

Press Release

Beazley Delivers Strong Underwriting Performance in 2008

Group announces US acquisition and £150 million capital raising to support growth

London, 13 February 2009

Beazley Group plc results for year ended 31st December 2008

- Profit before tax of £87.2m (2007: £138.5m)
- Profit before tax and foreign exchange on non monetary items of £41.0m (2007: £130.3m)
- Return on equity of 16% (2007: 28%)
- Return on equity excluding foreign exchange on non-monetary items of 8% (2007: 26%)
- Investment returns -1.5% (2007: 4.9%)
- Final dividend of 4.4p per share

Strong underwriting performance through difficult market conditions

- Combined ratio 90% (2007: 90%)
- Prior year reserve releases of £72.8m (2007: £64.1m)

Growth across the business

- Gross written premiums up 12% to £875.7m; net written premiums up 14% to £740.4m
- Business written through US operations up 54% to US\$269.1m (2007: US\$175.2m)

Healthy financial position

- Investment and cash balances up to £1,994.2m (2007: £1,490.6m)
- Net tangible assets of £360.2m (2007: £369.9m)

Strategic initiatives

- Agreement to acquire First State Management Group, Inc. ("First State"), a US underwriting manager specialising in excess and surplus lines commercial property insurance, from the Hartford Financial Services Group, Inc. for cash consideration of US\$35.4 million.
- Plans to raise additional equity capital of £150m net of expenses through a proposed rights issue and placing, supporting the acquisition of First State and growth at Lloyd's (see separate announcement).
- Plans to change corporate structure through creation of new parent company for the Beazley Group, incorporated in Jersey and tax resident in the Republic of Ireland.

Summary Financial Information

	2008 £m	2007 £m	% increase/ (decrease)
Gross written premiums	875.7	780.5	12
Net written premiums	740.4	652.2	14
Net earned premiums	683.1	617.2	11
Profit before tax	87.2	138.5	(37)
Comprises:			
Profit before income tax and foreign exchange adjustments on non-monetary items	41.0	130.3	(69)
Foreign exchange on non-monetary items	46.2	8.2	NA
Earnings per share (p)	18.8	28.1	(33)
Dividend per share (p)			
- Ordinary	6.6	6.0	10
- Special	-	4.0	NA
Net tangible assets per share (p)	106.9	104.0	3

Beazley Group announces a series of initiatives designed to capitalise on attractive growth opportunities while enhancing the tax efficiency of the business.

Acquisition of First State

Beazley is pleased to announce the acquisition of the entire share capital and all renewal rights of First State, a leading US underwriting manager specialising in surplus lines commercial property insurance led by president and chief operating officer Judy Patterson.

The acquisition will significantly increase Beazley's presence as an insurer of mid-sized US commercial property business that does not normally come to Lloyd's. First State plans to underwrite around US\$150 million of gross premium for 2009, balancing the specialty lines business (professional and management liability business) that Beazley has been writing locally in the US since 2005.

The total consideration payable in respect of the transaction, which will be satisfied with cash, is US\$35.4 million, comprising US\$32.6 million plus an expected dollar for dollar adjustment for net assets at closing of US\$2.8 million. As of 30 November 2008, First State had gross assets of US\$10.6 million. First State does not report on its own profit as a standalone entity but instead reports as part of a division of the Hartford Group. Accordingly for the purposes of Listing Rules 10.4.1.(2) (e) the Directors of Beazley estimate that the pro forma profit before tax attributable to First State and the renewal rights purchased for the year ended 31st December 2008 would have been approximately US\$3.0m. This estimate assumes that appropriate third party commission arrangements are applied to the total gross written premiums to derive a pro forma commission income from which appropriate expenses incurred on behalf of First State by the Hartford Group (and supplied by the Hartford Group) have been deducted.

In addition, Beazley Group will contribute additional capital to its Lloyd's syndicates (funds at Lloyd's) of £27 million to support First State's underwriting in 2009. The acquisition of First State is not conditional upon the successful completion of the proposed rights issue and placing.

Proposed rights issue and placing

The proposed rights issue and placing, involving the offering of 9 new shares for every 19 ordinary shares and firm placing of 17,478,904 new shares to raise £150 million net of expenses, is designed to enable Beazley to capitalise on attractive growth opportunities for its Lloyd's and US businesses, driven by the turnaround in premium rates that began to emerge earlier this year. The rights issue is fully underwritten.

Change to corporate structure

Beazley Group also announced plans to incorporate a new holding company for the group, incorporated in Jersey and tax resident in the Republic of Ireland, and to establish a newly incorporated Irish reinsurer. The new corporate structure, which will have no effect on the placement by Lloyd's brokers of business with Beazley's Lloyd's syndicates in London, will provide a favourable operating base from which to develop the business and bring the group's corporate tax rate down in line with its global peer group, in a stable tax environment.

Beazley Group Chief Executive Andrew Horton said:

"We called a turn in the market last October and foresaw "significant opportunities" for Beazley. Opportunities to grow our Lloyd's business and our locally underwritten US business have increased since then, with January renewals confirming our expectations of premium rate rises in many classes.

"The acquisition of First State marks a significant step forward in the development of our US strategy, which focuses on gaining access to profitable business that would not normally come to London. We have reinsured First State for many years and the expertise of their team and quality of their broker relationships is well known to us.

"In London, our underwriters are now seeing diminished competition and a clear flight to quality from brokers and clients. In both the near and medium term, we see a range of attractive opportunities for profitable capital deployment across our core lines.

"The Republic of Ireland enjoys a stable and respected legal, regulatory and tax environment. The changes to our corporate structure should enhance the group's return on capital and competitive position."

The acquisition of First State is subject to the approval of Lloyd's. The changes to the group's corporate structure and the capital raising are subject to shareholders' and regulatory approval.

For further information, please contact:

Andrew Horton
Beazley Group plc
+44 (0) 20 76670623

Vanessa Neill
Finsbury
+44 (0) 20 72513801

Note to editors:

First State is an underwriting manager specialising in US surplus lines commercial property insurance. All Specialty Programs and Healthcare Programs written through First State are excluded from the transaction and are to remain with the Hartford. Headquartered in Boston, First State also operates from offices in Atlanta, Chicago, Los Angeles, New York and San Francisco. First State is one of the oldest and most respected underwriting managers in the United States.

For more information please go to: www.firststate.com

Beazley Group, plc (BEZ.L), is the London-based parent company of global, specialist insurance businesses with operations in the UK, US, France, Germany, Singapore, Hong Kong and Australia. Beazley manages four Lloyd's syndicates: Syndicate 2623 and Syndicate 623 underwrite a broad range of insurance and reinsurance business worldwide; Syndicate 3623 focuses on accident and health business; and 3622 is a dedicated life syndicate. In 2008, Beazley underwrote gross premiums of £875.7m. All Lloyd's syndicates are rated A by A.M. Best. In the US, Beazley's underwriters focus on writing specialist insurance products in the admitted market, backed by Beazley Insurance Company, Inc., an admitted carrier in all 50 states; and surplus lines risks, backed by the Beazley syndicates at Lloyd's. Beazley Insurance Company, Inc. is rated A by A.M. Best.

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

For more information please go to: www.beazley.com

beazley

66

99

CHAIRMAN'S STATEMENT

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

Overall

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

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

In order to scale up our activities and make the most of the changes in underwriting conditions the group is proposing to raise £150m (net of expenses) through a rights issue and placing. As well as expanding our existing underwriting platforms, we will use part of the proceeds to fund the acquisition of First State Management Group Inc ('First State'), a subsidiary of Hartford Financial Services Group Inc, for an aggregate cash consideration of \$35.4m. The consideration comprises \$32.6m goodwill and a dollar for dollar payment for net assets expected to be \$2.8m on completion.

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

Market conditions

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

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

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

US Operations

We continued to make good progress in developing our US platform in 2008 with premium growth in the year of 54% to \$269.1m. As explained in the business review, the development of our US operations remains a key strategic objective for the group, enabling us to access more business in the largest non-life insurance market in the world. The focus of these operations is to win business that would not traditionally have come through Lloyd's.

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

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

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

Combined ratio

The group's combined ratio held steady at 90% in 2008 (2007: 90%). Within this we saw our claims ratio increase to 56% from 51% in 2007 and our expense ratio fall to 34% from 39%. Hurricanes Gustav and Ike in the third quarter of 2008 added 4% to the claims ratio, reducing net profits by £25.2m. We did however, continue to see positive development in our other lines, especially in the specialty lines account which generated reserve releases of £28.0m in 2008 (2007: £24.5m).

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

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

Investment performance

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

As has been well documented, these events proved to be "game changers" in the financial system: the wholesale funding markets froze, triggering a rolling collapse among financial institutions, with the system only held together by ever larger mergers and the provision of government support. Against the backdrop of this crisis, we have been working with our managers to further derisk our portfolio, including reducing our equity exposure. Despite these efforts, our investment portfolio returned a loss of £25.8m (-1.5%) during 2008, compared with a positive return of £64.9m (4.9%) in 2007.

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

Momentum Underwriting Management (Renamed Beazley Underwriting Services Limited)

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

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

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

Capital

The group requires capital for a number of reasons: to support our underwriting at Lloyd's, to support our US operations, and to fund acquisitions of insurance companies or managing general agents which strategically fit with our business. In the financial review, we describe how these are financed – a mixture of shareholders funds, long term debt and short term banking facilities.

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

Consistent with this strategy, during the early part of 2008, the group repaid £24.9m surplus capital to shareholders through a share buyback programme and paid a special dividend of £14m. At the end of 2008 the group had a surplus over required capital of £58.7m.

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

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

Dividend

The board propose a final dividend of 4.4p per share. This brings the full year dividend, including the interim dividend, to 6.6p per share. In 2007, the group proposed ordinary dividends of 6.0p, together with a special dividend of 4.0p. The final dividend will be paid on 30 April 2009 to shareholders registered on 13 March 2009.

Management update

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

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

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

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

We also appointed David Marock to a new role of chief operating officer. As the group has expanded and become more complex, the need for a strategic, centralised approach to all our operations became more apparent. David, who was formerly with McKinsey & Co, has been with the company for three years leading our claims team in specialty lines.

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

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

Conclusion

2008 has been a difficult year. Despite challenging market conditions, we have achieved a creditable profit. Our underwriting performance, both at Lloyd's and in the US, remains solid and we are starting to see price increases in most markets. We are actively reviewing our investment portfolio to determine an approach that enables us to focus on underwriting for profit while achieving the best returns for a restricted risk appetite.

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

BUSINESS REVIEW

Our vision

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

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

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

We have confidence that our vision is realistic because, in all the above respects, we are making good progress. For example, we see claims service as an important differentiator. A claim is a moment of truth in which client relationships can be strengthened or weakened, and we have invested heavily in claims expertise to maximise our value to our clients. Similarly, relevant and practical risk management advice is a win-win for us and our clients. It reduces our cost of claims and, for our clients, prevention is always better than cure. We like clients that take risk management seriously and we are glad to provide them with tools and resources to help them do so.

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

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

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

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

Growing with our brokers

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

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

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

Risk appetite

The group has undertaken a thorough review of its risk appetite in each of its lines of business. Consistent with our stated strategy, we are seeking to capitalise on market dislocation and achieve growth in those lines of business where underwriting terms and conditions are most

attractive. In the near term, these include the offshore energy, large US commercial property and reinsurance accounts. Furthermore, we expect that the rate improvements already being experienced in our catastrophe exposed lines will extend to other specialist businesses during 2009.

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

US business

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

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

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

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

Europe

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

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

Claims service

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

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

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

Outlook

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

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

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

FINANCIAL REVIEW

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

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

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

Highlights include:

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

Gross premiums written

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

Premium rates fell in our Lloyd's business from the record highs of previous years. Overall rate reductions in our Lloyd's business were around 6%. Such conditions made our underwriters much

more selective in the risks they write – applying some of the pricing tools and techniques built up whilst the market was more sturdy.

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

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

Premium retention rates

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

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

* based on premiums due for renewal in each calendar year

Rating Environment

Cumulative rate changes since 2001

	2001	2002	2003	2004	2005	2006	2007	2008	2009 forecast
	%	%	%	%	%	%	%	%	%
Marine	100	117	128	128	130	140	131	123	129
PCG	100	120	122	114	107	101	93	87	86
Property	100	127	132	125	124	139	136	128	130
Reinsurance	100	143	149	148	149	188	195	183	198
Specialty Lines	100	137	165	173	175	175	166	155	158
Total	100	131	145	145	146	154	148	139	143

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

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

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

Reinsurance purchased

Reinsurance is purchased for a number of reasons:

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

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

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

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

Claims

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

Hurricanes

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

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

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

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

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

Prior year reserve releases

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

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

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

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

Specialty lines claims reserve releases

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

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

The loss development tables set out in note 7 demonstrate how we have been able to release reserves over time against each of these years.

Sub-prime exposures and recessionary planning

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

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

Our philosophy of having senior and experienced underwriters with a deep understanding of their industries is particularly important in a turbulent marketplace as risk selection is the first line of defence. This has already been demonstrated in 2008 against a backdrop of an increased number of large single risk losses on the property side. Technical pricing techniques are also used to supplement the underwriting decisions.

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

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

Expenses

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

- Lower short term incentive costs. The bonus and incentive costs are based on the group's profitability, which has reduced from a profit before tax of £138.5m in 2007 to £87.2m in 2008. Total short-term incentives costs, which include the bonuses, profit related pay and share grants, have reduced from £19.6m to £10.5m.

- Reduced brokerage due to a small change in business mix towards specialty lines. Brokerage rates in this line are traditionally lower than our property teams which reduced its premium written in 2008.
- Higher net earned premiums, which rose from £617.2m to £683.1m
- In 2007 the ratio was impacted by the US office which was still in a start-up phase. A number of one-off items were incurred in 2007 such as recruitment costs, information technology infrastructure, building costs and facilities expenses.

Employee numbers

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

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

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

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

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

Investment performance

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

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

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

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

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

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

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

The breakdown of our bond portfolios was:

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

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

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

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

The group's cash and investment balance grew during 2008 mainly due to a benign 2 years for major claims, and the translation effect of our dollar balances being expressed in sterling at a lower exchange rate.

Foreign exchange differences arising on non-monetary items

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

This imbalance creates volatility in our accounts which cannot be hedged as the mismatch is not monetary in nature. It is for this reason that we have always disclosed the item separately, through the segmental analysis in note 2, as well as on the face of our income statement.

Under IFRS, non-monetary items are recorded at exchange rates prevailing on the date of the transactions or rates approximating this rate. In a period of strengthening US dollars, such as 2008, the adjustment results in a positive profit impact as compared to translating all assets and liabilities at closing exchange rates.

BALANCE SHEET MANAGEMENT

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

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

Intangible assets

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

Acquisition of Momentum Underwriting Management Limited

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

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

Investments and cash

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

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

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

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

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

Insurance receivables

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

Reinsurance assets

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

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

- Minimising risk through selection of reinsurers who meet strict financial criteria (e.g. minimum net assets, minimum 'A' rating by S&P). These criteria vary by type of business (short vs. medium tail). The chart below shows the profile (based on S&P rating) of these assets at the end of 2008;
- Timely calculation and issuance of reinsurance collection notes from our ceded reinsurance team; and
- Regular monitoring of outstanding debtor position by our reinsurance security committee.

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

Other assets

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

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

Insurance liabilities

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

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

Borrowings

The group utilises two long term debt facilities:

- In 2006 we raised £150m of lower tier 2 unsecured fixed rate debt that is payable in 2026 and callable in 2016. The initial interest rate payable is 7.25% and the current carrying value of this debt is £165.0m; and
- An 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 callable in 2009.

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

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

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

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

Currency profit hedging

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

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

CAPITAL POSITION

The group has several requirements for capital:

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

Our funding comes from a variety of sources:

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

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

	2008	2007
	£m	£m
Sources of funds		
Shareholders funds	412.7	398.6
Tier 2 subordinated debt	150.0	150.0
Long term subordinated debt (US\$18m)	12.5	9.0
	575.2	557.6
Uses of funds		
Lloyd's underwriting	360.8	306.2
Capital for US insurance company	77.1	55.5
	437.9	361.7
Surplus	137.3	195.9
Unavailable surplus	(78.6)	(113.3)
Available surplus	58.7	82.6

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

Proposed rights issue and placing

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

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

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

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

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

Individual capital assessment

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

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

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

The ICA has increased from £306m to £360m to support the new 3623 and 3622 Syndicates and to reflect the more challenging underwriting and investment environments.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

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

BALANCE SHEET
AS AT 31 DECEMBER 2008

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

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

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

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

NOTES

1. Statement of accounting policies

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

The consolidated financial statements of the group have been prepared and approved by the directors in accordance with IFRSs as adopted by the EU ('Adopted IFRSs') that are effective at 31 December 2008.

The following new amendments to standards and interpretations released by the International Accounting Standards Board (IASB) have not been early adopted but are expected to be of relevance to future financial years. They are not expected to have any significant impact on the future consolidated financial statements of the group:

IAS 1 (amended) "Presentation of Financial Statements"

IAS 23 (amended) "Borrowing costs"

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

IAS 32 (amended) "Financial Instruments: Presentation"

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

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

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

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

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

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

Apart from the new accounting policies referred to above, the accounting policies applied by the group and parent company are the same as those applied in the consolidated financial statements for the year ended 31 December 2007. These accounting policies are set out in the group's 2007 annual report.

The financial information set out above does not constitute the Company's statutory accounts for the year ended 2007 or 2008, but is derived from those accounts. Statutory accounts for 2007 have been delivered to the Registrar of Companies and those for 2008 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under Section 237 (2) or (3) of the Companies Act 1985.

2. Segmental analysis

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

Marine

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

Political risk and contingency

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

Property

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

Reinsurance

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

Specialty lines

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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

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

2008	Marine £m	Political risk and contingency £m	Property £m	Reinsurance £m	Specialty Lines £m	Total reportable Segments £m	Unallocated £m	Total £m
Segment results								
Gross premiums written	148.7	70.4	179.2	70.2	407.2	875.7	-	875.7
Net premiums written	128.2	56.0	147.2	58.0	351.0	740.4	-	740.4
Net earned premiums	127.4	55.0	157.8	55.9	316.8	712.9	(29.8)	683.1
Net investment income	(2.9)	(0.3)	(2.8)	(1.7)	(18.1)	(25.8)	-	(25.8)
Other income	1.5	0.6	2.7	0.7	4.6	10.1	-	10.1
Revenue	126.0	55.3	157.7	54.9	303.3	697.2	(29.8)	667.4
Net insurance claims	61.8	14.4	105.2	21.8	197.9	401.1	-	401.1
Expenses for the acquisition of insurance contracts	37.8	13.8	53.8	10.5	71.0	186.9	(4.3)	182.6
Administrative expenses	8.2	6.0	9.1	4.6	26.7	54.6	0.1	54.7
Foreign exchange loss/(gain)	0.1	0.1	0.3	0.1	0.4	1.0	(71.8)	(70.8)
Expenses	107.9	34.3	168.4	37.0	296.0	643.6	(76.0)	567.6
Segments result	18.1	21.0	(10.7)	17.9	7.3	53.6	46.2	99.8
Finance costs								(12.6)
Profit before tax								87.2
Income tax expense								(22.8)
Profit after tax								64.4
Claims ratio	49%	26%	67%	39%	62%	56%		
Expense ratio	36%	36%	40%	27%	31%	34%		
Combined ratio	85%	62%	107%	66%	93%	90%		

2007	Marine £m	Political risk and contingency £m	Property £m	Reinsurance £m	Specialty Lines £m	Total reportable Segments £m	Unallocated £m	Total £m
Gross premiums written	139.8	64.8	188.0	57.8	330.1	780.5	-	780.5
Net premiums written	119.0	56.5	157.4	49.6	269.7	652.2	-	652.2
Net earned premiums	116.1	43.3	158.0	45.9	243.2	606.5	10.7	617.2
Net investment income	6.0	3.0	8.6	7.1	40.2	64.9	-	64.9
Other income	1.6	1.4	2.1	1.3	3.7	10.1	-	10.1
Revenue	123.7	47.7	168.7	54.3	287.1	681.5	10.7	692.2
Net insurance claims	45.2	11.1	76.6	16.2	158.3	307.4	-	307.4
Expenses for the acquisition of insurance contracts	33.6	12.2	56.3	10.1	64.0	176.2	3.0	179.2
Administrative expenses	8.3	6.8	13.7	3.9	25.5	58.2	-	58.2
Foreign exchange (gain)	(0.7)	(0.3)	(0.4)	(0.5)	(0.7)	(2.6)	(0.5)	(3.1)
Expenses	86.4	29.8	146.2	29.7	247.1	539.2	2.5	541.7
Segment result	37.3	17.9	22.5	24.6	40.0	142.3	8.2	150.5
Finance costs								(12.0)
Profit before tax								138.5
Income tax expense								(38.1)
Profit after tax								100.4
Claims ratio	39%	26%	48%	35%	65%	51%		
Expense ratio	36%	44%	44%	31%	37%	39%		
Combined ratio	75%	70%	92%	66%	102%	90%		

3. Net investment income

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

4. Other income

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

5. Earnings per share

	<u>2008</u>	<u>2007</u>
Basic	18.8p	28.1p
Diluted	18.0p	27.1p

Basic

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

Diluted

Diluted earnings per share are calculated by dividing profit after tax of £64.4m (2007: £100.4m) by the adjusted weighted average number of shares of 358.7m (2007: 366.0m). The adjusted weighted average number of shares assumes conversion of dilutive potential ordinary shares, being shares from the SAYE, retention and deferred share schemes. The shares held in the ESOP have been excluded from the calculation, until such time as they vest unconditionally with the employees. In addition, the treasury shares have been excluded from the calculation.

6. Dividends per share

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

7. Insurance liabilities

To illustrate the robustness of our reserves, the loss development tables below provide information about historical claims development by the five segments - specialty lines, property, reinsurance and marine. The tables are by underwriting year which in our view provides the most transparent reserving basis. We have supplied tables for both ultimate gross claims and ultimate net claims.

The top part of the table illustrates how the group's estimate of claims ratio for each underwriting year has changed at successive year-ends. The bottom half of the table reconciles the gross and net claims to the amount appearing in the balance sheet.

While the information in the table provides a historical perspective on the adequacy of the claims liabilities established in previous years, users of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current claims liabilities. The group believes that the estimate of total claims liabilities as at 31 December 2008 are adequate. However, due to inherent uncertainties in the reserving process, it cannot be assured that such balances will ultimately prove to be adequate.

Gross ultimate claims	2002 ^{ae}	2003	2004	2005	2006	2007	2008
		%	%	%	%	%	%
Marine							
12 months		59.5	62.2	82.5	57.2	58.1	69.0
24 months		45.6	65.9	80.7	42.3	59.7	
36 months		38.9	62.7	70.8	32.3		
48 months		36.1	62.1	69.0			
60 months		35.7	61.0				
72 months		35.6					
Political risk and contingency							
12 months		59.1	67.0	61.0	57.7	57.3	57.5
24 months		36.4	55.7	38.2	36.3	38.3	
36 months		31.8	52.5	28.4	32.9		
48 months		29.0	38.1	25.2			
60 months		31.6	37.0				
72 months		25.6					
Property							
12 months		50.6	65.7	88.6	58.3	58.1	68.8
24 months		37.0	65.2	85.1	43.5	55.6	
36 months		34.2	66.0	83.8	42.4		
48 months		33.6	64.1	88.9			
60 months		33.2	64.6				
72 months		33.3					
Reinsurance							
12 months		58.6	87.8	198.6	52.3	59.5	59.8
24 months		34.2	82.8	191.4	25.4	25.8	
36 months		28.4	77.4	188.3	24.8		
48 months		28.7	74.9	182.2			
60 months		25.6	72.9				
72 months		25.7					
Specialty lines							
12 months		73.0	72.1	71.9	72.6	72.7	72.2
24 months		70.1	71.0	71.9	72.6	72.4	
36 months		69.0	67.4	69.7	72.6		
48 months		60.0	64.5	66.5			

60 months		53.2	59.5					
72 months		52.5						
Total								
12 months		63.0	69.2	91.0	62.9	63.5	68.5	
24 months		52.5	69.2	88.4	52.9	58.9		
36 months		49.4	66.5	84.6	50.5			
48 months		44.8	63.7	83.2				
60 months		41.4	61.1					
72 months		40.8						
Total ultimate losses(£m)	1,310.0	331.1	575.7	858.8	589.1	739.2	836.1	5,240.0
Less paid claims (£m)	(1,095.3)	(222.7)	(374.2)	(535.8)	(182.3)	(133.8)	(25.9)	(2,570.0)
Less unearned portion of ultimate losses (£m)	-	-	-	-	-	(54.3)	(371.9)	(426.2)
Gross claims liabilities (100% level) (£m)	214.7	108.4	201.5	323.0	406.8	551.1	438.3	2,243.8
Less unaligned share (£m)	(47.2)	(24.0)	(44.3)	(71.0)	(88.1)	(103.3)	(77.0)	(454.9)
Gross claims liabilities, group share	167.5	84.4	157.2	252.0	318.7	447.8	361.3	1,788.9

Net ultimate claims	2002ae	2003 %	2004 %	2005 %	2006 %	2007 %	2008 %
---------------------	--------	-----------	-----------	-----------	-----------	-----------	-----------

Marine

12 months		55.3	57.7	55.3	54.1	55.2	61.2
24 months		45.4	53.3	48.8	41.8	56.1	
36 months		40.1	48.6	42.5	32.4		
48 months		39.1	47.7	39.3			
60 months		39.0	46.5				
72 months		39.1					

Political risk and contingency

12 months		56.8	63.7	63.4	56.3	55.5	56.0
24 months		37.5	58.4	46.6	40.5	39.1	
36 months		35.0	54.2	35.9	37.4		
48 months		33.3	41.0	30.4			
60 months		35.6	40.6				
72 months		27.8					

Property

12 months		48.3	59.8	65.1	60.9	60.8	65.8
24 months		41.0	60.5	61.9	48.1	51.6	
36 months		38.5	60.2	58.4	46.4		
48 months		37.8	58.3	61.1			
60 months		37.4	58.0				
72 months		37.5					

Reinsurance

12 months		59.9	88.6	152.3	54.2	55.2	67.6
24 months		39.7	86.8	134.6	37.1	29.9	
36 months		33.9	83.2	128.1	34.8		
48 months		34.6	76.9	119.3			
60 months		31.7	73.5				
72 months		31.7					

Specialty lines

12 months		68.4	69.0	69.1	68.5	69.7	70.2
24 months		67.1	68.2	69.1	68.5	68.8	
36 months		66.1	65.5	67.3	68.5		
48 months		57.7	62.2	64.0			

60 months		52.7	56.9					
72 months		50.8						
Total								
12 months		59.9	65.4	73.0	61.9	63.0	66.0	
24 months		52.9	65.3	68.8	54.0	59.0		
36 months		50.4	62.6	64.9	51.3			
48 months		46.2	59.3	62.5				
60 months		43.7	56.3					
72 months		42.5						
Total ultimate losses(£m)	654.7	279.5	434.4	509.2	471.3	629.1	678.5	3,656.7
Less paid claims net of reinsurance (£m)	(573.5)	(194.4)	(281.5)	(271.9)	(164.6)	(125.7)	(25.0)	(1,636.6)
Less unearned portion of ultimate losses (£m)	-	-	-	-	-	(49.1)	(295.0)	(344.1)
Net claims liabilities (100% level) (£m)	81.2	85.1	152.9	237.3	306.7	454.3	358.5	1,676.0
Less unaligned share (£m)	(17.9)	(18.7)	(33.6)	(52.2)	(67.1)	(84.9)	(65.4)	(339.8)
Net claims liabilities, group share (£m)	63.3	66.4	119.3	185.1	239.6	369.4	293.1	1,336.2

Analysis of movements in loss development tables

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

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

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

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

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

Marine

Most years have exhibited a stable or reducing trend. The slight increase in 2007 has been caused by the 2008 hurricanes affecting that underwriting year more than anticipated.

Our initial analysis indicates that the case specific hurricane reserves proposed by the surveyors are conservative following deficiencies that arose from the 2005 hurricanes. As such, we expect that the 2008 hurricane reserves will reduce over time. Nevertheless, any savings will affect gross estimates only as the hurricane claims are currently within our catastrophe reinsurance programme.

Political risk and Contingency

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

Property

Despite the increase in claims within the market, most years have exhibited a relatively stable or reducing trend, The slight increases on the 2005 underwriting year have arisen from the homeowners class where we have experienced a general deterioration on two large accounts on which we no longer participate.

The 2008 hurricanes have meant that the opening position for 2008 is slightly higher than for 2007.

Reinsurance

The reduction on the 2005 year has arisen following an updated review of the remaining exposures to the 2005 hurricanes by our claims managers.

The remaining catastrophe margin on 2007 has now been released. The 2007 net ultimate loss ratio is lower than the corresponding 2006 net ultimate ratio because of lower reinsurance costs in 2007.

The opening net position for 2008 is higher than for 2007 due to the 2008 hurricanes.

Specialty Lines

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

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

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

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

Admitted carrier

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

Aggregates/aggregations

Accumulations of insurance loss exposures which result from underwriting multiple risks that are exposed to common causes of loss.

Aggregate excess of loss

The reinsurer indemnifies an insurance company (the reinsured) for an aggregate (or cumulative) amount of losses in excess of a specified aggregate amount.

A.M. Best

A.M. Best is a worldwide insurance-rating and information agency whose ratings are recognised as an ideal benchmark for assessing the financial strength of insurance related organisations, following a rigorous quantitative and qualitative analysis of a company's balance sheet strength, operating performance and business profile. Beazley Group plc obtained an A rating, while Beazley Insurance Company, Inc., received a rating of A.

Binding authority

A contracted agreement between a managing agent and a coverholder under which the coverholder is authorised to enter into contracts of insurance for the account of the members of the syndicate concerned, subject to specified terms and conditions.

Capacity

This is the maximum amount of premiums that can be accepted by a syndicate. Capacity also refers to the amount of insurance coverage allocated to a particular policyholder or in the marketplace in general.

Catastrophe reinsurance

A form of excess of loss reinsurance which, subject to a specified limit, indemnifies the reinsured company for the amount of loss in excess of a specified retention with respect to an accumulation of losses resulting from a catastrophic event or series of events.

Claims

Demand by an insured for indemnity under an insurance contract.

Claims ratio

Ratio, in percent, of net insurance claims to net earned premiums. The calculation is performed excluding the impact of foreign exchange on non-monetary items.

Combined ratio

Ratio, in percent, of the sum of net insurance claims, expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. This is also the sum of the expense ratio and the claims ratio.

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

Coverholder/managing general agent

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

Deferred acquisition costs (DAC)

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

Earnings per share (EPS) – Basic/Diluted

Ratio, in pence, calculated by dividing the consolidated profit after tax by the weighted average number of ordinary shares issued, excluding shares owned by the group. For calculating diluted earnings per share the number of shares and profit or loss for the year is adjusted for all dilutive potential ordinary shares like share options granted to employees.

Excess per risk reinsurance

A form of excess of loss reinsurance which, subject to a specified limit, indemnifies the reinsured company against the amount of loss in excess of a specified retention with respect of each risk involved in each loss.

Expense ratio

Ratio, in percent, of the sum of expenses for acquisition of insurance contracts and administrative expenses to net earned premiums. The calculation is performed excluding the impact of foreign exchange on non-monetary items.

Facultative reinsurance

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

Gross premiums written

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

Hard market

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

Horizontal limits

Reinsurance coverage limits for multiple events.

Incurred but not reported (IBNR)

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

International accounting standards (IAS)/International financial reporting standards (IFRS)

Standards formulated by the IASB with the intention of achieving internationally comparable financial statements. Since 2002, the standards adopted by the IASB have been referred to as International Financial Reporting Standards (IFRS). Until existing standards are renamed, they continue to be referred to as International Accounting Standards (IAS).

International accounting standards board (IASB)

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

Lead underwriter

The underwriter of a syndicate who is responsible for setting the terms of an insurance or reinsurance contract that is subscribed by more than one syndicate and who generally has primary responsibility for handling any claims arising under such a contract.

Line

The proportion of an insurance or reinsurance risk that is accepted by an underwriter or which an underwriter is willing to accept.

Managing agent

A company that is permitted by Lloyd's to manage the underwriting of a syndicate.

Managing general agent (MGA)

An insurance intermediary acting as an agent on behalf of an insurer.

Medium tail

A type of insurance where the claims may be made a few years after the period of insurance has expired.

Net assets per share

Ratio, in pence calculated by dividing the net assets (total equity) by the number of shares issued.

Net premiums written

Net premiums written is equal to gross premiums written less outward reinsurance premiums written.

Provision for outstanding claims

Provision for claims that have already been incurred at the balance sheet date but have either not yet been reported or not yet been fully settled.

Rate

The premium expressed as a percentage of the sum insured or limit of indemnity.

Reinsurance to close (RITC)

A reinsurance which closes a year of account by transferring the responsibility for discharging all the liabilities that attach to that year of account (and any year of account closed into that year) plus the right to buy any income due to the closing year of account into an open year of account in return for a premium.

Retention limits

Limits imposed upon underwriters for retention of exposures by the group after the application of reinsurance programmes.

Return on equity (ROE)

Ratio, in percent calculated by dividing the consolidated profit after tax by the average total equity.

Retrocessional reinsurance

The reinsurance of the reinsurance account. It serves to 'lay-off' risk.

Risk

This term may variously refer to:

- a) the possibility of some event occurring which causes injury or loss;
- b) the subject matter of an insurance or reinsurance contract; or
- c) an insured peril.

Short tail

A type of insurance where claims are usually made during the term of the policy or shortly after the policy has expired. Property insurance is an example of short tail business.

Soft market

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

Stamp capacity

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

Surplus lines insurer

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

Total shareholder return

The increase in the share price plus the value of any 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.