with the one-off gain of $33.7m in 2010.

Combined ratio* (%)



We continued to achieve a sector leading combined ratio, which in 2010 was 88%.

Who we are

Beazley is a specialist insurer committed to providing its clients with excellent underwriting and claims service worldwide.

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

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

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

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

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

Why we exist

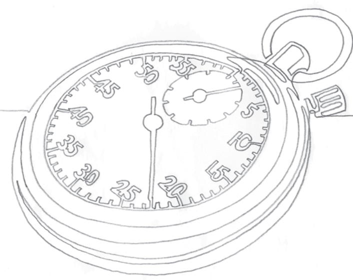
Our vision
To become, and be recognised as, the highest performing specialist insurer.

To achieve this we have developed the know-how to underwrite and manage complex insurance for profit which is embedded in our processes and enshrined within our culture and approach to doing business. We apply this know-how to everything we do.

Just as importantly, we seek to maintain an environment that makes working at Beazley challenging and enjoyable. Combined with our focus on talent management, this has enabled Beazley to attract and retain people who rank among the best insurance professionals in the world.

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

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



How we're doing

In 2010 we achieved a profit of $250.8m maintaining our unbroken record of profitability.

	2010 $m	2009 $m	Movement %
Gross premiums written	1,741.6	1,751.3	(1%)
Net premiums written	1,402.1	1,331.3	5%
Net earned premiums	1,405.2	1,313.6	7%
Net investment income	37.5	88.1	(57%)
Other income	28.1	19.6	43%
Revenue	1,470.8	1,421.3	3%
Net insurance claims	738.2	742.6	(1%)
Acquisition and administrative expenses	500.6	472.4	6%
Foreign exchange (gain)/loss	(34.6)	34.4	
Expenses	1,204.2	1,249.4	(4%)
Share of loss of associates	(0.9)		
Finance costs	(14.9)	(13.8)	8%
Profit before tax	250.8	158.1	59%
Claims ratio	52%	55%	–
Expense ratio	36%	35%	–
Combined ratio	88%	90%	–
Rate (reduction)/increase	(2%)	3%	–
Investment return	1.0%	2.7%	–

2010 Results

Gross premiums written of $1,741.6m were down 1% from 2009. Underlying this we have seen growth in our reinsurance and life, accident & health divisions. Renewal rates have reduced by an average of 2% across the portfolio and we have continued to adjust our underwriting appetite in areas where rates have become inadequate.

The group achieved its best combined ratio in the past five years of 88% (2009: 90%), evidencing the stability of our diversified portfolio.

Despite a number of significant losses (notably the Chile and New Zealand earthquakes) our claims ratio fell to 52% (2009: 55%).

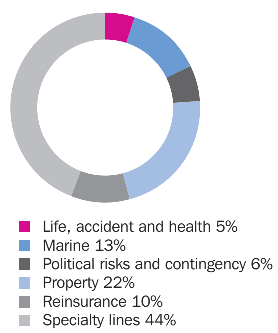
The group achieved an investment return for the year of $37.5m (2009: $88.1m) as it maintained its conservative approach to investment management.

Divisional performance

We saw small rate decreases across all lines of business in 2010 but in spite of this delivered an excellent underwriting performance. The reinsurance division has seen significant premium growth in 2010 of 23%, driven by new business written by our special purpose syndicate (6107), supported by third party capital. Our life, accident & health team, acquired in 2008, has continued to develop well, writing $78.1m in 2010 compared to $67.9m in 2009, an increase of 15%. The reduction in premium written in the political risks & contingency group of 21% reflects our prudent approach to underwriting in difficult market conditions. Premiums in specialty lines, property and marine have remained in line with 2009.

Our largest division, specialty lines, contributed $78.2m towards the group's profits as prior year claims reserves continue to develop better than expected. Our marine team again produced excellent profits of $75.4m (2009: $74.2m). 2010 also saw a return to profit of $34.7m for our political risks & contingency division, which was impacted by trade credit losses in 2009. The reinsurance division reported a profit of $19.2m compared to a $53.2m profit in 2009, reflecting earthquake activity in New Zealand and Chile. Finally our property group more than doubled its 2009 reported profit of $10.5m with a 2010 profit of $24.2m.

Business by division



Who runs Beazley

Non-executive chairman
Jonathan Agnew

Executive committee
The Beazley executive committee manages the group. Members of the executive committee are:

Andrew Horton*
Chief executive officer and chairman of the executive committee

Martin Bride*
Group finance director

Adrian Cox*
Head of specialty lines

Nicholas Furlonge*
Head of risk management and marketing

Jonathan Gray*
Head of property group

Dan Jones
Director, broker relations

Adrian Lewers
Head of political risks & contingency

Neil Maidment*
Chairman of the group underwriting committee

David Marock
Chief operating officer

Andrew Pryde
Chief risk officer

Clive Washbourn*
Head of marine

Non-executive directors

George Blunden
Gordon Hamilton
Padraic O'Connor
Andy Pomfret
Vincent Sheridan
Ken Sroka
Rolf Tolle

Company secretary
Sian Coope

*Denotes executive director of Beazley plc

How we behave

Corporate governance

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

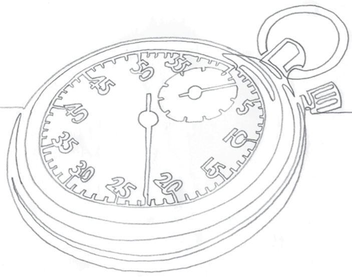
The board

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

Biographies of current board members appear on page 54 of this report. These demonstrate the very broad range of business experience which the board members possess and that is essential to manage a business of this size and complexity. A well defined operational and management structure is in place. Terms of reference exist for all board committees. The roles and responsibilities of senior executives and key members of staff are clearly defined.

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.



How we're rewarded

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

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

Reward at Beazley is centred around the following incentive initiatives:

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

Further details of the reward policy is set out on pages 60 to 74.

About share ownership

Beazley is quoted on the London Stock Exchange.

Analysis of shareholdings

Issued share capital as at 31 December 2010: 534.9m ordinary shares owned by 983 shareholders.

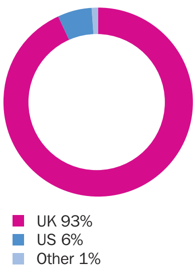
Investor relations:

Beazley issue frequent communications to address the needs of shareholders, investment institutions and analysts, supplying a regular flow of information about the company, its strategy and performance. Beazley's website, www.beazley.com, provides current and historical financial information including trading statements, news releases and presentations.

Analyst coverage:

A number of analysts currently publish research notes on the group. In addition to research coverage from Numis, the company's corporate broker, coverage is provided by RBS, Macquarie, Credit Suisse, JP Morgan, Keefe Bruyette & Woods, Peel Hunt, Execution Noble, Collins Stewart and UBS.

Share owner by geography



A growing and diversifying portfolio:

Since Beazley's establishment in 1986 – and particularly since 2001 – our business has grown and diversified significantly. This chart shows the growth of gross written premiums for all business managed by the group. The group share of this premium was 82.6%, or $1,741.6m in 2010.

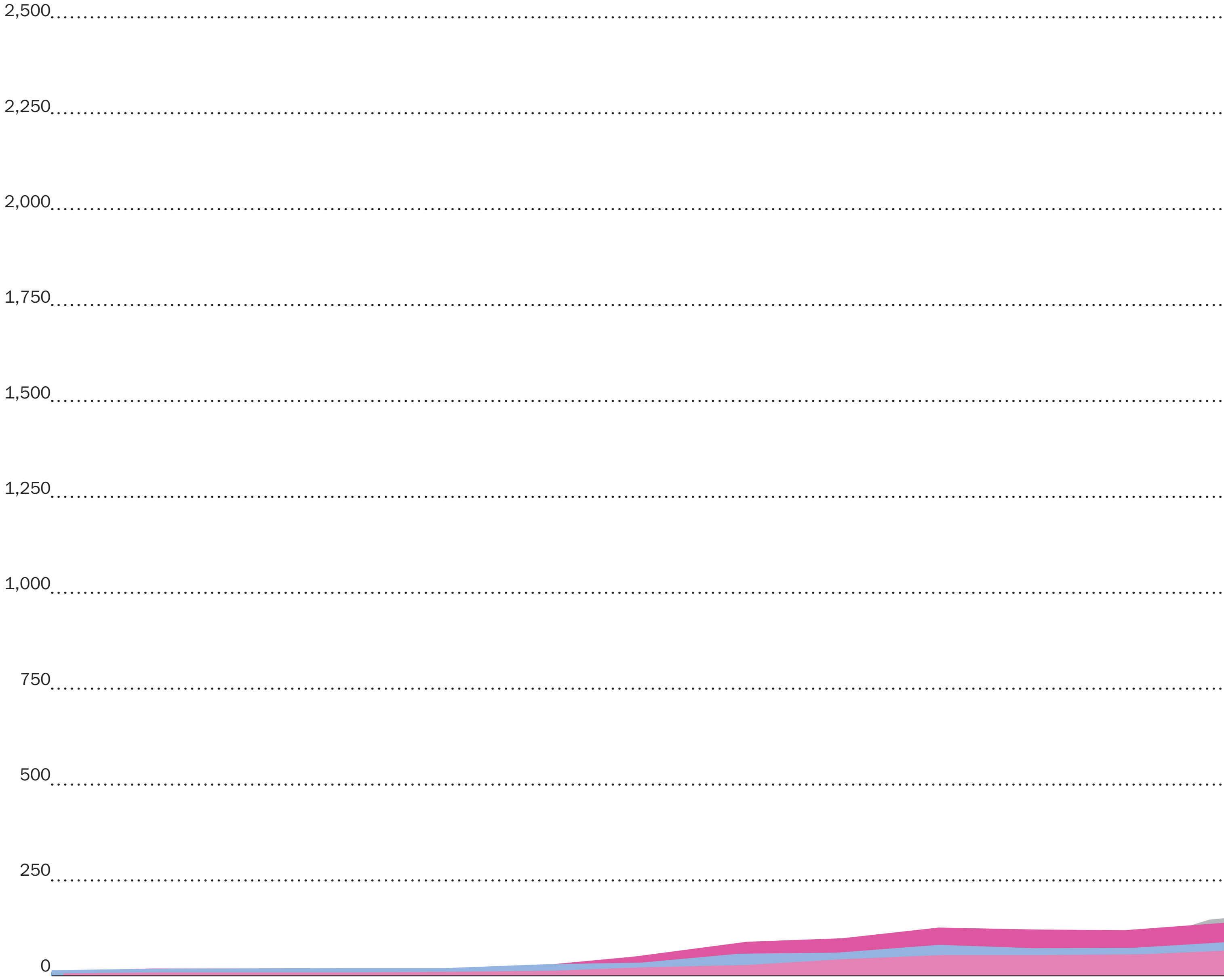
Life, accident & health

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

Marine

We participate in the insurance of approximately 13.5% of the world's ocean-going tonnage and are the prominent leader of voyage and tow business in the London market. We insure 35% of the top 200 global oil and gas companies and are a major lead for upstream energy clients. We have extensive experience insuring a wide variety of cargoes including project, fine art and specie.

Gross premiums growth by division $m



	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Managed gross premiums	13.4	22.1	24.8	24.1	29.5	42.6	58.8	101.4	107.5	135.2	124.2	128.4
Group Share	–	–	–	–	–	–	–	–	–	–	–	–

Political risks & contingency

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

Property

We've protected clients ranging from Fortune 1000 companies to homeowners through 18 years of natural and man-made catastrophes.

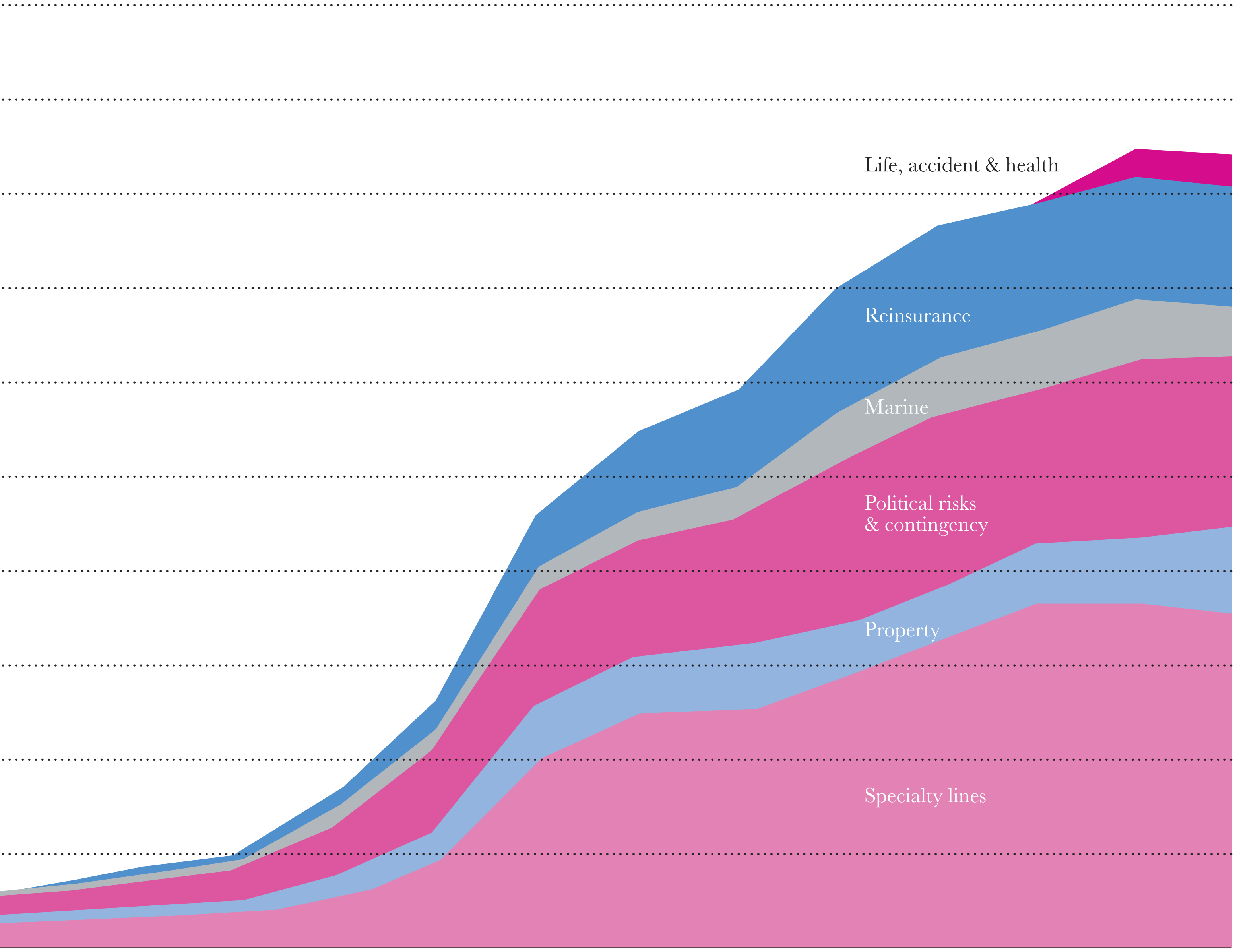
In addition to the worldwide commercial property business we write at Lloyd's, we also underwrite construction and engineering risks in Singapore; commercial property risks (both admitted and non-admitted) locally in the US; as well as high value homeowners risks in the US and UK.

Reinsurance

The reinsurance team specialises in writing worldwide property catastrophe; per risk; aggregate excess of loss and pro-rata business; and casualty clash. More than 80% of our top 20 clients have reinsured with us for 16 years or more.

Specialty lines

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



1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
168.8	217.1	256.1	431.6	675.6	1,148.6	1,374.9	1,485.0	1,761.9	1,919.6	1,984.7	2,121.6	2,108.5
–	–	–	–	–	574.3	736.2	1,015.6	1,371.0	1,561.1	1,620.0	1,751.3	1741.6

25 years of profitable growth...

"Sorry America. Your insurance has been cancelled," ran the headline of a cover story in Time magazine on 24 March 1986. The article described a "national crisis" in liability insurance following "years of eye-popping damage awards".

Some might have found it an alarming time to establish a Lloyd's managing agency focusing on US professional liability business and catastrophe treaty reinsurance. But Andrew Beazley and Nick Furlonge (supported by Robert Hiscox, who backed the new managing agency) saw an opportunity.

Twenty five years later, their confidence has proved justified. Between 1986 (when the stamp capacity of Beazley syndicate 623 at Lloyd's was $13.4 million) and 2010 (when Beazley Group underwrote $1.74 billion in gross premiums) the business has achieved an unbroken record of profitability. In 1986, Andrew Beazley underwrote the syndicate's first professional liability policies for US lawyers and for architects and engineers. Today, Beazley insures almost half of the top 100 law firms in the US and almost two thirds of the top 50 architectural and engineering design firms.

Andrew led the company for 22 years before handing over to Andrew Horton in 2008. His ambition for the company grew as new opportunities arose but his vision – to maintain Beazley as the most attractive home for the most talented underwriters and claims professionals in the insurance business – never changed.

The early growth and diversification of the firm took place against a backdrop of often extreme turbulence for the insurance industry. In the late 1980s and early 1990s, the Lloyd's market was shaken to its foundations by the combined impact of long-tail liabilities for risks such as asbestosis and pollution cleanup and more recent catastrophes such as the Piper Alpha North Sea oil rig explosion in 1988 and hurricane Hugo in 1989. Andrew Beazley served as a member of the Lloyd's Market Board from 1994 to 1997, during which time the market responded to some of the heaviest losses in its history with radical reforms including the creation of Equitas to reinsure liabilities from earlier years.

Throughout this time, Beazley underwriters travelled constantly to the United States – then as now Lloyd's largest market – to talk with clients and brokers about the challenges Lloyd's faced and its plans to overcome them. At a time when the Lloyd's market was unrated by the credit rating agencies, the personal credibility of Andrew Beazley and his colleagues was important in maintaining confidence in Lloyd's.

Later, Andrew was a member of the Chairman's Strategy Group at Lloyd's, which set down a blueprint for further reforms including the creation of the Franchise Board in 2003. With the oversight of the Franchise Board, Lloyd's has enjoyed the most profitable period in its history.

...and inspiration

In the early years of the 21st century, Andrew championed the most significant strategic move the company had made since its foundation, leading it to expand locally into the US market from 2005. As before, the vision was consistent – to apply to small and mid-sized US business the same entrepreneurial underwriting approach, in the same lines of business, that had succeeded for large risks in London.

Expansion in the US market was a risk in its own right. Beazley was the first Lloyd's-based insurer to obtain a licence to underwrite insurance on an admitted basis in all 50 US states. This bold move has paid off, with Beazley's US offices writing gross premiums (both admitted and non admitted) of $393.6m locally in the US in 2010, nearly a quarter of the group's total premiums.

To his friends and colleagues at Beazley, Andrew Beazley's contribution to the company that he led as chief executive for 22 years can never be measured solely by numbers. He created an entrepreneurial firm with a culture that proved a magnet for talent in London and around the world – a company that was as unstuffy and stylish as its chief executive. His inimitable humour, charisma and style will be remembered by all who knew him. With Nick Furlonge, Andrew pioneered open plan offices at Beazley at a time when most London market insurance executives were cloistered in panelled rooms.

Andrew was diagnosed with cancer in 2007. His response was characteristic of the man. "A bump in the road" was how he described his condition to colleagues, while making plans for a smooth leadership transition. As the aggressive therapies prescribed to fight the disease took their toll on his physical appearance, Andrew dusted off his father's old bowler hat, which he wore with considerable élan.

Andrew's contribution to Beazley Group was as significant at the end of his tenure as chief executive as at the beginning. Leadership transitions can be challenging, particularly when the baton is being passed by a founder of the company whose name is also "over the door". Andrew was staunch in his support of Andrew Horton as the company's new chief executive from September 2008 onward, but was always careful to give him the space to redefine the role and develop his own vision for the company's future.

Andrew Beazley died on 13 October 2010. The company that he and Nick Furlonge founded in 1986, in a small City office with two second hand desks, a battered hatstand and a borrowed computer, lives on.

Annual statement

Jonathan Agnew
Chairman

Andrew Horton
Chief executive

Competitive markets are not new to Beazley. In 2010 we delivered an improved underwriting performance against a backdrop of deteriorating market conditions.

2010 saw an exceptional performance from the company that Andrew Beazley and Nick Furlonge founded twenty five years ago, maintaining our track record of unbroken profitability with a pre-tax profit of $250.8m (2009: $158.1m) on gross premiums that fell 1% from 2009 to $1,741.6m. Excluding a one-off foreign exchange gain of $33.7m, the pre-tax profit was $217.1m and despite competition increasing across most of our lines of business, we achieved an improved combined ratio of 88% (2009: 90%).

The board is pleased to announce a second interim dividend of 5.1 pence per ordinary share (2009: 4.7 pence per ordinary share) and a special dividend of 2.5 pence per ordinary share. Together with the first interim dividend of 2.4 pence per ordinary share these dividends give a total of 10.0 pence.

Premium rates on renewal business fell by 2% (2009: 3% increase), placing increased emphasis on the skill of our underwriters in identifying profitable underwriting opportunities. Competitive markets are not new to Beazley: through our history we have experienced multiple market cycles. The peaks and troughs vary by line of business, geography and size of risk, so the task for a diversified business such as ours is to optimise the portfolio mix to achieve healthy returns across the cycle. Our combined ratio of 88% and our return on equity of 21.4% in 2010 (2009: 16.0%) reflects our success in achieving this.

Our investments returned $37.5m or 1.0% (2009: $88.1m, 2.7%) in an environment characterised by continuing macro-economic uncertainty, weak global demand and very low interest rates. Our investment returns increased in the course of the year, but our focus remains on capital preservation given the continuing risk of severe market downturns. Accordingly, the majority of our invested assets (63.8% at year end) are cash, cash equivalents and sovereign or supranational bonds and the duration of our overall fixed income portfolio is just over one year. We seek some return above risk free rates via a portfolio of capital growth assets.

Growth opportunities for the insurance industry as a whole proved limited in 2010. At Beazley we identified and capitalised on three, two organic and one the result of a prior acquisition. Organically, our reinsurance business grew by 23% to $174.4m, supported by our new special purpose syndicate (6107), backed by third party capital. By the end of December our reinsurance team had written $16.4m for the account of this syndicate.

We also continued to see strong growth in demand for data breach insurance in the US. Publicity surrounding corporate data breaches involving the loss of personal customer information continues at a high level. Beazley Breach Response has been successfully introduced in the US market as a comprehensive solution to this growing risk.

Our third area of growth was in our life, accident & health business, following our acquisition in 2008 of Momentum Underwriting Management Limited (MUM). Premiums underwritten by this division grew by 15% to $78.1m and the business performed better than we had expected, contributing $4.7m to profits. As we had hoped, the conjunction of the skills of the team, most of whom have worked together for more than a decade, and the Beazley name has proved very attractive to brokers.

A further recent acquisition, that of the First State underwriting agency in the US, is now fully integrated into Beazley. The highly experienced team led by Judy Patterson focuses on surplus lines commercial property risks and forms the core of our excess and surplus (E&S) commercial property business in the US, which underwrote premiums of $110.0m last year (2009:$102.8m).

Demand was also strong for energy insurance in 2010, following the Deepwater Horizon disaster in the Gulf of Mexico. We expect demand for our products to remain strong in 2011 as a result of rising commodity prices, customer awareness of risk and, in some cases, regulators requiring additional financial security from oil and gas companies. Paul Dawson and his team are respected heads of this class and will look to increase their share of the market if conditions remain attractive.

Change in functional currency

In April 2010, we announced a change in our functional currency for Beazley plc and its principal operating entities from sterling to the US dollar, reflecting the growth of our dollar denominated premiums and the fact that the regulatory capital supporting the business is largely held in dollars. We believe that this change will give investors a clearer understanding of the group's performance over time. Accounting in dollars will significantly reduce the future volatility of Beazley's reported earnings due to foreign exchange movements – and in particular due to foreign exchange on non-monetary items.

Irish domicile

In June 2009 we redomiciled our holding company to Ireland. The move has achieved all the objectives we described in last year's annual report, affording us a strong regulatory environment, and a competitive tax regime. Our effective tax rate in 2010 was 13%. We take comfort in the Irish government's strong commitment to the existing corporate tax rate, which has proved an incentive to investment by many companies in the insurance industry, among others.

Claims experience

Our claims experience was positive in 2010, with a claims ratio of 52% that was an improvement on 55% in 2009, despite the impact of two major earthquakes. Our balanced underwriting portfolio gives us the ability to offset the impact of catastrophe losses with profits from other lines of business. This also improves the capital efficiency of our business.

In 2010 the US hurricane season passed without incident but there were two significant earthquakes along the Pacific 'ring of fire', the first in Chile and the second in New Zealand. Our estimate of the claims cost from the Chilean earthquake remains in the range of $55m to $75m. In the case of New Zealand we initially estimated a group loss of $15m-$30m based on a market loss of $2bn-$4bn. We have subsequently increased this to a group loss of $35m, based on the updated market view of losses to $3bn-$5bn.

The number of claims in our political risks book, which had risen in 2009 due to the impact of the global economic crisis on trade credit business, returned to long-term average levels in 2010.

Specialty lines, our largest single division, also saw a reduction in frequency of claims for directors' and officers' (D&O) and employment practices liability (EPL) business, two of our more recession-exposed lines. Our approach to recession planning and cycle management in specialty lines has been rigorous, reducing our exposures in areas such as EPL, D&O and mid market architects and engineers (A&E) professional liability while increasing our underwriting in areas such as data breach insurance and parts of our healthcare account.

The end of 2010 and the start of 2011 have been marked by heavy rains and flooding in Queensland, Australia as well as a significant tropical storm, Yasi. We do not expect the cost to Beazley of the insured losses occuring in 2010 from these events to be material. Whilst it is too early to be able to make any definitive statement concerning the events that have occurred so far during 2011 due to the uncertainty, we believe they will be contained within our first half 2011 catastrophe budgets.

Delivery against strategic priorities

Our strategy focuses on three areas: prudent capital allocation to achieve sustainable profitability across the group; nurturing and enhancing our skills base; and scaling our operations so that, as growth opportunities arise, we can continue to provide the high level of service that our clients and brokers have the right to expect.

In the second half of 2010 we made an approach to acquire Hardy Underwriting Bermuda Limited (Hardy), a small complementary and high quality specialty insurer. Whilst our indicative offer represented a significant premium to Hardy's net tangible assets, we would have been able to achieve our target of return. However, Hardy's board were of the view that our proposals did not fully value the company and so we withdrew. Seeking to acquire teams of underwriters, underwriting agents or small or medium sized insurance companies

In 2010 we planted the seeds for a number of growth opportunities that we expect to bear fruit in 2011 and future years.

in our target markets and product sets remains one of our key priorities.

We have never been reluctant to return capital to shareholders in circumstances where we are not confident that we can allocate it to meet or exceed our pretax cross-cycle return on equity target rate of 18%. During the course of 2010 Beazley plc acquired 16.8m of its own shares to be held in treasury at an average price of 112.1p.

Our markets are becoming more competitive but in 2010 we planted the seeds for a number of growth opportunities that we expect to bear fruit in 2011 and future years. John McNally, one of the most experienced underwriters of M&A-related transaction liability insurance in London, joined our management liability team at Lloyd's. The team has since encountered a strong appetite from private equity investors looking to reduce some of the risks to which merger and acquisitions (M&A) transactions are exposed. We are fast becoming a leading market in London for these specialist types of insurance, which are increasingly appealing to clients in Europe and Asia, as well as to the traditional buyers in the US.

In the US, our newly formed environmental liability team led by John Beauchamp unveiled three new products in the course of the year. Environmental risks threaten a wide variety of commercial organisations, including owners of property; industrial and commercial operations; general and specialty contractors; and the environmental services industry. The claims can be complex and benefit from strong risk management and claims support. They play to the strengths of Beazley and of Lloyd's – and we will begin underwriting environmental risks from the Beazley box at Lloyd's in 2011.

A third area in which we see considerable growth potential for Beazley is the specialist accident and health market in the United States. In January 2010, we were delighted to welcome Paul Gulstrand, who joined us from UnitedHealth Group to develop our accident and health insurance business in the US. We have to date been underwriting accident and health risks on a reinsurance basis locally in the US. In the course of 2011, Paul and his team will begin to offer a range of simple and streamlined insurance products to US employers that wish to offer "gap protection" to their employees in an affordable manner, providing cover not normally afforded under company health care plans.

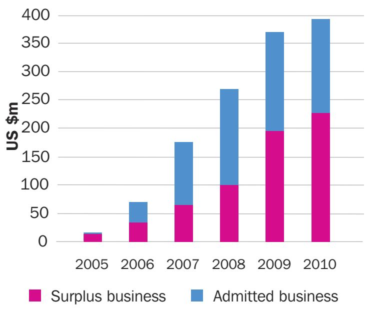
All of our product lines, old and new, rely on the skills of seasoned underwriting and claims professionals, working closely together, to deliver profitable growth over time. Beazley is not a hierarchical or bureaucratic company: over our 25 years we have found that the greatest success comes from taking highly motivated and experienced individuals and giving them the entrepreneurial freedom to develop their business. This is the approach that has governed the growth of our Lloyd's business and we have found it holds particular appeal in the US where our marketing tag line is "straight answers".

A consequence of this approach is that we make hiring decisions very carefully. Entrepreneurial freedom is not to everyone's taste and some underwriters lack the experience to exercise it with confidence and success. But the payback for investing time in identifying these individuals is high: good people tend to stay with Beazley for many years.

Growth of locally underwritten US business

In March, we celebrated our fifth anniversary as a local US insurer. In our first year, 2005, we underwrote $15m through our US operations; last year we underwrote $393.6m, 23% of total group premiums, up from $370.7m in 2009.

Locally underwritten US premiums



Our local US business focuses on smaller scale risks in lines of business with which we were already very familiar through our Lloyd's syndicates. Our position at Lloyd's in large risk business has proved a powerful source of credibility for our US underwriters in targeting smaller clients.

Board and executive changes

We made a series of additions to the Beazley board in 2010. In November Ken Sroka joined the board as a non-executive director. He was formerly head of product development at Zurich Financial Services, where he created and directed Zurich's financial lines business in North America and more recently focused on the development of specialist products.

Rolf Tolle and Adrian Cox were appointed to the board in December. Rolf had joined the board of Beazley Furlonge Ltd, the Lloyd's managing agency which forms part of the Beazley group, in June. He retired as franchise performance director at Lloyd's in December 2009 after seven years in the role. Adrian has headed our largest division, Specialty Lines, since 2008.

We also made two appointments to the Beazley executive committee in 2010. Strong broker relationships are the lifeblood of Beazley and we were delighted to welcome Dan Jones as a member of the senior management team in June. In his new role, Dan – who stood down as a non-executive director on the Beazley plc board – is focusing on deepening relationships with key business producers around the world. Dan brings extensive knowledge of the insurance broking sector on both sides of the Atlantic. Between 1997 and 2005, he served as a senior executive at Marsh, Inc.

Andrew Pryde has also joined the executive committee as chief risk officer. As group actuary, Andrew has been leading our efforts to ensure compliance with Solvency II, which are well advanced.

Andrew Beazley

Andrew Beazley, who co-founded the company with Nick Furlonge and led it successfully for 22 years, died on 13 October. Andrew was a powerful source of inspiration to us and, through his career, to hundreds of people at Beazley and in the broader insurance market. We will miss him deeply as a colleague and as a friend.

Andrew co-founded and led a company that has achieved a 25-year record of unbroken profitability and steady growth through often turbulent market conditions, built on mutual trust, openness, respect and a strong sense of fun. It is a legacy we cherish.

Jonathan Agnew	Andrew Horton
Chairman	Chief executive

8 February 2011

Q&A

Andrew Horton describes the trends, risks and opportunities that he foresees in 2011.

Q: Many of the lines of business Beazley specialises in are seeing intense competition. How soft will the soft market get?

A: I see the overall profitability of the insurance sector as being on a downward trend at present – and that's before considering the potential impact of catastrophe losses. We have seen a significant influx of new competitors into some of our core lines of business, including lines that are known to be challenging to underwrite, like professional liability for lawyers or for architects and engineers. We would expect a number of these companies to withdraw in due course but the challenge with writing some of the longer tail business in a soft market is that it's a little like frostbite – you don't know anything's wrong until it's too late. So they may think they're currently writing at a profit and not discover otherwise for a few years.

That said, there is a very obvious constraint on the ability of the market to continue to chase rates downward, and that is the meagre investment return they are currently earning. The biggest enemy of prudent underwriting has historically been a buoyant investment market; we must hope that the opposite statement also holds true. If it does, we would expect reductions in rates to bottom out some time next year.

Q: In a market such as this, how do you keep faith with your clients while maintaining profitability?

A: In a nutshell, by focusing on the reason people buy insurance in the first place. You're buying a promise to pay – you're buying claims service. And it continues to amaze me how little senior executives in our industry talk about that.

When you're in a tough market like today's, claims service is really your main bulwark against price-driven competition. We say to our clients and to our brokers: yes, we may be a little more expensive but remember what you're buying. We have made and continue to make major investments in highly skilled claims people who can provide prompt and supportive service in the event of a claim.

And the good news about this from an investor's perspective is that the best clients are generally the ones who care most about claims service. And they also care most about prudent risk management, which is another service we focus on. So the clients that are less price sensitive and do not see what we offer as a commodity often represent the best risks.

Q: Do you see growth opportunities in the year ahead?

A: Beazley has grown significantly in recent years and we will grow in future, but we're going to be very careful about sizing up growth opportunities in the current environment. We're going to continue to look out for them. There may be good people we can hire – either individually or in teams – in lines of business that are complementary to business we currently write. But our business plan for 2011 does not envisage strong organic growth because in markets that are not themselves growing we would need to underprice the competition to achieve that.

Q: In the current market is profitable growth best achieved organically or through M&A?

A: Both are challenging, frankly. We were described in some sections of the press as being 'opportunistic' in making an offer for another Lloyd's business last year. My response was, show me an offer that does not have some element of opportunism in it. So I hope we will continue to be opportunistic in that sense. But if one thinks of opportunism as off-the-cuff decision making, then our approach is the reverse of opportunistic. For us, potential acquisitions have to meet some tough criteria. They have to be in specialist lines of business that we really like. They have to have a stellar track record in underwriting. And we have to be confident about the culture of the organisation and the prospective fit with our culture. We look at dozens of potential acquisitions annually that do not meet one or other of these criteria.

And finally of course the price must be right. Our investors have the right to expect that we will keep our feet on the ground and not get carried away by bid fever.

Q: Should insurers be returning capital to investors at this point in the cycle?

A: There is of course not just one insurance cycle and in fact it is unusual for the property cycle and the casualty cycle and the marine cycle, for example, to be fully in synch with one another. So there may be growth opportunities in one area while there is a dearth of opportunities in another. That said, the group actively manages the capital it holds and in the absence of favourable underwriting conditions will release it to investors if the time is right. We are determined to give our investors a healthy return on capital.

Q: What is your perspective on the admission of new capital to the Lloyd's market?

A: The Lloyd's market is constantly renewed and reinvigorated by the arrival of new capital providers and the creation of new syndicates. We welcome that and believe that the franchise board monitors prospective new entrants effectively. The question really is: what are the new entrants bringing? If they are looking to build a new market that isn't there already at Lloyd's or is relatively small and inactive, that's great. That's what we did in 2008 when we established the first life syndicate at Lloyd's in twenty years – and five more life syndicates have since been formed. But if you're just setting up a me-too syndicate to write exactly the same business as everyone else, we're less keen. I hope and believe that's something that Tom Bolt, the performance director and the franchise board at Lloyd's are alert to.

Q: What opportunities do you see to develop business in continental Europe in 2011?

A: Europe, including the UK, is currently the source of 15% of our premiums. In the past five years we have opened offices in Paris, Munich and Oslo, focusing on the local development of our professional liability, reinsurance and energy insurance business respectively. Going forward, we plan to use these local offices – supported by the marketing and business development efforts of our London-based underwriters – to grow our business across a broader spectrum. The experience of insurers from London seeking to build large-scale businesses in Europe has not been uniformly positive so we are proceeding cautiously, but we have been encouraged by the support we have received from local brokers in many countries for a stronger Beazley presence.

Q: Beazley's investment returns were lower than many peers in 2010. Why was this?

A: Beazley has a very capital efficient business model. The balance of our underwriting portfolio means we underwrite $2 of premiums for each $1 of capital and, as a result of our portfolio mix, generate $4 of invested assets for each $1 of capital (our peers are more like 3:1). Beazley follows a relatively cautious investment strategy which will result in lower than average investment returns in some market conditions. However, this strategy still translates into a good return for shareholders due to gearing.

2010 was a year where we saw significant risks in asset markets. As a result we positioned our portfolio very conservatively.

Q: Beazley celebrates its 25th anniversary this year. What reflections does that prompt in you?

A: The main reflection it prompts in me is a sense of pride that the spirit that animated the company from the beginning is still alive and strong. The company that Andrew Beazley and Nick Furlonge founded 25 years ago is recognisably the same company. We're writing many of the same lines of business, such as professional liability and catastrophe. The only difference now is that we're leaders in those markets rather than new entrants.

But the way we've grown and diversified is consistent too. Like all businesses we can often find ourselves talking in quite abstract terms about things like scalability or capital allocation. But the real key to Beazley's success has been hiring good and knowledgeable people and giving them the entrepreneurial freedom to build a team and build a business within the broader company. I've seen that happen countless times since I joined Beazley in 2003. It's a winning formula.

Andrew Horton
Chief executive

8 February 2011

Performance by division

Neil Maidment
Chairman, Group underwriting committee

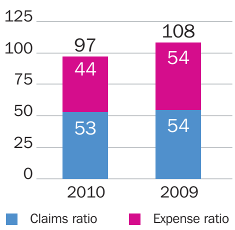
The year saw strong underwriting performances in often challenging market conditions across our six divisions.

Life, accident & health

Chris Branch
Head of life, accident & health

	2010 $m	2009 $m
Gross premiums written	78.1	67.9
Net premiums written	71.4	63.4
Results from operating activities	4.7	(2.0)
Claims ratio	53%	54%
Expense ratio	44%	54%
Combined ratio	97%	108%
Rate change	–	N/A

Combined ratio (%)

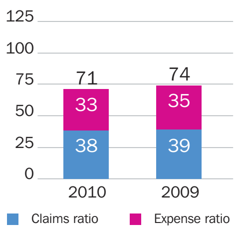


Marine

Clive Washbourn
Head of marine

	2010 $m	2009 $m
Gross premiums written	261.7	265.0
Net premiums written	235.6	228.9
Results from operating activities	75.4	74.2
Claims ratio	38%	39%
Expense ratio	33%	35%
Combined ratio	71%	74%
Rate change	(3%)	8%

Combined ratio (%)

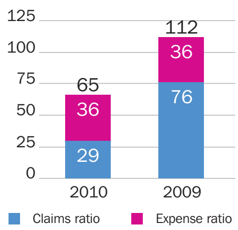


Political risks & contingency

Adrian Lewers
Head of political risks & contingency

	2010 $m	2009 $m
Gross premiums written	100.9	127.6
Net premiums written	79.9	98.6
Results from operating activities	34.7	(7.7)
Claims ratio	29%	76%
Expense ratio	36%	36%
Combined ratio	65%	112%
Rate change	(2%)	(1%)

Combined ratio (%)

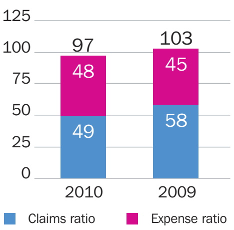


Property

Jonathan Gray
Head of property

	2010 $m	2009 $m
Gross premiums written	382.5	394.4
Net premiums written	283.8	283.1
Results from operating activities	24.2	10.5
Claims ratio	49%	58%
Expense ratio	48%	45%
Combined ratio	97%	103%
Rate change	(4%)	6%

Combined ratio (%)

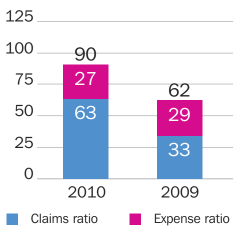


Reinsurance

Patrick Hartigan
Head of reinsurance

	2010 $m	2009 $m
Gross premiums written	174.4	142.2
Net premiums written	134.4	117.3
Results from operating activities	19.2	53.2
Claims ratio	63%	33%
Expense ratio	27%	29%
Combined ratio	90%	62%
Rate change	(3%)	10%

Combined ratio (%)

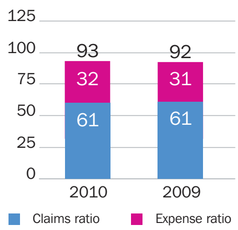


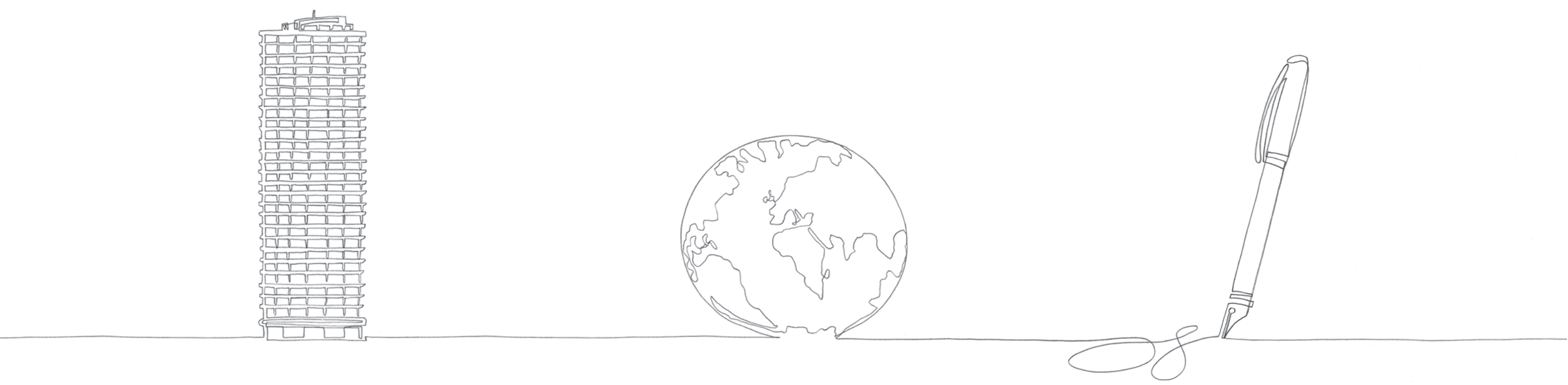
Specialty lines

Adrian Cox
Head of specialty lines

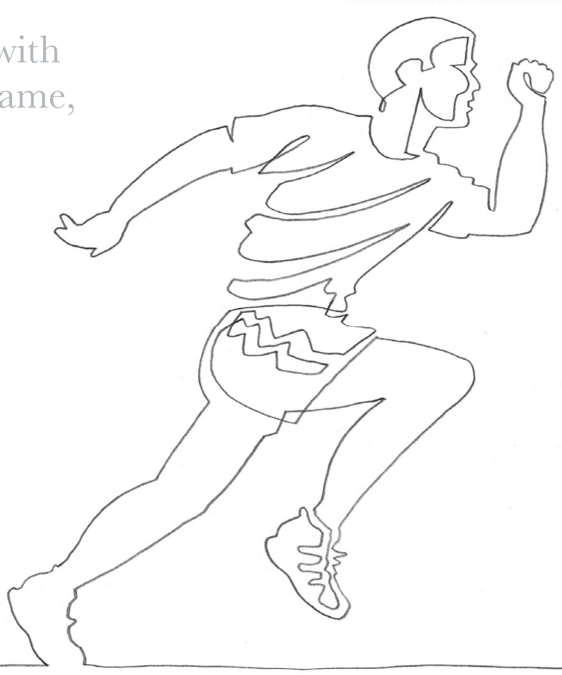
	2010 $m	2009 $m
Gross premiums written	744.0	754.2
Net premiums written	597.0	540.1
Results from operating activities	78.2	116.8
Claims ratio	61%	61%
Expense ratio	32%	31%
Combined ratio	93%	92%
Rate change	(2%)	(1%)

Combined ratio (%)





A cohesive team, combined with the strength of the Beazley name, contributed to a 15% growth in premiums.



Chris Branch
Head of life, accident & health

life, accident & health

Life, accident & health, led by Chris Branch, is Beazley's newest division. It contributed to the group's strong underwriting performance in 2010, recording a combined ratio of 97% (2009: 108%) on gross premiums that rose 15% to $78.1m. The majority of our team has worked together for more than a decade, building a recognised presence as a leader in the London market, first through Momentum Underwriting Management Limited (MUM) and, since Beazley acquisition of MUM in 2008, under the Beazley banner. Two renewals have occurred since the team joined Beazley and our business has grown by 42% since that time. We lead 65% of the business we underwrite.

Personal accident business is our biggest class, underwritten on both an insurance and reinsurance basis. This business represented 74% of our total book or, in premium terms, $57.6m, in 2010. The risks we underwrite are diverse, including the crews of ships and aircraft, television crews on assignment to high risk locations, credit card holders and key man cover for corporate executives. The depth of our experience as a direct insurer in this class is often invaluable to us as a reinsurer, giving us a better understanding of the risks we are shown.

The Beazley Life syndicate, 3622, was established in November 2008 and was at that time the first such syndicate to be created in 20 years. Since then a further five life syndicates have been established, strengthening Lloyd's reputation as a market for specialist Life assurance. A large proportion of our book is annually renewable group life business covering death by natural causes.

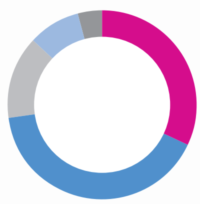
Our sports portfolio is smaller but very high profile. The Lloyd's sports consortium, which we lead with a 40% share, is the largest insurer of sports liability risks for professional athletes outside the US. Rates in this sector have been under pressure but we continue to see profitable business. We insured more than 150 of the players who participated in the 2010 World Cup in South Africa.

In the US, we have pursued a two-pronged approach to business development. Peter Slot has been underwriting accident and health risks on a reinsurance basis from our Chicago office since January 2009. Simultaneously we have been building a team capable of securing us a presence as a specialist US insurer of 'gap protection' accident and health cover at a time of great upheaval in the US healthcare insurance market. Gap protection insurance covers exposures not normally covered under healthcare insurance policies. In January last year we appointed Paul Gulstrand to head this team and Paul has been building the team and designing a product suite that will be attractive to brokers, employers and employees. The first of these products will be launched this spring. We recently contracted with Health Payment Systems, one of the largest third party administrators in the US, to ensure that our online enrolment and claims service is streamlined and easy to use.

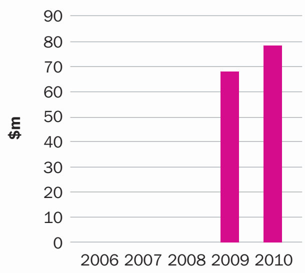
$78.1m

Gross premiums written

Portfolio mix



Gross premiums written



For club or country?

Rugby has never been a sport for the fainthearted and the risk of injury when a club player plays for his country is very real. Fortunately an innovative form of personal accident insurance led by Beazley provides comfort for clubs that their finances will be protected from the effects of such injuries.

The cover protects clubs in more than a dozen countries against the cost of paying salaries to players who are temporarily sidelined due to injuries they sustained while playing for their country. For players up to 29 years of age, the full salary will be covered, up to a limit of £175,000.

The insurance also protects the players themselves or their families in the event of permanent total disability or accidental death while playing, practising or training for the national team.

Prior to the expansion of the cover beyond English clubs in 2010, the months of February and March, when teams from England, Wales, Scotland, France, Ireland and Italy battle it out in the Six Nations tournament, could be an anxious time for rugby clubs across Europe. In a single match against Wales in 2010, three Scottish players suffered injuries that resulted in prolonged absences from the game and, in one case, early retirement.

At present around 300 professional rugby players are covered under the programme, alleviating the potential for tensions between club and country over the match readiness of increasingly valuable players.

Clive Washbourn Head of marine

With one of the most experienced teams at Lloyd's, we achieved an improved combined ratio in 2010.

marine

Our marine division, led by Clive Washbourn, delivered another excellent performance in 2010, achieving a combined ratio of 71% (2009: 74%) on gross premiums of $261.7m. The team is among the most experienced at Lloyd's, leading 53% of business underwritten and covering risks that include marine hull, liability and cargo; energy; and war and terrorism risks for both ships and aircraft. Within our liability account, we have a growing book of professional liability business, protecting organisations involved in marine trade and in shipbuilding – from marine surveyors to shipyards – against financial liability arising from a breach of their professional duties.

Our marine hull and cargo underwriters had a successful year, despite a depressed freight market. Global demand has been stronger in the bulk transport sector, where we have focused, than in the containerised sector. Risk selection is ever more important: as economic pressures on ship owners have risen, some have cut expenditures on upkeep sharply, resulting in more breakdowns. Our ship construction portfolio has also shrunk as fewer ships with smaller contract values have been ordered.

War risks business, which includes piracy risks on maritime trade routes, has remained profitable and demand is high. Lloyd's is by a large margin the world's pre-eminent market for marine war risks and we play an active role in this market, offering expert consulting and negotiation services to our clients as well as insurance cover.

In the energy market, premium rates remain strong, having risen by 9% in the Gulf of Mexico following the Deepwater Horizon oil rig explosion in April. Deepwater Horizon was not a large loss for us but its effect on pricing in the market has been significant. Our Oslo office, which we opened at the beginning of 2010 to access Scandinavian energy business that is normally retained in the local market, wrote $4.2m of premium during 2010.

In addition to our London presence, we now have four regional offices in the UK, focusing on cargo business, as well as the office in Oslo and an office in Hong Kong. Our Hong Kong office has been successful in developing our position in the Asian cargo market; in the UK our portfolio has been slower to develop and a focus of the team in 2011 will be to strengthen broker relationships to access a larger share of this business.

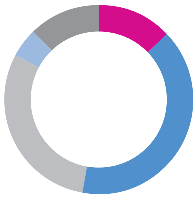
In 2009 we established a new team focusing on marine professional liability risks under Zareena Hussain. This is not business that has historically been insured at Lloyd's and we are delighted to be playing a role in developing the market. The strength of Beazley's specialty lines division in non-marine professional liability, where we are a recognised market leader, has proved a source of credibility and valuable broker introductions to the team. At the end of the year, we put Zareena and her team in charge of our entire marine liability book.

Our claims capabilities are critical to our reputation in the eyes of both brokers and clients. In our market, insureds and insurers have an important shared interest at the time a claim is made. The more rapidly the claim is reported and adjusted, the sooner the insured will be paid and – often – the lower the overall cost of the claim will be. We pride ourselves on settling valid claims swiftly.

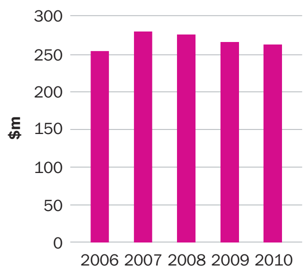
$261.7m

Gross premiums written

Portfolio mix



Gross premiums written



The longest voyage

Roll-on, roll-off car ferries do not routinely make 12,000 mile voyages. But at the end of their useful lives, a surprisingly large number of such vessels find themselves on epic journeys across the high seas, bound for the west coast of northern India to be demolished.

Beazley has long been a leading insurer in the London market of so-called single voyage risks for such vessels. They can give rise to some complex claims. In one recent case, a German-made roll-on, roll-off ferry that had been sold for scrap set out from Mayaguez, Puerto Rico on 31 July 2010 and, at the time of writing, has still to make port at Alang in Gujarat.

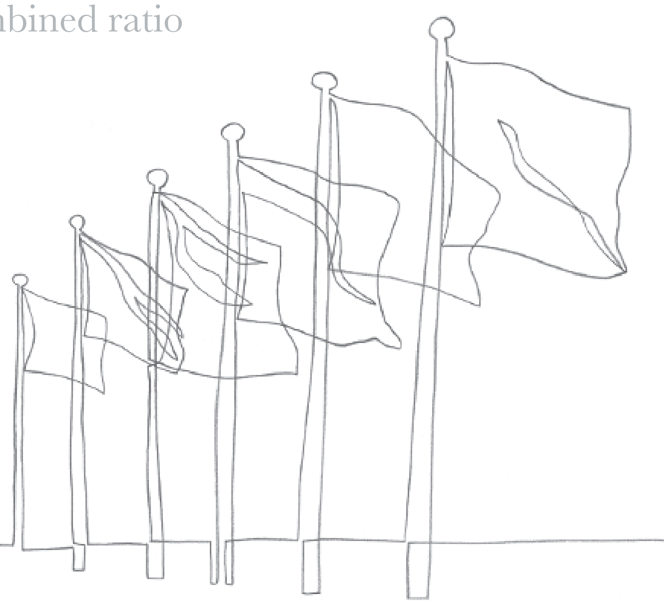
The vessel's journey across the Atlantic was plagued by mechanical difficulties and took nearly three months. On 20 October 2010 she dropped anchor in Table Bay off Cape Town, where – lacking propulsion – she came close to running aground when the anchor failed to hold. Following repairs to the starboard main engine turbocharger, she once again took to sea on 31 October.

During the next stage of the ship's eventful voyage, Beazley's in-house marine surveyor, Kelvin Euridge, had to fly to Diego Suarez in northern Madagascar to investigate why the vessel had once again lost power. He recommended the despatch of two package generators from Durban in South Africa to enable the ship to attempt the final leg of her journey across the Indian Ocean.

Most single voyage risks are less eventful than this. But due to the relatively poor condition of the vessels that have been sold for scrap, they can prove challenging to insure. Over a number of years, Beazley's marine team has won recognition in the market as the foremost insurer of such hard to place risks.

Claims on the trade credit component of our political risks book reverted to more normal levels and our combined ratio fell significantly.

Adrian Lewers Head of political risks & contingency



political risks & contingency

The political risks & contingency division at Beazley, led by Adrian Lewers, brings together a number of lines of business that were either invented at Lloyd's or substantially developed there. The team writes three types of insurance risks: political risks, terrorism, and event cancellation – the last of which forms the largest part of our contingency book. In 2010 the team delivered an excellent result, achieving a combined ratio of 65% (2009: 112%) on gross premiums of $100.9m, and representing an impressive return to profit compared to 2009. Our business is predominantly written in Lloyd's and we lead 67% of risks underwritten.

After a difficult year for the political risks market in 2009 caused by a number of large trade credit losses in emerging markets following the global financial crisis, claims frequency has returned in 2010 to below long-term averages. Rates on our political risks business rose 6% and we underwrote $34.0m in gross premiums. Our highly regarded claims team also progressed towards some significant recoveries albeit that we continue to take a cautious view in our reserves of the quantum and timeframe for future recoveries.

We reaffirmed in 2010 our appetite for trade credit risks that meet our exacting underwriting criteria, including a focus on experience and positive track record on the part of our clients and significant coinsurance requirements to align our clients' interests more closely with ours. Our main focus continues to be on trade credit risk in developing markets but we are also seeing an increasing volume of business in the developed world.

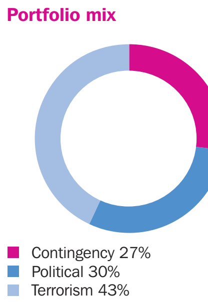
Our preference whenever possible is to underwrite political risks business from London, where we have a strong concentration of underwriting, claims and analytical skills, but we are willing to locate underwriters overseas in markets that either have a critical mass of their own or attract business that is not seen in London. This was the approach that we took in 2008 with the appointment of Crispin Hodges to spearhead the growth of our business in Singapore. And from the beginning of this year, we are doing the same in the US, where we have appointed Lila Rymer to underwrite political risks and trade credit business from our New York office.

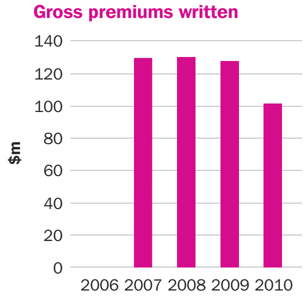
Terrorism rates continued to decline in 2010 as we had expected, falling by 5% in line with the long-term trend since 2002, when commercial property insurers began to exclude coverage for terrorism risks. Profitable opportunities continue to exist in this market, in which we underwrote $44.4m. The terrorism team has specific expertise in 'hard to place' countries like Afghanistan, Iraq and Pakistan but has little exposure in India and Thailand which have seen the major loss activity in recent years. In January this year, Chris Parker joined us from Marsh to lead the team.

Our contingency team, led by Chris Rackliffe, had an excellent year, writing total premium of $24.5m, including leading the event cancellation cover for the World Cup in South Africa. We underwrite event cancellation risks of widely varying sizes, from major international sporting events to small trade shows and exhibitions. The small risks part of our business was boosted in 2010 by the launch of Beazley Access, our web-based broker trading system, designed to help brokers place small scale risks more effectively and efficiently. The initial focus for Beazley Access has been the UK and to this end we appointed Michael Price to implement our UK growth strategy.

$100.9m

Gross premiums written





More than talking about the weather

"Everybody talks about the weather, but nobody does anything about it," said Mark Twain. In 2010, Beazley started to do something about the weather, offering clients contingency cover to address business disruptions caused by severe or unexpected weather patterns.

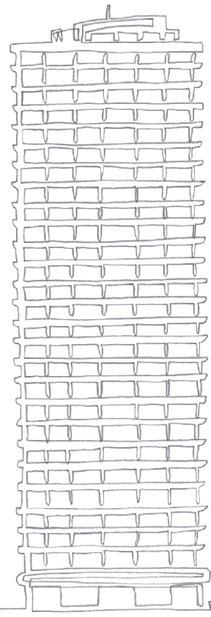
The service is underpinned by an exceptional database of climate data from around the world that is continuously updated. The most obvious application is weather-related event cancellation insurance, for which Beazley is a leading market. But other forms of cover are also available: hotels, for example, may wish to compensate guests for untypically poor weather that may have spoiled a holiday experience.

Winter weather in the UK has recently been unusually severe, with heavy snowfalls overwhelming the resources of local authorities. Insurance may prove a more efficient way of providing for this risk than stockpiling salt or holding funds in escrow.

Weather-related promotions are also growing in popularity, with stores offering to reimburse customers for their purchases if, for example, snowfalls during a predetermined period prove far greater than normal.

Jonathan Gray Head of property

Our leadership position in the market gave us flexibility and an improved underwriting performance – at a time of falling premium rates.



property

Our property team, led by Jonathan Gray, is a major insurer of large property risks on a global basis in the Lloyd's market, leading 77% of the business we underwrote in 2010. In the US, we have a substantial and growing book of surplus lines commercial property business underwritten by the highly experienced team that joined Beazley through our acquisition of First State in 2009; we also insure US high value homeowners. In 2010, we began writing construction business locally in the US. Despite losses in Chile, this diverse book of business still generated a profit of $24.2m and a combined ratio of 97% in 2010, down from 103% in 2009.

Competition continues in our markets, with premium rates overall falling by 4%. While we cannot buck market trends, the high proportion of business that we lead does give us more flexibility in setting rates and terms at a time of deteriorating market conditions. High quality claims service also reduces the price sensitivity of clients who have insured with Beazley for many years. At 73%, the retention rate on our large risks London market business is high.

A large proportion of the property business that comes into Lloyd's is small-scale risks underwritten under delegated authorities granted to intermediaries – known as Lloyd's coverholders – in the US and elsewhere. Paul Bromley handles this aspect of our business, which performed well in 2010.

In the US, 2010 was the year in which we completed the integration of First State. The acquisition has proven very successful. We have retained the skilled underwriters who had won for First State a deserved reputation as one of the most professional insurers in the market; and we have integrated the First State and Beazley offices and the systems that support them. In 2010 we underwrote $110.0m in surplus lines commercial property premiums, up from $102.8 million in 2009.

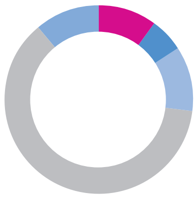
Our construction and engineering business had a more challenging year with competition both in London and in Singapore, where since 2006 we have been underwriting construction risks that would not normally be shown to London market insurers. Global demand for cover has been lower than in the early years of the decade due to the recession, although activity is stronger in South East Asia than elsewhere. In 2010 we also began to write construction business – known as builders' risk – locally in the US, a market in which we were previously underweight. Our US team, based in Chicago, is building good relationships in the US broking community.

Our UK homeowners business, which wrote $16.9m in 2010, is now smaller than it used to be, and more profitable. We have concentrated on our core account – binder facilities with well known producers that generate high retention rates – and cancelled a number of unprofitable binders. In the US, we underwrite a book of high-value homeowners on a surplus lines basis through a small number of trusted wholesale brokers who are able to access this business efficiently.

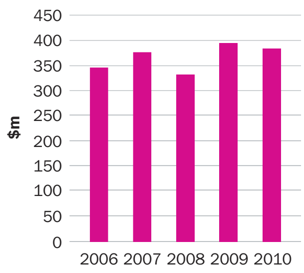
$382.5m

Gross premiums written

Portfolio mix



Gross premiums written



Jewellers' block: a growing market

For more than a decade, Beazley has been a leading insurer of British wholesale and retail jewellers and today insures around half of the jewellers' premises in the country.

Jewellers' block, as the class of business is known at Lloyd's, is a growing market worldwide. Insured values have increased with the rising price of gold and other precious metals, but perhaps even more significant has been the growing affluence of consumers in Asia. In addition to UK jewellers, Beazley has a strong presence in continental Europe and in the fast growing Hong Kong market.

Beazley's team is led by Derrick Harris, who has been underwriting jewellers block business since the early 1980s. The team's success has hinged on careful client selection, good relationships with knowledgeable brokers, and rigorous security surveys. For clients, an important attraction of Beazley's service is the very detailed advice on security that they receive, free of charge, with the cover.

Jewellers and their insurers are engaged in a constant battle of wits with criminals seeking to penetrate their security systems. Technology plays an important part in making the criminals' task more difficult. For example, a number of companies now offer systems that, at a push of a button, can fill a jeweller's shop with impenetrable black smoke, making it impossible for thieves to see the goods they seek or even the exit. Another system triggers sprinklers to spray water containing a compound that stains the thieves' clothes and skin ineradicably. If the thieves are later apprehended, the police can simply shine ultra-violet light at them and, with the right detection equipment, the compound will appear as a kind of digital fingerprint, uniquely coded to reveal the premises that they robbed.

However innovative the technology deployed, jewellers' premises will continue to be attractive targets for theft for obvious reasons. Fire losses can also be devastating. Beazley's claims team has worked together for a number of years and is widely recognised to be among the most knowledgeable and responsive in the market.

Our well diversified portfolio mitigated the impact of earthquakes in Chile and New Zealand and we achieved a combined ratio of 90%.

Patrick Hartigan Head of reinsurance

reinsurance

Our reinsurance division, led by Patrick Hartigan, saw strong growth in 2010, writing $174.4m in gross premiums, an increase of 23% on 2009. Our well diversified portfolio mitigated the impact of earthquakes in Chile and New Zealand and we achieved a combined ratio of 90%. Our main focus is on property reinsurance, more than two thirds of which is catastrophe protection for clients that, in many cases, have reinsured with Beazley for much of the company's 25 year history.

In 2010 we increased our premium capacity through the establishment of a new special purpose syndicate, 6107, supported by additional capital supplied by Lloyd's Names. This has enabled us to write larger lines for our preferred clients.

Eighteen named storms formed in the north Atlantic but none made landfall in the US. However, the Chilean earthquake that struck at the beginning of the year generated a loss to Beazley, across our reinsurance and proprty teams, originally estimated at between $55m and $75m, based on a market-wide loss of $5bn to $8bn. The share of this borne by the reinsurance division must wait on the adjustment of claims at the primary level.

The New Zealand loss proved more challenging for the market to quantify and in common with almost all market participants, we have revised our original estimate upward to $35.0m (originally $15m-$30m).

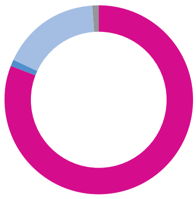
Losses of this kind are of course the raison d'être of a reinsurer. In the aftermath of the Chilean earthquake we took steps to support clients that were under severe financial pressure by advancing funds before their claims were fully adjusted.

We see a broad range of business at the Beazley box at Lloyd's but in 2008 we also opened an office in Munich to access continental European business that would normally be placed exclusively in the local market. Andreas Bergler and his team moved to a new and larger office in 2010 and the business, sourced from throughout southern Europe, continues to grow and perform well.

$174.4m

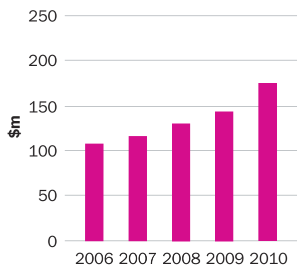
Gross premiums written

Portfolio mix



- Property catastrophe 81%
- Casualty clash 1%
- Property risk/pro rata 17%
- Misc 1%

Gross premiums written



Chile earthquake

Early in the morning of 27 February 2010, the seventh strongest earthquake ever recorded occurred off the coast of Chile, 325km south-west of the capital Santiago. The quake, which killed hundreds and badly damaged more than half a million homes, was the biggest to hit Chile in 50 years.

Far stronger than the quake that had hit Haiti the previous month, the Chile earthquake was also far deeper. This, combined with the more robust construction of many of the affected buildings, meant that the destruction and loss of life – although extensive – was far less than that caused by the earlier catastrophe.

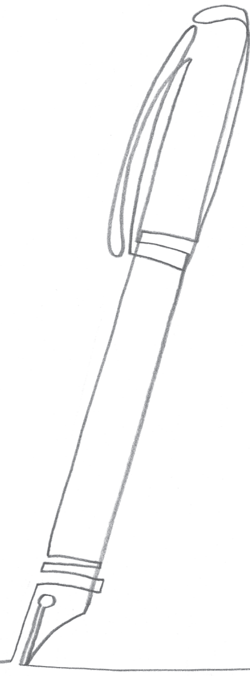
For insurers, however, it was a far more costly event. Estimates of the total insured cost were in the region of $8 billion. Chile is a heavily insured country and the quake struck near to major centres of population, including Santiago, with a population of more than five million.

For Beazley the cost of the quake, which ranked as the most expensive catastrophe of 2010 for insurers, was relatively modest, at between $55 million and $75 million. Lloyd's has estimated net losses for the Lloyd's market as a whole at $1.4 billion.

The full scale of claims will take some time to materialise for reinsurers, judging from previous earthquake experience. However, the pressures on the local insurance market in the immediate aftermath of the quake were in some cases acute and our reinsurance team moved swiftly to provide the support needed.

Adrian Cox Head of specialty lines

> Our structure ensures that we can adapt quickly at a time when competition is more intense in some parts of the world than others.



specialty lines

The specialty lines division, led by Adrian Cox, concentrates on professional and management liability business. Our experience in these lines of business is substantial. We have been underwriting some lines, including lawyers' professional liability and architects' and engineers' (A&E) professional liability (which together comprised 14% of our book in 2010), since Beazley was founded 25 years ago.

We are therefore no strangers to soft or softening markets and our cycle management experience played a major role in achieving a 93% combined ratio in 2010, despite competition in many lines of business. The diversity of our book also benefited us: we underwrite a wide range of professional liability risks in the US and Europe and our Lloyd's-based management liability underwriters are the leading insurers of US directors' and officers' (D&O) insurance and employment practices liability (EPL) insurance in the London market. Over the past several years, we have achieved a diversity of product, geography, size of risk and distribution channel that has significantly mitigated our exposure to the softening market.

Our structure ensures that we can adapt quickly at a time when competition is more intense in some parts of the world than in others. Our combined underwriting and claims teams are globally organised and can therefore flex their underwriting strategies to maximise profitable opportunities on a global basis. In 2010 we were able to grow our business profitably in a number of areas while retrenching in lines that did not meet our underwriting requirements, such as D&O and mid-market A&E business.

We have historically maintained, and will continue to maintain, a conservative approach to reserving. As the cost of claims against the policies we underwrite becomes clear, we can make prudent reserve releases. These releases amounted to $56.9m in 2010 (2009: $57.8 million).

Our strongest growth line has been data breach insurance. Our Beazley Breach Response flagship product continues to make the running in a market where demand is constantly fuelled by high profile media stories of the damage that poorly managed data breaches can cause. Ours is essentially a reputation management solution, focusing on handling the aftermath of a data breach as professionally and reassuringly as possible, including providing free credit monitoring for affected individuals.

Other growth lines of business include miscellaneous medical risks and small business (see case study). Healthcare is the largest industry in the US and there is a very wide array of specialist healthcare providers and service companies – including blood and tissue banks, contract research organisations, and medi-spas and dialysis clinics – that require tailored coverage and expert claims services. Our team, led by Evan Smith in Chicago, is well equipped to meet their needs.

We have made encouraging progress in the new markets that we began to target in 2009 and 2010, environmental risks and M&A transaction liability. Our environmental risks team, based in Philadelphia under John Beauchamp, now has a full product range. One member of the team, Nick Pearson, has begun underwriting at the Beazley box at Lloyd's; we aim to help foster the development of a specialist environmental risks market in the London market.

John McNally, who joined us at the end of 2009, has made a very strong start in building a presence for Beazley in the growing market for M&A transaction liability insurance. John and his team have been buoyed by a rise in M&A activity globally and also by a more risk averse attitude among private equity investors, making them more inclined to purchase insurance.

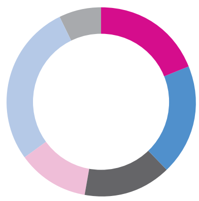
Exceptional claims service strengthens client loyalty in a competitive environment and is central to our value proposition. In 2010 we began to handle a large volume of A&E and EPL claims internally, as opposed to outsourcing them to external counsel – a move that has helped us get closer to our clients as well as saving costs.

We are always mindful of the pressures facing our clients and look for ways we can help them grow and prosper. At the end of 2010, we were delighted to win the business of a large international law firm created by the merger of two smaller, but still substantial firms, neither of which had been Beazley clients before. We see significant opportunities ahead for us to help meet the needs of large scale professional services firms with global operations.

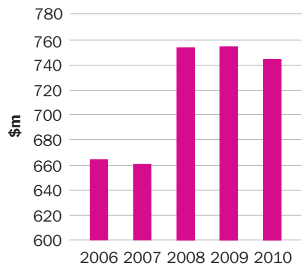
$744.0m

Gross premiums written

Portfolio mix



Gross premiums written



Small business shows robust growth

The professional liability needs of small businesses have proven a strong growth area for Beazley's US underwriters, with premiums more than doubling in volume in two years, from $9.1 million in 2008 to $18.5 million in 2010.

Beazley's US private enterprise team focuses primarily on the professional liability needs of businesses with fewer than 500 employees or with assets of less than $35 million. Many of these businesses are technology service providers that can face crippling lawsuits if they fail their clients. Others engage in widely varying activities – such as market research, or event planning or graphic design – that would not generally be seen as "professions" but where clients nevertheless expect professional standards and can sue if they are dissatisfied. These exposures are covered by what is known as miscellaneous professional liability cover, demand for which has been growing steadily.

A more recent driver of demand has been the risk of losing sensitive customer data. Small companies have been sensitized to this risk by almost daily news coverage of high profile data breaches and their impact on customer confidence. Beazley Breach Response, which provides a turnkey service to notify and protect customers whose personally identifiable data has been lost or stolen, is particularly attractive to small businesses that lack the knowledge or resources to manage a data breach effectively by themselves.

For both Beazley and our brokers, small business – which typically generates commissions of only a few hundred dollars per client – must be transacted very swiftly and efficiently if it is to be economical. Beazley structures its small business units to allow efficient distribution of its products both in London and on-shore in the US. We use a variety of methods of placement to allow both access to skilled underwriters and process efficiency through the use of MGAs as well as an in-house sales force for our US admitted business. This latter distribution has proven to be extremely effective, and the growth of our small US admitted business has been rewarding.

In these markets, as in others, Beazley's credibility is supported by a long track record as the insurer of some of the largest professional services businesses in the world, including many of the largest and best known management consultants, law firms, and engineering design firms. In the technology arena, Beazley also insures two thirds of the top 25 global software and software services companies as ranked by *Software Magazine*.

Operational update

David Marock
Chief operating officer

As the business has grown, the value of cross-team collaboration in areas of strategic importance is increasingly recognised.

Scalability is an important requirement for an insurance company. At Beazley we take it to mean, not just continuing to deliver the same level of service as we grow, but wherever possible improving on our service to clients and to brokers.

In 2010, our business, in common with that of other prudent insurers, did not grow overall, although we continued to expand in select targeted markets where we saw short-term as well as long-term profit potential. But our focus on delivering an exceptional service in the most efficient manner possible remained steady. We also took steps to equip our teams to capitalise on future growth opportunities.

Philippe Mazas, chief information officer, and the IT team continued to develop Beazley Pro, the underwriting and policy administration system that we launched in the US in 2009. The growth of our small professional liability business described on page 31 of this report is due in large measure to our success in responding to brokers' submissions extremely rapidly – a service that relies on Beazley Pro. We see such business as offering significant growth potential in the UK and continental Europe, as well as in the US, and we are committed to supporting this business with the most advanced systems available.

Other technology investments are designed to support our efforts to establish closer, more productive relationships with the brokers upon who we rely for business. In the coming year we will be rolling out our new customer relationship management system to provide all underwriters with instant access to detailed broker records and meeting notes. We also continue to invest more generally in improving our ability to access and analyse data. Paolo Cuomo is driving the development of BeazleyIntelligence, our new data warehouse and reporting toolkit, which is already enriching our data analytics.

Efficiency in a business is in large measure a matter of optimising the balance between activities that are undertaken in-house and those that are outsourced to external service providers. Activities that rank as core competencies are usually better performed in-house.

In 2010, we modified this balance in two important areas: claims service for a number of our teams in the US and global recruitment. In the former case, we began to move responsibility for claims handling away from external law firms (known as monitoring counsel) to our own internal claims staff. In the latter case, we made significant savings on consultants by using our internal recruitment team for searches.

Both of these are core competencies of Beazley. At a time of intensifying competition across our business lines, the quality of our claims service is a reason for clients to choose Beazley over our competitors. And ever since the company was founded in 1986, recruiting exceptional underwriting and claims talent has been fundamental to our success.

Beazley was established as an underwriting-focused business in 1986 and it remains one. But as the company has grown and become more complex, leadership skills – which are not necessarily to be found in the underwriter's toolbox – have become increasingly important. In 2010, we conducted our first leadership survey at Beazley, to help the heads of teams understand how they are perceived by their team members. Penny Malik, head of talent management, and our talent management team have put in place a leadership development and training programme to enable our senior people to act on these insights.

Most of the business transacted at Beazley starts and ends with individual teams focusing on individual lines of business. The business has grown successfully in this way, but the value of cross-team collaboration in areas of strategic importance is also recognised. Two such cross-team initiatives in 2010 focused on the development of our business in Europe, in support of which we created a European Group, led by David Marock, and appointed underwriters as country champions to coordinate our approach to business development in six countries; and innovation and product development, led by Tina Kirby. Tina's role is to identify the best ideas from across the company and ensure they receive the resources and support they need to develop.

The physical fabric of our offices has always been an important dimension of working at Beazley. We are always pleased to hear, particularly in the US, that our offices look more like the home of an advertising agency than an traditional insurance company – bright, airy, open plan, and conducive to creativity. Under Munira Hirji, head of commercial management's guidance, we consolidated our offices in New York, San Francisco and Boston in 2010 into new and better premises, achieving significant annual savings in a commercial real estate market that remains very competitive, while giving ourselves plenty of scope to grow in future.

33 financial review

Financial review | group performance

In our 25th year, we achieved a profit of $250.8m, maintaining our unbroken track record of profitability.

Martin Bride
Finance director

Income statement

	2010 $m	2009 $m	Movement %
Gross premiums written	1,741.6	1,751.3	(1%)
Net premiums written	1,404.1	1,331.3	5%
Net earned premiums	1,405.2	1,313.6	7%
Net investment income	37.5	88.1	(57%)
Other income	28.1	19.6	43%
Revenue	1,470.8	1,421.3	3%
Net insurance claims	738.2	742.6	(1%)
Acquisition and administrative expenses	500.6	472.4	6%
One-off foreign exchange gain*	(33.7)		
Foreign exchange(gain)/loss	(0.9)	34.4	–
Expenses	1,204.2	1,249.4	(4%)
Share of loss of associate	(0.9)	–	–
Finance costs	(14.9)	(13.8)	8%
Profit before tax	250.8	158.1	59%
Claims ratio	52%	55%	–
Expense ratio	36%	35%	–
Combined ratio	88%	90%	–
Rate (reduction)/increase	(2%)	3%	–
Investment return	1%	2.7%	–

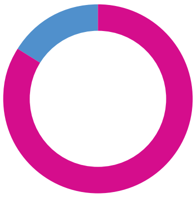
* The $33.7m non-recurring foreign exchange gain arose as a result of the decision to more closely match our regulatory capital position in US dollars prior to the change in our functional currency from sterling to US dollars, for further details please refer to note 4 to the financial statements on page 104.

Premiums

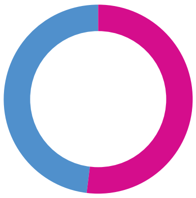
Gross premiums written have reduced by 1% in 2010 to $1,741.6m. Renewal rates held up better than expected, but on average fell by 2% across the portfolio. We have continued to adjust our underwriting appetite in areas where competition is most intense.

The balance of our business has continued to evolve providing further diversification by type of business and geographical location. Our life accident and health business continued to grow in 2010 writing $78.1m. Our reinsurance division has also grown supported by business underwritten by our special purpose syndicate (6107), writing $16.4m on behalf of this syndicate in 2010. Locally underwritten US business has continued to grow from $370.7m in 2009 to $393.6m in 2010.

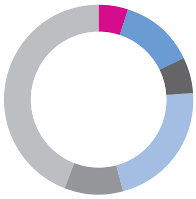
Insurance type



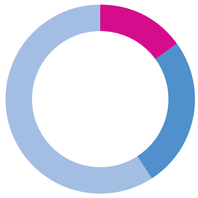
Premium written by claim settlement term



Business by division



Geographical distribution



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

Premium retention rates

Retention of business from existing brokers and clients is a key feature of Beazley's strategy. It enables us to maintain a deep understanding of our clients' businesses and requirements affording greater insight into the risks involved in each policy we write, enabling us to price risk most accurately to achieve profit. The table below shows our retention rates by division compared to 2009.

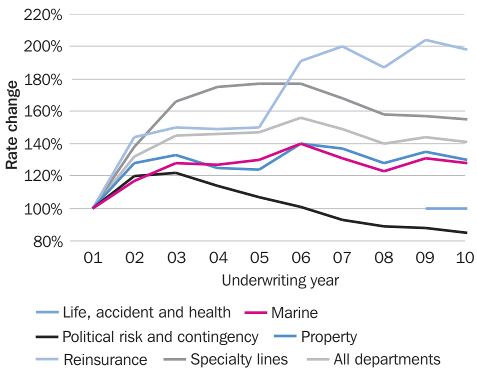
Retention rates*	2010	2009
Life, accident & health	83%	N/A
Marine	78%	74%
Political and contingency group	60%	63%
Property	73%	78%
Reinsurance	93%	89%
Specialty lines	84%	87%
Overall	80%	81%

* based on premiums due for renewal in each calendar year

Rating environment

As anticipated, rates charged for business we renewed decreased by 2% during 2010 across the portfolio (2009: an increase of 3%). The largest rate changes were seen within our marine business (3% decrease), property business (4% decrease) and reinsurance teams (3% decrease). Whilst market conditions remain competitive, we have recently seen signs of recovery in a number of classes – notably energy, UK homeowners and political risks. Our specialty lines division saw rates reduce overall by 2% in 2010.

Cumulative renewal rate changes since 2001 (%)



Reinsurance purchased

The group reduced the amount it spent on reinsurance in 2010 to $339.5m (2009: $420.0m). Reinsurance is purchased for a number of reasons:

- to mitigate the impact of catastrophes such as hurricanes;
- to enable the group to write large or lead lines on risks we underwrite; and
- to manage capital to lower levels.

The cost of reinsurance purchased in 2010 has reduced due to a number of factors:

- 2009 included First State's reinsurance programme as a standalone; efficiencies were made when this was combined with Beazley's own property reinsurance programme;
- Our specialty lines reinsurance programme was reduced in 2010 through an increased retention of losses on certain risks;
- Some of our admitted lines US business was no longer ceded to our third party syndicate 623; and
- A continued strategy to reduce reinsurance purchases in areas where Beazley has risk appetite to retain business and rating is attractive.

Combined ratio

The combined ratio of an insurance company is a measure of its operating performance and represents the ratio of its total costs (including claims and expenses) to total net earned premium. Consistent delivery of operating performance across the market cycle is clearly a key objective for an insurer and Beazley's combined ratio has reduced in 2010 to 88% (2009: 90%). It is worth pointing out that the calculation of the combined ratio for Beazley includes all claims and other costs to the group but excludes foreign exchange effects. We believe this represents the most transparent and useful measure of operating performance as it ensures that all of the costs of being in business are captured, whether directly linked to underwriting activity or not.

Claims

The two most prominent claims to have been reported to the Lloyd's market in 2010 related to earthquakes in Chile and New Zealand. As explained in our interim management statement earthquakes typically have a longer reporting pattern than hurricanes.

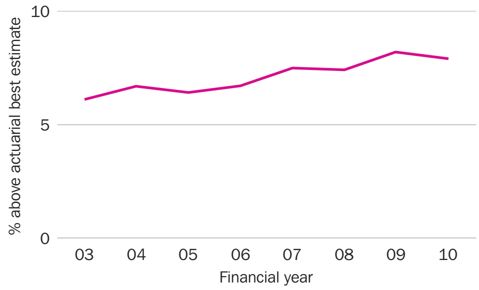
The Chilean earthquake, which occurred in February 2010, caused a significant insured loss. We estimated the market loss to be around $5bn-$8bn, which we still maintain. This equated to a loss of between $55m and $75m to the Beazley group.

The New Zealand earthquake in September 2010 proved more difficult to quantify. Original market estimates of the loss of between $2bn-$4bn, have recently been updated to $3bn-$5bn with our own estimate update to reflect this. We have increased our held reserves on New Zealand to $35m from an initial estimate of $15m-$30m.

2010 has been a benign year for hurricane related claims. Despite significant hurricane activity, with some 18 named windstorms, the majority of hurricanes remained offshore.

The level of claims notifications from our political risks account fell to normal levels at the start of 2010 and we retain the view that the level of reserves we hold for this class is strong. At this stage we have maintained the reserves we initially established in 2009 although we are optimistic that we will see positive developments in 2011 and beyond.

Margin in net held reserves



Reserve releases

Beazley has a consistent reserving philosophy with initial reserves being set to include risk margins which may be released over time as and when any uncertainty reduces. Historically these margins have given rise to held reserves within the range 5-10% above the actuarial best estimate.

Reserve monitoring is performed at a quarterly 'peer review', which involves a consultative process between the underwriters who take a detailed claim by claim view, and the actuarial team who provide statistical analysis. This process allows early identification of areas where claims reserves may need adjustment.

During 2010 we were able to make the following prior year reserve adjustments across divisions, with the overall net impact being a release to the group.

	2010 $m	2009 $m
Life, accident & health	(1.3)	–
Marine	30.7	25.0
Political risks & contingency	18.8	3.4
Property	17.4	(6.6)
Reinsurance	22.1	25.9
Specialty lines	56.9	57.8
Total	144.6	105.5
Releases as a percentage of net earned premium	10.3%	8.0%

Reserve releases remained steady on specialty lines reflecting the continuing satisfactory development of the significant volumes of business underwritten over the last ten years. The releases in 2009 came mainly from the 2004 and 2005 underwriting years, which seem to be following the profitable outcomes already experienced in 2003 and confirming that all the underwriting years from 2003 to 2006 are exceptionally profitable.

The political and contigency reserves release increased significantly as the 2009 underwriting year has developed very favourably, while the impact of last year's increased claims provision on our trade credit book has not been repeated. Marine and property reserve releases also increased following the unwinding of catastrophe reserves on the relatively benign 2009 underwriting year. Despite the impact of earhquakes, the treaty account released in line with last year.

Acquisition and administrative expenses

Business acquisition costs and administrative expenses increased to $500.6m from $472.4m in 2009. The breakdown of these costs is shown below:

	2010 $m	2009 $m
Brokerage costs	292.9	268.8
Other acquisition costs	88.5	73.8
Total acquisition costs	**381.4**	**342.6**
Administrative expenses	119.2	129.8
Total acquisition costs and administrative expenses	**500.6**	**472.4**

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

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

Administrative expenses comprise primarily IT costs, facilities costs, Lloyd's central costs and other support costs. These reduced in 2010 due to:

- Legal fees incurred in 2009 as part of the First State acquisition and redomiliciation to the Republic of Ireland, not recurring in 2010
- Increased re-insurance written through programmes attracting over-rider commission. Certain types of reinsurance contract provide a contribution as part of their fee to our expenses. Under IFRS these contributions are required to be accounted for as a credit within administration expenses

Investment performance

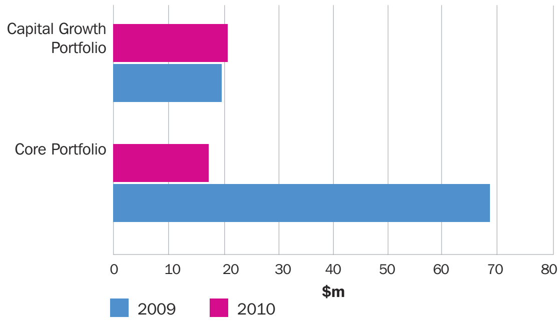
Investment income for the period ended 31 December 2010 was $37.5m, or an annualised return of 1.0%, compared with $88.1m (2.7%) over the same period in 2009.

Falcon Money Management Ltd 'Falcon', an associate firm providing investment management services was founded in 2009. It is an FSA authorised investment management firm, comprising an experienced team of 15 professionals.

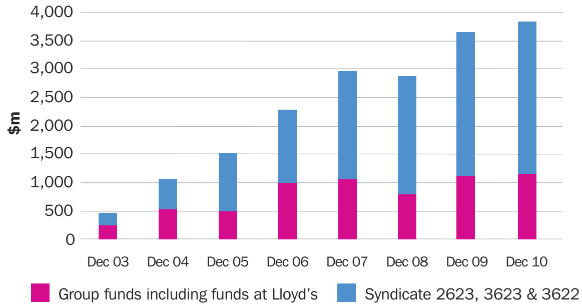
Falcon is aiming to enhance our investment returns whilst at the same time minimising risk. Initially, investment management and advisory services are offered solely to Beazley and only at a later stage to third party institutional investors. Falcon's approach to managing the assets has been to hold the bulk (88.7% at the end of 2010) in a core portfolio consisting primarily of sovereign fixed income assets, or short duration high quality credit with a duration not exceeding that of Beazley's insurance liabilities. The balance will be invested in a diversified portfolio of capital growth assets. Falcon's benchmark is to deliver an absolute return equal to T-bills plus a margin which depends upon the capital growth asset allocation.

In the last quarter the bond portfolio duration has been moderately increased. At 31 December 2010 the weighted average duration of our core portfolio was 12 months (31 December 2009: 8 months). The weighted average yield to maturity of our overall portfolio was 0.7% (31 December 2009: 0.7%). Our portfolio duration is currently short to protect against a sudden rise in interest rates as the outlook remains challenging with interest rates close to all time lows.

Comparison of returns – major asset classes



Beazley group funds



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

	31 Dec 2010 $m	31 Dec 2010 %	31 Dec 2009 $m	31 Dec 2009 %
Cash and cash equivalents	1,265	32.9	813	22.2
Government, Agency and Supranational	1,187	30.9	1,579	43.1
AAA	743	19.3	842	23.0
AA+ to AA-	105	2.7	82	2.3
A+ to A-	94	2.5	72	2.0
BBB+ to BBB-	15	0.4	5	0.1
Core portfolio	3,409	88.7	3,393	92.7
Capital growth assets	433	11.3	269	7.3
Total	**3,842**	**100.0**	3,662	100.0

Comparison of return by major asset class:

	31 Dec 2010 $m	31 Dec 2010 %	31 Dec 2009 $m	31 Dec 2009 %
Core portfolio	17.0	0.5%	68.8	2.4%
Capital growth assets	20.5	4.7%	19.3	7.6%
Overall return	37.5	1.0%	88.1	2.7%

The funds managed by the Beazley group have continued to grow in 2010, with cash and investments of $3,842m at the end of the year (an increase of 5% over 2009). The chart below shows the increase in our group funds since 2003.

Change in functional currency

In April 2010, we announced a change in our functional currency of Beazley plc and its principal operating entities to the US dollar, reflecting the growth of our dollar denominated premiums and the fact that the regulatory capital supporting the business is largely held in dollars. We believe that this change will give investors and other stakeholders a clearer understanding of the group's performance over time. Accounting in dollars will significantly reduce the future volatility of Beazley's reported earnings due to foreign exchange movements – and in particular due to foreign exchange on non-monetary items.

As reported in previous annual and interim reports significant foreign exchange volatility arising from the translation of 'non-monetary' items exists under IFRS, has been substantially reduced as a result of the change in our functional currency to the US dollar. The foreign exchange adjustment on non-monetary items gave rise to a decrease in group profit of $4.3m in 2010.

Tax

Beazley plc and Beazley Re Limited, our Irish reinsurance company are both tax resident in Ireland. Our ongoing tax rate is consequently a blended rate of around 13%.

Financial review | balance sheet management

Summary statement of financial position

	2010 $m	2009 $m	Movement %
Intangible assets	117.0	113.5	3%
Reinsurance assets	1,034.9	1,156.1	(10%)
Insurance receivables	527.1	498.0	6%
Other assets	253.0	214.7	18%
Investments and cash	3,842.3	3,661.7	5%
Total assets	**5,774.3**	**5,644.0**	**2%**
Insurance liabilities	4,046.8	4,023.7	1%
Borrowings	268.2	278.7	(4%)
Other liabilities	376.4	345.7	9%
Total liabilities	**4,691.4**	**4,648.1**	**1%**
Net assets	**1,082.9**	**995.9**	**9%**
Net assets per share (cents)	**214.6c**	**191.7c**	**12%**
Net tangible assets per share (cents)	**191.4c**	**169.8c**	**13%**
Net assets per share (pence)	**139.5p**	**119.0p**	**17%**
Net tangible assets per share (pence)	**124.4p**	**105.5p**	**18%**
Number of shares*	**504.6m**	**519.6m**	**–**

* excludes shares held in the employees share trust and treasury shares

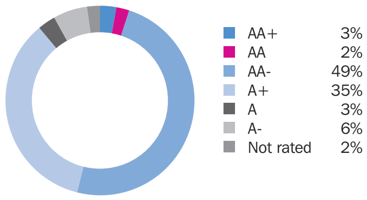
Intangible assets
Intangible assets consist of goodwill on acquisitions $77.1m, purchased syndicate capacity $9.4m, US admitted licences $9.3m and capitalised expenditure on IT projects $21.2m. The increase in intangibles in the period is primarily due to spending on IT projects of $7.9m.

Reinsurance assets
Reinsurance assets represent recoveries from reinsurers in respect of incurred claims $823.8m, and the unearned reinsurance premiums reserve $211.1m. The reinsurance receivables from reinsurers are split between recoveries on claims paid or notified of $202.4m and an actuarial estimate of recoveries on claims that have not yet been reported of $621.4m. The group's exposure to reinsurers is managed through:

- Minimising risk through selection of reinsurers who meet strict financial criteria (eg. minimum net assets, minimum 'A' rating by S&P). These criteria vary by type of business (short vs. medium tail). The chart on page 41 shows the profile of these assets (based on S&P rating) of these assets at the end of 2010;
- Timely calculation and issuance of reinsurance collection notes from our ceded reinsurance team; and
- Regular monitoring of outstanding debtor position by our reinsurance security committee and credit control committees.

We continue to provide against impairment of reinsurance recoveries, and at the end of 2010 we had provided $17.3m (2009: $15.8m) in respect of reinsurance recoveries.

Reinsurance debtor credit quality



Insurance receivables

Insurance receivables are amounts receivable from brokers in respect of premiums written. The balance at 31 December 2010 was $527.1m, a growth of 5.8% over 2009 ($498.0m). 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.

Other assets

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

- Deferred acquisition costs of $164.0m;
- Deferred tax assets available for use against future taxes payable of $9.5m; and
- Profit commissions receivable from syndicate 623 of $13.2m.

Insurance liabilities

Insurance liabilities of $4,046.8m consist of two main elements being the unearned premium reserve (UPR) and gross insurance claims liabilities.

Our unearned premiums reserve has reduced by 6% to $824.2m. The majority of the UPR balance relates to current year premiums that have been deferred and will be earned in future periods. Current indicators are that this business is profitable.

Gross insurance claims reserves are made up of claims which have been notified to us but not yet paid and an estimate of claims incurred but not yet reported (IBNR). These are estimated as part of the quarterly reserving process involving the underwriters and group actuary. Gross insurance claims reserves have increased by 2.4% to $3,222.6m.

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 £250.2m; and
- A US$18m subordinated debt facility raised in 2004. This loan is also unsecured and interest is payable at the US interbank offered rate (LIBOR) plus 3.65%. These subordinated notes are due in 2034 and have been callable at the group's option since 2009.

In April 2010 we traded out of the interest and currency derivatives transactions resulting in a cash gain of $1.4m without any impact on the income statement. The effect of exiting the derivative on the group's cost of financing the £150m of debt was to move from paying a floating rate of interest, based on LIBOR plus a margin, to a fixed interest payment with an annualised effective rate of less than 6%. We traded out of the currency component of the original derivative transaction since this was originally intended to act as a hedge against the group's investment in its US subsidiaries. Following the switch in functional currency to US dollars this hedge was no longer required.

In October 2010 we renewed our existing syndicated short-term banking facility led by Lloyds Banking Group Plc. The facility provides potential borrowings up to $150m. The new agreement is based on a commitment fee of 0.7% per annum and any amounts drawn are charged at a margin of 1.75% per annum. The cash element of the facility will last for three years, expiring on 31 December 2013, whilst letters of credit issued under the facility can be used to provide support for the 2010, 2011 and 2012 underwriting years. The facility is currently unutilised.

Capital structure

(forming integral part of financial statements)

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

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

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

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

During the year to date Beazley plc has acquired 16.8m of its own shares, at an average price of 112.1p, the total cost to the group was $28.9m.

In January 2010, we matched our capital base to the principal underlying currencies of our written premiums. This ensures that the group's capacity to underwrite business is unaffected by any future movements in exchange rates. To achieve this, the group has increased the US dollar component of its capital base by US$491m with an equivalent decrease in the sterling component.

Our funding comes from a mixture of our own equity of $1,082.9m alongside £150m of tier 2 subordinated debt and $18m subordinated long-term debt and an undrawn banking facility of $150m mentioned above. This facility was renewed in October 2010 to cover the 2011 and 2012 underwriting years and converted to a $150m facility. Prior to this date the facility was £100m and has been disclosed at a USD rate of 1.61 (31 December 2009 spot rate) in the table below for comparative purposes.

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

	2010 $m	2009 $m
Sources of funds		
Shareholders' funds	1,082.9	995.9
Tier 2 subordinated debt	230.8	241.5
Long-term subordinated debt	18.0	18.0
	1,331.7	1,255.4
Uses of funds		
Lloyd's underwriting	776.9	792.4
Capital for US insurance company	107.7	110.9
	884.6	903.3
Surplus	**447.1**	**352.1**
Unavailable surplus*	(80.2)	(74.2)
Fixed and intangible assets	**(126.6)**	**(125.9)**
Available surplus	**240.3**	**152.0**
Un-utilised banking facility	**$150.0**	**$161.0**

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

Individual capital assessment

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

In order to determine the ICA, we 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 in line with the premium and catastrophe risk appetite. The increase from £494.4m to £505.0m reflects the changes in the rating environment and the reduction in expected interest rates. These numbers are presented in the table above in US dollars being $776.9m and $792.4m respectively which have been translated at the spot rate at reporting dates.

Solvency II

Solvency II is an EU-wide proposal on capital adequacy and risk management for insurers due to come into effect from 1 January 2013. The central elements of Solvency II are:

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

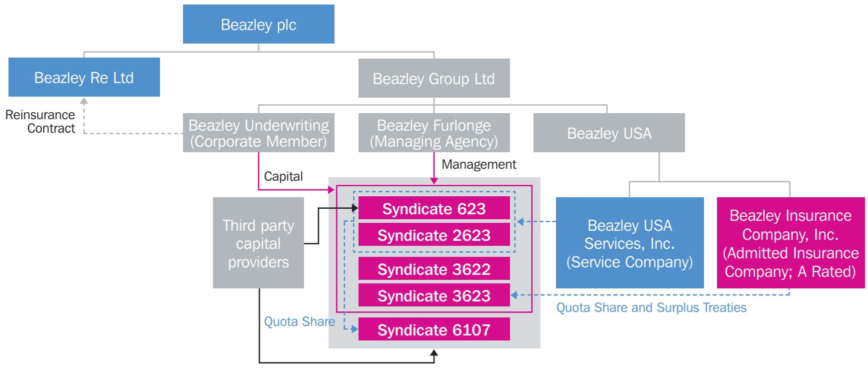
The Beazley Board has set two guiding principles for Solvency II, namely:

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

At Beazley, the strong risk management culture already embedded throughout the business means that Solvency II is an evolution rather than a new direction. As such, we continue to sponsor and closely monitor the programme of work that is building the framework required for such a Solvency II implementation against the 38 identified objectives. This programme is fully resourced and comprises subject matter experts that have been with Beazley for many years working alongside a dedicated project management team. Throughout this process, we have maintained a collaborative dialogue with all our regulators, including Lloyd's, the FSA and the Irish Financial Regulator to demonstrate that our proposed approach meets the requirements of the Solvency II Directive. We continue to meet the regulatory deadlines, having recently submitted QIS5 results and the remaining qualitative submissions for the Lloyd's Dry Run process.

Activity undertaken so far during 2010 has meant that we have made significant progress in our Pillar II activities by enhancing our corporate governance and developing our assurance functions. We have refreshed our expression of risk appetite to not only control risk but exploit it and have updated our control environment and risk management reporting to reflect that. We have also embarked on a programme of detailed training sessions tailored to educate all our staff on what business as usual will look like under Solvency II.

Group structure



Although we are still in the detailed phase of the implementation plan, we are already seeing benefits from Solvency II in terms of improved data quality and enhanced management information that feeds our strategic and tactical decision making. We continue to tackle Solvency II implementation in the same determined way that we tackle underwriting opportunities.

Group structure

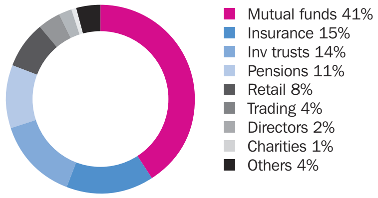
The group operates across both Lloyd's and the US through a variety of legal entities and structures. The main entities within the legal entity structure are as follows:

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

45 Corporate governance

Corporate governance | investor relations

Shareholding by type of investor as at 31 December 2010



Source: Numis Securities Limited (January 2011)

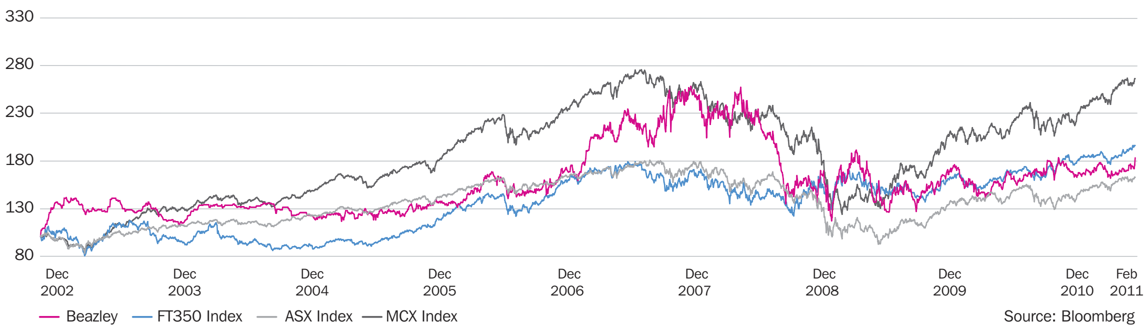
We place great importance on communication with shareholders. The full report and accounts and the interim report are available to shareholders on the company's website (www.beazley.com). Alternatively, shareholders can elect to receive a mailed copy of the accounts on request. The company responds to 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, and special purpose syndicate 6107, analyst estimates and a financial calendar. The website also gives investors the opportunity to sign up for an alert service as new information becomes available.

There is a regular dialogue with institutional shareholders as well as general presentations after the preliminary and interim results. The board is advised of any specific comments from institutional investors to enable 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



Source: Bloomberg

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 RBS, Macquarie, Credit Suisse, JP Morgan, Keefe Bruyette & Woods, Peel Hunt, Execution Noble, Collins Stewart and UBS.

Financial calendar

4 March 2011	Second interim dividend record date
23 March 2011	Annual general meeting
31 March 2011	Second interim dividend payment for the six months ended 31 December 2010
22 July 2011	First interim dividend announcement for the six months ended 30 June 2011

Risk management

Nicholas Furlonge
Director, risk management

The risk management team is now equipped to operate in a Solvency II environment, providing challenge to the business and reporting to the board on the risk landscape and how it is changing over time.

Year in review

Beazley has made significant progress during 2010 in preparing for Solvency II, an important element of which has been the enhancement of its risk management framework. The board has supported this preparation by investing time and resource to review and develop the global assurance functions so that Solvency II creates an opportunity rather than becoming a regulatory burden. The board has reaffirmed its risk appetite within each of the eight risk categories and has cascaded this appetite to the underlying 54 risk events to help the business operate within the required tolerances. The board has also overseen a full review of the control environment to confirm that the controls have been established with reference to risk appetite. Finally, the risk management team have expanded the risk reporting to the relevant committees and boards to further support decision making in the group.

The main outcomes from the review of the risk management framework have been to:

- **Maintain consistency across the group:** The operational requirements of the underwriting and claims teams have been restated as minimum standards to ensure a consistent level of risk mitigation across the group.
- **Provide clarity of approach:** The minimum standards and revised control articulation provide greater clarity to the teams about senior management's expectations of performance.
- **Document:** There has been increased focus on ensuring that the documentation of processes is appropriate and in line with Solvency II requirements.
- **Evidence:** In a Solvency II environment, evidencing of the control environment is an important principle. Strengthening the evidencing requirement allows the board to ensure that the business is managing risk within the approved risk appetite.

Beazley has also invested in people during the year, completing the development of a global risk management team with an appropriate level of resource and the required mix of skill. The risk management team is now structured to assess the technical (or financial) risk, the process (or operational) risk and provide a more extensive programme of risk reporting. The team has been led by Andrew Pryde since 1 January 2011 when he took on a newly created executive role of chief risk officer. Andrew was previously Beazley's group actuary. We have also taken the opportunity to recruit risk managers from other industries to supplement the deep insurance knowledge already within the risk management team.

The risk management team is now equipped to operate in a Solvency II environment, providing challenge to the business and reporting to the board on the risk landscape and how it is changing over time.

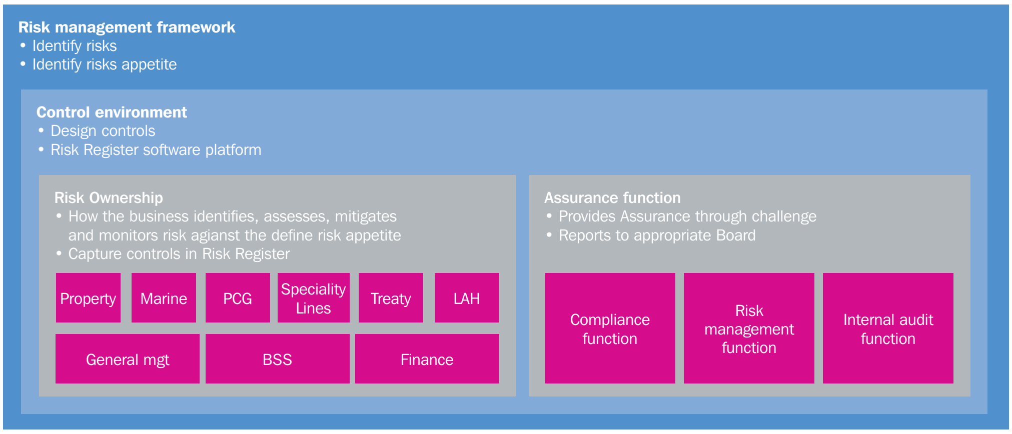
Looking forward

From 2011, we are establishing a risk and regulatory committee. This committee will meet on a monthly basis and is comprised of members of the executive committee. The committee will benefit from quarterly attendance of non executive directors to provide independent challenge. The introduction of this committee emphasises our commitment to effective risk management.

Beazley continues to transfer the capital model used under the current individual capital assessment (ICA) framework across to a Solvency II compliant internal model. We have experienced that having both risk assessment and risk quantification skills within the risk management team helps to provide a more consistent and holistic view of risk.

The board has identified Beazley's top three risks as; the risk of systematically mispricing business (market cycle risk), claims from catastrophe events (catastrophe risk) and earnings volatility arising from our investments (asset risk). Beazley continues to focus on the active management of the insurance cycle in light of softening rates and navigating the investment challenges given the current asset markets. Catastrophe risk has always been closely monitored and this will continue to be the case. It is important that these risks are appropriately managed and exploited such that they positively contribute to Beazley's earnings.

We also continue to closely monitor the reserving risk to maintain a consistent and appropriate reserve strength. This is made possible by the use of tools and management information that was developed internally and has been used since 2004.



The risk management framework at Beazley

The risk management framework can be illustrated by the diagram above.

The dark blue box illustrates the risk management framework which describes the entirety of Beazley's approach to risk and is the same across the whole of the group. It is at this level that Beazley identifies risks and the board sets risk appetite. The group then decides how to treat these risks to remain in line with the board's risk appetite, i.e. accept, avoid, mitigate, transfer or exploit.

The light blue box illustrates the control environment within the risk management framework. It is at this level that Beazley identifies and reports on the controls within the Beazley Risk Register. Controls are set with reference to risk appetite and the inherent risk that these pose to the group.

We operate under the "three lines of defence" concept which is illustrated as follows:

Line of defence	Responsibility	Activity
First Line	The Business	Management of risk
Second Line	Risk management function	Risk oversight
Third Line	Internal audit function	Risk assurance

Ensuring that the business fulfils the first line of defence means that the management of risk occurs at or before the point of risk taking. In its role as second line of defence, the risk management team performs ad hoc reviews of the business activities and reports the risk landscape to the board. Independent risk assurance is provided by Internal Audit as part of their formal reviews performed throughout the year. Operating this multi level review and challenge process ensures robust management of risk at Beazley.

Risk appetite

We currently have 54 risk events within the Beazley risk register. The main focus of our work in 2010 has been to express Beazley's risk appetite as the earnings volatility at 1 in 10 likelihood for each risk event. This can be thought of as the risks arising under the board's "watch". Having established this, the risk management team, in conjunction with the identified Risk Owners, assesses the residual risk (risk remaining after the application of controls) and compares this against the risk appetite to determine whether the group is operating within appetite.

These expressions of risk appetite complement the existing risk appetite stated at the tail of the distribution (for example 1 in 200 likelihood) as estimated by use of the current capital model.

Risk governance and reporting

Beazley's risk reporting structure is designed and driven from the risk management framework and enables senior management to view how the risk environment has changed over the course of time and whether risks are being managed in line with the Beazley's risk appetite as determined by the board. Risk Management produce a consolidated assurance report on a monthly basis to bring together the views of the first, second and third lines of defence.

The Beazley risk register is used to capture the risk statuses by way of control sign off by the business to indicate how well the controls are performing. Extracts from this software are used to populate the consolidated assurance report for reporting to the relevant committees and boards. The flow of information through the organisation allows management to respond in a timely manner to any significant issues arising to ensure that the board can effectively oversee both the risks faced by the group and the operation of the risk management function.

Procedures are documented with a clear and consistent understanding of the trigger points that will result in issue escalation. Confidentiality, integrity and availability of information are maintained, in particular for those processes that are critical to business success.

Own Risk and Solvency Assessment ("ORSA")

The Solvency II Directive indicates that the ORSA is "the entirety of the processes and procedures employed to identify, assess, monitor, manage, and report the short and long term risks a company faces or may face and to determine the own funds necessary to ensure that the undertaking's overall solvency needs are met at all times".

The ORSA is the consolidation of a collection of processes that already exist at Beazley resulting in the production of a quarterly report to provide the board with sufficient information to enable an assessment of the short term and long term risks faced by the group and the capital required to support these risks.

Eight categories of risk

Beazley tracks risk in the following eight risk categories, across which a total of 54 risk events have been identified. Each risk event is reported to a specific oversight committee to assist them perform their first line of defence obligations. All risks events are reported to the risk and regulatory committee, the audit committees and boards.

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

Corporate and social responsibility

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

For a business such as ours, corporate social responsibility has two main dimensions: how we conduct our own business and how we influence our clients in the conduct of their business. Below we describe in detail the measures we took in 2010 to ensure that as a company we met our responsibilities – to our people, to the communities in which we operate, and to society more broadly. But as an insurer we can also exert a strong beneficial influence by promoting effective risk management, because we see a clear correlation between forward-looking businesses that have such controls in place and businesses that are good corporate citizens.

The responsibilities of our business

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

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.

Our code of ethics comprises the staff handbook, the handling of personal data, whistle blowing, financial crime 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 & 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 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 across the group and each employee can take up to two days per year to participate in charitable and local community initiatives. Nicholas Furlonge is the chairman of the Lloyd's Community Programme (LCP) 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 Number partners. Currently we have several volunteers participating in what is proving to be a very successful scheme.

In addition to the Reading & Number Partner schemes in 2009, as part of the LCP we participated in the LCP's Sports JAM at Mile End stadium, facilitating a day of sporting activities attended by 50 pupils from the Tower Hamlets area, in addition a number of individuals were involved in cricket and football coaching.

Teams hold two Team days per year and are encouraged to use one of these to get involved in a local charity, so far three teams spread across the UK and US have taken up this opportunity and been involved in events in the local community.

Charity

The group made charitable donations during the year ended 31 December 2010 of £56,265 (2009: £39,875). 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, several members of our staff raised over £4,000 competing in the London Marathon and Brighton Marathons, and over £3,000 trekking Mount Kilimanjaro. 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 October 2010, 27 employees had taken part in the scheme, donating £32,851 to approximately 30 different charities.

The US charity committee is chaired by Judy Patterson. Again, consideration is given to a wide range of activities, especially where members of staff are actively involved in fund raising themselves. During the year ended 31 December 2010, $49,000 was donated to various charities.
Over $5,000 was raised by staff members taking part in the American Cancer Society 'Making Strides Against Breast Cancer' event.
Over $25,000 was donated to Save the Children, partly raised in various ways such as in house bake sale.
$19.000 was donated to the Susan G Komen charity, one of the US committee's partner charities.

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

Environmental Responsibility

Beazley strives to achieve environmental best practices in the management of its global offices and in the acquisition of its goods and services and it seeks to make environmentally responsible choices, whenever possible. Beazley's commercial management team is responsible for Beazley's global offices and for the procurement of goods and services. Progress achieved in this area in 2010 are illustrated below:

In the procurement area we have adopted the following best practices:

- In all requests for proposals over $25,000 for the procurement of commodities we request and evaluate as part of the proposal information each supplier's "green" and environmentally responsible initiatives in the manufacture and delivery of their products;
- We carefully evaluate and compare each supplier's "green" initiatives and will give appropriate weighting to the quality and consistency of a supplier's programs when making an award;

- Once a supplier has been awarded a contract, we track and monitor the supplier's green initiatives to ensure that they are maintaining the standards and programs represented in the RFP and contract; and
- In 2010 we commenced the tracking and reporting of the percentage of Beazley's applicable commodity spend that is attributable to green/sustainable commodities.

Furniture

- New US office furniture standard is Herman Miller Vivo, which is comprised of 54% recycled materials and is up to 69% recyclable at the end of its useful life;
- Aeron Chair by Herman Miller, used in US offices, is comprised of 46% recyclable material. 54% of its parts are recyclable at the end of its life; and
- Generation Chair by Knoll is also used in US offices and is comprised of 46% recyclable material and 54% of its parts are recyclable at the end of its useful life.

Office supplies

- US Office Supplies – Below is quantitative information on the proportion of paper used by Beazley's US operations from sustainable or recycled sources; (numbers are based on dates from Jan – Sept 2010):
  - 37% of paper purchases are recycled paper purchases
  - Water saved – 18,310 gallons
  - Trees saved – 40
  - Greenhouse Gas Emissions reduced – 3,802lbs

37% of Beazley's total US paper spend was on recycled paper products.

- UK Office Supplies – Below is quantitative information on the proportion of paper used by Beazley's UK operations from sustainable or recycled sources; (numbers are based on data from Jan to Sept, 2010):
  - 99.2% of paper purchases are recycled paper purchases
  - water saved – 87,093 gallons
  - trees saved – 190
  - Greenhouse Gas Emissions reduced – 18,083 lbs

99.2% of Beazley's total UK paper spend was on recycled paper products.

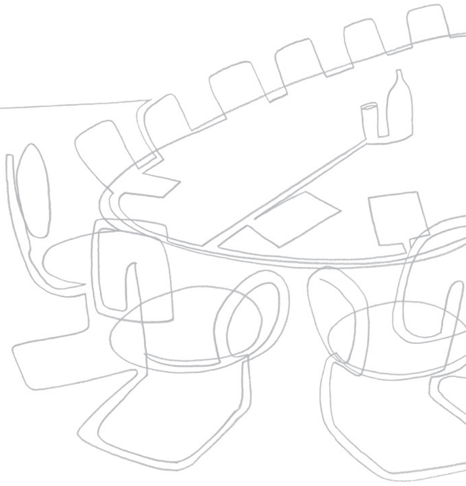
In addition, we actively promote, support and encourage environmentally aware behaviour, including:
- Use of video conferencing versus flying or driving to meetings;
- Use of recycled paper supplies;
- Opted for green electricity supplier at an additional cost to Beazley of £1,590 per annum;
- Use of ceramic and glass versus paper products (of note: Beazley eliminated 95% of paper cup purchases from its largest US office in 2010);
- Elimination of plastic bottled water in US offices wherever possible in favour of on tap filtered water;
- Use of recycling bins;
- Motion detectors are fitted in the London office and all new US offices opened in 2010; and
- All new offices are designed to ensure that environmentally friendly materials and products are utilised in construction and fit out, whenever feasible.

In April 2010 the 2009 carbon footprint for Beazley's London office was measured by Scott Wilson. The total emission for the Beazley London office in 2009 was 2,488.57 tCo2 e/year. The total emission for the Beazley London office in 2008 was 2,043.84 kgCo2 e/year. The increase in carbon emissions was due to increased business air travel. During 2009, Beazley employees travelled frequently to Dublin due to the group redomiciling to Ireland. Travel increased from the UK to the US due to mergers and acquisitions.

In 2009, Beazley measured the GhG emissions for its Boston, Farmington and New York offices. Total carbon emission for the three offices equalled 1,721.26 tCo2 e/year. Beazley will continue to measure its GhG emissions and will look to adopt measures that will reduce it whenever feasible.

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. Our focus continues to be towards assessing and minimising our own environmental impact when possible. Compliance with the ClimateWise principles is subject to annual independent review, which in 2010 was conducted by Forum for the Future.

Board of directors



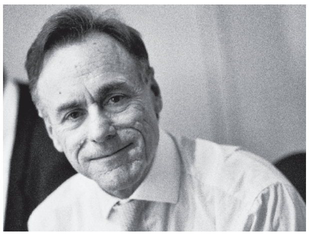
Executive directors

Andrew Horton

Andrew Horton (aged 48) was appointed chief executive on 1 September 2008. Previously he was finance director and he joined the board in June 2003. Prior to that, he was UK chief financial officer at ING and was deputy global chief financial officer and global head of finance for the equity markets division of ING Barings, having held various financial positions with ING Barings since January 1997. He qualified as a chartered accountant with Coopers and Lybrand in 1987.

Martin Bride

Martin Bride (aged 47) is group finance director having joined Beazley in 2009. Martin has 25 years' experience in the insurance industry with more than half of those as a finance director. He trained as a general insurance actuary before pursuing a career in the composite insurance sector with Aviva and Zurich Financial Services. His experience spans personal and commercial lines general insurance, the London Market, life insurance and asset management in both the UK and France.



Nicholas Furlonge

Nicholas Furlonge (aged 60) started his Lloyd's career in 1971. He co-founded Beazley Furlonge with Andrew Beazley in 1985. He is director of risk management and is also responsible for the group's brand and communications. He is a non-executive director of: Lloyd's franchise board, Lloyd's market association and chairman of the Lloyd's community programme.

Adrian Cox

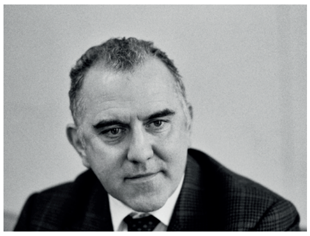
Adrian Cox (aged 39) was appointed to the board on 6 December 2010 and heads up the specialty lines division. Prior to joining Beazley in June 2001, Adrian was at General Cologne Re for eight years. He began his career writing short tail facultative reinsurance before moving to the treaty department in 1997, where he wrote both short and long tail business, specialising in financial lines.

Jonathan Gray

Jonathan Gray (aged 57) is the head of the group's property division. Jonathan has 34 years of experience at Lloyd's, joining Beazley in 1992. He is an active underwriter in his area of expertise, open market commercial property risks.

Neil Maidment

Neil Maidment (aged 48) is the chairman of the group's underwriting committee and has responsibility for the reinsurance division, political risks & contingency group and the accident and life division. Neil has 25 years of Lloyd's experience. He joined Beazley in 1990 and is the active underwriter for the managed syndicates.



Clive Washbourn

Clive Washbourn (aged 50) is the 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 and Claims Committee and is the chairman of the Joint War Committee.

Non-executive directors

Jonathan Agnew
Jonathan Agnew (aged 69) is the chairman of the company. Jonathan was formerly a managing director of Morgan Stanley and subsequently the chief executive of Kleinwort Benson. He has been the chairman of Limit plc, Gerrard Group plc, Nationwide Building Society and LMS Capital plc. He is currently chairman of Ashmore Global Opportunities Limited and The Cayenne Trust plc and is senior independent director of Rightmove plc. He was a member of the Council of Lloyd's and of Lloyd's Market Board from 1995 to 1999.

George Blunden
George Blunden (aged 58) was appointed on 1 January 2010. He is currently chairman of Charity Bank and a non-executive director of the investment advisory firm Meridian. He retired as senior vice president and director from AllianceBernstein Ltd in December 2009. He had previously been chief executive of Union plc and a director of SG Warburg Securities and Seccombe, Marshall and Campion plc.

Gordon Hamilton
Gordon Hamilton (aged 65) retired as a senior audit partner in Deloitte & Touche LLP after more than 30 years, principally involved with listed multi-national company audits and major forensic assignments. He is currently a non-executive director of a number of companies including the listed South African group, Barloworld Limited, and is a member of the Financial Reporting Review Panel (FRRP).

Padraic O'Connor
Padraic O'Connor (aged 61) is chairman of the Irish Stock Exchange and a non-executive director of Rabobank, JP Morgan Bank Dublin Ltd and a number of other companies. He was managing director of NCB Group between 1991 and 1999 prior to which he was chief economist at the firm. Before joining NCB, Mr. O'Connor worked at the Department of Finance and the Central Bank of Ireland. He holds primary and postgraduate degrees in economics from University College Dublin.

Andy Pomfret
Andy Pomfret (aged 50) 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.

Vincent Sheridan
Vincent Sheridan (aged 62) is currently a non-executive director of FBD Holdings Ltd, Mercer (Ireland) Limited and a number of other companies. He retired as Chief Executive of Vhi Healthcare in 2008 and prior to that was Group Chief Executive of the Norwich Union Insurance Group in Ireland for ten years from 1991 to 2001. He is a past president of the Institute of Chartered Accountants in Ireland and a former Director of the Irish Stock Exchange.

Ken Sroka
Ken Sroka (aged 57) was appointed to the board on 12 November 2010. He was formerly head of product development at Zurich Financial Services, retiring in 2008. During his fifteen years at Zurich Financial Services, he created and directed Zurich's financial lines business in North America and more recently he focused on the development of specialist products in North America as president and CEO of Zurich North American Specialties Division (products included environmental, excess liability, professional liability, political risk and accident & health). Prior to joining Zurich in 1993, Mr Sroka's career included roles at Chubb, AIG and USF&G.

Rolf Tolle
Rolf Tolle (aged 63) was appointed to the board on 6 December 2010. He joined the board of Beazley Furlonge Ltd in June 2010. He retired as franchise performance director at Lloyd's in December after seven years in the role, during which time he was widely credited for establishing a new and successful partnership between the Corporation of Lloyd's and the market. Prior to that, he served as chief underwriting officer of Faraday Group, General Re's Lloyd's insurance and reinsurance operation.

Statement of corporate governance

Application of principles of good corporate governance

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

Compliance with code provisions

The board confirms that the company and the group has, save for the composition of the board and the completion of a full board assessment, complied with the provisions set out in the UK Corporate Governance Code for the year ended 31 December 2010. The company increased the number of independent non-executive directors through the appointment of Ken Sroka in November 2010 and Rolf Tolle in December 2010 resulting in an equal number of executive and independent non-executive directors at 31 December 2010.

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

The board

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

Biographies of current board members appear on page 54 of this report. These indicate the high level and wide range of business experience that are essential to manage a business of this size and complexity. A well defined operational and management structure is in place and terms of reference exist for all board committees. The roles and responsibilities of senior executives and key members of staff are clearly defined.

The full board meets at least five times each year and more frequently where business needs require. The board has a schedule of matters reserved for its decision including, inter alia: strategic matters; 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 determining of authority levels within which management is required to operate. The board has also appointed an executive committee with delegated responsibility for particular matters such as considering the business plan, the underwriting, risk and regulations, investments and operations.

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

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

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

Any director appointed by the board 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 each director retires and seeks re-election at an annual general meeting 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 60 to 74. The members of the remuneration committee and the principal terms of reference of the committee appear on page 60.

Meetings with non-executive directors

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

Board performance evaluation

Under the UK Corporate Governance Code, the board is required to undertake a formal and rigorous evaluation of its own performance and that of its committees and individual directors. This was last carried out in 2009 and we continued to implement the recommendations arising from the review into 2010. In line with our policy, a further evaluation will be carried out in 2011.

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

In addition to the 5 regular board meetings, there were a further 7 meetings to consider potential corporate transactions and changes to board membership. Attendance of these meetings was generally high.

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

On 2 June 2010 Dan Jones resigned from the board and audit, remuneration and nomination committees to assume an executive role heading broker relations within Beazley. Ken Sroka was appointed to the board on 12 November and to the remuneration committee on 6 December 2010. Rolf Tolle was appointed to the board and the audit committee on 6 December 2010 and Adrian Cox was appointed to the board on 6 December 2010.

Board committees

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

Audit committee

The audit committee currently comprises Gordon Hamilton (committee chairman from 1 January 2010), Vincent Sheridan, George Blunden and Rolf Tolle. Dan Jones was a member of this committee until 2 June 2010 when he resigned. The committee regularly meets without any executive management being present and the committee holds regular meetings with the head of internal audit and with the external auditor.

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

The committee also reviews any matters raised by the external auditors and internal audit. The chief executive, the finance director, and the risk management director are invited to attend part of each meeting of this committee. The audit committee received a number of presentations during the year on operational and underwriting activities. The external auditors are invited to attend meetings regularly. The auditors have unrestricted access to the members of the audit committee, and the committee ensures that meetings are used as a forum for discussion and communication between compliance, internal audit, the external auditors and the board. The committee receives regular updates and monitors the status of actions taken by management to address issues raised by both external and internal audit. Risk management provides reports to the audit committee on the risk assessment and the self-certification from risk owners of the operating effectiveness of internal controls. The audit committee undertakes a regular appraisal of its performance in relation to best practice. Findings of this review are formally reported to the board.In respect of any firm of external auditors and consulting actuaries which may be appointed by any group company, the audit committee is also responsible for recommending their appointment and termination; recommending their terms of reference; receiving regular reports, independent of management where necessary; determining their independence; monitoring their performance; and approving their fees.

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

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

The split between audit and non-audit fees for the year under review is disclosed on page 105. 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 Andy Pomfret (who was appointed chairman from 1 January 2010), Gordon Hamilton, Padraic O'Connor, George Blunden (who was appointed on 12 November 2010) and Ken Sroka (who was appointed on 6 December 2010). The work of the remuneration committee is covered further in the directors' remuneration report on pages 60 to 74.

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

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

Nomination committee

The nomination committee consists of Jonathan Agnew as the chairman, together with George Blunden, Andy Pomfret and Gordon Hamilton. Dan Jones left the committee in June. It meets as required and makes recommendations to the board on all board appointments, including the selection of non-executive directors. During 2010 the nomination committee carried out the search for additional non-executive directors. Independent external advisors were engaged to support the search which resulted in the nomination committee recommending the appointment of Ken Sroka. The committee also recommended the appointments of Rolf Tolle and Adrian Cox in December 2010. The committee has reviewed the constitution of the committees and recommended the appointment of George Blunden and Ken Sroka to the remuneration committee and of Rolf Tolle the audit committee. The committee has also considered the performance and succession plans for the executive directors. In 2011 the committee will oversee a full board assessment as well as that of the committees and individual director performance.

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 upon 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 77 and 78, and the statement of directors on going concern on page 77.

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

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

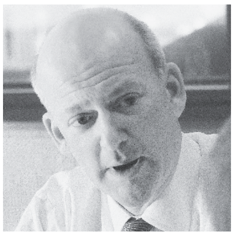
The key procedures that the directors have established to ensure that internal controls are effective and commensurate with a group of this size include:

- the day-to-day supervision of the business by the executive directors;
- review and analysis by the various group committees of standard monthly, quarterly and periodic reporting as prescribed by the board;
- review of financial, operational and assurance reports from management; and
- the review of any significant issues arising from external audits.

Further information on the role of the audit committee is set out above. The committee, on behalf of the board, approves the internal audit plan and any subsequent changes. Internal audit reports directly to the audit committee, whose terms of reference include approving the appointment or termination of appointment, of the head of internal audit and monitoring and reviewing the effectiveness of the company's internal audit function. The new head of internal audit joined the company in January 2010 and the internal audit team has been further strengthened during the year to assist the audit committee and the board in evaluating and assessing the internal control environment in an increasingly complex economic and regulatory environment.

Further information on risk management at Beazley is contained on pages 92 to 101.

Directors' remuneration report



Andy Pomfret
Chairman, remuneration committee

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

Section headings marked ■ indicates the information in that section has been audited.

Dear shareholder

In the following pages the Committee's report on directors' remuneration for 2010 is presented.

Beazley produced an exceptional performance for the year ended 31 December 2010 delivering a pre-tax profit of $250.8m (2009: $158.1m), against a background of increased competition, softening insurance markets and macro-economic uncertainty. Market conditions placed increased emphasis on the skill of our underwriters in identifying profitable underwriting opportunities, as well as optimising the portfolio mix to achieve healthy returns across the cycle. Our combined ratio of 88% and 21.4% return on equity in 2010 reflects the success of our underwriters, both individually and collectively, in achieving this, and we maintained our track record of 25 years of unbroken profitability.

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

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

We have made no significant changes to our executive remuneration policies during this year. The salary increase for executive directors was 2% which was in line with the standard increase throughout the organisation.

Best practice remuneration structures in financial services continue to be a developing area. During the year the Committee reviewed Beazley's policies against the revised UK Corporate Governance Code and other relevant shareholder guidance. Ensuring that Beazley's reward policy is sensitive to risk considerations continues to be a key priority for the Committee. Our executive director pay packages include a number of best practice features, which are consistent with, and take account of, the risk profile of the company. These include bonus deferral into shares; provisions for clawback in certain circumstances; performance periods extending to five years; and shareholding guidelines. The committee will continue to monitor developments in the external environment over the next year.

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

Andy Pomfret
Remuneration Committee Chairman

8 February 2011

Summary of remuneration elements

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

Executive directors

Element	Objective	Summary
Base salary	To recognise responsibilities	Reviewed annually. For 2011, executive director salary increases are 2%.
Enterprise bonus	To link reward to group profit and return on equity	Incentive pool calculated as a percentage of profit subject to a minimum return on equity target. Portion deferred into shares for three years (between 0% and 35% of bonus) dependent on level of bonus.
LTIP	To align the senior management team to the out-performance of the group by setting stretching performance targets over the longer term	Awards of 200% of salary for CEO and 150% of salary for other executive directors. 50% of an award is subject to performance over three years and 50% over five years. Vesting dependent on Net Asset Value per share (NAVps) performance against the risk-free rate: • No vesting if NAVps growth is less than the risk-free rate plus 10% p.a. • 25% vests if NAVps growth exceeds the risk-free rate by 10% p.a. • 100% vests if NAVps growth exceeds the risk-free rate by 15% p.a. • Pro-rating between points.
Shareholding guidelines	To align with shareholders' interests	Shareholding guidelines of 200% of salary for CEO and 150% of salary for other executive directors. To be built up over three years.
Investment in underwriting	To align personal capital with underwriting performance	Executive directors and selected staff may voluntarily defer part of their bonuses into an underwriting syndicate. Capital commitments can be lost if underwriting performance is poor.
Benefits	To provide market levels of benefits	Benefits include a company car or car allowance, private medical insurance and permanent health insurance.
Pension	To provide market levels of pension provision	• Defined contribution of 15% of salary for executive directors. • Some directors received a salary supplement in lieu of legacy pension arrangements.
Service contracts	Company policy is that notice periods do not exceed 12 months.	No specific provision for compensation amounts. Policy includes consideration of mitigation and phasing.

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

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

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

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

All-employee arrangements (including executive directors)

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

Remuneration committee

The committee consists of five non-executive directors and during the year the members included Andy Pomfret as Chairman, Gordon Hamilton, George Blunden, Padraic O'Connor and Ken Sroka. The board views each of these directors as independent. The committee met seven times during the year. In addition to the five regular meetings there were another two ad-hoc meetings.

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

The committee receives advice from a variety of sources. During the year the committee were advised by Hewitt New Bridge Street and Deloitte LLP. The committee also calls on specialist advice from a variety of additional sources including Bluefin Advisory Services Limited for benefits and pensions advice, Towers Watson publications for salary data and Equiniti for employee share incentives matters. None of the advisors provides other services to the company.

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

Remuneration policy

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

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

The key elements of the company's remuneration policies are:

- To remunerate management and staff fairly and in such a manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel;
- That performance-related remuneration is an essential motivation to management and staff and should be structured to ensure that executives' interests are aligned with shareholders;
- That individual rewards should reflect the group objectives but be dependent on the profitability of the group as well as take account of the operational risks;
- The structures of packages should support meritocracy, an important part of Beazley's culture;
- That reward potentials should be market competitive; and
- That executives' pay should include an element of downside risk.

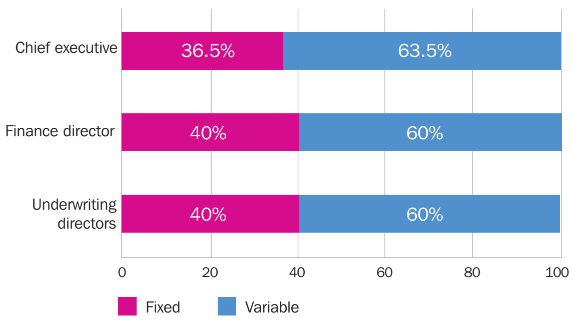
Remuneration and the Lloyd's market

The company's market for talent is primarily underwriters at Lloyd's. In line with our peer group within the Lloyd's market, 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.

Fixed and variable remuneration

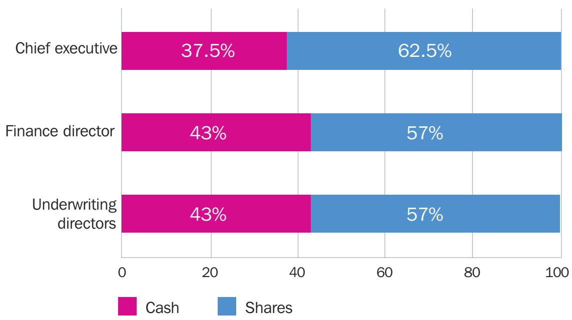
The balance between fixed and variable elements of executive directors' remuneration changes with performance. The anticipated normal mix between fixed and variable remuneration is c.40% fixed and c.60% variable. This mix is illustrated in the following chart.

Balance of fixed versus variable pay



A significant proportion of variable pay is delivered in shares as illustrated below:

Incentives: cash versus shares



Risk and reward at Beazley

Although, the company is not subject to the FSA's Remuneration Code, the committee takes the Code into account when considering remuneration, along with other corporate governance developments and institutional shareholders' guidance. During the year the committee undertook a review of remuneration against various guidelines and continues to monitor developments.

The committee believes the company is adopting an approach which is consistent with and takes account of the risk profile of the company. We believe reward at Beazley is appropriately balanced against risk considerations, particularly in the following areas:

Features aligned with risk considerations

Share deferral	A portion of bonus is deferred into shares for three years. These deferred shares together with shares awarded under the long-term incentive plan mean that a significant portion of total remuneration is delivered in the form of shares deferred for a period of years.
Extended performance periods	A portion of the long-term incentive plan has performance measured over an extended five year period, in line with the Walker recommendations and FSA guidelines.
Shareholding requirements	Executive directors are expected to build up and maintain a shareholding of 150% of salary (200% for the CEO).
Investment in Underwriting	Management and underwriters defer part of their bonuses into the Beazley staff underwriting plan providing alignment with capital providers. Capital commitments can be lost if underwriting performance is poor.
Underwriters' remuneration aligned with profit achieved	Under the profit related plan payments are aligned with the timing of profits achieved on the account. For long-tail accounts this may be in excess of six years. If the account deteriorates then payouts are 'clawed back' through adjustments to future payments.
'Clawback' of deferred shares	For deferred share awards from 2011 onwards, a 'clawback' provision is being introduced, so that shares may be forfeited in certain circumstances, including material misstatement of accounts or significant adverse company performance developments.

Salary ▪

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

For 2011, the salary increase is 2%. This is in line with standard salary increases across the group.

The annualised salaries and fees for 2010 and 2011 are as set out below:

	2010 Executive Directors' fee £	2010 Executive salary £	2010 Total base salary £	2011 Directors' fee £	2011 Executive salary £	2011 Total base salary £
M L Bride	50,000	200,000	250,000	51,000	204,000	255,000
A P Cox	50,000	200,000	250,000	51,000	204,000	255,000
N H Furlonge	50,000	205,000	255,000	51,000	209,000	260,000
J G Gray	50,000	250,000	300,000	51,000	255,000	306,000
D A Horton	50,000	350,000	400,000	51,000	357,000	408,000
N P Maidment	50,000	250,000	300,000	51,000	255,000	306,000
C A Washbourn	50,000	250,000	300,000	51,000	255,000	306,000

Bonus plans

Enterprise bonus plan

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

The pool is calculated as a percentage of profit subject to a minimum group return on equity target. The proportion of profit allocated to the pool increases as higher returns on equity are achieved.

The proportion of the pool awarded to executive directors takes into account the individual's contribution and the performance of their division (if appropriate).

Year	Pre tax underlying profit*	Post tax underlying ROE*	Enterprise pool
2010	$220m	17.9%	$21.1m
2009	$210m	21%	$22.5m
2008	$93m	10.7%	$7.2m

*Note that ROE is calculated based on estimated profit taking into account the adjustments described below and is therefore on a different basis to underlying ROE as shown on page 2 of the Annual Report. Profit and enterprise pool for years prior to 2010 were converted from sterling based on the average prevailing exchange rate for the year.

The pool is calculated based on the latest post tax return at the end of the year for the financial year having been adjusted for the enterprise pool payments. The calculation uses the underlying profit which excludes the charges or credits that arise from the IFRS foreign exchange adjustments on non-monetary items and a one-off currency conversion adjustment relating to change of reporting currency during the year.

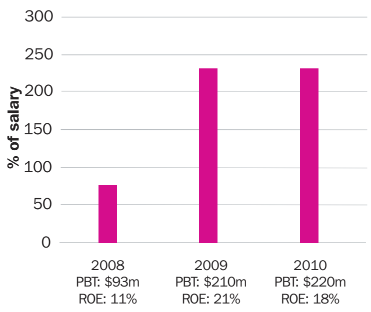
The pool approach to the calculation of bonuses is aligned to shareholders and ensures that bonuses are affordable, while the ROE return targets increase the performance gearing.

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

	Forecast Pre tax underlying profit*	Forecast Post tax underlying ROE*	Average executive director bonus as a percentage of salary
2010	$220m	17.9%	c.230%
2009	$210m	21%	c.230%
2008	$93m	10.7%	c.75%

*See previous note

Average executive director bonus payout



A portion of the bonus will generally be deferred into shares for three years. The deferral will range from 0% to 35% dependent on the level of bonus. For deferred share awards from 2011 onwards, a 'clawback' provision is being introduced. The committee may determine that unvested shares will be forfeited in certain circumstances, such as a material misstatement of accounts or a significant adverse company development.

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

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

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

This bonus is awarded as cash and is based upon a fixed proportion of profit achieved on the relevant underwriting account as measured at three years and later. Any movements in prior years are reflected in future year payments as the accounts develop after three years. For long-tail accounts the class is still relatively immature at the three year stage and therefore payments will be modest. They will receive further payouts in years 4, 5 and 6 (and even later) as the account matures. Therefore each year they could be receiving payouts from multiple underwriting years.

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

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

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

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

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

Share plans ▪

Long-term incentive plan (LTIP)
Under the LTIP, executive directors, senior management and underwriters receive awards of free shares subject to the achievement of stretching performance conditions measured over five years.

The key features of the plan are as follows:

- 50% of the award is measured after three years and 50% after five years.
- Awards are in the form of nil-cost options with a ten year term. Dividends do not accrue on shares prior to vesting.

Participants are expected to build a shareholding in Beazley equal to their annual award level. For example the CEO has a shareholding guideline of 200% of salary. Participants have three years to build this shareholding from March 2010, when this feature was introduced.

In good leaver circumstances and on change of control, awards are pro-rated for time and performance.

The award level policy for 2011 is set out in the table below:

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

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

The performance condition for awards for 2011 is as follows:

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

The LTIP awards that were granted on 13 March 2007 were based on NAVps growth and TSR performance. These awards met the performance criteria in part and 50% of the awards vested in March 2010. The results were independently calculated by Hewitt New Bridge Street.

SAYE
The company operates an HMRC approved SAYE scheme for the benefit of UK-based employees. The scheme offers a three-year savings contract period with options being offered at a 20% discount to the share price on grant. Monthly contributions are made through payroll deduction on behalf of participating employees.

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

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

Option plan
The option plan does not form part of Beazley's current remuneration policy. The plan comprises an HMRC approved plan and an unapproved plan. All options granted under this plan have vested or lapsed. It is the committee's intention to only grant options under this plan in exceptional circumstances. No options have been granted since 2005.

Dilution
The share plans permit 10% of the company's issued share capital to be issued pursuant to awards under the LTIP, SAYE and option plan in a 10-year period. Since November 2002, 3.6% of this allowance (2009: 2.5%) has been allocated for SAYE option and LTIP awards.

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

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

To date over 100 employees of the group have committed to put at risk £6.7m of bonuses to the underwriting results of syndicate 623. Of the total at risk, £5.6m has already been deferred from the bonuses awarded.

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

£	Total bonuses deferred and at risk	2009 year of account underwriting capacity	2010 year of account underwriting capacity	2011 year of account underwriting capacity
M L Bride	112,500	–	400,000	350,000
A P Cox	216,000	283,661	400,000	350,000
N H Furlonge	216,000	283,661	400,000	350,000
J G Gray	216,000	283,661	400,000	350,000
D A Horton	216,000	283,661	400,000	350,000
N P Maidment	216,000	283,661	400,000	350,000
C A Washbourn	216,000	283,661	400,000	350,000

Pensions ▪

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 did not participate in this plan but, instead, received a salary supplement in lieu of pension. These supplements ceased for Nick Furlonge on 18 October 2010 and for Andrew Beazley on 31 October 2010.

Prior to 31 March 2006 the company provided pension entitlements to directors that are defined benefit in nature, based on its legacy policy under the Beazley Furlonge Limited Final Salary Pension Scheme. Future service accruals ceased on 31 March 2006. Only base salary is pensionable.

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.

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

	Accrued benefit at 31 Dec 2010 £	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 2010 £	Increase in transfer value less directors' contributions £
A P Cox	10,440	–	483	–	121,375	12,684
J G Gray	29,340	–	1,358	–	652,176	44,050
N P Maidment	35,640	1,717*	3,367	26,448	548,983	76,953
C A Washbourn	15,840	–	733	–	258,091	21,128
N H Furlonge	150,594	–	–	–	3,529,915	138,059

*Benefits changed due to a data clarification

Benefits ▪

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

Service contracts ▪

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

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

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

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

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

Executive directors' other interests

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

Non-executive directors' fees ▪

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

No non-executive director participates in the 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 assesses if the candidate brings the desired competence and skills to the group.

The board has identified several key competencies for non-executive directors to complement the existing skill-set of the executive directors. These competencies are as follows:

- Insurance sector expertise;
- Asset management skills;
- Public company and corporate governance experience;
- Risk management skills; and
- Finance skills.

A review of the fees and other income payable was carried out by the board in December 2010. The review took into account market data for other financial services companies in the FTSE 250 and the changes to Beazley's operating and regulatory environment.

Beazley operates across Lloyd's and the US markets through a variety of legal entities and structures. Non-executive directors, in addition to the plc board, typically sit on either one of our key subsidiary boards (Beazley Furlonge Ltd (BFL), our managing agency at Lloyd's, and Beazley Re Ltd, our re-insurance company). As a result of developments in regulation, the way in which these subsidiary boards operate has changed significantly since 2008, when fees were last reviewed. The degree of autonomy in the operation of each board has increased, with a consequent increase in time commitment and scope of the role.

As a result of the review:
- basic fees were increased by 2%.
- the fees for chairing the Audit and Remuneration Committees were increased to £15,000 and £10,000 respectively (from £10,000 and £8,000 respectively). There was no increase in the fee for Senior Independent Director which remains at £6,000.
- Fees were introduced for board membership in respect of the two key subsidiary boards, BFL and Beazley Re. of £15,000 and €8,000 respectively.

Chairman fees were also considered as part of the review. This was in the context of both the changes in the regulatory and operational environment, as described above, as well as a review of the market data.

Following the review we considered it was appropriate to:

- Increase chairman fees from £105,000 to £120,000; and
- Introduce a fee for chairmanship of the BFL board of £30,000, consistent with the approach for subsidiary boards described above.

The Committee considered that this increase was appropriate given the size and scope of the company, and hence the role, and the significant changes to the complexity of the environment in which it operates.

Details of the non-executive directors' terms of appointment and their fees for 2011 are set out below:

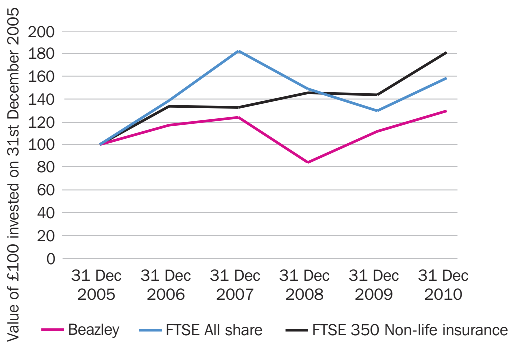
	Current annual fee	Commencement date of current appointment letter	Expires	Other fees: Senior independent director	Other fees: Audit Committee Chair	Other fees: Remuneration Committee Chair	Other fees: Beazley Furlonge	Other fees: Beazley Re
J G W Agnew (£)	120,000	20 Mar 2009	31 Dec 2011				30,000	
A D Pomfret (£)	51,000	20 Mar 2009	30 Jun 2012	6,000		10,000	15,000	
A G K Hamilton (£)	51,000	20 Mar 2009	31 Dec 2011		15,000		15,000	
V J Sheridan (€)	61,200	9 Jun 2009	31 Dec 2011					8,000
P O'Connor (€)	61,200	20 Mar 2009	31 Dec 2011					8,000
G P Blunden (£)	51,000	1 Jan 2010	31 Dec 2012				15,000	
K P Sroka (£)	51,000	12 Nov 2010	11 Nov 2013					
R A W Tolle (£)	51,000	6 Dec 2010	5 Dec 2013				15,000	

Compensation for past directors ▪

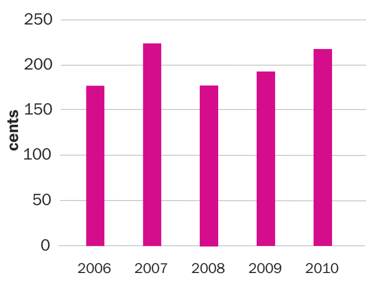
Andrew Beazley died on 13 October 2010. His emoluments to the end of October are set out in the emolument tables. In accordance with the relevant plan rules, shares under the Deferred Share Plan and the Retention Plan vested in full while shares under the Long-Term Incentive Plan were pro-rated for time and performance. Calculations were performed independently by Deloitte LLP. Treatment of outstanding amounts for the staff underwriting plan will follow normal rules applicable to leavers of the scheme.

Dan Jones, a non-executive director of Beazley plc, stood down from the Board on 2 June 2010. He was subsequently appointed in an executive capacity to serve on the executive committee. During the past financial year his compensation in respect of this executive role was as follows: $620,522 comprising his annual salary, bonus, benefits and pension (US 401K scheme).

Total shareholder return performance*



Net asset per share performance*



* Unaudited

Directors' emoluments

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

£	Salary & fees[1]	Enterprise cash bonus	Enterprise deferred shares	Staff underwriting distribution[2]	Staff underwriting deferred bonus[3]	Notional dividend on shares[4]	Benefits	Salary supplements in lieu of pension contribution	Total for 12 months to 31 December 2010	Company pension contribution	Total for 12 months to 31 December 2009
J G W Agnew	105,000	–	–	–	–	–	–	–	105,000	–	105,000
A F Beazley	250,000	250,000	–	82,748	–	50,216	83,437[5]	149,601	866,002	–	1,135,300
G P Blunden	50,000	–	–	–	–	–	–	–	50,000	–	–
M L Bride	250,000	262,500	125,000	–	112,500	–	8,026	–	758,026	37,500	574,309
A P Cox[6]	17,808	36,024	12,466	–	1,373	–	777	–	68,448	2,671	–
N H Furlonge	255,000	228,460	100,000	41,534	71,540	22,980	13,292	98,994	831,800	–	841,348
J G Gray	300,000	297,672	125,000	22,241	77,328	40,279	15,596	–	878,116	45,384	839,484
A G K Hamilton	60,000	–	–	–	–	–	–	–	60,000	–	50,000
D A Horton	400,000	678,460	250,000	41,534	71,540	113,881	16,224	–	1,571,639	60,000	1,483,728
D L Jones[7]	20,959	–	–	–	–	–	–	–	20,959	–	50,000
N P Maidment	300,000	522,672	200,000	22,241	77,328	38,471	16,060	–	1,176,772	45,000	1,112,857
P J O'Connor[10]	51,282	–	–	–	–	–	–	–	51,282	–	42,035
A D Pomfret	64,000	–	–	–	–	–	–	–	64,000	–	66,000
V J Sheridan[10]	51,282	–	–	–	–	–	–	–	51,282	–	30,973
K Sroka[8]	6,849	–	–	–	–	–	–	–	6,849	–	–
R A W Tolle[9]	3,562	–	–	–	–	–	–	–	3,562	–	–
C A Washbourn	300,000	672,557	250,000	21,856	77,443	91,519	11,464	–	1,424,839	45,271	1,370,567
Total	**2,485,742**	**2,948,345**	**1,062,466**	**232,154**	**489,052**	**357,346**	**164,876**	**248,595**	**7,988,576**	**235,826**	**7,701,601**

1 Other than for the chairman, fees include fees paid for chairmanship of the audit and remuneration committees and for the role of senior independent director.
2 This is return on a voluntary investment which is at risk.
3 The directors defer bonus entitlements to support their underwriting through Beazley Staff Underwriting Limited.
4 The notional dividend is a cash bonus equal to dividends the directors would have received during the vesting period of the deferred and retention shares.
5 This includes medical expenses which were paid to Mr Beazley during the year ended 31 December 2010.
6 Mr Cox was appointed to the board on 6 December 2010 and his salary, bonus and benefits relate to his earnings from this date.
7 Mr Jones stood down as a non-executive director on 2 June 2010 in order to take up an executive position. His fees relate to his earnings as a plc non-executive director. See details under compensation for past directors for his executive earnings in 2010.
8 Mr Sroka was appointed to the board on 12 November 2010 and his fees relate to his earnings from this date.
9 Mr Tolle was appointed to the board on 6 December and his fees relate to his earnings from this date.
10 For Mr O'Connor and Mr Sheridan, their non-executive director fee was based on €60,000 and has been converted into sterling for this table at the average exchange rate of 1.17.

Directors' share plan interests

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

Scheme	At 31 Dec 2009	Awarded	Exercised	Lapsed	At 31 Dec 2010[6]	Exercise price	Closing share price on date of exercise	Earliest date of exercise	Expiry date
A F Beazley									
Deferred Bonus:									
13 Mar 07	146,368	–	146,368	–	–	1.07897	1.067	13/03/2010	13/04/2010
03 Mar 08	94,345	–	–	–	94,345			03/03/2011	03/04/2011
LTIP (see notes):									
13 Mar 07	146,368	–	73,184	73,184	–	1.06000	1.072	13/03/2010	13/03/2017
03 Mar 08	125,794	–	–	–	125,794			03/03/2011	03/03/2018
16 Feb 09	204,725	–	–	–	204,725			16/02/2012	16/02/2019
18 Feb 10 - 3 year	–	209,888	–	–	209,888			18/02/2013	18/02/2020
18 Feb 10 - 5 year	–	209,888	–	–	209,888			18/02/2015	18/02/2020
Retention Shares:									
21 Mar 05	39,107	–	39,107	–	–	1.08309	1.080	21/03/2008	21/04/2010
21 Mar 06	155,105	–	77,552	–	77,553	1.08309	1.080	21/03/2009	21/04/2011
M L Bride									
Deferred Bonus (see note 5):									
27 Apr 09	200,000	–	–	–	200,000			27/04/2012	27/05/2012
23 Feb 10	–	93,284	–	–	93,284			23/02/2013	23/03/2013
LTIP (see note 5):									
27 Apr 09	100,000	–	–	–	100,000			27/04/2011	27/04/2019
18 Feb 10 - 3 year	–	174,907	–	–	174,907			18/02/2013	18/02/2020
18 Feb 10 - 5 year	–	174,907	–	–	174,907			18/02/2015	18/02/2020
Retention Shares (see note 5):									
27 Apr 09	150,000	–	–	–	150,000			27/04/2012	27/04/2015
SAYE:									
2010	–	10,591	–	–	10,591			01/07/2013	01/12/2013
A P Cox									
Deferred Bonus:									
13 Mar 07	27,444	–	27,444	–	–	1.07897	1.067	13/03/2010	13/04/2010
03 Mar 08	74,108	–	–	–	74,108			03/03/2011	03/04/2011
23 Feb 10	–	139,925	–	–	139,925			23/02/2013	23/03/2013
LTIP (see notes):									
21 Mar 05	23,402	–	23,402	–	–	1.08000	1.088	21/03/2008	21/03/2015
21 Mar 06	13,501	–	13,501	–	–	1.08000	1.088	21/03/2009	21/03/2016
16 Feb 09	204,725	–	–	–	204,725			16/02/2012	16/02/2019
18 Feb 10 - 3 year	–	174,907	–	–	174,907			18/02/2013	18/02/2020
18 Feb 10 - 5 year	–	174,907	–	–	174,907			18/02/2015	18/02/2020
Share Options:									
ESOS UNAPP									
29 Mar 04	11,457	–	11,457	–	–	1.08000	1.088	29/03/2007	29/03/2014
Retention Shares:									
21 Mar 05	15,643	–	15,643	–	–	1.08309	1.080	21/03/2008	21/04/2010
21 Mar 06	36,004	–	18,002	–	18,002	1.08309	1.080	21/03/2009	21/04/2011
13 Mar 07	182,960	–	45,740	–	137,220	1.07897	1.083	13/03/2010	13/04/2013
SAYE:									
2009	13,071	–	–	–	13,071			01/07/2012	31/12/2012
N H Furlonge									
Deferred Bonus:									
13 Mar 07	73,184	–	73,184	–	–	1.07897	1.067	13/03/2010	13/04/2010
03 Mar 08	62,896	–	–	–	62,896			03/03/2011	03/04/2011
23 Feb 10	–	93,284	–	–	93,284			23/02/2013	23/03/2013
LTIP (see notes):									
13 Mar 07	73,184	–	36,592	36,592	–	1.06000	1.072	13/03/2010	13/03/2017
03 Mar 08	62,896	–	–	–	62,896			03/03/2011	03/03/2018
16 Feb 09	204,725	–	–	–	204,725			16/02/2012	16/02/2019
18 Feb 10 - 3 year	–	178,405	–	–	178,405			18/02/2013	18/02/2020
18 Feb 10 - 5 year	–	178,405	–	–	178,405			18/02/2015	18/02/2020
Retention Shares:									
21 Mar 05	9,776	–	9,776	–	–	1.08309	1.080	21/03/2008	21/04/2010
21 Mar 06	49,269	–	24,634	–	24,635	1.08309	1.080	21/03/2009	21/04/2011
SAYE:									
2009	13,071	–	–	–	13,071			01/07/2012	31/12/2012

Scheme	At 31 Dec 2009	Awarded	Exercised	Lapsed	At 31 Dec 2010	Exercise price	Closing share price on date of exercise	Earliest date of exercise	Expiry date
J G Gray									
Deferred Bonus:									
13 Mar 07	124,412	–	124,412	–	–	1.07897	1.067	13/03/2010	13/04/2010
03 Mar 08	107,554	–	–	–	107,554			03/03/2011	03/04/2011
23 Feb 10	–	116,604	–	–	116,604			23/02/2013	23/03/2013
LTIP (see notes):									
13 Mar 07	109,776	–	54,888	54,888	–	1.07000	1.054	13/03/2010	13/03/2017
03 Mar 08	113,214	–	–	–	113,214			03/03/2011	03/03/2018
16 Feb 09	204,725	–	–	–	204,725			16/02/2012	16/02/2019
18 Feb 10 - 3 year	–	209,888	–	–	209,888			18/02/2013	18/02/2020
18 Feb 10 - 5 year	–	209,888	–	–	209,888			18/02/2015	18/02/2020
Retention Shares:									
21 Mar 05	29,330	–	29,330	–	–	1.08309	1.080	21/03/2008	21/04/2010
21 Mar 06	94,207	–	47,103	–	47,104	1.08309	1.080	21/03/2009	21/04/2011
SAYE:									
2009	13,071	–	–	–	13,071			01/07/2012	31/12/2012
D A Horton									
Deferred Bonus:									
13 Mar 07	124,412	–	124,412	–	–	1.07897	1.067	13/03/2010	13/04/2010
03 Mar 08	105,038	–	–	–	105,038			03/03/2011	03/04/2011
23 Feb 10	–	233,209	–	–	233,209			23/02/2013	23/03/2013
LTIP (see notes):									
13 Mar 07	73,184	–	36,592	36,592	–	1.09400	1.088	13/03/2010	13/03/2017
03 Mar 08	78,621	–	–	–	78,621			03/03/2011	03/03/2018
16 Feb 09	204,725	–	–	–	204,725			16/02/2012	16/02/2019
18 Feb 10 - 3 year	–	363,207	–	–	363,207			18/02/2013	18/02/2020
18 Feb 10 - 5 year	–	363,207	–	–	363,207			18/02/2015	18/02/2020
Retention Shares:									
21 Mar 05	33,241	–	33,241	–	–	1.08309	1.080	21/03/2008	21/04/2010
21 Mar 06	82,114	–	41,057	–	41,057	1.08309	1.080	21/03/2009	21/04/2011
09 Oct 07	1,044,100	–	261,025	–	783,075	1.11500	1.127	09/10/2010	09/11/2013
SAYE:									
2009	13,071	–	–	–	13,071			01/07/2012	31/12/2012
N P Maidment									
Deferred Bonus:									
13 Mar 07	124,412	–	124,412	–	–	1.07897	1.067	13/03/2010	13/04/2010
03 Mar 08	106,925	–	–	–	106,925			03/03/2011	03/04/2011
23 Feb 10	–	186,567	–	–	186,567			23/02/2013	23/03/2013
LTIP (see notes):									
03 Mar 08	62,896	–	–	–	62,896			03/03/2011	03/03/2018
13 Mar 07	73,184	–	36,592	36,592	–	1.05500	1.072	13/03/2010	13/03/2017
16 Feb 09	204,725	–	–	–	204,725			16/02/2012	16/02/2019
18 Feb 10 - 3 year	–	209,888	–	–	209,888			18/02/2013	18/02/2020
18 Feb 10 - 5 year	–	209,888	–	–	209,888			18/02/2015	18/02/2020
Retention Shares:									
21 Mar 05	29,330	–	29,330	–	–	1.08309	1.080	21/03/2008	21/04/2010
21 Mar 06	63,563	–	31,781	–	31,782	1.08309	1.080	21/03/2009	21/04/2011
SAYE:									
2010	–	10,591	–	–	10,591			01/07/2013	31/12/2013
C A Washbourn									
Deferred Bonus:									
13 Mar 07	109,776	–	109,776	–	–	1.07897	1.067	13/03/2010	13/04/2010
03 Mar 08	125,794	–	–	–	125,794			03/03/2011	03/04/2011
23 Feb 10	–	233,209	–	–	233,209			23/02/2013	23/03/2013
LTIP (see notes):									
21 Mar 05	151,019	–	151,019	–	–	1.07800	1.085	21/03/2008	21/03/2015
21 Mar 06	47,078	–	47,078	–	–	1.07800	1.085	21/03/2009	21/03/2016
13 Mar 07	153,687	–	76,844	76,843	–	1.07800	1.085	13/03/2010	13/03/2017
03 Mar 08	132,084	–	–	–	132,084			03/03/2011	03/03/2018
16 Feb 09	204,725	–	–	–	204,725			16/02/2012	16/02/2019
18 Feb 10 - 3 year	–	209,888	–	–	209,888			18/02/2013	18/02/2020
18 Feb 10 - 5 year	–	209,888	–	–	209,888			18/02/2015	18/02/2020
Share Options:									
29 Mar 04	24,348	–	24,348	–	–	1.07800	108.5	29/03/2007	29/03/2014
Retention Shares:									
04 Dec 06	783,075	–	261,025	–	522,050	1.11000	1.127	04/12/2009	04/01/2013
21 Mar 05	33,241	–	33,241	–	–	1.08309	1.080	21/03/2008	21/04/2010
21 Mar 06	83,696	–	41,848	–	41,848	1.08309	1.080	21/03/2009	21/04/2011
SAYE:									
2009	13,071	–	–	–	13,071			01/07/2012	31/12/2012

Notes to share plan interests table

1 **2007 LTIP award details.** Awards were made on 13 March 2007 at a mid-market share price of 142p. 50% of the award is based on NAVps performance in excess of the risk-free rate (RFR) and 50% is based on TSR performance versus a comparator group (Alea, Amlin, Atrium, Brit, Catlin, Chaucer, Hardy, Highway, Hiscox, Kiln and Novae) over three years. Different vesting schedules apply for shares worth up to 50% of salary ('basic shares') and shares worth more than 50% of salary ('additional shares'). For basic shares, for the NAV portion, NAVps < RFR+5%p.a. results in 0% vesting and NAVps >= RFR+5%p.a. results in 100% vesting. For the TSR portion, below median TSR results in 0% vesting, median TSR performance results in 25% vesting and upper quartile TSR performance results in 100% vesting. For additional shares, for the NAV portion, NAVps < RFR+5%p.a. results in 0% vesting and NAVps >= RFR+10%p.a. results in 100% vesting. For the TSR portion, below upper quartile TSR performance results in 0% vesting and upper decile TSR results in 100% vesting. Straight-line pro-rating applies between all points. Final vesting for 2007 LTIP awards was 50% of the maximum.

2 **2008 LTIP award details.** Awards were made on 3 March 2008 at a mid-market share price of 166p. Performance conditions are as for the 2007 LTIP awards except that the TSR comparator group is as follows: Amlin, Brit, Catlin, Chaucer, Hardy, Highway, Hiscox, Lancashire and Novae.

3 **2009 LTIP award details.** Awards were made on 16 February 2009 and 27 April 2009 at a mid-market share price of 102p and 101p respectively. Performance conditions are as for the 2007 LTIP awards except that the TSR comparator group is as follows: Amlin, Brit, Catlin, Chaucer, Hardy, Hiscox, Lancashire and Novae.

4 **2010 LTIP award details.** Awards were made on 18 February 2010 at a mid-market share price of 110.13p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a 3-year period and 50% measured over a 5-year period. NAVps < RFR+10%p.a. equates to 0% vesting, NAVps = RFR+10%p.a. equates to 25% vesting, NAVps = or > RFR+15%p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points.

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

6 **Share prices.** The market price of Beazley ordinary shares at 31 December 2010 was 115.0p and the range during the year was 98.5p and 125.0p.

Directors' interests in shares ▪

	Number of ordinary shares held as at 1 Jan 2010	Options exercised	Options sold	Shares purchased	Shares sold	Number of ordinary shares held as at 31 Dec 2010	Shareholding as a percentage of the total issued ordinary share capital as at 31 Dec 2010
J G W Agnew	213,947	–	–	12,200	–	226,147	0.04
G P Blunden	107,156	–	–	–	–	107,156	0.02
M L Bride	65,000	–	–	154,616	–	219,616	0.04
A P Cox	98,900	155,189	–	–	–	254,089	0.05
N H Furlonge	1,689,651	144,186	144,186	–	–	1,689,651	0.33
J G Gray	2,487,026	255,733	255,733	–	–	2,487,026	0.48
A G K Hamilton	37,991	–	–	–	–	37,991	0.01
D A Horton	710,392	496,327	233,228		–	973,491	0.19
N P Maidment	3,334,621	222,115	94,210	–	–	3,462,526	0.67
P J O'Connor	30,000	–	–	–	–	30,000	0.01
A D Pomfret	24,315	–	–	–	–	24,315	0.00
V J Sheridan	20,000	–	–	–	–	20,000	0.00
K P Sroka	–	–	–	–	–	–	0.00
R A W Tolle	–	–	–	–	–	–	0.00
C A Washbourn	172,395	745,179	366,327	–	172,395	378,852	0.07
Total	8,991,394	2,018,729	1,093,684	166,816	172,395	9,910,860	1.91

No changes in the interests of directors have occurred between 31 December 2010 and 8 February 2011.

Annual general meeting

A resolution will be proposed at the forthcoming annual general meeting to be held on 23 March 2011 to approve this directors' remuneration report.

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

By order of the board

Andy Pomfret
Chairman of the remuneration committee

8 February 2011

Directors' report

The directors have pleasure in presenting their report and the audited financial statements of the group for the year ended 31 December 2010.

Principal activity

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

Review of business

A more detailed review of the business for the year and a summary of future developments are included in the annual statement on pages 12 to 15 and the financial review on pages 33 to 44.

Results and dividends

The consolidated profit before taxation for the year ended 31 December 2010 amounted to $250.8m (2009:$158.1m)

The directors announce a second interim dividend of 5.1 pence per ordinary share (2009 second interim dividend: 4.7 pence), plus a special dividend of 2.5 pence. These dividends, together with the first interim dividend of 2.4 pence per ordinary share, give a total of 10.0 pence.

The second interim dividend will be paid on 30 March 2011 to shareholders on the register on 4 March 2011 (save to the extent that shareholders on the register of members on 4 March 2011 are to be paid a dividend by a subsidiary of the Company (being Beazley DAS Limited) resident for tax purposes in the United Kingdom pursuant to elections made or deemed to have been made and such shareholders shall have no right to this second interim dividend).

Directors

The directors of the company at 31 December 2010, who served during the year and to the date of this report, were as follows:

Jonathan Geoffrey William Agnew	(non-executive chairman)
David Andrew Horton	(chief executive)
George Patrick Blunden	(non-executive director)
Andrew Frederick Beazley	(deputy chairman) – died 13 October 2010
Martin Lindsay Bride	(group finance director)
Adrian Peter Cox	(director) – appointed 6 December 2010
Nicholas Hill Furlonge	(director)
Jonathan George Gray	(director)
Alexander Gordon Kelso Hamilton	(non-executive director)
Daniel Lawrence Jones	(non-executive director) – resigned 2 June 2010
Neil Patrick Maidment	(director)
Padraic Joseph O'Connor	(non-executive director)
Andrew David Pomfret	(non-executive director)
Vincent Joseph Sheridan	(non-executive director)
Kenneth Paul Sroka	(non-executive director) – appointed 12 November 2010
Rolf Albert Wilhelm Tolle	(non-executive director) – appointed 6 December 2010
Clive Andrew Washbourn	(director)

The board has noted the provision on annual re-election of all directors introduced by the UK corporate governance code (the new code) which applies to financial years beginning on or after 29 June 2010. In view of the very recent introduction of this requirement, the company has concluded it will not submit all of the directors for re-election at the annual general meeting to be held on 23 March 2011. However, the company intends to comply fully with this provision of the new code at its annual general meeting in 2012.

Accordingly, Neil Maidment and Nick Furlonge retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Adrian Cox, Ken Sroka and Rolf Tolle, who were appointed by the board since the last annual general meeting, retire in accordance with the articles of association 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 60 to 74. Biographies of directors seeking re-election are set out on pages 54 and 55.

Corporate governance

The company's compliance with corporate governance is disclosed in the corporate governance statement on pages 56 to 58.

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 2010, 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 47 days, purchases included in trade creditors at 31 December 2010 (2009: 50 days).

Corporate, social and environmental responsibility
The company's corporate, social and environmental policy is disclosed on pages 50 to 53.

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

Risk management
The group's approach to risk management is set out on pages 47 to 49 and further detail is contained in note 2 to the financial statements on pages 92 to 101.

Substantial shareholdings
As at 1 February 2011, 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	96,504,154	18.6
Jupiter Asset Management	50,836,989	9.8
Aberforth Partners	29,823,158	5.8
Fidelity Investments	21,100,179	4.1
Legal & General Investment Management	20,950,194	4.0
MFS Investment Management	20,903,922	4.0
Dimensional Fund Advisors	20,559,953	4.0
Aviva Investors	15,875,389	3.1

Annual general meeting
The notice of the annual general meeting to be held at 12.00 noon on Wednesday, 23 March 2011 at 2 Northwood Park, Santry, Dublin is set out in the circular to the shareholders.

At 8 February 2011 there are outstanding options to subscribe for 12.5m ordinary shares pursuant to employee share schemes, representing 2.3% of the issued share capital. If the authority to purchase shares were exercised in full, these options would represent 2.3% of the enlarged issued share capital.

Auditors
The company's auditors have historically been KPMG Audit Plc, based in the United Kingdom. As the company has recently redomiciled to Ireland, the company felt that it was more appropriate that the company's auditors be based in Ireland. Accordingly, KPMG Audit Plc resigned an December 2010 and KPMG was appointed on 7 January 2011. KPMG have indicated their willingness to continue in office. Accordingly, a resolution to reappoint KPMG as auditors of the company will be proposed in the annual general meeting.

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

By order of the board

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

8 February 2011

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

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

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

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

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

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

The directors are responsible for the preparation of the Directors' report and Corporate Governance Statement. The Directors have also elected to prepare a Directors' Remuneration Report on a voluntary basis.

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

J G W Agnew
Chairman

M L Bride
Finance director

8 February 2011

Independent auditors' report to the members of Beazley plc

We have audited the accompanying group and parent company financial statements (the ''financial statements'') of Beazley plc for the year ended 31 December 2010 which comprise the Group Income Statement, the Group and Parent Company Statements of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Cash Flows, the Group and Parent Company Statements of Changes in Equity for the year then ended, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

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

Respective responsibilities of directors and auditors

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 77.

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 have been properly prepared in accordance with the Companies (Jersey) Law 1991 and IFRSs as adopted by the EU. We also report to you whether the part of the Report of the Remuneration Committee to be audited has been properly prepared as if the Company were required to comply with the requirements of UK company law.

We review whether the Statement of Corporate Governance reflects the company's compliance with the nine provisions of the 2008 FRC 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.

In addition we report to you if, in our opinion, the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

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.

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 2010 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, of the state of the parent company's affairs as at 31 December 2010;
- the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991 and IFRSs as adopted by the EU; and
- the parts of the Directors' Remuneration Report marked as audited which we were engaged to audit has been properly prepared in accordance with Schedule 8 to the Companies Act 2006 The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 , as if those requirements were to apply to the company.

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

8 February 2011

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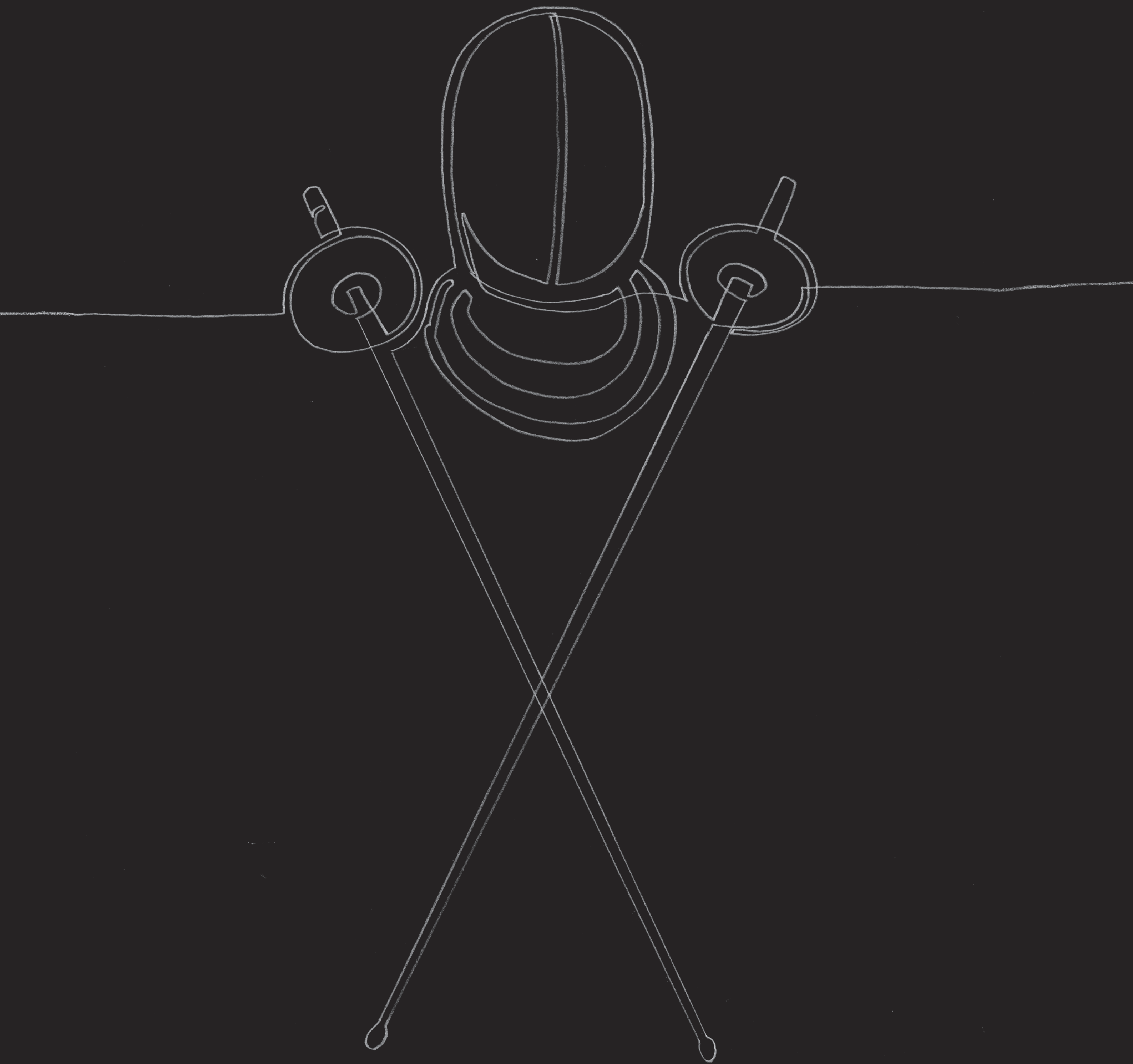


Group income statement

for the year ended 31 December 2010

	Notes	2010 $m	2009 $m
Gross premiums written	3	1,741.6	1,751.3
Written premiums ceded to reinsurers		(339.5)	(420.0)
Net premiums written	3	**1,402.1**	**1,331.3**
Change in gross provision for unearned premiums		38.4	(97.5)
Reinsurer's share of change in the provision for unearned premiums		(35.3)	79.8
Change in net provision for unearned premiums		3.1	(17.7)
Net earned premiums	3	**1,405.2**	**1,313.6**
Net investment income	5	37.5	88.1
Other income	6	28.1	19.6
		65.6	107.7
Revenue		**1,470.8**	**1,421.3**
Insurance claims		860.6	1,007.6
Insurance claims recoverable from reinsurers		(122.4)	(265.0)
Net insurance claims	3	**738.2**	**742.6**
Expenses for the acquisition of insurance contracts	3	381.4	342.6
Administrative expenses		119.2	129.8
Foreign exchange (gain)/loss	3	(34.6)	34.4
Operating expenses		**466.0**	**506.8**
Expenses	3	**1,204.2**	**1,249.4**
Share of loss of associate	3	(0.9)	–
Results of operating activities		**265.7**	**171.9**
Finance costs	9	(14.9)	(13.8)
Profit before income tax		**250.8**	**158.1**
Income tax expense	10	(33.8)	(19.3)
Profit for the year attributable to equity shareholders		**217.0**	**138.8**
Earnings per share (cents per share):			
Basic	11	42.1	28.9
Diluted	11	40.2	27.9
Earnings per share (pence per share):			
Basic	11	27.4	18.4
Diluted	11	26.1	17.8

Statement of comprehensive income

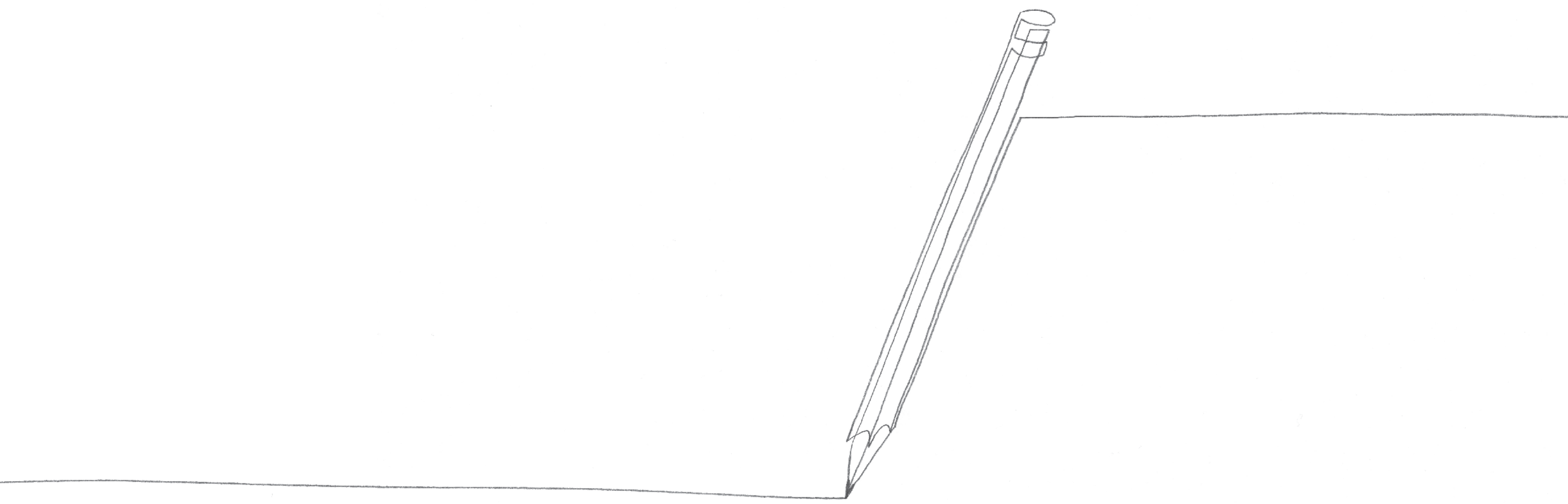
for the year ended 31 December 2010

	31 December 2010 $m	31 December 2009 $m
Group		
Profit for the year attributable to equity shareholders	217.0	138.8
Other comprehensive income		
Change in net investment hedge	(5.4)	11.9
Foreign exchange translation differences	12.6	(24.0)
Reversal of exceptional foreign exchange gain	(33.7)	–
Foreign exchange (loss)/gain arising on change in presentational currency	(22.0)	92.8
Total other comprehensive income	(48.5)	80.7
Total comprehensive income recognised	**168.5**	**219.5**

Statement of comprehensive income

for the year ended 31 December 2010

	31 December 2010 $m	31 December 2009 $m
Company		
Profit for the year attributable to equity shareholders	59.6	8.9
Other comprehensive income		
Foreign exchange translation differences	(44.3)	7.6
Total other comprehensive income	(44.3)	7.6
Total comprehensive income recognised	15.3	**16.5**



Statement of changes in equity

for the year ended 31 December 2010

	Notes	Share capital $m	Share premium $m	Other reserves $m	Retained earnings $m	Total $m
Group						
Balance at 1 January 2009		**35.9**	**405.6**	**(199.4)**	**352.2**	**594.3**
Total comprehensive income recognised		–	–	80.7	138.8	219.5
Dividends paid		–	–	–	(41.3)	(41.3)
Issue of shares	21,22	13.5	208.1	–	–	221.6
Equity settled share based payments	22	–	–	8.1	–	8.1
Acquisition of own shares in trust	22	–	–	(6.3)	–	(6.3)
Cancellation of treasury shares	22	(1.5)	(41.6)	43.1		–
Transfer on scheme of arrangement and reverse acquisition	22	(5.3)	(571.6)	5.4	571.5	–
Balance at 31 December 2009		**42.6**	**0.5**	**(68.4)**	**1,021.2**	**995.9**
Total comprehensive income recognised		–	–	(48.5)	217.0	168.5
Dividends paid		–	–	–	(55.5)	(55.5)
Issue of shares	21,22	0.1	0.2	–	–	0.3
Equity settled share based payments	22	–	–	9.1	–	9.1
Acquisition of own shares in trust	22	–	–	(6.5)	–	(6.5)
Purchase of treasury shares	21,22	–	–	(28.9)	–	(28.9)
Balance at 31 December 2010		**42.7**	**0.7**	**(143.2)**	**1,182.7**	**1,082.9**

Statement of changes in equity

for the year ended 31 December 2010

	Notes	Share capital $m	Share premium $m	Other reserves $m	Retained earnings $m	Total $m
Company						
Balance on incorporation at 9 June 2009		**–**	**–**	**–**	**–**	**–**
Transfer on scheme of arrangement and reverse acquisition	22	42.6	–	(35.4)	788.2	795.4
Total comprehensive income recognised		–	–	7.6	8.9	16.8
Foreign exchange		–	–	0.8	–	0.8
Dividends paid		–	–	–	(19.3)	(19.3)
Issue of shares	21,22	–	0.5	–	–	0.5
Equity settled share based payments	22	–	–	4.4	–	4.4
Acquisition of own shares in trust	22	–	–	(4.1)	–	(4.1)
Balance at 31 December 2009		**42.6**	**0.5**	**(26.7)**	**777.8**	**794.2**
Total comprehensive income recognised		–	–	(44.3)	59.6	15.3
Dividends paid		–	–	–	(55.5)	(55.5)
Issue of shares	21,22	0.1	0.2	–	–	0.3
Equity settled share based payments	22	–	–	9.1	–	9.1
Purchase of treasury shares	22	–	–	(28.9)	–	(28.9)
Acquisition of own shares in trust	22	–	–	(6.5)	–	(6.5)
Balance at 31 December 2010		**42.7**	**0.7**	**(97.3)**	**781.9**	**728.0**

Statements of financial position

as at 31 December 2010

		2010		2009		2008
	Notes	Group $m	Company $m	Group $m	Company $m	Group $m
Assets						
Intangible assets	13	117.0	–	113.5	–	75.6
Plant and equipment	14	9.6	1.7	12.4	0.5	11.7
Investment in subsidiaries		–	747.2	–	791.5	–
Investment in associates	15	6.5	1.4	1.4	1.4	–
Deferred acquisition costs	16	164.0	–	155.5	–	131.8
Deferred tax assets	29	9.5	–	8.9	–	9.8
Current income tax asset		26.4	–	–	–	–
Retirement benefit asset	28	3.1	–	1.6	–	–
Reinsurance assets	19,24,36	1,034.9	–	1,156.1	–	775.6
Financial investments	17,36	2,577.6	–	2,848.3	–	2,232.9
Derivative financial instruments	26	–	–	9.3	–	3.9
Insurance receivables	18,36	527.1	–	498.0	–	414.4
Other receivables		33.9	0.5	25.6	0.8	21.9
Cash and cash equivalents	20,36	1,264.7	4.0	813.4	–	638.8
Total assets		**5,774.3**	**754.8**	**5,644.0**	**794.2**	**4,316.4**
Equity						
Share capital	21	42.7	42.7	42.6	42.6	35.9
Share premium		0.7	0.7	0.5	0.5	405.6
Other reserves	22	(143.2)	(97.3)	(68.4)	(26.7)	(199.4)
Retained earnings		1,182.7	781.9	1,021.2	777.8	352.2
Total equity		**1,082.9**	**728.0**	**995.9**	**794.2**	**594.3**
Liabilities						
Insurance liabilities	24,36	4,046.8	–	4,023.7	–	3,235.2
Borrowings	25,36	268.2	–	278.7	–	255.6
Other payables	27	285.4	26.8	289.3	–	166.6
Deferred tax liabilities	29	91.0	–	35.1	–	53.4
Current income tax liabilities		–	–	21.3	–	11.3
Total liabilities		**4,691.4**	**26.8**	**4,648.1**	**–**	**3,722.1**
Total equity and liabilities		**5,774.3**	**754.8**	**5,644.0**	**794.2**	**4,316.4**

The financial statements were approved by the board of directors on 8 February 2011 and were signed on its behalf by:

J G W Agnew, Chairman

M L Bride, Finance director

Statement of cash flows

for the year ended 31 December 2010

	Notes	2010 Group $m	2010 Company $m	2009 Group $m	2009 Company $m
Cash flow from operating activities					
Profit before tax		**250.8**	**59.6**	**158.1**	**8.9**
Adjustments for:					
Amortisation of intangibles		3.5	–	2.2	–
Equity settled share based compensation		9.1	9.1	8.1	–
Retranslation of overseas net assets		1.4	–	5.8	–
Net fair value gains on financial assets		(6.2)	–	(10.4)	–
Loss on disposal of plant and equipment		0.3	–	–	–
Loss in associate		0.9	–	–	–
Depreciation of plant & equipment		4.2	0.4	5.0	–
Increase in insurance and other liabilities		19.2	26.8	509.5	–
Increase/(decrease) in insurance, reinsurance and other receivables		83.8	0.3	(312.0)	(0.8)
Increase in deferred acquisition costs		(8.5)	–	(8.1)	–
Financial income		(60.2)	–	(63.6)	–
Financial expense		14.9	–	13.8	–
Income tax paid		(26.2)	–	(34.6)	–
Contribution to pension fund		(1.5)	–	(1.4)	–
Net cash from operating activities		**285.5**	**96.2**	**272.4**	**8.1**
Cash flow from investing activities					
Purchase of plant and equipment	14	(2.0)	(1.6)	(5.0)	(0.5)
Purchase of syndicate capacity	13	(0.2)	–	(1.8)	–
Acquisition of subsidiary (net of cash acquired)	13	–	–	(33.6)	–
Purchase of investments		(4,523.0)	–	(10,090.7)	(791.5)
Expenditure on software development	13	(7.9)	–	(11.1)	–
Proceeds from sale of investments		4,799.9	–	9,749.4	–
Investment in associate		(6.0)	–	(1.5)	(1.5)
Interest and dividends received		60.2	–	63.7	–
Net cash from/(used in) investing activities		**321.0**	**(1.6)**	**(330.6)**	**(793.5)**
Cash flow from financing activities					
Proceeds from issue of shares		0.3	0.3	221.6	804.7
Purchase of treasury shares		(28.9)	(28.9)	–	–
Acquisition of own shares in trust	22	(6.5)	(6.5)	(6.3)	–
Interest paid		(14.9)	–	(13.8)	–
Dividends paid	12	(55.5)	(55.5)	(41.3)	(19.3)
Net cash from/(used in) financing activities		**105.5**	**(90.6)**	**160.2**	**785.4**
Net increase in cash and cash equivalents		501.0	4.0	**102.0**	**–**
Cash and cash equivalents at beginning of year		813.4	–	638.8	–
Effect of exchange rate changes on cash and cash equivalents		(49.7)	–	72.6	–
Cash and cash equivalents at end of year	20	**1,264.7**	**4.0**	**813.4**	**–**

Notes to the financial statements

1 Statement of accounting policies

Beazley plc is a company incorporated in Jersey and domiciled in Ireland. The group financial statements for the year ended 31 December 2010 comprise the parent company and its subsidiaries and the group's interest in associates.

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

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

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

IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The group and company will apply IAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the group or company's financial statements. The group and company has applied IAS 1 (amendment) from 1 January 2010. It has not had a material impact on the group or company's financial statements.

IFRS 2 (amended) "Group Cash-settled share based payments transactions". This amendment defines vesting conditions as service and performance conditions only, the standard states that features of a share-based payment that are not vesting conditions should be included in the grant date fair value of the share-based payment. The standard also requires that all cancellations are accounted for as an acceleration of the vesting period and as such amounts unrecognised at the cancellation date that would have been otherwise charged should be recognised immediately.

IFRS 3 (revised) 'Business Combinations'. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The group decide to apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010 and therefore there is no impact on prior periods in the group's 2010 group financial statements.

IAS 27 (amended) "Consolidated and Separate Financial Statements". This amendment is to enhance the relevance, reliability and comparability of the information that a parent entity provides for a group of entities under its control.

IAS 39 (amended) "Financial Instruments: Recognition and Measurement – Eligible Hedged Items". The amendment was issued in July 2008. IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. It does not have a material impact on the group or company's financial statements.

IAS 39 (amended) "Reclassification of financial assets: Effective Date and Transition" permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through income by the entity upon initial recognition) out of the fair value through income category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available for sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. The group did not elect to reclassify any financial assets following adoption of these standards.

IAS 24 Related parties. The amendment relaxes the disclosures of transactions between government-related entities and clarifies related-party definition. The amendment does not have an impact on the group or company's financial statements.

IFRIC 16 'Hedges of a Net Investment in a Foreign Operation' clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. This interpretation does not have a material impact on the group's financial statements.

In addition, the following is a list of standards or interpretations that are in issue and endorsed by the EU but have not yet been adopted by the company, together with the effective date of application to the company:

- IAS 32 Amendment: Classification of Rights Issues (effective 1 January 2011)
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments (effective 1 January 2011)
- IFRIC 14 Amendment: Prepayment of a Minimum Funding Requirement (relating to IAS 19) (effective 1 January 2011).

The implementation of these standards and interpretations is not currently expected to have a material impact on the company.

New holding company

Beazley plc was incorporated in Jersey on 20 February 2009 under the Jersey Companies Law as a public company limited by shares and with registered number 102680. With effect from 9 June 2009, under a scheme of arrangement involving a share exchange with the members of Beazley group plc, the company became the new holding company of the Beazley group of companies.

1 Statement of accounting policies continued

Throughout the period from incorporation to 9 June 2009 Beazley plc was a shell company with no material revenues and assets and did not constitute a 'business' as defined by IFRS 3 Business combinations. Consequently, due to the relative values of both companies, the shareholders of Beazley group plc immediately before the share exchange acquired, in effect, 100 per cent of the share capital of Beazley plc on completion of the transaction.

In order to appropriately reflect the substance of the transaction outlined above, the new holding company has been accounted for using the reverse acquisition principles outlined in IFRS 3. Consequently, Beazley group plc is deemed to be the acquirer for accounting purposes and the legal parent company, Beazley plc is treated as a subsidiary whose identifiable assets and liabilities are incorporated into the group at fair value.

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

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

Beazley plc is a company incorporated in Jersey and domiciled in the Republic of Ireland. The annual financial statements of the group for the year ended 31 December 2010 comprise the parent company and its subsidiaries and the group's interest in associates.

Change in functional currency
IAS 21 (The effect of changes in foreign exchange rates) describes functional currency as 'the currency of the primary economic environment in which entity operates'. Taking into consideration all the changes listed, Beazley plc has concluded that its functional currency and those of its principal operating entities has changed to US dollars:

- The group's regulatory capital is primarily held in US dollars. On 5 January 2010 the group aligned its underwriting capital to US dollars. Consequently our funds at Lloyd's consisted of $491m and £152m, reflecting the currency mix of our underlying business in 2010.
- The group has increased the scale of its US operation. The group acquired Omaha Property and Casualty Inc. in 2005 which was renamed Beazley Insurance Company Inc., this entity is licensed to write insurance business in all 50 US states. The US managing general agent, Beazley USA Services Inc., was established at the same time and over the past five years has grown from a staff of seven individuals in 2005 to 302 employees in 2010. The number of office locations in the US has increased from two in 2005 to 11 in 2010.
- The group has increased its locally written premiums in US dollars from $269.1m in 2008 to $370.7m in 2009. This increase was largely driven by the acquisition of First State Management Inc., on 1 April 2009, which contributed $93.9m of premium in 2009.
- A proportionate increase over time in the relative amount of US dollar premiums written. US dollar premiums are then invested in US dollar denominated assets. In 2005, the group wrote 70% of its premiums in US dollars, this has grown to 76% in 2009 partly attributable to the expansion of our locally underwritten US business.
- A majority of costs are incurred in US dollars (i.e. claims, brokerage and operating expenses). In line with the point explained above on premium growth in US dollars, associated acquisition costs and claims are largely incurred in US dollars.
- The group has grown its US dollar asset base. The group's exposure to US dollars has grown considerably since 2004, when around 40% of the group's total assets were US dollar denominated, this has grown to around 80% at the end of 2009.

In Beazley's case the change in functional currency reflects the accumulation over time of those factors which are the main determinants of an entity's functional currency. It is inevitably a matter of judgement as to when the weight of evidence is such that a change must be made. Having considered the aggregate effect of all the factors listed above building up over time, the directors concluded in the board meeting on 24 March 2010 that this point was reached in the first quarter and accordingly, that the functional currency of Beazley plc and that of its principal operating entities had permanently changed to the US dollar. This change was effected from 1 April 2010. In accordance with IAS 21 this change has been accounted for prospectively from this date. The directors concluded this point was reached in the first quarter of 2010. Foreign exchange volatility is expected to be significantly reduced following the transition as the group's currency exposures are more closely matched to its functional currency.

Change in presentation currency
From 1 January 2010 the group has changed its presentation currency to US dollars and hence all presentations and disclosures are in US Dollars, unless stated otherwise. Comparative information has been restated in US dollars in accordance with the guidance defined in IAS 21. The 2009 full year primary statements and associated notes along with the third statement of financial position as presented have been retranslated from pounds sterling to US dollars using the procedures outlined below:

- Assets and liabilities were translated into US dollars at closing rates of exchange. Trading results were translated into US dollars at the rates of exchange prevailing at the dates of transaction or average rates where these are a suitable proxy. Differences resulting from the retranslation on the opening net assets and the results for the year have been taken to reserves;
- The cumulative translation reserve was set to nil at 1 January 2005 (i.e. the transition date to IFRS). Share capital, share premiums and other reserves were translated at historic rates prevailing at the dates of transactions; and

All exchange rates used were extracted from the group's underlying financial records.

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

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

1 Statement of accounting policies continued

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in this statement of accounting policies and in notes 2 and 24 (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 ends.

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. The accounting treatment of acquisition expenses per IFRS 3 (revised) has changed, however as the group will apply the revised standard prospectively to all business combinations from 1 January 2010 and therefore there will be no impact on accounting for the acquisition of subsidiaries made in prior periods.

Financial investments made by the parent company in subsidiary undertakings and associates 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 are 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 are 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 US dollars, which is the group’s presentation currency as described above.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using average exchange rates applicable to this period in 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 statement of financial position 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 in other comprehensive income as a separate component of equity.

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

Insurance contracts

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

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

1 Statement of accounting policies continued

Net earned premiums

a) Premiums

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

b) Unearned premiums

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

Deferred acquisition costs (DAC)

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

Claims

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

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

Liability adequacy testing

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

Ceded reinsurance

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

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

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

Revenue

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

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

Dividends paid

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

Plant and equipment

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

Fixtures and fittings	Three to ten years
Computer equipment	Three years

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

1 Statement of accounting policies continued

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. The accounting treatment of goodwill per IFRS 3 (revised) has changed, however the group decided to apply the revised standard prospectively to all business combinations from 1 January 2010 and therefore there will be no impact on accounting for the acquisition of subsidiaries made in prior periods.

Goodwill has an indefinite life and is annually tested for impairment. Goodwill is allocated to each cash generating unit (being the groups' operating segments) 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 statement of financial position. It has an indefinite useful life and is carried at cost less accumulated impairment. It is annually tested for impairment by reference to the expected future profit streams to be earned by those syndicates in which the group participates, namely 2623, 3622 and 3623, and provision is made for any impairment.

c) Licences

Licences have an indefinite useful life and are initially recorded at fair value. Licences are annually tested for impairment and provision is made for any impairment when the 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 programs. 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 statement of financial position at such time that the group becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the group's obligations specified in the contract expire, are discharged or cancelled.

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

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.

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

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.

1 Statement of accounting policies continued

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, 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 relating to financial instruments at fair value through the income statement are recognised in the income statement when incurred. Financial assets at fair value through the income statement are measured at fair value, and changes therein are recognised in the income statement. Net changes in the fair value of financial assets at fair value through the income statement exclude interest and dividend income.

Hedge funds
The group participates in a number of hedge funds and related financial instruments for which there are no available quoted market prices. The valuation of these hedge funds is based on fair value techniques (as described above). The fair value of our hedge fund portfolio is calculated by reference to the underlying net asset values (NAV's) 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. Insurance receivables are classified as "loans and receivables" as they are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Insurance receivables are measured at amortised cost less any provision for impairments. Insurance payables are stated at amortised cost.

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 original cost of the investment. Unrealised investment gains and losses represent the difference between the carrying value at the reporting date, and the carrying value at the previous period end or purchase value during the period.

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.

1 Statement of accounting policies continued

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.

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 other comprehensive income. 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 if the forecast transaction is still expected to occur the cumulative amount recognised in other comprehensive income is reclassified to the income statement when the forecast transaction affects the income statement. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is reclassified immediately to 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 other comprehensive income and presented within equity in other reserves; the gain or loss relating to the ineffective portion is recognised immediately in the income statement within "net fair value gains/(losses) on financial investments" through the income statement.

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

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

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

Cash and cash equivalents
Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks, 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.

1 Statement of accounting policies continued

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

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

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

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

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

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

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

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

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

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

The shares held in the employee share options plan (ESOP) 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 eight areas: insurance, asset (or market risk), operational, credit, group, regulatory and legal, liquidity and strategic risk market. 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.

2 Risk management continued

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.

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

The group uses a number of modelling tools to monitor its exposures against the risk appetite set and to simulate catastrophe losses in order to measure the effectiveness of its reinsurance programmes. Stress and scenario tests are also run using these models. The range of scenarios considered include natural catastrophes, marine, liability, political, terrorism and war events.

One of the largest types of event exposure relates to natural catastrophe events such as windstorm or earthquake. Where possible the group measures geographic accumulations and uses its knowledge of the business, historical loss behaviour and commercial catastrophe modelling software to assess the expected range of losses at different return periods. Upon application of the reinsurance coverage purchased, the key gross and net exposures are calculated on the basis of extreme events at a range of return periods.

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

Unaudited

	2010		2009	
Lloyd's prescribed natural catastrophe event	Modelled PML (before reinsurance) US$m	Modelled PML (after reinsurance) US$m	Modelled PML (before reinsurance) US$m	Modelled PML (after reinsurance) US$m
San Francisco quake (US$78bn, 2009: US$74bn)	712.0	265.7	695.0	239.8
Gulf of Mexico windstorm (US$113bn, 2009: US$113bn)	557.3	303.8	456.0	236.5
Florida Pinellas windstorm (US$125bn, 2009: US$119bn)	532.2	277.0	493.3	237.3

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 2010, the normal maximum gross probable maximum loss (PML) line that any one underwriter could commit the managed syndicates to was US$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.

2 Risk management continued

Operating Divisions

In 2010, the group's business consisted of six operating divisions. The following table provides a breakdown of gross written premiums written by division, and also provides a geographical split based on placement of risk.

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

2009	UK (Lloyd's)	US (Non Lloyd's)	Total
Life, accident & health	4%	–	4%
Marine	15%	–	15%
Political risks & contingency	7%	–	7%
Property	21%	1%	22%
Reinsurance	8%	–	8%
Specialty lines	35%	9%	44%
Total	**90%**	**10%**	**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 complement the underwriting team business plans and seek to protect group capital from an adverse volume or volatility of claims on both a per risk and per event basis. In some cases the group deems it more economic to hold capital than purchase reinsurance. These decisions are regularly reviewed as an integral part of the business planning and performance monitoring process.

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

c) Claims management risk

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

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

d) Reserving and ultimate reserves risk

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

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

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

2 Risk management continued

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

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

31 December 2010	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial investments	2,129.5	15.0	–	–	433.1	2,577.6
Insurance receivables	–	–	–	–	527.1	527.1
Reinsurance assets	1,034.9	–	–	–	–	1,034.9
Other receivables	33.9	–	–	–	–	33.9
Cash and cash equivalents	1,264.7	–	–	–	–	1,264.7
Total	**4,463.0**	**15.0**	**–**	**–**	**960.2**	**5,438.2**

31 December 2009	Tier 1 $m	Tier 2 $m	Tier 3 $m	Tier 4 $m	Unrated $m	Total $m
Financial investments	2,574.4	5.3	–	–	268.6	2,848.3
Derivative financial instruments	9.3	–	–	–	–	9.3
Insurance receivables	–	–	–	–	498.0	498.0
Reinsurance assets	1,156.1	–	–	–	–	1,156.1
Other receivables	25.6	–	–	–	–	25.6
Cash and cash equivalents	813.4	–	–	–	–	813.4
Total	**4,578.8**	**5.3**	**–**	**–**	**766.6**	**5,350.7**

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

An analysis of the overall credit risk exposure indicates that the group has reinsurance assets that are impaired at the reporting date. The total impairment provision made in respect of these assets at 31 December 2010 totals $17.3m (2009: $15.8m).

Insurance receivables, financial assets and all other asset balances held by the group have not been impaired, based on all evidence available, and no impairment provision has been recognised in respect of these assets.

Insurance receivables in respect of coverholder business are credit controlled by third party managers. We monitor third party coverholders' performance and their financial processes through the group's coverholder management team.

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

2 Risk management continued

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

31 December 2010	Up to 30 days past due $m	30 – 60 days past due $m	60 – 90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance receivables	10.9	1.9	1.9	2.8	17.5
Reinsurance assets	2.7	4.6	3.6	13.7	24.6

31 December 2009	Up to 30 days past due $m	30 – 60 days past due $m	60 – 90 days past due $m	Greater than 90 days past due $m	Total $m
Insurance receivables	8.1	2.4	0.6	2.6	13.7
Reinsurance assets	2.8	3.4	4.7	11.8	22.7

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 (details of the group's exposure to realistic disaster scenarios (RDS) are provided on page 93). This means that the group maintains sufficient liquid assets, or assets that can be translated into liquid assets at short notice and without any significant capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return. The group also makes use of loan facilities and borrowings, details of which can be found in note 25. Further information on the group's capital resources is contained on pages 41 and 42. The sources and uses of funds table on page 42 shows the level of surplus capital that the group currently holds. This is the surplus over expected working capital and regulatory capital requirements and represents a buffer that could be used to meet unforeseen costs or take advantage of new opportunities.

The following is an analysis by business segment of the estimated timing of the net cash flows based on the net claims liabilities balance held at 31 December 2010:

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

2 Risk management continued

31 December 2009	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Life, accident & health	9.9	4.6	0.6	0.2	15.3	1.1
Marine	92.9	85.6	28.7	2.1	209.3	1.6
Political risks & contingency	47.3	49.1	29.5	2.6	128.5	1.9
Property	125.1	84.5	16.3	6.4	232.3	1.4
Reinsurance	68.5	65.8	19.8	2.9	157.0	1.5
Specialty lines	333.0	617.6	391.5	166.3	1,508.4	2.6
Net insurance liabilities	676.7	907.2	486.4	180.5	2,250.8	

The following table is an analysis of the net cash flows based on all the liabilities held at 31 December 2010:

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

31 December 2009	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total
Net insurance liabilities	676.7	907.2	486.4	180.5	2,250.8
Borrowings	–	–	–	278.7	278.7
Other payables	289.3	–	–	–	289.3
Deferred tax liability	–	35.1	–	–	35.1
Current income tax liabilities	21.3	–	–	–	21.3

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

Maturity 31 December 2010	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Debt securities	1,030.5	471.8	206.9	221.6	140.9	58.5	14.3	2,144.5
Cash and cash equivalents	1,264.7	–	–	–	–	–	–	1,264.7
Borrowings						(250.2)	(18.0)	(268.2)
Total	**2,295.2**	**471.8**	**206.9**	**221.6**	**140.9**	**(191.7)**	**(3.7)**	**3,141.0**

31 December 2009	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Debt securities	1,184.0	1,025.2	236.6	7.6	0.6	75.0	23.5	2,579.5
Cash and cash equivalents	813.4	–	–	–	–	–	–	813.4
Derivative financial instruments	–	–	–	–	–	9.3	–	9.3
Borrowings	–	–	–	–	–	(260.7)	(18.0)	(278.7)
Total	**1,997.4**	**1,025.2**	**263.6**	**7.6**	**0.6**	**(176.4)**	**5.5**	**3,123.5**

The group makes additional interest payments for borrowings and derivative financial instruments. Further details are provided in notes 25 and 26.

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

As mentioned in note 1 to the financial statements on accounting policies, the group has changed the functional currency to the US dollar for Beazley plc and its main trading entities and the presentation currency in which it now reports its consolidated results to the US dollar. The effect of this on foreign exchange risk is that the group is now exposed to any non-dollar transactions and net assets, whereas previously exposures existed in respect of non-sterling transactions and net assets.

2 Risk management continued

Given that the rationale for the change in functional and presentation currencies was that US dollars represent the most economically significant currency to the group, the change to reporting in this currency has thus generally reduced the overall risk profile arising from foreign exchange movements. However foreign exchange risk is still actively managed as described below.

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 US dollars on initial recognition and revalued at the reporting date.

In 2010, the group managed its foreign exchange risk by periodically assessing its non-dollar exposures and hedging these to a tolerable level while targeting net assets to be entirely US dollar denominated. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk.

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

The group also has investment in foreign subsidiaries with functional currencies that are different from the presentation currency. This gives rise to a currency translation exposure to UK sterling, Hong Kong dollars and Singapore dollars, although these exposures are minimal.

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

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

31 December 2009	UK £ $m	CAD $ $m	EUR € $m	Subtotal $m	US $ $m	Total $m
Total assets	1,059.9	135.2	313.0	1,508.1	4,135.9	5,644.0
Total liabilities	(393.5)	(87.4)	(288.2)	(769.1)	(3,879.0)	(4,648.1)
Net assets	**666.4**	**47.8**	**24.8**	**739.0**	**256.9**	**995.9**

The net assets for 2009 have been stated excluding the effect of the cross currency swap explained in note 25.

Sensitivity analysis
Fluctuations in the group's trading currencies against the US dollar would result in a change to net asset value. The table below gives an indication of the impact on net assets of a % change in relative strength of US dollar against the value of Sterling, Canadian dollar and Euro, simultaneously. The analysis is based on the current information available 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.

Change in exchange rate of UK sterling, Canadian dollar and Euro relative to US dollar	Impact on profit after tax for the year 2010 $m	Impact on net assets 2010 $m
Dollar weakens 30% against other currencies	21.0	21.0
Dollar weakens 20% against other currencies	14.0	14.0
Dollar weakens 10% against other currencies	7.0	7.0
Dollar strengthens 10% against other currencies	(7.0)	(7.0)
Dollar strengthens 20% against other currencies	(14.0)	(14.0)
Dollar strengthens 30% against other currencies	(21.0)	(21.0)

The analysis above is presented for the impact on 2010 results only. Since the underlying functional currencies of the principal operating entities was sterling until 1 April 2010, the analysis would not be relevant for 2009 results and is therefore not presented.

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

2 Risk management continued

Duration 31 December 2010	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Debt securities	1,380.6	207.7	185.3	226.9	87.1	56.9	–	2,144.5
Cash and cash equivalents	1,264.7	–	–	–	–	–	–	1,264.7
Derivative financial instruments	–	–	–	–	–	–	–	–
Borrowings	–	–	–	–	–	(250.2)	(18.0)	(268.2)
Total	**2,645.3**	**207.7**	**185.3**	**226.9**	**87.1**	**(193.3)**	**(18.0)**	**3,141.0**

31 December 2009	<1 yr $m	1-2 yrs $m	2-3 yrs $m	3-4 yrs $m	4-5 yrs $m	5-10 yrs $m	>10 yrs $m	Total $m
Debt securities	1,611.2	703.4	209.0	14.7	41.2	–	–	2,579.5
Cash and cash equivalents	813.4	–	–	–	–	–	–	813.4
Derivative financial instruments	–	–	–	–	–	9.3	–	9.3
Borrowings	–	–	–	–	–	(260.7)	(18.0)	(278.7)
Total	**2,424.6**	**703.4**	**209.0**	**14.7**	**41.2**	**(251.4)**	**(18.0)**	**3,123.5**

Sensitivity analysis

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

	Impact on profit after income tax for the year		Impact on net assets	
	2010 $m	2009 $m	2010 $m	2009 $m
Shift in yield (basis points)				
150 basis point increase	(23.7)	(27.5)	(23.7)	(27.5)
100 basis point increase	(15.7)	(18.4)	(15.7)	(18.4)
50 basis point increase	(8.0)	(9.2)	(8.0)	(9.2)
50 basis point decrease	8.0	9.2	8.0	9.2
100 basis point decrease	15.7	18.4	15.7	18.4

Price risk

Debt securities and hedge funds that are recognised on the statement of financial position at their fair value are susceptible to losses due to adverse changes in prices. This is referred to as price risk.

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

	Impact on profit after income tax for the year		Impact on net assets	
	2010 $m	2009 $m	2010 $m	2009 $m
Change in fair value of hedge fund portfolios				
30% increase in fair value	106.1	64.4	106.1	64.4
20% increase in fair value	70.7	43.0	70.7	43.0
10% increase in fair value	35.4	21.5	35.4	21.5
10% decrease in fair value	(35.4)	(21.5)	(35.4)	(21.5)
20% decrease in fair value	(70.7)	(43.0)	(70.7)	(43.0)
30% decrease in fair value	(106.1)	(64.4)	(106.1)	(64.4)

2 Risk management continued

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

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

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

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

Key components of the group's operational control environment include:

- ICA modelling of operational risk exposure and scenario testing;
- Management review of activities;
- Documentation of policies and procedures;
- Preventative and detective controls within key processes;
- Contingency planning; and
- Other systems controls.

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 three main components of group risk which are explained below.

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 worldwide business in the UK, US, Europe and Asia, management stretch may make the identification, analysis and control of group risks more complex.

On a day-to-day basis, the group's management structure encourages organisational flexibility and adaptability, while ensuring that activities are appropriately 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 the syndicates in which it participates being 2623, 3623 and 3622. This is based on the group's own individual capital assessment. This may be provided in the form of either the group's cash and investments or debt facilities;
2 To support underwriting in Beazley Insurance Company, Inc. in the US; and
3 To make acquisitions, such as First State Management Group, Inc in 2009, of insurance companies or MGAs whose strategic goals are aligned with our own.

The capital structure section of the financial review along with the ICA and Solvency II sections on pages 42 to 43 provide further background to the group's management of capital.

2 Risk management continued

2.7 Strategic risk
This is the risk that the group's strategy is inappropriate or that the group is unable to implement its strategy. There is 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.

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

3 Segmental analysis

a) Reporting segments
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. During 2010 the decision was taken to separately report the life, accident & health division due to its growth and significant contribution to the group's result. This segment was previously disclosed as part of reinsurance, however for consistency all prior year comparatives for the life, accident and health division have been removed from the reinsurance division and separately disclosed. The operating segments are based upon the different types of insurance risk underwritten by the group as described below:

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

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

Political risks & contingency
This segment underwrites terrorism, political violence, expropriation and credit risks as well as contingency and risks associated with contract frustration.

Property
The property segment underwrites commercial, high-value homeowners and engineering property insurance on a worldwide basis.

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

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The reporting segments do not cross-sell business between each other. There are no individual policy holders that comprise greater than ten percent of the group's total gross premiums written.

3 Segmental analysis continued

b) Segment results

2010	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total reportable segments $m	Unallocated $m	Total $m
Segment results									
Gross premiums written	78.1	261.7	100.9	382.5	174.4	744.0	1,741.6	–	1,741.6
Net premiums written	71.4	235.6	79.9	283.8	134.4	597.0	1,402.1	–	1,402.1
Net earned premiums	65.9	234.7	87.7	286.9	132.1	602.7	1,410.0	(4.8)	1,405.2
Net investment income	0.9	3.3	2.2	4.9	2.9	23.3	37.5	–	37.5
Other income	2.0	3.1	1.3	10.3	2.3	9.1	28.1	–	28.1
Revenue	**68.8**	**241.1**	**91.2**	**302.1**	**137.3**	**635.1**	**1,475.6**	**(4.8)**	**1,470.8**
Net insurance claims	35.1	89.6	25.1	140.6	82.9	364.9	738.2	–	738.2
Expenses for the acquisition of insurance contracts	20.0	59.8	24.0	107.2	25.2	150.8	387.0	(5.6)	381.4
Administrative expenses	9.3	17.2	7.8	31.4	10.6	42.9	119.2	–	119.2
Non recurring foreign exchange gain	–	–	–	–	–	–	–	(33.7)	(33.7)
Foreign exchange (gain)/loss	(0.3)	(0.9)	(0.4)	(1.3)	(0.6)	(2.6)	(6.1)	5.2	(0.9)
Expenses	**64.1**	**165.7**	**56.5**	**277.9**	**118.1**	**556.0**	**1,238.3**	**(34.1)**	**1,204.2**
Share of loss of associate	–	–	–	–	–	(0.9)	(0.9)	–	(0.9)
Segments result	**4.7**	**75.4**	**34.7**	**24.2**	**19.2**	**78.2**	**236.4**	**29.3**	**265.7**
Finance costs									(14.9)
Profit before income tax									**250.8**
Income tax expense									(33.8)
Profit for the year attributable to equity shareholders									**217.0**
Claims ratio	53%	38%	29%	49%	63%	61%	52%		
Expense ratio	44%	33%	36%	48%	27%	32%	36%		
Combined ratio	97%	71%	65%	97%	90%	93%	88%		
Segment assets and liabilities									
Segment assets	180.6	860.2	692.7	921.7	323.1	2,768.5	5,746.8	27.5	5,774.3
Segment liabilities	(124.8)	(605.6)	(587.3)	(796.9)	(201.8)	(2,375.0)	(4,691.4)	–	(4,691.4)
Net assets	**55.8**	**254.6**	**105.4**	**124.8**	**121.3**	**393.5**	**1,055.4**	**27.5**	**1,082.9**
Additional information									
Capital expenditure	0.2	0.7	0.4	1.9	0.5	6.4	10.1	–	10.1
Depreciation	0.1	0.2	0.3	1.8	0.3	5.0	7.7	–	7.7
Net cash flow	25.2	98.9	39.8	56.1	58.1	173.2	451.3	–	451.3

3 Segmental analysis continued

2009	Life, accident & health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total reportable segments $m	Unallocated $m	Total $m
Gross premiums written	67.9	265.0	127.6	394.4	142.2	754.2	1,751.3	–	1,751.3
Net premiums written	63.4	228.9	98.6	283.1	117.3	540.1	1,331.4	–	1,331.4
Net earned premiums	35.4	239.9	112.9	272.4	117.0	571.3	1,348.9	(35.3)	1,313.6
Net investment income	0.6	8.5	4.1	10.8	5.8	58.3	88.1	–	88.1
Other income	–	2.4	1.1	6.3	1.7	8.1	19.6	–	19.6
Revenue	**36.0**	**250.8**	**118.1**	**289.5**	**124.5**	**637.7**	**1,456.6**	**(35.3)**	**1,421.3**
Net insurance claims	19.3	92.8	85.9	159.4	38.5	346.7	742.6	–	742.6
Expenses for the acquisition of insurance contracts	10.5	66.7	28.7	89.3	23.4	129.5	348.1	(5.5)	342.6
Administrative expenses	8.5	18.5	11.8	32.3	10.2	48.5	129.8	–	129.8
Foreign exchange (gain)/loss	(0.3)	(1.4)	(0.6)	(2.0)	(0.8)	(3.8)	(8.9)	43.3	34.4
Expenses	**38.0**	**176.6**	**125.8**	**279.0**	**71.3**	**520.9**	**1,211.6**	**37.8**	**1,249.4**
Segments result	**(2.0)**	**74.2**	**(7.7)**	**10.5**	**53.2**	**116.8**	**245.0**	**(73.1)**	**171.9**
Finance costs									(13.8)
Profit before income tax									**158.1**
Income tax expense									(19.3)
Profit for the year attributable to equity shareholders									**138.8**
Claims ratio	54%	39%	76%	58%	33%	61%	55%		
Expense ratio	54%	35%	36%	45%	29%	31%	35%		
Combined ratio	108%	74%	112%	103%	62%	92%	90%		
Segment assets and liabilities									
Segment assets	177.7	836.7	683.6	909.3	307.1	2,727.7	5,642.1	1.9	5,644.0
Segment liabilities	(122.3)	(618.8)	(596.0)	(785.8)	(179.1)	(2,346.1)	(4,648.1)	–	(4,648.1)
Net assets	**55.4**	**217.9**	**87.6**	**123.5**	**128.0**	**381.6**	**994.0**	**1.9**	**995.9**
Additional information									
Capital expenditure	0.3	1.2	1.1	23.4	0.8	13.5	40.3	–	40.3
Depreciation	0.3	0.2	0.2	1.9	0.8	3.5	6.9	–	6.9
Net cash flow	9.3	37.0	23.1	23.2	17.0	65.0	174.6	–	174.6

c) Information about geographical areas

The group's operating segments are also managed geographically by placement of risk. UK earned premium in the analysis below represents all risks placed at Lloyd's and US earned premium represents all risks placed at the group's US insurance company, Beazley Insurance Company Inc. An analysis of earned premium split geographically by where the premium is sourced and by reportable segment is provided in note 2 on page 94.

	2010 $m	2009 $m
Net earned premiums		
UK (Lloyd's)	1,369.4	1,276.9
US (Non-Lloyd's)	35.8	36.7
	1,405.2	1,313.6

3 Segmental analysis continued

	2010 $m	2009 $m
Segment assets		
UK (Lloyd’s)	5,431.9	5,231.5
US (Non-Lloyd’s)	342.4	412.5
	5,744.3	5,644.0

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

	2010 $m	2009 $m
Capital expenditure		
UK (Lloyd’s)	8.1	40.3
US (Non-Lloyd’s)	2.0	–
	10.1	40.3

4 Foreign Exchange

The following note is presented to explain the impact of foreign exchange differences on the group’s reported results to the period ended 31 December 2010. During 2010 the group changed both the presentation currency of the group and the functional currency of Beazley plc and its underlying principal operating entities to the US dollar. Please refer to note 1 for further details.

The foreign exchange components in the income statement for the period ended 31 December 2010, comprise:

1 A $33.7m non-recurring gain arising in the first quarter 2010. On 5 January 2010, the group more closely matched its regulatory capital base through the sale of £308.8m and the purchase of US$492.7m. The foreign exchange gain arose as a result of the US dollar strengthening against sterling in the first quarter, in entities that for the first quarter had a sterling functional currency. This gain should be viewed as one-off as it arose as part of the transition in matching our capital to its underlying US dollar exposures. With a functional currency of the US dollar going forward these currency fluctuations are not likely to recur. In the segmental analysis this gain has not been allocated to reportable segments and is included in the unallocated column.

2 A $6.1m foreign exchange gain arising on trading items. This relates to non US dollar denominated monetary assets and liabilities in the group’s trading entities that are included in the group’s statement of financial position. This gain, as it relates to trading activity, has been allocated to the reportable segments.

3 A loss of $4.3m in respect of foreign exchange adjustments on non-monetary items that still continue to arise in currencies other than the functional currency of the operating entities concerned. Of this loss, a gain of $0.9m is reported through net earned premiums and acquisition costs with the remaining $5.2m reported as foreign exchange loss. All foreign exchange differences on non-monetary items have been left unallocated for segmental reporting purposes. This has been separately disclosed as it provides a more transparent representation of the loss ratios, which would otherwise be distorted by the mismatch arising under IFRSs caused by unearned premium reserve, reinsurers share of unearned premium reserve and DAC being treated as non-monetary items while claims reserves are treated as monetary items.

4 In summary, the foreign exchange gain of $34.6m shown on the face of the income statement therefore comprises: a gain of $33.7m arising from the change in functional currency, a gain of $6.1m arising on trading activity and a loss of $5.2m in respect of foreign exchange on non-monetary items.

The foreign exchange movements recognised in other comprehensive income in the period ended 31 December 2010 comprise a foreign exchange loss on translation of $55.7m. The $55.7m has been disclosed in two captions in the statement of comprehensive income; $33.7m described in point 1 above effectively reverses through other comprehensive income with the remaining $22.0m being the impact on net assets of translating the results and assets and liabilities of foreign operations into the group’s presentation currency. The $33.7m is disclosed separately to highlight that. This arises from the movement in the US dollar to sterling exchange rate between 1 January 2010 and 31 March 2010, being the date immediately prior to the change in the functional currency of certain of the group’s operating entities. In Beazley’s case, the opening statement of financial position was translated at a US dollar to sterling exchange rate of 1.61, whilst the rate on the date of the change in functional currency was 1.52.

5 Net investment income

	2010 $m	2009 $m
Interest and dividends on financial investments at fair value through income statement	60.2	63.8
Realised (losses)/gains on financial investments at fair value through income statement	(19.3)	23.2
Net unrealised fair value gains on financial investments at fair value through income statement	6.2	10.4
Investment management expenses	(9.6)	(9.3)
	37.5	**88.1**

6 Other income

	2010 $m	2009 $m
Commissions received	15.4	9.7
Profit commissions	10.5	8.0
Agency fees	1.8	1.6
Other income	0.4	0.3
	28.1	**19.6**

7 Operating expenses

	2010 $m	2009 $m
Fees payable to the company's auditor for the audit of the group's annual accounts	0.4	0.3
Fees payable to the company's auditor and its associates for other services:		
– Audit of the company's subsidiaries	0.6	0.5
– Tax services	0.1	–
– Fees in respect of rights issue and re-domiciliation to Ireland	–	0.3
– Actuarial services	0.2	0.2
– Other services	0.3	0.2
Operating leases	9.4	6.3

8 Employee benefit expenses

	2010 Group $m	2009 Group $m
Wages and salaries	83.9	77.5
Short-term incentive payments	34.0	35.0
Social security	8.5	8.9
Share-based remunerations	9.3	8.2
Pension costs*	6.1	6.0
	141.8	135.6
Recharged to syndicate 623	(14.4)	(13.0)
	127.4	**122.6**

* Pension costs refer to the contributions made under the defined contribution scheme, further information on the defined benefit pension scheme can be found in note 28.

9 Finance costs

	2010 $m	2009 $m
Interest expense	13.0	13.8
Other finance costs	1.9	–
	14.9	**13.8**

10 Income tax expense

	2010 $m	2009 $m
Current tax expense		
Current year	23.4	45.7
Prior year adjustments	(44.9)	(3.5)
	(21.5)	42.2
Deferred tax expense		
Origination and reversal of temporary differences	11.5	(27.0)
Prior year adjustments	43.8	4.1
	55.3	(22.9)
Income tax expense	**33.8**	**19.3**

	2010 $m	2009 $m
Profit before tax	**250.8**	**158.1**
Tax calculated at Irish rate	31.4	19.8
Rates applied	12.5%	12.5%
Effects of:		
– Tax rates in foreign jurisdictions	7.8	7.1
– Retranslation of deferred tax balances on re-domiciliation	–	(11.5)
– Non-deductible expenses	0.7	0.5
– Tax relief on share-based payments – current and future years	0.7	2.8
– Under/(over) provided in prior years	(1.2)	0.6
– Change in UK tax rates*	(3.4)	–
– Foreign exchange on tax	(2.2)	–
Tax charge for the period	**33.8**	**19.3**

The weighted average applicable tax rate was 12.5% (2009: 12.5%).

* The emergency budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of four years from 2011. The first reduction to 27% was enacted on 22 July 2010 and will be effective from 1 April 2011. Accordingly, this rate reduction has been reflected in the deferred tax liability which forms part of the statement of financial position.

11 Earnings per share

	2010	2009
Basic (cents)	42.1c	28.9c
Diluted (cents)	40.2c	27.9c
Basic (pence)	27.4p	18.4p
Diluted (pence)	26.1p	17.8p

Basic

Basic earnings per share are calculated by dividing profit after tax of $217.0m (2009: $138.8m) by the weighted average number of issued shares during the year of 515.1m (2009: 479.5m). 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.

Diluted

Diluted earnings per share are calculated by dividing profit after tax of $217.0m (2009: $138.8m) by the adjusted weighted average number of shares of 540.2m (2009: 497.4m). 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.

12 Dividends per share

A second interim dividend of 7.6 pence (2009: 4.7 pence) per ordinary share, will be payable on 30 March 2011 to shareholders registered at 5.00pm on 4 March 2011 in respect of the six months ended 31 December 2011. This second interim dividend consists of a regular dividend of 5.1 pence together with a special dividend of 2.5 pence. These financial statements do not provide for the second interim dividend as a liability.

Together with the interim dividend of 2.4 pence (2009: 2.3 pence), this gives a total dividend for the year of 10.0 pence (2009: 7.0 pence).

The second interim and special dividends will be paid on 30 March 2011 to shareholders on the register on 4 March 2011 (save to the extent that shareholders on the register of members on 4 March 2011 are to be paid a dividend by a subsidiary of the Company (being Beazley DAS Limited) resident for tax purposes in the United Kingdom pursuant to elections made or deemed to have been made and such shareholders shall have no right to this second interim dividend).

13 Intangible assets

	Goodwill $m	Syndicate capacity $m	Licences $m	IT development costs $m	Total $m
Cost					
Balance at 1 January 2009	51.7	7.0	9.2	16.3	84.2
Acquired through business combinations	23.2	–	–	–	23.2
Other additions	–	1.8	–	10.8	12.6
Foreign exchange gain	2.2	0.9	0.1	2.2	5.4
Balance at 31 December 2009	**77.1**	**9.7**	**9.3**	**29.3**	**125.4**
Balance at 1 January 2010	77.1	9.7	9.3	29.3	125.4
Other additions	–	0.2	–	7.9	8.1
Foreign exchange loss	–	(0.5)	–	(1.1)	(1.6)
Balance at 31 December 2010	**77.1**	**9.4**	**9.3**	**36.1**	**131.9**
Amortisation					
Balance at 1 January 2009	–	–	–	8.6	8.6
Amortisation for the year	–	–	–	2.2	2.2
Foreign exchange loss	–	–	–	1.1	1.1
Balance at 31 December 2009	**–**	**–**	**–**	**11.9**	**11.9**
Balance at 1 January 2010	–	–	–	11.9	11.9
Amortisation for the year	–	–	–	3.5	3.5
Foreign exchange gain	–	–	–	(0.5)	(0.5)
Balance at 31 December 2010	**–**	**–**	**–**	**14.9**	**14.9**
Carrying amount					
31 December 2010	**77.1**	**9.4**	**9.3**	**21.2**	**117.0**
31 December 2009	77.1	9.7	9.3	17.4	113.5

Impairment tests

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

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

13 Intangible assets continued

2009	Life, accident and health $m	Marine $m	Political risks and contingency $m	Property $m	Reinsurance $m	Specialty Lines $m	Total $m
Goodwill	29.1	2.3	1.0	24.2	0.8	19.7	77.1
Capacity	0.3	1.4	0.8	2.3	0.6	4.3	9.7
Licences	–	–	–	1.9	–	7.4	9.3
Total	**29.4**	**3.7**	**1.8**	**28.4**	**1.4**	**31.4**	**96.1**

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 three year period taking into account historic growth rates and expected future market conditions. A discount rate of 10% (2009: 9%) has been used to discount the projected cash flows. The same discount rate has been applied to all operating segments as these segments all undertake underwriting activities supported by the same capital base. The discount rate of 10% (2009: 9%) is the group's weighted average cost of capital. It has been calculated using independent measures of the risk free rate of return and the group's risk profile relative to the risk free and market rates of return and as such is considered representative of the rate appropriate of the risk specific to the CGU.

The impairment tests have been performed assuming the group's operating segments are the cash generating units to which the intangible assets have been allocated. The tests indicated that there is significant headroom in respect of the value in use of all the group's intangible assets and it is not expected that any realistic change in market conditions would give rise to an impairment.

14 Plant and equipment

	Company	Group		
	Fixtures & fittings $m	Fixtures & fittings $m	Computer equipment $m	Total $m
Cost				
Balance at 1 January 2009	–	14.4	5.0	19.4
Additions	0.5	3.1	1.8	4.9
Foreign exchange gain	–	0.9	0.9	1.8
Balance at 31 December 2009	**0.5**	**18.4**	**7.7**	**26.1**
Balance at 1 January 2010	**0.5**	**18.4**	**7.7**	**26.1**
Additions	–	1.5	0.5	2.0
Disposals	–	(1.0)	(0.1)	(1.1)
Transfer of assets from group companies	1.6	–	–	–
Foreign exchange loss	–	(0.6)	(0.2)	(0.8)
Balance at 31 December 2010	**2.1**	**18.3**	**7.9**	**26.2**
Accumulated depreciation				
Balance at 1 January 2009	–	(5.6)	(2.1)	(7.7)
Depreciation charge for the year	–	(2.7)	(2.3)	(5.0)
Foreign exchange loss	–	(0.2)	(0.8)	(1.0)
Balance at 31 December 2009	**–**	**(8.5)**	**(5.2)**	**(13.7)**
Balance at 1 January 2010	**–**	**(8.5)**	**(5.2)**	**(13.7)**
Depreciation charge for the year	(0.4)	(2.6)	(1.6)	(4.2)
Disposals	–	0.7	0.1	0.8
Foreign exchange gain	–	0.2	0.3	0.5
Balance at 31 December 2010	**(0.4)**	**(10.2)**	**(6.4)**	**(16.6)**
Carrying amounts				
31 December 2010	**1.7**	**8.1**	**1.5**	**9.6**
31 December 2009	0.5	9.9	2.5	12.4

15 Investment in associates

	2010 $m	2009 $m
As at 1 January	**1.4**	–
Acquisition of associate	**6.0**	1.4
Share of loss after tax	**(0.9)**	–
As at 31 December	**6.5**	**1.4**

The group's investment in associates consists of:

	Country of incorporation	% interest held $m	Carrying value $m
2010			
Falcon Money Management Holdings Limited (and subsidiaries)	Malta	25	1.4
Capson Corp., Inc. (and subsidiary)	USA	26	5.1
			6.5

The aggregate financial information for all associates (100%) is as follows:

	2010 $m	2009 $m
Assets	16.3	4.2
Liabilities	5.7	2.9
Equity	10.6	1.3
Loss after tax	(3.4)	–

All of the investments in associates are unlisted and are equity accounted using financial information as at 31 December 2010.

16 Deferred acquisition costs

	2010 $m	2009 $m
Balance at 1 January	155.5	131.8
Additions	389.9	350.6
Amortisation charge	(381.4)	(342.6)
Foreign exchange gain arising on change in presentational currency	–	15.7
Balance at 31 December	**164.0**	**155.5**

17 Financial investments

	2010 $m	2009 $m
Financial investments at fair value through income statement		
Hedge funds	433.1	268.8
Debt securities		
– Fixed rate	1,747.4	1,980.5
– Floating rate	397.1	599.0
Total financial investments at fair value through income statement	**2,577.6**	**2,848.3**
Current	1,474.0	1,181.8
Non-current	1,103.6	1,666.5
	2,577.6	**2,848.3**

A further breakdown of the group's investment portfolio is provided on page 39.

17 Financial investments continued

As noted on page 90 consideration is also given when valuing the hedge funds to any restriction applied to distributions, the existence of side pocket provisions and the timing of the latest valuations. The adjustment to the underlying net asset value of the funds as a result of these considerations was $nil at 31 December 2010 (2009: $nil).

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 33.

Fair value measurement

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

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

Included within Level 1 are bonds and treasury bills of major G-8 government and government agencies.

Level 2 – Valuations based on quoted prices in markets that are not active, or based on pricing models for which significant inputs can be corroborated by observable market data (e.g. interest rates, exchange rates).

Included within Level 2 are non-G8 government bonds and treasury bills, corporate bonds, asset backed securities and mortgage backed securities.

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

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

Included within Level 3 are investments in capital growth assets such as hedge funds.

The majority of the group's investments are valued based on quoted market information or other observable market data. Hedge funds that comprise 16.8% of assets are recorded at fair value are based on estimates and recorded as Level 3 investments. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible. While such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not change the fair value significantly.

The table below analyses financial instruments measured at fair value at 31 December 2010 and 31 December 2009, based on the level in the fair value hierarchy into which the financial instrument is categorised:

2010	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Fixed rate securities	919.1	828.3	–	1.747.4
Floating rate securities	33.4	363.7	–	397.1
Hedge funds	–	–	433.1	433.1
Total assets at fair value	952.5	1,192.0	433.1	2,577.6

2009	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Fixed rate securities	1,348.5	632.2	–	1,980.7
Floating rate securities	90.3	508.5	–	598.8
Hedge funds	–	–	268.8	268.8
Total assets at fair value	1,438.8	1,140.7	268.8	2,848.3

The table below shows the movement in level 3 assets during 2010 and 2009:

	2010 $m	2009 $m
Level 3 balance at 1 January	268.8	147.7
Purchases	213.8	215.5
Settlements	(70.0)	(113.7)
Fair value gains reflected in the income statement	20.5	19.3
Level 3 balance at 31 December	**433.1**	**268.8**

17 Financial investments continued

There were no transfers between fair value hierarchies during the year. Refer to price sensitivity note 2.4 the impact of changes in value of these assets on reported profits and net assets.

The value of the investments in the level 3 category are sensitive to changes in fair value of assets within the underlying hedge funds. This relationship is such that, for example, a 10% reduction in the fair value of hedge fund investments will result in a 10% fall in value of the level 3 balance.

18 Insurance receivables

	2010 $m	2009 $m
Insurance receivables	527.1	498.0
	527.1	**498.0**

These are receivable within one year and relate to business transacted with brokers and intermediaries. All insurance receivables are designated as loans and receivables and their carrying values approximate fair value at the reporting date.

19 Reinsurance assets

	2010 $m	2009 $m
Reinsurers' share of claims	841.1	912.1
Impairment provision	(17.3)	(15.8)
	823.8	896.3
Reinsurers' share of unearned premium reserve	211.1	259.8
	1,034.9	**1,156.1**

Further analysis of the reinsurance assets is provided in note 24.

20 Cash and cash equivalents

	2010 $m	2009 $m
Cash at bank and in hand	81.1	250.1
Short-term deposits	991.1	505.2
Overseas deposits	192.5	58.1
Cash and cash equivalents	**1,264.7**	**813.4**

21 Share capital

	2010		2009	
	No. of shares (m)	$m	No. of shares (m)	$m
Ordinary shares of 5p each				
Authorised	700.0	55.8	700.0	55.8
Issued and fully paid	534.9	42.7	533.8	42.6
Balance at 1 January	**533.8**	**42.6**	**369.5**	**35.9**
Issue of shares	1.1	0.1	164.3	6.7
Balance at 31 December	**534.9**	**42.7**	**533.8**	**42.6**

22 Other reserves

	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 2009	**3.2**	**(127.7)**	**16.1**	**(59.8)**	**(31.2)**	**(199.4)**
Foreign exchange gain arising on change in presentation currency	–	92.8	–	–	–	92.8
Issue of shares	–	–	–	–	–	–
Share-based payments	–	–	8.1	–	–	8.1
Acquisition of own shares held in trust	–	–	–	–	(6.3)	(6.3)
Cancellation of treasury shares	–	–	–	43.1	–	43.1
Change in net investment hedge	–	11.9	–	–	–	11.9
Foreign exchange translation differences	–	(24.0)	–	–	–	(24.0)
Transfer of shares to employees	–	–	(5.0)	–	5.0	–
Transfer between reserves	–	(16.7)	–	16.7	–	–
Transfer of scheme of arrangement and reverse acquisition*	(1.5)	21.2	(14.3)	–	–	5.4
Balance at 31 December 2009	**1.7**	**(42.5)**	**4.9**	**–**	**(32.5)**	**(68.4)**
Reversal of exceptional foreign exchange gain	–	(33.7)	–	–	–	(33.7)
Foreign exchange gain arising on change in presentational currency	–	(22.0)	–	–	–	(22.0)
Issue of shares	–	–	–	–	–	–
Share-based payments	–	–	9.1	–	–	9.1
Acquisition of own shares held in trust	–	–	–	–	(6.5)	(6.5)
Purchase of treasury shares	–	–	–	(28.9)	–	(28.9)
Change in net investment hedge	–	(5.4)	–	–	–	(5.4)
Foreign exchange translation differences	–	12.6	–	–	–	12.6
Transfer of shares to employees	–	–	(8.0)	–	8.0	–
Balance at 31 December 2010	**1.7**	**(91.0)**	**6.0**	**(28.9)**	**(31.0)**	**(143.2)**

*As part of the scheme of arrangement, as described in note 1 to the financial statements, the reserves of the group were consolidated and transferred to retained earnings, at which point they became distributable reserves of the group.

	Merger reserve $m	Treasury shares reserve $m	Foreign currency translation reserve $m	Employee share options reserve $m	Employee e share trust reserve $m	Total $m
Company						
Balance on incorporation at 9 June 2009	**–**	**–**	**–**	**–**	**–**	**–**
Transfer on scheme of arrangement and reverse acquisition*	(35.4)	–	–	–	–	(35.4)
Issue of shares	–	–	–	–	–	–
Foreign exchange translation differences	–	–	8.4	–	–	8.4
Share-based payments	–	–	–	4.4	–	4.4
Acquisition of own shares held in trust	–	–	–	–	(4.1)	(4.1)
Transfer of shares to employees	–	–	–	(1.9)	1.9	–
Balance at 31 December 2009	**(35.4)**	**–**	**8.4**	**2.5**	**(2.2)**	**(26.7)**
Issue of shares	–	–	–	–	–	–
Foreign exchange translation differences	–	–	(44.3)	–	–	(44.3)
Share-based payments	–			9.1	–	9.1
Purchase of treasury shares	–	(28.9)	–	–	–	(28.9)
Acquisition of own shares held in trust	–	–	–	–	(6.5)	(6.5)
Transfer of shares to employees	–	–	–	(8.0)	8.0	–
Balance at 31 December 2010	**(35.4)**	**(28.9)**	**(35.9)**	**3.6**	**(0.7)**	**(97.3)**

23 Equity compensation plans

23.1 Employee share trust

	2010		2009	
	Number (m)	$m	Number (m)	$m
Costs debited to employee share trust reserve				
Balance at 1 January	14.2	32.5	12.6	31.2
Additions	3.6	6.5	4.2	6.3
Transfer of shares to employees	(4.3)	(8.0)	(2.6)	(5.0)
Balance at 31 December	**13.5**	**31.0**	**14.2**	**32.5**

The shares are owned by the employee share trust to satisfy awards under the group's deferred share plan and retention plan. These shares are purchased on the market and carried at cost.

On the third anniversary of an award the shares under the deferred share plan are transferred from the trust to the employees. Under the retention plan, on the third anniversary, and each year after that, 25.0% of the shares awarded are transferred to the employees.

The deferred share plan is recognised in the income statement on a straight-line basis over a period of three years, while the retention share plan is recognised in the income statement on a straight-line basis over a period of six years.

23.2 Employee share option plans

The group has a long-term incentive plan (LTIP), approved share option plan, unapproved share option plan, phantom share option and SAYE that entitle employees to purchase shares in the group. In accordance with these plans, options are exercisable at the market price of the shares at the date of the grant.

The terms and conditions of the grants are as follows:

Share option plan	Grant date	No. of options (m)	Vesting conditions	Contractual life of options
LTIP	18/02/2010	3.6	Three year's service + NAV + TSR + minimum shareholding requirement	12 years
LTIP	18/02/2010	3.6	Three year's service + NAV + TSR + minimum shareholding requirement	10 years
LTIP	21/03/2005	0.2	Three year's service + NAV + TSR comparator	10 years
	21/03/2006	0.1		
	21/03/2008	0.6		
	16/02/2009	1.6		
	27/04/2009	0.1		
Approved share option plan	29/03/2004	0.1	Three year's service + NAV	10 years
SAYE (UK)	18/04/2008	0.1	Three year's service	N/A
	01/07/2009	1.5		
	12/04/2010	0.5		
SAYE (US)	15/05/2009	0.3	Two year's service	N/A
	15/05/2010	0.2		
Total share options outstanding		**12.5**		

Vesting conditions

In summary the vesting conditions are defined as:

Two year's service	An employee has to remain in employment until the second anniversary from the grant date.
Three year's 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 60 to 74.

23 Equity compensation plans continued

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

	2010 Weighted average exercise price (pence per share)	2010 No. of options (m)	2009 Weighted average exercise price (pence per share)	2009 No. of options (m)
Outstanding at 1 January	37.6	6.4	37.6	5.0
Rights issue	–	–	26.9	0.3
Forfeited during the year	32.3	(0.8)	23.4	(1.3)
Exercised during the year	33.3	(1.1)	37.4	(1.2)
Granted during the year	7.5	8.0	39.7	3.6
Outstanding at 31 December	**17.1**	**12.5**	**35.7**	**6.4**
Exercisable at 31 December	–	0.4	–	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.

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

	2010 $m	2009 $m
Share options charge to income statement	**9.1**	**8.2**
Weighted average share price (pence per option)	102.5	114.4
Weighted average exercise price (pence per option)	12.4	35.7
Weighted average expected life of options	5.4yrs	5.5yrs
Expected volatility	25.0%	25.0%
Expected dividend yield	4.0%	4.0%
Average risk-free interest rate	4.1%	4.2%

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

24 Insurance liabilities and reinsurance assets

	2010 $m	2009 $m
Gross		
Claims reported and loss adjustment expenses	818.5	888.7
Claims incurred but not reported	2,404.1	2,258.3
Gross claims liabilities	3,222.6	3,147.0
Unearned premiums	824.2	876.7
Total insurance liabilities, gross	**4,046.8**	**4,023.7**
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	202.4	255.3
Claims incurred but not reported	621.4	640.9
Reinsurers' share of claims liabilities	823.8	896.2
Unearned premiums	211.1	259.9
Total reinsurers' share of insurance liabilities	**1,034.9**	**1,156.1**

24 Insurance liabilities and reinsurance assets continued

	2010 $m	2009 $m
Net		
Claims reported and loss adjustment expenses	616.1	633.4
Claims incurred but not reported	1,782.7	1,617.4
Net claims liabilities	2,398.8	2,250.8
Unearned premiums	613.1	616.8
Total insurance liabilities, net	**3,011.9**	**2,867.6**

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.

24.1 Movements in insurance liabilities and reinsurance assets

a) Claims and loss adjustment expenses

	2010			2009		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
Claims reported and loss adjustment expenses	888.7	(255.3)	633.4	716.1	(157.5)	558.6
Claims incurred but not reported	2,258.3	(640.9)	1,617.4	1,859.9	(494.4)	1,365.5
Balance at 1 January	**3,147.0**	**(896.2)**	**2,250.8**	**2,576.0**	**(651.9)**	**1,924.1**
Claims paid	(702.4)	161.3	(541.1)	(645.6)	151.5	(494.1)
Increase in claims						
– Arising from current year claims	1,091.6	(208.8)	882.8	1,083.3	(235.2)	848.1
– Arising from prior year claims	(231.0)	86.4	(144.6)	(75.7)	(29.8)	(105.5)
– Reinsurance to close	–	–	–	59.2	(18.7)	40.5
Net exchange differences	(82.6)	33.5	(49.1)	(160.9)	(31.1)	(192.0)
Foreign exchange gain/(loss) arising on change in presentational currency	–	–	–	310.7	(81.0)	229.7
Balance at 31 December	**3,222.6**	**(823.8)**	**2,398.8**	**3,147.0**	**(896.2)**	**2,250.8**
Claims reported and loss adjustment expenses	818.5	(202.4)	616.1	888.7	(255.3)	633.4
Claims incurred but not reported	2,404.1	(621.4)	1,782.7	2,258.3	(640.9)	1,617.4
Balance at 31 December	**3,222.6**	**(823.8)**	**2,398.8**	**3,147.0**	**(896.2)**	**2,250.8**

b) Unearned premiums reserve

	2010			2009		
	Gross $m	Reinsurance $m	Net $m	Gross $m	Reinsurance $m	Net $m
Balance at 1 January	**876.7**	**(259.9)**	**616.8**	**659.2**	**(123.7)**	**535.5**
Increase in the year	1,741.6	(339.5)	1,402.1	1,751.4	(420.0)	1,331.4
Release in the year	(1,794.1)	388.3	(1,405.8)	(1,653.7)	340.2	(1,313.5)
Net exchange differences arising in overseas subsidiary	–	–	–	38.5	(38.8)	(0.3)
Foreign exchange gain/(loss) arising on change in presentational currency	–	–	–	81.3	(17.6)	63.7
Balance at 31 December	**824.2**	**(211.1)**	**613.1**	**876.7**	**(259.9)**	**616.8**

24 Insurance liabilities and reinsurance assets continued

24.2 Assumptions, changes in assumptions and sensitivity analysis

a) Process used to decide on assumptions

The peer review reserving process
Beazley uses a quarterly dual track process to set its reserves:

- The actuarial team uses several actuarial and statistical methods to estimate the ultimate premium and claims costs. The most appropriate methods are selected depending on the nature of each class of business; and
- The underwriting teams concurrently review the development of the incurred loss ratio over time, work with our claims managers to set 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.

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

The group has a consistent reserving philosophy with initial reserves being set to indicate risk margins which may be released over time as and when any uncertainty reduces.

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, the hurricanes in 2004, 2005 and 2008, and the earthquakes in 2010), 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.

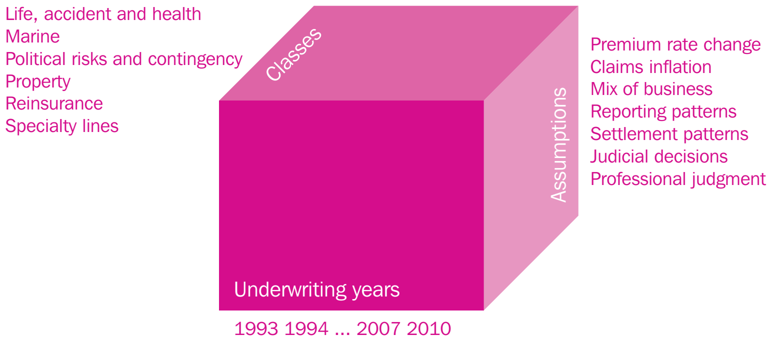
b) Major assumptions
The main assumption underlying these techniques is that the groups past claims development experience (with appropriate adjustments for known changes) can be used to project future claims development and hence ultimate claims costs. As such these methods extrapolate the development 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, judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect changes in external or market factors such as economic conditions, public attitudes to claiming, levels of claims inflation, premium rate changes, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

24 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 to absorb volatility.

The net of reinsurance estimates of ultimate claims costs on the 2009 and prior underwriting years has improved by $144.6m during 2010 (2009: $105.5m). 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 six segments – life, accident & health, marine, political risks & 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 statement of financial position.

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of these financial statements are cautioned against extrapolating past redundancies or deficiencies on current claims liabilities. The group believes that the estimate of total claims liabilities as at 31 December 2010 are adequate. However, due to inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

24 Insurance liabilities and reinsurance assets continued

Gross ultimate claims	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	
Life, accident & health									
12 months	–	–	–	–	–	–	53.1	52.7	
24 months	–	–	–	–	–	–	52.3		
36 months	–	–	–	–	–	–			
48 months	–	–	–	–	–				
60 months	–	–	–	–					
72 months	–	–	–						
84 months	–	–							
96 months	–								
Marine									
12 months	59.2	62.3	82.6	57.0	57.9	69.0	56.1	50.6	
24 months	45.0	65.4	80.3	42.5	60.1	65.2	52.3		
36 months	39.0	62.3	70.8	32.8	50.5	59.1			
48 months	36.2	61.8	68.8	29.1	48.1				
60 months	35.8	60.7	66.6	28.8					
72 months	35.7	56.2	64.7						
84 months	34.9	55.9							
96 months	35.4								
Political risks & contingency									
12 months	59.1	67.4	61.0	57.6	57.2	57.5	61.1	61.4	
24 months	36.3	55.6	38.1	36.2	38.8	68.2	38.6		
36 months	31.6	52.3	28.5	32.8	56.4	73.1			
48 months	28.6	38.1	25.0	43.2	52.7				
60 months	31.1	37.1	18.2	39.2					
72 months	25.1	35.1	17.8						
84 months	24.2	26.6							
96 months	21.3								
Property									
12 months	50.9	65.5	87.6	58.5	58.3	71.0	54.0	58.7	
24 months	37.5	65.2	84.3	44.3	56.5	65.9	42.8		
36 months	34.7	65.9	82.8	43.3	54.3	64.8			
48 months	34.1	64.0	87.8	50.6	55.2				
60 months	33.8	64.5	87.2	50.7					
72 months	33.8	63.2	85.6						
84 months	34.9	63.0							
96 months	34.7								
Reinsurance									
12 months	58.7	88.0	197.5	52.4	59.6	60.0	60.8	68.2	
24 months	34.2	82.2	189.2	25.2	26.2	51.6	48.6		
36 months	28.4	76.9	187.3	24.9	21.7	42.8			
48 months	28.6	74.4	180.4	23.3	19.9				
60 months	25.6	72.5	176.6	21.4					
72 months	25.6	71.5	174.0						
84 months	24.5	70.4							
96 months	23.7								
Specialty lines									
12 months	72.9	72.2	72.1	72.6	72.8	72.2	72.7	75.1	
24 months	70.2	71.4	72.1	72.7	72.4	72.2	72.7		
36 months	68.9	67.6	69.8	72.7	72.5	71.9			
48 months	60.0	64.4	66.3	72.5	72.2				
60 months	53.2	59.4	62.8	70.8					
72 months	52.3	58.3	56.0						
84 months	50.5	56.5							
96 months	47.2								
Total									
12 months	63.0	69.3	90.7	62.9	63.5	68.7	62.6	65.2	
24 months	52.6	69.2	88.0	53.1	59.2	67.7	57.5		
36 months	49.4	66.6	84.3	50.7	58.1	66.2			
48 months	44.9	63.5	82.7	52.4	58.4				
60 months	41.5	61.0	79.8	51.9					
72 months	40.9	59.3	76.1						
84 months	40.1	57.9							
96 months	38.4								
Total ultimate losses($m)	2,358.6	800.6	1,153.7	869.0	1,066.6	1,259.3	1,203.9	1,313.5	10,025.2
Less paid claims ($m)	(2,045.6)	(632.3)	(928.0)	(444.6)	(571.3)	(511.6)	(244.5)	(37.1)	(5,415.0)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	(48.0)	(630.2)	(678.2)
Gross claims liabilities (100% level) ($m)	**313.0**	**168.3**	**225.7**	**424.4**	**495.3**	**747.7**	**911.4**	**646.2**	**3,932.0**
Less unaligned share ($m)	(59.5)	(32.0)	(42.9)	(80.6)	(93.6)	(133.4)	(164.0)	(103.4)	(709.4)
Gross claims liabilities, group share	**253.5**	**136.3**	**182.8**	**343.8**	**401.7**	**614.3**	**747.4**	**542.8**	**3,222.6**

24 Insurance liabilities and reinsurance assets continued

Net ultimate claims	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	
Life, accident & health									
12 months	–	–	–	–	–	–	51.7	51.4	
24 months	–	–	–	–	–	–	50.5		
36 months	–	–	–	–	–	–			
48 months	–	–	–	–	–				
60 months	–	–	–	–					
72 months	–	–	–						
84 months	–	–							
96 months	–								
Marine									
12 months	55.4	58.0	55.5	53.9	55.1	61.3	54.6	52.3	
24 months	44.7	53.1	49.0	42.0	56.4	57.0	48.5		
36 months	40.2	48.6	42.8	32.8	49.4	50.8			
48 months	39.1	47.8	39.7	31.4	46.6				
60 months	39.0	46.6	39.1	30.9					
72 months	39.1	44.2	38.1						
84 months	38.0	43.9							
96 months	37.5								
Political risks & contingency									
12 months	56.7	64.0	63.4	56.2	55.4	55.9	58.9	57.3	
24 months	37.4	58.2	46.6	40.3	39.4	75.9	35.1		
36 months	34.8	54.1	36.0	37.1	55.1	75.5			
48 months	32.9	41.1	30.2	47.0	53.7				
60 months	35.1	40.7	24.3	41.2					
72 months	27.3	36.1	23.2						
84 months	25.7	26.2							
96 months	22.6								
Property									
12 months	48.7	59.7	65.0	61.2	61.1	67.2	53.7	59.0	
24 months	41.5	60.9	62.0	48.9	59.5	67.2	48.6		
36 months	39.1	60.3	58.4	47.4	58.7	65.0			
48 months	38.5	58.6	61.1	51.1	59.4				
60 months	38.1	58.3	61.7	50.3					
72 months	38.2	57.5	59.9						
84 months	39.7	57.3							
96 months	39.5								
Reinsurance									
12 months	60.2	88.7	152.7	54.3	55.2	67.3	55.6	77.0	
24 months	39.5	86.0	133.1	36.9	30.3	57.4	52.7		
36 months	33.9	82.7	128.2	34.8	25.1	48.1			
48 months	34.6	76.5	118.5	32.4	22.7				
60 months	31.7	73.3	112.2	31.0					
72 months	31.7	71.7	111.0						
84 months	30.3	71.0							
96 months	29.4								
Specialty lines									
12 months	68.7	69.1	69.2	68.6	69.7	70.2	69.9	73.0	
24 months	67.2	68.6	69.2	68.5	68.8	70.2	69.8		
36 months	66.0	65.8	67.4	68.6	68.8	70.1			
48 months	57.7	62.1	63.8	68.5	67.3				
60 months	52.7	56.9	58.8	63.8					
72 months	50.8	53.6	53.7						
84 months	48.9	51.0							
96 months	45.2								
Total									
12 months	60.1	65.5	73.1	62.1	63.1	66.3	60.4	65.1	
24 months	53.0	65.4	68.9	54.3	59.2	66.9	56.9		
36 months	50.6	62.7	65.1	51.7	58.7	64.3			
48 months	46.4	59.3	62.3	52.3	57.5				
60 months	43.7	56.4	59.2	50.1					
72 months	42.7	53.9	56.3						
84 months	41.8	52.1							
96 months	39.8								
Total ultimate losses ($m)	1,382.1	591.3	683.2	680.3	907.3	998.2	942.3	1,028.2	7,212.9
Less paid claims net of reinsurance ($m)	(1,227.3)	(469.5)	(488.7)	(379.2)	(507.4)	(434.6)	(216.7)	(45.7)	(3,769.1)
Less unearned portion of ultimate losses ($m)	–	–	–	–	–	–	(35.7)	(478.5)	(514.2)
Net claims liabilities (100% level) ($m)	**154.8**	**121.8**	**194.5**	**301.1**	**399.9**	**563.6**	**689.9**	**504.0**	**2,929.6**
Less unaligned share ($m)	(29.4)	(23.1)	(34.7)	(57.2)	(76.0)	(104.8)	(126.4)	(79.2)	(530.8)
Net claims liabilities, group share ($m)	**125.4**	**98.7**	**159.8**	**243.9**	**323.9**	**458.8**	**563.5**	**424.8**	**2,398.8**

24 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 2010 for each underwriting year.

Generally, the claims experience has been in line with that expected in an average year. We are cautiously reserved for natural catastrophes and the claims frequency on our specialty lines classes has been relatively stable.

Life, accident & health

This year we show our life, accident & health business in a separate loss development table.

The 2009 underwriting year has developed favourably and the claims development to date has been in line with or better than that experienced historically by the team.

Marine

All years have continued to exhibit a reducing net ultimate loss ratio trend. The late gross development on the 2003 underwriting year, albeit of relatively low quantum, has arisen on a war account claim.

This team continues to report profitable loss ratios on all underwriting years despite the impact of increased piracy, the 2005 and 2008 hurricanes and the Deepwater Horizon disaster.

Political risks & contingency

In 2009 we reported that the ultimate claims on the 2006, 2007 and 2008 underwriting years had increased as a result of the deterioration in the claims environment of our political class, particularly from trade credit related contracts. During 2010, our claim estimates have remained robust and we have begun to see modest improvement in 2006 and 2007 underwriting years.

The 2009 underwriting year shows a reversion to more benign claims experience. We continue to monitor claim frequency on a calendar month basis as an early indicator for future development.

Property

There was a marginal gross only increase on the 2006 underwriting year due to a loss at a steelworks facility. The increase in ultimate claims on the 2007 underwriting year arose on our engineering class from a project delay in the refurbishment of a nuclear power facility.

All other underwriting years showed downward movement in claim estimates.

Reinsurance

All years have continued to reduce. The reserves for hurricanes Katrina and Ike have been reassessed and reduced during 2010. For both, this is a continuation of the releases made in 2009.

The 2010 underwriting year ultimate loss ratio has been set higher to reflect the New Zealand and Chilean earthquake loss estimates.

The life, accident & health business is no longer included in the reinsurance loss development table.

Specialty lines

The trend of consistent releases across underwriting years has continued, particularly on the 2003, 2004 and 2005 underwriting years.

While we continue to take a more conservative view on the 2006 underwriting year, we have begun to release reserves during 2010. The incurred claims development continues to track prior underwriting years.

During 2010 the team undertook a comprehensive review of the potential impact of the recession on claims experience in the 2007, 2008 and 2009 underwriting years. The conclusion of the review is that the ultimate loss ratios remain robust.

Our 2010 underwriting year loss ratio has been set slightly higher than in previous years. This reflects rate reductions and is consistent with our cautious reserving philosophy.

24 Insurance liabilities and reinsurance assets continued

Claim releases

The table below analyses our net claims between current year claims and adjustments to prior year net claims reserves. These have been broken down by department and period.

2010	Life, accident and health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	33.8	120.3	43.9	158.1	105.0	421.7	882.8
Prior year							
– 2007 underwriting year and earlier	–	(10.2)	(8.0)	(2.0)	(6.8)	(56.9)	(83.9)
– 2008 underwriting year	1.8	(12.6)	1.3	(9.5)	(12.0)	–	(31.0)
– 2009 underwriting year	(0.5)	(7.9)	(12.1)	(5.9)	(3.3)	–	(29.7)
	1.3	(30.7)	(18.8)	(17.4)	(22.1)	(56.9)	(144.6)
Net insurance claims	**35.1**	**89.6**	**25.1**	**140.7**	**82.9**	**364.8**	**738.2**

2009	Life, accident and health $m	Marine $m	Political risks & contingency $m	Property $m	Reinsurance $m	Specialty lines $m	Total $m
Current year	19.3	117.8	89.3	152.8	64.4	404.5	848.1
Prior year							
– 2006 underwriting year and earlier	–	(11.0)	(7.2)	9.1	(11.3)	(57.8)	(78.2)
– 2007 underwriting year	–	(13.8)	6.0	(2.5)	(4.9)	–	(15.2)
– 2008 underwriting year	–	(0.2)	(2.2)	–	(9.7)	–	(12.1)
	–	(25.0)	(3.4)	6.6	(25.9)	(57.8)	(105.5)
Net insurance claims	**19.3**	**92.8**	**85.9**	**159.4**	**38.5**	**346.7**	**742.6**

25 Borrowings

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

	2010 $m	2009 $m
Carrying value		
Subordinated debt	18.0	18.0
Tier 2 subordinated debt	250.2	260.7
	268.2	**278.7**
Fair value		
Subordinated debt	18.0	18.0
Tier 2 subordinated debt	184.6	191.3
	202.6	**209.3**

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.

25 Borrowings continued

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

In October 2006, the group issued £150m of unsecured fixed/floating rate subordinated notes that are due in October 2026 with a first callable at the group's option on 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 US$40m from each party which will be finally exchanged on termination of the contract, being October 2016. Lloyds Banking Group charged interest at US three-month LIBOR plus 2.25%, while JPMorgan charged interest at US three-month LIBOR plus 2.23%. As part of the agreement, the group received interest at 7.25% from both parties.

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) was exchanged for floating interest rate of UK LIBOR plus 2.24% with Lloyds Banking Group and UK LIBOR plus 2.23% with JPMorgan.

In April 2010 the group traded out of the interest rate swap and cross currency swap transactions. We traded out of the currency component of the original derivative transaction since this was originally intended to act as a hedge against the group's investment in its US subsidiaries. Following the change in functional and presentation currency to US dollars this hedge was no longer required.

In addition to these borrowings we operate a syndicated short-term banking facility, managed through Lloyds Banking Group plc. In October 2010 we renewed our existing syndicated short-term banking facility led by Lloyds Banking Group plc. The facility provides potential borrowings up to $150m. The new agreement is based on a commitment fee of 0.7% per annum and any amounts drawn are charged at a margin of 1.75% per annum. The cash element of the facility will last for three years, expiring on 31 December 2013, whilst letters of credit issued under the facility can be used to provide support for the 2010, 2011 and 2012 underwriting years. The facility is currently unutilised.

26 Derivative financial instruments

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

	2010 $m	2009 $m
Fair value		
Interest rate swap	–	21.7
Cross currency swap	–	(12.4)
	–	**9.3**

a) Fair value hedges
As described in note 25, the group traded out of the interest rate swap transaction.

b) Hedge of net investment in foreign entity
The group traded out of the currency component of the original derivative transaction since this was originally intended to act as a hedge against the group's investment in its US subsidiaries. Following the switch in reporting currency to US dollars this hedge was no longer required.

c) Interest rate futures contracts
During the year the group entered into a number of long and short exchange-traded futures denominated in a range of currencies to manage the interest rate duration of the investment portfolio. The gross notional amount entered into is $375.6m and the fair value is settled daily in cash by way of margin accounts.

27 Other payables

	2010 $m	2009 $m
Reinsurance premiums payable	179.3	188.4
Accrued expenses including staff bonuses	70.8	66.0
Other payables	13.9	21.4
Deferred consideration payable on acquisition of MGAs	13.6	13.5
Due to syndicate 6107	7.8	–
	285.4	289.3

All other payables are payable within 1 year of the reporting date other than deferred consideration which is payable after 1 year. The carrying value approximates fair values.

28 Retirement benefit obligations

	2010 $m	2009 $m	2008 $m	2007 $m	2006 $m
Retirement benefit obligations		–	–	1.8	3.7
Present value of funded obligations	26.0	24.8	14.8	34.8	31.4
Fair value of plan assets	24.0	20.8	14.4	30.8	26.3
Experience gains/(losses) on scheme liabilities	(0.2)	0.5	1.6	0.2	(2.5)

Beazley Furlonge Limited operates a defined benefit pension scheme (“the Beazley Furlonge Limited Pension Scheme”) providing benefits based on final pensionable pay, with contributions being charged to the income statement so as to spread the cost of pensions over employees’ working lives with the company. The contributions are determined by a qualified actuary using the projected unit method and the most recent valuation was at 31 December 2009.

Pension benefits

Amount recognised in the statement of financial position

	2010 $m	2009 $m
Present value of funded obligations	26.0	24.8
Fair value of plan assets	(24.2)	(20.8)
	1.8	4.0
Unrecognised actuarial losses	(4.9)	(5.6)
Asset in the statement of financial position	**(3.1)**	**(1.6)**

The asset in the pension scheme arose due to a prepayment of $3.1m (2009: $1.6m).

Amounts recognised in the income statement		
Current service cost	–	–
Interest cost	1.4	0.9
Expected return on plan assets	(1.2)	(0.9)
	0.2	–

28 Retirement benefit obligations continued

	2010 $m	2009 $m
Movement in present value of funded obligations recognised in the statement of financial position		
Balance at 1 January	**24.8**	**14.8**
Current service cost	–	0.5
Interest cost	1.4	0.9
Actuarial losses	0.9	6.6
Foreign exchange gain	(1.1)	–
Foreign exchange loss arising on change in presentational currency	–	2.0
Balance at 31 December	**26.0**	**24.8**
Movement in fair value of plan assets recognised in the statement of financial position		
Balance at 1 January	**20.8**	**14.4**
Expected return on plan assets	1.2	0.9
Actuarial gains	1.6	2.0
Employer contributions	1.6	1.6
Benefits paid	–	–
Foreign exchange gain	(1.0)	–
Foreign exchange loss arising on change in presentational currency	–	1.9
Balance at 31 December	**24.2**	**20.8**
Plan assets are comprised as follows:		
Equities	16.5	13.5
Bonds	7.7	7.3
Cash	–	–
Total	**24.2**	**20.8**

The actual gain on plan assets was $2.1m (2009: $3.0m).

	2010 $m	2009 $m
Principal actuarial assumptions		
Discount rate	5.4%	5.7%
Inflation rate	3.4%	3.7%
Expected return on plan assets	5.5%	5.9%
Future salary increases	6.2%	6.5%
Future pensions increases	3.0%	3.2%
Life expectancy	88 years	88 years

29 Deferred tax

	2010 $m	2009 $m
Deferred tax asset	9.5	8.9
Deferred tax liability	(91.0)	(35.1)
	(81.5)	**(26.2)**

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

	2010 $m	2009 $m
Balance at 1 January	(26.2)	(43.6)
Income tax charge	(55.3)	22.9
Foreign exchange translation differences	–	(5.5)
Balance at 31 December	**(81.5)**	**(26.2)**

	Balance 1 Jan 10 $m	Recognised in income $m	Recognised in equity $m	Balance 31 Dec 10 $m
Plant and equipment	0.2	0.5	–	0.7
Intangible assets	(0.8)	0.3	–	(0.5)
Other receivables	0.1	(0.1)	–	–
Trade and other payables	2.9	(0.2)	–	2.7
Underwriting profits	(37.5)	(311.3)	–	(348.8)
Tax losses	8.9	255.5	–	264.4
Net deferred income tax account	**(26.2)**	**(55.3)**	**–**	**(81.5)**

	Balance 1 Jan 09 $m	Recognised in income $m	Recognised in equity $m	Foreign exchange $m	Balance 31 Dec 09 $m
Plant and equipment	(0.1)	0.3	–	–	0.2
Intangible assets	(0.4)	(0.4)	–	–	(0.8)
Other receivables	0.1	0.1	–	–	0.1
Trade and other payables	3.3	(0.8)	–	–	2.9
Underwriting profits	(56.3)	24.8	–	(6.0)	(37.5)
Tax losses	9.8	(1.1)	(0.9)	2.0	8.9
Net deferred income tax account	**(43.6)**	**22.9**	**(0.9)**	**(4.0)**	**(26.2)**

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.

30 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:

	2010 $m	2009 $m
No later than 1 year	6.0	5.8
Later than 1 year and no later than 5 years	18.0	20.0
Later than 5 years	4.7	8.3
	28.7	**34.1**

31 Related party transactions

The group and company have related party relationships with syndicates 623 and 6107, its subsidiaries, associates and its directors.

31.1 Syndicates 623 and 6107

The group received management fees and profit commissions for providing a range of management services to syndicate 623 and 6107, which are managed by the group. In addition, the group ceded portions or all of a group of insurance policies to syndicate 6107.

Details of transactions entered and the balances with these syndicates are as follows:

	2010 $m	2009 $m
Written premium ceded to syndicates	13.3	–
Other income received from syndicates	25.8	19.3
Services provided	23.6	19.9
Balances due:		
Due from syndicate 623	12.2	7.9
Due to syndicate 6107	(7.8)	–

31.2 Key management compensation

	2010 $m	2009 $m
Salaries and other short-term benefits	15.4	15.2
Post employment benefits	0.6	0.6
Share-based remuneration	4.4	4.1
	20.4	**19.9**

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 60 to 74.

31.3 Other related party transactions

At 31 December 2010, the group had a balance payable to the associate (Falcon Money Management Limited) of $nil (2009: $0.2m) and purchased services from the associate of $6.2m (2009: $3.0m) throughout the year. All transactions with the associate and subsidiaries are priced on an arm's length basis.

32 Parent company and subsidiary undertakings

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

The following is a list of all the subsidiaries:

	Country of incorporation	Ownership interest	Nature of business
Beazley Group Limited	England	100%	Intermediate holding company
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 Ltd	England	100%	Dormant
Beazley Finance Ltd	England	100%	Intermediate holding company
Beazley Dedicated Ltd	England	100%	Underwriting at Lloyd's
Beazley Capital Management Ltd	England	100%	Investment services
Beazley Underwriting Services Ltd	England	100%	Insurance services
Beazley DAS Limited	England	100%	Dividend access scheme
Beazley Re Limited	Ireland	100%	Underwriting at Lloyd's
Beazley Underwriting Pty Ltd	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

33 Contingencies

33.1 Funds at Lloyd's

The following amounts are subject to a deed of charge in favour of Lloyd's to secure underwriting commitments.

	Underwriting year 2011 £m	Underwriting year 2010 £m	Underwriting year 2009 £m
Debt securities and other fixed income securities	505.0	494.4	360.8

33.2 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.

34 Foreign exchange rates

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

	2010		2009	
	Average	Year end spot	Average	Year end spot
Pound sterling	0.65	0.65	0.64	0.62
Canadian dollar	1.03	1.00	1.14	1.05
Euro	0.77	0.75	0.72	0.70

35 Subsequent events

The end of 2010 and the start of 2011 have been marked by heavy rains and flooding in Queensland, Australia as well as a significant tropical storm, Yasi. We do not expect the cost to Beazley of the insured losses occuring in 2010 from these events to be material. Whilst it is too early to be able to make any difinitive statement concerning the events that have occured so far during 2011 due to the uncertainty, we believe they will be contained within our first half 2011 catastrophe budgets.

The event is a non-adjusting event in that it has not been reflected in the financial statements of the group for the year ended 31 December 2010.

36 Notes disclosure in respect of the statement of financial position presented as at 31 December 2008

In accordance with IAS 21 – foreign currency translation, since Beazley plc has changed its presentational currency to US dollars during the year (as described in note 1 – accounting policies) the group is required to separately disclose a third comparative restated statement of financial position and supporting notes for any significant balances. The following notes were deemed significant:

a) Financial investments

	2008 $m
Financial investments at fair value through income statement	
Equity securities-listed	26.2
Hedge funds	147.7
Debt securities	
– Fixed rate securities	1,569.3
– Floating rate securities	489.7
Total financial investments at fair value through income statement	**2,232.9**
Current	1,145.1
Non-current	1,087.8
	2,232.9

b) Insurance receivables

	2008 $m
Insurance receivables	**414.4**

These are receivable within one year and relate to business transacted with brokers and intermediaries. All insurance receivables are designated as loans and receivables and their carrying values approximate fair value at the statement of financial position date.

c) Reinsurance assets

	2008 $m
Reinsurers' share of claims	664.8
Impairment provision	(12.9)
	651.9
Reinsurers' share of unearned premium reserve	123.7
	775.6

36 Notes disclosure in respect of the statement of financial position presented as at 31 December 2008 continued

d) Cash and cash equivalents

	2008 $m
Cash at bank and in hand	179.1
Short-term deposits	306.6
Overseas deposits	153.1
Cash and cash equivalents	**638.8**

e) Insurance liabilities and reinsurance assets

	2008 $m
Gross	
Claims reported and loss adjustment expenses	716.1
Claims incurred but not reported	1,859.9
Gross claims liabilities	2,576.0
Unearned premiums	659.2
Total insurance liabilities, gross	**3,235.2**
Recoverable from reinsurers	
Claims reported and loss adjustment expenses	157.5
Claims incurred but not reported	494.4
Reinsurers' share of claims liabilities	651.9
Unearned premiums	123.7
Total reinsurers' share of insurance liabilities	**775.6**
Net	
Claims reported and loss adjustment expenses	558.6
Claims incurred but not reported	1,365.5
Net claims liabilities	1,924.1
Unearned premiums	535.5
Total insurance liabilities, net	**2,459.6**

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.

f) Borrowings

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

	2008 $m
Carrying value	
Subordinated debt	18.0
Tier 2 subordinated debt	237.6
	255.6
Fair value	
Subordinated debt	18.0
Tier 2 subordinated debt	168.2
	186.2

Glossary

Admitted carrier
An insurance company licensed by a particular US state, monitored by the state for financial stability, covered by the state's guarantee 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 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.

Capital growth assets
These assets that do not pay a regular income and target an increase in value over the long term. They will typically have a higher risk and volativity over that of the core portfolio. Currently these are the hedge fund assets.

Catastrophe reinsurance
A form of excess of loss reinsurance which, subject to a specified limit, indemnifies the reinsured company for the amount of loss in excess of a specified retention with respect to an accumulation of losses resulting from a catastrophic event or series of events.

Claims
Demand by an insured for indemnity under an insurance contract.

Claims ratio
Ratio, in percent, of net insurance claims to net earned premiums. The calculation is performed excluding the impact of foreign exchange on non-monetary items.

Combined ratio
Ratio, in 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. The calculation is performed excluding the impact of foreign exchange on non-monetary items.

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

Deferred acquisition costs (DAC)
Costs incurred for the acquisition or the renewal of insurance policies (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 and cents, calculated by dividing the consolidated profit after tax by the weighted average number of ordinary shares issued, excluding shares owned by the group. For calculating diluted earnings per share the number of shares and profit or loss for the year is adjusted for all dilutive potential ordinary shares 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. The calculation is performed excluding the impact of foreign exchange on non-monetary items.

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

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

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

Horizontal limits
Reinsurance coverage limits for multiple events.

Incurred but not reported (IBNR)
These are anticipated or likely claims that may result from an insured event although no claims have been reported so far.

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.

Lead underwriter
The underwriter of a syndicate who is responsible for setting the terms of an insurance or reinsurance contract that is subscribed by more than one syndicate and who generally has primary responsibility for handling any claims arising under such a contract.

Line
The proportion of an insurance or reinsurance risk that is accepted by an underwriter or which an underwriter is willing to accept.

Managing agent
A company that is permitted by Lloyd's to manage the underwriting of a syndicate.

Managing general agent (MGA)
An insurance intermediary acting as an agent on behalf of an insurer.

Medium tail
A type of insurance where the claims may be made a few years after the period of insurance has expired.

Net assets per share
Ratio, in pence and cents calculated by dividing the net assets (total equity) by the number of shares issued.

Net premiums written
Net premiums written is equal to gross premiums written less outward reinsurance premiums written.

Provision for outstanding claims
Provision for claims that have already been incurred at the reporting date but have either not yet been reported or not yet been fully settled.

Rate
The premium expressed as a percentage of the sum insured or limit of indemnity.

Reinsurance sidecar
A special purpose syndicate (SPS) created to operate as a reinsurance "sidecar" to Beazley's treaty account, capitalising on Beazley's position in the treaty reinsurance market.

Reinsurance to close (RITC)
A reinsurance which closes a year of account by transferring the responsibility for discharging all the liabilities that attach to that year of account (and any year of account closed into that year) plus the right to buy any income due to the closing year of account into an open year of account in return for a premium.

Retention limits
Limits imposed upon underwriters for retention of exposures by the group after the application of reinsurance programmes.

Return on equity (ROE)
Ratio, in percent calculated by dividing the consolidated profit after tax by the average daily total equity.

Retrocessional reinsurance
The reinsurance of the reinsurance account. It serves to 'lay-off' risk.

Risk
This term may variously refer to:
a) the possibility of some event occurring which causes injury or loss;
b) the subject matter of an insurance or reinsurance contract; or
c) an insured peril.

Sidecar syndicate
Specialty reinsurance company designed to provide additional capacity to a specific insurance company. They operate by purchasing a portion or all of a group of insurance policies, typically cat exposures. They have become quite prominent in the aftermath of Hurricane Katrina as a vehicle to add risk-bearing capacity, and for investors to participate in the potential profits resulting from sharp price increases.

Short tail
A type of insurance where claims are usually made during the term of the policy or shortly after the policy has expired. Property insurance is an example of short tail business.

Soft market
An insurance market where prevalent prices are low, and terms and conditions offered by insurers are less restrictive.

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

Total shareholder return
The increase in the share price plus the value of any first and second dividends paid and proposed during the year.

Treaty reinsurance
A reinsurance contract under which the reinsurer agrees to offer and to accept all risks of certain size within a defined class.

Unearned premiums reserve
The portion of premium income in the business year that is attributable to periods after the balance date is accounted for as unearned premiums in the underwriting provisions.

Designed and produced by TeamPublishing www.teampublishing.co.uk

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