



beazley

Beazley achieved both growth and record profits in 2012 – the fruit of consistency in the execution of our strategy. To stay ahead, we must always be seeking to identify new products and ways of doing business that bring real value to our brokers and clients. See page 22 to learn about our new moves in 2012.

Profit before income tax

\$251.2m

Combined ratio

91%

Return on equity

19%



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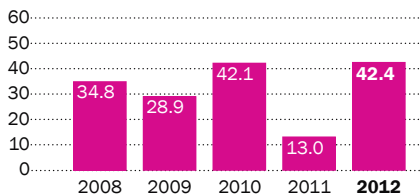
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Quick read *Our performance*

Beazley's diversified underwriting portfolio delivered a profit before tax of \$251.2m.

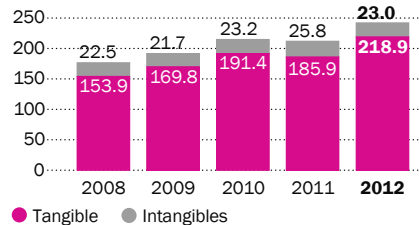
Key performance indicators

Earnings per share (c)



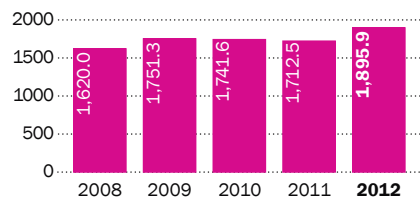
Basic EPS is at 2.5x dividend cover for 2012.

Net assets per share (c)



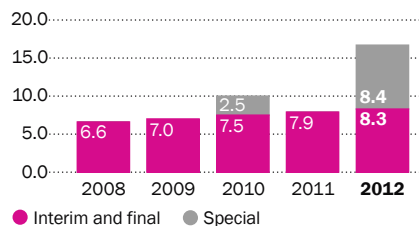
18% growth in net tangible assets in 2012 indicates strength in our balance sheet.

Gross premiums written (\$m)



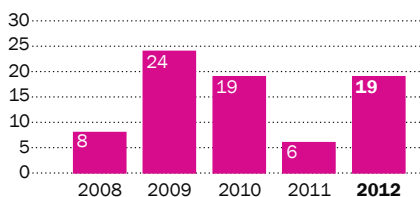
Gross premiums increased by 11% in 2012 and by 17% compared to 2008.

Dividends per share (p)



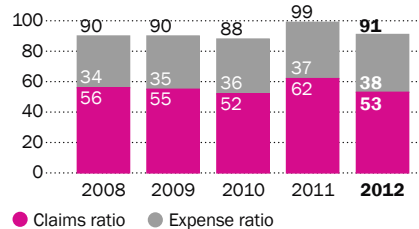
Dividends per share have grown 26% (excluding special dividend) since 2008.

Return on equity (%)



Cumulative five year return on equity of 76%.

Combined ratio (%)



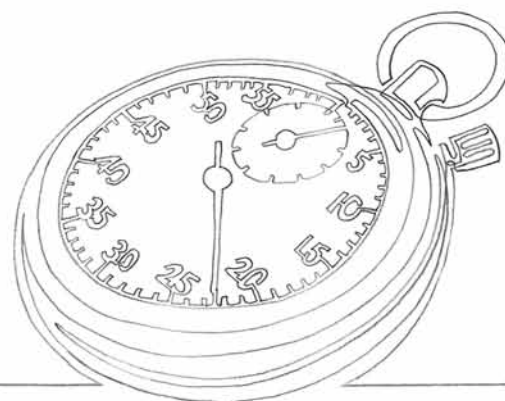
Combined ratio averaged 92% over five years.

Profit before income tax

\$251.2m

Return on equity

19%



Financial highlights

- Profit before income tax of \$251.2m (2011: \$62.7m)
- Return on equity of 19% (2011: 6%)
- Gross written premiums increased by 11% to \$1,895.9m
- Combined ratio of 91% (2011: 99%)
- Rate increase on renewal portfolio of 3% (2011: increase of 1%)
- Net investment income of \$82.6m (2011: \$39.3m)
- Second interim dividend of 5.6p, taking total dividends for the year to 8.3p (2011: 7.9p) up 5% plus a special dividend of 8.4p

Delivery against our strategy

- Innovation is delivering top line growth
- We achieved rate increases on renewals across a broad section of our portfolio including specialty lines
- Our continuing capital discipline is supported by innovative refinancing in the bond markets this year, in addition to the special dividend which will generate a significant capital return to shareholders.

Quick read

Quick read *About us*

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

Who we are

Beazley plc is the parent company of our global specialist insurance businesses, operating since 1986, with over 840 people based in the UK, US, France, Norway, Germany, Ireland, Singapore, Hong Kong and Australia. Beazley is a proud participant in the Lloyd's market, the largest and oldest insurance market in the world. Through the Lloyd's broker network and the market's trading licences, we are able to access a wide range of insurance and reinsurance business from around the world. Many of the lines of business we underwrite, such as marine and energy, political risks and contingency, were pioneered at Lloyd's.

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

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

We are market leaders in many of our chosen lines of business. We write a diversified portfolio which includes:

- life, accident & health – life, personal accident and sports;
- marine – energy, hull, cargo, liability, war and aviation;
- 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.

For more information on our diversified portfolio please refer to pages 8 and 9.

Our vision and key differentiators

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

We measure our progress towards achieving our vision by a variety of financial metrics, set out on pages 2 and 3 of this report. But these metrics are underpinned by a business model that has stood the test of time and an environment that makes working at Beazley challenging and enjoyable. Combined with our focus on talent management, this has enabled Beazley to attract and retain people who rank among the best insurance professionals in the world.

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

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

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

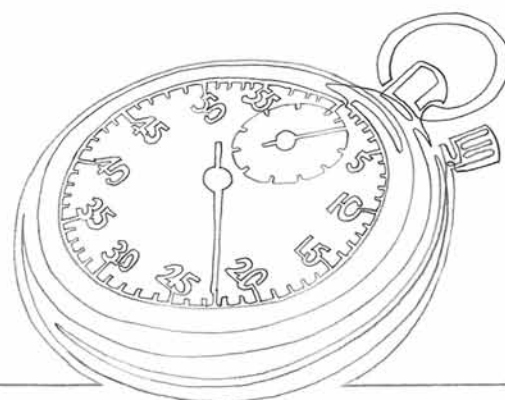
Strong partnerships: Strong broker relationships are the lifeblood of our business. In the past two years, Dan Jones and his broker relations team have focused on deepening our relationships with brokers around the world. For brokers and clients alike, we offer stable cover, year after year, in our core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



Further information on our key differentiators

is set out on pages 12 and 13.

We are proud there are many different personalities from widely varying backgrounds working at Beazley – it's what has made our business what it is today.



Our people

We know it's our international team of 847 people that makes us successful. Our people are experts in what they do, using their specialist knowledge and skills to deliver for our customers, brokers and shareholders. We go to great lengths to listen to our colleagues and find out what matters to them, so we can make sure we are attracting and developing the people we need to grow our business profitably – from launching a sabbatical policy this year and creating engaging spaces for our people to work in, to offering stimulating work and keeping our entrepreneurial spirit alive.

We're constantly thinking ahead to develop capabilities and insights that go way beyond the here and now. This year our people completed an average of 2.95 days per person of learning and development that not only increased their skills and knowledge but also supported their personal development.

We are proud there are many different personalities from widely varying backgrounds working at Beazley – it's what has made our business what it is today. Our vision is to keep attracting and developing people with different experiences, backgrounds and lifestyles, with different skills and perspectives to join and lead our business – a workforce that mirrors the diversity of our customers and the communities where we work around the world.

We like to do things that bring us together and at the same time help our communities – whether that's helping children with their reading in our local schools, growing or wearing moustaches to support Movember and men's health causes, or climbing mountains to raise much needed funds for Alzheimer's sufferers and their carers.

Being Beazley

We share a set of values – professionalism, integrity, effectiveness and dynamism – which unite us and define how we do things. We call it 'Being Beazley'.

How we're rewarded


We want Beazley to be a place that high performing people want to join and stay at. We offer benefits that are hard to find at other companies and that are valued by our people. Our aim is always to be fair and to recognise Beazley, team and individual performance in our recognition and reward initiatives.

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

- alignment to shareholder interests; and
- performance of the group.

We offer the following incentive initiatives:

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

 Further details of the remuneration policy is set out on page 69.

Quick read

Meet our people 

Quick read *About us*

Number of employees

847

Continents covered

4

Number of locations

24

Our people



There is an honest sense of collaboration here. Many companies talk about it, but Beazley lives it.

Jana Ratnajothy
Specialty Lines Underwriter



In Beazley's marine claims department I am able to channel my experience into a team that bubbles with youthful enthusiasm. Who could ask for more?

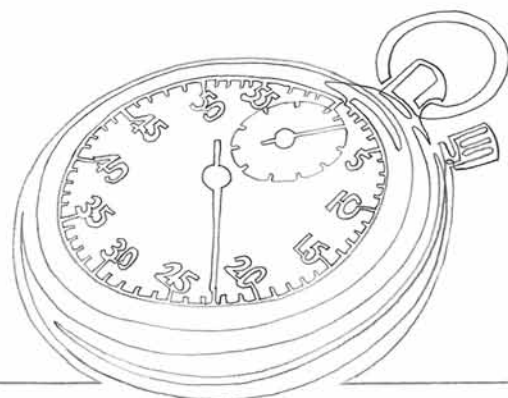
Kelvin Euridge
Marine Surveyor

I've been working here for five years. The company has grown a lot in that time, but it remains a very friendly place to work.

Rebecca Prince
Actuary



We want Beazley to be a place that high performing people want to join and stay at. We offer benefits that are hard to find at other companies and that are valued by our people.



There is a friendly, productive and honest culture here, open to new ideas and suggestions.

Andreas Bergler
Reinsurance Underwriter



There is the chance to get involved and give back to the communities where we work, which is important to me.

Lenny Cerase
Strategic Sourcing Manager



The people and culture here at Beazley are definitely what make it the company it is and an enjoyable place to work.

Olivia Stafford
Global Financial Reporting Manager

Quick read

Quick read *Diversification*

At Beazley, diversification has always been carefully built into our insurance and reinsurance portfolio. The graph below shows how our diversification has developed, and the growth that this has produced over the years.

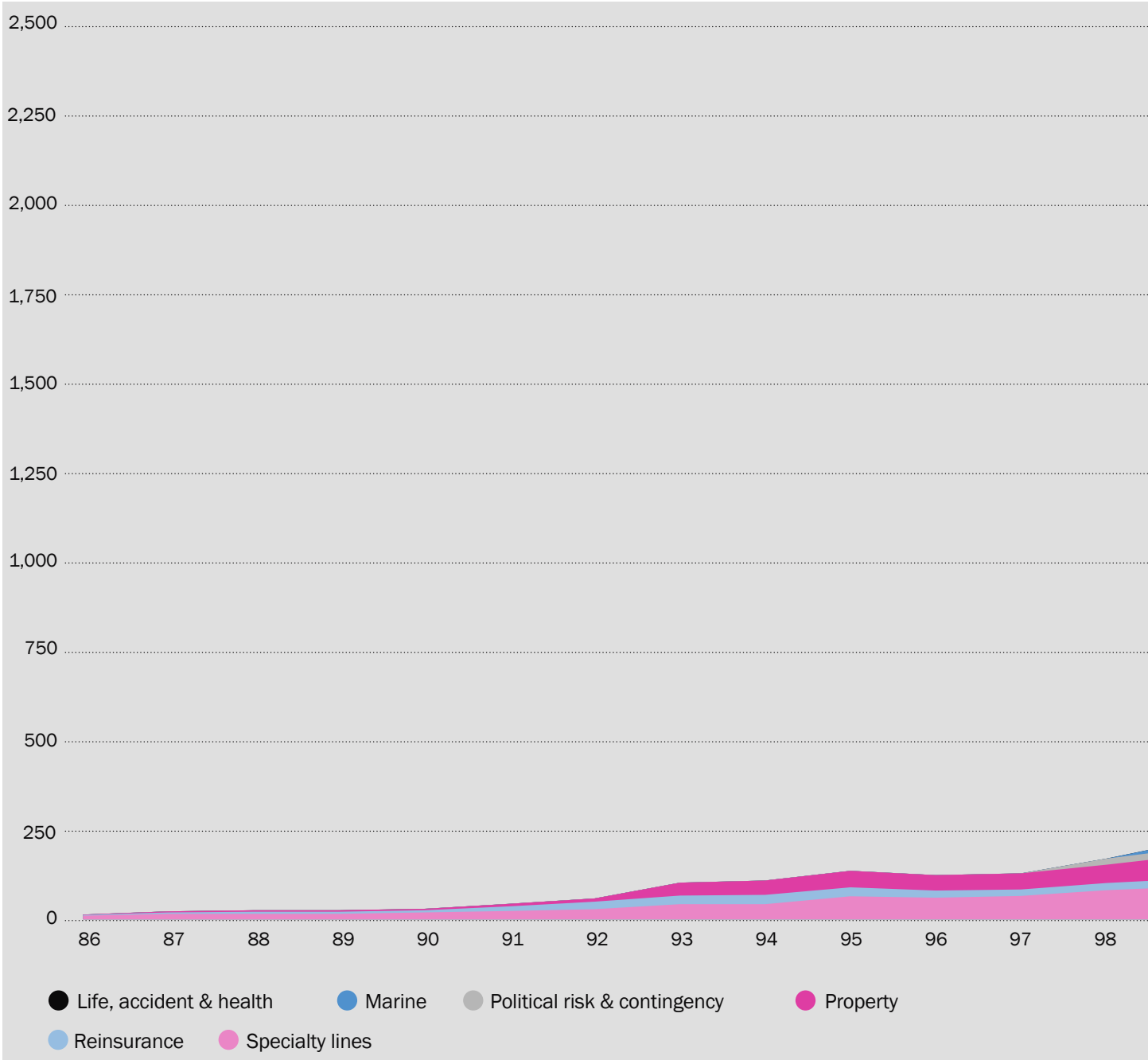
Life, accident & health

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

Marine

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

Managed gross premiums growth by division \$m



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

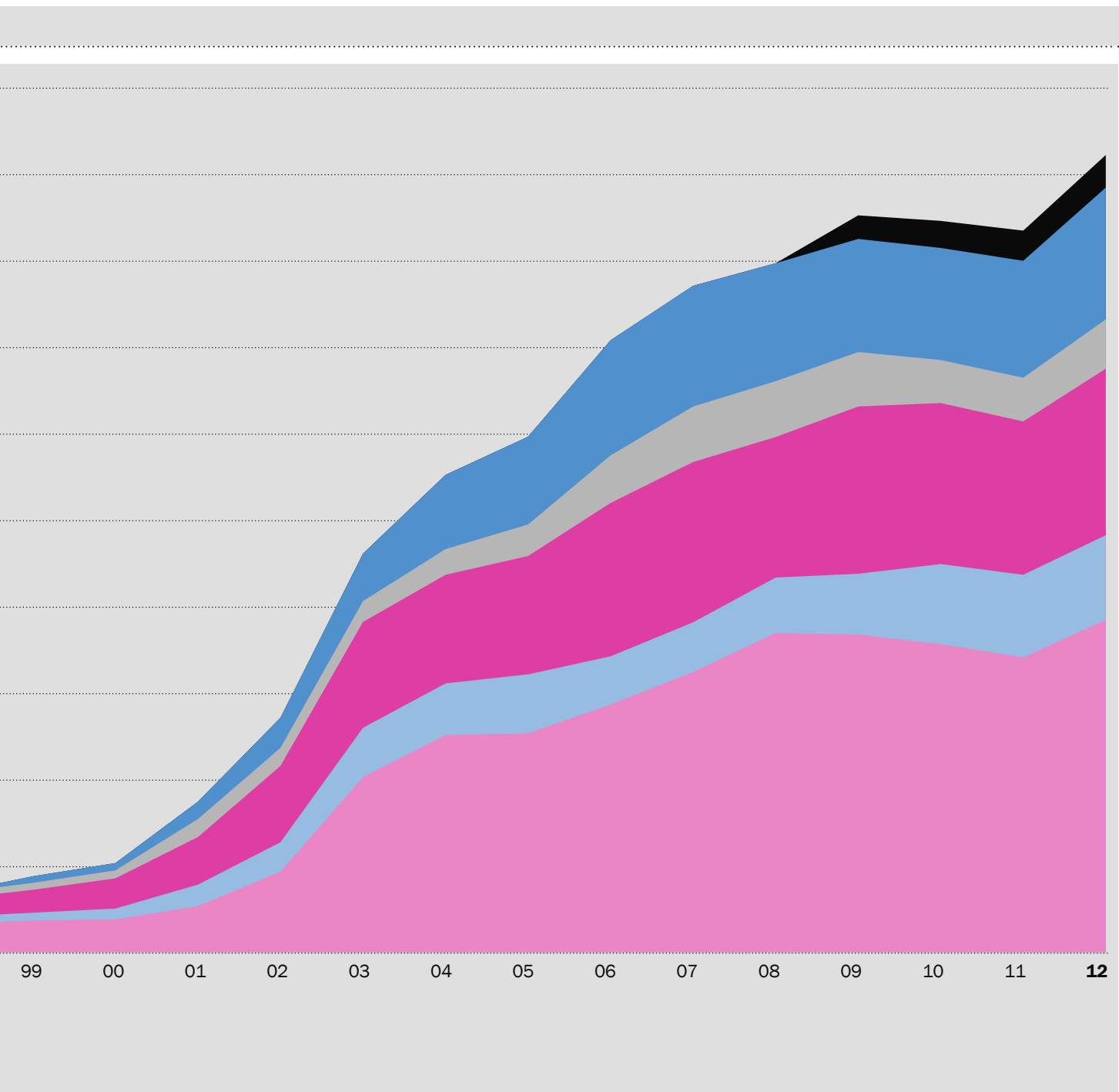
We've protected clients ranging from Fortune 1000 companies to homeowners through 20 years of natural and man-made catastrophes. We underwrite this business through three geographic platforms – Lloyd's, the US and Singapore – with a business focus on commercial property, engineering and construction risks and select homeowners' business.

Reinsurance

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

Specialty lines

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



Quick read

Quick read *27 years of profitable growth*

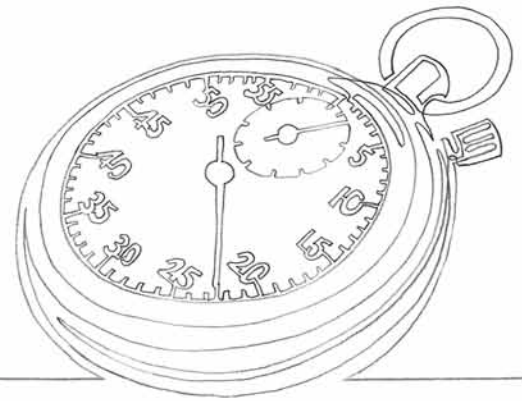
Beazley's vision is to become, and be recognised as, the best performing specialist insurer. Beazley began life in 1986. Since then, we have grown steadily in terms of the risks we cover, the clients we serve and our geographic reach, and today Beazley is a mature insurance business with a well diversified portfolio. 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.

👉 *Flotation 2002*

2002	2003	2004	2005	2006	2007
\$675.6m Managed gross premiums	\$1,148.7m Managed gross premiums	\$1,374.9m Managed gross premiums	\$1,485.1m Managed gross premiums	\$1,762.0m Managed gross premiums	\$1,919.6m Managed gross premiums
Flotation raised £150m to set up Beazley Group plc	\$574.3m Group share	\$736.2m Group share	\$1,015.6m Group share	\$1,371.0m Group share	\$1,561.0m Group share
	D&O healthcare, energy, cargo and specie accounts started	Construction & engineering account started	Beazley MGA started in US Beazley acquires Omaha P&C and renames it Beazley Insurance Company, Inc. (BICI)	Beazley takes full ownership of APUA and renames it Beazley Limited	
	SARS outbreak in Asia \$3.5bn		US hurricanes Katrina, Rita and Wilma \$101.0bn	Expansion of construction & engineering team into Singapore	
				Beazley opens new office in Paris	
				Lloyd's active members: 2,211	
				Capacity: £14.8bn	
				Syndicates: 65	

Trading began 1986 👉

1986	1987	1989	1991	1992	1993	1994
\$13.4m Managed gross premiums	\$22.1m Managed gross premiums	\$24.1m Managed gross premiums	\$42.5m Managed gross premiums	\$58.8m Managed gross premiums	\$101.4m Managed gross premiums	\$107.6m Managed gross premiums
Lloyd's active members: 28,242	UK windstorms \$3.5bn		Lloyd's active members: 26,539	Commercial property account started	Total Beazley syndicates' capacity	Corporate capital introduced to Lloyd's
Capacity: £8.3bn		1990 \$29.5m Managed gross premiums	Capacity: £11.1bn	US hurricane Andrew \$17bn	UK Bishopsgate explosion \$750m	US Northridge earthquake \$12.5bn
Syndicates: 370	1988 \$24.7m Managed gross premiums	European storms \$10bn	Syndicates: 354			
Begin trading at the 'old' 1958 Lloyd's building in 1985						
Beazley, Furlonge & Hiscox established and takes over managing syndicate: 623						
Specialty lines and treaty accounts started						



2008

\$1,984.9m
Managed gross premiums

\$1,620.0m
Group share

Political risk & contingency group formed as new division

Acquisition of Momentum Underwriting Management

Accident & life formed as a new division

US hurricane Ike \$20bn

2009

\$2,121.7m
Managed gross premiums

\$1,751.3m
Group share

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

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

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

2010

\$2,108.5m
Managed gross premiums

\$1,741.6m
Group share

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

Beazley changes functional and presentational currency to US dollars

Special purpose syndicate 6107 formed to grow reinsurance business

Chile and NZ earthquakes \$5-\$8bn

Deepwater Horizon explosion triggers biggest oil spill in history

2011

\$2,079.2m
Managed gross premiums

\$1,712.5m
Group share

Expansion of Australian accident and health business through acquisition of two MGAs

Launch of the Andrew Beazley Broker Academy

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

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

Tohoku earthquake in Japan \$35bn

Floods in Thailand \$10-\$20bn

US tornadoes \$14bn

NZ earthquake \$12bn

2012

\$2,278.0m
Managed gross premiums

\$1,895.9m
Group share

Expansion into aviation and kidnap & ransom markets

Reinsurance division broadens access to South East Asia, China and South Korea business with local presence in Singapore

Political risk & contingency expand into French market

Superstorm Sandy \$20-25bn

1995

\$135.2m
Managed gross premiums

Lloyd's Reconstruction and Renewal introduced

Lloyd's active members: 13,062

Capacity: £10.0bn

Syndicates: 167

1996

\$124.2m
Managed gross premiums

1997

\$128.4m
Managed gross premiums

Beazley Dedicated established

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

Lloyd's Reconstruction and Renewal concluded

1998

\$168.8m
Managed gross premiums

Recall, contingency and political risk accounts started

1999

\$217.1m
Managed gross premiums

Marine account started

European storms \$12bn

2000

\$256.1m
Managed gross premiums

2001

\$431.6m
Managed gross premiums

Management buyout of minority shareholders

EPL and UK PI accounts started

Lloyd's active members: 3,746

Capacity: £11.3bn

Syndicates: 122

US 9/11 terrorist attack \$20.3bn

Quick read *Our key differentiators*

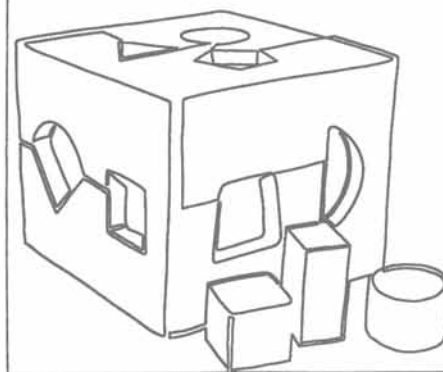
Beazley is differentiated less by the measures we take to secure competitive advantage than by the way we implement these measures.

All insurers aim to assemble a diversified portfolio of risks: indeed, Lloyd's is an attractive place in which to do business partly because an insurer at Lloyd's can assemble a diversified portfolio, sourced by the London market's brokers, quite quickly. But our approach goes well beyond diversification by line of business. For example, our business is a balance of 'short-tail', meaning that claims usually emerge within a year of the policy's inception, and 'medium-tail', which means that claims on average take up to six years to crystallise fully.

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

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

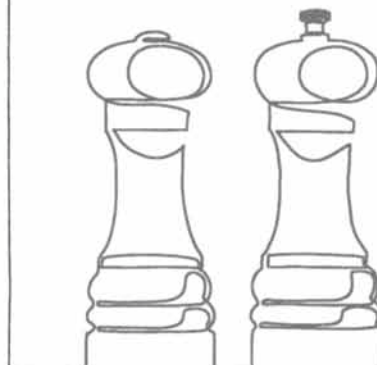
Diversified business



Entrepreneurial spirit



Strong partnerships



Strong partnerships with clients are based on the expectation that Beazley will be prepared to provide continuity of coverage over the years.

<p>☞ What we said</p>	<p>☞ What we did</p>	<p>☞ The future</p>
<p>At Beazley, diversification has been deliberately and carefully built into our insurance and reinsurance portfolio in a variety of ways. We diversify by geography, by class of business, by size of risk, and by the speed with which the cost of claims emerges.</p>	<ul style="list-style-type: none"> • Hired an experienced team to begin underwriting aviation business in London <input checked="" type="checkbox"/> • Launched a new data breach insurance product for small firms in US with less than \$10m in revenue <input checked="" type="checkbox"/> • Began, in early 2013, to underwrite smaller scale contingency business locally in the US <input checked="" type="checkbox"/> 	<p>A well diversified and balanced book of business protects Beazley against claims spikes in any one business line and helps to optimise capital efficiency. In 2013, we are making good use of the capital efficiency of the Lloyd's platform, issuing a special dividend to shareholders while leveraging our debt capacity and maintaining the financial flexibility to develop growth opportunities.</p>
<p>Entrepreneurial spirit is something we value highly. Through our history we have found that the greatest success comes from taking highly motivated and experienced individuals and giving them the tools and resources to develop their business.</p>	<ul style="list-style-type: none"> • Expanded our underwriting team in London to capitalise on opportunities in UK and French market for growth of data breach insurance <input checked="" type="checkbox"/> • Expanded our marine piracy book and develop kidnap & ransom solution for clients <input checked="" type="checkbox"/> 	<p>During the course of 2013 a series of workshops will be held in the UK and US to help underwriters commercialise promising new business ideas, aligning technological, regulatory and marketing expertise behind high potential products and services.</p>
<p>The success of our business depends on strong client relationships. In our reinsurance business, for example, 80% of our top 20 clients have been with us for more than 15 years.</p> <p>Our broker relationships are also critically important to us. Understanding the needs of brokers and maximising the flow of profitable business are key to the success of all our underwriters.</p>	<ul style="list-style-type: none"> • Expanded our broker relations team to Texas and Florida to strengthen our relationship development in the southern US, and added a full-time role in London to do the same in London and Europe <input checked="" type="checkbox"/> • Reduced our US intermediary appointments to focus efforts on most productive relationships <input checked="" type="checkbox"/> 	<p>In 2013 we will be exploring new ways to strengthen still further our relationships with broking firms that present exceptional growth opportunities.</p>

Chairman's statement



Dennis Holt
Chairman

I am pleased to report that your company performed very strongly in 2012, delivering a return on average shareholders' equity of 19%.

Consistent high quality underwriting performance, for which Beazley is increasingly recognised, was once again evident in a combined ratio of 91%. Earnings per share rose to 42.4c and net tangible assets per share rose 18% to 218.9c. Beazley's share price climbed 29% during the course of the year and we also delivered a dividend yield of 5%.

The board is pleased to announce a second interim dividend of 5.6p per ordinary share plus a special dividend of 8.4p per ordinary share. Together with the first interim dividend of 2.7p this takes the total dividends declared in 2012 to 16.7p per ordinary share (2011: first interim dividend of 2.5p, second interim dividend of 5.4p, totalling 7.9p).

The backdrop to Beazley's consistently strong performance has been a set of priorities that is simple to articulate but demanding to execute. It comprises three elements:

- prudent capital allocation to achieve a well diversified portfolio that is resistant to shocks in any individual line of business;
- the creation of an environment at Beazley in which talented individuals with entrepreneurial spirit can build successful businesses; and
- the ability to scale our operations to ensure that client and broker service keeps pace – and wherever possible improves – as the company grows.

All insurers must strike a balance between profitability and growth. I believe we struck this balance successfully in 2012, managing our capital efficiently to optimise investor returns while ensuring that we have the resources available to take advantage of growth opportunities.

This is not a new story at Beazley: effective capital management has long been important to our success. During the year we generated \$12.9m of gains through a liability management exercise, buying in £47.3m of our existing subordinated debt. We opened a new chapter last September, when we became the first insurer to launch a fixed rate bond issue for retail investors on the London Stock Exchange's order book for retail bonds, raising £75m.

The board has discussed future capital needs in light of our growth plans and – supported by our new internal model designed for the Solvency II regulatory regime – has concluded that it is appropriate to declare a special dividend. We also discussed making fuller utilisation of our debt capacity in the

Beazley's high quality underwriting performance in 2012 is evident in a combined ratio of 91% and a return on equity of 19%.

future as this leverages the capital efficiency of the Lloyd's platform – where we place 98% of the risk we write. The dividend we propose above will ensure that the group's equity capital does not grow beyond our medium term needs. At the same time, the surplus capital we are retaining, backed up by our unutilised debt capacity and strong earnings generation, afford us significant flexibility to take advantage of emerging opportunities.

To what uses will these resources be put? In particular we are not relying on the insurance cycle to move in a particular direction, nor on a hardening market to achieve our growth. Events such as superstorm Sandy will have repercussions on premium rates that are increasingly localised and short-lived as capital flows in and out of insurance markets ever more efficiently. Nevertheless, market conditions will affect the pace at which we are able to grow and the particular lines of business that we grow. We are confident that if market conditions remain as they are we will still find opportunities to grow.

Beazley has an additional strength in that our skilled underwriting enables us to achieve higher returns than the average in many of the markets in which we operate. The marine team at Beazley, for instance, have shown this consistently, achieving a combined ratio averaging 75% over five years.

Returns on innovation can also be high where demand for a new solution is strong and we believe our ability to meet customer needs in these situations differentiates us from our competitors. A challenge, historically, for insurers is that policy wordings can be copied rapidly, but the technology, media and business services team at Beazley has delivered an innovative product that is difficult for competitors to replicate. The key to the success of Beazley Breach Response (BBR) is smooth and effective coordination between all of the response services that clients need in the event of a breach involving large volumes of personal customer data. In 2012, this task was entrusted to a new dedicated business unit, BBR Services, which will help to differentiate our BBR product even more.

To accommodate the different approaches that will bring success in different markets, Beazley has needed to be operationally flexible. It has also needed to maintain excellent broker relationships. In both of these areas significant progress has been made in 2012, which is detailed on pages 12 to 13 and 49 to 50 of this report.

In recent years, our industry has been exposed to expanded regulatory oversight. We have made significant investment in our systems and processes to meet this challenge and as a result our organisation is ready to operate under the Solvency II regime as and when it is enacted. We also pay close attention to developments in corporate governance standards following the banking crisis.

Board changes

Beazley has an admirable track record and I was delighted to be asked to become chairman at last year's AGM. My predecessor, Jonathan Agnew contributed significantly to Beazley from its flotation in 2002 and the board is grateful for his wisdom and commitment.

There are two board changes in prospect during 2013. First, we are very pleased to report that Angela Crawford-Ingle will join the board as a non-executive director at the AGM, subject to shareholder approval. Angela will replace Gordon Hamilton as one of our non-executive directors. She was a former partner at PricewaterhouseCoopers in their financial services division. Gordon will step down at the AGM having completed two three year terms during which he made a considerable contribution to Beazley.

Second, Jonathan Gray, who has led Beazley's property division since 1992 and served as a director of Beazley since 2001, has expressed his desire to resign from the board of Beazley plc in July 2013. Jonathan's contribution to Beazley's success to date has been enormous. He will remain as a director of the group's Lloyd's managing agency, Beazley Furlonge Limited, and will continue to guide the development of Beazley's open market property business at Lloyd's, a field in which his expertise is second to none.

Beazley's vision is to become, and be recognised as, the highest performing specialist insurer. The board is satisfied that the strategic approach currently in place should continue to deliver steady and measurable performance against this objective.

Dennis Holt
Chairman

6 February 2013

Chief executive's review



Andrew Horton
Chief executive

Beazley's businesses performed very strongly in 2012, recording a profit before income tax of \$251.2m (2011: \$62.7m) on gross premiums of \$1,895.9m (2011: \$1,712.5m). The impact of superstorm Sandy, which hit the north eastern United States at the end of October, was absorbed by our broad-based portfolio that had even succeeded in generating an underwriting profit the year before, when catastrophe claims were far heavier. Our combined ratio in 2012 of 91% (2011: 99%) is a return to the level achieved from 2006 through 2010.

The year was also characterised by premium growth in many areas as our underwriters moved to take advantage of rate rises across the classes of business we transact. Following the extreme claims experience of 2011, rates rose most strongly for our reinsurance and property teams (5% and 6% respectively). Growth in our open market property division at Lloyd's, where large and complex international risks are insured, was particularly strong at 7% to reach \$139.4m. But rate rises were not confined to catastrophe exposed, short-tail business. Specialty lines, our largest division, also saw rates rise by 3% – the first rate increase across the portfolio since 2006 – and premiums grew by 14% to \$808.4m.

For the group, prior year reserve releases were \$126.0m (2011: \$186.5m which were boosted by the release of margins in catastrophe related business). Beazley continues its philosophy of reserving prudently and on average we expect reserve releases as we settle claims.

Recent years have been challenging for insurers of medium-tail casualty business due to extremely low investment yields. My observation is that many insurers have not adjusted their pricing to take into account the very weak investment returns. In the course of 2012 we saw signs of stress increasing in the marketplace, with competitors withdrawing from lines of business or re-underwriting accounts at higher rates. We expect premium rates to continue to rise modestly across our specialty lines portfolio in 2013.

The controlled diversification of our portfolio of business has been central to our strategy for more than two decades.

In the economic conditions that applied in 2012, growth was not always easy to achieve, particularly for lines of insurance that are discretionary. Our political risks underwriters saw demand for cover influenced by two opposing forces. On the one hand, the banks that finance international trade and investment are encouraging their customers to buy political risks insurance. On the other hand, the overall level of lending in Europe and the US remained subdued. These two factors broadly cancelled one another out so, although political risk rates fell by 1%, premiums in this line of business grew by 14% to \$116.6m.

Our marine division was once again highly profitable in 2012 with a combined ratio of 75%. Globally, freight volumes remain depressed and many ships are in lay-up. Nevertheless, our underwriters continued to be successful in identifying growth opportunities where available, most notably in the energy market where we secured a rate rise of 7% and premium growth of 27% to \$125.2m.

The controlled diversification of our portfolio of business has been central to our strategy for more than two decades. This diversity enables us to invest appropriately in promising lines of business that offer good growth potential. An example is our US accident & health business, which offers gap protection medical and disability insurance for the employees of companies who feel inadequately protected by their employers' existing benefits programme. This is a highly regulated and specialist market, and obtaining admitted status for our products and establishing a robust online platform for employee enrolment requires considerable investment. But we expect that healthcare reform in the US, upheld last year by the Supreme Court and confirmed by President Obama's re-election, will increase demand for the range of gap protection products that we can now offer across 36 states.

Claims update

The first three quarters of the year saw a normalised level of claims activity across all of our divisions. From a meteorological perspective, however, the 2012 storm season in the north Atlantic was a very active one, with 18 named storms and ten hurricanes. It was not until late October that one of these storms – Sandy – made landfall in the United States.

Sandy was distinguished more by its breadth – nearly 1,000 miles in diameter – than by its intensity when it came ashore in New Jersey, New York and Connecticut, the most densely populated part of the eastern seaboard. Claims affected our property and reinsurance divisions and, to a lesser extent, our contingency team as a result of event cancellations. Losses from Sandy, in what was otherwise a year of relatively few catastrophe events, will have at most a localised impact on a very well capitalised insurance market. In December, we estimated our net losses arising from Sandy at \$90m, based on market losses of between \$20bn and \$25bn, this estimate remains unchanged.

Investment performance

At a time of historically low interest rates, a conservatively positioned investment portfolio such as Beazley's will generate modest returns. We nevertheless succeeded in increasing our return to 2% (2011: 1%), which was achieved by increasing our allocation to credit and also the duration of our fixed income portfolio at the start of the year. During the year interest rates came down further and credit spreads tightened which is why we saw these positive returns. Our alternative asset allocation also contributed to the overall performance of the portfolio, and remains conservatively positioned given the uncertainty in financial markets. In line with our cautious investment strategy, the overall credit quality of investment assets remains high with 84% held in A- or better rated securities, with no direct exposure to sovereign debt issued by distressed European countries.

Chief executive's review *continued*

Growth opportunities

The year saw significant additions to our product range, capitalising on our ability to attract talented underwriters with strong track records and entrepreneurial flair. In June we announced plans to establish an aviation team under the leadership of David Oates, who will join us later this year. The team began underwriting business at Lloyd's in November.

Premium rates for the major commercial airlines are currently low but our focus is on the smaller accounts where competition is less intense. A strategy based on rigorous risk selection has served our marine underwriters well through often challenging market conditions and we are confident that David and his team – who will operate within Clive Washbourn's marine division – possess the underwriting expertise and market standing to replicate this success for aviation business.

Also within our marine division, we have been delighted to welcome Michael Sharp, who will be building a kidnap & ransom (K&R) insurance account as well as taking charge of the development of our marine piracy business. We have long been a leading provider of piracy cover to shipowners and operators plying dangerous sea-lanes in areas such as the Gulf of Aden. The combination of insurance and expert advisory and negotiation services required in the market for piracy cover is similar to that required in the terrestrial K&R market. Other growth opportunities derive from taking products that have performed well in one geographic market and offering them in other markets where demand is emerging. In 2012, we launched a new data breach offering in Europe and Latin America, building on the success of our Beazley Breach Response product in the US. These regions possess two of the three main drivers of demand for data breach cover that have underpinned the success of our US product in the past two years: a massive proliferation of sensitive personal customer data held by companies and a surge of negative publicity arising from high profile data breaches. The third driver of demand – exacting regulatory requirements on how and when data breach victims should be notified – does not yet exist but is in prospect in the European Union and elsewhere.

Geographically, we continue to see the strongest growth opportunities in the US, both for business placed at Lloyd's in London and for business underwritten locally by our US underwriters. Locally underwritten US premiums increased to \$386.2m in 2012 (2011: \$366.2m).

As far as Europe is concerned, we have been focusing on the French market, where we are locating an increasing number of underwriters. We have French language wordings for 12 of our products and see growth opportunities in a variety of lines including political risks, technology errors and omissions, professional indemnity, and data breach insurance.

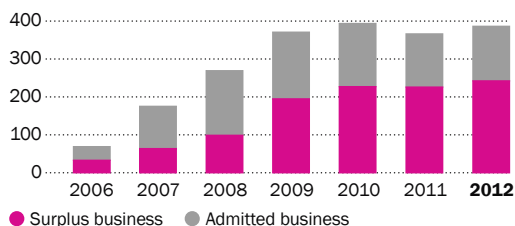
Broker relations

Strong broker relationships have been essential to the success of our underwriters in 2012, as in previous years. Our broker relations team, under the leadership of Dan Jones, has been successful in exploring and developing mutually profitable growth opportunities in both London and the US. David Price returned to London from Chicago in March to lead our broker relations programme at Lloyd's and we have been expanding our network regionally in the US.

One offering of value that we can provide to senior broker executives to strengthen relationships is high quality training for their younger colleagues. In 2012, we supported the second annual Andrew Beazley Broker Academy at Lloyd's, run this time as a market-wide initiative hosted by the Corporation of Lloyd's and enjoying strong support from the market as a whole. Thirty one young brokers from US firms came to London for a tightly scheduled week to 'stand in the underwriter's shoes' and the response was extremely positive.

References to growth have recurred frequently in this review of the past year, but it would be misleading of me to suggest that the only growth that is a source of pride and satisfaction to us at Beazley is premium growth. Indeed, premium growth is really no more than a welcome consequence of other forms of growth – growth in the diversity and capabilities of our people and in the career opportunities that we can offer them.

Locally underwritten US premiums (US \$m)



At the end of the year, Beazley numbered over 840 employees. Of these, only 32 have been with the company for longer than a decade. This is not a reflection of high turnover but of the rapid growth of the company this century. A decade ago we had only 78 employees in total and none in the US, now home to 322 of our staff.

The success of Beazley in 2012 is broadly based, reflecting the expertise and professionalism of our claims, operations and support teams around the world, as well as that of our underwriters. I am committed to ensuring that, for all of our people, opportunities for personal and professional growth will continue to expand at Beazley.

Andrew Horton
Chief executive

6 February 2013



Andrew Horton reviews Beazley's performance and describes the risks and opportunities he foresees in 2013.



Andrew Horton
Chief executive

Q Beazley grew last year, but you still face some stiff economic headwinds. Looking forward, how do you plan to continue to achieve profitable growth in a low growth economy?

A Our ability to grow profitably is determined by many things, some of which we control – in whole or in part – and some of which we don't. I naturally prefer to focus on the things that we can control, but to get the full picture you also need to look at the factors that are beyond our control.

We do not control the speed any given economy grows; we do not control the insurance cycle, or cycles; and, finally, we do not control the trends, whether they be social, economic, political or meteorological, that influence our claims experience. We can only adapt to them, like a sailor adapts to the wind.

What can we control? Obviously we can control the lines of business we write, the territories in which we write them, and the terms on which we write them. And we can control which individual risks we write and which we avoid.

The pressures on us to be less discriminating in all of these areas are quite high. We could grow quite fast if we were willing to 'portfolio underwrite' and say to a broker, 'We'll take 20%, or 30%, of whatever you've got.' But that's not our model. We have very experienced and knowledgeable underwriters who are experts at appraising individual risks, and we know from 27 years of experience that the model works. We've never incurred an annual loss and over the past five years we've achieved a cumulative return on equity of 75% with considerably less volatility than many of our peers.

So given these constraints, we can grow in three ways: by finding new geographic markets for our products; by identifying new lines of business that make sense for us to underwrite; and by developing new products that meet a real need among our clients. We were particularly gratified to see a major survey of brokers in the London market ranking us number one for innovation in the past year – it's a capability we know brokers value. On pages 22 and 23 of this report we describe some of our recent product and service innovations.

Q How do you motivate people in a low growth environment for the group?

A Well, first it's not such a low growth environment. We grew by 11% last year and we are aiming to grow a further 5-10% in the coming year. That's faster growth than we've seen in the past five years.

But the key really is for people to understand growth in the right context. A year in which a team saw premiums static or even falling is not necessarily a bad year. It may actually be a good year for that team in those circumstances. And we'd want them to celebrate their achievement if they delivered a great service to clients and brokers and secured a good underwriting return in that environment.

It's really all about the timescale. Premium growth is a long-term and medium-term goal for all our teams. It is not, and never should be, a short-term goal that obscures the focus on profitability.

There are other very important ways in which we seek to motivate our people. Our working environment is absolutely critical. It is essential that we remain friendly, approachable and supportive towards each other. There are inevitably pressures and stresses in all our jobs – I don't want to add to them by hidden agendas, unnecessary hierarchies or arcane bureaucratic procedures. All of those things can be unwelcome by-products of growth and we aim to avoid them.

Q Your investment return was 2% this past year. Is there a temptation to chase returns in a low investment environment?

A Yes, there is, although there is a danger in adding more investment risk to gain higher yield. We have a fixed investment risk budget and we are not going to change that to achieve a higher yield in the short term.

Our vision is to be, and to be recognised as, the best performing specialist insurer. The noun is important. It's insurer, not asset manager. So we have a conservative approach to the management of our investments, an approach that is reinforced by the relatively high gearing of our invested assets to our equity, which means that each 1% investment return generates a 4% return on equity.

We have a professional team from Falcon Money Management focused on the management of our investments and were delighted to welcome Philip Howard who joined us as our chief investment officer last year. Philip's role is to provide investment leadership and ensure assets are invested in line with our investment strategy and within our risk parameters.

Q You announced last year a move into aviation insurance at a point when a number of market commentators were suggesting that aviation premium rates were hitting a new low. Does this concern you?

A Whilst it is the case that rates are very low at this stage, with the right team of people there are nevertheless opportunities to write business in the current market. We will not be competing head to head for the major commercial fleet business that has been the focus of the most intense competition. Instead we still see attractive niche opportunities.

Also, we always hire good people, when they are ready to join us, providing it makes sense, strategically, for us to enter the line of business in question. We have been able to recruit an extremely skilled and experienced team of aviation underwriters. But of course we will not be driving them to grow the top line in a soft market.

Q How would you summarise the progress of your life, accident & health team during the year?

A We invested significantly in our admitted US accident & health business in 2012, which is why the combined ratio for the division exceeded 100%. The life, accident & health business we underwrite in London performed well.

Q What are your thoughts on the changing regulatory environment?

A Regulatory change is a fact of life that we will continue to address. This was our approach to Solvency II and I believe Andrew Pryde, our chief risk officer, and his team have done an excellent job in preparing us. We have good relationships with our regulators around the world and we benefit from the comparably good relationships that Lloyd's enjoys. I am actually more of a 'glass half full' person when it comes to regulation – I think that if you maintain good, open relationships you can open up opportunities and resolve potentially contentious issues more quickly.

Q How big would you like to see Beazley become?

A We do not have a size goal for the group. We look carefully at the potential 'headroom' for our various product lines in the various markets in which we specialise. And when we add those opportunities up, I see a lot of potential. I see brokers who want to do more business with us because we offer them distinctive products that their clients really need. I see clients whose risks are becoming ever more complex and challenging. And, internally, I see underwriters brimming with ideas and creativity. It's exciting, but everyone at Beazley knows that we are not going to force the pace. Growth is important but timing is crucial.

New moves

In a busy year for Beazley's underwriters, the group expanded by geography, by product line, and by innovating in existing product lines. Our claims professionals also worked hard to provide a supportive service and deliver against our commitments, particularly in the aftermath of superstorm Sandy.

Cleared for takeoff

In June Beazley announced plans to establish a specialist aviation underwriting team. For some years, Beazley has underwritten a book of aviation war risks through its marine division; the plan is to expand the account to provide broader cover to owners and lessors.

The team, which began underwriting at Lloyd's in November, forms part of Beazley's marine division, reporting to Clive Washbourn. Cover for the major commercial airline fleets has recently been highly competitive, but Beazley will focus on smaller airlines where competition is less intense.

"Aviation", Mr Washbourn said, "is a class of business that can sometimes be challenging to underwrite, but I am confident that with the team's expertise and strong standing in the London market, we will be able to build a focused and profitable account."



By land and by sea

Kidnap is a hazard that is all too familiar to ships plying the troubled waters off the Horn of Africa and one for which Beazley has long offered cover. But from 2013, the company will begin offering protection on land as well.

"Kidnapping for ransom remains a scourge affecting businesses and wealthy families in many parts of the world," said Michael Sharp, who joined Beazley in June 2012 to develop the company's kidnap & ransom (K&R) business. "The key is to have access to experienced negotiators with local knowledge. We have partnered with an exceptional team at Hazelwood Street who possess the skills and connections to achieve favourable outcomes for our clients."

Explaining the rationale behind this and a number of other Beazley products, Beazley CEO Andrew Horton told Insurance Day in July: "We are always looking to see if we can attach a service because insurers cannot cover everything through indemnity alone."

Next stop Tokyo

Warranty & indemnity insurance (also known as representations & warranties, or reps & warranties insurance) for M&A transactions in Japan.

In January 2013, Beazley welcomed an agreement reached by Lloyd's Japan and the Japanese Financial Services Agency (JFSA) enabling Lloyd's-based insurers to insure such risks in Japan.

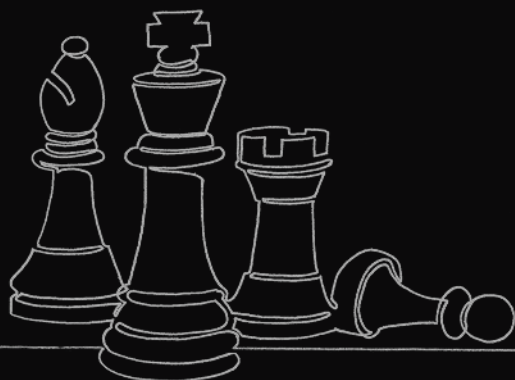
In just three years, Beazley has become a leading insurer of cover designed to reduce or extinguish the impact of liabilities arising from a merger or acquisition, including breaches of representations, warranties or indemnities, adverse tax consequences and contingent liability claims. Beazley now underwrites M&A transaction insurance in more than 80 jurisdictions globally with limits of up to \$30m per risk.

Singapore grows further as Asian hub

Beazley increased its commitment to Singapore as a major hub for insurance business in the region with the appointment in October 2012 of Ben Liang to establish a treaty reinsurance platform in the city state.

Mr Liang follows other Beazley underwriters who already insure property risks (including construction and engineering business) and political risks from Singapore. Patrick Hartigan, head of Beazley's reinsurance division, said the move was designed to enable Beazley to provide better access to brokers and clients in the region.

In 2008, Beazley's treaty reinsurance team made a similar investment in a new office in Munich, designed to capture a share of European reinsurance business that was not normally shown to Lloyd's underwriters in London. That move has proved successful with around \$19.9m in premiums underwritten in 2012.



When the going gets tough

Evacuation is not a step that long term expatriate employees of major companies take lightly, says Chris Parker, head of Beazley's terrorism and political violence insurance team. "They may have strong roots in the country and local commitments and loyalties."

But conditions can sometimes deteriorate to the point where swift evacuation is necessary. This is one of the scenarios provided for by a new Beazley policy that provides expert advisory and evacuation services in three scenarios: a deteriorating political environment or a natural catastrophe in which a client's employees are at risk; a medical emergency; and a kidnap.

"Expatriate or visiting employees working for foreign firms are frequently the targets of

violence motivated by political anger or economic resentment," Mr Parker said. "In extreme cases, they can be held hostage for political or financial gain.

"In the face of such risks, as well as in situations of acute medical risk where local treatment facilities are inadequate, on the ground capabilities and expertise are essential. We have teamed up with specialist firms that have proven global capabilities in all these."



When the show simply cannot go on

Event organisers were not immune to the effects of superstorm Sandy, with a number of high profile events cancelled due to the storm. This formed the backdrop to Beazley's decision to begin underwriting event cancellation and other forms of contingency business locally in the US from January 2013.

Victim of Sandy: New Jersey rollercoaster

Christian Phillips, an experienced member of the team that has built Beazley's contingency business in London to the point where it is one of the market's leading underwriters in the class, will be spearheading the growth of the US account. Based in Beazley's office in Philadelphia, he will focus on servicing existing coverholder relationships and on developing new business that is not normally seen by Lloyd's underwriters in London.

A bridge to simplicity

Insurance products are not always distinguished by their simplicity and one of the most complex areas for multinational companies and their brokers has historically been directors and officers (D&O) cover for widely dispersed operations.

In February 2012, Beazley unveiled an innovative solution: Beazley Bridge, a product to help brokers secure robust D&O insurance coverage for US multinational corporate clients – through a single insurance contract – to cover executives outside the United States.

Brokers have until now faced challenges in obtaining such cover. Normally a separate policy will need to be issued for each covered territory and premium taxes assessed and paid for each policy. The task of coordinating this complex and time consuming process usually falls to the corporation's broker.

Beazley Bridge simplifies the process of obtaining cover for these risks by leveraging Lloyd's global network of insurance licenses. Neal Wilkinson, global head of Beazley's management liability team, said, "As the leading insurer of D&O insurance in the

Lloyd's market, Beazley is well placed to take advantage of the unique network of insurance licences that Lloyd's has built up over more than three centuries. Beazley Bridge has been carefully designed to provide easily understandable and painlessly placed protection for directors and officers, introducing simplicity and flexibility into the insurance purchase."

Performance by division

The strength of our diversified portfolio resulted in another successful year for Beazley.

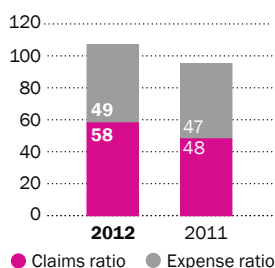


Life, accident & health



Chris Branch
Head of life, accident & health

Combined ratio (%)



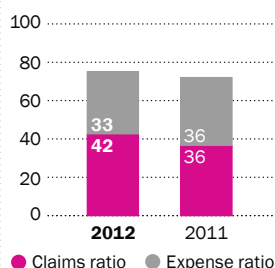
	2012 \$m	2011 \$m
Gross premiums written	94.4	86.9
Net premiums written	75.3	80.3
Results from operating activities	(2.7)	6.5
Claims ratio	58%	48%
Expense ratio	49%	47%
Combined ratio	107%	95%
Rate change	-	1%

Marine



Clive Washbourn
Head of marine

Combined ratio (%)



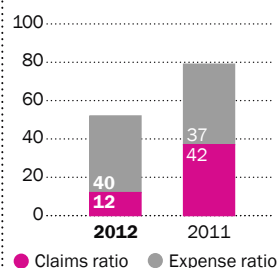
	2012 \$m	2011 \$m
Gross premiums written	311.2	274.2
Net premiums written	283.1	245.1
Results from operating activities	83.4	69.3
Claims ratio	42%	36%
Expense ratio	33%	36%
Combined ratio	75%	72%
Rate change	-	-

Political risks & contingency



Adrian Lewers
Head of political risks & contingency

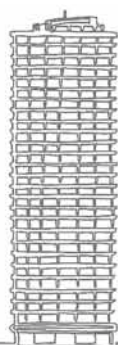
Combined ratio (%)



	2012 \$m	2011 \$m
Gross premiums written	116.6	102.5
Net premiums written	102.3	85.2
Results from operating activities	53.5	20.7
Claims ratio	12%	42%
Expense ratio	40%	37%
Combined ratio	52%	79%
Rate change	(1%)	(1%)



Neil Maidment
Chief underwriting officer

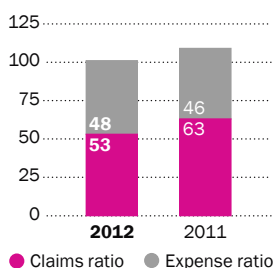


Property



Mark Bernacki
Head of property

Combined ratio (%)



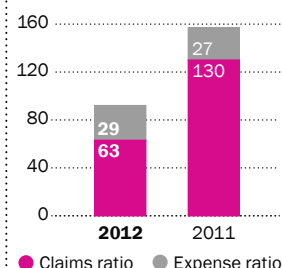
	2012 \$m	2011 \$m
Gross premiums written	376.7	359.4
Net premiums written	275.7	273.9
Results from operating activities	22.0	(9.5)
Claims ratio	53%	63%
Expense ratio	48%	46%
Combined ratio	101%	109%
Rate change	6%	3%

Reinsurance



Patrick Hartigan
Head of reinsurance

Combined ratio (%)



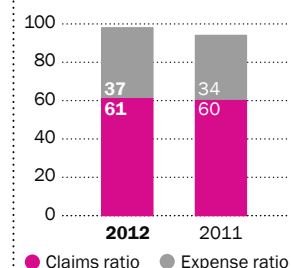
	2012 \$m	2011 \$m
Gross premiums written	188.6	178.3
Net premiums written	146.7	130.4
Results from operating activities	21.9	(71.3)
Claims ratio	63%	130%
Expense ratio	29%	27%
Combined ratio	92%	157%
Rate change	5%	3%

Specialty lines



Adrian Cox
Head of specialty lines

Combined ratio (%)



	2012 \$m	2011 \$m
Gross premiums written	808.4	711.2
Net premiums written	659.6	559.1
Results from operating activities	76.3	63.8
Claims ratio	61%	60%
Expense ratio	37%	34%
Combined ratio	98%	94%
Rate change	3%	(1%)

Life, accident & health

Invested heavily in development of international operations during 2012.

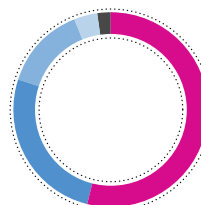


Chris Branch
Head of life, accident & health

\$94.4m

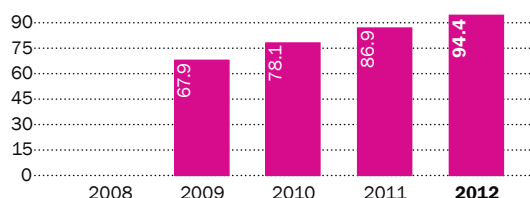
Gross premiums written

Portfolio mix



PA direct	54%
PA reinsurance	26%
Life direct	14%
Life reinsurance	4%
Sports disability	2%

Gross premiums written (\$m)



In the US, a state of the art online portal that will cut costs while enabling employees to input and maintain their insurance preferences is key to our offering.

Our life, accident & health division, led by Chris Branch, continued to build its international operations in 2012, the resulting investment leading to an increase of the division's combined ratio to 107% (2011: 95%). Gross premiums written increased by 9% in 2012 to \$94.4m (2011: \$86.9m).

Premium rates on renewals in the division's core London market business remained flat in 2012. Our team, one of the longest established in the market, enjoys excellent broker relationships, which secured a steady flow of profitable business in 2012, despite competitive market conditions.

The division is a London market leader in personal accident business, writing risks on both an insurance and reinsurance basis, and is a major player in the recent growth of the specialist life market at Lloyd's. Beazley's life syndicate, syndicate 3622, focuses on renewable group life business that cannot readily be placed in the standard market.

From 2010 we embarked on an international growth strategy that saw the purchase in 2011 of two managing general agencies in Australia focusing on the group disability market. In the US, we brought together an experienced team in Minnesota to create an insurance business focusing on 'gap protection' accident and health cover for the employees of US corporations who feel inadequately protected under their companies' existing benefits programmes.

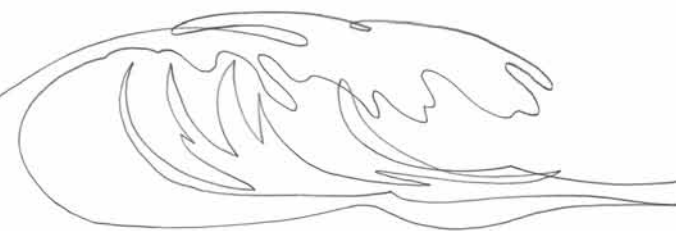
In the US, a state of the art online portal that will cut costs while enabling employees to input and maintain their insurance preferences is key to our offering. We received clarification of the shape of the broader healthcare market with the Supreme Court's endorsement of President Obama's reforms and the president's re-election victory. In this environment, in which American businesses increasingly struggle to offer the generous healthcare benefits that their employees have historically enjoyed, we are well placed to offer additional protection through admitted gap protection products approved in 36 states.

Marine

Sustained profitable track record with a combined ratio of 75%.



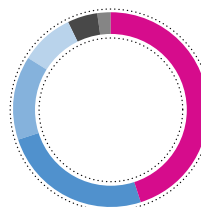
Clive Washbourn
Head of marine



\$311.2m

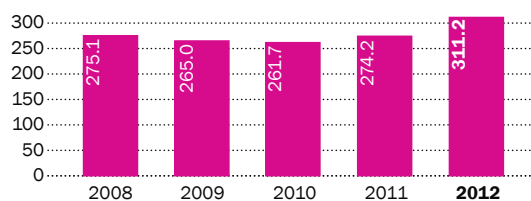
Gross premiums written

Portfolio mix



Energy	45%
Hull & miscellaneous	25%
Cargo	14%
War	9%
Liability	5%
Aviation	2%

Gross premiums written (\$m)



Our approach is characterised by careful risk selection and swift and supportive claims service – we believe strongly that rapid claims resolution benefits both insured and insurer.

For Beazley's marine division, led by Clive Washbourn, 2012 was a year of continued strong profitability – with a combined ratio of 75% (2011: 72%) on premiums of \$311.2m (2011: \$247.2m). It was also the year in which we announced plans to target profitable niches in two new markets: aviation insurance and kidnap and ransom insurance.

Since 1999, Beazley has built a broad-based marine and energy book in often competitive markets. Our approach is characterised by careful risk selection and swift and supportive claims service – we believe strongly that rapid claims resolution benefits both insured and insurer. We are a major insurer of hull and cargo risks; a growing force in marine liability insurance; and a London market leader in war and piracy risks. Since 2007 we have been growing our energy account, which last year accounted for 40% of the division's total premiums.

The reward for our prudent underwriting approach and strong broker relationships has been a track record of sustained profitability uncommon in our market, with combined ratios averaging 75% over the past five years.

Energy business made a substantial contribution to our profitable growth in 2012, with premiums rising to \$125.2m (2011: \$98.6m). Matt Holmes, who took over the leadership of our energy team in October 2011, has been successful in developing new broker relationships and business opportunities to drive this account forward. Renewal rates on our energy business rose by 7% at the beginning of the year, but showed signs of softening on later renewals.

Insurers exist to pay claims and we settled many in 2012, but we avoided losses from the grounding of the Costa Concordia cruise ship in January – a \$1.3bn insured loss that affected most of the marine market. We also incurred minimal losses from superstorm Sandy in October, which is currently estimated to have generated between \$2bn and \$3bn in marine market losses. There can be no guarantee that we will always avoid the largest claims, but we will continue to reject business that we see as underpriced and will focus on maintaining a well diversified portfolio.

We have seen steady demand for our combined war risk and piracy policy, launched in July even though vessel captures have significantly declined as a result of tighter security measures. In December, we also launched a specialist piracy policy for shipowners with vessels operating in the Gulf of Guinea.

An important dimension of all of these forms of cover is the availability of expert consultants and negotiators to help our insureds reduce the risk of successful attacks and – in the event that a hijack does take place – secure the safe release of captured crew and recovery of the vessel.

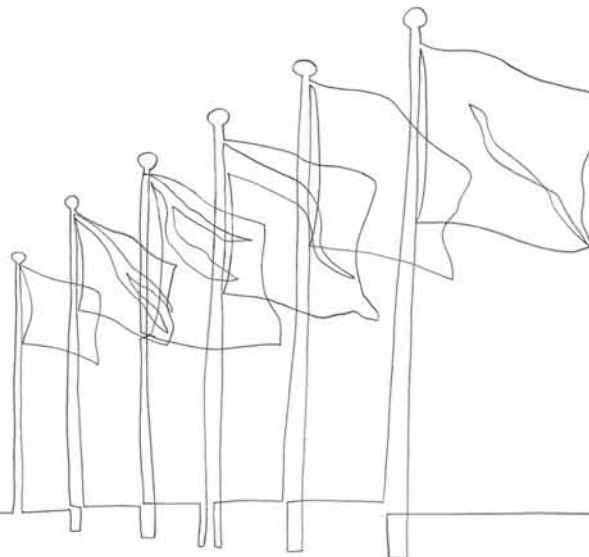
In this respect, piracy insurance is similar to terrestrial kidnap & ransom (K&R) insurance. In June, we welcomed specialist K&R underwriter Michael Sharp to Beazley, and charged him with the further development of our marine piracy business and the creation of a profitable non-marine K&R book. We will be developing our K&R business in partnership with specialist consultants Hazelwood Street, who have a strong track record of successfully handling kidnap negotiations, particularly in Latin America.

Another new venture for us, also announced in June, was the expansion of our aviation business well beyond the small aviation war risks book which we have underwritten for several years. Later this year, David Oates, a leading aviation underwriter in the London market, will be joining us to lead an aviation team that is already established at Beazley and underwriting business.

Our business model for the new aviation book will be aligned to that of the wider marine division. We will target specialist niches where higher margins are achievable as we have done consistently and successfully in the marine market to date rather than focusing on areas where competition is currently intense.

Political risks & contingency

A profitable year with a combined ratio of 52% and international expansion.

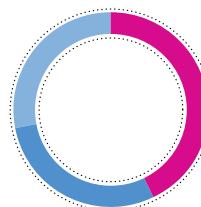


Adrian Lewers
Head of political risks & contingency

\$116.6m

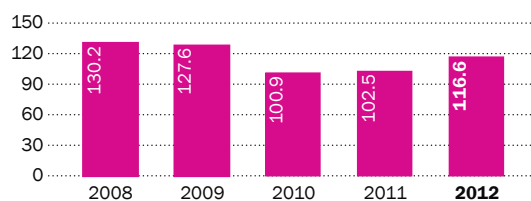
Gross premiums written

Portfolio mix



● Terrorism	43%
● Political	29%
● Contingency	28%

Gross premiums written (\$m)



We have continued to invest in our London based underwriting and claims teams. But we also took steps in 2012 to broaden our access to business that we do not normally see at Lloyd's.

The political risks & contingency division of Beazley – known as the political & contingency group, or PCG – recorded a successful year, with a combined ratio of 52% (2011: 79%) on gross premiums of \$116.6m (2011: \$102.5m). Under the leadership of Adrian Lewers, PCG continued to expand its geographic footprint in Europe and the US.

The division focuses on three main lines of business: political risks and trade credit insurance, a longstanding specialism of the Lloyd's market; terrorism insurance; and event cancellation insurance, which forms the core of our contingency book. Rates on renewal business decreased by 1% in 2012 across PCG as a whole relative to 2011.

Premium growth remained challenging to achieve in an environment characterised by subdued economic activity – most of our insureds are located in Europe or the United States – and tight credit, factors that have had an impact on both our political risks and contingency businesses. On the plus side, the banks that finance exports and international investments are more inclined to encourage borrowers to purchase political risks cover as well as to purchase credit insurance for their own interests.

Against this background, claims experience has been generally benign, with the exception of protracted wet weather in the UK and, latterly, superstorm Sandy which both affected our contingency account. Our political account, which experienced increased trade credit claims in the aftermath of the global financial crisis and was conservatively reserved at the time, continued to see significant recoveries against these claims in line with our expectations. In 2012, this contributed to releases across PCG of \$33.1m from prior year held reserves.

In November we welcomed Yera Patel from specialty lines as head of PCG claims. Yera's extensive experience in specialty lines, and the US in particular, adds depth to the PCG claims service as we seek to expand our political risks, trade credit and contingency underwriting locally in the US.

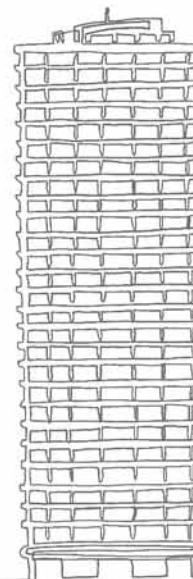
London remains the world's leading centre for risks of this kind and for comparably large and complex political risks. We expect this to remain the case and have continued to invest in our London based underwriting and claims teams. But we also took steps in 2012 to broaden our access to business that we do not normally see at Lloyd's.

In April, we relocated one of our underwriters, who had successfully established our political risks underwriting presence in Singapore, to Paris. France has long had its own specialist political risks market, supported by a number of brokers who do relatively little business with London. We believed there was room for a new insurer in the French market, offering a robust product and rapid turnaround on broker submissions. The initial response to our service offering has been very positive.

In May, we recruited a senior figure, Ann Russell-Cook, in the Asian political risk and structured trade credit market in our Singapore office to assume underwriting responsibility for our political risk and trade credit business in Asia. She is supported by the team, who continue to underwrite standalone terrorism and contingency business for the region. In Australia, our Brisbane office continues to develop our local contingency business.

In the US, we are moving forward on two fronts. We expanded our US political risks presence in 2012 with the hiring of a new underwriter, Matthew Dunne. Matthew joins Lila Rymer, who began underwriting in New York in 2010. And in January of this year, a senior member of our contingency team, Christian Phillips, relocated from our London office to Philadelphia. Christian will initially be underwriting event cancellation, non-appearance, prize indemnity and weather business locally in the US on a non-admitted basis, with the aim of adding more admitted capabilities during 2013 (other than for weather coverage, which is already available on an admitted basis under a pre-existing coverholder arrangement).

Looking forward, we do not expect profitable growth will be easy to come by. But with our expanded geographic footprint, and with continued enhancements to our products and service standards, we believe it is achievable.



Property

Rate improvements follow 2011 catastrophe losses.

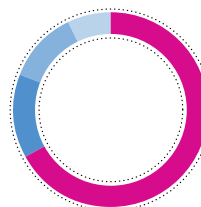


Mark Bernacki
Head of property

\$376.7m

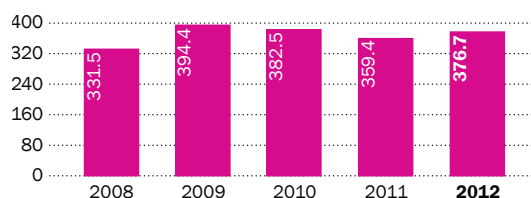
Gross premiums written

Portfolio mix



Commercial property	67%
Jewellers & homeowners	14%
Small property business	12%
Engineering	7%

Gross premiums written (\$m)



In 2012, rate rises were strongest in the market for large and complex property risks written on a syndicated basis at Lloyd's.

Beazley's second largest division increased its premiums by 5% in 2012 to \$376.7m (2011: \$359.4m). After the exceptional worldwide catastrophe losses of 2011, rates rose by an average of 6% across our portfolio.

Our property business covers a wide spectrum of risk sizes and geographies, ranging from large scale mining risks (a sector in which we are a market leader) written by our underwriters at Lloyd's, to homeowners' risks in the US and UK written through wholesale brokers and Lloyd's coverholders. In between, we insure a wide range of mid-sized and small businesses, including half the jewellers in the UK.

In 2012, rate rises were strongest in the market for large and complex property risks written on a syndicated basis at Lloyd's. Beazley is a major underwriter of this 'open market' Lloyd's business, sourced from around the world through longstanding broker relationships. In 2012, we achieved a rate rise of 8% on this \$164m book.

Until late October it looked likely that the rate rises would weaken by the end of the year, as a relatively benign US hurricane season drew to a close. However, superstorm Sandy, which hit New York and neighbouring states on October 29, changed the picture and we have since seen rates increase for windstorm risks in the north eastern United States.

Rates rose less steeply, by 7%, on our small business book, led by Paul Bromley and sourced mainly through binding authorities with trusted Lloyd's coverholders around the world. This exceptionally well diversified \$43.6m book, including a wide array of US risks and our predominantly UK-based jewellers block business – adds stability to our overall account. We broadened the book further in 2012 with the acquisition of the small business consortium (SBC), a Lloyd's facility we had supported – with consistently profitable results – for many years.

In addition to our London-based business, we write a growing volume of mid-sized risks locally, principally in the United States but also in Singapore for construction and engineering risks as well as commercial property. Our locally underwritten US business comprises mainly commercial lines business written on an excess and surplus (E&S) lines basis by underwriters located in six offices around the country. While the market for this business remained relatively competitive we still achieved a rate increase of 5%. Looking ahead, we will continue to seek opportunities arising in the north eastern part of the country in the wake of Sandy.

The other, smaller components of our locally underwritten US book comprise high value homeowners' risks, mainly located along the eastern seaboard, and construction risks (known in the US as builders' risk business) that would not normally be seen by Lloyd's underwriters in London.

The market for large scale construction and engineering risks underwritten in London has proved challenging in recent years, particularly for erectional all risks (EAR) policies. In the course of 2012, we refocused our account towards smaller, less volatile, and shorter term construction risks. The overall book now benefits from business sourced through our 3 platforms in London, Atlanta and Singapore and from the transition of leadership to Colin Rose.

Strong broker relationships have been critical to our success in building a profitable property account at Beazley over two decades. These relationships continued to prove their worth in 2012, testifying in particular to the global reach of our Lloyd's broker partners.

Beazley's property division enters 2013 under new leadership. Jonathan Gray joined Beazley in 1992 and has built the property account from \$30.8m in his first year to \$376.7m last year, winning widespread respect as one of the London market's most astute underwriters and business leaders in the process. In January 2013, he handed leadership of the division to Mark Bernacki, who joined Beazley in 2005 and has had day to day oversight of all of the division's underwriting operations since 2010. Jonathan will continue to bring his unparalleled experience to the profitable growth of Beazley as our lead underwriter on our open market property book at Lloyd's.

Reinsurance

Targeting local business with expansion in Singapore.

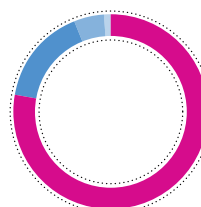


Patrick Hartigan
Head of reinsurance

\$188.6m

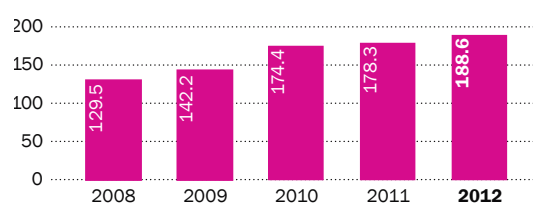
Gross premiums written

Portfolio mix



Property catastrophe	78%
Property risk/pro rate	16%
Miscellaneous	5%
Casualty clash	1%

Gross premiums written (\$m)



The overall impact of Sandy has been to arrest the rate declines we had expected to see in aggregate across the portfolio.

After the exceptional catastrophe losses of 2011, Beazley's reinsurance division, led by Patrick Hartigan, returned to profitability in 2012, delivering a combined ratio of 92% (2011: 157%) on premiums of \$188.6m (2011: \$178.3m).

The division focuses on property reinsurance, more than three quarters of which is catastrophe protection. We seek out clients who value long term relationships with their reinsurers. Many of our clients have placed business with Beazley for much of the company's 27 year history.

Spurred by the worldwide catastrophe experience of 2011 – a year that vied with 2005 as the worst year ever for insured natural catastrophe losses – premium rates on renewal business rose by 5%. We assumed lower exposures overall in 2012 for roughly the same level of premium as the previous year.

Until late October, when superstorm Sandy hit New York and adjoining regions, our claims experience was very benign. In December, Beazley estimated its net losses arising from Sandy to be \$90m – approximately half of which will impact the reinsurance division – based on market losses of \$20bn-\$25bn. This estimate remains unchanged.

Although Sandy has only affected that half of our reinsurance business that relates to US cedants, its overall impact has been to arrest the rate declines we had expected to see in aggregate across the portfolio. Rates for business exposed to US windstorm risk rose 5% at the beginning of 2013.

A large majority of our business continues to be underwritten in London, but we have also invested in local underwriting expertise in Europe and in Asia to obtain access to business that does not normally come to London. Our Munich office, opened in 2008, has proved very successful, writing \$19.9m of business from a wide and growing range of European countries. In September, we expanded our team in Singapore with the recruitment of Ben Liang, who will focus on developing regional business from South East Asia, China and South Korea.

In 2010, we established a new special purpose syndicate at Lloyd's, 6017, supported by additional capital supplied by Lloyd's names. The syndicate affords us the flexibility to write larger lines for our preferred clients.

Specialty lines

14% increase in premiums fuelled by rate increases and growing demand for our products.



Adrian Cox
Head of specialty lines

The specialty lines division, representing 43% of the group's gross premiums, enjoyed a successful year, with rates rising across our portfolio by 3% (2011: a decline of 1%), the first such positive movement since 2006. Fuelled in part by rate rises and in part by growing demand for our products, premiums increased by 14% to \$808.4m in 2012 (2011: \$711.2m).

Our underwriting and claims teams offer management liability, professional liability and medical malpractice insurance to a wide range of professions and companies across with world, with a strong focus on the US market. In many cases these are lines of business that we have written for a very long time: professional liability policies for US lawyers and architects and engineers were first written in 1986, the year Beazley was founded.

Markets for many of these lines of business began to show signs of stress in 2012, as continued low investment returns and rising claims trends put pressure on insurers' margins. A number of insurers pulled out of lines of business or re-underwrote their books. Although competition remains intense in some lines –

notably North American medical malpractice liability – and demand has been constrained in the eurozone, we see further growth opportunities in the year ahead.

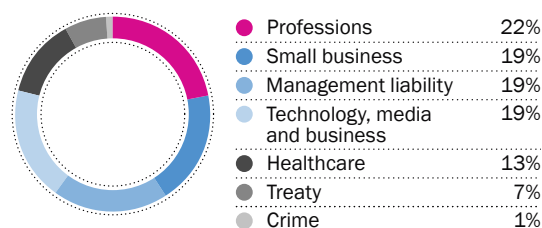
Prior year releases made a smaller contribution to our profitability in 2012 than in recent years, falling to \$51.5m (2011:\$61.8m). With our long experience of claims and underwriting cycles and strong focus on cycle management, we have continued to reserve consistently through the downturn.

Beazley's specialty lines division has long had a strong focus on US business, whether underwritten at the Beazley box at Lloyd's or, since 2005, locally by our underwriters in the United States. This focus continued in 2012, when 77% of our business derived from US insureds. But we also made steady progress in internationalising our business, leveraging the Lloyd's market's licences and authorisations to trade in more than 75 countries around the world.

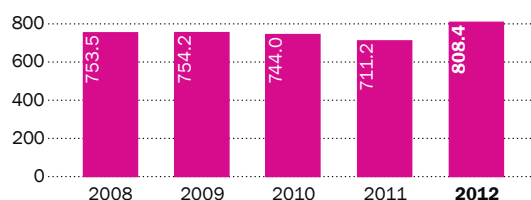
\$808.4m

Gross premiums written

Portfolio mix



Gross premiums written (\$m)



In addition to diversification by product and geography, we also diversify our portfolio by the size of risks we insure.

One important source of growth for us is the opportunity to export products and solutions that have proved successful in one market – usually the US – to others. In 2012, we launched a new international data breach product, building on the success of our flagship US product, Beazley Breach Response. Our offering in the data breach market is differentiated in two important ways. First, we have focused on bringing together expert service providers to help clients address the fast moving challenge of managing a data breach effectively and maintaining customer confidence: in 2012 we established a dedicated business unit in the US, BBR Services, to coordinate the provision of these services. Secondly, as a pioneer in this market, we have acquired deep experience of the wide variety of data breaches that can occur – handling more than 450 breaches to date.

Demand for this expertise and our product grew significantly outside the US as the prospect of new regulations – from Australia to the European Union – increase the pressure on organisations to notify customers swiftly in the event of a data breach. Already, the reputation risk for companies that mishandle a data breach is high, as a number of high profile incidents have shown. We have added new clients across the EU, South America and Asia and are planning for strong growth in 2013. Another line of business that has proved very successful in the US and offers growth potential outside the US is medical malpractice for hospitals. We insure many of the best run hospitals in the US, partnering closely with hospital management to raise quality and patient safety standards in ways that also tend to reduce claims costs over time. We believe there are many hospitals in Europe that would welcome a similar relationship with their insurers.

Overall, our healthcare team had a good year. In addition to offering medical malpractice to hospitals and directors & officers (D&O) cover to healthcare organisations, we are also a leading provider of miscellaneous medical liability cover for a wide array of healthcare service providers. In March, we extended our product range further, offering a new healthcare regulatory liability policy to protect US policyholders against claims brought by, or on behalf of, governmental entities.

In addition to diversification by product and geography, we also diversify our portfolio by the size of risks we insure. Our global private enterprise team offers smaller insureds access to the expertise and service standards enjoyed by our larger clients, with products specifically adapted to their needs. In 2012, we released a version of our US data breach product, BBR Select, for firms with revenues of less than \$10m, which has proved very popular.

Our markets are constantly changing and product innovation is critical to our ability to meet our clients' needs and to partner successfully with brokers. We launched a variety of new products in 2012, including, in February, Beazley Bridge – an innovative solution enabling US multinational corporate clients to secure robust D&O cover, through a single insurance contract, for executives outside the United States. The product simplifies the task for brokers, who would otherwise normally have to coordinate the issuance of separate policies for each covered territory and ensure that premium taxes are assessed and paid for each policy. (See pages 22 and 23 for information on other innovations we introduced in 2012.)

Beazley remains the largest insurer of D&O business in the London market and we continued to invest in our global underwriting team, both in London and the US, in 2012. We have been reducing for some years our exposure to the lower layers of cover for small and midcap companies, as we have been concerned over their exposure to the recession and to merger and acquisitions claims (claims alleging that an acquisition was unfair to the target group's shareholders), which have proliferated. These trends manifested themselves strongly in 2012, and this has been the single most important factor behind the rate rises on this book after a long period of intense competition.

Caution also characterises our approach to two of our oldest and most important professional liability lines: cover for lawyers and for architects and engineers (A&E). We saw premium rates increase slightly in 2012 for both large law firms and large A&E design firms, both of which we insure in London. We currently insure more than half of the top 50 A&E design firms as ranked by Engineering News-Record. Locally in the US we also insure many smaller design firms on an admitted basis: we expect this portfolio to grow in 2013.

Strong broker relationships remain essential to the success of our business. We were delighted to provide, once again, strong support to the Andrew Beazley Broker Academy at Lloyd's in 2012 – an important Lloyd's market initiative to offer high potential young US brokers insights into the expertise and capabilities that London offers. Eight specialty lines underwriters addressed the Academy during the brokers' week in London.

Financial review

Group performance

Beazley delivered record profits in 2012 and demonstrated its continuing capital discipline through debt refinancing and the declaration of a special dividend.



Martin Bride
Finance director

Income statement

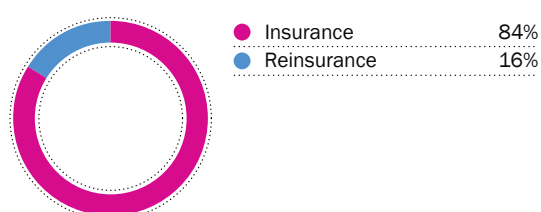
	2012 \$m	2011 \$m	Movement %
Gross premiums written	1,895.9	1,712.5	11%
Net premiums written	1,542.7	1,374.0	12%
Net earned premiums	1,478.5	1,385.0	7%
Net investment income	82.6	39.3	110%
Other income	24.7	28.1	(12%)
Revenue	1,585.8	1,452.4	
Net insurance claims	778.4	850.5	(8%)
Acquisition and administrative expenses	563.5	517.3	9%
Foreign exchange (gain)/loss	(11.0)	4.1	—
Expenses	1,330.9	1,371.9	
Share of loss of associate	(0.5)	(1.0)	(50%)
Finance costs	(3.2)	(16.8)	(81%)
Profit before tax	251.2	62.7	
Income tax (expense)/credit	(36.6)	3.1	—
Profit after tax	214.6	65.8	
Claims ratio	53%	62%	
Expense ratio	38%	37%	
Combined ratio	91%	99%	
Rate increase	3%	1%	
Investment return	2.0%	1.0%	

Premiums

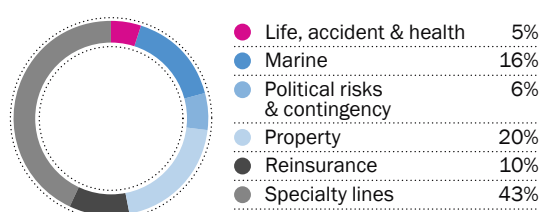
Gross premiums written have increased by 11% in 2012 to \$1,895.9m. However, rates on renewal business on average increased by 3% across the portfolio. We have continued to adjust our underwriting appetite in areas where competition is most intense.

Our portfolio by business division has remained broadly unchanged from 2011. We continue to operate a diversified portfolio by type of business and geographical location, and have grown our business across all six divisions during 2012.

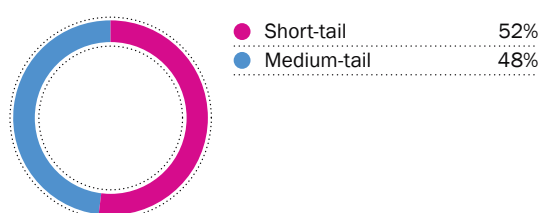
Insurance type



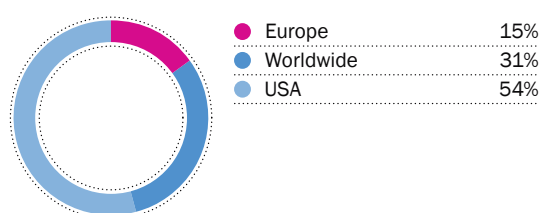
Business by division



Premium written by claim settlement term



Geographical distribution



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

Premium retention rates

Retention of business from existing brokers and clients is a key feature of Beazley's strategy. It enables us to maintain a deep understanding of our clients' businesses and requirements, affording greater insight into the risks involved in each policy we write and enabling us to price risk most accurately to achieve profit. The table below shows our retention rates by division compared to 2011.

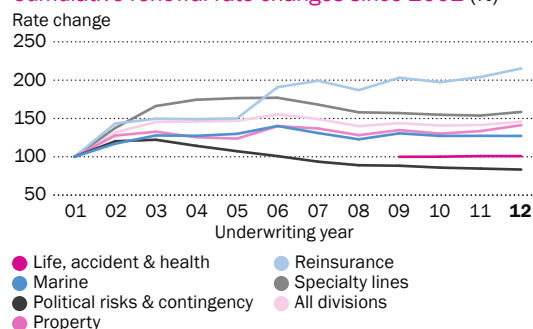
Retention rates*	2012	2011
Life, accident & health	91%	85%
Marine	87%	84%
Political risks & contingency	71%	64%
Property	79%	72%
Reinsurance	86%	90%
Specialty lines	86%	82%
Overall	84%	80%

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

Financial review

Group performance *continued*

Cumulative renewal rate changes since 2001 (%)



Rating environment

Premium rates charged for renewal business increased by 3% during 2012 across the portfolio (2011: an increase of 1%). The most notable rate increases were seen in our specialty lines division (3% increase, 2011: 1% decrease), where rate increases have not been seen for the past six years. Increases were the most significant in professional indemnity for architects and engineers (10%), lawyers (3%) and treaty (4%). Other significant rate increases were seen within our catastrophe-exposed classes; reinsurance (5%) and property (6%). Rate change on renewals in life, accident & health and marine were unchanged when compared to 2011 whilst political risks & contingency saw a 1% decrease. Market conditions remain competitive across the portfolio.

Reinsurance purchased

The amount the group spent on reinsurance in 2012 was \$353.2m (2011: \$338.5m). Increases were seen primarily in the life, accident & health and property division. In life, accident & health the increase was due to the group ceding 50% of the Australian PA binder, Australian Income Protection, to third parties, with a 100% share of the gross premiums. This business was previously underwritten 50:50 direct between Beazley and others with no reinsurance arrangement. Additional reinsurance was also purchased in property in 2012 where commercially beneficial terms were available to the group. A similar increase was seen in gross premiums written in this division during the year.

Reinsurance is purchased for a number of reasons:

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

Combined ratio

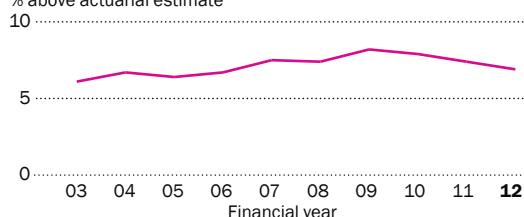
The combined ratio of an insurance company is a measure of its operating performance and represents the ratio of its total costs (including claims and expenses) to total net earned premium, a combined ratio under 100% indicates an underwriting profit. Consistent delivery of operating performance across the market cycle is clearly a key objective for an insurer. Beazley's combined ratio has decreased in 2012 to 91% (2011: 99%). This brings our combined ratio in line with the historic average, whilst 2011 was impacted by the cost of catastrophes. It is worth pointing out that the calculation of the combined ratio for Beazley includes all claims and other costs to the group but excludes foreign exchange gains or losses. We believe this represents the most transparent and useful measure of operating performance as it ensures that all of the costs of being in business are captured, whether directly linked to underwriting activity or not.

Claims

Claims notifications (with the exception of superstorm Sandy) were at normalised levels during 2012, with loss developments in line with our expectations. Despite an active storm season in the North Atlantic, we did not incur a significant loss until Sandy made landfall in October. We estimate the cost of Sandy to be \$90m to Beazley, based on market losses of \$20bn-\$25bn.

Surplus in net held reserves (%)

% above actuarial estimate



Reserve releases

Beazley has a consistent reserving philosophy with initial reserves being set to include risk margins that may be released over time as and when any uncertainty reduces. Historically these margins have given rise to held reserves within the range 5-10% above the actuarial estimate. We continue to maintain a surplus in our reserves, this was 6.9% at the end of 2012 (2011: 7.4%).

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

During 2012 we were able to make the following prior year reserve adjustments across divisions, with the overall net impact being a release to the group.

	2012 \$m	2011 \$m
Life, accident & health	0.5	4.5
Marine	27.7	39.9
Political risks & contingency	33.1	22.1
Property	6.2	20.2
Reinsurance	7.0	38.0
Specialty lines	51.5	61.8
Total	126.0	186.5
Releases as a percentage of net earned premium	8.5%	13.5%

Whilst reserve releases decreased slightly in specialty lines, this is nevertheless in line with our expectations and we continued to see satisfactory development of the business underwritten over the last ten years. The releases in 2012 came mainly from the 2003 through 2006 underwriting years, reinforcing that they are exceptionally profitable.

The political risks & contingency reserve releases in 2012 were bolstered by positive outcomes on the 2005 and 2008 underwriting years. Marine reserves continued to develop well, with the relatively benign 2010 and 2011 underwriting years dominating.

The reinsurance and property releases were dampened by 2011 underwriting year catastrophe reserve margins having been utilised for the cost of the events of 2011.

Refer to note 24 for information on reserve releases and loss development tables.

Financial review

Group performance *continued*

Acquisition costs and administrative expenses

Business acquisition costs and administrative expenses increased during 2012 to \$563.5m from \$517.3m in 2011. The breakdown of these costs is shown below:

	2012 \$m	2011 \$m
Brokerage costs	313.0	299.3
Other acquisition costs	95.5	91.4
Total acquisition costs	408.5	390.7
Administrative expenses	155.0	126.6
Total acquisition costs and administrative expenses	563.5	517.3

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

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 personnel costs, IT costs, facilities costs, Lloyd's central costs and other support costs. These increased in 2012 due to performance linked remuneration in addition to general increases in line with growth in the business.

Investment performance

Investment income for the year ended 31 December 2012 was \$82.6m, or an annualised return of 2.0%, compared with \$39.3m or 1.0% over the same period in 2011. Our decision to further increase the allocation to investment-grade credit improved the overall investment return for the year as yields continued to come down, spreads tightened and the interest rate curve flattened further.

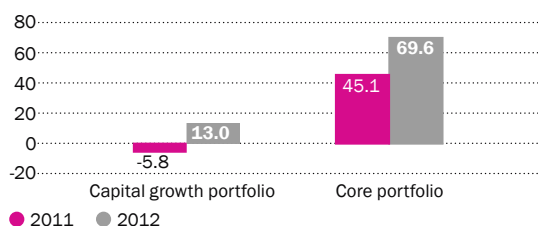
Although markets were generally positive in 2012, investment conditions have remained challenging due to continued political risk in Europe and the US. Initially the European sovereign debt crisis dominated market sentiment, before the focus eventually turned towards the fiscal cliff negotiations in the US that followed the re-election of the Obama administration in November. It is unlikely that either of these issues will be fully resolved in the short-term, and consequently further volatility in financial markets can be expected in future.

We actively seek to avoid risks arising from peripheral sovereign debt as well as from the overall banking sector, and consequently our eurozone sovereign bond exposures are restricted to Germany, France, Austria, Belgium, Finland, Luxembourg and the Netherlands.

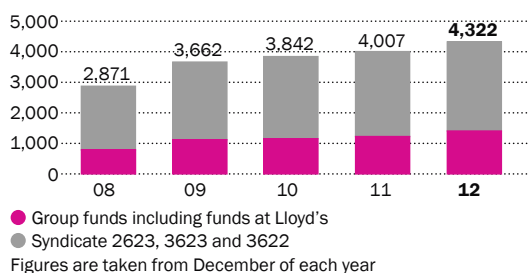
The strategy continues to be implemented together with Falcon Money Management Limited, our associated company. Our core portfolio, amounted to 90% of total investments and we reduced our allocation to core sovereign, supranational and agency debt whilst retaining elevated levels of cash and other short-term investments. We have increased our allocations to US non-financial corporate and asset-backed credit in order to take advantage of the more attractive risk adjusted yield these assets offer, and maintain the balance of our investments in a diversified portfolio of capital growth assets.

Duration of the core portfolio as at the year end was 1.9 years (2011: 1.3 years) with a yield to maturity of 1.0% (2011: 0.8%).

Comparison of returns – major asset classes (\$m)



Beazley group funds (\$m)



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

	31 Dec 2012		31 Dec 2011	
	\$m	%	\$m	%
Cash and cash equivalents	636	14.7	650	16.2
Fixed income: sovereign and supranational	2,111	48.8	2,623	65.4
Investment grade credit	1,083	25.1	239	6.0
Other credit	74	1.7	84	2.1
Core portfolio	3,904	90.3	3,596	89.7
Capital growth assets	418	9.7	411	10.3
Total	4,322	100.0	4,007	100.0

Comparison of return by major asset class:

	31 Dec 2012		31 Dec 2011	
	\$m	%	\$m	%
Core portfolio	69.6	1.9	45.1	1.3
Capital growth assets	13.0	3.1	(5.8)	(1.4)
Overall return	82.6	2.0	39.3	1.0

The funds managed by the Beazley group have grown by 8% in 2012, with financial assets at fair value and cash and cash equivalents of \$4,321.9m at the end of the year (2011: \$4,006.9m). The chart above shows the increase in our group funds since 2008.

Tax

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

In 2012, the UK corporation tax rate was reduced from 25% to 23%. This 2% reduction in the UK tax rate has been applied to our UK deferred tax liability brought forward. This reduction in our deferred tax liability has offset our current year tax charge to create an effective tax rate of 14.6% for the year.

Financial review

Balance sheet management

Summary statement of financial position

	2012 \$m	2011 \$m	Movement %
Intangible assets	115.1	130.7	(12%)
Reinsurance assets	1,187.3	1,197.9	(1%)
Insurance receivables	578.0	558.7	3%
Other assets	253.1	224.5	13%
Financial assets at fair value and cash and cash equivalents	4,321.9	4,006.9	8%
Total assets	6,455.4	6,118.7	6%
Insurance liabilities	4,483.8	4,334.6	3%
Financial liabilities	315.0	266.9	18%
Other liabilities	444.9	446.2	—
Total liabilities	5,243.7	5,047.7	4%
Net assets	1,211.7	1,071.0	13%
Net assets per share (cents)	241.9c	211.7c	14%
Net tangible assets per share (cents)	218.9c	185.9c	18%
Net assets per share (pence)	148.4p	137.6p	8%
Net tangible assets per share (pence)	134.3p	120.8p	11%
Number of shares*	500.9m	505.9m	(1%)

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

Intangible assets

Intangible assets consist of goodwill on acquisitions of \$64.0m and renewal rights of \$13.9m, purchased syndicate capacity of \$11.5m, US admitted licences of \$9.3m and capitalised expenditure on IT projects of \$16.4m.

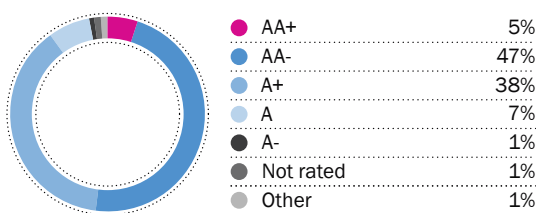
Reinsurance assets

Reinsurance assets represent recoveries from reinsurers in respect of incurred claims of \$966.1m, and the unearned reinsurance premiums reserve of \$221.2m. The reinsurance receivables from reinsurers are split between recoveries on claims paid or notified of \$266.6m and an actuarial estimate of recoveries on claims that have not yet been reported of \$699.5m. 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 45 shows the profile of these assets (based on S&P rating) at the end of 2012;
- timely calculation and issuance of reinsurance collection notes from our ceded reinsurance team; and
- regular monitoring of the 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 2012 we had provided \$18.0m (2011: \$15.7m) 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 2012 was \$578.0m, an increase of 3.5% over 2011 (\$558.7m). We continue to outsource the collection of our Lloyd's premium broker balances to Randall and Quilter Investment Holdings plc, which operates within the Lloyd's market as specialist credit controllers.

Other assets

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

- Deferred acquisition costs of \$185.0m;
- Profit commissions of \$5.8m and other balances of \$19.0m receivable from syndicate 623; and
- Deferred tax assets available for use against future taxes payable of \$11.0m.

Insurance liabilities

Insurance liabilities of \$4,483.8m consist of two main elements, being the unearned premium reserve (UPR) and gross insurance claims liabilities.

Our unearned premium reserve has increased by 10% to \$891.6m. 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% to \$3,592.2m.

Financial liabilities

Financial liabilities comprise borrowings and derivative financial liabilities. The group utilises three 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. In 2012 we bought back a total of £47.3m of this debt in two tranches, firstly the acquisition of £30m of the debt in May 2012 at a price of 85% of par. On 29 October we bought in a second tranche of the existing subordinated debt, £17.3m was acquired at a price of 96% of par. The initial interest rate payable is 7.25% and the nominal value of this debt as at 31 December 2012 is £103m;
- 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; and
- During September 2012 we issued a sterling denominated 5.375% retail bond under a £250,000,000 euro medium term note programme which raised £75m for the group and are due in 2019. This diversified the source and maturity profile of the group's debt financing.

A syndicated short-term banking facility led by Lloyds Banking Group Plc provides potential borrowings up to \$225m. Under the facility \$225m may be drawn as letters of credit to support underwriting at Lloyd's. \$175m may be advanced as cash under a revolving facility. The cost of the facility is based on a commitment fee of 0.7% per annum and any amounts drawn are charged at a margin of 1.75% per annum. The cash element of the facility will last for three years, expiring on 31 December 2014, whilst letters of credit issued under the facility can be used to provide support for the 2012 and 2013 underwriting years. The facility is currently unutilised.

Financial review

Capital structure

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

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

Beazley is subject to the capital adequacy requirements of the European Union (EU) Insurance Groups Directive (IGD). We comply with all IGD requirements.

Further capital requirements come from rating agencies who provide ratings for the syndicates, Beazley Insurance Company Inc and on a groupwide basis. We aim to manage our capital levels to obtain the ratings necessary to trade with our preferred client base.

Beazley holds a level of capital over and above its regulatory requirements. The amount of surplus capital held is considered on an ongoing basis in light of the current regulatory framework, opportunities for organic or acquisitive growth and a desire to maximise returns for investors.

The group actively seeks to manage its capital structure and has taken steps in 2012 to diversify its sources of capital while reducing its cost of debt. Our preferred use of capital is to deploy it on opportunities to underwrite profitably. However there may be times in the cycle when the group will generate excess capital and not have the opportunity to deploy it. At such points in time the board will consider returning capital to shareholders.

In 2012 Beazley acquired 9.5m of its own shares. These were acquired at an average price of 166p and the cost to the group was \$25.1m. 17.5m treasury shares were cancelled in full during the year with a value of \$30.1m.

Our funding comes from a mixture of our own equity of \$1,211.7m alongside £102.7m of tier 2 subordinated debt, \$18m subordinated long-term debt, a £75.0m retail bond and an undrawn banking facility of \$225.0m as detailed on page 45.

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

	2012 \$m	2011 \$m
Sources of funds		
Shareholders' funds	1,211.7	1,071.0
Tier 2 subordinated debt	166.3	231.0
Retail bond	122.3	—
Long-term subordinated debt	18.0	18.0
	1,518.3	1,320.0
Uses of funds		
Lloyd's underwriting	876.0	742.9
Capital for US insurance company	107.7	107.7
	983.7	850.6
Surplus	534.6	469.4
Unavailable surplus*	(152.2)	(129.5)
Fixed and intangible assets	(122.1)	(137.8)
Available surplus	260.3	202.1
Unutilised banking facility	225.0	225.0

* 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.

The current capital assessment has been established using our Solvency II internal model which has been run within the ICA regime as prescribed by Lloyd's. In order to determine the capital assessment, we have made significant investments in both models and process:

- We use sophisticated mathematical models that reflect the key risks in the business allowing for probability of occurrence, impact if they do occur, and interaction between risk types. A key focus of these models is to understand the risk posed to individual teams, and to the business as a whole, of a possible deterioration in the underwriting cycle; and
- The internal model 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 increase in our funds at Lloyd's from £482.9m to £558.0m is in proportion to the increase in business planned and the changes in the economic conditions. These numbers are presented in the table on the previous page in US dollars, being \$876.0m and \$742.9m for 2013 and 2012 respectively, which have been translated at the spot exchange rate at reporting dates.

Solvency II

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

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

During 2012 the dedicated project management team and subject matter experts completed all outstanding activities for Lloyd's. We confirmed our Final Application Status to Lloyd's, including a confirmation that we were expecting to be fully compliant by the end of 2012 and a detailed Target Operating Model, describing the business as usual processes for maintaining ongoing compliance with the tests and standards. We embedded the SII internal model and all the new processes into the business, taking further advantage of our improved management information and decision making processes, and had our capital approved for 2013 using the new model. All Pillar I and Pillar II aspects of SII have now been fully transferred into business as usual. The remaining work on Pillar III (reporting and disclosure) will be completed in line with the Lloyd's plan over the next few years.

We also went through an extensive review process with the FSA and engaged actively with our group regulator, the Central Bank of Ireland, where we made good progress with the pre-application process for Beazley Re and Beazley plc, with a number of aspects of the SII internal model already having been reviewed in depth. During 2013 we will continue to work with Lloyd's, the FSA and the Central Bank of Ireland to facilitate any further reviews, to further embed the model and the procedures, and to prepare ourselves for the regime coming into force, which is now assumed to be in 2016 at the earliest.

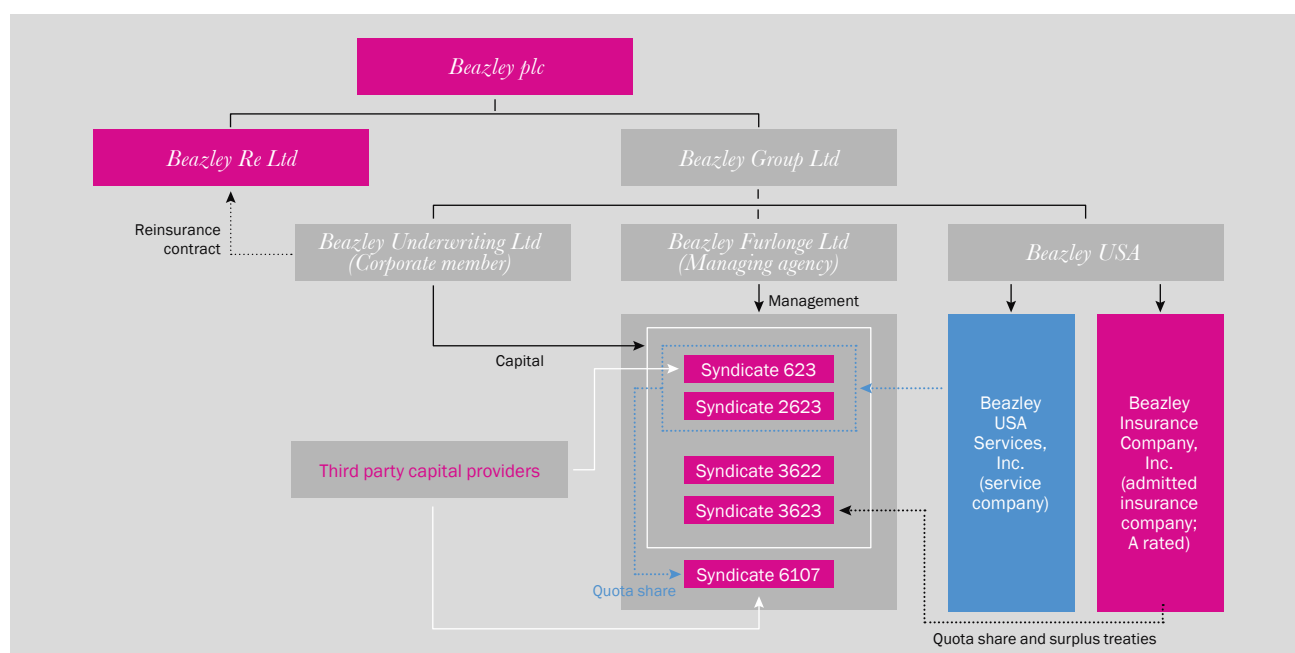
Financial review

Capital structure *continued*

Group structure

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

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



Operational update

Providing the services to enable growth and profitability



Ian Fantozzi
Chief operating officer

Beazley group today has tripled in premium terms in the last ten years. At the beginning of 2003, we had one office in London; today we have offices in 24 locations globally. More than half our people are now located outside the UK, up from 30% five years ago. A strategic priority for Beazley as we grow is to scale our operations to ensure that client and broker service keeps pace with our growth.

Beazley is an entrepreneurial insurer: our success relies heavily upon the expertise of our underwriters and their ability to move quickly to meet client needs. The role of our operations team is to give our underwriters and claims professionals the tools and the support to do this job.

Our operations strategy has five areas of focus:

Supporting growth initiatives – providing scalable and responsive operational support

Beazley has three strategic growth initiatives – at Lloyd's, in the US and in Europe. We are also seeing growth opportunities in the Asia Pacific region, notably in Australia and Singapore. We continue to identify attractive new product lines – for example, aviation – and opportunities to offer our clients packaged products, such as Beazley BreachResponse.

In 2012, we took important steps in standardising business processes and consolidating underwriting IT platforms for our business at Lloyd's, in the US and globally outside the US. Our systems and processes now provide better support for new product rollouts and enable greater ability to scale operational support for business growth opportunities. The investments that we have been making to our processes and IT platforms will be key to supporting Beazley's growth in the years to come.

It is important to provide a high quality working environment that is conducive to team working and thought leadership. Our offices are open plan, bright and airy with a style and consistency that supports our global brand. We strive to get the best quality working space at the best lease and facility cost. In 2012, we completed the move to an additional floor in Beazley's London office, at Plantation Place. This has provided ample space for the business to expand in London.

Ensuring sustained profitability – maximising economies of scale through cost efficient processes and global resourcing

Beazley is organised to a large degree around global underwriting and claims teams. This model has served us well in ensuring that products that succeed in one market can be swiftly introduced in others. However it is important that this does not result in back office systems and support resources becoming duplicative.

Many of our back office processes have evolved or have been acquired over time, with focus being primarily on speed to market. In pursuit of greater efficiency and consistency of operational service we have been steadily centralising operations support or outsourcing where this brings further value. We want to make sure that operations and processing are done by appropriately skilled people, at the most cost effective location, whilst providing the best service levels. In 2012, we made good progress in further developing central processing centres such as in Connecticut, US; and in outsourcing non-core operations such as some aspects of IT software development and infrastructure support.

Operational update *continued*

Operating within our agreed risk appetite – implementing consistent governance and service ownership groupwide

Effective risk management, described in more detail on page 51, requires clear visibility of the level of operational risk we maintain. Critical to supporting an effective control environment is consistency of ownership for operations support and the provision of management information.

As we continue to make our operational support more efficient, we are defining single points of ownership for processes, establishing clear accountability for process execution and planning. This has simplified operational control reporting and will strengthen our ability to provide a coordinated, rapid response to supporting business growth opportunities.

The Beazley Intelligence data warehouse, first established in 2009, is continuing its programme of work to consolidate our trading data into a single source of management information. We can use this platform to highlight global trends in underwriting and claims performance, helping us to identify higher margin products where we should focus our growth.

Enabling product and service innovation – supporting innovation and providing tools that differentiate our service

Our strategy focuses on two types of innovation. Firstly, there is insurance product innovation, which requires an operational platform that facilitates an efficient product pipeline – from idea development through to product launch. Secondly, there is the development of new or enhanced tools and support services that enable our employees to perform optimally in their roles.

We have found that our historic approach to US products of ‘one coverage, one policy’ has in some cases limited our ability to process commercially attractive package policies, and we have been making adjustments to address this. As we seek to offer a broader range of products that combine third party indemnity cover with response services, we have adapted our back office systems to handle these more complex offerings.

In 2012 we rolled out new technology to better support the use of mobile and ‘tablet’ devices, reducing our reliance on paper and enabling better communications for our teams on a global scale. We also continue to support electronic trading and paperless claims handling initiatives, making it easier for our brokers to transact business with us.

Managing for performance – developing our talent and sourcing operational skills needed for a high quality service

Growing across different markets entails greater operational complexity and a requirement for additional skills in our staff. We do not want to be limited to specific geographic pools of skilled individuals, such as project managers, IT specialists and business analysts. Some locations such as London also have higher unit costs both to hire and to accommodate employees. With this in mind, we continue to improve our sourcing channels to tap into different skilled resource pools. Where possible, if we can deliver a service competently from a remote location, we will aim to do so – better leveraging our more operational oriented locations, notably Connecticut, and Dublin.

As with all Beazley talent we recognise the importance of developing attractive career paths. We want to equip our operations team with the right skills for the job. We routinely review our talent for potential skills gaps and then provide the most relevant training to ensure a high standard of service provision.

Looking ahead

It is most important that we maintain consistency in our approach to delivering high quality service and continually improving operational efficiency. The above five areas are core to our operational strategy, and we will continue to pursue these – raising the bar in operational service provision and in our ability to react quickly and efficiently to new business opportunities.

Risk management

It is by embedding an effective risk management culture throughout the group, underpinned by a robust risk management framework, that we can anticipate and plan for our future challenges.



Andrew Pryde
Chief risk officer

Risk management philosophy

Beazley's risk management philosophy is to balance the risks the business takes on with the associated cost of controlling these risks, whilst also operating within the risk appetite agreed by the board. In addition, our risk management processes are designed to periodically monitor our risk profile against risk appetite and to exploit opportunities as they arise.

Risk management strategy

The board has delegated the oversight of the risk management department to the executive committee, which in turn has delegated immediate oversight to the risk and regulatory committee.

Clear roles, responsibilities and accountabilities are in place for the management of risks and controls, and all employees are aware of the role they play in all aspects of the risk management process, from identifying sources of risk to their part in the control environment. The impact of each risk is recorded in the risk register on a 1:10 likelihood of that risk manifesting in the next 12 months. A risk owner has been assigned responsibility for each risk, and it is the responsibility of that individual to periodically assess the impact of the risk and to ensure appropriate risk mitigation procedures are in place. External factors facing the business and the internal controls in place are continually reassessed and changes are made when necessary. On an annual basis, the board agrees the risk appetite for each risk and this is documented in the risk framework document. The value of the residual financial impact is managed in a number of ways, including:

- mitigating the impact of the risk through the application of controls;
- transferring or sharing risk through outsourcing and purchasing insurance and reinsurance; and
- tolerating risk in line with the risk appetite.

In addition, we have adopted the following risk management principles:

- risk management is a part of the wider governance environment;
- techniques employed are fit for purpose and proportionate to the business;
- it is a core capability for all employees;
- risk management is embedded in day to day activities;
- there is a culture of risk awareness, in which risks are identified, assessed and managed;
- risk management processes are robust and supported by verifiable management information; and
- risk management information and reporting is timely, clear, accurate and appropriately escalated.

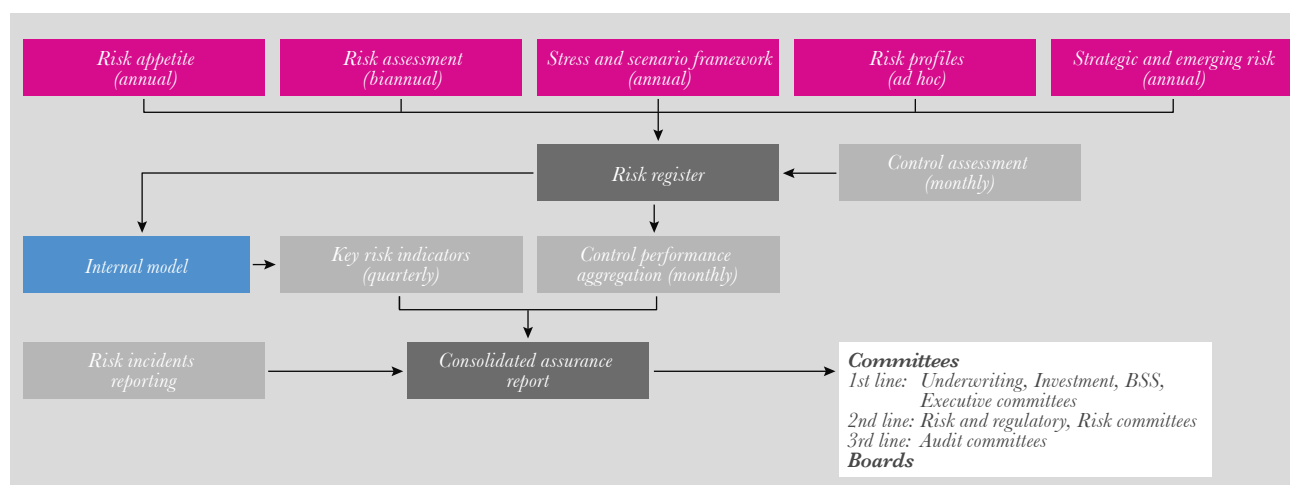
Risk management framework

Beazley has adopted the 'three lines of defence' framework: namely business risk management, risk management function and internal audit function. Within business risk management, there are three defined roles: risk owner, control owner and control reporter. Each risk event is owned by the risk owner who is a senior member of staff. Risk owners, supported by the risk management team, formally perform a risk assessment twice a year, including an assessment of emerging risk.

<i>Business Risk Management Risk Ownership</i>	<i>Risk Management Risk Oversight</i>	<i>Internal Audit Risk Assurance</i>
<ul style="list-style-type: none"> – Identifies risk – Assesses risk – Mitigates risk – Monitors risk – Record status – Remediates when required 	<ul style="list-style-type: none"> – Are risks being identified? – Are controls operating effectively? – Are controls being signed off? – Report to committees and board 	<ul style="list-style-type: none"> – Independently test control design – Independently test control operation – Report to committees and board

Risk management *continued*

The risk management framework comprises a number of risk management components, which when added together describe how we manage risk on a day to day basis. The framework includes a risk register that captures the risk universe (57 risk events grouped into eight risk categories: insurance, market, credit, liquidity, operational, regulatory and legal, group and strategic), the risk appetite set by the Beazley plc board, and the control environment that is operated by the business to remain within the risk appetite. The following diagram illustrates the components of the risk management framework.



A suite of risk management reports are provided to the boards and committees to assist the senior and executive management to discharge its decision making responsibilities.

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

2012 in review

Beazley has now been using the revised risk management framework for three years and, supported by a comprehensive training programme, the framework has become part of usual business activity. The risk management function has also remained stable and at full capacity during 2012 and has supported the operation of the framework through facilitation, challenge and the provision of timely risk information. It is by embedding an effective risk management culture throughout the group, underpinned by a robust risk management framework, that we can anticipate and plan for our future challenges.

A robust risk assessment is an important cornerstone of the framework. The risks and opportunities in the insurance environment have not changed significantly in 2012, and for this reason neither has our risk management strategy of maintaining a diversified portfolio of insurance risks, executing on our cycle management expertise, employing a conservative investment strategy and operating a robust underwriting and claims control environment. Even though the number and financial impact of catastrophe losses in the year has not reached the level experienced in 2011, the top three risks to the group have remained relatively static, and are common to many of our peers. These are underwriting and reserving risks (specifically, systematically mispricing across a number of years), catastrophe risk and market risk.

Whilst the near term risks have not changed, the board debated potential emerging risks as part of its strategy day in May and the response to these risks has been monitored within the quarterly Own Risk and Solvency Assessment ('ORSA') report. This work was supported by two formal risk assessment exercises led by risk owners in 2012 to ensure that the risk management framework and control environment keeps pace with the changing environment within which Beazley operates. Risk profiles have been a welcome addition at committees and these risk reports have included topics such as the risks associated with the corporate transactions which have been considered, how the business manages certain perils and the risks inherent in specific products. Throughout 2012, a eurozone dashboard has been a standing agenda item to help the business navigate the risks associated with the ongoing developments in Europe.

Although the implementation date for Solvency II has been delayed, in 2012 Beazley has operated its risk management framework and its internal model in line with the Solvency II requirements. In particular, we have used the Solvency II internal model to estimate the capital required to deliver our 2013 business plan. The capital modelling team has also been providing the full suite of capital reports throughout 2012 and the fine tuning of the internal model has been made in line with the Solvency II model change policy and governance procedures.

The ORSA has also emerged as a valuable addition to the group's reports, with ten ORSAs having been produced to date: eight regular quarterly ORSAs and two transactional ORSAs. In summary, the ORSA combines risk assessment information with risk quantification to inform decisions over a one year and five year timeframe.

Finally, the governance of the risk management framework has continued to evolve in 2012 with the introduction of board risk committees for Beazley Furlonge Limited, Beazley Re Limited and Beazley plc. The membership of these committees is restricted to non-executive directors who provide independent oversight and challenge of how Beazley is managing and optimising risk.

Corporate 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.

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

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

During 2012 we undertook a detailed review of our corporate social responsibility strategy, encompassing the full range of our philanthropic, volunteering and environmental activities and programmes. Our aims were to:

- increase the value we provide for our beneficiaries;
- expand awareness within Beazley of the ways in which employees can contribute to local communities, as well as to broader philanthropic causes; and
- measure the impact of our contributions to ensure that we make best use of available resources.

Corporate social responsibility is a broad term, addressed at Beazley through a variety of entities:

CSR segment	Where Beazley addresses these topics
Environment	responsible business committee – sustainability
Community	responsible business committee – community and charity
Marketplace, influence	responsible business committee – marketplace
Marketplace, ethical service	broker relations and treating customers fairly within compliance
Diversity/equal opportunity	talent management
Health and safety	beazley shared services

The rebranded responsible business committee, headed by Clive Washbourn, will focus on sustainability, community and charity and our influence in our marketplace. The other segments will be implemented elsewhere.

Day of service

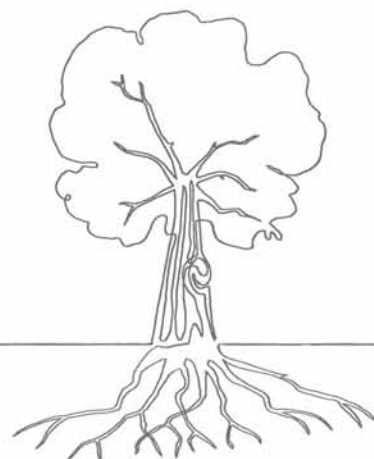
Beazley employees across all US offices hosted a Day of Service where employees could directly contribute time to helping the communities in which we work. Nearly 100 employees volunteered their time at a variety of charities focused on the causes of homelessness and hunger.

90+

Employees volunteered



During 2012 we undertook a detailed review of our corporate social responsibility strategy, encompassing the full range of our philanthropic, volunteering and environmental activities and programmes.



Environment - sustainability

We are both users of the environment and insurers of the impact of extreme weather conditions, so understanding and minimising our own impact on the earth is important to us as a company and as individuals. We seek to reduce not only our own impact on the environment, but also that of our suppliers by selecting organisations that adhere to high environmental standards. One of our nominated charities is Trees for Cities (www.treesforcities.org), which aims to 'inspire people to plant and love trees in cities worldwide'.

Community and charity

The community element of responsible business has many facets. It can include funding, sharing of skills, offering gifts in kind, and giving local people employment opportunities.

Beazley supports the Lloyd's Community Programme, which provides a framework for Lloyd's-based businesses to support a number of activities in east London, including reading and number partnering. (Our partner school is Canon Barnett Primary School.) Many teams within Beazley contribute to their local communities through volunteering days and all employees are able to maximise their donations to charity through the payroll giving scheme.

Marketplace

This is a new focus for Beazley. The aim is to recognise and enhance the positive influence our interactions as a business have on the wider community. A good example is the quality indicator return premium (QUIRP) programme run by our hospitals professional liability team. Hospitals that make measurable improvements in quality and patient safety metrics are reimbursed a proportion of their premiums.

Review of 2012 activities

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. We continue to evaluate the environmentally responsible initiatives of our suppliers, encourage the use of public transport and video conferencing, monitor our carbon foot print and work towards reducing the latter where possible. In addition to measures we have put in place historically, in 2012 we made the following progress:

Offices and furniture

We consolidated two of our Chicago offices into one and opened a new floor in our UK office, bringing in employees who were previously based in a satellite London office. All new offices were designed to ensure that environmentally friendly materials and products are utilised whenever feasible. These include reduced lighting and LED technology, kitchen/serving counter tops made from recycled material, and furniture made of sustainable materials which can be recycled at the end of life.

Office supplies and printing systems

Buying recycled Forest Stewardship Council products in our UK and US offices saved us 17 tonnes of CO₂ in 2012. We use multi-function print devices where possible to reduce energy consumption and storage space. In 2012, we also upgraded all our US offices to environmentally friendly duplex printers. To further support our environmental initiatives, we use electronic workflows to minimise hardcopy output.

Travel

We use Climatecars, who provide electric and hybrid vehicles, as the preferred car transportation company in our UK head office and we have installed a permanent charging point in our basement for them. Beazley US does not have a company-wide car service. Employees are encouraged to use public transport for their work commute, which is paid for as part of our employee benefits package.

We also track our carbon emission reductions from travellers who voluntarily downgrade from a higher cabin class on flights. In 2012, this occurred on 162 transatlantic flights resulting in a saving of over eight tonnes of CO₂.

Note: The greenhouse gas (GHG) emissions reported overleaf are for the year 2011. This reflects the reporting cycle, whereby statistics for 2011 become available in 2012. Similarly, 2012 emissions will be reported in 2013.

Corporate social responsibility *continued*

GHG report for the UK head office for 2011 emissions

Beazley submitted case studies to Climatewise detailing the environmental measures taken. Commercial management produced a report which indicated a 6% emissions increase based on Scope 1 and Scope 3 GHG emissions. This is comparable with reported emissions for 2009. The increase is attributable to fugitive losses of refrigerant from air conditioning systems which were replaced following the report.

GHG report for US for 2011 emissions

In the US we report emissions for our three main offices in Farmington, Boston and New York. In 2011, there was a 4.1% increase in emissions based on Scope 2 and Scope 3 GHG emissions compared to similar data for 2010. This is largely attributable to increased electricity consumption due to a higher headcount.

GHG reporting for rest of world

The emissions reported above account for 70% of Beazley employees. For our offices located elsewhere, due to the size and nature of these leased premises it is not practical to measure GHG emissions.

Community and charity

Beazley engages in a number of charitable and volunteering activities across all our offices through employee involvement, direct financial donations and fundraising drives and events. Each employee can take up to two days per year to participate in charitable and local community initiatives.

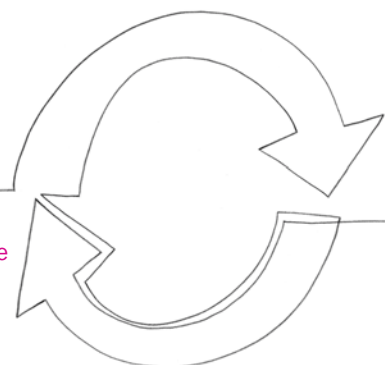
Our US charity committee, chaired by Bryan Falchuk, supported a number of activities and causes with a budget of \$60,000. Ninety-two employee requests for donations were met, totalling \$26,000. Additional support went to Feeding America, the American Red Cross and several cancer-related causes including a gala fundraiser Beazley hosted for Memorial Sloan-Kettering Cancer Center which raised \$35,000. In addition to funding the charitable activities of our US staff, every office hosted a Day of Service where employees could directly contribute time to helping local communities. Nearly 100 employees volunteered their time at a variety of charities focused on the causes of homelessness and hunger in Boston, Hartford, New York, Atlanta, Chicago, Minneapolis, San Francisco and Glendale.

Rwanda Aid

Rwanda Aid is one of the three main charities supported by Beazley in UK. In 2012 we donated £10,000 to the charity in addition to other activities including craft sales. Employees are also encouraged to volunteer in person.

£10,000
Donated in 2012





In the UK, our charity committee is chaired by Jonathan Gray and in 2012 supported charitable activities with a budget of £50,000. Employee requests for donations were met, totaling £13,000, with support going to charities including Macmillan, the Alzheimer's Society and Cancer Research. Additional support totalling £30,000, went to three main nominated charities: Rwanda Aid, Trees for Cities and Concordia (£10,000 for each charity). In addition to direct funding, the charity committee has organised and hosted charitable collections for homeless shelters, care packages for 'Support our Soldiers' and the sale of crafts made in Rwanda.

We also run a payroll-giving scheme in the UK in association with the Charities Aid Foundation. In 2012, 25 employees took part, donating £34,015 across various charities.

We liaise closely with the Lloyd's Community Programme 'LCP' and encourage staff to get involved in helping pupils in schools in the Tower Hamlets area, one of the most deprived areas in the country. Beazley is involved in two schemes on a weekly basis: reading and number partners. During 2012, we have had 22 volunteers participating across both these schemes at Canon Barnett Primary School in Aldgate. Twenty-four members of staff also participated in a variety of volunteering days, coordinated through the LCP.

In addition to the above volunteering we also had 15 members of staff take part in two financial literacy workshops for pupils at Canon Barnett in conjunction with the LCP. Andrew Horton led the volunteers in this workshop based on the 'How the Real World Works' book series, which included a book written by children about Lloyd's.

All Beazley offices took part in our Olympic charity events including a torch relay and cake sale. In November, participants across Beazley raised over \$10,000 through the 'Movember' challenge which goes to a range of men's health charities.

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

Marketplace, ethical service

Treating customers fairly

The Beazley group approaches all dealings with customers with regard to:

- general good business practice with strong standards of fair dealing;
- maintaining positive, continuing commercial relationships with our policyholders and their brokers and professional advisers; and
- delivering high customer service standards compliant with applicable regulatory requirements and other relevant standards.

Beazley's general approach to ensure the fair treatment of customers has always been an intrinsic part of the way we do business, and continues to be so.

A Beazley groupwide treating customers fairly 'TCF' policy and training programme exists to communicate requirements throughout the group.

Broker relations

Strong trust-based relationships with brokers are fundamental to the success of our business and we are constantly looking for new ways to improve access to our underwriters for brokers, and opportunities to strengthen our existing broker relationships. Beazley's dedicated broker relations team focuses on acting as a customer service contact point, removing any roadblocks and provides relationship management at a high level.

Corporate social responsibility *continued*

Workplace diversity/equal opportunity

We are an equal opportunities employer, ensuring we offer equal treatment to employees and prospective employees. We are proud of the fact that there are many different personalities working here and this diversity is the key to our global growth and success. We treat all employees fairly, with dignity and respect.

Our aim is to build on our achievements so far by actively attracting and developing people with different experiences, backgrounds and lifestyles, with different skills and perspectives to join and lead our business: a workforce that mirrors the diversity of our customers and the communities where we work around the world. We want to build an even more open and collaborative culture, generating contagious energy and a real sense of creativity. We do this by supporting our managers and people, giving them the tools and opportunity to network and progress on their career/life path whilst continually building a diverse pipeline through our recruitment activities.

Our focus this year and into 2013 is to engage our managers so they become owners and advocates of diversity at Beazley. We believe that by capturing our managers' imagination they will be able to lead and support our initiatives to ensure Beazley remains a diverse and great place to work.

Health and safety

We take the health and wellbeing of staff seriously and are committed to ensuring all staff receive the best standard of benefits and enjoy supportive working conditions.

Employees are expected to take reasonable care of their own health and safety at work as well as those of others, and to co-operate with management to create a safe and healthy working environment. All employees, contractors and visitors are subject to induction, training and supervision in aspects of health and safety and additional training in ergonomics and fire safety awareness is provided. All health and safety matters are communicated via noticeboards, email memos, the intranet and safety representatives. Management of health and safety is both internally and externally audited for compliance against best practice. Quarterly meetings include staff from all levels who feed back on any issues.

Overall responsibility for the management of health and safety at Beazley rests with the chief operating officer.

Lloyd's community programme

As part of the Lloyd's Community Programme, Beazley staff are involved in two schemes on a weekly basis: reading and number partners. During 2012, we have had 22 volunteers participating across both these schemes at Canon Barnett Primary School in Aldgate.

22

Volunteers participating





We encourage a work-life balance at Beazley and monitor our employees for signs of stress. Our benefits package along with sickness and stress management policies are based around employee wellbeing. Beazley employees are provided private medical and eye tests, a subsidy towards gym or health club membership, along with lunch and fruit as part of the core benefits. We also take stress management seriously and provide managers with training in identifying and managing stress. The services of a confidential and impartial Employee Assistance Programme are also available to employees along with quiet/contemplation rooms. We monitor sickness and absenteeism and support our employees with enhanced sick pay, additional holidays and income protection in cases of extended sickness.

Board of directors

Executive directors



Andrew Horton

Andrew Horton (aged 50) was appointed chief executive on 1 September 2008. Andrew joined Beazley in June 2003 as finance director. Prior to that he held various financial positions within ING, NatWest and Lloyds Bank and was the chief financial officer for the UK wholesale banking division of ING immediately prior to joining Beazley. He qualified as a chartered accountant with Coopers and Lybrand in 1987.



Martin Bride

Martin Bride (aged 49) is group finance director, having joined Beazley in 2009. Martin began his career in insurance in 1985 and took up his first role as a finance director in 1996. He trained as a general insurance actuary, before pursuing a career in the composite insurance sector with Aviva and Zurich Financial Services. His experience spans personal and commercial lines general insurance, the London market, life insurance and asset management in both the UK and France.



Adrian Cox

Adrian Cox (aged 41) 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 Re for eight years, writing both treaty and facultative business. Since 2001 his responsibilities have included the casualty treaty portfolio, the SME and large risks portfolios, before being promoted to head of specialty lines in 2008.



Jonathan Gray

Jonathan Gray (aged 59) served as head of the group's property division from 1992 to 2012. He continues to lead the group's open market property underwriting team. Jonathan has 35 years of experience at Lloyd's.



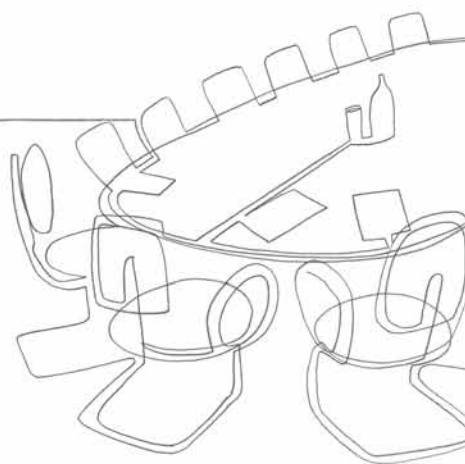
Neil Maidment

Neil Maidment (aged 50) is the chief underwriting officer of the group. Neil has 28 years of Lloyd's experience. He joined Beazley in 1990 and was appointed to the board in 1993. In 2011 he was elected to the board of the Lloyd's Market Association.



Clive Washbourn

Clive Washbourn (aged 52) is the head of the group's marine division. Clive has over 30 years' experience in the marine insurance industry and actively underwrites marine hull, marine liability and marine war risks. He is a member of the LMA Marine Committee and chairman of the Joint War Committee.



Non-executive directors



Dennis Holt

Dennis Holt (aged 64) was appointed chairman on 27 March 2012. He has more than 40 years experience in financial services markets. He was formerly a main board executive director at LloydsTSB (2000-2001), chief executive of AXA UK and a member of AXA's Global executive committee (2001-2006). He has been a vice chairman of the Association of British Insurers and deputy chairman of Bank of Ireland. He is currently chairman of Liverpool Victoria.



George Blunden

George Blunden (aged 60) was appointed on 1 January 2010. He is the senior independent director. He is currently chairman of Charity Bank and chairman of Raglan HA. He retired as senior vice president and director from AllianceBernstein Ltd in December 2009. He had previously been chief executive of Union plc, and a director of SG Warburg Securities, Seccombe, Marshall and Campion plc and Meridian Investment Performance Services.



Gordon Hamilton

Gordon Hamilton (aged 67) retired as a senior audit partner in Deloitte & Touche LLP after more than 30 years, principally involved with listed multi-national company audits and major forensic assignments. He is currently a non-executive director of a number of companies, including the South African listed Barloworld and the London listed Petra Diamonds and Northamber.



Padraic O'Connor

Padraic O'Connor (aged 63) is chairman of the Irish Stock Exchange and a non-executive director of Rabobank, JP Morgan Bank Dublin Ltd and a number of other companies. He was managing director of NCB Group between 1991 and 1999, prior to which he was chief economist at the firm. Before joining NCB, Mr O'Connor worked at the Department of Finance and the Central Bank of Ireland. He holds primary and postgraduate degrees in economics from University College Dublin.



Vincent Sheridan

Vincent Sheridan (aged 64) is currently a non-executive director of FBD Holdings plc, Mercer (Ireland) Limited, Canada Life Assurance Ireland Limited and a number of other companies. He retired as chief executive of Vhi Healthcare in 2008 and, prior to that, was group chief executive of the Norwich Union Insurance Group in Ireland for ten years from 1991 to 2001. He is a past president of the Institute of Chartered Accountants in Ireland and a former director of the Irish Stock Exchange.



Ken Sroka

Ken Sroka (aged 60) was appointed to the board on 12 November 2010. He was formerly head of product development at Zurich Financial Services, retiring in 2008. During his 15 years at Zurich Financial Services, he created and directed Zurich's financial lines business in North America and, more recently, he focused on the development of specialist products in North America as president and CEO of Zurich North American Specialties Division (products included environmental, excess liability, professional liability, financial lines, healthcare, political risk and accident & health). Prior to joining Zurich in 1993, Mr Sroka's career included roles at Chubb, AIG and USF&G.



Rolf Tolle

Rolf Tolle (aged 65) was appointed to the board on 6 December 2010. He joined the board of Beazley Furlonge Limited in June 2010. He retired as franchise performance director at Lloyd's in December 2009 after nearly seven years in the role, during which time he was widely credited for establishing a new and successful partnership between the Corporation of Lloyd's and the market. Prior to that, he served as chief underwriting officer of Faraday Group, General Re's Lloyd's insurance and reinsurance operation.

Investor relations

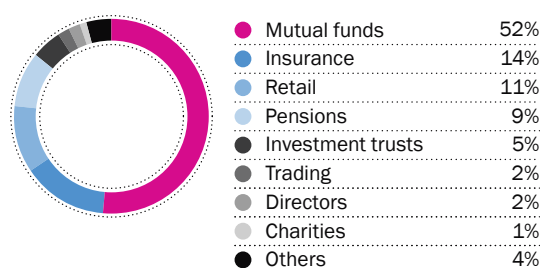
We place great importance on communication with shareholders. The annual report and accounts and the interim report are available to shareholders on the company's website (www.beazley.com). A mailed copy of the accounts is also available on request. The company responds to individual letters from shareholders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

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

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

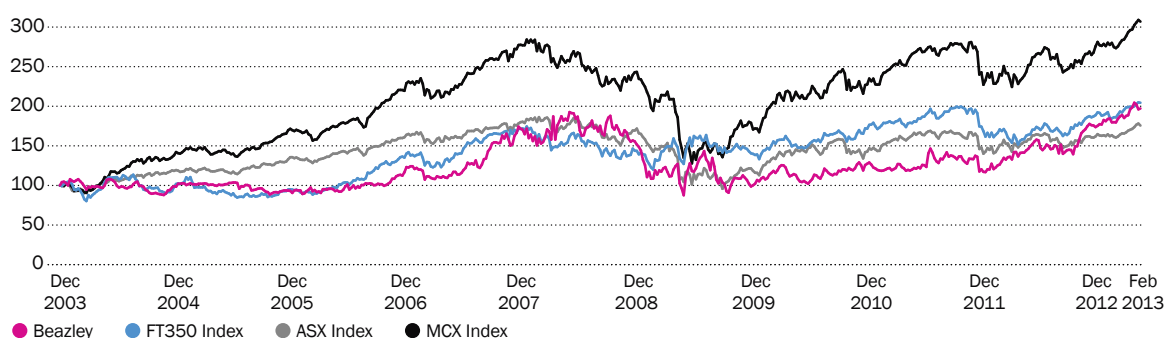
The company's shares are listed on the London Stock Exchange. Prices are given daily in newspapers including the Financial Times, The Times, the Daily Telegraph, the Daily Mail and the Evening Standard.

Shareholding by type of investor



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

Share price performance



Financial calendar

01 March 2013	Second interim dividend and special dividend record date
27 March 2013	Annual general meeting
02 April 2013	Second interim dividend and special dividend payment date for the six months ended 31 December 2012
23 July 2013	First interim dividend announcement for the six months ended 30 June 2013

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 have complied with the provisions set out in the UK Corporate Governance Code throughout the year ended 31 December 2012, with the exception of the fact that Gordon Hamilton and Ken Sroka were unable to attend the AGM due to other pressing business commitments. The company's auditors have reviewed the company's compliance to the extent required by the UK Financial Services Authority for review by auditors of UK listed companies.

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

The board

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

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

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

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

To enable the board to function effectively and directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of board meetings, this consists of a comprehensive set of papers, including regular business progress reports and discussion documents regarding specific matters. All directors allocate sufficient time to the company to enable them to discharge their responsibilities effectively. For the appointment of Dennis Holt as chairman, the nomination committee prepared a job specification, including an assessment of the time commitment expected. The terms and conditions of appointment of all the non executive directors set out the expected time commitment and they have undertaken that they have sufficient time to meet what is expected of them. Any changes to other significant commitments of the chairman and the non executive directors would be reported to the board as they arose.

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. All directors receive a full, formal and tailored induction on joining the board and the chairman regularly reviews and agrees with each director their training needs, to ensure that they continually update their skills, knowledge and familiarity with the company, as required to fulfil their role both on the board and on any board committee of which they are a member. 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 on page 64.

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

Full details of directors' remuneration and a statement of the company's remuneration policy are set out in the directors' remuneration report.

Statement of corporate governance *continued*

Meetings with non-executive directors

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

Board performance evaluation

Under the UK Corporate Governance Code, the board is required to undertake a formal and rigorous evaluation of its own performance and that of its committees and individual directors, and for this to be externally facilitated every three years. In 2012 an assessment of the effectiveness of the board and its committees was externally facilitated by Deloitte LLP. This involved a review of board papers and information, attendance at board meetings and interviews with individual directors. Deloitte also serves as advisor to the remuneration committee and the board has satisfied itself that this did not compromise its independence.

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

In addition to the five regular board meetings, there was a further meeting to consider potential corporate transactions. Attendance at the meeting was high. All the directors also attend an annual strategy day.

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

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

*On 27 March 2012 Jonathan Agnew resigned from the board and nomination committee. Dennis Holt was appointed as chairman of the board and of the nomination committee on 27 March 2012. Dennis chaired 4 board meetings and 4 nomination committee meetings in 2012.

Board committees

The group has established properly constituted audit, remuneration and nomination committees of the board. During 2012, the audit committee was reconstituted as the audit and risk committee.

Audit and risk committee

The board has delegated oversight of audit and risk matters to a newly constituted audit and risk committee which currently comprises Gordon Hamilton (committee chairman), Vincent Sheridan, George Blunden and Rolf Tolle. The committee regularly meets without any executive management being present and the committee holds regular meetings with the head of internal audit and with the external auditor.

The committee's main audit related objectives are, inter alia: to monitor the integrity of the group's financial statements and any other formal announcements relating to the group's financial performance; review critical accounting policies, significant financial reporting judgements, the going concern assumption, compliance with accounting standards and other requirements under applicable law, regulations and governance codes applicable to the financial statements, before submission to and approval by, the board, and before clearance by the external auditors; review the group's internal financial controls and the group's internal control and risk management systems; approve the appointment, or termination of the appointment, of the head of internal audit and monitor and review the effectiveness of the group's internal audit function; and review the arrangements by which employees of the group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

The committee's main risk related objectives are, inter alia: advise the board on the group's risk management framework, which includes the risk management objectives, risk appetite, risk culture and the assignment of risk management responsibilities, review risk reports and management information to enable a clear understanding of the key risks and controls in the business, review any breaches of risk appetite and the adequacy of proposed action, review the identification of future risks, including considering emerging trends and future risk strategy and review the remit of the risk management function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively.

The committee also reviews any matters raised by the external auditors and internal audit, including significant audit adjustments if any. The chief executive, the finance director, and the chief risk officer are invited to attend part of each meeting of this committee. The audit and risk 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 and risk committee, and the committee ensures that meetings are used as a forum for discussion and communication between Beazley's assurance functions, 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. In 2012, Deloitte LLP facilitated the review of the effectiveness of the audit and risk committee and feedback has been 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 and risk 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 and terms of engagement.

The audit and risk committee has developed and implemented 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 undertaken by the auditors, such as bookkeeping and accounting services, internal actuarial services and executive remuneration services. The policy requires pre-approval for all other material services, such as due diligence assistance, tax services and advice on accounting and audit matters.

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

The split between audit and non-audit fees for the year under review is disclosed in note 6 to the financial statements. All of these are considered by the audit and risk committee not to affect the auditors' independence or objectivity.

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

Remuneration committee

The remuneration committee comprises Padraic O'Connor as the chairman, Dennis Holt (appointed 9 May 2012), George Blunden and Ken Sroka. Gordon Hamilton stepped down from the committee on 9 May 2012. The work of the remuneration committee is covered further in the directors' remuneration report.

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 Dennis Holt as the chairman, together with George Blunden, Gordon Hamilton and Andrew Horton, who was appointed on 19 July 2012. Jonathan Agnew left the committee on 27 March 2012. It meets as required and makes recommendations to the board on all board appointments, including the selection of non-executive directors. The nomination committee engaged Zygos to support the search for a new non-executive director which resulted in the nomination committee in 2013 recommending the appointment of Angela Crawford-Ingle. Zygos are wholly independent of the company and of the group. During the year, the committee reviewed the composition of the board committees and recommended the appointment of Andrew Horton to the nomination committee. The committee has also considered the performance of, and succession plans for, the executive directors. An independent assessment of the board and committees has been carried out in 2012 by Deloitte LLP and matters arising are being appropriately addressed.

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

Statement of corporate governance *continued*

Shareholder communication

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

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

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

Audit and internal control

The respective responsibilities of the directors and the auditors in connection with the accounts are explained in the statement of directors' responsibilities and the independent auditors' report, together with the statement of the directors on going concern in the directors' report.

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

The board agreed the 2012 risk appetite for the group at the end of 2011 and, throughout 2012, the board has considered and acted upon the information presented to it in order to make risk based decisions against the 2012 risk appetite. Key components of the risk management framework include monthly control self assessments and six monthly risk assessments, with ad hoc risk assessments being conducted when required. These reports have been considered by the executive risk and regulatory committee each month and the audit and risk committee and board quarterly. In addition, the board has considered the quarterly Own Risk and Solvency Assessment (ORSA) report in the past year. This risk management framework has provided the board with an ongoing process for identifying, assessing, monitoring and managing the risks to the company, and accords with the 'Internal Control: Revised Guidance for Directors on the Combined Code' guidance.

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.

The board therefore confirms that it has during 2012 reviewed the effectiveness of the group's risk management and internal controls (including financial, operational and compliance controls), which have been in place throughout the year under review and continue to operate up to the date of approval of the annual report and accounts.

Further information on the role of the audit and risk 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 and risk committee, whose terms of reference include approving the appointment, or termination of appointment, of the head of internal audit and monitoring and reviewing the effectiveness of the company's internal audit function.

Further information on risk management at Beazley is set out in the risk management report.

Directors' remuneration report

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

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

Dear shareholder

In the following pages the committee's report on directors' remuneration for 2012 is presented.

Beazley's performance for 2012 was very strong, delivering a pre-tax profit of \$251.2m (2011: \$62.7m), against a background of continued competition and macro-economic uncertainty. Market conditions have continued to place emphasis on the skill of our underwriters in identifying profitable underwriting opportunities. The business has also sought to continue top line growth through investments we have made in launching innovative new products and building our underwriting teams.

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

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

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

We seek to incorporate best-practice characteristics into all of our remuneration elements. These include:

- bonus deferral;
- three and five year long term incentive plan (LTIP) performance periods;
- 'clawback' of deferred bonus and LTIP awards; and
- LTIP vesting dependent on shareholding guidelines.

Following consultation with a majority of our shareholders, we have made material increases to the salaries of two of our executive directors. In both cases the increase reflects our policy of a lower starting salary on appointment and follows development and sustained performance in their roles. The salary increases for other executive directors were below the average increases throughout the organisation.

Our bonus framework is aligned to group performance. In order to reflect best practice developments, for 2013 we will be introducing an individual overall bonus cap, as well as an individual cap on the level of cash bonus.

We undertook extensive consultation with our major shareholders in relation to a share award for our head of marine. The marine division has made a sustained outstanding contribution to the group over several years, and the head of marine's incentive reward opportunity is to reduce for 2013 onwards. The proposed award, for which we are seeking shareholder approval at the forthcoming AGM, is an award of shares vesting over three and five years subject to divisional return on equity performance targets. The committee recognises that a proposal of this nature should only be considered on an exceptional basis, but believes that it meets the best interests of shareholders. Our engagement with shareholders shaped the form of the final proposals and I would like to thank all those who took part in the consultation.

We remain committed to employees throughout the organisation having an opportunity to share in Beazley's success. A new Save As You Earn (SAYE) plan, which maintains the same features as the current scheme, was approved in 2012.

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

Padraic O'Connor
Remuneration committee chairman

6 February 2013

Directors' remuneration report *continued*

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 group is as follows:

Executive directors

Element	Objective	Summary
Base salary	To recognise responsibilities	Reviewed annually. For 2013, following consultation with shareholders, Martin Bride and Adrian Cox received material salary increases which reflected their director responsibilities and development in the role. The average salary increase for other executive directors was 2.5%.
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. From 2013 an individual overall cap of 400% of salary will apply. Cash bonuses will normally be capped at 250% of salary with any amount above this deferred into shares.
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. From 2012 onwards, the performance conditions are as follows: Vesting dependent on net asset value per share (NAVps) performance against the risk-free rate. <ul style="list-style-type: none"> • No vesting if NAVps growth < risk-free rate + 7.5% p.a. • 10% vest if NAVps growth = risk-free rate + 7.5% p.a. • 25% vest if NAVps growth = risk-free rate + 10% p.a. • 100% vest if NAVps growth = risk-free rate + 15% p.a. • Straight-line vesting between points.
Shareholding requirements	To align with shareholders' interests	Shareholding requirements (as part of the LTIP) of 200% of salary for CEO and 150% of salary for other executive directors.
Investment in underwriting	To align personal capital with underwriting performance	Executive directors and selected staff may voluntarily defer part of their bonuses into an underwriting syndicate. Capital commitments can be lost if underwriting performance is poor.
Benefits	To provide market levels of benefits	Benefits include a company car or car allowance, private medical insurance and permanent health insurance.
Pension	To provide market levels of pension provision	Defined contribution of 15% of salary for executive directors.
Service contracts	Company policy is that notice periods do not exceed 12 months	No specific provision for compensation amounts. Policy includes consideration of mitigation and phasing.

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

Additional 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.

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

All-employee arrangements (including executive directors)

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

Remuneration committee

The committee consists of only non-executive directors and during the year the members included Padraic O'Connor (chairman), Gordon Hamilton, George Blunden, Dennis Holt and Ken Sroka. Dennis Holt replaced Gordon Hamilton as a member on 9 May 2012. The board views each of these directors as independent. The committee met five times during the year.

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

The committee receives advice from a variety of sources. During the year the committee was advised by remuneration consultants from Deloitte LLP. Other organisations providing specialist advice and services to the company and the committee are: Capita Employee Benefits (Consulting) Limited (previously known as Bluefin Advisory Services Limited) for benefits and pensions advice, Towers Watson for salary data and Equiniti for employee share incentives matters and registrar services. Deloitte LLP provided advice in relation to board processes. The advisors provide no other services to the group.

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

Remuneration policy

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

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

We believe that:

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

Directors' remuneration report *continued*

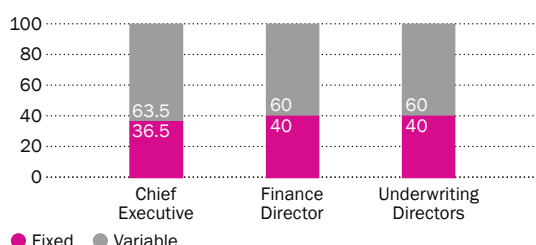
Remuneration and the non-life insurance market

The group's market for talent is primarily specialist underwriters at Lloyd's and internationally. In line with practice within the Lloyd's market, there have, to date, been no upper limits on the amounts payable to executives under short-term incentives. The committee has been monitoring developing practice in this area and has decided to introduce individual bonus limits going forward. From 2013, an individual overall cap of 400% of salary will apply. Cash bonuses will normally be capped at 250% of salary with any amount above this deferred into shares. The overall bonus pool approach continues to closely align bonuses with group performance and a share deferral policy operates.

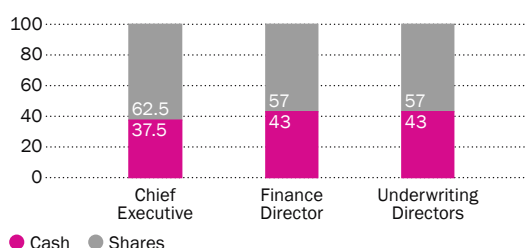
Fixed and variable remuneration

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

Balance of fixed versus variable pay (%)



Incentives: cash versus shares (%)



Risk and reward at Beazley

The committee regularly reviews developing remuneration governance in the context of Solvency II remuneration guidance, other corporate governance developments and institutional shareholders' guidance. The committee continues to review remuneration against various guidelines and to monitor developments. The chief risk officer reports annually to the remuneration committee on risk and remuneration as part of the regular agenda. The committee believes the group is adopting an approach which is consistent with and takes account of the risk profile of the group. We believe reward at Beazley is appropriately balanced in light of risk considerations, particularly taking into account the following features:

Features aligned with risk considerations

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

Salary ■

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

For 2013, and following consultation with shareholders, Martin Bride and Adrian Cox received material salary increases which fully reflected their director responsibilities. Both increases reflect a policy of lower starting salary positioning, with a move to market rate following sustained performance in the role:

- Martin Brides' salary was increased from £270,000 to £300,000 (11.1%), taking into account development and sustained performance in the role. Following the increase, the salary is considered to be conservatively positioned against benchmarks.
- Adrian Cox's salary was increased from £270,000 to £320,000 (18.5%) bringing it appropriately in line with Beazley's other divisional heads. Adrian Cox heads speciality lines, Beazley's largest division, and following development in the role the committee considered his salary should be moved to be in line with other divisional heads at Beazley and with comparable roles outside Beazley.

The average salary increase for other executive directors was 2.5%. This was less than the average salary increases across the group.

The annualised base salaries for 2012 and 2013 are as set out below:

	2012 base salary £	2013 base salary £	Increase %
M L Bride	270,000	300,000	11.1
A P Cox	270,000	320,000	18.5
J G Gray	315,000	323,000	2.5
D A Horton	420,000	430,500	2.5
N P Maidment	315,000	323,000	2.5
C A Washbourn	315,000	323,000	2.5

Bonus plans ■

Enterprise bonus plan

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

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

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

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

Directors' remuneration report *continued*

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

	Pre-tax profit*	Post-tax ROE	Average executive director bonus as a percentage of salary
2012	\$251m	19%	c.272%
2011	\$63m	6%	c.64%
2010	\$217m	19%	c.230%
2009	\$231m	24%	c.230%
2008	\$76m	8%	c.75%

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

Average executive director bonus payout (% of salary)



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

From 2013 an individual overall cap of 400% of salary will apply. Cash bonuses will normally be capped at 250% of salary with any amount above this deferred into shares.

Underwriter bonus plan – profit related pay plan

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

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

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

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

If the account deteriorates as it develops any payouts are 'clawed back' through reductions in future profit related pay bonuses. From 2012 onwards any new profit related pay plans may be at risk of forfeiture or reduction if, in the opinion of the committee, there has been a serious regulatory breach by the underwriter concerned, including the group's policy on treating customers fairly (TCF).

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

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

Support bonus plan

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

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

Share plans ▪

Long-term incentive plan (LTIP)

The LTIP was renewed in 2012.

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

The key features of the plan are as follows:

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

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

The award level policy for 2013 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 is as follows:

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

Growth in NAVps is calculated taking into account any payment of dividends by the company. In line with our reporting to shareholders, NAVps is denominated in US dollars. The targets are equivalent to those that applied in 2012.

Directors' remuneration report *continued*

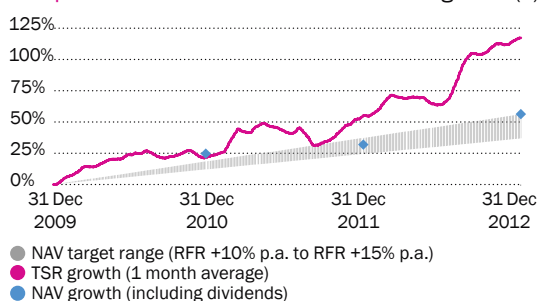
Participants are entitled to dividend equivalents on vested shares. There is no entitlement to dividends on nil-cost options following vesting.

The LTIP includes a 'clawback' provision. The committee may determine that unvested shares will be forfeited in certain circumstances, such as a material misstatement of accounts or a significant adverse company development.

The LTIP awards that were granted on 16 February 2009 and 27 April 2009 were based on NAVps growth and TSR performance. The awards made in February 2009 met the performance criteria in part and 97% of the awards vested in February 2012. The award made to Martin Bride on 27 April 2009 met the criteria in full and 100% of the award vested in April 2012. The results were independently calculated by Deloitte LLP.

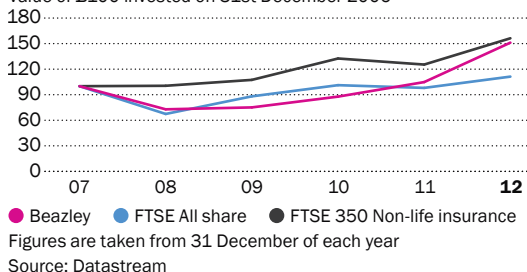
For the LTIP awards that were granted on 18 February 2010 the expected vesting is 85%.

LTIP performance 2010-2012 NAV and TSR growth (1)



Total shareholder return performance

Value of £100 invested on 31st December 2006



Marine share incentive plan

During the year, the committee identified a substantial remuneration-related commercial risk to the business. The marine division has been making a sustained outstanding contribution to the Group result over several years. The current remuneration arrangements do not make provision for rewarding such sustained exceptional divisional performance and their importance to Beazley's results. Because the final tranche of an historical long term incentive, specific to the head of marine, vested in 2012, the head of marine's incentive reward opportunity was to reduce for 2013 onwards.

Against that background the committee is proposing a share award for the head of marine made in two tranches:

- 500,000 shares to vest after 3 years
- 500,000 shares to vest after 5 years

The award will be subject to pre-tax divisional return on equity (ROE) performance and continued employment, measured over three years (50%) and five years (50%):

- 20% vesting for 15% divisional ROE performance
- 100% vesting for 25% divisional ROE performance

The other provisions of the plan are in line with the LTIP, including that the award will be subject to a 'clawback' provision.

It was considered that a portion of the award should be subject to a longer than normal performance period, the performance conditions should be based on sustained marine performance and that the award should be made in a single grant.

The committee recognises that a proposal of this nature should only be considered on an exceptional basis, but believes that it meets the best interests of shareholders. The committee undertook extensive consultation on the proposal with a wide range of Beazley's largest shareholders and this dialogue shaped the final proposals.

We are seeking shareholder approval for the award at our forthcoming AGM. The committee considers that the proposed approach is aligned with Beazley's principle of performance-based pay and that it is in the best interests of our shareholders.

SAYE

The company operates an HMRC-approved SAYE plan for the benefit of UK-based employees. A new plan was approved at the 2012 AGM. The plan 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 plan 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 comprised of HMRC-approved and also unapproved arrangements. All options granted under this plan have vested or lapsed. No options have been granted since 2005. This plan expired on 12 November 2012.

Dilution

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

Following the adoption of the 2012 LTIP, the company adheres to a dilution limit of 5% in a ten-year period for executive plans.

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 plan. The personal capital committed is then funded by individual bonus deferral. The aim is for individuals to fund their capital within three years.

To date over 150 employees of the group have committed to put at risk £7.2m of bonuses to the underwriting results of syndicate 623. Of the total at risk, £6.5m 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 £	2011 year of account underwriting capacity £	2012 year of account underwriting capacity £	2013 year of account underwriting capacity £
M L Bride	216,000	350,000	400,000	400,000
A P Cox	216,000	350,000	400,000	400,000
J G Gray	216,000	350,000	400,000	400,000
D A Horton	216,000	350,000	400,000	400,000
N P Maidment	216,000	350,000	400,000	400,000
C A Washbourn	216,000	350,000	400,000	400,000

Directors' remuneration report *continued*

Pensions ▪

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

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

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

No other pension provisions are made.

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

	Accrued benefit at 31 Dec 2012 £	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 2012 £	Increase in transfer value less directors' contributions £
A P Cox	11,407	–	323	–	186,513	23,908
J G Gray	32,057	–	906	–	808,578	69,503
N P Maidment	38,940	–	1,100	–	751,958	87,906
C A Washbourn	17,307	–	489	–	349,037	40,137

Benefits ▪

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

Service contracts ▪

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

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

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

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

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

Non-executive directors' fees ■

The fees of non-executive directors are determined by the board. 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 is involved in the determination of their fees.

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

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

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

- insurance sector expertise;
- asset management skills;
- public company and corporate governance experience;
- risk management skills; and
- finance skills.

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

Dennis Holt took up the position of non-executive chairman following the annual general meeting in March 2012, succeeding Jonathan Agnew.

The board reviews fees annually.

Details of the non-executive directors' terms of appointment are set out below:

	Commencement date of initial appointment	Expires
G P Blunden	1 Jan 2010	AGM 2016
A G K Hamilton	8 Sep 2006	AGM 2013
D Holt	21 Jul 2011	AGM 2015
P J O'Connor	20 Mar 2009	AGM 2015
V J Sheridan	9 Jun 2009	AGM 2016
K P Sroka	12 Nov 2010	AGM 2014
R A W Tolle	6 Dec 2010	AGM 2014

With effect from 2012 the standard approach for non-executive director appointment is that the appointment expires at the AGM following the end of the 3 year term, notwithstanding the fact each director is subject to annual re-election at each AGM.

Directors' remuneration report *continued*

Compensation for past directors ▪

Nick Furlonge retired on 30 June 2011. Following his retirement he continues in his role as a non-executive director of Beazley's subsidiary (Beazley Furlonge Limited).

Nick Furlonge's fees in respect of his role as non-executive director of BFL in 2012 were £42,250.

Dan Jones is a former non-executive director of Beazley plc who stood down from the Board on 2 June 2010. He was subsequently appointed in an executive capacity to serve on the executive committee. During the past financial year his compensation in respect of this executive role was \$1,254,310 comprising his annual salary, bonus, benefits and pension (US 401K scheme). He was made an LTIP award over 272,819 shares subject to performance conditions.

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:

£	In respect of financial year 2012					In respect of prior years' incentive plans		Total excluding pension		
	Salary & fees ¹	Enterprise cash bonus	Enterprise cash bonus deferred into staff underwriting plan ²	Enterprise deferred shares	Benefits	Distribution from deferral into staff underwriting plan ³	Notional dividend on shares ⁴	Total for 12 months to 31 December 2012	Total for 12 months to 31 December 2011	Company pension contribution
M L Bride	270,000	354,000	66,000	180,000	11,320	-	90,187	971,507	409,248	40,500
A P Cox	270,000	560,000	-	240,000	11,081	73,586	6,173	1,160,840	556,626	40,500
J G Gray	315,000	400,000	-	100,000	16,173	73,586	-	904,759	521,048	47,354
D A Horton	420,000	840,000	-	360,000	16,505	73,586	42,285	1,752,376	806,475	63,000
N P Maidment	315,000	630,000	-	270,000	16,237	73,586	-	1,304,823	569,796	47,250
C A Washbourn	315,000	840,000	-	360,000	11,761	73,586	21,142	1,621,489	773,221	47,542
J G W Agnew	37,040	-	-	-	-	-	-	37,040	150,000	-
G Blunden	74,250	-	-	-	-	-	-	74,250	68,661	-
A G K Hamilton	83,500	-	-	-	-	-	-	83,500	81,000	-
D Holt	134,206	-	-	-	-	-	-	134,206	29,277	-
P O'Connors	67,886	-	-	-	-	-	-	67,886	64,803	-
V J Sheridan ⁵	57,927	-	-	-	-	-	-	57,927	60,174	-
K Sroka	52,500	-	-	-	-	-	-	52,500	51,000	-
R A W Tolle	71,797	-	-	-	-	-	-	71,797	66,000	-
Total	2,484,106	3,624,000	66,000	1,510,000	83,077	367,930	159,787	8,294,900	4,207,329	286,146

1. Other than for the chairman, fees include fees paid for chairmanship of the audit and risk, and remuneration committees, and for the role of senior independent director, as well as fees, where relevant, for members of subsidiary board of BFL, Beazley Re Limited and chairmanship of BFL risk committee.
2. The directors defer bonus entitlements to support their underwriting through Beazley Staff Underwriting Limited.
3. The return from the staff underwriting plan. Executive directors and selected staff may voluntarily defer part of their bonuses into the plan and these capital commitments can be lost if underwriting performance is poor.
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. For Mr O'Connor and Mr Sheridan, their non-executive director fee was based on €83,500 and €71,250 respectively and has been converted into sterling for this table at the average exchange rate of 1.23.

Directors' share plan interests ■

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

	At 31 Dec 2011	Awarded	Exercised	Lapsed	Outstanding options at 31 Dec 2012	Exercise price £	Closing share price on date of exercise £	Earliest date of exercise	Expiry date
M L Bride									
Deferred bonus:									
27 Apr 2009	200,000	-	200,000	-		1.3910	1.4350	27/04/2012	27/05/2012
23 Feb 2010	93,284	-	-	-	93,284	-	-	23/02/2013	23/03/2013
14 Feb 2011	94,197	-	-	-	94,197	-	-	14/02/2014	14/03/2014
13 Feb 2012	-	12,181	-	-	12,181	-	-	13/02/2015	13/03/2015
LTIP (see notes):									
27 Apr 2009	100,000	-	-	-	100,000	-	-	27/04/2011	27/04/2019
18 Feb 2010 - 3 YEAR	174,907	-	-	-	174,907	-	-	18/02/2013	18/02/2020
18 Feb 2010 - 5 YEAR	174,907	-	-	-	174,907	-	-	18/02/2015	18/02/2020
14 Feb 2011 - 3 YEAR	144,122	-	-	-	144,122	-	-	14/02/2014	14/02/2021
14 Feb 2011 - 5 YEAR	144,122	-	-	-	144,122	-	-	14/02/2016	14/02/2021
30 Mar 2012 - 3 YEAR	-	141,184	-	-	141,184	-	-	30/03/2015	30/03/2022
30 Mar 2012 - 5 YEAR	-	141,183	-	-	141,183	-	-	30/03/2017	30/03/2022
Retention shares:									
27 Apr 2009	150,000	-	37,500	-	112,500	1.3910	1.4350	27/04/2012	27/05/2015
SAYE:									
2010	10,591	-	-	-	10,591	0.8568	-	01/07/2013	01/01/2014
A P Cox									
Deferred bonus:									
23 Feb 2010	139,925	-	-	-	139,925	-	-	23/02/2013	23/03/2013
14 Feb 2011	131,876	-	-	-	131,876	-	-	14/02/2014	14/03/2014
13 Feb 2012	-	12,181	-	-	12,181	-	-	13/02/2015	13/03/2015
LTIP (see notes):									
16 Feb 2009	204,725	-	195,633	9,092	-	1.3590	1.3540	16/02/2012	16/02/2019
18 Feb 2010 - 3 YEAR	174,907	-	-	-	174,907	-	-	18/02/2013	18/02/2020
18 Feb 2010 - 5 YEAR	174,907	-	-	-	174,907	-	-	18/02/2015	18/02/2020
14 Feb 2011 - 3 YEAR	144,122	-	-	-	144,122	-	-	14/02/2014	14/02/2021
14 Feb 2011 - 5 YEAR	144,122	-	-	-	144,122	-	-	14/02/2016	14/02/2021
30 Mar 2012 - 3 YEAR	-	141,184	-	-	141,184	-	-	30/03/2015	30/03/2022
30 Mar 2012 - 5 YEAR	-	141,183	-	-	141,183	-	-	30/03/2017	30/03/2022
Retention shares:									
13 Mar 2007	91,480	-	45,740	-	45,740	1.4230	1.4260	13/03/2010	13/04/2013
SAYE:									
2009	13,071	-	13,071	-	-	0.7000	1.5600	01/07/2012	01/01/2013

Directors' remuneration report *continued*

	At 31 Dec 2011	Awarded	Exercised	Lapsed	Outstanding options at 31 Dec 2012	Exercise price £	Closing share price on date of exercise £	Earliest date of exercise	Expiry date
J G Gray									
Deferred bonus:									
23 Feb 2010	116,604	-	-	-	116,604	-	-	23/02/2013	23/03/2013
14 Feb 2011	94,197	-	-	-	94,197	-	-	14/02/2014	14/03/2014
13 Feb 2012	-	13,534	-	-	13,534	-	-	13/02/2015	13/03/2015
LTIP (see notes):									
16 Feb 2009	204,725	-	198,750	5,975	-	1.4010	1.4240	16/02/2012	16/02/2019
18 Feb 2010	209,888	-	-	-	209,888	-	-	18/02/2013	18/02/2020
18 Feb 2010 - 5 YEAR	209,888	-	-	-	209,888	-	-	18/02/2015	18/02/2020
14 Feb 2011 - 3 YEAR	172,946	-	-	-	172,946	-	-	14/02/2014	14/02/2021
14 Feb 2011 - 5 YEAR	172,946	-	-	-	172,946	-	-	14/02/2016	14/02/2021
30 Mar 2012 - 3 YEAR	-	164,714	-	-	164,714	-	-	30/03/2015	30/03/2022
30 Mst 2012 - 5 YEAR	-	164,714	-	-	164,714	-	-	30/03/2017	30/03/2022
SAYE:									
2009	13,071	-	13,071	-	-	0.7000	1.5600	01/07/2012	01/01/2013
D A Horton									
Deferred bonus:									
23 Feb 2010	233,209	-	-	-	233,209	-	-	23/02/2013	23/02/2013
14 Feb 2011	188,394	-	-	-	188,394	-	-	14/02/2014	14/03/2014
13 Feb 2012	-	16,918	-	-	16,918	-	-	13/02/2015	13/02/2015
LTIP (see notes):									
16 Feb 2009	204,725	-	202,127	2,598	-	1.3700	1.3930	16/02/2012	16/03/2019
18 Feb 2010 - 3 YEAR	363,207	-	-	-	363,207	-	-	18/02/2013	18/02/2020
18 Feb 2010 - 5 YEAR	363,207	-	-	-	363,207	-	-	18/02/2015	18/02/2020
14 Feb 2011 - 3 YEAR	307,460	-	-	-	307,460	-	-	14/02/2014	14/02/2021
14 Feb 2011 - 5 YEAR	307,460	-	-	-	307,460	-	-	14/02/2016	14/02/2021
30 Mar 2012 - 3 YEAR	-	292,826	-	-	292,826	-	-	30/03/2015	30/03/2022
30 Mar 2012 - 5 YEAR	-	292,825	-	-	292,825	-	-	30/03/2017	30/03/2022
Retention shares:									
09 October 2007	522,050	-	261,025	-	261,025	1.7000	1.7190	09/10/2010	09/11/2013
SAYE:									
2009	13,071	-	13,071	-	-	0.7000	1.5600	01/07/2012	01/01/2013
2012	-	8,100	-	-	8,100	1.1110	-	01/07/2015	01/01/2016
N P Maidment									
Deferred bonus:									
23 Feb 2010	186,567	-	-	-	186,567	-	-	23/02/2013	23/02/2013
14 Feb 2011	150,715	-	-	-	150,715	-	-	14/02/2014	14/02/2014
13 Feb 2012	-	13,534	-	-	13,534	-	-	13/02/2015	13/02/2015
LTIP (see notes):									
16 Feb 2009	204,725	-	197,452	7,273	-	1.3700	1.3930	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
14 Feb 11 - 3 YEAR	172,946	-	-	-	172,946	-	-	14/02/2014	14/02/2021
14 Feb 11 - 5 YEAR	172,946	-	-	-	172,946	-	-	14/02/2016	14/02/2021
30 Mar 12 - 3 YEAR	-	164,714	-	-	164,714	-	-	30/03/2015	30/03/2022
30 Mar 12 - 5 YEAR	-	164,714	-	-	164,714	-	-	30/03/2017	30/03/2022
SAYE:									
2010	10,591	-	-	-	10,591	85.68	-	01/07/2013	01/01/2014

	At 31 Dec 2011	Awarded	Exercised	Lapsed	Outstanding options at 31 Dec 2012	Exercise price £	Closing share price on date of exercise £	Earliest date of exercise	Expiry date
C A Washbourn									
Deferred bonus:									
23 Feb 2010	233,209	-	-	-	233,209	-	-	23/02/2013	23/03/2013
14 Feb 2011	188,394	-	-	-	188,394	-	-	14/02/2014	14/03/2014
13 Feb 2012	-	13,534	-	-	13,534	-	-	13/02/2012	13/03/2015
LTIP (see notes):									
16 Feb 2009	204,725	-	197,452	7,273	-	1.3700	1.3930	16/02/2012	16/02/2019
18 Feb 2010 - 3 YEAR	209,888	-	-	-	209,888	-	-	18/02/2013	18/02/2020
18 Feb 2010 - 5 YEAR	209,888	-	-	-	209,888	-	-	18/02/2015	18/02/2020
14 Feb 2011 - 3 YEAR	172,946	-	-	-	172,946	-	-	14/02/2014	14/02/2021
14 Feb 2011 - 5 YEAR	172,946	-	-	-	172,946	-	-	14/02/2016	14/02/2021
30 Mar 2012 - 3 YEAR	-	164,714	-	-	164,714	-	-	30/03/2015	30/03/2022
30 Mar 2012 - 5 YEAR	-	164,714	-	-	164,714	-	-	30/03/2017	30/03/2022
Retention shares:									
04 Dec 2006	261,025	-	261,025	-	-	1.8039	1.787	04/12/2009	14/01/2013
SAYE:									
2009	13,071	-	13,071	-	-	0.7000	1.7430	01/07/2012	01/01/2013
2012	-	8,100	-	-	8,100	1.1110	-	01/07/2015	01/01/2016

Notes to share plan interests table

- 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. 50% of the award is based on NAVps performance in excess of the risk-free rate (RFR) and 50% is based on TSR performance versus a comparator group (Amlin, Brit, Catlin, Chaucer, Hardy, Hiscox, Lancashire and Novae). Different vesting schedules apply for shares worth up to 50% of salary ('basic shares') and shares worth more than 50% of salary ('additional shares').

For basic shares, for the NAV portion, NAVps < RFR+5% p.a. results in 0% vesting and NAVps ≥ RFR+5% p.a. results in 100% vesting. For the TSR portion, below median TSR results in 0% vesting, median TSR performance results in 50% vesting and upper quartile TSR performance results in 100% vesting. For additional shares, for the NAV portion, NAVps < RFR+5% p.a. results in 0% vesting and NAVps ≥ RFR+10% p.a. results in 100% vesting. For the TSR portion, below upper quartile TSR performance results in 0% vesting and upper decile TSR results in 100% vesting. Straight-line pro-rating applies between all points. 97% of the awards made in February and 100% of the awards made in April 2009 vested.
- 2010 LTIP award details. Awards were made on 18 February 2010 at a mid-market share price of 107.2p (110.13p D A Horton only).

Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+10% p.a. equates to 0% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points.
- 2011 LTIP award details. Awards were made on 14 February 2011 at a mid-market share price of 132.7p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+10% p.a. equates to 0% vesting, NAVps = RFR+10% p.a. equates to 25% vesting, NAVps = or > RFR+15% p.a. equates to 100% vesting, with straight-line pro-rated vesting between these points.
- 2012 LTIP award details. Awards were made on 30 March 2012 at a mid-market share price of 143.43p. Performance conditions: all of the award is subject to NAVps performance, with 50% measured over a three year period and 50% measured over a five year period. NAVps < RFR+7.5% p.a. equates to 0% vesting, NAVps = RFR+7.5% p.a. equates to 10% 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.
- Conditional 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.
- Share prices. The market price of Beazley ordinary shares at 31 December 2012 was 176.9p and the range during the year was 131.0p to 180.4p.

Directors' remuneration report *continued*

Directors' interests in shares ■

	Number of ordinary shares held as at 1 Jan 2012	Options exercised	Options sold	Shares purchased	Shares sold	Number of ordinary shares held as at 31 Dec 2012	Shareholding as a percentage of the total issued ordinary share capital as at 31 Dec 2012
M L Bride	227,310	237,500	123,935	-	-	340,875	0.06
J G Gray	1,259,549	211,821	211,821	-	250,000	1,009,549	0.19
A G K Hamilton	37,991	-	-	-	-	37,991	0.01
D A Horton	1,185,883	476,223	380,496	-	-	1,281,610	0.25
N P Maidment	3,543,257	197,452	116,708	-	-	3,624,001	0.70
P O'Connor	30,000	-	-	-	-	30,000	0.01
V J Sheridan	20,000	-	-	-	-	20,000	0.00
C A Washbourn	378,852	471,548	333,663	-	-	516,737	0.10
G P Blunden	107,156	-	-	-	-	107,156	0.02
A P Cox	320,748	254,444	152,574	-	-	422,618	0.08
R A W Tolle	60,000	-	-	-	-	60,000	0.01
K P Sroka	-	-	-	-	-	-	0.00
D Holt	-	-	-	50,000	-	50,000	0.01
Total	7,170,746	1,848,988	1,319,197	50,000	250,000	7,500,537	1.44

No changes in the interests of directors have occurred between 31 December 2012 and 6 February 2013.

Annual general meeting

A resolution will be proposed at the forthcoming annual general meeting to be held on 27 March 2013 to approve this directors' remuneration report.

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

By order of the board.

Padraic O'Connor

Chairman of the remuneration committee

6 February 2013

Directors' report

The directors have pleasure in presenting their report and the audited financial statements of the group for the year ended 31 December 2012.

Principal activity

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

Review of business

A more detailed review of the business for the year and a summary of future developments are included in the chairman's statement, the chief executive's review and the financial review.

Results and dividends

The consolidated profit before taxation for the year ended 31 December 2012 amounted to \$251.2m (2011: \$62.7m).

The directors announce both a second interim dividend of 5.6p per ordinary share (2011 second interim dividend: 5.4p) and a special dividend of 8.4p per ordinary share (no special dividend was paid in 2011). These dividends, together with the first interim dividend of 2.7p per ordinary share (2011 first interim dividend 2.5p), give a total of 16.7p.

The second interim dividend will be paid on 2 April 2013 to shareholders on the register on 1 March 2013 (save to the extent that shareholders on the register of members on 1 March 2013 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 2012, who served during the year and to the date of this report, were as follows:

Dennis Holt	(non-executive chairman)
Jonathan Geoffrey William Agnew	(non-executive chairman) (resigned 27 March 2012)
David Andrew Horton	(chief executive)
George Patrick Blunden	(non-executive director)
Martin Lindsay Bride	(finance director)
Adrian Peter Cox	(director)
Jonathan George Gray	(director)
Alexander Gordon Kelso Hamilton	(non-executive director)
Neil Patrick Maidment	(director)
Padraic Joseph O'Connor	(non-executive director)
Vincent Joseph Sheridan	(non-executive director)
Kenneth Paul Sroka	(non-executive director)
Rolf Albert Wilhelm Tolle	(non-executive director)
Clive Andrew Washbourn	(director)

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

Details of directors' service contracts and beneficial interests in the company's share capital are given in the directors' remuneration report. Biographies of directors are set out in board of directors section of this report.

Directors' report *continued*

Corporate governance

The company's compliance with corporate governance is disclosed in the corporate governance statement on pages 63 to 66.

Going concern

A review of the financial performance of the group is set out on pages 38 to 48. The financial position of the group, its cash flows and borrowing facilities are included therein.

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

Supplier payment policy

The company and group's policy for the year ending 31 December 2012, 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 51 days purchases included in trade creditors at 31 December 2012 (2011: 50 days).

Corporate, social and environmental responsibility

The company's corporate, social and environmental policy is disclosed on pages 54 to 59.

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 51 to 53 and further detail is contained in note 2 to the financial statements on pages 105 to 117.

Substantial shareholdings

As at 5 February 2013, 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	102,912,964	19.8
Jupiter Asset Management	37,391,954	7.2
MFS Investment Management	24,915,145	4.8
Dimensional Fund Advisors	21,780,343	4.2
Legal & General Investment Management	20,656,425	4.0
Standard Life Investments	16,590,364	3.2

Annual general meeting

The notice of the annual general meeting to be held at 14.00hrs on Wednesday, 27 March 2013 at 2 Northwood Park, Santry, Dublin is set out in the circular to shareholders.

At 6 February 2013 there are outstanding options to subscribe for 17.4m ordinary shares pursuant to employee share schemes, representing 3.5% of the issued share capital. If the authority to purchase shares were exercised in full, these options would represent 3.4% of the enlarged issued share capital.

Auditors

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

Disclosure of information to auditors

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

By order of the board

S A Coope

*Company secretary
2 Northwood Avenue
Northwood Park
Santry Demense
Santry
Dublin 9*

6 February 2013

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.

D Holt
Chairman

M L Bride
Finance director

6 February 2013

Independent auditor's report to the members of Beazley plc

We have audited the accompanying group and parent company financial statements (the 'financial statements') of Beazley plc for the year ended 31 December 2012 which comprise the Group Income Statement, the Consolidated and Parent Company Statements of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity for the year then ended, and the related notes. The financial reporting framework that has been applied in the preparation of financial statements is applicable law and International Financial Reporting Standards as adopted by the EU.

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

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 86, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the groups' and parent company's affairs as at 31 December 2012 and of its consolidated profit for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the EU;
- the financial statements have been prepared in accordance with the Companies (Jersey) Law 1991; and
- the Directors' Remuneration Report which we were engaged to audit has been properly prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as if those requirements were to apply to the company.

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

Matters on which we are required to report by exception

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

The Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company; or
- returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Under the listing rules of the Financial Services Authority we are required to review:

- the director's statement, set out on page 84 in relation to going concern; and
- the part of the Corporate Governance statements on page 63 relating to the company's compliance with the nine provisions of the UK Corporate Governance code specified for our review.

Hubert Crehan

For and on behalf of

KPMG

Chartered Accountants and Recognised Auditors

1 Harbourmaster Place

International Financial Services Centre

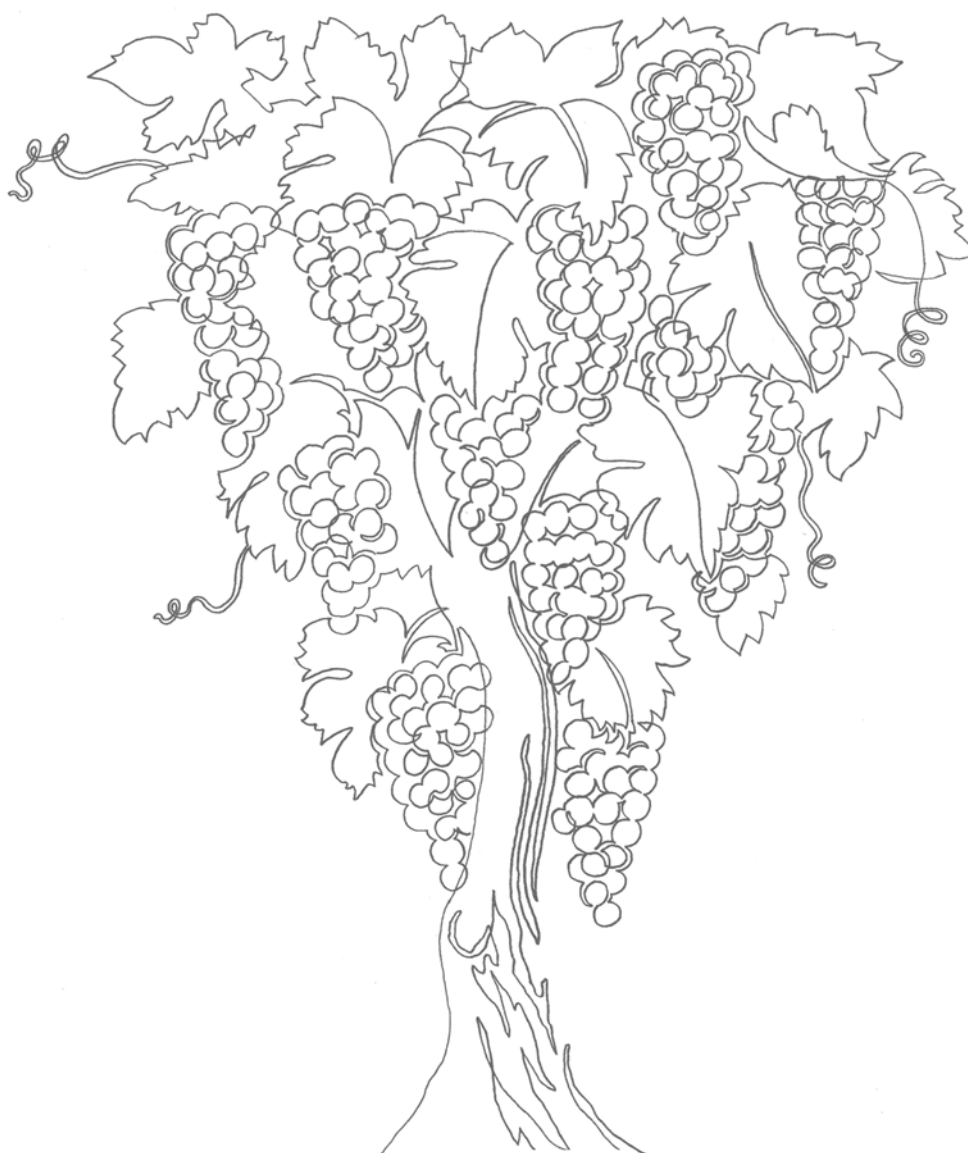
Dublin 1

Ireland

6 February 2013

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Group income statement

for the year ended 31 December 2012

	Notes	2012 \$m	2011 \$m
Gross premiums written	3	1,895.9	1,712.5
Written premiums ceded to reinsurers		(353.2)	(338.5)
Net premiums written	3	1,542.7	1,374.0
Change in gross provision for unearned premiums		(82.5)	20.6
Reinsurer's share of change in the provision for unearned premiums		18.3	(9.6)
Change in net provision for unearned premiums		(64.2)	11.0
Net earned premiums	3	1,478.5	1,385.0
Net investment income	4	82.6	39.3
Other income	5	24.7	28.1
		107.3	67.4
Revenue		1,585.8	1,452.4
Insurance claims		902.8	1,168.9
Insurance claims recoverable from reinsurers		(124.4)	(318.4)
Net insurance claims	3	778.4	850.5
Expenses for the acquisition of insurance contracts	3	408.5	390.7
Administrative expenses	3	155.0	126.6
Foreign exchange (gain)/loss	3	(11.0)	4.1
Operating expenses		552.5	521.4
Expenses	3	1,330.9	1,371.9
Share of loss in associate	14	(0.5)	(1.0)
Results of operating activities		254.4	79.5
Finance costs	8	(3.2)	(16.8)
Profit before income tax		251.2	62.7
Income tax (expense)/credit	9	(36.6)	3.1
Profit for the year attributable to equity shareholders		214.6	65.8
Earnings per share (cents per share):			
Basic	10	42.4	13.0
Diluted	10	41.3	12.4
Earnings per share (pence per share):			
Basic	10	26.7	8.1
Diluted	10	26.0	7.7

Statement of comprehensive income

for the year ended 31 December 2012

	2012 \$m	2011 \$m
Group		
Profit for the year attributable to equity shareholders	214.6	65.8
Other comprehensive income		
Foreign exchange translation differences	2.3	2.5
Total other comprehensive income	2.3	2.5
Total comprehensive income recognised	216.9	68.3

Statement of comprehensive income

for the year ended 31 December 2012

	2012 \$m	2011 \$m
Company		
Profit for the year attributable to equity shareholders	43.0	76.2
Total comprehensive income recognised	43.0	76.2

Statement of changes in equity

for the year ended 31 December 2012

	Notes	Share capital \$m	Share premium \$m	Foreign currency translation reserve \$m	Other reserves \$m	Retained earnings \$m	Total \$m
Group							
Balance at 1 January 2011		42.7	0.7	(91.0)	(52.2)	1,182.7	1,082.9
Total comprehensive income recognised		-	-	2.5	-	65.8	68.3
Dividends paid		-	-	-	-	(82.8)	(82.8)
Issue of shares	21	0.1	0.4	-	-	-	0.5
Equity settled share based payments	22	-	-	-	9.3	-	9.3
Acquisition of own shares in trust	22	-	-	-	(6.0)	-	(6.0)
Purchase of treasury shares	22	-	-	-	(1.2)	-	(1.2)
Balance at 31 December 2011		42.8	1.1	(88.5)	(50.1)	1,165.7	1,071.0
Total comprehensive income recognised		-	-	2.3	-	214.6	216.9
Dividends paid		-	-	-	-	(65.1)	(65.1)
Issue of shares	21	0.2	1.6	-	(0.2)	-	1.6
Equity settled share based payments	22	-	-	-	12.4	-	12.4
Acquisition of own shares in trust	22	-	-	-	(25.1)	-	(25.1)
Reclassification of reserves	22	-	9.3	-	(9.7)	0.4	-
Cancellation of treasury shares	22	(1.4)	-	-	30.1	(28.7)	-
Balance at 31 December 2012		41.6	12.0	(86.2)	(42.6)	1,286.9	1,211.7

Statement of changes in equity

for the year ended 31 December 2012

	Notes	Share capital \$m	Share premium \$m	Foreign currency translation reserve \$m	Other reserves \$m	Retained earnings \$m	Total \$m
Company							
Balance at 1 January 2011		42.7	0.7	(35.9)	(61.4)	781.9	728.0
Total comprehensive income recognised		-	-	-	-	76.2	76.2
Dividends paid		-	-	-	-	(82.8)	(82.8)
Issue of shares	21	0.1	0.4	-	-	-	0.5
Equity settled share based payments	22	-	-	-	9.3	-	9.3
Acquisition of own shares in trust	22	-	-	-	(6.0)	-	(6.0)
Purchase of treasury shares	22	-	-	-	(1.2)	-	(1.2)
Balance at 31 December 2011		42.8	1.1	(35.9)	(59.3)	775.3	724.0
Total comprehensive income recognised		-	-	-	-	43.0	43.0
Dividends paid		-	-	-	-	(65.1)	(65.1)
Issue of shares	21	0.2	1.6	-	(0.2)	-	1.6
Equity settled share based payments	22	-	-	-	12.4	-	12.4
Acquisition of own shares in trust	22	-	-	-	(25.1)	-	(25.1)
Reclassification of reserves	22	-	9.3	-	(9.7)	0.4	-
Cancellation of treasury shares	22	(1.4)	-	-	30.1	(28.7)	-
Balance at 31 December 2012		41.6	12.0	(35.9)	(51.8)	724.9	690.8

Statements of financial position

as at 31 December 2012

		2012		2011	
	Notes	Group \$m	Company \$m	Group \$m	Company \$m
Assets					
Intangible assets	12	115.1	-	130.7	-
Plant and equipment	13	7.0	1.4	7.1	1.4
Investment in subsidiaries	31	-	747.2	-	747.2
Investment in associates	14	10.0	1.4	8.9	1.4
Deferred acquisition costs	15	185.0	-	159.7	-
Deferred tax asset	28	11.0	-	12.5	-
Retirement benefit asset	27	6.5	-	4.6	-
Current income tax asset		1.2	-	9.8	-
Reinsurance assets	19,24	1,187.3	-	1,197.9	-
Financial assets at fair value	16	3,685.4	-	3,356.8	-
Insurance receivables	18	578.0	-	558.7	-
Other receivables		32.4	61.9	21.9	-
Cash and cash equivalents	20	636.5	1.3	650.1	2.5
Total assets		6,455.4	813.2	6,118.7	752.5
Equity					
Share capital	21	41.6	41.6	42.8	42.8
Share premium		12.0	12.0	1.1	1.1
Foreign currency translation reserve		(86.2)	(35.9)	(88.5)	(35.9)
Other reserves	22	(42.6)	(51.8)	(50.1)	(59.3)
Retained earnings		1,286.9	724.9	1,165.7	775.3
Total equity		1,211.7	690.8	1,071.0	724.0
Liabilities					
Insurance liabilities	24	4,483.8	-	4,334.6	-
Financial liabilities	16,25	315.0	120.5	266.9	-
Other payables	26	360.9	1.9	366.0	28.5
Deferred tax liabilities	28	84.0	-	80.2	-
Total liabilities		5,243.7	122.4	5,047.7	28.5
Total equity and liabilities		6,455.4	813.2	6,118.7	752.5

The financial statements were approved by the board of directors on 6 February 2013 and were signed on its behalf by:

D Holt
Chairman

M L Bride
Finance director

6 February 2013

Statements of cash flows

for the year ended 31 December 2012

		2012		2011	
	Notes	Group \$m	Company \$m	Group \$m	Company \$m
Cash flow from operating activities					
Profit before income tax		251.2	43.0	62.7	76.2
Adjustments for:					
Amortisation of intangibles	12	15.0	-	11.1	-
Equity settled share based compensation	22	12.4	12.4	9.3	9.3
Net fair value gains on financial assets		(28.2)	-	(6.3)	-
Loss in associate	14	0.5	-	1.0	-
Depreciation of plant and equipment	13	2.9	0.4	3.8	0.3
Impairment of reinsurance assets recognised/(written back)		2.3	-	(1.6)	-
Increase/(decrease) in insurance and other liabilities		157.4	(29.0)	365.5	1.7
(Increase)/decrease in insurance, reinsurance and other receivables		(21.5)	(61.9)	(184.2)	0.5
(Increase)/decrease in deferred acquisition costs		(25.3)	-	4.3	-
Financial income	4	(77.0)	-	(64.8)	-
Financial expense	8	16.1	1.8	16.8	-
Profit on debt buyback	8	(12.9)	-	-	-
Income tax (paid)/received		(22.7)	-	5.9	-
Net cash from operating activities		270.2	(33.3)	226.7	88.0
Cash flow from investing activities					
Purchase of plant and equipment	13	(2.6)	(0.3)	(1.0)	-
Purchase of syndicate capacity	12	-	-	(1.4)	-
Acquisition of subsidiary (net of cash acquired)		-	-	(3.8)	-
Sale of business unit		-	-	5.0	-
Expenditure on software development	12	(5.8)	-	(11.1)	-
Purchase of investments		(4,579.0)	-	(3,912.4)	-
Proceeds from sale of investments		4,278.6	-	3,649.2	-
Investment in associate	14	(1.6)	-	(3.4)	-
Interest and dividends received		77.0	-	64.8	-
Net cash used in investing activities		(233.4)	(0.3)	(214.1)	-
Cash flow from financing activities					
Proceeds from issue of shares		1.6	1.6	0.5	0.5
Purchase of treasury shares	22	-	-	(1.2)	(1.2)
Acquisition of own shares in trust	22	(25.1)	(25.1)	(6.0)	(6.0)
Proceeds from issue of debt	25	121.0	121.0	-	-
Repayment of borrowings	25	(66.7)	-	-	-
Interest paid		(14.3)	-	(16.8)	-
Dividends paid		(65.1)	(65.1)	(82.8)	(82.8)
Net cash used in financing activities		(48.6)	32.4	(106.3)	(89.5)
Net decrease in cash and cash equivalents		(11.8)	(1.2)	(93.7)	(1.5)
Cash and cash equivalents at beginning of year		650.1	2.5	745.0	4.0
Effect of exchange rate changes on cash and cash equivalents		(1.8)	-	(1.2)	-
Cash and cash equivalents at end of year	20	636.5	1.3	650.1	2.5

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 2012 comprise the parent company and its subsidiaries and the group's interest in associates.

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

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

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

IFRS 7 (amended), 'Transfers of financial assets'. This amendment requires additional disclosures about transfers of financial assets to enable users to understand the possible effects of any risks that remain with the transferor.

The following is a list of standards that are in issue but are not effective in 2012, but have been endorsed for use in the EU, together with the effective date of application to the group:

- IFRS 7: Amendment: Offsetting financial assets and financial liabilities (effective 1 January 2013)
- IFRS 10: Consolidated financial statements (effective 1 January 2014)
- IFRS 11: Joint arrangements (effective 1 January 2014)
- IFRS 12: Disclosure of interests in other entities (effective 1 January 2014)
- IAS 1 Amendment: Presentation of other items of comprehensive income (effective 1 January 2013)
- IAS 19 Amendment: Defined benefit plans (effective 1 January 2013)
- IAS 27 Amendment: Separate financial statements (effective 1 January 2014)
- IAS 28 Amendment: Investments in associates and joint ventures (effective 1 January 2014)
- IAS 32 Amendment: Offsetting financial assets and financial liabilities (effective 1 January 2014)

In addition, the following is a list of standards that are in issue but are not effective in 2012, and have not yet been endorsed for use in the EU, together with the effective date of application to the group:

- IFRS 9: Financial Instruments (effective 1 January 2015)
- Improvements to IFRSs (effective 1 January 2013)

The implications of these standards and interpretations are under review.

Basis of presentation

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

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

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

Use of estimates and judgements

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

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

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

The most critical estimate included within the group's financial position is the estimate for losses incurred but not reported. The total estimate as at 31 December 2012 is \$1,833.9m (2011: \$1,697.3m) and is included within total insurance liabilities in the statement of financial position.

Consolidation

a) Subsidiary undertakings

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

The group has used the acquisition method of accounting for business combinations arising on the purchase of subsidiaries. Under this method, the cost of acquisition is measured as the fair value of assets given, shares issued or liabilities undertaken at the date of acquisition directly attributable to the acquisition. The excess of the cost of an acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired is recorded as goodwill. The accounting treatment of acquisition expenses per IFRS 3 (2008) has changed; however as the group applies the revised standard prospectively to all business combinations from 1 January 2010 there is no impact on accounting for the acquisition of subsidiaries made in previous periods.

For all business combinations from 1 January 2010:

- (i) Transaction costs, other than those associated with the issue of debt or equity securities, that the group incurs in connection with a business combination, are expensed as incurred.
- (ii) In addition, any consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognised in profit or loss.
- (iii) Any contingent consideration is measured at fair value at the acquisition date.

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

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

1 Statement of accounting policies *continued*

b) Associates

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

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

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

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

c) Intercompany balances and transactions

All intercompany transactions, balances and unrealised gains or losses on transactions between group companies are eliminated in the group financial statements. 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 group financial statements are presented in US dollars, being the functional currency of the parent and its main trading subsidiaries.

b) Transactions and balances

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

c) Group companies

The results and financial position of the group companies that have a functional currency different from the group presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate ruling at the statement of financial position date;
- income and expenses for each income statement are translated at average exchange rates for the reporting period where this is determined to be a reasonable approximation of the actual transaction rates; and
- all resulting exchange differences are recognised in other comprehensive income as a separate component of equity.

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

Insurance contracts

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

Notes to the financial statements *continued*

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 subsequently by 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.

1 Statement of accounting policies *continued*

Dividends paid

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

Plant and equipment

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

Fixtures and fittings	Three to ten years
Computer equipment	Three years

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

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

Intangible assets

a) Goodwill

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

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

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

b) Syndicate capacity

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

c) Licences

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

d) IT development costs

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

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

e) Renewal rights

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

Financial instruments

Financial instruments are recognised in the statement of financial position at such time that the group becomes a party to the contractual provisions of the financial instrument. Purchases and sales of financial assets are recognised on the trade date, which is the date the group commits to purchase or sell the asset. A financial 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.

a) Financial assets

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

b) Financial assets at fair value through income statement

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

c) Loans and receivables

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

d) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

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

1 Statement of accounting policies *continued*

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, ie the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (ie without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

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

e) Hedge funds

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

f) Insurance receivables and payables

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

g) Other receivables

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

h) Investment income

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

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

i) Borrowings

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

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

In addition, finance costs include gains on the early redemption of the group's borrowings. These gains are recognised in the income statement being the difference between proceeds paid plus related costs and the carrying value of the borrowings redeemed.

j) Other payables

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

Hedge accounting and derivative financial instruments

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

The group has not designated any derivatives as fair value hedges, 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.

Impairment of financial assets

The group considers evidence of impairment for financial assets measured at amortised cost at both a specific asset and collective level. The group assesses at each reporting date whether there is objective evidence that a specific financial asset measured at amortised cost is impaired. A financial asset 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 that can be reliably estimated. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

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.

In assessing collective impairment, the group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand, deposits held at call with banks and other short-term highly liquid investments with maturities of three months or less from the date of acquisition.

1 Statement of accounting policies *continued*

Operating leases

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

Employee benefits

a) Pension obligations

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

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

Actuarial gains or losses arising subsequent to 1 January 2004 are accounted for using the 'corridor method'. Actuarial gains or losses at the end of the previous accounting periods that exceed 10% of the greater of the fair value of the plan assets or the present value of the gross defined benefit obligations in the scheme at that date are recognised in the income statement over the average remaining working lives of employees participating in the scheme. As per page 95, IAS 19 will be amended effective 1 January 2013 and the 'corridor method' will no longer be applied by the group from this date.

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

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

b) Share-based compensation

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

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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

Notes to the financial statements *continued*

1 Statement of accounting policies *continued*

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. Share options with performance conditions attaching to them have been excluded from the weighted average number of shares to the extent that these conditions have not been met at the reporting date.

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

Provisions and contingencies

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

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

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, market, credit, liquidity, operational, group, regulatory and legal, and strategic risk. The sections below outline the group's risk appetite and explain how it defines and manages each category of risk.

The symbol ■ by a heading indicates that the information in that section has not been audited.

2 Risk management *continued*

2.1 Insurance risk

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

a) Underwriting risk

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

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

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

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

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

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

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

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

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

Notes to the financial statements *continued***2 Risk management** *continued*

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 \$541m net of reinsurance. In 2012 the catastrophic risk appetite increased by 6% from \$510m, in line with the group's five year strategic plan. In addition, the group's share of combined syndicates 623/2623 increased from 81% in 2011 to 82% in 2012.

Lloyd's has also defined its own specific set of realistic disaster scenario (RDS) events for which all syndicates with relevant exposures must report. Of these the three largest, net of reinsurance, events which impact Beazley in 2011 and 2012 are:

Unaudited

	2012	
	Modelled PML (before reinsurance) \$m	Modelled PML (after reinsurance) \$m
Lloyd's prescribed natural catastrophe event		
Los Angeles quake (2012: \$78bn)	721.2	273.2
Gulf of Mexico windstorm (2012: \$112bn)	475.2	276.3
US Northeast windstorm (2012: \$78bn)	418.4	283.3

Unaudited

	2011	
	Modelled PML (before reinsurance) \$m	Modelled PML (after reinsurance) \$m
Lloyd's prescribed natural catastrophe event		
San Francisco quake (2011: \$78bn)	600.3	224.2
Gulf of Mexico windstorm (2011: \$112bn)	457.9	250.6
Florida Pinellas windstorm (2011: \$125bn)	438.6	237.6

The exposures to the above Lloyd's RDS events have increased during 2012, as additional business has been written in the reinsurance division as a result of improved trading conditions. The increases also reflect the growth in the catastrophic risk appetite.

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.

2 Risk management *continued*

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 2012, the normal maximum gross probable maximum loss (PML) line that any one underwriter could commit the managed syndicates to was \$100m. In most cases, maximum lines for classes of business were much lower than this.

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

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

Binding authority contracts

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

Operating divisions

In 2012, the group's business consisted of six operating divisions. The following table provides a breakdown of gross written premiums by division, and also provides a geographical split based on placement of risk.

	UK (Lloyd's)	US (Non-Lloyd's)	Total
2012			
Life, accident & health	5%	–	5%
Marine	16%	–	16%
Political risks & contingency	6%	–	6%
Property	20%	–	20%
Reinsurance	10%	–	10%
Specialty lines	35%	8%	43%
Total	92%	8%	100%
2011			
Life, accident & health	5%	–	5%
Marine	16%	–	16%
Political risks & contingency	6%	–	6%
Property	20%	1%	21%
Reinsurance	10%	–	10%
Specialty lines	34%	8%	42%
Total	91%	9%	100%

Notes to the financial statements *continued*

2 Risk management *continued*

b) Reinsurance risk

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

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

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

c) Claims management risk

Claims management risk may arise within the group in the event of inaccurate or incomplete case reserves and claims settlements, poor service quality or excessive claims handling costs. These risks may damage the group brand and undermine its ability to win and retain business, or incur punitive damages. These risks can occur at any stage of the claims life cycle. The group's claims teams are focused on delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the business' broader interests. Prompt and accurate case reserves are set for all known claims liabilities, including provisions for expenses.

d) Reserving and ultimate reserves risk

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

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

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

2.2 Market risk

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

a) Foreign exchange risk

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

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

2 Risk management *continued*

In 2012, 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 predominately US dollar denominated. As part of this hedging strategy, exchange rate derivatives were used to rebalance currency exposure across the group. Details of all foreign currency derivative contracts entered into with external parties are disclosed in note 17. On a forward looking basis an assessment is made of expected future exposure development and appropriate currency trades put in place to reduce risk.

The group's underwriting capital is matched by currency to the principal underlying currencies of its written premiums. This helps to mitigate the risk that the group's capital required to underwrite business is not materially affected by any future movements in exchange rates.

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

The following table summarises the carrying value of total assets and total liabilities categorised by the group's main currencies:

	UK £ \$m	CAD \$ \$m	EUR € \$m	Subtotal \$m	US \$ \$m	Total \$m
31 December 2012						
Total assets	801.9	130.1	376.8	1,308.8	5,146.6	6,455.4
Total liabilities	(806.9)	(133.1)	(374.5)	(1,314.5)	(3,929.2)	(5,243.7)
Net assets	(5.0)	(3.0)	2.3	(5.7)	1,217.4	1,211.7
31 December 2011						
Total assets	910.0	131.4	237.2	1,278.6	4,840.1	6,118.7
Total liabilities	(803.7)	(105.7)	(288.0)	(1,197.4)	(3,850.3)	(5,047.7)
Net assets	106.3	25.7	(50.8)	81.2	989.8	1,071.0

Sensitivity analysis

Fluctuations in the group's trading currencies against the US dollar would result in a change to profit after tax and net asset value. The table below gives an indication of the impact on profit after tax and net assets of a percentage change in the relative strength of the US dollar against the value of sterling, the Canadian dollar and the euro, simultaneously. The analysis is based on the current information.

	Impact on profit after tax for the year ended		Impact on net assets	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
Change in exchange rate of sterling, Canadian dollar and euro relative to US dollar				
Dollar weakens 30% against other currencies	1.7	11.6	1.7	11.6
Dollar weakens 20% against other currencies	1.1	7.8	1.1	7.8
Dollar weakens 10% against other currencies	0.6	3.9	0.6	3.9
Dollar strengthens 10% against other currencies	(0.6)	(3.9)	(0.6)	(3.9)
Dollar strengthens 20% against other currencies	(1.1)	(7.8)	(1.1)	(7.8)
Dollar strengthens 30% against other currencies	(1.7)	(11.6)	(1.7)	(11.6)

Notes to the financial statements *continued*2 Risk management *continued*

b) Interest rate risk

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

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

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

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

Duration	<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
31 December 2012								
Fixed and floating rate securities	1,483.8	464.7	542.3	335.7	389.9	49.4	–	3,265.8
Cash and cash equivalents	636.5	–	–	–	–	–	–	636.5
Derivative financial instruments	1.9	–	–	–	–	–	–	1.9
Borrowings	–	–	–	(176.5)	–	(120.5)	(18.0)	(315.0)
Total	2,122.2	464.7	542.3	159.2	389.9	(71.1)	(18.0)	3,589.2
31 December 2011								
Fixed and floating rate securities	1,817.2	392.7	269.7	209.9	187.5	64.1	–	2,941.1
Cash and cash equivalents	650.1	–	–	–	–	–	–	650.1
Derivative financial instruments	2.7	–	0.1	(0.1)	–	(0.1)	–	2.6
Borrowings	–	–	–	–	(246.8)	–	(18.0)	(264.8)
Total	2,470.0	392.7	269.8	209.8	(59.3)	64.0	(18.0)	3,329.0

Borrowings include tier 2 subordinated debt that are due in October 2026 with a first call at the group's option on October 2016. If the debt is settled when due in October 2026 the duration of the debt falls within the >10 yrs category. If the debt is called in October 2016, the duration of the debt falls within the 3-4 yrs (2011: 4-5 yrs) category. Also included in borrowings is \$18m of a subordinated debt facility raised in 2004 which is unsecured. The subordinated notes are due in 2034 and have been callable at the group's option since 2009.

Sensitivity analysis

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

	Impact on profit after income tax for the year		Impact on net assets	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
Shift in yield (basis points)				
150 basis point increase	(24.0)	(44.6)	(24.0)	(44.6)
100 basis point increase	(5.0)	(29.7)	(5.0)	(29.7)
50 basis point increase	14.0	(15.0)	14.0	(15.0)
50 basis point decrease	47.2	15.0	47.2	15.0
100 basis point decrease	48.6	27.0	48.6	27.0

2 Risk management *continued*

c) Price risk

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

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

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

	Impact on profit after income tax for the year		Impact on net assets	
	2012 \$m	2011 \$m	2012 \$m	2011 \$m
Change in fair value of hedge fund portfolios				
30% increase in fair value	107.1	101.1	107.1	101.1
20% increase in fair value	71.4	67.4	71.4	67.4
10% increase in fair value	35.7	33.7	35.7	33.7
10% decrease in fair value	(35.7)	(33.7)	(35.7)	(33.7)
20% decrease in fair value	(71.4)	(67.4)	(71.4)	(67.4)
30% decrease in fair value	(107.1)	(101.1)	(107.1)	(101.1)

2.3 Credit risk

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the group are:

- reinsurers – whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the group;
- brokers and coverholders – whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the group;
- investments – whereby issuer default results in the group losing all or part of the value of a financial instrument and derivative financial instrument; and
- cash and cash equivalents.

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

The group limits exposure to a single counterparty or a group of counterparties and analyses the geographical locations of exposures when assessing credit risk.

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

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

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

Notes to the financial statements *continued***2 Risk management** *continued*

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:

	Tier 1 \$m	Tier 2 \$m	Tier 3 \$m	Tier 4 \$m	Unrated \$m	Total \$m
31 December 2012						
Financial assets						
– financial investments	3,010.4	255.4	–	–	417.7	3,683.5
– derivative financial instruments	–	–	–	–	1.9	1.9
Insurance receivables	–	–	–	–	578.0	578.0
Reinsurance assets	1,173.7	–	–	–	13.6	1,187.3
Other receivables	32.4	–	–	–	–	32.4
Cash and cash equivalents	636.5	–	–	–	–	636.5
Total	4,853.0	255.4	–	–	1,011.2	6,119.6

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

The largest counterparty exposure within tier 1 is \$593.3m of US Treasuries (2011: \$1,078.5m).

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

Insurance receivables and other receivables balances held by the group have not been impaired, based on all evidence available, and no impairment provision has been recognised in respect of these assets. 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 are individually impaired after considering information such as the occurrence of significant changes in the counterparties' financial position, pattern of historical payment information and disputes with counterparties.

2 Risk management *continued*

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 in respect of the reinsurance assets at 31 December 2012 was as follows:

	Individual impairment \$m	Collective impairment \$m	Total \$m
Balance at 1 January 2011	10.1	7.2	17.3
Impairment loss (written back)/recognised	(3.3)	1.7	(1.6)
Balance at 31 December 2011	6.8	8.9	15.7
Impairment loss recognised	1.3	1.0	2.3
Balance at 31 December 2012	8.1	9.9	18.0

The group has insurance receivables and reinsurance assets that are past due at the reporting date. An aged analysis of these is presented below:

	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
31 December 2012					
Insurance receivables	12.9	2.3	1.0	3.1	19.3
Reinsurance assets	6.0	1.9	1.2	7.3	16.4

	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
31 December 2011					
Insurance receivables	12.6	3.6	1.6	3.6	21.4
Reinsurance assets	2.9	1.5	0.5	9.8	14.7

The total impairment in respect of reinsurance assets past due by more than 30 days at 31 December 2012 was \$5.7m (2011: \$5.8m).

The group believes that the unimpaired amounts that are past due more than 30 days are still collectable in full, based on historic payment behaviour and analyses of credit risk.

2.4 Liquidity risk

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

The group's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event (details of the group's exposure to realistic disaster scenarios (RDS) are provided on page 106). This means that the group maintains sufficient liquid assets, or assets that can be converted 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 46 to 48. The sources and uses of funds table on page 46 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.

Notes to the financial statements *continued***2 Risk management** *continued*

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

31 December 2012	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Life, accident & health	27.3	13.6	2.1	0.5	43.5	1.1
Marine	111.5	102.5	31.7	2.6	248.3	1.5
Political risks & contingency	42.8	44.6	17.9	2.4	107.7	1.7
Property	140.4	97.7	19.5	7.9	265.5	1.4
Reinsurance	119.6	107.3	28.6	3.1	258.6	1.5
Specialty lines	418.3	701.2	413.3	169.8	1702.6	2.5
Net insurance liabilities	859.9	1,066.9	513.1	186.3	2,626.2	

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

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

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

31 December 2012	Within 1 year	1-3 years	3-5 years	Greater than 5 years	Total
Net insurance liabilities	859.9	1,066.9	513.1	186.3	2,626.2
Borrowings	-	-	176.5	138.5	315.0
Other payables	360.9	-	-	-	360.9
Deferred tax liability	-	84.0	-	-	84.0

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

2 Risk management *continued*

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

Maturity	<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
31 December 2012								
Fixed and floating rate securities	744.4	606.3	636.1	490.0	456.9	332.1	-	3,265.8
Derivative financial instruments	1.9	-	-	-	-	-	-	1.9
Cash and cash equivalents	636.5	-	-	-	-	-	-	636.5
Other receivables	32.4	-	-	-	-	-	-	32.4
Other payables	(360.9)	-	-	-	-	-	-	(360.9)
Borrowings	-	-	-	(176.5)	-	(120.5)	(18.0)	(315.0)
Total	1,054.3	606.3	636.1	313.5	456.9	211.6	(18.0)	3,260.7
31 December 2011								
Fixed and floating rate securities	1,470.3	443.9	373.3	248.0	206.8	198.8	-	2,941.1
Derivative financial instruments	2.7	-	0.1	(0.1)	-	(0.1)	-	2.6
Cash and cash equivalents	650.1	-	-	-	-	-	-	650.1
Other receivables	21.9	-	-	-	-	-	-	21.9
Other payables	(366.0)	-	-	-	-	-	-	(366.0)
Borrowings	-	-	-	-	(246.8)	-	(18.0)	(264.8)
Total	1,779.0	443.9	373.4	247.9	(40.0)	198.7	(18.0)	2,984.9

Borrowings include tier 2 subordinated debt that are due in October 2026 with a first call at the group's option on October 2016. If the debt is settled when due in October 2026 the maturity date of the debt falls within the >10 yrs category. If the debt is called in October 2016, the maturity date of the debt falls within the 3-4 yrs (2011: 4-5 yrs) category.

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

2.5 Operational risk ■

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

Notes to the financial statements *continued*

2 Risk management *continued*

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

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

- ICA modelling of operational risk exposure and scenario testing;
- management review of activities;
- documentation of policies and procedures;
- preventative and detective controls within key processes;
- contingency planning; and
- other systems controls.

Capital management

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

The group has several requirements for capital, including:

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

The capital structure section of the financial review on pages 46 to 48 provides further background to the group's management of capital.

2.6 Group risk ■

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

a) Contagion

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

b) Reputation

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

2.7 Regulatory and legal risk ■

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

2 Risk management *continued*

2.8 Strategic risk ■

This is the risk that the group's strategy is inappropriate or that the group is unable to implement its strategy. Where events supersede the group's strategic plan this is escalated at the earliest opportunity through the group's monitoring tools and governance structure.

Senior management performance

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

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

3 Segmental analysis

a) Reporting segments

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

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, health, personal accident, sports and income protection risks.

Marine

This segment underwrites a broad spectrum of marine classes including hull, energy, cargo and specie, piracy, aviation, kidnap and ransom 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 construction and engineering property insurance on a worldwide basis.

Reinsurance

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

Specialty lines

This segment underwrites professional liability, management liability and environmental liability, including architects and engineers, healthcare, lawyers, technology, media and business services, directors and officers and employment practices risks.

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

Notes to the financial statements *continued*3 Segmental analysis *continued*

b) Segment information

2012	Life, accident & health \$m	Marine \$m	Political risks & contingency \$m	Property \$m	Reinsurance \$m	Specialty lines \$m	Total \$m
Segment results							
Gross premiums written	94.4	311.2	116.6	376.7	188.6	808.4	1,895.9
Net premiums written	75.3	283.1	102.3	275.7	146.7	659.6	1,542.7
Net earned premiums	80.3	279.6	98.1	266.4	139.0	615.1	1,478.5
Net investment income	1.1	8.0	4.4	11.1	8.9	49.1	82.6
Other income	1.1	3.1	1.9	10.2	0.4	8.0	24.7
Revenue	82.5	290.7	104.4	287.7	148.3	672.2	1,585.8
Net insurance claims	46.4	116.9	11.7	140.4	87.3	375.7	778.4
Expenses for the acquisition of insurance contracts	20.8	71.6	25.6	103.0	27.5	160.0	408.5
Administrative expenses	18.6	20.7	14.1	24.4	12.7	64.5	155.0
Foreign exchange gain	(0.6)	(1.9)	(0.7)	(2.1)	(1.1)	(4.6)	(11.0)
Expenses	85.2	207.3	50.7	265.7	126.4	595.6	1,330.9
Share of loss of associate	-	-	(0.2)	-	-	(0.3)	(0.5)
Segment result	(2.7)	83.4	53.5	22.0	21.9	76.3	254.4
Finance costs							(3.2)
Profit before income tax							251.2
Income tax expense							(36.6)
Profit for the year attributable to equity shareholders							214.6
Claims ratio	58%	42%	12%	53%	63%	61%	53%
Expense ratio	49%	33%	40%	48%	29%	37%	38%
Combined ratio	107%	75%	52%	101%	92%	98%	91%
Segment assets and liabilities							
Segment assets	214.9	1,048.5	768.1	1,003.0	378.2	3,042.7	6,455.4
Segment liabilities	(166.0)	(685.7)	(609.6)	(882.2)	(323.8)	(2,576.4)	(5,243.7)
Net assets	48.9	362.8	158.5	120.8	54.4	466.3	1,211.7
Additional information							
Capital expenditure	0.4	0.9	0.5	1.3	0.5	4.8	8.4
Amortisation and depreciation	1.5	1.2	0.5	2.3	0.7	11.7	17.9
Net cash flow	(0.8)	(4.0)	(1.5)	(1.3)	(0.5)	(5.5)	(13.6)

3 Segmental analysis *continued*

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

Notes to the financial statements *continued*3 Segmental analysis *continued*

c) Information about geographical areas

The group's operating segments are also managed geographically by placement of risk. UK earned premium in the analysis below represents all risks placed at Lloyd's and US earned premium represents all risks placed at the group's US insurance company, Beazley Insurance Company Inc. An analysis of earned premium split geographically by placement of risk and by reportable segment is provided in note 2 on page 107.

	2012 \$m	2011 \$m
Net earned premiums		
UK (Lloyd's)	1,451.1	1,356.1
US (Non-Lloyd's)	27.4	28.9
	1,478.5	1,385.0

	2012 \$m	2011 \$m
Segment assets		
UK (Lloyd's)	6,130.4	5,821.2
US (Non-Lloyd's)	325.0	297.5
	6,455.4	6,118.7

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

	2012 \$m	2011 \$m
Capital expenditure		
UK (Lloyd's)	8.0	12.7
US (Non-Lloyd's)	0.4	0.8
	8.4	13.5

4 Net investment income

	2012 \$m	2011 \$m
Interest and dividends on financial investments at fair value through income statement	77.0	64.8
Realised losses on financial investments at fair value through income statement	(10.8)	(22.0)
Net unrealised fair value gains on financial investments at fair value through the income statement	28.1	10.0
Investment income from financial investments	94.3	52.8
Fair value gain/(loss) on derivative financial instruments	0.1	(3.7)
Investment income	94.4	49.1
Investment management expenses	(11.8)	(9.8)
	82.6	39.3

5 Other income

	2012 \$m	2011 \$m
Commissions received	17.0	19.2
Profit commissions	5.8	5.0
Agency fees	1.9	2.1
Other income	—	1.8
	24.7	28.1

6 Operating expenses

	2012 \$m	2011 \$m
Operating expenses include:		
Amounts receivable by the auditor and associates in respect of:		
– the auditing of accounts of the company's subsidiaries	1.1	1.1
– taxation compliance services	0.2	0.2
– all other assurance services not included above	0.4	0.3
– all other non-audit services not included above	0.1	—
	1.8	1.6
Operating leases	9.7	7.5

Other than the fees disclosed above, no other fees were paid to the company's auditor.

7 Employee benefit expenses

	2012 \$m	2011 \$m
Wages and salaries	101.7	93.8
Short-term incentive payments	45.2	28.7
Social security	10.4	9.3
Share-based remuneration	12.1	10.6
Pension costs*	6.5	6.1
	175.9	148.5
Recharged to syndicate 623	(16.9)	(16.1)
	159.0	132.4

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

Notes to the financial statements *continued*

8 Finance costs

	2012 \$m	2011 \$m
Interest expense	16.1	15.8
Profit on debt buyback	(12.9)	–
Other finance costs	–	1.0
	3.2	16.8

In May and October 2012 Beazley bought back a total nominal amount of \$77.1m debt at a market value of \$64.2m in the form of fixed/floating rate subordinated notes falling due in 2026. A profit of \$12.9m was realised in the difference between the carrying value and the nominal amount of the debt bought back. Refer to note 25 for further detail on the subordinated debt.

9 Income tax expense

	2012 \$m	2011 \$m
Current tax expense		
Current year	30.7	8.4
Prior year adjustments	0.5	(0.5)
	31.2	7.9
Deferred tax expense		
Origination and reversal of temporary differences	7.2	(1.3)
Prior year adjustments	(1.8)	(9.7)
	5.4	(11.0)
Income tax expense	36.6	(3.1)
Profit before tax	251.2	62.7
Tax calculated at Irish rate	31.4	7.8
Rates applied	12.5%	12.5%
Effects of:		
– Tax rates in foreign jurisdictions	10.2	0.7
– Non-deductible expenses	0.9	(0.1)
– Tax relief on share based payments – current and future years	0.6	(0.3)
– Over provided in prior years	(1.3)	(2.8)
– Change in UK tax rates*	(6.1)	(7.5)
– Foreign exchange on tax	0.7	(0.9)
– Restriction of foreign tax recoverable	1.7	–
– Utilisation of tax losses brought forward	(1.5)	–
Tax charge for the period	36.6	(3.1)

The weighted average applicable tax rate was 16.5% (2011: 13.0%).

* The UK Chancellor's Autumn Statement on 5 December 2012 announced that the UK corporation tax rate will reduce to 21% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

10 Earnings per share

	2012	2011
Basic (cents)	42.4c	13.0c
Diluted (cents)	41.3c	12.4c
Basic (pence)	26.7p	8.1p
Diluted (pence)	26.0p	7.7p

Basic

Basic earnings per share are calculated by dividing profit after tax of \$214.6m (2011: \$65.8m) by the weighted average number of shares in issue during the year of 506.4m (2011: 505.4m). The shares held in the Employee Share Options Plan (ESOP) of 13.3m (2011: 12.6m) have been excluded from the calculation, until such time as they vest unconditionally with the employees. The weighted average number of treasury shares of nil (2011: 17.4m) has been excluded from the calculation.

Diluted

Diluted earnings per share are calculated by dividing profit after tax of \$214.6m (2011: \$65.8m) by the adjusted weighted average number of shares of 519.5m (2011: 530.4m). 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 of 13.3m (2011: 12.6m) have been excluded from the calculation, until such time as they vest unconditionally with the employees. The weighted average number of treasury shares of nil (2011: 17.4m) has been excluded from the calculation.

11 Dividends per share

A second interim dividend of 5.6p per ordinary share (2011: 5.4p) and a special dividend of 8.4p (2011: nil) will be payable on 2 April 2013 to shareholders registered at 5.00pm on 1 March 2013 in respect of the six months ended 31 December 2012. These financial statements do not provide for the second interim dividend and the special dividend as a liability.

Together with the interim dividend of 2.7p (2011: 2.5p) this gives a total dividend for the year of 16.7p (2011: 7.9p).

The second interim dividend will be payable on 2 April 2013 to shareholders registered at 5.00pm on 1 March 2013 (save to the extent that shareholders on the register of members on 1 March 2013 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).

Notes to the financial statements *continued*

12 Intangible assets

	Goodwill \$m	Syndicate capacity \$m	Licences \$m	IT development costs \$m	Renewal rights \$m	Total \$m
Cost						
Balance at 1 January 2011	77.1	9.4	9.3	36.1	–	131.9
Acquired through business combinations	10.3	–	–	–	10.3	20.6
Other additions	–	1.4	–	11.1	–	12.5
Disposals *	(8.6)	–	–	–	–	(8.6)
Transfers	(6.7)	–	–	–	6.7	–
Foreign exchange gain/(loss)	0.2	–	–	(0.3)	–	(0.1)
Balance at 31 December 2011	72.3	10.8	9.3	46.9	17.0	156.3
Balance at 1 January 2012	72.3	10.8	9.3	46.9	17.0	156.3
Acquired through business combinations	–	–	–	–	–	–
Other additions	–	–	–	5.8	–	5.8
Transfers	–	–	–	–	–	–
Foreign exchange gain	1.7	0.7	–	2.8	–	5.2
Balance at 31 December 2012	74.0	11.5	9.3	55.5	17.0	167.3
Amortisation and impairment						
Balance at 1 January 2011	–	–	–	(14.9)	–	(14.9)
Amortisation for the year	–	–	–	(10.4)	(0.7)	(11.1)
Foreign exchange loss	–	–	–	0.4	–	0.4
Balance at 31 December 2011	–	–	–	(24.9)	(0.7)	(25.6)
Balance at 1 January 2012	–	–	–	(24.9)	(0.7)	(25.6)
Amortisation for the year	–	–	–	(12.6)	(2.4)	(15.0)
Write down of goodwill	(10.0)	–	–	–	–	(10.0)
Foreign exchange gain	–	–	–	(1.6)	–	(1.6)
Balance at 31 December 2012	(10.0)	–	–	(39.1)	(3.1)	(52.2)
Carrying amount						
31 December 2012	64.0	11.5	9.3	16.4	13.9	115.1
31 December 2011	72.3	10.8	9.3	22.0	16.3	130.7

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

12 Intangible assets *continued*

Impairment tests

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

	Life, accident & health \$m	Marine \$m	Political risks & contingency \$m	Property \$m	Reinsurance \$m	Specialty lines \$m	Total \$m
2012							
Goodwill	30.6	2.3	1.0	24.9	0.8	4.4	64.0
Capacity	0.3	1.7	0.7	2.7	0.8	5.3	11.5
Licences	–	–	–	1.9	–	7.4	9.3
Total	30.9	4.0	1.7	29.5	1.6	17.1	84.8

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

When testing for impairment, the recoverable amount of a CGU is determined based on value in use. Value in use is calculated using projected cash flows based on financial budgets approved by management covering a five-year period taking into account historic growth rates and expected future market conditions. A post tax discount rate of 9% (2011: 9%) has been used to discount the projected post tax cash flows. The same discount rate has been applied to all operating segments as these segments all undertake underwriting activities supported by the same capital base. The discount rate of 9% (2011: 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 to the risk specific to the CGU.

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

Notes to the financial statements *continued*

13 Plant and equipment

	Company	Group		
	Fixtures & fittings \$m	Fixtures & fittings \$m	Computer equipment \$m	Total \$m
Cost				
Balance at 1 January 2011	2.1	18.3	7.9	26.2
Additions	–	0.7	0.3	1.0
Additions from business combinations	–	0.5	–	0.5
Disposals	–	–	(0.3)	(0.3)
Foreign exchange loss	–	–	–	–
Balance at 31 December 2011	2.1	19.5	7.9	27.4
Balance at 1 January 2012	2.1	19.5	7.9	27.4
Additions	0.3	2.5	0.1	2.6
Disposals	–	(0.5)	(0.2)	(0.7)
Foreign exchange gain	0.1	0.7	0.2	0.9
Balance at 31 December 2012	2.5	22.2	8.0	30.2
Accumulated depreciation				
Balance at 1 January 2011	(0.4)	(10.2)	(6.4)	(16.6)
Depreciation charge for the year	(0.3)	(2.6)	(1.2)	(3.8)
Additions from business combinations	–	(0.2)	–	(0.2)
Disposals	–	–	0.3	0.3
Balance at 31 December 2011	(0.7)	(13.0)	(7.3)	(20.3)
Balance at 1 January 2012	(0.7)	(13.0)	(7.3)	(20.3)
Depreciation charge for the year	(0.4)	(2.5)	(0.4)	(2.9)
Disposals	–	0.5	0.2	0.7
Foreign exchange loss	–	(0.5)	(0.2)	(0.7)
Balance at 31 December 2012	(1.1)	(15.5)	(7.7)	(23.2)
Carrying amounts				
31 December 2012	1.4	6.7	0.3	7.0
31 December 2011	1.4	6.5	0.6	7.1

14 Investment in associates

Group	2012 \$m	2011 \$m
As at 1 January	8.9	6.5
Additional investment in Capson Corp., Inc.	–	3.4
Investment in Equinox Global Limited	1.6	–
Share of loss after tax	(0.5)	(1.0)
As at 31 December	10.0	8.9

The group's investment in associates consists of:

	Country of incorporation	% interest held	Carrying value \$m
2012			
Falcon Money Management Holdings Limited (and subsidiaries)	Malta	25	1.4
Capson Corp., Inc. (and subsidiary)	USA	32	7.2
Equinox Global Limited (and subsidiary)	UK	26	1.4
			10.0

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

	2012 \$m	2011 \$m
Assets	31.6	22.4
Liabilities	17.2	5.9
Equity	14.4	16.5
Revenue	14.9	7.8
Loss after tax	(2.5)	(3.4)

All of the investments in associates are unlisted and are equity accounted using financial information as at 31 December 2012.

Company	2012 \$m	2011 \$m
As at 1 January	1.4	1.4
Additional investment in Capson Corp., Inc.	–	–
Investment in Equinox Global Limited	–	–
Share of loss after tax	–	–
As at 31 December	1.4	1.4

The company's investment in associate consists of:

	Country of incorporation	% interest held	Carrying value \$m
2012			
Falcon Money Management Holdings Limited (and subsidiaries)	Malta	25	1.4

The aggregate financial information for the associate (100%) is as follows:

	2012 \$m	2011 \$m
Assets	8.8	7.2
Liabilities	6.9	5.3
Equity	1.9	1.8
Revenue	8.3	7.0
Profit after tax	–	–

The investment in associate is unlisted and is equity accounted using financial information as at 31 December 2012.

Notes to the financial statements *continued*

15 Deferred acquisition costs

	2012 \$m	2011 \$m
Balance at 1 January	159.7	164.0
Additions	433.8	386.4
Amortisation charge	(408.5)	(390.7)
Balance at 31 December	185.0	159.7

16 Financial assets and liabilities

	2012 \$m	2011 \$m
Financial assets at fair value		
Hedge funds	417.7	411.0
Debt securities		
– Fixed rate	2,757.8	2,444.5
– Floating rate	508.0	496.6
Total financial investments at fair value through income statement	3,683.5	3,352.1
Derivative financial instruments	1.9	4.7
Total financial assets at fair value	3,685.4	3,356.8
Current	1,164.0	1,886.0
Non-current	2,521.4	1,470.8
	3,685.4	3,356.8
Financial liabilities		
Retail bond	120.5	–
Subordinated debt	18.0	18.0
Tier 2 subordinated debt	176.5	246.8
Derivative financial instruments	–	2.1
Total financial liabilities	315.0	266.9
Current	–	4.4
Non-current	315.0	262.5
	315.0	266.9

A breakdown of the group's investment portfolio is provided on page 43.

A breakdown of derivative financial instruments is disclosed in note 17.

As noted on page 101 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 2012 (2011: \$nil).

The retail bond was issued by the company. Refer to note 25 for further details.

The group has given a fixed and floating charge over certain of its investments and other assets to secure obligations to Lloyd's in respect of its corporate member subsidiary. Further details are provided in note 32.

16 Financial assets and liabilities *continued*

Fair value measurement

The table below summarises financial assets carried at fair value using a valuation hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – Valuations based on quoted prices in active markets for identical instruments. An active market is a market in which transactions for the instrument occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Included within Level 1 are bonds and treasury bills of major G8 government and government agencies.

Level 2 – Valuations based on quoted prices in markets that are not active, or based on pricing models for which significant inputs can be corroborated by observable market data (eg interest rates, exchange rates). Included within Level 2 are non-G8 government bonds and treasury bills, corporate bonds, asset backed securities and mortgage-backed securities.

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

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

The majority of the group's investments are valued based on quoted market information or other observable market data. Hedge funds that comprise 11.3% (2011: 12.2%) of financial assets and are recorded at fair value are based on estimates and recorded as Level 2 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 2012 and 31 December 2011, based on the level in the fair value hierarchy at which the financial instrument is categorised:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
2012				
Financial assets				
Fixed rate securities	1,400.7	1,357.1	–	2,757.8
Floating rate securities	324.6	183.4	–	508.0
Hedge funds	–	417.7	–	417.7
Derivative financial instruments	1.9	–	–	1.9
Total financial assets at fair value	1,727.2	1,958.2	–	3,685.4
Financial liabilities				
Derivative financial instruments	–	–	–	–
2011				
Financial assets				
Fixed rate securities	1,334.2	1,110.3	–	2,444.5
Floating rate securities	35.5	461.1	–	496.6
Hedge funds	–	–	411.0	411.0
Derivative financial instruments	0.1	4.6	–	4.7
Total financial assets at fair value	1,369.8	1,576.0	411.0	3,356.8
Financial liabilities				
Derivative financial instruments	0.3	1.8	–	2.1

Notes to the financial statements *continued***16 Financial assets and liabilities** *continued*

The table below shows the movement in Level 3 assets during 2012 and 2011:

	2012 \$m	2011 \$m
Level 3 balance at 1 January	411.0	433.1
Purchases	121.1	84.6
Proceeds on sale	(127.7)	(100.9)
Fair value gain/(loss) reflected in the income statement	13.3	(5.8)
Transfers to level 2	(417.7)	-
Level 3 balance at 31 December	-	411.0

In 2012 additional information was obtained from fund managers relating to the underlying assets within individual hedge funds. We identified that 64% of the these underlying assets were level 1 and the remainder level 2. This enabled us to categorise hedge funds, that were previously grouped as level 3, as level 2. Refer to price sensitivity note 2 for the impact of changes in value of these assets on reported profits and net assets.

The above qualitative and quantitative disclosure along with the risk management discussions in note 2 enables more accurate evaluation of Beazley's exposure to risks arising from financial instruments.

17 Derivative financial instruments

In 2012 the group entered into over-the-counter derivative contracts. The group had the right and the intention to settle each contract on a net basis.

The assets and liabilities of these contracts at 31 December 2012 are detailed below:

	2012		2011	
	Gross contract amount \$m	Fair value of assets \$m	Gross contract amount \$m	Fair value of assets \$m
Derivative financial instrument assets				
Short-term interest rate future contracts	-	-	35.4	0.1
Foreign exchange swaps	-	-	80.1	4.3
Foreign exchange forward contracts	278.6	1.9	69.0	0.3
	278.6	1.9	184.5	4.7

	2012		2011	
	Gross contract amount \$m	Fair value of liabilities \$m	Gross contract amount \$m	Fair value of liabilities \$m
Derivative financial instrument liabilities				
Foreign exchange swaps	-	-	16.3	1.2
Bond future contracts	-	-	24.4	0.3
Foreign exchange forward contracts	8.6	-	95.0	0.6
	8.6	-	135.7	2.1

17 Derivative financial instruments *continued*

Short-term interest rate future contracts

During 2011 the group entered into short-term interest rate futures trades to manage the investment portfolio duration. The trades were executed in order to economically hedge the interest rate duration exposure of certain fixed income securities or resulted from cash flows expected to be paid or received in the near future.

Foreign exchange swaps

During 2011 the group entered into over-the-counter FX swaps agreements in order to hedge the foreign currency exposure resulting from investment portfolio holdings denominated in currencies that are different to the functional currency of the group.

Foreign exchange forward contracts

During 2012 and 2011 the group entered into over-the-counter FX forward agreements in order to hedge the foreign currency exposure resulting from transactions and balances held in currencies that are different to the functional currency of the group.

Bond future contracts

In 2011 the group entered in bond futures trades to manage the investment portfolio duration. The vast majority of the trades were executed in order to partially hedge the duration of fixed income securities held at the same time. Occasionally, bond futures contracts were traded in order to gain interest rate duration exposure to certain areas of the yield curve.

18 Insurance receivables

	2012 \$m	2011 \$m
Insurance receivables	578.0	558.7
	578.0	558.7

These are receivable within one year and relate to business transacted with brokers and intermediaries. All insurance receivables are classified as loans and receivables and their carrying values approximate fair value at the reporting date.

19 Reinsurance assets

	2012 \$m	2011 \$m
Reinsurers' share of claims	984.1	1,011.4
Impairment provision	(18.0)	(15.7)
	966.1	995.7
Reinsurers' share of unearned premium reserve	221.2	202.2
	1,187.3	1,197.9

Further analysis of the reinsurance assets is provided in note 24.

Notes to the financial statements *continued*

20 Cash and cash equivalents

	2012 \$m	2011 \$m
Group		
Cash at bank and in hand	247.7	212.4
Short-term deposits and highly liquid investments	100.3	206.8
Overseas deposits	288.5	230.9
	636.5	650.1
Company		
Cash at bank and in hand	1.3	2.5
	1.3	2.5

21 Share capital

	2012		2011	
	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	521.0	41.6	535.9	42.8
Balance at 1 January	535.9	42.8	534.9	42.7
Issue of shares	2.5	0.2	1.0	0.1
Cancellation of treasury shares	(17.4)	(1.4)	-	-
Balance at 31 December	521.0	41.6	535.9	42.8

22 Other reserves

	Merger reserve	Treasury shares	Employee share options reserve	Employee share trust reserve	Total
Group					
Balance at 1 January 2011	1.7	(28.9)	6.0	(31.0)	(52.2)
Share based payments	-	-	9.3	-	9.3
Acquisition of own shares held in trust	-	-	-	(6.0)	(6.0)
Purchase of treasury shares	-	(1.2)	-	-	(1.2)
Transfer of shares to employees	-	-	(8.1)	8.1	-
Balance at 31 December 2011	1.7	(30.1)	7.2	(28.9)	(50.1)
Issue of shares	-	-	(0.2)	-	(0.2)
Share based payments	-	-	12.4	-	12.4
Acquisition of own shares held in trust	-	-	-	(25.1)	(25.1)
Reclassification of reserves *	(17.1)	-	7.4	-	(9.7)
Cancellation of treasury shares	-	30.1	-	-	30.1
Transfer of shares to employees	-	-	(3.8)	3.8	-
Balance at 31 December 2012	(15.4)	-	23.0	(50.2)	(42.6)
Company					
Balance at 1 January 2011	(35.4)	(28.9)	(0.7)	3.6	(61.4)
Share based payments	-	-	9.3	-	9.3
Acquisition of own shares held in trust	-	-	-	(6.0)	(6.0)
Purchase of treasury shares	-	(1.2)	-	-	(1.2)
Transfer of shares to employees	-	-	(8.1)	8.1	-
Balance at 31 December 2011	(35.4)	(30.1)	0.5	5.7	(59.3)
Issue of shares	-	-	(0.2)	-	(0.2)
Share based payments	-	-	12.4	-	12.4
Acquisition of own shares held in trust	-	-	-	(25.1)	(25.1)
Reclassification of reserves*	-	-	(9.7)	-	(9.7)
Cancellation of treasury shares	-	30.1	-	-	30.1
Transfer of shares to employees	-	-	(3.8)	3.8	-
Balance at 31 December 2012	(35.4)	-	(0.8)	(15.6)	(51.8)

*Reclassification of reserves relates to the balance in employee share options reserve previously included in the merger reserve caption with effect from 9 June 2009, being the date of the reverse acquisition of Beazley plc. The employee share options reserve also included the IFRS 2 provision for plans that have vested subsequent to 9 June 2009 but were not cleared down upon vesting. This adjustment has also been reflected.

Notes to the financial statements *continued*

23 Equity compensation plans

23.1 Employee share trust

	2012		2011	
	Number (m)	\$m	Number (m)	\$m
Costs debited to employee share trust reserve				
Balance at 1 January	12.5	28.9	13.5	31.0
Additions	9.5	25.1	3.2	6.0
Transfer of shares to employees	(2.0)	(3.8)	(4.2)	(8.1)
Balance at 31 December	20.0	50.2	12.5	28.9

The shares are owned by the employee share trust to satisfy awards under the group's deferred share plan and retention plan. These shares are purchased on the market and carried at cost.

On the third anniversary of an award the shares under the deferred share plan are transferred from the trust to the employees. Under the retention plan, on the third anniversary, and each year after that, 25.0% of the shares awarded are transferred to the employees.

The deferred share plan is recognised in the income statement on a straight-line basis over a period of three years, while the retention share plan is recognised in the income statement on a straight-line basis over a period of six years.

23.2 Employee share option plans

The group has a long-term incentive plan (LTIP), approved share option plan and SAYE that entitle employees to purchase shares in the group. In accordance with these plans, options are exercisable at the market price of the shares at the date of the grant.

The terms and conditions of the grants are as follows:

Share option plan	Grant date	No. of options (m)	Vesting conditions	Contractual life of options
LTIP	30/03/2012	2.7	Five years service + NAV + minimum shareholding requirement	10 years
	14/02/2011	2.4		
	18/02/2010	2.6		
LTIP	30/03/2012	2.7	Three years service + NAV + minimum shareholding requirement	10 years
	14/02/2011	2.4		
	18/02/2010	2.6		
LTIP	27/04/2009	0.1	Three years service + NAV + TSR comparator	10 years
	21/03/2006	0.1		
	21/03/2005	0.1		
SAYE (UK)	11/04/2012	0.7	Three years service	N/A
	11/04/2011	0.3		
	12/04/2010	0.3		
SAYE (US)	15/05/2012	0.1	Two years service	N/A
	15/05/2011	0.2		
Total share options outstanding		17.3		

Vesting conditions

In summary the vesting conditions are defined as:

- Two years service – An employee has to remain in employment until the second anniversary from the grant date.
- Three years service – An employee has to remain in employment until the third anniversary from the grant date.
- NAV – The NAV growth, after adjusting for the effect of dividends, is greater than the risk-free rate of return plus a premium per year.
- TSR comparator – The group's TSR growth is compared with that of members of the comparator group over a three-year period starting with the year in which the award is made.

23 Equity compensation plans *continued*

Further details of equity compensation plans can be found in the directors' remuneration report on pages 67 to 82.

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

	2012		2011	
	Weighted average exercise price (pence per share)	No. of options (m)	Weighted average exercise price (pence per share)	No. of options (m)
Outstanding at 1 January	14.0	14.8	17.1	12.5
Forfeited during the year	16.1	(1.3)	10.4	(3.2)
Exercised during the year	42.1	(2.5)	28.6	(1.0)
Granted during the year	15.8	6.3	8.8	6.5
Outstanding at 31 December	10.3	17.3	14.0	14.8
Exercisable at 31 December	-	0.3	-	0.3

The share option programme allows group employees to acquire shares of the company. The fair value of options granted is recognised as an employee expense with a corresponding increase in the employee share options reserve. The fair value of the options granted is measured at grant date and spread over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except where forfeiture is due to the share option achieving the vesting conditions.

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

	2012 \$m	2011 \$m
Share options charge to income statement	12.4	9.3
Weighted average share price (pence per option)	127.7	116.0
Weighted average exercise price (pence per option)	10.3	14.0
Average expected life of options	4.9yrs	5.7yrs
Expected volatility	25.0%	25.0%
Expected dividend yield	4.0%	4.0%
Average risk-free interest rate	3.6%	4.0%

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

24 Insurance liabilities and reinsurance assets

	2012 \$m	2011 \$m
Gross		
Claims reported and loss adjustment expenses	1,058.9	1,085.6
Claims incurred but not reported	2,533.3	2,440.6
Gross claims liabilities	3,592.2	3,526.2
Unearned premiums	891.6	808.4
Total insurance liabilities, gross	4,483.8	4,334.6
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	266.7	252.4
Claims incurred but not reported	699.4	743.3
Reinsurers' share of claims liabilities	966.1	995.7
Unearned premiums	221.2	202.2
Total reinsurers' share of insurance liabilities	1,187.3	1,197.9

Notes to the financial statements *continued*24 Insurance liabilities and reinsurance assets *continued*

	2012 \$m	2011 \$m
Net		
Claims reported and loss adjustment expenses	792.2	833.2
Claims incurred but not reported	1,833.9	1,697.3
Net claims liabilities	2,626.1	2,530.5
Unearned premiums	670.4	606.2
Total insurance liabilities, net	3,296.5	3,136.7

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

24.1 Movements in insurance liabilities and reinsurance assets

a) Claims and loss adjustment expenses

	2012			2011		
	Gross \$m	Reinsurance \$m	Net \$m	Gross \$m	Reinsurance \$m	Net \$m
Claims reported and loss adjustment expenses	1,085.6	(252.4)	833.2	818.5	(202.4)	616.1
Claims incurred but not reported	2,440.6	(743.3)	1,697.3	2,404.1	(621.4)	1,782.7
Balance at 1 January	3,526.2	(995.7)	2,530.5	3,222.6	(823.8)	2,398.8
Claims paid	(852.0)	200.8	(651.2)	(871.7)	188.8	(682.9)
Increase in claims						
– Arising from current year claims	1,101.9	(197.4)	904.5	1,386.4	(349.4)	1,037.0
– Arising from prior year claims	(199.1)	73.1	(126.0)	(217.5)	31.0	(186.5)
Net exchange differences	15.2	(46.9)	(31.7)	6.4	(42.3)	(35.9)
Balance at 31 December	3,592.2	(966.1)	2,626.1	3,526.2	(995.7)	2,530.5
Claims reported and loss adjustment expenses	1,058.9	(266.7)	792.2	1,085.6	(252.4)	833.2
Claims incurred but not reported	2,533.3	(699.4)	1,833.9	2,440.6	(743.3)	1,697.3
Balance at 31 December	3,592.2	(966.1)	2,626.1	3,526.2	(995.7)	2,530.5

b) Unearned premiums reserve

	2012			2011		
	Gross \$m	Reinsurance \$m	Net \$m	Gross \$m	Reinsurance \$m	Net \$m
Balance at 1 January	808.4	(202.2)	606.2	824.2	(211.1)	613.1
Increase in the year	1,895.9	(366.8)	1,529.1	1,712.5	(338.5)	1,374.0
Release in the year	(1,812.7)	347.8	(1,464.9)	(1,728.3)	347.4	(1,380.9)
Balance at 31 December	891.6	(221.2)	670.4	808.4	(202.2)	606.2

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

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

The group has a consistent reserving philosophy with initial reserves being set to include risk margins which may be released over time as uncertainty reduces.

Actuarial assumptions

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

Chain-ladder techniques are most appropriate for classes of business that have a relatively stable development pattern.

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

The Bornhuetter-Ferguson method uses a combination of a benchmark/market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims observed to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used in situations where developed claims experience was not available for the projection (eg recent underwriting years or new classes of business).

The expected loss ratio method uses a benchmark/market-based estimate applied to the expected premium and is used for classes with little or no relevant historical data.

The choice of selected results for each underwriting year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual underwriting years or groups of underwriting years within the same class of business. As such, there are many assumptions used to estimate general insurance liabilities.

We also review triangulations of the paid/outstanding claim ratios as a way of monitoring any changes in the strength of the outstanding claim estimates between underwriting years so that adjustments can be made to mitigate any subsequent over/(under) reserving. To date, this analysis indicates no systematic change to the outstanding claim strength across underwriting years.

Where significant large losses impact an underwriting year (eg the events of 11 September 2001, the hurricanes in 2004, 2005, 2008 and 2012, or the earthquakes in 2010 and 2011), the development is usually very different from the attritional losses. In these situations, the large loss total is extracted from the remainder of the data and analysed separately by the respective claims managers using exposure analysis of the policies in force in the areas affected.

Further assumptions are required to convert gross of reinsurance estimates of ultimate claims cost to a net of reinsurance level and to establish reserves for unallocated claims handling expenses and reinsurance bad debt.

Notes to the financial statements *continued*

24 Insurance liabilities and reinsurance assets *continued*

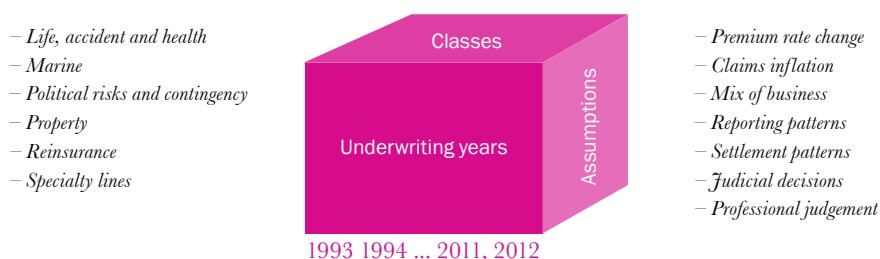
b) Major assumptions

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

Throughout, judgement is used to assess the extent to which past trends may not apply in the future; for example, to reflect changes in external or market factors such as economic conditions, public attitudes to claiming, levels of claims inflation, premium rate changes, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures.

c) Changes in assumptions

As already discussed, general insurance business requires many different assumptions. The diagram below illustrates the main categories of assumptions used for each underwriting year and class combinations.



Given the range of assumptions used, the group's profit or loss is relatively insensitive to changes to a particular assumption used for an underwriting year/class combination. However, the group's profit or loss is potentially more sensitive to a systematic change in assumptions that affect many classes, such as judicial changes or when catastrophes produce more claims than expected. The group uses a range of risk mitigation strategies to reduce the volatility including the purchase of reinsurance. In addition, the group holds capital to absorb volatility.

d) Sensitivity analysis

The estimation of IBNR reserves for future claim notifications is subject to a greater degree of uncertainty than the estimation of the outstanding claims already notified. This is particularly true for the specialty lines business, which will typically display greater variations between initial estimates and final outcomes as a result of the greater degree of difficulty in estimating these reserves. The estimation of IBNR reserves for other business written is generally subject to less variability as claims are generally reported and settled relatively quickly.

As such, our reserving assumptions contain a reasonable margin for prudence given the uncertainties inherent in the insurance business underwritten, particularly on the longer tailed specialty lines classes.

Since year end 2004, we have identified a range of possible outcomes for each class and underwriting year combination directly from our individual capital assessment (ICA) process. Comparing these with our pricing assumptions and reserving estimates gives our management team increased clarity into our perceived reserving strength and the relative uncertainties of the business written.

To illustrate the robustness of our reserves, the loss development tables below provide information about historical claims development by the six segments – life, accident & 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 the claims ratio for each underwriting year has changed at successive year-ends. The bottom half of the table reconciles the gross and net claims to the amount appearing in the statement of financial position.

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of these financial statements are cautioned against extrapolating past redundancies or deficiencies on current claims liabilities. The group believes that the estimate of total claims liabilities as at 31 December 2012 is 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	2002 ae %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %
Life, accident & health											
12 months								53.1	52.8	50.2	51.0
24 months								52.2	52.4	46.6	
36 months								45.0	48.9		
48 months								43.3			
60 months											
72 months											
84 months											
96 months											
108 months											
120 months											
Marine											
12 months		59.3	62.2	82.6	57.1	57.9	69.1	56.2	50.6	55.1	55.9
24 months		45.0	65.3	80.4	42.6	60.2	65.1	52.3	49.7	47.9	
36 months		39.0	62.3	70.8	33.0	50.6	59.0	45.6	43.9		
48 months		36.2	61.8	68.8	29.2	48.2	62.8	42.0			
60 months		35.8	60.7	66.6	28.9	49.6	62.5				
72 months		35.7	56.2	64.7	26.6	50.2					
84 months		34.9	55.9	63.9	26.5						
96 months		35.5	55.7	63.6							
108 months		34.9	55.6								
120 months		35.3									
Political risks & contingency											
12 months		59.1	67.6	61.0	57.5	57.2	57.5	61.1	61.4	58.8	62.5
24 months		36.3	55.7	38.2	36.2	39.1	67.3	38.6	40.3	38.5	
36 months		31.6	52.4	28.6	32.8	56.4	73.0	35.6	32.9		
48 months		28.6	38.2	24.9	43.2	52.9	86.7	30.9			
60 months		30.9	37.2	18.3	39.2	53.6	71.7				
72 months		25.0	35.3	17.9	38.9	49.9					
84 months		24.1	26.7	17.8	36.1						
96 months		21.2	26.5	12.3							
108 months		21.2	26.3								
120 months		21.2									
Property											
12 months		51.0	65.4	87.3	58.6	58.4	71.1	54.0	58.8	59.5	55.9
24 months		37.7	65.2	84.1	44.6	56.6	66.1	43.0	62.2	51.7	
36 months		34.9	65.8	82.6	43.7	54.4	65.0	38.0	60.2		
48 months		34.3	63.9	87.5	51.1	55.3	63.0	36.8			
60 months		33.9	64.4	86.9	51.2	58.8	61.5				
72 months		34.0	63.1	85.3	51.0	67.3					
84 months		35.1	62.9	84.5	50.3						
96 months		34.9	63.5	83.7							
108 months		34.6	63.5								
120 months		34.6									

Notes to the financial statements *continued*24 Insurance liabilities and reinsurance assets *continued*

	2002 ae	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
Gross ultimate claims	%	%	%	%	%	%	%	%	%	%	%	
Reinsurance												
12 months		58.7	87.9	196.9	52.4	59.6	60.1	60.8	68.2	76.9	62.9	
24 months		34.1	82.0	188.4	25.2	26.3	51.4	48.5	151.9	77.5		
36 months		28.4	76.8	186.7	24.9	21.8	42.7	40.5	140.3			
48 months		28.6	74.3	179.8	23.3	20.0	39.5	40.0				
60 months		25.5	72.4	176.1	21.4	19.1	39.0					
72 months		25.5	71.4	173.5	21.1	19.0						
84 months		24.4	70.3	172.3	21.3							
96 months		23.6	69.3	172.0								
108 months		23.7	68.9									
120 months		23.2										
Specialty lines												
12 months		72.9	72.3	72.1	72.7	72.8	72.2	72.8	74.0	75.7	74.1	
24 months		70.2	71.4	72.1	72.7	72.5	72.2	72.8	74.0	75.7		
36 months		68.8	67.7	69.9	72.7	72.5	72.0	71.9	72.9			
48 months		60.1	64.5	66.3	72.6	72.3	72.0	71.4				
60 months		53.2	59.4	62.8	70.9	72.3	71.6					
72 months		52.4	58.3	56.1	65.9	72.3						
84 months		50.5	56.5	52.4	61.9							
96 months		47.2	54.6	49.1								
108 months		46.2	52.7									
120 months		44.6										
Total												
12 months		63.0	69.3	90.6	63.0	63.6	68.7	62.7	64.8	67.0	64.3	
24 months		52.6	69.2	87.9	53.2	59.3	67.6	57.5	73.1	62.7		
36 months		49.4	66.6	84.3	50.9	58.2	66.2	53.8	69.1			
48 months		44.9	63.5	82.6	52.5	58.5	67.4	52.2				
60 months		41.5	61.0	79.7	52.1	59.6	65.6					
72 months		40.9	59.3	76.0	49.4	61.4						
84 months		40.1	57.9	74.1	47.4							
96 months		38.4	57.1	72.1								
108 months		37.8	56.2									
120 months		37.1										
Total ultimate losses												
(\$m)	1,818.7	445.4	761.5	1,099.6	792.8	1,101.5	1,236.8	1,095.1	1,399.5	1,219.7	1,322.8	12,293.4
Less paid claims (\$m)	(1,731.6)	(390.7)	(656.9)	(979.5)	(570.0)	(751.8)	(784.9)	(553.5)	(622.3)	(249.5)	(37.3)	(7,328.0)
Less unearned portion of ultimate losses (\$m)	-	-	-	-	-	-	-	-	-	(48.6)	(563.0)	(611.6)
Gross claims liabilities												
(100% level) (\$m)	87.1	54.7	104.6	120.1	222.8	349.7	451.9	541.6	777.2	921.6	722.5	4,353.8
Less unaligned share (\$m)	(16.5)	(10.4)	(19.9)	(22.8)	(42.3)	(66.4)	(85.9)	(102.1)	(131.6)	(156.0)	(107.7)	(761.6)
Gross claims liabilities, group share (\$m)												
	70.6	44.3	84.7	97.3	180.5	283.3	366.0	439.5	645.6	765.6	614.8	3,592.2

24 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2002 ae %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %
Life, accident & health											
12 months								51.7	51.5	49.0	51.1
24 months								50.4	52.0	48.0	
36 months								44.5	51.8		
48 months								44.9			
60 months											
72 months											
84 months											
96 months											
108 months											
120 months											
Marine											
12 months		55.4	57.9	55.5	54.0	55.1	61.3	54.7	52.3	56.0	55.4
24 months		44.7	53.0	49.1	42.1	56.5	57.0	48.5	49.4	48.1	
36 months		40.1	48.6	42.9	33.0	49.5	50.8	39.8	44.7		
48 months		39.1	47.8	39.7	31.5	46.7	47.7	36.2			
60 months		39.0	46.6	39.2	31.1	47.5	47.3				
72 months		39.2	44.3	38.2	29.3	47.7					
84 months		38.0	43.9	36.7	29.1						
96 months		37.6	43.2	36.3							
108 months		37.4	43.2								
120 months		37.2									
Political risks & contingency											
12 months		56.7	64.2	63.6	56.2	55.4	55.9	58.8	57.3	55.0	59.4
24 months		37.4	58.2	46.7	40.4	39.6	75.1	35.1	37.8	37.4	
36 months		34.8	54.2	36.1	37.2	55.1	75.3	32.8	30.4		
48 months		32.9	41.1	30.2	47.0	53.8	79.5	28.2			
60 months		34.9	40.8	24.4	41.2	52.1	68.4				
72 months		27.2	36.3	23.3	39.7	48.9					
84 months		25.5	26.2	23.2	39.7						
96 months		22.5	25.4	15.3							
108 months		22.4	24.4								
120 months		22.0									
Property											
12 months		48.8	59.7	65.0	61.4	61.1	67.3	53.7	59.0	60.5	58.8
24 months		41.7	61.0	62.1	49.4	59.7	67.3	48.8	66.3	58.0	
36 months		39.3	60.4	58.5	47.9	58.9	65.1	45.4	66.7		
48 months		38.7	58.7	61.2	51.6	59.5	64.0	43.1			
60 months		38.3	58.4	61.8	50.8	62.3	63.0				
72 months		38.3	57.6	60.0	50.8	62.7					
84 months		39.8	57.5	59.1	50.4						
96 months		39.7	57.5	59.1							
108 months		39.4	57.8								
120 months		39.3									

Notes to the financial statements *continued*24 Insurance liabilities and reinsurance assets *continued*

Net ultimate claims	2002 ae %	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %	2009 %	2010 %	2011 %	2012 %	
Reinsurance												
12 months		60.2	88.6	152.8	54.3	55.3	67.3	55.6	76.9	86.3	67.1	
24 months		39.3	85.8	132.5	36.7	30.3	57.0	52.5	137.3	87.7		
36 months		33.8	82.7	127.8	34.7	25.2	47.9	46.6	131.4			
48 months		34.5	76.5	118.2	32.5	22.8	45.9	46.0				
60 months		31.6	73.3	111.9	31.0	22.2	45.3					
72 months		31.6	71.7	110.7	31.0	22.1						
84 months		30.2	71.0	105.4	31.4							
96 months		29.3	69.7	104.9								
108 months		29.3	69.9									
120 months		29.3										
Specialty lines												
12 months		68.8	69.2	69.3	68.7	69.7	70.2	69.9	71.4	72.8	71.4	
24 months		67.3	68.6	69.3	68.6	68.7	70.2	69.8	71.3	72.8		
36 months		66.0	65.8	67.5	68.6	68.8	70.1	69.2	70.6			
48 months		57.8	62.2	63.8	68.6	67.4	68.7	66.1				
60 months		52.8	57.0	58.8	63.8	67.3	68.2					
72 months		50.8	53.6	53.8	57.7	67.3						
84 months		49.0	51.1	50.3	54.2							
96 months		45.2	48.8	47.9								
108 months		45.0	47.5									
120 months		43.3										
Total												
12 months		60.2	65.6	73.1	62.2	63.1	66.3	60.4	64.5	66.5	63.7	
24 months		53.0	65.4	68.9	54.5	59.3	66.8	56.9	70.2	63.3		
36 months		50.6	62.8	65.1	51.8	58.7	64.3	53.5	67.9			
48 months		46.5	59.4	62.3	52.5	57.6	63.2	50.8				
60 months		43.8	56.4	59.2	50.2	58.2	61.7					
72 months		42.7	54.0	56.4	47.2	58.0						
84 months		41.9	52.2	53.9	45.7							
96 months		39.9	50.9	52.2								
108 months		39.7	50.3									
120 months		38.9										
Total ultimate losses (\$m)	990.2	374.4	569.8	618.2	622.1	908.0	964.5	830.6	1,146.4	1,022.1	1,058.2	9,104.5
Less paid claims (\$m)	(936.9)	(339.6)	(485.0)	(526.8)	(466.1)	(646.3)	(673.1)	(478.8)	(550.6)	(238.9)	(34.8)	(5,376.9)
Less unearned portion of ultimate losses (\$m)	-	-	-	-	-	-	-	-	-	(44.5)	(495.3)	(539.8)
Net claims liabilities (100% level) (\$m)	53.3	34.8	84.8	91.4	156.0	261.7	291.4	351.8	595.8	738.7	528.1	3,187.8
Less unaligned share (\$m)	(10.1)	(6.6)	(16.1)	(17.4)	(29.6)	(50.6)	(56.4)	(67.8)	(98.1)	(126.7)	(82.3)	(561.7)
Net claims liabilities, group share (\$m)	43.2	28.2	68.7	74.0	126.4	211.1	235.0	284.0	497.7	612.0	445.8	2,626.1

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 2012 for each underwriting year.

Generally, the claims experience has been in line with expectation. We are cautiously reserved for natural catastrophes and the claims frequency on our specialty lines classes has been stable to reducing.

Life, accident & health

The 2010 and 2011 underwriting years have developed in line with team's historical experience.

Marine

With the exception of 2007 where there was an immaterial strengthening, all other years have continued to develop positively. Despite the increased piracy affecting 2010 the prevailing experience has been muted, supporting profitable loss ratios.

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 financial crisis exposed contracts. During 2012, those claim estimates have continued to improve as have those established in respect of exposure to the uprising in Libya.

The 2009, 2010 and 2011 underwriting years show a reversion to more benign claims experience. Claim frequency remains favourable.

Property

The 2009 underwriting year continued to develop favourably while on the 2007 underwriting year the predominantly gross strengthening relates to claims on our engineering business where policies cover projects that span several years. The 2012 underwriting year loss ratio includes our superstorm Sandy reserve.

Reinsurance

Superstorm Sandy reserves were set up in the 2012 underwriting year. Established catastrophe event reserves have proven robust in 2012.

The 2010 Chilean earthquake and 2011 Japanese earthquake reserves have been reduced during the year as more certainty has been gained; the latter was mainly a gross reduction. Both benefited the 2010 underwriting year.

Specialty lines

The trend of consistent releases on the 2003, 2004, 2005 and 2006 underwriting years has continued. The incurred claims development remains exceptional on these years.

During 2012 the team maintained its vigilance for the potential impact of the recession-related claims experience in the 2007, 2008, 2009 and 2010 underwriting years. The nature of the claims development in these years coupled with our consistent reserving philosophy has resulted in us maintaining our ultimate loss ratios on 2007 and 2008, while showing modest releases on 2009 and 2010.

Our 2010 and 2011 underwriting year loss ratios opened slightly higher than in previous years to reflect the rating and claims environment and allow consistency to be maintained in our reserving philosophy. Our 2012 underwriting year opened lower than 2011 reflecting the growing benefit of our breach response product to the business mix.

Notes to the financial statements *continued*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.

Beazley's reserving policy is to maintain catastrophe reserve margins either until the end of the exposure period or until catastrophe events occurs. Therefore margins have been released on those classes affected by superstorm Sandy.

The net of reinsurance estimates of ultimate claims costs on the 2011 and prior underwriting years has improved by \$126.0m during 2012 (2011: \$186.5m). 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.

The movements shown on 2009 and earlier are absolute claim movements and are not impacted by any current year movements in premium on those underwriting years.

	Life, accident & health \$m	Marine \$m	Political risks & contingency \$m	Property \$m	Reinsurance \$m	Specialty lines \$m	Total \$m
2012							
Current year	46.9	144.6	44.8	146.6	94.3	427.2	904.4
Prior year							
- 2009 underwriting year and earlier	-	(9.4)	(22.4)	(6.7)	(4.8)	(47.8)	(91.1)
- 2010 underwriting year	-	(10.3)	(4.3)	5.4	(3.8)	(3.7)	(16.7)
- 2011 underwriting year	(0.5)	(8.0)	(6.4)	(4.9)	1.6	-	(18.2)
	(0.5)	(27.7)	(33.1)	(6.2)	(7.0)	(51.5)	(126.0)
Net insurance claims	46.4	116.9	11.7	140.4	87.3	375.7	778.4
	Life, accident & health \$m	Marine \$m	Political risks & contingency \$m	Property \$m	Reinsurance \$m	Specialty lines \$m	Total \$m
2011							
Current year	40.1	122.5	57.5	199.2	209.7	408.0	1,037.0
Prior year							
- 2008 underwriting year and earlier	0.7	(11.4)	(10.2)	4.6	(10.1)	(61.8)	(88.2)
- 2009 underwriting year	(3.9)	(24.6)	(2.8)	(15.9)	(10.0)	-	(57.2)
- 2010 underwriting year	(1.3)	(3.9)	(9.1)	(8.9)	(17.9)	-	(41.1)
	(4.5)	(39.9)	(22.1)	(20.2)	(38.0)	(61.8)	(186.5)
Net insurance claims	35.6	82.6	35.4	179.0	171.7	346.2	850.5

25 Borrowings

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

Group	2012 \$m	2011 \$m
Carrying value		
Subordinated debt	18.0	18.0
Tier 2 subordinated debt	176.5	246.8
Retail bond	120.5	–
	315.0	264.8
Fair value		
Subordinated debt	18.0	18.0
Tier 2 subordinated debt	178.7	189.1
Retail bond	127.7	–
	324.4	207.1
Company	2012 \$m	2011 \$m
Carrying value		
Retail bond	120.5	–
Fair value		
Retail bond	127.7	–

The fair value of the tier 2 subordinated debt and retail bond is based on quoted market prices. For the subordinated debt that is not quoted, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

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

In October 2006, the group issued £150m of unsecured fixed/floating rate subordinated notes that are due in October 2026 with a first call at the group's option in October 2016. Interest of 7.25% per annum is paid annually in arrears for the period up to October 2016. From October 2016, the notes will bear annual interest at the rate of 3.28% above LIBOR. The notes were assigned a credit rating of BBB- by S&P's rating services. In May and October 2012 we brought back a total nominal amount of £47.3m. Refer to note 8 for further detail on the debt buyback.

In September 2012, the group issued £75m of sterling denominated 5.375% notes due 2019. Interest at a fixed rate of 5.375% is payable in March and September each year.

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

26 Other payables

Group	2012 \$m	2011 \$m
Reinsurance premiums payable	244.5	251.7
Accrued expenses including staff bonuses	87.9	66.9
Other payables	1.9	5.3
Deferred consideration payable on acquisition of MGAs	12.9	27.7
Due to syndicate 6107	13.7	11.4
Due to syndicate 623	–	3.0
	360.9	366.0

Notes to the financial statements *continued*26 Other payables *continued*

Company	2012 \$m	2011 \$m
Other payables	1.9	28.5
	1.9	28.5

All other payables are payable within one year of the reporting date other than deferred consideration which is payable after one year. The carrying value approximates fair values.

27 Retirement benefit obligations

	2012 \$m	2011 \$m	2010 \$m	2009 \$m	2008 \$m
Present value of funded obligations	33.1	27.4	26.0	24.8	14.8
Fair value of plan assets	32.4	26.6	24.2	20.8	14.4
Experience (losses)/gains on scheme liabilities	(0.2)	(0.3)	(0.2)	0.5	1.6

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 2012.

Pension benefits

Amount recognised in the statement of financial position

	2012 \$m	2011 \$m
Present value of funded obligations	33.1	27.4
Fair value of plan assets	(32.4)	(26.6)
	0.7	0.8
Unrecognised actuarial losses	(7.2)	(5.4)
Asset in the statement of financial position	(6.5)	(4.6)

The asset in the pension scheme arose due to prepayments of \$6.5m (2011: \$4.6m) and unrecognised actuarial losses in accordance with IAS 19 'corridor method'. As per note 1 on page 103 we anticipate the impact of the change in IAS 19 to reduce the pension scheme asset in future reporting periods.

Amounts recognised in the income statement

Current service cost	-	-
Interest cost	1.3	1.4
Expected return on plan assets	(1.0)	(1.4)
	0.3	0.0

Movement in present value of funded obligations recognised in the statement of financial position

Balance at 1 January	27.4	26.0
Current service cost	-	-
Interest cost	1.3	1.4
Actuarial losses	2.9	0.5
Benefits paid	(0.3)	(0.4)
Foreign exchange loss	1.8	(0.1)
Balance at 31 December	33.1	27.4

27 Retirement benefit obligations *continued*

Movement in fair value of plan assets recognised in the statement of financial position

Balance at 1 January	26.6	24.2
Expected return on plan assets	1.0	1.4
Actuarial gains	1.8	(0.2)
Employer contributions	1.6	1.6
Benefits paid	(0.3)	(0.4)
Foreign exchange gain	1.7	-
Balance at 31 December	32.4	26.6

Plan assets are comprised as follows:

Equities	16.3	13.8
Bonds	14.7	12.7
Cash	1.4	0.1
Total	32.4	26.6

The actual gain on plan assets was \$2.8m (2011: \$1.2m).

	2012 \$m	2011 \$m
Principal actuarial assumptions		
Discount rate	4.1%	4.7%
Inflation rate	2.4%	2.7%
Expected return on plan assets	4.1%	3.7%
Future salary increases	5.2%	5.5%
Future pensions increases	2.1%	2.3%
Life expectancy	88 years	88 years

28 Deferred tax

	2012 \$m	2011 \$m
Deferred tax asset	11.0	12.5
Deferred tax liability	(84.0)	(80.2)
	(73.0)	(67.7)

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

Balance at 1 January	(67.7)	(81.5)
Income tax (charge)/credit	(5.4)	11.0
Foreign exchange translation differences	0.1	2.8
Balance at 31 December	(73.0)	(67.7)

Notes to the financial statements *continued*28 Deferred tax *continued*

	Balance 1 Jan 12 \$m	Recognised in income \$m	FX translation differences \$m	Balance 31 Dec 12 \$m
Plant and equipment	0.7	(0.3)	0.0	0.4
Intangible assets	(0.7)	0.9	0.0	0.2
Trade and other payables	3.2	0.1	0.1	3.4
Underwriting profits	(389.9)	185.8	0.0	(204.1)
Tax losses	319.0	(191.9)	0.0	127.1
Net deferred income tax account	(67.7)	(5.4)	0.1	(73.0)

	Balance 1 Jan 11 \$m	Recognised in income \$m	FX translation differences \$m	Balance 31 Dec 11 \$m
Plant and equipment	0.7	–	–	0.7
Intangible assets	(0.5)	(0.2)	–	(0.7)
Trade and other payables	2.7	0.5	–	3.2
Underwriting profits	(348.8)	(52.9)	11.8	(389.9)
Tax losses	264.4	63.6	(9.0)	319.0
Net deferred income tax account	(81.5)	11.0	2.8	(67.7)

The group has recognised deferred tax assets on unused tax losses to the extent that it is probable that future taxable profits will be available against which unused tax losses can be utilised, as supported by financial projections.

29 Operating lease commitments

The group leases land and buildings under non-cancellable operating lease agreements.

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

	2012 \$m	2011 \$m
No later than one year	8.8	6.8
Later than one year and no later than five years	29.3	20.1
Later than five years	18.5	8.8
	56.6	35.7

30 Related party transactions

The group and company have related party relationships with syndicates 623 and 6107, its subsidiaries, associates and its directors.

30.1 Syndicates 623 and 6107

The group received management fees and profit commissions for providing a range of management services to syndicates 623 and 6107, which are managed by the group. In addition, the group ceded portions or all of a group of insurance policies to syndicate 6107.

Details of transactions entered and the balances with these syndicates are as follows:

	2012 \$m	2011 \$m
Written premium ceded to syndicates	11.9	13.8
Other income received from syndicates	24.0	25.3
Services provided	29.1	26.3

Balances due:

Due from/(to) syndicate 623	19.0	(3.0)
Due to syndicate 6107	(13.7)	(11.4)

30 Related party transactions *continued*

30.2 Key management compensation

	2012 \$m	2011 \$m
Salaries and other short-term benefits	16.4	10.7
Post-employment benefits	0.7	0.7
Share-based remuneration	7.3	4.8
	24.4	16.2

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 67 to 82.

30.3 Other related party transactions

At 31 December 2012, the group had a balance receivable from the associate (Falcon Money Management Limited) of \$1.4m (2011: \$1.0m) and purchased services from the associate of \$8.2m (2011: \$7.0m) throughout the year. All transactions with the associate and subsidiaries are priced on an arm's length basis.

31 Parent company and subsidiary undertakings

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

The following is a list of all the subsidiaries in the group:

	Country of incorporation	Ownership interest	Nature of business	Functional currency	Beazley plc direct investment in subsidiary (m)
Beazley Group Limited*	England	100%	Intermediate holding company	USD	*
Beazley Furlonge Holdings Limited	England	100%	Intermediate holding company	USD	
Beazley Furlonge Limited	England	100%	Lloyd's underwriting agents	GBP	
Beazley Investments Limited	England	100%	Investment company	USD	
Beazley Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Management Limited	England	100%	Intermediate management company	GBP	
Beazley Staff Underwriting Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Solutions Limited	England	100%	Insurance services	GBP	
Beazley Finance Limited	England	100%	Intermediate holding company	GBP	
Beazley Capital Management Limited	England	100%	Investment services	GBP	
Beazley Underwriting Services Limited	England	100%	Insurance services	GBP	
Beazley DAS Limited	England	100%	Dividend access scheme	GBP	
Tasman Corporate Limited	England	100%	Underwriting at Lloyd's	GBP	
Beazley Corporate Member (No.2) Limited	England	100%	Underwriting at Lloyd's	USD	
Beazley Re Limited	Ireland	100%	Underwriting at Lloyd's	USD	747.2
Beazley Underwriting Pty Ltd	Australia	100%	Insurance services	AUD	
Beyond Group Holdings Pty Ltd	Australia	100%	Intermediate holding company	AUD	
Blue-GUM Special Risks Pty Ltd	Australia	100%	Insurance services	AUD	
Australian Income Protection Pty Ltd	Australia	100%	Insurance services	AUD	
Beazley USA Services, Inc.	USA	100%	Insurance services	USD	
Beazley Holdings, Inc.	USA	100%	Holding company	USD	
Beazley Group (USA) General Partnership	USA	100%	General partnership	USD	
Beazley Insurance Company, Inc.	USA	100%	Underwrite admitted lines	USD	
Beazley Limited	Hong Kong	100%	Insurance services	HKD	
Beazley Pte. Limited	Singapore	100%	Underwriting at Lloyd's	SGD	
					747.2

* Beazley plc holds direct investment in Beazley Group Limited of \$1.

Notes to the financial statements *continued*

32 Contingencies

32.1 Funds at Lloyd's

The following amounts are subject to a deed of charge in favour of Lloyd's to secure underwriting commitments.

	Underwriting year 2013 £m	Underwriting year 2012 £m	Underwriting year 2011 £m
Debt securities and other fixed income securities	558.0	482.9	505.0

32.2 Financial guarantee

The parent company has provided a financial guarantee in favour of its subsidiary Beazley Insurance Company, Inc. which unconditionally guarantees the payment of amounts due to third-party reinsurers in the event of the inability of the subsidiary company to meet its obligations.

33 Foreign exchange rates

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

	2012		2011	
	Average	Year end spot	Average	Year end spot
Pound sterling	0.63	0.61	0.62	0.65
Canadian dollar	0.99	0.99	0.99	1.02
Euro	0.77	0.75	0.72	0.77

34 Subsequent events

There are no events that are material to the operations of the group that have occurred since the reporting date.

Glossary

Aggregates/aggregations

Accumulations of insurance loss exposures which result from underwriting multiple risks that are exposed to common causes of loss.

Aggregate excess of loss

The reinsurer indemnifies an insurance company (the reinsured) for an aggregate (or cumulative) amount of losses in excess of a specified aggregate amount.

A.M. Best

A.M. Best is a worldwide insurance-rating and information agency whose ratings are recognised as an ideal benchmark for assessing the financial strength of insurance related organisations, following a rigorous quantitative and qualitative analysis of a company's balance sheet strength, operating performance and business profile.

Binding authority

A contracted agreement between a managing agent and a coverholder under which the coverholder is authorised to enter into contracts of insurance for the account of the members of the syndicate concerned, subject to specified terms and conditions.

Capacity

This is the maximum amount of premiums that can be accepted by a syndicate. Capacity also refers to the amount of insurance coverage allocated to a particular policyholder or in the marketplace in general.

Capital growth assets

These are assets that do not pay a regular income and target an increase in value over the long-term. They will typically have a higher risk and volatility than that of the core portfolio. Currently these are the hedge fund assets.

Catastrophe reinsurance

A form of excess of loss reinsurance which, subject to a specified limit, indemnifies the reinsured company for the amount of loss in excess of a specified retention with respect to an accumulation of losses resulting from a catastrophic event or series of events.

Claims

Demand by an insured for indemnity under an insurance contract.

Claims ratio

Ratio, in percentage terms, of net insurance claims to net earned premiums. The calculation is performed excluding the impact of foreign exchange on non-monetary items.

Combined ratio

Ratio, in percentage terms, of the sum of net insurance claims, expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. This is also the sum of the expense ratio and the claims ratio. The calculation is performed excluding the impact of foreign exchange on non-monetary items.

Coverholder/managing general agent

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

Deferred acquisition costs (DAC)

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

Earnings per share (EPS) – basic/diluted

Ratio, in pence and cents, calculated by dividing the consolidated profit after tax by the weighted average number of ordinary shares issued, excluding shares owned by the group. For calculating diluted earnings per share the number of shares and profit or loss for the year is adjusted for all dilutive potential ordinary shares such as share options granted to employees.

Excess per risk reinsurance

A form of excess of loss reinsurance which, subject to a specified limit, indemnifies the reinsured company against the amount of loss in excess of a specified retention with respect to each risk involved in each loss.

Expense ratio

Ratio, in percentage terms, of the sum of expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. The calculation is performed excluding the impact of foreign exchange on non-monetary items.

Facultative reinsurance

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

Gross premiums written

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

Hard market

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

Horizontal limits

Reinsurance coverage limits for multiple events.

Incurred but not reported (IBNR)

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

International accounting standards board (IASB)

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

Glossary *continued*

International accounting standards (IAS)/International financial reporting standards (IFRS)

Standards formulated by the IASB with the intention of achieving internationally comparable financial statements. Since 2002, the standards adopted by the IASB have been referred to as International Financial Reporting Standards (IFRS). Until existing standards are renamed, they continue to be referred to as International Accounting Standards (IAS).

Lead underwriter

The underwriter of a syndicate who is responsible for setting the terms of an insurance or reinsurance contract that is subscribed by more than one syndicate and who generally has primary responsibility for handling any claims arising under such a contract.

Line

The proportion of an insurance or reinsurance risk that is accepted by an underwriter or which an underwriter is willing to accept.

Managing agent

A company that is permitted by Lloyd's to manage the underwriting of a syndicate.

Managing general agent (MGA)

An insurance intermediary acting as an agent on behalf of an insurer.

Medium-tail

A type of insurance where the claims may be made a few years after the period of insurance has expired.

Net assets per share

Ratio, in pence and cents, calculated by dividing the net assets (total equity) by the number of shares issued.

Net premiums written

Net premiums written is equal to gross premiums written less outward reinsurance premiums written.

Provision for outstanding claims

Provision for claims that have already been incurred at the reporting date but have either not yet been reported or not yet been fully settled.

Rate

The premium expressed as a percentage of the sum insured or limit of indemnity.

Reinsurance special purpose syndicate

A special purpose syndicate (SPS) created to operate as a reinsurance "sidecar" to Beazley's treaty account, capitalising on Beazley's position in the treaty reinsurance market.

Reinsurance to close (RITC)

A reinsurance which closes a year of account by transferring the responsibility for discharging all the liabilities that attach to that year of account (and any year of account closed into that year) plus the right to buy any income due to the closing year of account into an open year of account in return for a premium.

Retention limits

Limits imposed upon underwriters for retention of exposures by the group after the application of reinsurance programmes.

Return on equity (ROE)

Ratio, in percentage terms calculated by dividing the consolidated profit after tax by the average daily total equity.

Retrocessional reinsurance

The reinsurance of the reinsurance account. It serves to 'lay-off' risk.

Risk

This term may variously refer to:

- a) the possibility of some event occurring which causes injury or loss;
- b) the subject matter of an insurance or reinsurance contract; or
- c) an insured peril.

Sidecar special purpose syndicate

Specialty reinsurance company designed to provide additional capacity to a specific insurance company. They operate by purchasing a portion or all of a group of insurance policies, typically cat exposures. They have become quite prominent in the aftermath of Hurricane Katrina as a vehicle to add risk-bearing capacity, and for investors to participate in the potential profits resulting from sharp price increases.

Short-tail

A type of insurance where claims are usually made during the term of the policy or shortly after the policy has expired. Property insurance is an example of short-tail business.

Soft market

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

Surplus lines insurer

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

Total shareholder return (TSR)

The increase in the share price plus the value of any first and second dividends paid and proposed during the year.

Treaty reinsurance

A reinsurance contract under which the reinsurer agrees to offer and to accept all risks of certain size within a defined class.

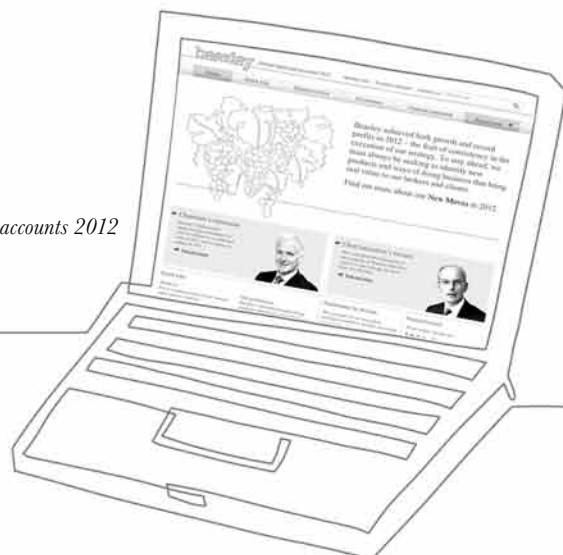
Unearned premiums reserve

The portion of premium income in the business year that is attributable to periods after the balance date is accounted for as unearned premiums in the underwriting provisions.

If you have finished reading this report and no longer wish to keep it, please pass it on to other interested readers, return it to Beazley or recycle it. Thank you.

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