Company Number 4082477

BEAZLEY GROUP PLC

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2006

Annual Report 2006

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ABOUT US

Based in London UK, since 1986 and floated on the London Stock Exchange in 2002, Beazley (BEZ L) is the parent company of a global specialist risk insurance and reinsurance business operating through Lloyd's syndicates 2623 and 623 in the UK and Beazley Insurance Company, Inc , a US-admitted carrier in all 50 states

Beazley is a market leader in many of its chosen lines of business, which include professional indemnity, marine, reinsurance, commercial property and personal lines

About Specialty lines
We are the lead underwriter in many lines of specialty insurance and reinsurance including challenging areas such as professional liability, directors' and officers' liability, employment practices liability, political risks and terrorism

Our clients include more than half of America's top 50 engineers and architects, over 30,000 attorneys from the 500 largest law firms, accountants, banks, hospitals, and a wide range of other employers

About Property
Our expert underwriters, based in London, USA and Singapore, cover such areas of speciality as construction, mining, steel, real estate, hospitality, homeowners and jewellers, with clients ranging from those in the Fortune 1000 to individual homeowners

About Marine
We participate in the insurance of about 10% of the world's ocean-going tonnage and lead the voyage and tow business in the London market We insure 35% of the world's top 200 oil and gas companies and are leaders in many developing areas of risk

About Reinsurance
We help to protect the balance sheets of a significant proportion of the world's leading general insurers and many of our clients have been with us for over 20 years

Further information about us is available at www beazley com

HIGHLIGHTS

The group has achieved a profit before tax of £86 8m

	2006	2005	2004
Capacity - managed syndicates (£m)	830 0	742 0	741 0
Beazley Group plc share	78%	70%	54%
Profit before tax and foreign exchange adjustments on non-monetary items (£m)	96 2	7 9	33 1
Profit before tax (£m)	86 8	16 1	35 4
Cash and investments (£m)	1,167 8	884 5	551 4
Average investment return	4 9%	4 2%	3 3%
Average rate increase	6%	-	1%

Our vision
To continue to build a premier risk taking business measured by results and reputation

Our strategy
Provide our customers with access to our global network
Proactively manage claims
Make informed underwriting decisions

CHAIRMAN'S STATEMENT

Our 20th anniversary year of business has been an exciting and challenging time We achieved record profits before tax of £86 8m in strong underwriting conditions

Overall

The board is pleased to announce record profits before tax of £86 8m (2005 £16 1m) As we predicted in our previous annual report, we have benefited from strong underwriting conditions following last year's hurricane losses, combined with strong returns from our investment balances We were well placed to make the most of the opportunities presented, maintaining our strategy of controlled risk taking We are very proud of this result which comes during the 20th anniversary of Beazley Furlonge Limited as a managing agency at Lloyd's

Underwriting performance

In 2006 we wrote gross premiums of £745 1m (2005 £558 0m) - a 34% increase year on year This was driven by both our increased ownership of the combined premium capacity of syndicates 623 and 2623 - we owned 78% in 2006 (2005 70%) - and an increase in the combined premium capacity to £830m in 2006 (2005 £742m) Premium capacity increased largely due to the rise in insurance rates which we were expecting following the catastrophic events of 2005 We also took a larger share of the risks which we know well - our average line size is now 21 3% (2005 20 2%)

Our combined ratio reduced to 86% (2005 105%) The reduction is mainly due to the claims ratio which fell to 53% (2005 73%) Investors will recall that the 2005 loss ratio was impacted by the hurricane losses (estimated impact 18%) and we have also been able to make claims reserve releases from our medium tail specialty lines business which have developed better than originally expected Although it is too early to make any further releases at this stage, we hope that 2007 should see further favourable claims development

Our investment performance has also been strong We have achieved investment income of £48 3m (2005 £31 6m), a return of 4 9% (2005 4 2%) This has been driven through higher US dollar and sterling interest rates throughout the period The bond portfolio remains relatively short in duration, with an average duration of 11 months, enabling us to make the most of interest rate increases

In our business review, Andrew Beazley describes in detail the strong progress which we are making in becoming a premier risk-taking business Our strategy of recruiting high-calibre underwriting, claims and support personnel, combined with creating improved opportunities to access insurance business, have all contributed to this achievement During the year we have recruited 39 underwriters and 11 claims professionals, and established offices in Hong Kong, Singapore, Paris, Chicago, San Francisco and New York, as well as a number of satellite offices throughout the UK

US business

The US business has made good progress in 2006 This business, which commenced trading in early 2005, operates its own managing general agent (MGA), which writes insurance business both through Lloyd's and through its own admitted US insurance company The US businesses are completely integrated within the relevant lines of business in London The US initiative aims to improve our access to customers who would not traditionally use Lloyd's as an insurance carrier The key to this initiative is getting the right people who will maintain our levels of commitment and professionalism in developing the business and whose underwriting approach is consistent with ours During 2006 we wrote US$68 9m (2005 US$15 4m) through the MGA, of which US$35 9m was written through the admitted insurance company and US$33 0m on behalf of our Lloyd's syndicates The business gathered momentum during the year and we are now seeing consistently improving premium volumes month on month

Capital

During the period we strengthened our capital position through a lower tier 2 debt issue which raised £150m at an interest rate of 7 25% The issue was underwritten by JP Morgan Cazenove and Royal Bank of Scotland, and was five times oversubscribed, demonstrating the confidence which the financial markets have in Beazley

The funds will be used to support both our underwriting at Lloyd's, replacing the existing £72m subordinated loan, and for providing further funds to support the ongoing development of our US business To add further support to our future plans we have also retained £50m of the syndicated letter of credit facility (currently undrawn) led by Lloyds TSB

Dividend

The board propose an increased final dividend of 3 2p (2005 2 5p), bringing the full year dividend to 4 8p (2005 4 0p), an increase of 20% The final dividend will be paid on 10 May 2007 to shareholders registered on 13 April 2007

Board changes

During the year Marty Becker, Dan Jones and Gordon Hamilton joined the Beazley Group board as non-executive directors Marty has more than 28 years' of experience in the insurance industry where he is currently serving as chairman and chief executive officer at both Max Re and LaSalle Holdings Re Dan joined us with over 20 years' of experience in insurance broking, most recently with Marsh Inc Gordon, who joined in September, has over 30 years' experience as an audit partner at Deloitte & Touche LLP and its predecessor practices, specialising in UK listed company audits, with extensive experience of board and audit committees

Joe Sargent, who chaired the group during the IPO in 2002, and Tom Sullivan, who served as a non-executive director on our audit and remuneration committees for a number of years, both retired from the group in 2006 I'd like to extend my thanks on behalf of the group to both Joe and Tom for their considerable contribution and guidance to the group

Conclusion

2006 was a good year for Beazley following the turbulent times arising from the hurricane losses in 2005 We have strong positions in our chosen market areas from which to take advantage of favourable underwriting conditions The group continues to search out new opportunities to create value for shareholders in a dynamic and creative way

Jonathan Agnew
Chairman

BUSINESS REVIEW

In our 20th year as a managing agent at Lloyd's we are pleased to announce a group profit before tax of £86 8m. Rates remain firm and our business is prospering in such strong underwriting conditions

2006 was a good year both for the group and the insurance industry With the right people in the right places, we saw growth across the business and took advantage of the opportunities presented by profitable underwriting conditions Throughout the year we continued to deliver our strategic initiatives in line with our vision and are focused on what we're good at, risk taking and claims management

Strategy

We continue in our vision to build a premier risk-taking business measured by results and reputation The four main strategic themes are

- Diversification - maintaining a well balanced and diversified book of business,
- Cycle management - delivering profit at all points of the insurance cycle,
- Distribution - target markets must be broker-led markets with sustainable profitability, and
- Talent - we must be able to leverage the depth and experience of our staff

The enablers which will help us achieve this are

- Access to our business worldwide

Developing new ways of providing our customers with access to our insurance products will help us grow our products profitably

- Proactively managed claims

A proactive claims management capability can be a source of competitive advantage for the group Consequently we are making significant investment in this area

- Informed underwriting decisions

The knowledge and expertise of our underwriters is central to our ability to develop the classes of business we write We have attracted and hired staff with complimentary skills to help our underwriters in making their business decisions

Access to our business worldwide

US business development

Our US business continued to make progress in its first full year of operation The business writes insurance through a managing general agent (MGA), which writes business both for our syndicates at Lloyd's and our admitted insurance company, Beazley Insurance Company Inc In 2006 we wrote US$68 9m (2005 US$15 4m) of premiums through the US, with US$35 9m coming from the admitted insurance company

Of the teams that write this business, specialty lines is the largest, having written US$22 7m on behalf of the syndicates and an additional US$34 6m through the insurance company in 2006 The US specialty lines team writes a variety of professional indemnity and directors' and officers' liability insurance, focusing on small to mid-sized customers, who traditionally may not have accessed insurance through Lloyd's Our second largest US team is the property group, which writes high-value homeowners business in the Carolinas, Florida and Georgia, and wrote premiums of US$10 3m in 2006 The remaining premiums of US$1 3m were written by our US cargo team

To illustrate the growth during the year, the graph below shows our premiums written per month during 2006 The chart provides encouraging signs for 2007
As the company is still in a start-up phase the costs of the operation are disproportionate to its ultimate steady state position These costs include recruitment, marketing, IT development and legal fees along with the infrastructure costs allowing us to offer admitted market policies in addition to

our Lloyd's surplus lines products Headcount increased from 44 to 100 by the end of December We do not anticipate that the benefits of this increase will start to be realised until 2008

We are pleased with progress made to date, having made a number of key hires and proved our ability to attract the level of talent to compliment our London skills We have also established broker contacts through a strong marketing campaign which will aid us in executing this important initiative

Commercial property initiative

During 2006 we developed a commercial property insurance service for the mid-sized market segment through our admitted US insurance company This will complement our existing US commercial property business written through Lloyd's We recruited Mark Bernacki, formerly of Liberty Mutual Group, to lead the initiative The service embodies the flexibility and breadth of coverage valued by brokers and their clients A new and comprehensive tool has been developed on our BeazleyTrade IT platform to facilitate efficient underwriting In developing product pricing, we employed actuarial techniques and drew on our underwriting experience, whilst allowing for competitive and market considerations The initiative was formally launched in February 2007

Extended coverage through branch network

During the year we have strengthened our position and opened branch offices across a number of locations

We completed the purchase of the Asia Pacific Underwriting Agency (APUA), in January 2006, a managing agent operating through Hong Kong and renamed the company Beazley Limited (Hong Kong) We previously owned 79 8% of this business The acquisition provides access to the local market and is primarily focused on professional indemnity insurance In 2006 it wrote £2 2m of premiums on behalf of the two syndicates We also set up a small operation in Paris in September to write similar business

In November, we established a presence in Singapore for our engineering team, which forms part of the property group This team will write specialist engineering risks and will be managed from the UK Given the nature of the Asian market, in which business tends to be placed almost entirely within the region, Singapore provides the perfect hub to access this type of business

To build our UK cargo business line, and to gain access to the local UK markets, we established offices in Manchester and Leeds during 2006, adding to our existing offices in Birmingham and Colchester

The map below shows the full range of our branch network as at the end of 2006

Proactively managed claims

Unlocking the value in claims

During 2006, we continued to invest in developing our claims service Improved underwriting and pricing capabilities, maintenance of our high client retention rates, lowered cost of the claims, and improved confidence in our results and reserving, all result in a significant improvement to the service we provide our clients

70% of our claims managers in specialty lines are sourced from partner and senior associate roles in top law firms Most managers have over 10 years' experience and expertise in specialist areas, such as insurance of architects and engineers, medical malpractice and employment practices In the US, we established claims operations that are responsible for managing claims emanating out of both our Lloyd's business and our US carrier With the right people in place, we focused our efforts in three areas We integrated our claims managers and underwriters by product line to give the managers a thorough and detailed understanding of the clients and their claims, enhancing our credibility, essential in third party claims We adopted a team-based approach to complex claims, and developed analytical tools We also refined our approach in the selection of counsel and worked closely with them to improve management practices

In the property group our claims managers each have at least 14 years' experience and are successful in managing some of the most complex property claims negotiations on behalf of the market In the marine division, we hired a chief engineer of ships to work closely with us evaluating the claims, finding alternate solutions to mitigating our clients' exposures and our own exposure

We are confident that the energy invested in this important area will benefit both our clients and shareholders

Informed underwriting decisions

Rating Environment

Cumulative rate increases since 2001

During 2006, trading conditions were robust across all lines of business The market is proving to be dynamic and responsive, with rate increases across all classes averaging 6% This is particularly true in our catastrophe accounts, reinsurance, open market property and offshore energy These were heavily impacted by the 2005 hurricane season Hurricanes Katrina, Rita and Wilma accounted for estimated worldwide losses of around US$80bn, of which Beazley's share was originally estimated at £60m net of reinsurance

We have since adjusted the way we price our risks For instance, in our reinsurance account our premium rates increased by over 28% in 2006 Likewise, open market property rates increased by 26%, whilst offshore energy rates saw some of the highest increases (over 35%) To ensure our prices were correctly calibrated, we bought and refined a number of risk management products which we use to monitor pricing and our aggregate exposures in certain geographic regions

Rates across specialty lines, which accounts for around 50% of the premiums we write, maintained their competitive position (small decrease of 1%) despite increasing pressure on rates during the second half of the year Premiums written by this team increased significantly over the past year to £361 0m (a 33% increase) Through this growth we continued to seek out the most attractive risks while adhering to rigorous management principles

Growth

Our managed premium capacity increased to £830m (2005 £742m) in 2006 This increase was driven by the forecast increase in insurance rates following the 2005 hurricane season, together with continued growth in our specialty lines business In 2007, we plan to write combined premium capacity of £860m, an increase of 4%

We increased our share of managed premium capacity to 78% (2005 70%) in 2006 which has risen to 81% for 2007 This increases the amount the group can underwrite at Lloyd's to £697m (2006 £647m) Part of the expansion in capacity (£19m) came from our acquisition of Santam Corporate Ltd in December 2006

Our managed syndicates' (both 2623/623) capacity has grown by 30% since the flotation of Beazley group in 2002 The group's share of the premiums we manage has increased even more dramatically by 111%, from £330m in 2003 to £697m in 2007 The growth in premiums written together with our share of these premiums is highlighted in the following chart

Outlook

As the US business becomes more established, we are optimistic about realising greater returns in 2007 We have key individuals in place and have seen strong premiums growth in recent months The addition of the commercial property team in the spring of 2007 will strengthen this further

We actively monitor the position of our business in relation to the insurance cycle The chart below is an indicative guide to our main opportunities and threats in 2007 and illustrates where our efforts will be focused It and the statements below represent our current view based on information up to the end of February, and any comparisons at later dates should be viewed in this context

Across the business, we are expecting 2007 to be a positive year both in terms of premiums written and ratings Our current projection is that both premiums and ratings will increase up to 5% Our largest anticipated growth areas are in our political and contingency group within specialty lines and large commercial risks within the property group Specialty lines will account for over 50% of the business's premiums, and we expect it to grow despite minor rate decreases Careful management of the insurance cycle through active price monitoring and claims management holds the key to our long-term success We believe that underwriting conditions in 2007 will lead to continued profitability for the group

20th anniversary

2006 marked the 20th year of Beazley Furlonge Limited as a managing agency at Lloyd's

We began trading in 1986 with capacity to underwrite £12m of premiums Our aim has been to create and build a premier risk taking business partly through nurturing a working environment that attracts and retains highly skilled individuals Twenty years later we have the capacity to underwrite £860m with a team of 419 people around the globe Our growth has been organic and timed to coincide with positive market conditions We believe that patience and picking the right people has been core to our success

Over the years, numerous world events have tested our skills and ability to both underwrite high quality risks and manage them The business has never made a loss and we continue to grow confidently and purposefully

We have recruited and retained talented individuals - underwriters, claims managers and support staff who have made Beazley the professional, well regarded, premier risk taking business we are today I'd like to take this opportunity to thank all those who have contributed to making our early vision a reality

The insurance industry will continue to undergo changes and face challenges brought about by expected and unexpected events One can be certain that the future holds as much opportunity as we have experienced so far in our journey The journey is far from over

Andrew Beazley
Chief executive

A.J. Beazley

Performance by division

	Specialty lines		Property		Reinsurance		Marine	
	Johnny Rowell		Jonathan Gray		Neil Maidment		Clive Washbourn	
	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m	2006 £m	2005 £m
Gross premiums written	361 0	270 9	187 8	128 1	58 4	65 5	137 9	93 5
Net premiums written	267 3	207 7	149 9	98 5	40 5	41 0	116 6	78 6
Net earned premiums	234 6	192 2	123 1	81 2	42 1	37 2	101 5	64 5
Net investment income	35 9	19 5	4 2	5 8	4 1	3 0	4 1	3 3
Other income	4 0	2 4	1 3	1 4	0 7	0 2	1 1	2 9
Revenue	**274.5**	**214.1**	**128.6**	**88 4**	**46 9**	**40 4**	**106 7**	**70 7**
Net insurance claims	146 3	135 8	66 3	49 1	13 7	56 0	44 4	32 1
Acquisition and administrative expenses	72 6	52 2	49 8	33 6	13 6	12 4	32 3	20 0
Other expenses	7 8	5 9	4 0	3 2	1 5	1 2	2 6	2 4
Expenses	**226 7**	**193 9**	120 1	**85 9**	**28 8**	**69.6**	**79 3**	**54.5**
Results from operating activities	**47.8**	**20 2**	**8 5**	**2.5**	**18 1**	**(29 2)**	**27 4**	**16 2**
Claims ratio	62%	71%	54%	60%	33%	151%	44%	50%
Expense ratio	31%	27%	40%	41%	32%	33%	32%	31%
Combined ratio	93%	98%	94%	101%	65%	184%	76%	81%
Percentage of lead business	81%	78%	70%	66%	33%	28%	50%	52%
Rate increase/(decrease)	(1%)	(1%)	13%	(1%)	28%	-	9%	2%
Transaction volume	6,478	6,128	2,962	3,014	911	1,018	2,807	2,762

Specialty lines

Architects and engineers deliver complex projects with the utmost precision. With industry expertise and in-depth knowledge of the risks involved, our underwriters write insurance for 27 of the top 50 architects and engineers in the US

Profile

Led by Johnny Rowell since 1992, the specialty lines division is a market leader in most business segments and underwrites around half the group's premium income The team is organised by major product group - management liability, professional liability, and political and contingency and by size of risk- small, mid-market and large This structure was designed to bring together similar disciplines and interests in product line and style of underwriting These groups do not work in isolation and by sharing experiences, team members transfer best practices across portfolios, working together to improve quality

We have integrated the specialty lines team across the different territories in which we operate Specialty lines now have a presence in London, Paris, Hong Kong and in eight offices in the US By establishing experienced, empowered underwriters in local markets we have significantly improved our access to business that we would not otherwise have, and we will continue to pursue this strategy Our premium income for 2006 was £361 0m (2005 £270 9m)

Market overview

The rating environment in 2006 was, overall, better than expected Across the team, rates fell by 1% There is variation across different portfolios, with rate increases still achievable in some lines and competition intensifying in others We expect competition to increase slightly in 2007 The team's approach to managing this is multi-tiered, including close monitoring of rate changes and rates achieved, increased segmentation of individual books of business, robust auditing of internal underwriting teams, delegated authority and treaty business and targeted reviews of both high performing and under-performing areas

Current performance

2006 was the first complete trading year for our US-based operation Our local presence in the US market has been well received and the growth rate in income achieved to date is very satisfactory

On both sides of the Atlantic we made significant investment in talent, strengthening our claims service as well as our underwriting capabilities We see significant opportunities to differentiate ourselves through the calibre of our claims managers and the quality of service they provide This has not always been an area of focus for insurers in our markets

Our sources of business remained stable in 2006 with the top five brokers producing 54% of our premium income, against 53% in 2005 and 52% in 2004 Geographically the book remains predominantly US domiciled with 65% of premiums emanating from that region compared with 62% in 2005 and 63% in 2004

The way we write the business has changed little from previous years Facultative business accounted for 67% of our premium in 2006 compared with 68% in 2005 and 73% in 2004, while binding authority income was 21% for 2006 against 24% in 2005 and 20% in 2004

Outlook

Our goal in 2007 is to ensure that our mix of products and segments (business by size and method of placement) evolves to maximise opportunities in the marketplace In a changing environment we will need to react quickly to both opportunities and threats

Overall, we expect premiums to remain stable in 2007, although their distribution may change slightly Our US, French and Hong Kong operations will grow and we will continue to invest in a number of our London teams We recognise the value that clients and brokers place on the provision of stable coverage and will work to deliver this, consistent with the demands of profitability

With a successful year of high-calibre recruitment behind us, our focus in 2007 will be on retaining and developing employees Responsive service - both in underwriting and claims - will remain at the heart of our business, supported by financial, operations and project management expertise Our commitment to service excellence, in-depth risk analysis and understanding and delivering products that meet broker and client needs will continue to underpin sustainable long-term profitability

Property

The financial security provided by insurance underpins the success of commerce in the modern world Our property underwriters provide the leadership, expertise and capacity for the insurance programmes of some of the world's most advanced and complex commercial developments

Profile

Led by Jonathan Gray since 1992, the specialist underwriting teams in the property group lead the programmes of Fortune 1000 clients and insure some of the world's largest construction projects The division insures large corporate clients, engineering and construction projects, high-value homeowners, jewellers' risks and smaller property clients, representing almost a quarter of the group's gross premiums written

With expansion in the US, we will also be able to provide medium-sized US clients with property coverage through our admitted insurance company The diverse nature of our clients and class types and increasingly diverse distribution platform enable us to provide the group with a well-balanced portfolio

Market overview

Rates in catastrophe exposed areas in the US continued to harden during the course of 2006 with hurricane prices reaching an all-time peak during the hurricane season Earthquake rates in California also increased during the latter part of the year as increased reinsurance costs filtered down to the primary market However, non-US rating levels were disappointing with competitive conditions a consistent theme throughout the year There was little or no pricing reaction in the non-US markets to the hurricane losses of 2004 and 2005

2006 saw a benign hurricane season and the absence of major catastrophes in comparison with recent years In addition, the underlying trend of claims incidences also showed a decrease

Current performance

The amount of business led by the property group increased during 2006 from 66% of the business written in 2005 to 70% in 2006 with the biggest increase being in the open market account, where we now lead 53% of the business written

Rate increases averaged 13% across all lines in the property group during 2006 compared with 2005, with open market experiencing the largest increase at 27%

Our managing general agent (MGA) in Florida had a successful year with premium written increasing from US$6 2m in 2005 to US$10 3m in 2006

The engineering team had another excellent year in 2006, growing its business profitably and consolidating its lead market position in its target areas To widen the distribution network and access business directly from Asia, we set up an office in Singapore attracting employees already well known to the London team

The UK homeowner market is experiencing increasing competition To improve our results, we have completely reviewed and updated our UK homeowners rating tables using the latest peril modelling techniques and postcode data available, which will enhance our risk selection criteria

Our reputation as property insurance specialists, combined with a claims performance acknowledged by the market as superior, gave us access to significant reinsurance capacity However, the cost of this reinsurance was higher than previous years and retention levels increased

Outlook

The US continues to present great opportunity for our business in London though we anticipate that non-US risks will be more of a challenge Our high-value homeowner operation in Florida will build on its increasing reputation to grow its portfolio and the launch of our admitted market products will provide access to medium-sized commercial property clients thus enhancing the long term balance of our portfolio

We believe that high rating levels for catastrophe business will be maintained in the coming year, providing our group with strong business opportunities for US-based risks Non-catastrophe rates will experience further pressure

Reinsurance

The calculation and trading of risk is a highly complex process fundamental to the insurance and reinsurance business Experience and innovation, combined with a focus on long term relationships, have enabled our reinsurance team to work successfully with some of the world's most sophisticated insurance businesses for over 20 years

Profile

Led by Neil Maidment since 1996, the reinsurance division is a recognised leader providing capacity to a significant proportion of the world's leading general insurers, some of which have been clients for over 20 years Specialising in property catastrophe, property risk excess, casualty catastrophe, aggregate excess of loss and pro-rata business, the team's main exposures outside the US are in the UK, Europe, Japan, Canada and Australasia Results from the reinsurance division represent 8% of the group's 2006 gross premiums written

Market overview

Following the losses incurred in the 2005 hurricane season, the reinsurance market hardened considerably in 2006 with rates in the property treaty market increasing 47% on average in the US Outside the US, the effect was less dramatic but nevertheless rates increased 7% on average

Despite predictions of another catastrophic hurricane season in the North Atlantic, 2006 proved to be a particularly benign year for hurricane activity Experts cite two possible exceptional meteorological reasons for this, dust particles blown from the Sahara to the area where hurricanes normally develop, and the El Niño phenomenon in the Pacific While the insurance market benefited overall, demand also increased at a faster rate than supply in peak zones of exposure Prices increased and reinsurance capacity decreased

Current performance

The impact of predicted increases in near term frequency and severity of future losses and the consequent increase in capital required to manage these exposures has been felt by both buyers and sellers of reinsurance The cost of hedging these risks increased to uncommercial levels in the retrocessional market Therefore, we reduced our gross exposures to fit within our risk appetite which remained unchanged

We successfully adjusted the portfolio to manage these challenges while improving the risk-reward balance In addition, we retained our commitment to our long-term clients, while continuing to diversify our portfolio in target markets, such as western Europe

We benefited directly from the quiet hurricane season, seeing very low claims activity and consequently a greatly reduced loss ratio

Our estimate for losses incurred as a result of the 2005 hurricane season were well within our reserve limits, hence we are able to release some of the reserves earlier than expected

Outlook

Experts continue to predict Atlantic hurricane activity above the long term average and because of the trend for the US population to move towards the coast, we expect to see an increase in the cost to the insurance and reinsurance industry

Following last year's significant price increases in the US, we expect that rates in key catastrophe exposed areas will be maintained at or around their current levels The recent changes in Florida legislation designed to relieve pressure on buyers in that state are not expected to have a significant direct effect on our portfolio

Outside the US, we anticipate some pressure on rates, particularly in smaller markets, however they will remain at levels that are capable of substantial profits It is anticipated that the impact of windstorm Kyrill will encourage greater discipline in the UK and continental European markets

Our team will continue to advance its long-term objective of developing a well diversified and efficient portfolio focusing on larger non-life insurance markets

Marine

As the worldwide usage of energy continues to grow, environmental responsibility increasingly is a key issue Governments are focussing upon clean alternatives, particularly forms of renewable energy We are one of the leading insurers for oil and gas operations worldwide and at the forefront at insuring these developing areas of risk

Profile

Led by Clive Washbourn since 1998, 2006 was a rewarding year for our marine division with record levels of gross premiums (at £137 9m) We are established market leaders in all the major classes we write, which include marine hull, cargo and war Our energy portfolio has also been expanded to benefit from optimum underwriting conditions in that sector

We are able to attract the highest quality business through our market leadership position and in-depth knowledge of the segment As our portfolio has grown, we have continued to strengthen our underwriting and claims team

Market overview

Underwriting conditions were favourable for most of our classes during 2006, with healthy premium rates, appropriate levels of deductible and coverage We saw strong, profitable premium growth, with our marine hull and energy accounts performing particularly well

Our 2005 hurricane losses have developed in line with projections and compare favourably with our market peers We are confident that the majority of our gross loss will be collectable from reinsurers

Current performance

In the wake of a record 2005 hurricane season, underwriting conditions in our energy account were excellent, with rating conditions for Gulf of Mexico risks at the highest levels for many decades During 2006 the energy class achieved the highest composite rate change of all Beazley classes, which supported the near doubling of gross premium income year on year Although there is some indication of competitors expanding their capacity as confidence returns to the sector, we expect rating conditions to be stable

Our hull account has benefited from a period of relatively benign loss frequency coupled with robust trading conditions for our insureds In areas such as marine builders risks, the hull account was able to optimise capacity in a tight market for risks that have natural peril exposure We continue to be the leader in London for voyage and tow insurances and this class has performed extremely well during the last 12 months

Our war account, which covers insurance against terrorism and war like acts on ships and aeroplanes, continues to perform well Competition for this portfolio has increased although our position as a lead market within London will allow us to respond quickly if rates rise at any stage

Our cargo portfolio has enjoyed a consistent level of gross premium Loss frequency reduced during the last 12 months, which has benefited profitability We continue to develop our modest UK cargo agency underwriting operation Profitability to date has been excellent, premium levels are projected to double during the next 12 months and there is good long-term opportunity to develop a valuable portfolio and diversify our account

The group purchased a whole account excess of loss reinsurance programme in 2006, as in previous years, but opted to purchase less low-level specific protection and run this risk against our capital This decision to purchase less reinsurance proved particularly judicious in the light of the low claims frequency across classes during 2006

Outlook

We look forward to 2007 as a period in which we can further consolidate our position We are pleased with the quality of our account and anticipate relatively stable underwriting conditions in the majority of our classes We fully expect to meet our target profitability and to continue to grow income where opportunity allows

We are delighted that we have reached a long term agreement to be sole underwriters of the renewal rights for the Charterers Club, which significantly enhances our marine liability portfolio The marine liability class has historically enjoyed good profitability and since this class typically does not correlate with our other marine classes, it further diversifies our portfolio

We will continue to focus upon those risks that are well known to the underwriting and claims team The relationships with the insured often set us apart from our competitors and this, we believe, will help insulate the division from the effects of increased competition in the worldwide market that we believe are likely to develop in future years

FINANCIAL REVIEW

	2006 £m	2005 £m	Movement %
Gross premiums written	745 1	558 0	34
Net premiums written	574 3	425 8	35
Net earned premiums	509 6	372 3	37
Net investment income	48 3	31 6	53
Other income	7 1	6 9	3
Revenue	**565 0**	**410 8**	**38**
Net insurance claims	270 7	273 0	(1)
Acquisition and administrative expenses	168 4	118 5	42
Other expenses	33 5	1 4	2,293
Expenses	**472 6**	**392 9**	**20**
Finance costs	5 6	1 8	211
Profit before tax	**86.8**	**16.1**	**439**
Claims ratio	53%	73%	-
Expense ratio	33%	32%	-
Combined ratio	86%	105%	-
Rate increase	6%	-	-
Investment return	4 9%	4 2%	-

We are pleased to announce record pre-tax profits of £86 8m These have been achieved through a strong underwriting performance, aligned with robust results from our investment portfolio The highlights are

- Good overall rating environment rates are up on average 6% over 2005,
- Premiums growth of 34% to £745 1m,
- 2005 hurricane reserves holding up well £6 0m released in 2006,
- £31 0m (2005 £12 2m) of prior year reserve releases - £18 0m from our specialty lines team,
- Investment return of 4 9% (2005 4 2%), generating investment income of £48 3m, and
- A foreign exchange loss on non-monetary items of £9 4m (2005 £8 2m gain)

Gross premiums written

During 2006, our gross premiums written increased by 34% to £745 1m and net earned premiums increased by 37% to £509 6m Growth came from both the rise in underlying premium capacity for syndicates 623 and 2623 and a higher group share of combined premiums written In 2006 syndicates 2623 and 623 had capacity to write £830m (2005 £742m) of premiums net of brokerage, and we increased our share of the combined capacity to 78% in 2006 (2005 70%) The growth in net earned premiums is illustrated in the following chart

Our business is derived from a variety of risk types, classes of business and geographical locations Diversity is one of the key parts of our strategy Achieving a balanced portfolio enables us to control our risk profile and reduce the capital we are required to hold It should protect us from the impact of one-off events and balance our results This was demonstrated in 2005 when our losses from the US hurricanes of around 21% of shareholders funds were amongst the lowest in our sector

We continued to write approximately 43% of our risks, in medium tail accounts, mainly through our specialty lines team Medium tail insurance is defined as insurance business where claims are determined and settled three to five years after the period of insurance has expired We write a significant amount of this type of insurance as we believe it is a source of competitive advantage, based on the correct pricing disciplines and underwriting experience

The charts below show how diversified our portfolio was in 2006, across types of insurance, teams and regions

Reinsurance

Reinsurance is purchased for a number of reasons to mitigate the impact of catastrophes such as those experienced during the 2005 hurricanes, provide lead line capabilities to our underwriters, and as a way of managing the group's capital

Our reinsurance spend increased by 29% in 2006 to £170 8m However, as a percentage of gross premiums written, reinsurance spend reduced during the year to 23% of gross premiums written (2005 24%) The reduction in percentage cover is partly explained by a lack of supply from the reinsurance market, at competitive prices, in the first six months of the year This was particularly true in our hurricane-impacted classes from 2005 We managed our aggregate exposures carefully and were prepared to reject business if reinsurance cover was not available at the correct prices or if its addition would exceed our risk appetite

Combined ratio

The group's combined ratio has reduced from 105% in 2005 to 86% in 2006 The 2005 ratio was heavily impacted by the US hurricane losses of £60m This alone is estimated to have added 18% to the 2005 ratio 2006 has been more stable in terms of claims, but has seen increased costs partly through the expansion of the US The expense ratio increased by 1% as a result of the expansion to 33%

Claims

Our claims ratio decreased to 53% in 2006 (2005 73%) This has arisen due to two principal factors

- 2005 was heavily impacted by hurricane losses, which added an estimated 18% to our claims ratio, and
- Increased releases of specialty lines reserves in 2006 reduced the claims ratio by 3 5% (2005 0 2%)

2005 hurricane losses update

At the end of 2005, we set up claims reserves for the 2005 US hurricanes at US $104m (£60m) During 2006, we saw positive development in terms of these costs, which enabled us to release US$11m (£6 0m) of our claims reserve The table below shows our latest estimate of the total hurricane losses

	2006 US$m	2005 US$m
Gross loss	371	370
Reinsurance recovery	273	260
Sub total	98	110
Reinstatement premiums	21	20
Net loss	119	130
Catastrophe margin released	26	26
Total hurricane losses	93	104

Specialty lines claims reserve releases

In 2006 we released around £18 0m of prior year specialty lines reserves This is a reflection of our view that claims for medium tail class of businesses are developing better than initially thought This is partly attributed to better management of our pricing for these risks at the time of inception, together with strong claims management discipline This is also due to an improvement in the frequency and severity of claims falling under policies issued during these years

The chart below demonstrates the strength of these reserves It shows the amount of claims we have incurred by year of account at the same stage (36 months) across the past 10 years of account It is evident that 2002, 2003, and 2004 show claims which are far lower than in previous years at the end of the third year of development

Reserving approach

We have consistently adopted a prudent approach towards our medium tail specialty lines account reserving The nature of this type of business is that for the majority of classes of business the corridor of uncertainty surrounding potential claims is wide in the first three years of development following the underwriting year As we gain more certainty in years four and five, we have a better view as to where claims are likely to settle and we can adjust our reserves accordingly

The following chart shows, as our business has matured over the past four years, we have gradually been able to increase the levels of reserve releases across all classes of business

Expenses

Our expense ratio has increased by 1% to 33% in 2006 This is due to the US, which was in its first full year of operation This business expanded considerably with employee numbers rising from 44 to 100 by year end As the business is in a start-up phase it bore one-off costs such as recruitment, marketing and legal fees, incurred in advance of the ultimate premiums potential being delivered

We also established offices in a number of locations Paris, Singapore, Hong Kong and throughout the US Facilitating better access to business is an important part of our strategy

Employee numbers

During 2006, our permanent employee numbers grew from 282 to 419 as we continued our recruitment in both the UK and in the US In the UK, we strengthened our specialty lines underwriting, claims teams and support functions - in particular we insourced the accounts processing function during the year In the US, we recruited additional personnel in all areas of the business as we built up operations in our Florida and Connecticut offices and set up a number of small regional offices We also set up offices in Hong Kong, Singapore and Paris during the year Having talented individuals is key to achieving our strategy of becoming a premier risk-taking business

Employee numbers	2006	2005
Specialty lines	172	101
Property	55	41
Reinsurance	9	7
Marine	28	20
Finance (including actuarial, compliance and internal audit)	55	36
IT	43	38
Ceded reinsurance	15	11
Talent management	11	8
General management and other support	31	20
Total	**419**	**282**
UK	309	238

US	100	44
Other (Hong Kong, Singapore, and Paris)	10	-

Investment performance

In 2006, despite a difficult environment for fixed income investments, our total investment income grew to £48 3m (2005 £31 6m), providing a return of 4 9% (2005 4 2%)

During the first half of 2006, the US Federal Reserve continued its programme of raising interest rates in order to slow the rate of growth and contain inflation The Bank of England also reacted to increasing inflation by raising the base rate twice in the second half of the year However, for the group, the short duration of our portfolios for most of the year largely insulated our returns from the capital erosion effects of higher interest rates and the portfolios benefited from increasing yields as rates rose

Our continuing investments in alternative assets and a new stand alone investment in equities added significantly to our investment returns Our alternative investments achieved a return of 9 0% These investments represent a mixture of longer-term debt securities, equities, hedge funds, high yield debt and short-term deposits Meanwhile, our stand alone equity investment achieved a return of 4 8% since it was initiated in October

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 The majority of these cash balances are invested in money market funds managed by Scottish Widows Investment Partnership, AIM Global and Bank of America

The table below highlights the returns received by currency and by investment type

	2006 Average £m	2006 Annualised return %	2005 Average £m	2005 Annualised return %
Fixed interest securities				
£m	383 0	4 5	390 0	4 0
US $	425 7	4 4	209 5	3 7
Lloyd's managed and other	56 6	3 9	30 7	3 7
Hedge funds	45 3	11 1	30 1	9 8
Equities	22 5	11 9	3 2	15 5
Cash and money market funds	57 5	3 7	97 0	3 7
TOTAL	990 6	4 9	760.5	4 2

Investment income has also increased as a result of larger cash balances being managed by the group The group's cash and investment balance grew during 2006 mainly due to

- additional underwriting of syndicate 2623 in 2006, and
- the receipt of funds raised as part of the debt issue in the final quarter (£150m)

As a large proportion of our insurance liabilities are medium tail, i e the claims are paid several years after premiums are received, we expect the investment balance will increase further into 2007 The following chart highlights the growth in investment balances over the past 4 years and gives an estimate for the end of 2007

Other expenses

Other expenses consist of non-underwriting related group expenses of £6 2m (2005 £9 9m), profit related bonus provisions of £5 0m (2005 £3 3m), and a foreign exchange loss of £22 3m (2005 a credit of £11 8m) The majority of the increase in 2006 is explained by the foreign exchange loss, of which £17 6m (2005 a credit of £11 3m) relates to foreign exchange differences on non-monetary items (refer note 3)

Foreign exchange differences arising on non-monetary items

In 2006, the impact of foreign exchange on non-monetary items has added a £9 4m charge (2005 a profit of £8 2m) to our profit before tax Non-monetary items include unearned premium reserve, reinsurers' share of unearned premium reserve and deferred acquisition costs Under International Financial Reporting Standards (IFRSs) these balances are carried at historic exchange rates, whilst 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

Within our 2006 portfolio, around 67% of premiums were generated through US dollar transactions As the US dollar weakened significantly during 2006, falling from an opening position of £1=US$1 72 to £1=US$1 96 (a 12% devaluation) there was a negative effect on our profits and net assets

BALANCE SHEET MANAGEMENT

Summary balance sheet	2006 £m	2005 £m	Movement %
Intangible assets	21 9	18 2	20
Investments and cash	1,167 8	884 5	32
Insurance receivables	244 0	158 9	54
Reinsurance assets	345 3	394 5	(12)
Other assets	105 2	87 3	21
Total assets	**1,884 2**	**1,543 4**	**22**
Insurance liabilities	1,225 6	1,096 4	12
Borrowings	154 9	29 1	432
Other liabilities	184 2	137 5	34
Total liabilities	**1,564 7**	**1,263.0**	**24**
Net assets	**319 5**	**280 4**	**14**
Net assets per share	**88.5p**	**77.8p**	**14**

Intangible assets

Intangible assets are made up of two main elements

- previously acquired goodwill or purchased capacity, and
- capitalised IT projects

During 2006, we acquired an additional 3% of capacity in syndicate 2623 for £0 5m Of this 2% was acquired through the purchase of Santam Corporate Limited in December 2006 The remaining 1% was acquired during the Lloyd's auction process where we paid on average 2 7p per £1 of capacity

We began capitalising IT projects during 2005 (£3 6m), as the company increased its emphasis on building IT systems supporting our non-Lloyd's initiatives such as the US During 2006, this policy continued and after an annual review we capitalised a further £3 7m, bringing the net book value to £5 0m at 31 December 2006 Our policy is to depreciate these items over their useful economic life (3 years)

Investments and cash

Our portfolio remains mainly invested in high quality, short duration bonds We invest 11 8% (2005 7 6%) in alternative investments and equities To enhance returns and further diversify risks associated with investing solely in bonds, we increased the proportion of equities by 3 7% in October 2006 through a stand alone investment in a global equity fund managed by AllianceBernstein A breakdown of the growth in our portfolio, by asset type is set out below

Investment and cash growth

During the year we diversified the fixed income assets by investing a proportion of our US fixed income portfolios with two new investment managers, Conning Asset Management and Wellington Management This also gives us access to different investment styles and skill sets

Manager	Investment Type	2006 £m	2006 %
AllianceBernstein	US $, £, Euro €, CAD $ Fixed income, equity	700 9	60 0
Conning Asset Management	US fixed income	125 2	10 7
Wellington Management	US fixed income	86 8	7 4
Union Bancaire Privée	Alternative investments including hedge funds	102 6	8 8

Lloyd's Corporation	Fixed income	73 5	6 3
Scottish Widows Investment Partnership	Money market funds	22 3	1 9
AIM Global	Money market funds	7 8	0 7
Bank of America	Money market funds	17 0	1 5
Other cash balances	Current account and deposits	31 7	2 7
TOTAL		1,167 8	-

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

Insurance receivables

Insurance receivables represent broker balances receivable in respect of premiums we have written During 2006, broker balances increased by 54% to £244 0m, due to increased premiums written by syndicate 2623 We outsource the collection of our premium broker balances to JMD Specialist Insurance Services Limited, which operates within the Lloyd's market as specialist credit controllers

Reinsurance assets

Reinsurance assets, which mainly represent recoveries from our reinsurers in respect of claims, form 18% or £345 3m of our total assets at the end of 2006 (2005 26% or £394 5m) Of this balance, £166 8m represents our estimate of recoveries in respect of claims incurred but 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 A M Best when initially selected) These criteria are varied by type of business (short vs medium tail),
- 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

In addition we provide against reinsurance recoveries that are impaired At the end of 2006 we had provided £4 8m (2005 £5 2m) in respect of our reinsurance recoveries The chart below shows the profile (based on A M Best rating) of these assets at the end of 2006

Insurance liabilities

Insurance liabilities of £1,225 6m consist of two main elements, unearned premiums reserve ("UPR"), and gross insurance claims

- Our unearned premiums reserve (UPR) has increased by 34% in 2006 to £359 6m, mainly due to increased premiums written The bulk of the UPR relates to the 2006 year which has been written at favourable rates This business will earn through to our income statement in 2007
- Gross insurance claims are made up of claims which have been notified to us but not yet paid and an estimate of incurred but not yet reported claims (IBNR) These are estimated by both the underwriter and the syndicate actuary through the quarterly peer review process, a description of which is included in note 23 Gross insurance claims increased by 4% in 2006 to £866 0m mainly due to the increase in business written

Borrowings

Historically we have relied on short-term banking facilities to support our underwriting at Lloyd's and the US operation This was typically issued in the form of letters of credit, although we could draw down physical cash if required to pre-defined limits As a condition of this type of debt, we also had to comply with certain banking covenants, minimum levels of net assets, realistic disaster scenario events and profitability The facility was also renegotiated every two years

To provide us with greater flexibility over our capital, we issued longer-term debt in October 2006 We raised £150m of lower tier 2 long-term subordinated debt through a fixed rate debenture The proceeds will be used to replace the existing short-term facilities and to support opportunities to grow the business as they arise The issue is callable on 17 October 2016 and bears an initial interest rate of 7 25% payable in arrears We retained £50m of the short-term debt in the form of a letter of credit facility, led by Lloyds TSB, to provide additional capital should the requirement arise

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

- £107m 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

Currency profit hedging

Our policy is to minimise our largest foreign exchange currency risk-exposure, which is to the US dollar This is managed by estimating our US dollar profits each year and selling a proportion each month We also sell our year-end unhedged profits for our second largest currency exposure, Euros, once a year In 2006, the group sold US$108 5m at an average exchange rate of 1 88 (2005 1 87)

CAPITAL POSITION

The group has two requirements for capital

1 To support underwriting at Lloyd's through syndicate 2623, this is based on the group's own individual capital adequacy This may be provided in the form of either the group's cash and investments or debt facilities, and
2 To support underwriting in Beazley Insurance Company, Inc in the US

Our funding comes from a variety of sources

1 £319 6m comes from our shareholders own funds (i e net assets) Of this balance, £81m is unavailable to the group at present because it relates to fixed assets or undistributable syndicate profits
2 £150m was raised in 2006 through a tier 2 subordinated debt issue,
3 An undrawn banking facility of £50m (2005 £150m) provided by a syndicate of banks led by Lloyds TSB, and
4 The final source of funds comes from our US$18m subordinated long term debt with a maturity in 2034

	2006 £m	2005 £m
Sources of funds		
Shareholders funds	319 5	280 4
Tier 2 subordinated debt	150 0	-
Long term subordinated debt (US$18m)	9 7	10 5
Bank facility (drawn)	-	70 0
	479 3	360 9
Uses of funds		
Lloyd's underwriting	292 0	301 7
Capital for US insurance company	30 6	32 6
	322 6	334 3
Surplus	**156.7**	**26 6**
Unavailable surplus	(81 0)	(19 7)
Available surplus	**75.7**	**6 9**

Individual capital assessment

Historically our capital requirements were set using Lloyd's risk based capital (RBC) model The RBC model assessed the risk posed by the proposed business plan based on historical market average data The capital regime changed in 2005, so that syndicates make their own assessment of risk in their ICA 2006 was the first full year where our capital requirements were determined by its ICA

In order to determine its 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 by 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

This robust ICA process demonstrates that the business is well diversified and stable This is reflected in our capital requirement of 42% of premium capacity, a reduction from 47% of premium capacity in 2006 This equates to a capital requirement of £292m

Andrew Horton
Finance director

INVESTOR RELATIONS

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

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

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

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

Source Bloomberg

There are currently eight analysts publishing research notes on the group Since the end of 2005, analyst coverage has expanded sharply with coverage being initiated by JP Morgan, UBS, Clear Capital and Fox-Pitt Kelton, in addition to existing research coverage from Numis, the company's corporate broker, ABN Amro, Keefe Bruyette & Woods and KBC Peel Hunt

Source· Numis Securities Limited (January 2007)

FINANCIAL CALENDAR

3 May 2007	Annual general meeting
10 May 2007	Final dividend payment
31 July 2007	Interim announcement
31 July 2007	Interim dividend announcement

RISK MANAGEMENT

Risk management at Beazley

We are in the business of evaluating, accepting and managing a wide range of large, complex and often unpredictable risks that occur for our clients in their day-to-day business around the world We differentiate ourselves by providing them with intelligent insurance products and services that add value to the way they conduct their business Our 20 year trading record of consistent profitability demonstrates the effectiveness of our rigorous risk management practices that are intrinsic to the way we work with our clients and underpin every level of decision-making in the group

To take full advantage of the opportunities that arise and ensure that we protect our capital we must always accurately assess the expected claims and expenses which may arise from accepting every risk presented to us More information relating to the risks that are inherent to each business division is detailed in note 2 From a group perspective, to ensure that only the best risk management approaches are applied to all of our activities, we base every action upon three guiding principles

- Controlled risk taking,
- Clear accountability , and
- Open risk culture

By focusing upon these principles we can manage our diverse risk classes to achieve the ideal balance between risk management control and encouraging our underwriting teams to be professional, innovative, effective and dynamic

Enterprise risk management

Enterprise risk management is integral to all our business planning and risk-taking activity By allocating capital to each underwriting segment and regularly reviewing returns, we manage our portfolio in a way that supports our core markets, and targets growth on the best opportunities as they arise

To optimise use of the group's capacity for insurance risk, allocation between classes of business is reviewed regularly through stress and scenario analysis Stochastic modelling techniques are also used to rigorously assess our capital requirements through the ICA process

Risk appetite

Insurance risk is our largest risk category, resulting from the blend of complementary catastrophe and non-catastrophe business that we write To manage these exposures we model and stress test our risks to understand the expected financial impact to the group should extreme events result in claims from our customers

Following the upward calibration of industry risk models in 2006 to produce a more conservative result, the board has set this appetite as a reflection of the opportunities which exist for catastrophe exposed business For classes of business where accumulations of losses can result from a single event, such as property, marine energy, terrorism and war, we set insurance risk appetite limits at group level based on our exposure to relevant extreme catastrophe scenarios For the syndicates this equates to 20% of stamp capacity for a 1-in-250-year modelled US event

We also have market leading portfolios in areas such as professional indemnity and directors' and officers' liability insurance For these classes the primary risk is charging premium rates that are too low as a result of external factors such as new laws, social trends or regulations which subsequently lead to larger than expected claims These other types of risk benefit our business by providing healthy diversification from the typical natural catastrophe exposures of London Market insurers such as Florida wind or California quake

We recognise that non-catastrophe exposed classes may cover events which can also create losses Accordingly, we have set a comprehensive risk appetite framework for these portfolios which is based on their potential impact on our profits

Risk assurance framework

Our organisation is structured to ensure clear ownership and accountability for all risk management activities Therefore our risk assurance framework encourages all our underwriting teams to focus upon achieving the group's strategic objectives

The board of directors has ultimate responsibility for defining the group's risk tolerance and risk management approach Nominated individuals and committees are made accountable for day-to-day management of all risks and controls which arise from their activity

Risk management team

The purpose of our risk management team is to facilitate and strengthen the risk management framework Their main goal is to help the business to achieve a consistent approach to the identification, measurement and mitigation of risk across the group Active participation of this team in all board meetings and senior management committees ensures that risks are monitored and managed as they arise

This team uses a leading edge system called the BeazleyRiskMatrix to support its work This online risk management tool allows the emerging risk profile of the group to be captured and analysed in real time using information input directly by risk and control owners across our worldwide locations

Internal audit and compliance

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

The compliance team works closely in partnership with the business to ensure that all relevant regulations are understood and met Internal audit compliment this work by providing independent assurance about the operating efficiency and effectiveness of our controls

Key risks

The group has identified six primary categories of risk that arise from its activities

RISK	Insurance	Underwriting Reinsurance Claims management Reserving & ultimate reserves
	Credit	Reinsurers Brokers & intermediaries Investments
	Liquidity	Insurance & non-insurance cash calls
	Market	Foreign exchange Interest rate Price
	Operational	People Process Regulation Service provider Business continuity Information security Financial reporting Data integrity Legal
	Group	Strategic Reputation Management stretch

Note 2 on pages 72 to 81 provides further detail about the group's definition, appetite and controls for each of these risk categories

CORPORATE AND SOCIAL RESPONSIBILITY

In continuing to build Beazley as a premier risk-taking business, we take our corporate, social and environmental responsibility seriously We constantly consider the ethical implications of how we operate in our day-to-day business and put policies and procedures in place that reflect our commitment We also recognise the regulatory and reputational risks associated with ethical practice and adhere closely to the Association of British Insurers (ABI) guidelines published in October 2001 on the disclosure of listed companies' social responsibility policies and endeavours

Intrinsic to our culture is the ethical approach to business conducted by and towards all our stakeholders, including management, staff, clients, suppliers and shareholders The values that form the essence of our brand and our working culture are professionalism, integrity, effectiveness and being dynamic

Corporate responsibility

We are an equal opportunities employer and make it our policy to offer equal treatment to employees and prospective employees, ensuring that all are treated fairly and with dignity and respect We absolutely do not permit unlawful discrimination of any kind against any person, to include on the grounds of gender, race, nationality or ethnic origin, age, disability, religious beliefs, sexuality, marital status, working patterns or pregnancy

We are committed to taking positive action to ensure that all employees, whether full-time or part-time, receive equality of opportunity in recruitment, training, development, promotion and remuneration

We strive to ensure the health, safety and welfare of our employees and anyone else who may be affected by our operations Employees are expected to take reasonable care for their own health and safety at work as well as those of others, and to co-operate with management to create a safe and healthy working environment All employees, contractors and visitors are subject to induction, training and supervision in aspects of health & safety and additional training in ergonomics and fire safety awareness is provided to all employees All health and safety matters are communicated via notice boards, email memos, the intranet and via safety representatives

We believe that the knowledge and skills of our employees are a key element of organisational success and therefore invest in training and development We ensure that this is accessible by everyone and recognised as a shared responsibility between individual employees and the organisation

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

We are proud of our working culture that ensures that we achieve our aim to attract and retain talented staff in competitive markets and supports them as they strive to perform to an excellent standard

Social responsibility

We encourage employee involvement in a range of community programmes Nicholas Furlonge has recently been appointed chairman of the Lloyd's Community Programme Management Board in London, and encourages staff to involve themselves in helping pupils in schools in the Tower Hamlets area, one of the most deprived areas in the country The largest programme is "Reading Partners", where members of staff volunteer their lunch hour to sit with children and help them with their literacy There are currently over 20 volunteers, including two executive directors helping with the various partnership schemes In addition, two directors participated in the police mentoring programme, where a senior business person is paired with a senior police officer, in one of three of East London's most challenging boroughs, in order to help them develop their management skills

In 2007, we will extend our involvement into broader areas of the community encompassing a sports programme and interview training

The group made charitable donations during the year ended 31 December 2006 of £25,436 (2005 £31,689) The group's charity budget is managed by a charity committee chaired by Nicholas Furlonge, and consideration is given to a wide range of activities, particularly where members of staff are engaged in fund raising activities For example, these activities raised over £7,000 competing in a dragon boat race and over £2,000 in a white-water rafting competition Also, our annual Christmas card is distributed electronically to over 10,000 key clients and contacts, giving them the opportunity to indicate the charity that they wish us to support

In October 2006 we introduced a payroll-giving scheme in the UK in association with the Charities Aid Foundation By the end of December 2006, 10% of staff had joined the scheme, donating £7,391 annually to 31 different charities

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

Environmental responsibility

We are committed to achieving best practice in all the areas of the business where there may be an impact on the environment From our head office in Plantation Place in London we encourage environmentally aware behaviour including

- A policy for minimising waste by scanning risks and claims, which enables employees worldwide to view documents electronically rather than on paper
- Recycling facilities for plastics, glass, paper, cardboard and used toner cartridges at several points throughout the building
- Glass refillable bottles are used in lieu of disposable ones
- Recycling bins for old mobile telephones for charity
- Multi-functional scanner, printing, copying and faxing facilities exist and double-sided printing is encouraged
- In the head office building, motion detectors are fitted to lighting systems to ensure electricity usage is kept to a minimum and
- We also actively encourage the use of public transport and provide ample cycle racks, shower facilities and locker storage for those employees who cycle into work

We are also currently undertaking an environmental impact assessment of all our UK operations, including an assessment of its carbon emissions

BOARD OF DIRECTORS

Executive directors
Andrew Beazley (aged 53) is the chief executive of the company Andrew is a co-founder of Beazley Furlonge and the active underwriter for the managed syndicates 2623 and 623 He has 31 years' experience at Lloyd's and is chairman of Lloyd's of Japan

Andrew Horton (aged 44) is the group finance director and joined the board in June 2003 Andrew was previously UK chief financial officer at ING and, prior to January 2001, was deputy global chief financial officer and global head of finance for the equity markets division of ING Barings, having held various financial positions with ING Barings since January 1997 He qualified as a chartered accountant with Coopers and Lybrand in 1987

Nicholas Furlonge (aged 56) is responsible for the risk management of the Beazley group Nicholas is a co-founder of Beazley Furlonge, and has 35 years experience at Lloyd's He is also Chairman of the Lloyd's Community Programme Management Board and a director of the LMA He is also responsible for brand and communications and the ceded reinsurance department

Jonathan Gray (aged 53) is head of the group's property division Jonathan has 33 years of experience at Lloyd's, joining Beazley in 1992 He is an active underwriter in his area of expertise, open market commercial property risks

Neil Maidment (aged 44) is head of the group's reinsurance division Neil has 22 years of Lloyd's experience He joined Beazley in 1990 and remains an active underwriter on the account

Johnny Rowell (aged 45) is head of the group's specialty lines division Johnny has 22 years' experience, joining the market as a broker He joined Beazley in 1992 and continues as an active underwriter with a principal focus on professional liability

Clive Washbourn (aged 46) is the head of the group's marine division Clive has 24 years experience in the marine insurance industry and actively underwrites marine hull, marine liability and marine war risks He is a member of the LMA Marine Committee, the LMA Underwriting & the Claims Committee and is the chairman of the Joint War Committee

Non-executive directors
Jonathan Agnew (aged 65) is the chairman of the company Jonathan was formerly a managing director of Morgan Stanley and subsequently chief executive of Kleinwort Benson (now Dresdner Kleinwort) He has been chairman of Limit plc and Gerrard Group plc He is currently chairman of Nationwide Building Society, The Cayenne Trust plc, LMS Capital plc and senior independent director of Rightmove plc He was a member of the Council of Lloyd's from 1995 to 1998

Dudley Fishburn (aged 60) is chairman of HFC Bank Limited and a non-executive director of HSBC Bank plc He is a non-executive director of Altria Inc in the US

Andy Pomfret (aged 46) was appointed chief executive of Rathbone Brothers Plc in 2004 having held the position of finance director since 1999 Prior to that, he held positions at Peat, Marwick, Mitchell & Co (now KPMG) and Kleinwort Benson (now Dresdner Kleinwort)

Marty Becker (aged 54) is currently chairman and CEO of Max Re Capital, Ltd (Nasdaq - MXRE) and LaSalle Re, Ltd He was formerly chairman and CEO of Orion Capital Corporation, President and CEO of McDonough Caperton Insurance Group, and interim chairman and CEO of Trenwick Group, Ltd He is currently a director of Selective Insurance Group, Inc (Nasdaq - SIGI)

Gordon Hamilton (aged 61) recently retired as a senior audit partner in Deloitte & Touche LLP after more than 30 years, principally involved with listed multi-national company audits and major forensic assignments He is currently the director of the listed South African group, Barloworld Limited

Dan Jones (aged 55) retired in 2003 as vice-chairman for Marsh, Inc , responsible for non-North American operations, strategic planning, and mergers/acquisitions, based in London In 2006 he re-entered the broking business as chief executive for the broking operations of Fred A Moreton & Co , a Salt Lake City-based regional financial services concern focusing on the western United States

STATEMENT OF CORPORATE GOVERNANCE

Application of principles of good corporate governance

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

Compliance with code provisions

The board confirms that the company and the group have complied with the provisions set out in the Combined Code for the year ended 31 December 2006

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

The board

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

Joe Sargent and Tom Sullivan both retired on 31 October 2006 and during the year three further non-executive directors were appointed, Marty Becker, Dan Jones and Gordon Hamilton In December 2006 Clive Washbourn joined the board as an executive director and the appointment of a further non-executive director will be considered now the company is included in the FTSE 250 index

Biographies of board members appear on page 41 of this report These indicate the high levels and range of business experience that are essential to manage a business of this size and complexity A well defined operational and management structure is in place, and terms of reference exist for all board committees The roles and responsibilities of senior executives and key members of staff are clearly defined

The full board meets at least four times each year and more frequently where business needs require The board has a schedule of matters reserved for its decision including, inter alia statutory matters, approval of financial statements and dividends, appointments and terminations of directors, officers and auditors, appointments of committees and setting of terms of reference, review of group performance against budgets, approving of risk management strategy and material contracts, and the determining of authority levels within which management is required to operate

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

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

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

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

Full details of directors' remuneration and a statement of the company's remuneration policy are set out in the directors' remuneration report on pages 46 to 55 The members of the remuneration committee and the principal terms of reference of the committee appear on page 44

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

Board performance evaluation
In accordance with the requirements of the Combined Code, the board undertook a formal and rigorous evaluation of its own performance and that of its committees and individual directors in 2005 and a further evaluation will be carried out during 2007

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

Director	Board		Audit		Remuneration		Nomination		Investment	
	No of meetings	No attended	No of meetings	No attended	No of meetings	No attended	No of meetings	No attended	No of meetings	No attended
J G W Agnew	5	5	-	-	-	-	4	4	5	5
A F Beazley	5	5	-	-	-	-	-	-	-	-
M Becker (appointed 8 May 2006)	3	3	3	3	-	-	-	-	3	3
J D Fishburn	5	4	8	6	7	6	4	3	-	-
N H Furlonge	5	5	-	-	-	-	-	-	-	-
J G Gray	5	4	-	-	-	-	-	-	-	-
A G K Hamilton (appointed 8 September 2006)	1	1	1	1	3	3	-	-	-	-
D A Horton	5	5	-	-	-	-	-	-	5	5
D Jones (appointed 1 July 2006)	2	2	-	-	4	4	2	2	-	-
N P Maidment	5	5	-	-	-	-	-	-	5	5
A D Pomfret	5	5	8	8	7	5	4	2	-	-
J G B Rowell	5	5	-	-	-	-	-	-	-	-
J D Sargent (resigned 31 October 2006)	4	4	4	4	3	3	3	3	4	4
T F Sullivan (resigned 31 October 2006)	4	4	4	4	3	3	-	-	-	-
C A Washbourn (appointed 4 December 2006)	-	-	-	-	-	-	-	-	-	-

* Whilst a director and excludes directors attending by invitation

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

Audit committee
The audit committee currently comprises Andy Pomfret (committee chairman), Dudley Fishburn, Marty Becker and Gordon Hamilton Tom Sullivan and Joe Sargent resigned during the year The committee regularly meets without any executive management being present and the committee hold regular meetings with the head of internal audit, and with the external auditor

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

The committee also reviews any matters raised by the auditors and internal audit The chief executive, the finance director, and the risk management director are invited to attend part of each meeting of this committee The external auditors are invited to attend meetings regularly The auditors have unrestricted access to the members of the audit committee, and the committee ensures that meetings are used as an open avenue of communication between compliance, internal audit, the external auditors and the board The committee receives regular updates and monitors the status of actions taken by management to address issues raised by both external and internal audit Risk management provides reports to the audit committee on the risk assessment and the self-certification from risk owners of the operating effectiveness of internal controls

In respect of any firm of external auditors and consulting actuaries which may be appointed by any group company, the audit committee is also responsible for recommending their appointment and termination, recommending their terms of reference, receiving regular reports, independently of management where necessary, determining their independence, monitoring their performance, and approving their fees

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

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

The split between audit and non-audit fees for the year under review is disclosed on page 85 All of these are considered by the audit committee not to affect the auditors' independence or objectivity

Following publication of the Combined Code on corporate governance, the terms of reference of the audit committee have been expanded These are published on the company's website

Remuneration committee
The remuneration committee comprise Dudley Fishburn as chairman, together with Andy Pomfret, Dan Jones and Gordon Hamilton Joe Sargent and Tom Sullivan both resigned during the year The work of the remuneration committee is covered further in the directors' remuneration report on pages 46 to 55

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

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

Nomination committee
The nomination committee consists of Jonathan Agnew as chairman, together with Dudley Fishburn, Andy Pomfret and Dan Jones Joe Sargent resigned during the year It meets as required and makes recommendations to the board on all board appointments, including the selection of non-executive directors

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

Investment committee
The investment committee consists of Jonathan Agnew as chairman, together with Andrew Horton, Marty Becker, Neil Maidment, Peter Glynne-Percy and Arthur Manners Joe Sargent resigned during the year The committee makes recommendations to the board regarding the investment policy of the Beazley group and the syndicates, including the establishment of investment guidelines and monitoring of performance and compliance with those guidelines

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

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

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

A resolution is being proposed at the Annual General Meeting to allow the company to communicate with its shareholders using electronic and website communication and to allow for electronic proxy voting

Audit and internal control

The respective responsibilities of the directors and the auditors in connection with the accounts are explained on pages 56 to 58, and the statement of directors on going concern on page 59

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

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

The key procedures that the directors have established to ensure that internal controls are effective and commensurate with a group of this size include the day-to-day supervision of the business by the executive directors Other internal control procedures and reviews for effectiveness by the board include the

- Preparation of standard monthly, quarterly and periodic reporting as prescribed by the board for review by the various group committees,
- Review of financial, operational and compliance reports from management, and
- Review of any significant issues arising from the external audits

Further information on the role of the audit committee is set out above The committee, on behalf of the board, approves the internal audit project plan and any subsequent changes Internal audit reports directly to the audit committee, whose terms of reference include approving the appointment or termination of appointment, of the head of internal audit and monitoring and reviewing the effectiveness of the company's internal audit function

Consideration of matters relating to directors' remuneration
The remuneration policy is set by the board and is described below Individual remuneration packages of executive directors and the chairman are determined by the remuneration committee within the framework of this policy The remuneration committee consists of the non-executive directors and during the year the members included Dudley Fishburn as chairman, Andy Pomfret, Joe Sargent, Tom Sullivan, Dan Jones and Gordon Hamilton Details of the changes to the membership of the committee during the year are set out below The company views each of these directors as independent The committee met eight times during the year

The committee receives advice from a variety of sources on issues where it considers it appropriate New Bridge Street Consultants LLP advised the committee on ongoing issues The committee also calls on specialist advice from a variety of additional sources including Capita Hartshead Ltd for pension's advice, Watson Wyatt publications for salary data, The Share Option Centre, and internal advisers including the chief executive and the company secretary who present to the committee on specific issues

Remuneration policy statement
The directors believe that performance related remuneration is an essential motivation to management and staff, and this policy will form the basis for determining executive directors' remuneration for the current and forthcoming financial years The general philosophy underlying the reward strategy for executive directors is the same as that applied to all other employees Pay and employment conditions elsewhere in the company and data on comparable positions in other similar organisations are taken into consideration when determining executive directors' remuneration

The company's policy is to remunerate the executive directors and other management fairly in such a manner as to facilitate the recruitment, retention and motivation of suitably qualified personnel The measurement of the executive directors' performance and the determination of their annual remuneration package is undertaken by the remuneration committee The main elements of the remuneration package payable under the service agreement of each executive director comprise basic salary, short-term incentive payments, pension contributions, share-based incentives and other benefits Other benefits include private medical insurance for the director and his immediate family, permanent health insurance, death in service benefit at four times annual salary, accident and travel insurance, healthclub membership, season ticket, car parking and the provision of either a company car or a monthly car allowance

In line with Lloyd's market practice there are no upper limits on the amounts payable to individuals under short-term incentives The committee has considered whether it is appropriate to set an upper limit and has recently agreed that such a limit would adversely affect the company's competitive position and would not be in the interests of shareholders The incentive payments, which comprise short-term incentive payments and share incentive plans, are awarded on a discretionary basis, and are determined by the committee in respect of performance of both the individual and the company As the profitability of the group has improved significantly during the year, the committee was able to reflect this improved performance in the incentive awards made to directors The policy is to ensure that a material proportion of each executive director's overall remuneration is performance based to align executive directors' interests with those of shareholders

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

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

Section headings marked ▪ indicate the information in that section that has been audited

▪ Service contracts
The company has service contracts with executive directors It is company policy that such contracts contain notice periods of not more than twelve months Details of the contracts currently in place for executive directors who have served during the year and their basic salary for 2007 are as follows

	Annual salary £	Date of contract	Unexpired term*	Notice period	Provision for compensation
A F Beazley	450,000	6 Nov 2002	n/a	12 months	Nil
N H Furlonge	225,000	6 Nov 2002	n/a	12 months	Nil
J G Gray	285,000	6 Nov 2002	n/a	12 months	Nil
D A Horton	280,000	1 Jun 2003	n/a	12 months	Nil
N P Maidment	260,000	6 Nov 2002	n/a	12 months	Nil
J G B Rowell	400,000	6 Nov 2002	n/a	12 months	Nil
C A Washbourn	260,000	6 Dec 2006	n/a	12 months	Nil

- The unexpired term is not applicable as each of the executive director's contract is on a rolling basis
- C A Washbourn was appointed on 4 December 2006

Subject to the notice requirements described above, there is no provision in the service agreements for compensation to be payable on early termination of the contract The company will normally phase any payments of compensation which will also be subject to negotiation and mitigation

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

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

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

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

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

During the year the following non-directors resigned and were appointed to ensure that the board comprises sufficient non-executive directors to provide all these key competencies Following both the inclusion of the company within the FTSE 250 index in September 2006 and the appointment of Clive Washbourn as an executive director, the appointment of a further non-executive director will be considered

		Date of resignation and appointment
J D Sargent	Resignation	31 October 2006
T F Sullivan	Resignation	31 October 2006
D L Jones	Appointment	1 July 2006
W M Becker	Appointment	8 May 2006
A G K Hamilton	Appointment	8 September 2006

A bi-annual review of the fees and other income payable was carried by the board in December 2006 Details of the non-executive directors' terms of appointment and their fees for 2007 are set out below

	Current annual fees £	Term of appointment	Expires	Other income* £
J G W Agnew	75,000	3 years	31 Dec 2008	-
J D Fishburn	42,000	3 years	31 Dec 2008	7,000
A D Pomfret	42,000	3 years	31 Dec 2008	14,000
D L Jones	42,000	3 years	30 June 2009	-
W M Becker	42,000	3 years	7 May 2009	-
A G K Hamilton	42,000	3 years	7 Sept 2009	-

* Other income relates to the additional fee payable to A D Pomfret in respect of his chairmanship of the audit committee and as senior non-executive director and to J D Fishburn in respect of his chairmanship of the remuneration committee

Individual aspects of remuneration

- Details of individual emoluments and compensation

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

	Salary & fees[1] £	Enterprise bonus pool £	Staff underwriting Distribution £	Staff Underwriting deferred bonus £	Benefits [2] £	Salary supplements in lieu of pension contributions £	Total for 12 months to 31 December 2006 £	Personal pension contributions £	Total fo 12 month to 3 Decembe 200
J G W Agnew	68,000	-	-	-	-	-	68,000	-	68,00
A F Beazley	377,573	881,975	-	118,025	17,573	107,712	1,502,858	-	876,89
J D Fishburn	43,000	-	-	-	-	-	43,000	-	43,00
N H Furlonge	262,756	302,800	18,525	47,200	16,006	90,234	737,521	-	527,14
J G Gray	283,859	450,000	18,525	-	17,109	-	769,493	23,620	652,13
D A Horton	278,507	400,000	18,525	-	13,507	-	710,539	13,481	580,62
N P Maidment	269,188	500,000	18,525	-	19,813	-	807,526	19,059	522,87
A D Pomfret	46,000	-	-	-	-	-	46,000	-	46,00
J G B Rowell	320,057	1,021,317	-	78,683	15,557	-	1,435,614	19,548	774,03
J D Sargent	31,667	-	-	-	-	-	31,667	-	44,00
T F Sullivan	31,667	-	-	-	-	-	31,667	-	38,00
C A Washbourn (3)	17,097	648,143	13,200	51,857	797	-	731,094	1,892	
D L Jones	19,000	-	-	-	-	-	19,000	-	
W M Becker	24,846	-	-	-	-	-	24,846	-	
A G K Hamilton	11,838	-	-	-	-	-	11,838	-	
Total	2,085,055	4,204,235	87,300	295,765	100,362	197,946	6,970,663	77,600	4,172,69

1 Other than for the chairman, fees include fees paid for membership of board committees (investment, audit, remuneration and nomination committees) During the year non-executive directors were entitled to between £5,000 and £8,000 per annum in respect of the chairmanship of a committee

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

3 Salary, benefits and pension contributions have been disclosed from 4 December 2006, Clive Washbourn's date of appointment to the board

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

Salary

The remuneration committee reviews salaries annually taking into account levels in comparable positions in other similar financial companies It also considers the performance of the group, individual and average salary increases for employees across the whole group The salaries of Messrs Beazley and Rowell have been increased significantly during the year as the committee believes that increasing competitive pressures make it necessary and that it is in the best interests of shareholders for the salaries of these individuals to be in line with the top quartile of the salaries of directors of comparable companies at the current time

- Short-term incentives

Enterprise bonus pool

Since listing, the total pool available for distribution to participants under the enterprise pool equals 5 83% of the profits of the syndicates as reported on an annual accounting basis So, for 2006 the pool contains profits from the 2004, 2005 and 2006 years of account

During the year the committee reviewed the operation of the short-term incentive scheme to improve its efficiency and effectiveness It concluded that a scheme based on achieving stretching target returns on group equity with minimum hurdles to be met better aligned the interests of directors and staff with shareholders

A proportion of this pool is allocated among executive directors at the discretion of the committee In determining the award levels, the committee had regard to both methods of establishing the enterprise pool and as both the group's return on equity and syndicate profitability has improved, the level of awards made were increased

In addition, a proportion of any award can be paid in deferred shares that will vest after three years dependent only on continued employment

Retention plan
In addition to the 5 83% of syndicate profits that make up the enterprise bonus pool, senior executives will be eligible to receive conditional awards of ordinary shares under the retention plan

The retention plan is operated on a discretionary basis based on performance to ensure key individuals have an adequate retention package and the first grant of awards was made in April 2005 The remuneration committee has concluded that the award of retention shares should be targeted at key staff where retention is essential to the business and that executive directors who already have significant shareholdings are unlikely to be awarded retention shares in the future as additional awards of ordinary shares are unlikely to further align their interests with shareholders The total number of shares awarded to date has been 5,530,937 of which 5,015,426 ordinary shares are held by the employee benefit trust

Special award of retention shares to Clive Washbourn
On 4 December 2006 the committee awarded 1 million retention shares to Clive Washbourn at the time of his appointment to the board which was in excess of the grants allowed under the existing scheme The committee felt it was necessary to provide this meaningful incentive to retain his services in the longer term in the current climate 15% of the shares awarded shall become transferable to Clive Washbourn on or following the announcement of results for the financial year of the company ending 31 December 2008 Thereafter, 15% of the total outstanding shares held under the scheme shall become transferable on or following the announcement of the company's results for each subsequent financial year, subject to Clive remaining a director or employee within the company's group Dividends on shares still subject to retention will be rolled up and paid from the announcement of the results for the year ending 31 December 2008 and thereafter whenever dividends are paid to shareholders

The award will be forfeited if Clive Washbourn ceases to be an employee or director of the company's group unless he ceases by reason of injury, ill-health or permanent disability, retirement, redundancy, the sale or transfer of his employing company or business out of the company's group, or any other reason permitted by the remuneration committee In these circumstances, the award will vest early to the extent and on such terms determined by the remuneration committee

In the event of a takeover (not being an internal corporate reorganisation) or the voluntary winding-up of the company the award will vest early In the event of an internal corporate reorganisation awards may be replaced by equivalent new awards over shares in a new holding company No payment is required on the grant of the award The award is not transferable, except on death The award is not pensionable The award is over shares held by the company's employees' benefit trust and does not confer any shareholder rights until shares are transferred In the event of any variation of the company's share capital the remuneration committee may make such adjustment as it considers fair and reasonable to the number of shares subject to the award The remuneration committee may, at any time, amend this special award in any respect, provided that the prior approval of shareholders is obtained for any amendments that are to the advantage of Clive Washbourn in respect of the terms applying to the size of his award and the basis for determining his entitlement to, and the terms of, the shares and the adjustment of his award This prior approval will not, however, apply to any minor alteration made to benefit the administration of the award, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment

- Pensions

All executive directors, except D A Horton, participated in the Beazley Furlonge Limited final salary pension scheme up to 31 March 2006 This was a non-contributory final salary scheme subject to applicable Inland Revenue restrictions All executive directors, except A F Beazley and N H Furlonge, are subject to the Inland Revenue earnings cap on pension entitlements This scheme provided significant contractual entitlements to pensions for employees (including executive directors) which left the company exposed to potentially very high and unpredictable liabilities Consequently, a decision was taken to close the scheme to new members with effect from 31 December 2002 and accruals for future service for all members of the scheme ceased from 31 March 2006 The arrangements adopted on 1 April 2006 were devised to be on a cost-neutral basis to the company as well as reducing the longer term risk to the group

Details of the entitlements for service accruals up to 31 March 2006 of those directors who participated in the final salary scheme during the year are as follows

	Accrued	Increase in accrued benefits	Increase in accrued benefits	Transfer value of (A) less	Transfer value of accrued benefits at 31	Increase in transfer value less

	benefit at 31 Dec 2006	excluding inflation (A)	including inflation	directors' contributions	Dec 2006	directors' contributions
	£	£	£	£	£	£
A F Beazley	222,321	2,143	46,607	37,986	3,940,543	847,977
N H Furlonge	139,243	1,623	6,128	33,406	2,865,212	199,584
J G Gray	25,491	440	2,024	7,303	423,412	37,263
N P Maidment	29,401	440	2,268	5,004	334,085	26,098
J G B Rowell	25,961	440	1,908	3,462	306,023	22,991
C A Washbourn	13,762	440	1,295	5,415	169,496	16,364

The increase in the transfer value for the past service entitlement of A F Beazley and N H Furlonge reflects the increase in pensionable salary, as an additional quarter year's service has been accrued and as the discount rate and mortality assumptions used in the transfer value calculations have changed

The company and the trustees of the scheme have agreed to accelerate the funding of the deficit of the scheme and the final tranche of an additional £3m will be paid to fund the deficit shortly

From 1 April 2006 pension benefits for all staff have been by way of a defined contribution scheme arranged through Fidelity, which is non-contributory The salary supplements for the active final salary scheme members were based on the age of the individual and on the principle that there is no overall additional cost to the company

No other pension provisions are made The normal retirement age for pension calculation purposes is 60 years A spouse's pension is the equivalent of two-thirds of the member's pension (before any commutation) payable on the member's death after retirement

Share incentive plans

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

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

▪ The long-term incentive plan

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

The LTIP awards that were granted in May 2003 did not meet the performance criteria established and have therefore lapsed It is expected that the performance conditions in respect of the awards made in March 2004 will be met in part and therefore a proportion of the awards will vest

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

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

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

2005 and future	Shares worth up to 50% of salary	50% of the Basic Shares will be received if NAV growth equals or is greater than the risk-free rate of return plus 5% per year

awards	("Basic Shares")	AND/OR 25% of the Basic Shares will be received for median TSR performance and 50% of the Basic Shares will be received for upper quartile performance For performance between median and upper quartile the number of shares which can be received is determined on a straight-line basis
	Shares worth more than 50% of salary ("Additional Shares")	No Additional Shares will be received if NAV growth is less than the risk-free rate of return plus 5% per year 50% of the Additional Shares will be received for a rate of out-performance of the risk-free rate of return plus 10% or more per year For out-performance of the risk-free rate of return of between plus 5% and plus 10%, the number of shares which will be received is determined on a straight-line basis AND/OR No Additional Shares will be received if less than the upper quartile TSR performance is achieved 50% of the Additional Shares will be received if top decile performance is achieved For performance between upper quartile and top decile performance, the number of shares which will be received is determined on a straight-line basis
Awards up to 2004	Shares can only be received if two conditions are met (a) if NAV growth is greater than the risk free rate of return plus 5% per year AND (b) if TSR is at least median in the comparator group	If both conditions are met, 50% of the award vests at median TSR performance, with full vesting at upper quartile performance For performance between median and upper quartile the number of shares which can be received is determined on a straight-line basis

The company's TSR growth is compared with that of members of a comparator group comprising 11 companies from the insurance sector (the "comparator group") over a three-year period starting with the year in which the award is made The comparator group is defined as the Lloyd's vehicles listed on the London Stock Exchange and includes the following companies for the 2006 awards

- Alea
- Amlin
- Atrium
- Brit Insurance
- Chaucer
- Hardy
- Highway
- Hiscox
- Kiln
- Novae Group
- Catlin Group

The comparator group changed from last year as Cox, Goshawk and Wellington are either no longer listed or not trading, SVB changed its name to Novae Group and Catlin and Alea have been introduced as these companies are now listed on the London Stock Exchange

Details of entitlements under this plan, which are all subject to the above performance conditions, for directors who served during the period, are set out in the next table No awards were exercised during the period as none has vested unconditionally since the first grant was made under this plan

▪ The pre-IPO plan

Participation in the pre-IPO plan is restricted to employees and full-time executive directors of the Beazley Group Participants were selected on a discretionary basis No payment is required for the grant of an option All options under the pre-IPO plan were granted on 6 November 2002 and no further grants are anticipated

The exercise price per ordinary share for this grant is 71 44p (as adjusted for the 2004 rights issue), and options will normally be exercisable (subject to meeting the performance conditions set out below) between the third and the tenth anniversaries of grant

The initial performance condition was not met during the three years following the grant of the options, being TSR growth of at least 100% As the performance target was not achieved within this period, the TSR target was increased by 10% per annum and only 75% of the options can vest if the target is achieved within the first year of the additional period This enhanced performance condition was met on 22 January 2007 and 75% of the awards have vested

The above performance conditions were set when the scheme was established by board resolution on 6 November 2002 These conditions were considered appropriate because a target TSR growth of 100%, while imposing a demanding requirement on the participants, would, if achieved, ensure that shareholders also receive attractive returns

▪ The unapproved share option plan

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

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

- An option may be exercised over all ordinary shares under option if the cumulative growth in NAV plus dividends per share is equal to or exceeds the risk-free rate of return (this being defined as the average yield of UK gilts with maturity dates within the next five years) in the relevant period plus 10% per annum,
- An option may be exercised over half the ordinary shares under option if the cumulative growth in NAV plus dividends per share is equal to the risk-free rate of return plus 5% per annum,
- For performance where the cumulative growth in NAV plus dividends per share equals a number between the risk-free rate of return plus 5% and 10% per annum, the number of ordinary shares over which an option can be exercised will be calculated on a straight-line basis between these two points,
- If the option is not fully exercisable at the end of the three-year period, it will be re-tested once, on the fourth anniversary of the date of grant, from a fixed base The option is exercisable over whichever is the higher number of options vesting, and
- The option will lapse if NAV plus dividends per share performance is below the risk-free rate of return plus 5% per annum in both periods

The performance conditions above were set when these plans were established by board resolution on 6 November 2002 These performance conditions were considered to be appropriate as, they impose demanding performance requirements, while ensuring that shareholders also receive attractive returns over the performance period It is expected that a proportion of the unapproved (and approved) options granted in 2003 and 2004 will vest following the announcement of the results for the year ended 31 December 2006 while the options awarded in 2002 have not met the performance criteria and have lapsed

▪ The approved share option plan

Participation in the approved plan is restricted to employees and full-time executive directors of the Beazley group The terms and conditions are consistent with the unapproved plan, except that the plan has been approved by HMRC (formerly known as the Inland Revenue)

Save-as-you-earn-scheme

A SAYE scheme, administered by Yorkshire Bank plc, was launched in May 2003 for the benefit of staff The scheme rules were approved by HMRC

The scheme offered a three-year savings contract period with options being offered at a price of 73p (as adjusted for the 2004 rights issue) for grants in 2003, 74p (as adjusted for the 2004 rights issue) for grants in 2004, 74p for grants in 2005 and 93p for grants in 2006 representing the maximum allowed discount of 20% Monthly contributions are made through payroll deduction directly to individual Yorkshire Bank accounts on behalf of participating employees

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

Savings-related share option plan for US employees

The Beazley Group plc savings-related share option plan for US employees (the Plan) permits all eligible US-based employees to purchase shares of Beazley Group at a discount of up to 15% to the shares' fair market value The plan is designed to comply with the terms of Section 423 of the US Internal Revenue Code A similar arrangement (SAYE scheme) is in place for UK-based Beazley Group employees Approval is being sought from shareholders for the adoption of this Plan

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

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

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

The share plans permit 10% of the company's share capital to be issued pursuant to options/LTIP awards in a 10-year period Since November 2002, 30% of this allowance (3 0%) has been allocated for option and LTIP awards

- Directors' share scheme interests

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

	Scheme	At 31 Dec 2005	Awarded	Exercised	Lapsed	At 31 Dec 2006	Ex Price	Earliest date of exercise	Expiry date
A F Beazley	Pre-IPO plan	996,584	-	-	-	996 584	71 44	06/11/2005	06/11/2012
	Unapproved plan	244,086	-	-	-	244 086	71 44	06/11/2005	06/11/2012
	Unapproved plan	153,265	-	-	-	153 265	90 04	15/05/2006	15/05/2013
	Unapproved plan	84 300	-	-	-	84,300	93 95	29/03/2007	29/03/2014
	LTIP	51,092	-		51,092-	-	Nil	N/A	N/A
	LTIP	28,101	-	-	-	28,101	Nil	29/03/2007	29/03/2014
	LTIP	140,449	-	-	-	140,449	Nil	21/03/2008	21/03/2015
	LTIP		133,698	-	-	133 698	Nil	21/03/2009	21/03/2016
	SAYE 2006		10,083	-	-	10,083	92 73	01/07/2006	01/01/2010
	SAYE 2003	12,945		12 945					
	Retention plan	112,359	-	-		112 359	Nil	21/03/2008	-
	Retention plan	-	222,831	-	-	222,831	Nil	21/03/2009	

N H Furlonge	Pre-IPO plan	410,358	-		-	410 358	71 44	06/11/2005	06/11/2012
	Approved plan	31 931	-		-	31,931	93 95	29/03/2007	29/03/2014
	Unapproved plan	92,385	-	-	-	92 385	71 44	06/11/2005	06/11/2012
	Unapproved plan	72 512	-		-	72 512	71 44	15/05/2006	15/05/2013
	Unapproved plan	25 545	-		-	25,545	93 95	29/03/2007	29/03/2014
	LTIP	24,173	-		24 173	-	Nil	N/A	N/A
	LTIP	19 159	-	-	-	19 159	Nil	29/03/2007	29/03/2014
	LTIP	184 831	-	-	-	184,831	Nil	21/03/2008	21/03/2015
	LTIP		70 781	-	-	70,781	Nil	21/03/2009	21/03/2016
	SAYE 2004	12 736	-	-	-	12 736	74	01/06/2007	01/12/2007
	Retention plan	28 089		-	-	28 089	Nil	21/03/2008	-
	Retention plan		70,781	-	-	70,781	Nil	21/03/2009	
J G Gray	Pre-IPO plan	820,716		-	-	820,716	71 44	06/11/2005	06/11/2012
	Approved plan	31,931		-	-	31,931	93 95	29/03/2007	29/03/2014
	Unapproved plan	118 105		-		118 105	71 44	06/11/2005	06/11/2012
	Unapproved plan	92 700	-	-	-	92 700	90 04	15/05/2006	15/05/2013
	Unapproved plan	33,209	-	-		33,209	93 95	29/03/2007	29/03/2014
	LTIP	30,902	-	-	30,902	-	Nil	N/A	N/A
	LTIP	21 714	-	-	-	21,714	Nil	29/03/2007	29/03/2014
	LTIP	190 730	-	-	-	190 730	Nil	21/03/2008	21/03/2015
	LTIP	-	101,506	-	-	101 506	Nil	21/03/2009	21/03/2016
	SAYE 2003	12,945		12 945					
	Retention plan	84,269	-		-	84,269	Nil	21/03/2008	
	Retention plan	-	135 341		-	135,341	Nil	21/03/2009	
D A Horton	Pre-IPO plan	-	-		-	-	-	-	
	Approved plan	30,351	-	-	-	30,351	98 84	13/06/2006	13/06/2013
	Approved plan	1	-	-	-	1	93 95	29/03/2007	29/03/2014
	Unapproved plan	159 348		-	-	159 348	98 84	13/06/2006	13/06/2013
	Unapproved plan	65 140		-	-	65 140	93 95	29/03/2007	29/03/2014
	LTIP	63,233-		-	63 233	-	Nil	N/A	N/A
	LTIP	21 714	-	-		21 714	Nil	29/03/2007	29/03/2014
	LTIP	189 606	-	-		189 606	Nil	21/03/2008	21/03/2015
	LTIP		88,476	-		88 476	Nil	21/03/2009	21/03/2016
	SAYE 2004	10 083	-	-		10 083	74	01/07/2009	01/01/2010
	Retention plan	95 505	-	-		95 505	Nil	21/03/2008	-
	Retention plan	-	117 968	-	-	117,968	Nil	21/03/2009	
N P Maidment	Pre-IPO plan	879,339	-	-	-	879 339	71 44	06/11/2005	06/11/2012
	Approved plan	31,931	-		-	31 931	93 95	29/03/2007	29/03/2014
	Unapproved plan	115,481	-		-	115,481	71 44	06/11/2005	06/11/2012
	Unapproved plan	90 641	-		-	90,641	90 04	15/05/2006	15/05/2013
	Unapproved plan	33 209	-		-	33,209	93 95	29/03/2007	29/03/2014
	LTIP	-	-	-	30,216	-	Nil	N/A	N/A
	LTIP	21,714	-	-	-	21,714	Nil	29/03/2007	29/03/2014
	LTIP	186,404	-	-	-	186 404	Nil	21/03/2008	21/03/2015
	LTIP	-	68,487	-	-	68 487	Nil	21/03/2009	21/03/2009
	SAYE 2003	12,945		12 945					
	SAYE 2006	-	10 083	-	-	10 083	92 73	01/07/2009	01/01/2010
	Retention Plan	84 269		-	-	84 269	Nil	21/03/2008	
	Retention Plan		91 317	-	-	91 317	Nil	21/03/2009	
J G B Rowell	Pre-IPO plan	586 226		-		586,226	71 44	06/11/2005	06/11/2012
	Approved plan	31 931		-		31 931	93 95	29/03/2007	29/03/2014
	Unapproved plan	120,731	-	-		120 731	71 44	06/11/2005	06/11/2012
	Unapproved plan	94 760	-	-		94,760	90 04	15/05/2006	15/05/2013
	Unapproved plan	33 209	-	-		33 209	93 95	29/03/2007	29/03/2014
	LTIP	-	-	-	31 589	-	Nil	N/A	N/A
	LTIP	21 714	-	-	-	21,714	Nil	29/03/2007	29/03/2014
	LTIP	210 112	-	-	-	210 112	Nil	21/03/2008	21/03/2015
	LTIP	-	121,639		-	121 639	Nil	21/03/2009	21/03/2016
	SAYE 2003	12,945	-	12 945	-				
	Retention plan	84 269	-		-	84,269	Nil	21/03/2008	-
	Retention plan	-	162 186		-	162 186	Nil	21/03/2009	

C A Washbourn	Pre-IPO plan	476,170	-	-	-	476,170	73	06/11/2005	06/11/2012
	Approved plan	38,461	-	-	-	38 461	78	13-Nov	13-Nov
	Unapproved plan	59 076	-	-	-	59,076	73	06/11/2005	06/11/2012
	Unapproved plan	5,449	-	-	-	5,449	78	13/11/2005	13/11/2012
	Unapproved plan	62 903	-	-		62 903	92	15/05/	15-May
	Unapproved plan	63 750	-	-	-	63 750	96	29/03/	29/03/
	LTIP	21,697	-	-	21,697	-	Nil	N/A	N/A
	LTIP	21 250	-	-	-	21,250	Nil	24/03/2007	24/03/2014
	LTIP	169 101	-	-	-	169 101	Nil	21/03/2008	21/03/2015
	LTIP	-	90 181	-	-	90,181	Nil	21/03/2009	21/03/2016
	SAYE 2004	12 736		-	-	12,736	74	01/07/2007	01/12/2007
	Retention plan	95,505		-	-	95,505	Nil	21/03/2008	-
	Retention plan	-	120 241	-	-	120 241	Nil	21/03/2009	
	Retention plan		1,000 000			1 000,000	Nil	4/12/2009	

Other than the pre-IPO plan options, all the share incentive awards that have performance conditions relating to TSR or growth in NAV have not yet met performance targets established

LTIP awards mid-market price at 26 March 2004 was 94p (Source Bloomberg)
LTIP awards mid-market price at 18 March 2005 was 89p (Source Bloomberg)
LTIP awards mid-market price at 21 March 2006 was 116p (Source Bloomberg)

- Directors' interests in shares

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

	Number of ordinary shares held as at 1 January 2006 or at date of appointment if later	Acquired or exercised options during year	Number of ordinary shares held as at 31 December 2006	Shareholding as a percentage of the total issued ordinary share capital as at 31 December 2006
J G W Agnew	114,263	-	114,263	0 03
A F Beazley	7,009,905	107,945	7,117,850	1 97
J D Fishburn	15,714	-	15,714	0 00
N H Furlonge	2,510,831	-	2,510,831	0 70
J G Gray	3,368,805	12,945	3,381,749	0 94
D A Horton	36,461	-	36,461	0 01
N P Maidment	2,945,307	-	2,958,251	0 82
A D Pomfret	16,500	-	16,500	0 00
J G B Rowell	4,120,663	662,945	4,783,608	1 32
J D Sargent (Note 1)	1,292,193	-	N/A	-
T F Sullivan (Note 1)	10,000	-	N/A	-
C A Washbourn	-	-	-	-
W M Becker	-	20,000	20,000	0 01
A G K Hamilton	-	10,000	10,000	0 00
D L Jones	-	-	-	-

Note 1 - Resigned on 31 October 2006

With a total of 361,028,809 issued shares at 31 December 2006, the directors held 5 81%

- Underwriting interests on Syndicate 623

The following directors participated in Syndicate 623 either directly through NameCos or indirectly through Beazley Staff Underwriting Limited

	2006 year of account capacity	2007 year of account capacity
	£	£
J G W Agnew	78,253	-
A F Beazley	1,395,953	2,124,477
N H Furlonge	211,819	232,558
J G Gray	111,841	122,791
D A Horton	111,841	232,558

N P Maidment	111,841	122,791
J G B Rowell	1,600,000	2,048,954
C A Washbourn	109,843	120,598

The directors believe that it is important that the incentive arrangements include an element of downside risk to align further with the interests of capital providers The directors participate in the underwriting and have exposure to underwriting results either through direct involvements in NameCos or through participation in Beazley Staff Underwriting Limited that provides an indirect involvement in the results of the syndicate The majority of underwriters have an interest through this company and have agreed to defer future bonuses that will be at risk if the syndicate declares losses

Annual general meeting

A resolution will be proposed at the forthcoming annual general meeting to be held on 3 May 2007 to approve this directors' remuneration report

By order of the board

Dudley Fishburn
Chairman of the remuneration committee
Plantation Place South
60 Great Tower Street
London EC3R 5AD

7 March 2007

DIRECTORS' REPORT

The directors have pleasure in presenting their report and the audited financial statements of the group for the year ended 31 December 2006

Principal activity
The company is the ultimate holding company for the Beazley group, a global specialist risk insurance and reinsurance business operating through Lloyd's syndicates 2623 and 623 in the UK and BICI, a US admitted carrier in the US

Review of business
A more detailed review of the business for the year and a summary of future developments are included in the chairman's statement on pages 7 to 8 and the business review on pages 9 to 14

Results and dividends
The consolidated profit after taxation for the year ended 31 December 2006 amounted to £59 9m (2005 £11 1m)

The directors recommend a final dividend of 3 2p (2005 2 5p) per share This, when taken with the interim dividend of 1 6p (2005 1 5p) per share, gives a total dividend of 4 8p per share for the year ended 31 December 2006 (2005 4 0p)

Directors
The directors of the company at 31 December 2006, who served during the year and to the date of this report, were as follows

Jonathan Geoffrey William Agnew	(non-executive chairman)
Andrew Frederick Beazley	(chief executive)
David Andrew Horton	(group finance director)
Nicholas Hill Furlonge	(director)
Jonathan George Gray	(director)
Neil Patrick Maidment	(director)
Jonathan George Benton Rowell	(director)
Clive Andrew Washbourn	(director - appointed on 4 December 2006)
John Dudley Fishburn	(non-executive director)
Andrew David Pomfret	(non-executive director)
Joseph Denny Sargent	(non-executive director - resigned 31 October 2006)
Thomas Francis Sullivan	(non-executive director- resigned 31 October 2006)
Daniel Lawrence Jones	(non-executive director - appointed 1 July 2006)
William Marston Becker	(non-executive director - appointed 8 May 2006)
Alexander Gordon Kelso Hamilton	(non-executive director - appointed 8 September 2006)

In accordance with the articles of association, Clive Washbourn, Dan Jones, Marty Becker and Gordon Hamilton offer themselves for re-election as they were appointed directors during the year and Johnny Rowell, Andrew Horton, Jonathan Gray and Andy Pomfret retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting

Details of directors' service contracts and beneficial interests in the company's share capital are given in the directors' remuneration report on pages 46 to 55 Biographies of directors seeking re-election are set out on page 41

Corporate governance
The company's compliance with corporate governance is disclosed in the corporate governance statement on pages 42 to 45

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

After reviewing the group's budgets and medium-term plans, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future

Supplier payment policy
The company and group's policy for the year ending 31 December 2006, for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction, to ensure the supplier is aware of those terms and to abide by the agreed terms of payment The group had an average 46 days, purchases included in trade creditors at 31 December 2006 (2005 38 days)

Corporate, social and environmental responsibility

The company's corporate, social and environmental policy is disclosed on pages 39 to 40

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

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

Further information on reinsurance, borrowings and financial instruments is contained in notes 18, 23, 24 and 25 to the financial statements

Substantial shareholdings
As at 26 February 2007, the board had been notified of, or was otherwise aware of, the following shareholdings of 3% or more of the company's issued ordinary share capital

	Number of ordinary shares	%
Amvescap plc and subsidiaries	71,514,051	19 81
Jupiter Asset Management Limited	30,334,806	8 40
Aberforth Partners	19,048,743	5 28
Legal & General Group plc	19,020,864	5 26
Scottish Widows	18,140,066	5 02
Baillie Gifford	15,291,696	4 24
AXA Framlington Investment Managers	11,296,428	3 13

Annual general meeting

The notice of the annual general meeting to be held at 4 00pm on Thursday, 3 May 2007 at Plantation Place South is set out in the circular to shareholders regarding the annual general meeting

Resolutions to be proposed at the forthcoming annual general meeting are, inter alia

- Renew the directors' general authority to allot the company's ordinary shares up to an aggregate nominal amount of £4,500,000 This authority shall expire on whichever is the earlier of the conclusion of the annual general meeting of the company to be held in 2008 or the date falling fifteen months from the passing of this resolution The directors have no present intention of exercising this authority, which represents 24 93% of the present issued share capital,

- Approve a limited disapplication of pre-emption rights on allotments for cash up to an aggregate nominal amount of £900,000, representing 4 99% of the present issued share capital

- Authorise the directors to make purchases of the company's ordinary shares in the market for cancellation or to be held in treasury when the directors consider that it would be in the best interests of the company to do so, up to an aggregate nominal amount of £1,805,000, representing 10% of the present issued share capital

  Following the introduction of The Companies (Acquisitions of Own Shares) (Treasury Shares) Regulations 2003, companies are now able to hold shares acquired by way of market purchase in treasury, rather than cancelling them The company may consider holding any of its own shares which it purchases pursuant to the authority conferred by the relevant resolution as treasury shares This would allow the company to sell shares out of treasury, providing the company with the ability to replenish its distributable reserves No dividends will be paid on any shares held in treasury and no voting rights will attach to such shares It will also be possible for the company to transfer shares out of treasury, pursuant to an employee share scheme

  At 7 March 2007 the company held no shares in treasury

This is a renewal of the authority granted by shareholders at the 2004 annual general meeting, since when no shares have been re-purchased

- A resolution to approve the savings-related share option plan for US employees as described on page 53 and in appendix one of the circular

- A resolution to approve changes to the company's Long term Incentive Plan regarding the eligibility of employees to participate in the plan and the ability of participants to exercise options early upon ceasing employment by reason of retirement with the agreement of the company as described in appendix two of the circular

- A resolution to adopt new Articles of Association to allow the company to communicate with its shareholders using electronic and website communication and to allow for electronic proxy voting

At 7 March 2007 there are outstanding options to subscribe for 10 0m ordinary shares pursuant to employee share schemes, representing 2 9% of the issued share capital If the authority to purchase shares were exercised in full, these options would represent 2 7% of the enlarged issued share capital

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

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

By order of the board

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

7 March 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the directors' report and the group and parent company financial statements, in accordance with applicable law and regulations

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

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

In preparing each of the group and parent company financial statements, the directors are required to

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BEAZLEY GROUP PLC

We have audited the group and parent company financial statements (the "financial statements") of Beazley Group plc for the year ended 31 December 2006 which comprise the consolidated income statement, the group and parent company balance sheets, the group and parent cash flow statements, the group and parent statement of movements in equity and the related notes These financial statements have been prepared under the accounting policies set out therein We have also audited the information in the directors' remuneration report that is described as having been audited

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

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the statement of directors' responsibilities on page 59

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements

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

We review whether the corporate governance statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures

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

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed

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

Opinion
In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the parent company's affairs as at 31 December 2006,
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the directors' report is consistent with the financial statements

KPMG Audit Plc
Chartered accountants
Registered auditor

KPMG Audit Plc

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

7 March 2007

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 £m	2005 £m
Gross premiums written	3	745 1	558 0
Written premiums ceded to reinsurers		(170 8)	(132 2)
Net premiums written	**3**	**574.3**	**425.8**
Change in gross provision for unearned premiums		(84 9)	(73 7)
Reinsurer's share of change in the provision for unearned premiums		20 2	20 2
Change in net provision for unearned premiums		(64 7)	(53 5)
Net earned premiums	**3**	**509.6**	**372.3**
Net investment income	4	48 3	31 6
Other income	5	7 1	6 9
		55 4	38 5
Revenue		**565 0**	**410 8**
Insurance claims		357 0	463 7
Insurance claims recoverable from reinsurers		(86 3)	(190 7)
Net insurance claims	3	270 7	273 0
Expenses for the acquisition of insurance contracts	3	129 6	95 5
Administrative expenses	6	38 8	23 0
Other expenses	6	33 5	1 4
Operating expenses		**201.9**	**119 9**
Expenses	**3**	**472.6**	**392 9**
Results of operating activities		**92 4**	**17 9**
Finance costs	8	(5 6)	(1 8)
Profit before tax		**86 8**	**16 1**
Comprises:			
Profit before tax and foreign exchange adjustments on non-monetary items		96 2	7 9
Foreign exchange on non-monetary items		(9 4)	8 2
Income tax expense	9	(26 9)	(5 0)
Profit after tax		**59 9**	**11 1**
Earnings per share (pence per share).			
Basic	10	16 8	3 1
Diluted	10	16 7	3 1

BALANCE SHEET
AS AT 31 DECEMBER 2006

		2006		2005	
	Notes	Group £m	Company £m	Group £m	Company £m
Assets					
Intangible assets	12	21 9	-	18 2	-
Plant and equipment	13	7 0	-	2 5	-
Investment in subsidiaries		-	65 1	-	31 7
Investment in associates	14	1 3	-	1 3	-
Deferred acquisition costs	15	78 9	-	52 7	-
Financial investments	16	958 4	340 0	771 9	221 9
Insurance receivables	17	244 0	-	158 9	-
Deferred income tax	26	3 5	-	2 4	-
Reinsurance assets	18,23	345 3	-	394 5	-
Current income tax		-	0 7	-	-
Other receivables		14 5	25 4	28 4	48 4
Cash and cash equivalents	19	209 4	29 8	112 6	6 7
Total assets		**1,884 2**	**461 0**	**1,543 4**	**308.7**
Equity					
Share capital	20	18 1	18 1	18 0	18 0
Reserves	21,22	225 8	230 9	232 1	229 4
Retained earnings		75 6	14 9	30 3	16 1
Total equity		**319.5**	**263.9**	**280.4**	**263.5**
Liabilities					
Insurance liabilities	23	1,225 6	-	1,096 4	-
Borrowings	24	154 9	157 0	29 1	10 5
Derivative financial instruments	25	2 4	2 4	-	-
Deferred income tax	26	11 6	-	6 0	-
Current income tax liabilities		15 6	-	4 5	1 3
Other payables	27	152 7	37 7	124 1	33 4
Retirement benefit obligations	28	1 9	-	2 9	-
Total liabilities		**1,564 7**	**197 1**	**1,263 0**	**45 2**
Total equity and liabilities		**1,884 2**	**461 0**	**1,543 4**	**308 7**

The financial statements were approved by the board of directors on 7 March 2007 and were signed on its behalf by

J G W Agnew, Chairman
A F Beazley, Chief Executive
D A Horton, Finance Director

STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2006

Group	Notes	Share capital £m	Reserves £m	Retained earnings £m	Total £m
Balance at 1 January 2005		**18 0**	**232.5**	**27 1**	**277.6**
Retained profits for the year		-	-	11 1	11 1
Foreign exchange translation differences		-	0 8	-	0 8
Dividends paid	11	-	-	(7 9)	(7 9)
Increase in employee share options	21	-	0 4	-	0 4
Acquisition of own shares in trust	21	-	(1 6)	-	(1 6)
Balance at 31 December 2005		**18 0**	**232.1**	**30 3**	**280 4**
Retained profits for the year		-	-	59 9	59 9
Change in net investment hedge		-	(0 6)	-	(0 6)
Foreign exchange translation differences		-	(2 8)	-	(2 8)
Dividends paid	11	-	-	(14 6)	(14 6)
Issue of shares	20	0 1	0 3	-	0 4
Increase in employee share options	21	-	0 8	-	0 8
Acquisition of own shares in trust	21	-	(4 0)	-	(4 0)
Balance at 31 December 2006		**18 1**	**225.8**	**75 6**	**319 5**

Company	Notes	Share capital £m	Reserves £m	Retained earnings £m	Total £m
Balance at 1 January 2005		**18 0**	**230.5**	**2 1**	**250.6**
Retained profits for the year		-	-	21 9	21 9
Foreign exchange translation differences		-	(1 1)	-	(1 1)
Dividends paid	11	-	-	(7 9)	(7 9)
Balance at 31 December 2005		**18 0**	**229.4**	**16 1**	**263 5**
Retained profits for the year		-	-	13 4	13 4
Foreign exchange translation differences		-	1 3	-	1 3
Dividends paid	11	-	-	(14 6)	(14 6)
Issue of shares	20,21	0 1	0.2	-	0 3
Balance at 31 December 2006		**18 1**	**230.9**	**14 9**	**263 9**

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Notes	2006 Group £m	2006 Company £m	2005 Group £m	2005 Company £m
Cash flow from operating activities					
Profit before tax		86 8	14 4	16 1	23 6
Adjustments for non-cash items					
Amortisation of intangibles		1 4	-	0 3	-
Equity settled share based compensation		0 8	-	0 4	-
Foreign exchange translation of foreign subsidiary		(4 6)	-	1 9	-
Net fair value losses/(gains) on financial assets		(8 8)	0 8	(3 0)	0 7
Depreciation of plant & equipment		1 2	-	-	-
Changes in operating assets and liabilities					
Increase in insurance liabilities		129 2	-	635 9	-
Increase in insurance receivables		(85 1)	-	(69 9)	-
Decrease/(Increase) in other receivables		13 9	22 9	(3 0)	(21 8)
Increase in deferred acquisition costs		(26 2)	-	(14 4)	-
Decrease/(Increase) in reinsurance assets		49 2	-	(296 2)	-
Increase in other payables		37 6	6 5	69 0	32 7
Income tax paid		(11 5)	(3 1)	(5 8)	(1 1)
Contribution to pension fund		(1 0)	-	(1 0)	-
Acquisition of own shares in trust	21	(4 0)	-	(1 6)	-
Net cash from operating activities		**178 9**	**41 5**	**328 7**	**34 1**
Cash flow from investing activities					
Purchase of plant and equipment	13	(5 7)	-	(2 5)	-
Purchase of syndicate capacity	12	(0 2)	-	(1 6)	-
Acquisition of subsidiary (net of cash acquired)		(2 2)	-	-	-
Purchase of licences	12	-	-	(5 1)	-
Purchase of investments		(2,125 1)	(412 4)	(1,419 3)	211 1
Purchase of software development	12	(3 1)	-	(3 6)	-
Proceeds from sale of investments		1,947 2	293 5	1,120 2	(205 7)
Capital injection in subsidiary		-	(33 4)	-	(26 6)
Net cash used in investing activities		**(189 1)**	**(152.3)**	**(311 9)**	**(21 2)**
Cash flow from financing activities					
Proceeds from issue of shares		0 4	0 4	-	-
Repayment of syndicated loan		(18 6)	-	-	-
Proceeds from Tier 2 subordinated debt		148 1	148 1	18 6	-
Dividends paid	11	(14 6)	(14 6)	(7 9)	(7 9)
Net cash used in financing activities		**115 3**	**133 9**	**10.7**	**(7 9)**
Net increase in cash and cash equivalents		**105 1**	**23 1**	**27.5**	**5 0**
Cash and cash equivalents at beginning of year		**112 6**	**6 7**	**81 5**	**1 7**
Effect of exchange rate changes on cash and cash equivalents		**(8 3)**	**-**	**3 6**	**-**
Cash and cash equivalents at end of year	19	**209 4**	**29 8**	**112 6**	**6 7**

NOTES TO THE FINANCIAL STATEMENTS

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 2006 comprise the parent company and its subsidiaries and the group's interest in associates

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with IFRSs as adopted by the EU ('Adopted IFRSs) On publishing the parent company financial statements here together with the group financial statements, the company is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements

These consolidated financial statements have been prepared on the basis of adopted IFRSs in issue that are effective or available for early adoption at 31 December 2006 Based on these adopted IFRSs, the directors have applied the accounting policies, as set out below

In preparing these consolidated financial statements, the group and the parent company have adopted IFRS 7 Financial Instruments Disclosures and IAS 1 Presentation of Financial Statements - Capital Disclosures prior to their required application date of 1 January 2007 The group and the parent company have also adopted the amendments to IAS 19 Employee Benefits, in relation to defined benefit plans and the amendment to IAS 39 The Fair Value Option

The adoption of IFRS 7 and the amendments to IAS 1 and IAS 19 impacted the type and amount of disclosures made in these financial statements, but had no impact on the reported profits or financial position of the group or the parent company In accordance with the transitional requirements of the standards, the group and the parent company have provided full comparative information

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

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

Basis of presentation

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

Use of estimates

The preparation of the financial statements in conformity with IFRSs requires the group to make certain critical estimates and assumptions Although these estimates are based on management's best knowledge of current facts, circumstances and to some extent future events and actions, actual results ultimately may differ from those estimates, possibly significantly

Consolidation

a) Subsidiary undertakings

Subsidiary undertakings, which are those entities in which the group, directly or indirectly, has the power to exercise control over financial and operating policies, have been consolidated They are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control ceases

The group has used the purchase method of accounting for the acquisition of subsidiaries Under purchase accounting, the cost of acquisition is measured as the fair value of assets given, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition The excess of the cost of an acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill

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

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

Investments in associates are accounted for using the equity method of accounting Under this method, the group's share of post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements are recognised in reserves The cumulative post-acquisition movements are adjusted against the cost of the investment

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

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

c) Intercompany balances and transactions
All intercompany transactions, balances and unrealised gains or losses on transactions between group companies have been eliminated

All accounting policies have been consistently applied throughout the group

Foreign currency translation
a) Functional and presentation currency
Items included in the financial statements of the parent and the subsidiaries are measured using the currency of the primary economic environment in which it operates (the "functional currency") The consolidated financial statements are presented in sterling, which is the group's presentation currency

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

c) Group companies
The results and financial position of the group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows
- assets and liabilities are translated at the closing rate ruling at the balance sheet date,
- income and expenses for each income statement are translated at average exchange rates for the reporting period, and
- all resulting exchange differences are recognised as a separate component of equity

The exchange differences on disposal of foreign entities are recognised in the income statement as part of the gain or loss on disposal

Insurance contracts
Insurance contracts (including inwards reinsurance contracts) are defined as those containing significant insurance risk Insurance risk is considered significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance

Such contracts remain insurance contracts until all rights and obligations are extinguished or expire

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

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

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

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

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

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

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

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

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

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

Profit commissions and managing agent's fees are recognised as the services are provided

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

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

Fixtures and fittings	Three to five years
Computer equipment	Three years

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

Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net assets of the acquired subsidiary/associate at the date of acquisition Goodwill is carried at cost less accumulated impairment losses

Goodwill has an indefinite life and is annually tested for impairment Goodwill is allocated to each cash generating unit for the purpose of impairment testing Goodwill is impaired when the net present value of the forecast future cash flows is insufficient to support its carrying value

b) Licences

Licences are shown at historical cost They have an indefinite useful life and are carried at cost less accumulated impairment Licences are annually tested for impairment and provision is made for any impairment when the net present value of future cash flows is less than the carrying value

c) Syndicate capacity

The syndicate capacity represents the cost of purchasing the group's participation in syndicate 2623 The capacity is capitalised at cost in the balance sheet It has an indefinite useful life and is carried at cost less accumulated impairment It is annually tested for impairment and provision is made for any impairment

d) Computer software

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

Financial instruments

Financial instruments are recognised in the balance sheet at such time that the group becomes a party to the contractual provisions of the financial instrument A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership Financial liabilities are derecognised if the group's obligations specified in the contract expire, are discharged or cancelled

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

Financial assets

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

Financial assets at fair value through profit or loss

This category has two sub-categories financial assets held for trading and those designated at fair value through profit or loss at inception

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

A financial asset is designated as fair value through profit or loss upon initial recognition if it is managed and its performance is evaluated on a fair value basis Information about these financial assets is provided internally on a fair value basis to the group's key management The group's investment strategy is to invest and evaluate their performance with reference to their fair values

Upon initial recognition, attributable transaction costs are recognised in the income statement when incurred Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss Net changes in the fair value of financial assets at fair value through profit or loss exclude interest and dividend income

The fair values of these assets are based on quoted bid price

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

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

Investment income
Investment income consists of dividends, interest, realised and unrealised gains and losses on financial assets at fair value through profit or loss Dividends on equity securities are recorded as revenue on the ex-dividend date Interest is recognised on an accruals basis for financial assets at fair value through profit or loss Realised gain or loss on disposal of an investment is the difference between the proceeds and the carrying value of the investment Unrealised investment gains and losses represent the difference between the carrying value at the balance sheet date, and the carrying value at the previous period end or purchase value during the period

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

Finance costs comprise interest payable, fees paid for the arrangement of debt and letter of credit facility and commissions charged for the utilisation of letters of credit These costs are incurred on borrowings on initial recognition and they are recognised in the income statements using an effective interest method

Other payables
Other payables are stated at amortised cost

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

The best evidence of fair value of a derivative at initial recognition is the transaction price

The group designates certain derivatives as cash flow hedges or net investment hedges

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging transactions The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are being used in hedging transactions are expected to be and have been highly effective in offsetting changes in fair values or cash flows of hedged items

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

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

b) Fair value hedges

When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a firm commitment, changes in the fair value of the derivative are recognised immediately in the income statement together with the changes in the fair value of the hedged item that are attributable to the hedged risk

If the derivative expires or is sold, terminated, exercised, or no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life

c) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity, the gain or loss relating to the ineffective portion is recognised immediately in the income statement within "net fair value gains/(losses) on financial investments" through profit or loss

Gains and losses accumulated in equity are included in the income statement on disposal of the foreign operation

Impairment of assets

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

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

Cash and cash equivalents

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

Operating leases

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

Employee benefits

a) Annual leave and long service leave

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees

b) Pension obligations

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

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

The corridor approach is defined as the excess of net cumulative unrecognised gains and losses at the end of the previous reporting period and the greater of

i) 10% of present value of the defined benefit obligation at that date, and

ii) 10% of fair value of plan assets at that date

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

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

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

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

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

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

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

Deferred tax assets are recognised in the balance sheet to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised

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

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

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

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

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

2 Risk management

The group has identified the risks arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite The group categorises its risks into six areas insurance, credit, market, liquidity, operational and group risk The sections below outline the group's risk appetite and explain how it defines and manages each category of risk

2 1 Insurance risk

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

a) Underwriting risk

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

- Event risk - the risk that individual risk losses or catastrophes lead to claims that are higher than anticipated in plans and pricing,
- Pricing risk - the risk that the level of expected loss is understated in the pricing process,
- Cycle risk - the risk that business is written in a soft market without full knowledge as to the (in)adequacy of rates, terms and conditions, and
- Expense risk - the risk that the allowance for expenses and inflation in pricing is inadequate

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

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

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

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

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

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

The greatest likelihood of significant losses to the group arises from natural catastrophe events, such as flood damage, windstorm or earthquake Where possible the group measures geographic accumulations and uses its knowledge of the business, historical loss behaviour and commercial catastrophe modelling software to assess the probable maximum loss (PML) Upon application of the reinsurance coverage purchased, the key gross and net exposures are calculated on the basis of a 1 in 250 year event

The group's high level catastrophe risk appetite is set by the board and the business plans of each team are determined within these parameters The board may adjust these limits during the cause of the year as conditions change Currently, the group operates to catastrophe risk appetite for a 1 in 250 modelled event of 20% of underwriting capacity

Lloyd's has defined its own specific set of RDS events for which all syndicates with relevant exposures must report The group's three largest Lloyd's specified natural catastrophe stress events are

	2006		2005	
Lloyd's prescribed natural catastrophe event	Modelled PML (before reinsurance) US$m	Modelled PML (after reinsurance) US$m	Modelled PML (before reinsurance) US$m	Modelled PML (after reinsurance) US$m
San Francisco quake (US$65bn, 2005 US$54bn)	384 4	161 4	361 7	133 6
Gulf of Mexico windstorm (US$100bn, 2005 US$60bn)	336 3	149 9	306.5	102 3
Florida Pinellas windstorm (US$100bn, 2005 US$70bn)	331 8	190 1	324 7	175 6

The group has developed limits of authority and business plans which are binding upon all staff authorised to underwrite and are specific to underwriters, classes of business and industry In 2006, the normal maximum gross PML line that any one underwriter could commit the managed syndicate to was US$50m In most cases, maximum lines for classes of business were much lower than this

These authority limits are enforced through a comprehensive sign-off process for underwriting transactions including dual sign-off for all line underwriters Exception reports are also run regularly to monitor compliance

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

A proportion of the group's insurance risks is written by third parties under delegated underwriting authorities Each third party is thoroughly vetted by our coverholder approval group before we transact with them, and is subject to rigorous monitoring to maintain underwriting quality and ensure ongoing compliance with contractual guidelines

Terms and conditions of insurance risks

The group's business is structured as a confederation of four independent business segments utilising the same capital base and central services The group has recognised risk features specific to the main insurance products offered by the group, and these are explained below

Specialty lines

This segment mainly underwrites professional lines, employment practices liability, specialty liability, political risk, directors' and officers' liability, healthcare, stand-alone terrorism and contingency Whilst most of this business is domiciled in the US, the team also has a presence in the UK, continental Europe and the Far East

The liability insurance which is written on a worldwide basis is considered medium tail because claims in this class typically take three to nine years before they are fully assessed and paid by the group for a given accident year The speed of claim reporting and claim settlement is a function of the specific coverage provided, the jurisdiction and any policy provisions applied such as self-insured retentions Other inherent uncertainties encountered through this class include

- Whether the "event" triggering coverage is confined to only one-time period or is spread over multiple-time periods,
- The potential financial costs arising from individual claim actions,
- Whether such claims were reasonably foreseeable and intended to be covered at the time the contracts were written, and
- The potential for mass claim actions

Property

Our property segment underwrites commercial, high-value homeowners and engineering property insurance on a worldwide basis Property insurance indemnifies, subject to any limits or excesses, the policyholder against loss or damage to their own material property and business interruption arising from this damage The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (as for fire and burglary) and the cause is easily determinable The claim will thus be notified promptly and can be settled without delay (an exception to this is subsidence claims)

Significant geographical concentrations of risk can exist within property portfolios meaning that natural perils such as adverse windstorms or earthquakes may expose large segments of the group's property risks In the event of an earthquake, the property portfolio expects to receive claims for both structural damage and business interruption

Marine
This segment underwrites a broad spectrum of marine classes Specialist cover includes hull, energy, cargo & specie and war risks, and the majority of these risks are exposed to catastrophes For example, a significant portion of the energy business is exposed to the Gulf of Mexico and thus has substantial hurricane exposure

Some areas of the marine business overlap with other segments which can result in loss accumulations These accumulations, including exposures to catastrophes, are regularly monitored and managed by our reinsurance programmes

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

The two primary risks in this business are

- The risk that a catastrophe event does or does not occur, and
- That future catastrophe experience may turn out to be inconsistent with the assumptions used in the industry-wide pricing models, causing claims experience to be higher than expected

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

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

In 2006, the group bought a combination of proportional and non-proportional reinsurance treaties and facultative reinsurance to reduce the maximum net exposure on any one risk for the managed syndicates to US$25m In most classes of business the maximum net exposure is much lower than this The group aims to establish appropriate retention levels and limits of protection to achieve the target rate of return and remain within the board's risk tolerance limits The efficacy of protection sought is assessed against the cost of reinsurance, taking into consideration current and expected market conditions

The reinsurance security committee (RSC) examines and approves all reinsurers to ensure that they possess suitable security The RSC also establishes limits for the reinsurance programme regarding quality and quantity The group's ceded reinsurance team maintains the list of these approved reinsurers and no reinsurance is placed without prior referral from this team This team also monitors erosion of the reinsurance programme and its ongoing adequacy

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

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

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

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

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

2.2 Credit risk

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

- Reinsurers - whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the group,
- Brokers and intermediaries - whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the group, and
- Investments - whereby issuer default results in the group losing all or part of the value of a financial instrument

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

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

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

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

31 December 2006	Tier 1 £m	Tier 2 £m	Tier 3 £m	Unrated £m	Total £m
Financial investments	788 7	64 6	5 2	99 9	958 4
Insurance receivables	-	-	-	244 0	244 0
Reinsurance assets	319 9	5 0	-	20 4	345 3
Cash and cash equivalents	209 4	-	-	-	209 4
Total	**1,318 0**	**69.6**	**5 2**	**364.3**	**1,757 1**

31 December 2005	Tier 1 £m	Tier 2 £m	Tier 3 £m	Unrated £m	Total £m
Financial investments	684 9	38 4	2 8	45 8	771 9
Insurance receivables	17 3	-	-	141 6	158 9
Reinsurance assets	347 3	1 9	-	45 3	394 5
Cash and cash equivalents	106 8	-	-	5 8	112 6
Total	**1,156.3**	**40 3**	**2.8**	**238 5**	**1,437 9**

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

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

Overdue debtors	Up to 30 days	30 - 60 days	60 - 90 days	Greater than 90 days	Total
31 December 2006	**67%**	**15%**	**6%**	**12%**	**100%**
31 December 2005	77%	8%	3%	12%	100%

This analysis excludes binder and treaty reinsurance receivables

An analysis of the overall credit risk exposure indicates that the group has reinsurance assets, insurance receivables and other debtors that are impaired at the reporting date Some reinsurance assets that are individually impaired at 31 December 2006 total £4 8m (2005 £5 2m)

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

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

An approval system also exists for all new brokers, and broker performance is regularly reviewed Regular exception reports highlight trading with non-approved brokers, and the group's outsourced credit control function frequently monitors the ageing and collectibility of debtor balances Any large, aged items are prioritised and the outsourced credit controllers have incentives for collecting these debts

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

2.3 Liquidity risk

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

The group's approach is to manage its liquidity position so that it can reasonably survive a significant individual or market loss event This means that the group maintains sufficient liquid assets, or assets that can be translated into liquid assets at short notice and without any significant capital loss, to meet expected cash flow requirements These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return

The following is an analysis by business segment of the estimated timing of the net cash flows based on the claims liabilities balance held at 31 December 2006

31 December 2006	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Specialty lines	20%	40%	27%	13%	100%	2 7
Property	53%	38%	7%	2%	100%	1 4
Reinsurance	48%	40%	12%	-	100%	1 5
Marine	41%	43%	15%	1%	100%	1 6

31 December 2005	Within 1 year	2-3 years	4-5 years	Greater than 5 years	Total	Weighted average term to settlement (years)
Specialty lines	17%	38%	30%	15%	100%	3 0
Property	46%	45%	6%	3%	100%	1 4
Reinsurance	41%	43%	14%	2%	100%	1 6
Marine	41%	43%	15%	1%	100%	1 7

2.4 Market risk

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

Foreign exchange risk
The group is exposed to changes in the value of assets and liabilities due to movements in foreign exchange rates The group deals in four main currencies, US dollars, UK sterling, Canadian dollars and Euros Transactions in all other currencies are converted to UK sterling on initial recognition

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

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

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

31 December 2006	US $ £m	CAD $ £m	EUR € £m	Subtotal £m	UK £ £m	Total £m
Total assets	1,035 8	49 1	85 8	1,170 7	713 5	1,884 2
Total liabilities	(985 0)	(36 0)	(68 3)	(1,089 3)	(475 4)	(1,564 7)
	50 8	**13 1**	**17 5**	**81 4**	**238 1**	**319.5**

31 December 2005	US $ £m	CAD $ £m	EUR € £m	Subtotal £m	UK £ £m	Total £m
Total assets	940 0	38 4	54 3	1,032 7	510 7	1,543 4
Total liabilities	(928 3)	(32 8)	(46 0)	(1,007 1)	(255 9)	(1,263 0)
	11.7	**5.6**	**8.3**	**25 6**	**254.8**	**280.4**

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

Sensitivity analysis
If the US dollar, Canadian dollar, Euro weakened against the UK sterling by 10%, with all other variables constant, pre-tax profit would have been lower by an estimated £12 4m (2005 £5 5m) and net assets would have decreased by an estimated £10 8m (2005 £5 0m) The analysis is based on the current information available and our assumptions in performing this analysis are

- the closing year end spot rates and the average rates throughout the year were 10% higher,
- no hedging of currency during the period,
- the analysis includes an estimate of the impact on our foreign borrowings and cross currency swaps, and
- the impact of foreign exchange on non-monetary items will be nil

Interest rate risk
Some of the group's financial instruments, including financial investments, cash and cash equivalents and borrowings, are exposed to movements in market interest rates

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

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

Duration

31 December 2006	<1 yr £m	1-2 yrs £m	2-3 yrs £m	3-4 yrs £m	4-5 yrs £m	5-10 yrs £m	>10 yrs £m	Total £m
Debt securities	568 0	190 8	69 1	26 2	12 6	0 7	-	867 4
Cash and cash equivalents	209 4	-	-	-	-	-	-	209 4
Derivative financial instruments	-	-	-	-	-	(2 4)	-	(2 4)
Borrowings	-	-	-	-	-	(145 7)	(9 2)	(154 9)
Total	777 4	190.8	69 1	26 2	12.6	(147 4)	(9.2)	919.5

31 December 2005	<1 yr £m	1-2 yrs £m	2-3 yrs £m	3-4 yrs £m	4-5 yrs £m	5-10 yrs £m	>10 yrs £m	Total £m
Debt securities	505 4	188 3	15 1	12 5	2 7	0 9	-	724 9
Cash and cash equivalents	112 6	-	-	-	-	-	-	112 6
Borrowings	-	-	(18 6)	-	-	-	(10 5)	(29 1)
Total	618.0	188 3	(3 5)	12.5	2 7	0.9	(10.5)	808 4

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

Maturity

31 December 2006	<1 yr £m	1-2 yrs £m	2-3 yrs £m	3-4 yrs £m	4-5 yrs £m	5-10 yrs £m	>10 yrs £m	Total £m
Debt securities	522 1	229 3	61 8	27 1	23 4	1 1	2 6	867 4
Cash and cash equivalents	209 4	-	-	-	-	-	-	209 4
Derivative financial instruments	-	-	-	-	-	(2 4)	-	(2 4)
Borrowings	-	-	-	-	-	(145 7)	(9 2)	(154 9)
Total	731 5	229 3	61 8	27 1	23 4	(147 0)	(6.6)	919.5

31 December 2005	<1 yr £m	1-2 yrs £m	2-3 yrs £m	3-4 yrs £m	4-5 yrs £m	5-10 yrs £m	>10 yrs £m	Total £m
Debt securities	319 7	284 6	11 6	50 1	17 8	40 5	0 6	724 9
Cash and cash equivalents	112 6	-	-	-	-	-	-	112 6
Borrowings	-	-	(18 6)	-	-	-	(10 5)	(29 1)
Total	432 3	284 6	(7 0)	50 1	17.8	40 5	(9.9)	808.4

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

Sensitivity analysis
The group holds financial assets and liabilities that are exposed to interest rate risk An increase in 100 basis points in interest yields, with all other variables constant, would result in a loss of capital on debt securities and a change in value of borrowings and derivative financial instruments This will decrease pre-tax profits for the period by an estimated £10 7m (2005 £4 2m) and net assets would have decreased by an estimated £7 5m (2005 £2 5m)

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

Investments are made in equity and hedge funds depending on the group's appetite for risk These investments are well diversified with high quality, liquid securities The investment committee has established guidelines with investment managers setting out maximum investment limits, diversification across industries and concentrations in any one industry or company

Listed investments are recognised on the balance sheet at quoted bid price If the market for the investment is not considered to be active, then the group has established fair value using valuation techniques This includes using recent arm's length market transactions, reference to current fair value of other investments that are substantially the same, discounted cash flow models and other valuation techniques that are commonly used by market participants The total change in fair value using these valuation techniques that was recognised in the income statement during the year is £1 8m (2005 £4 1m)

Sensitivity analysis
At 31 December 2006, the fair value of hedge funds recognised on the balance sheet was £50 3m (2005 £42 5m) If the fair value of the group's hedge fund portfolio were to fall by 10%, then the overall pre-tax impact on net assets would be a decline of £5 0m (2005 £4 3m)

At 31 December 2006, the fair value of equities recognised on the balance sheet was £40 7m (2005 £4 5m) These equities are listed on various global stock exchanges and a 10% fall in the global equity market will result in a pre-tax impact on net assets of £4 1m (2005 £0 5m)

2.5 Operational risk
Operational risk arises from the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events

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

Key components of the group control environment include
- ICA modelling of operational risk exposure and scenario testing,
- Management review of activities,
- Documentation of policies and procedures,
- Contingency planning, and
- Other systems controls

2 6 Group risk
Group risk occurs where business units fail to consider the impact of their activities on other parts of the group, as well as the risks arising from these activities There are three main components of group risk which are explained below

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

Reputation
Reputation risk is the risk of negative publicity as a result of the group's contractual arrangements, customers, products and services Key sources of reputation risk include operation of a Lloyd's franchise, interaction with capital markets since the group's IPO during 2002, and reliance upon the Beazley brand in the US, Europe and Asia The group's preference is to minimise reputation risks Where it is not possible to avoid all events which can result in reputation risks, the group seeks to minimise their frequency and severity by managing these topics through public relations and communication channels

Management stretch
Management stretch is the risk that business growth might cause the group's matrix management structure to become overly complex, and undermine accountability and control within the group As the group expands its worldwide business in the US, Europe and Asia, management stretch may make the identification, analysis and control of group risks more complex

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

Capital management

The group has two requirements for capital that it complied with during the year

- To support underwriting at Lloyd's through syndicate 2623 This is based on the group's own individual capital adequacy (ICA), and
- To support it's underwriting in BICI in the US

	2006 £m	2005 £m
Underwriting at Lloyd's through syndicate 2623 (ICA)	292 0	301 7
Underwriting in US through BICI	30 6	32 6
	322 6	334 3

BICI holds adequate capital to meet US regulatory and credit rating requirements

ICA

We use stochastic modelling techniques to regularly assess our ICA for our Lloyd's underwriting operations Through detailed measurement of risk exposures, we allocate capital to support business activities according to risk profile Stress and scenario analysis is performed and the results are documented and reconciled to the board's risk appetite

Prudential risk type	Importance to group	Comment
Insurance	Dominant	This is the largest risk we face as our primary business is to accept insurance and reinsurance risk by means of appropriate premiums to cover claims and operational costs, and to maximise the expected return on regulatory capital
Credit	Material	Both brokers and reinsurers are of good quality
Liquidity	Low	This risk is low because the group's assets are liquid and short term
Market	Material	Group assets are high quality, well diversified and short term
Operational	Low	Our allocation of capital to these risks is cautious and is based on a set of worst case defined scenarios
Group	Low	This risk is low, but may increase with growth of the US operation

Insurance risk is our biggest risk, and includes both catastrophe and non-catastrophe exposures To manage these exposures we model aggregate risks and the likely financial impact to the group for defined events

To manage our underwriting, we assign maximum gross and net line sizes for all underwriters This limit is adjusted according to the nature of the business being underwritten and the experience of the underwriter and cannot be exceeded unless appropriately authorised To ensure that our decisions are robust, there is a comprehensive sign-off process for underwriting transactions including dual sign-off for all line underwriters

Reserving activities are rigorously controlled to ensure adequate reserves are set A quarterly peer review process exists for the underwriting teams and group actuary to independently determine required movements

3 Segmental analysis

Segment information is presented in respect of business segments (primary) and Lloyd's/non-Lloyd's (secondary) segments This is based on the group's management and internal reporting structures

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

All inter-segment transactions are determined on an arm's length basis

a) Primary reporting segment – business segments
The group is organised into four business segments specialty lines, property, reinsurance and marine A description of the business undertaken by each segment is given in note 2

All 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, reinsurance share of unearned premium reserve and DAC are treated as non-monetary items and claims reserves are treated as monetary items

	2006					
	Specialty lines £m	Property £m	Reinsurance £m	Marine £m	Unallocated £m	Total £m
Segment results						
Gross premiums written	361 0	187 8	58 4	137 9	-	745 1
Net premiums written	267 3	149 9	40 5	116 6	-	574 3
Net earned premiums	234 6	123 1	42 1	101 5	8 3	509 6
Net investment income	35 9	4 2	4 1	4 1	-	48 3
Other income	4 0	1 3	0 7	1 1	-	7 1
Revenue	**274 5**	**128 6**	**46 9**	**106 7**	**8.3**	**565.0**
Net insurance claims	146 3	66 3	13 7	44 4	-	270 7
Expenses for the acquisition of insurance contracts	50 8	39 9	10 3	28 5	0 1	129 6
Administrative expenses	21 8	9 9	3 3	3 8	-	38 8
Other expenses	7 8	4 0	1 5	2 6	17 6	33 5
Expenses	**226 7**	**120.1**	**28 8**	**79 3**	**17.7**	**472.6**
Results from operating activities	**47 8**	**8 5**	**18.1**	**27 4**	**(9 4)**	**92.4**
Finance costs						(5 6)
Profit before tax						**86 8**
Tax expense						(26 9)
Profit after tax						**59 9**
Claims ratio	62%	54%	33%	44%	-	53%
Expense ratio	31%	40%	32%	32%	-	33%
Combined ratio	93%	94%	65%	76%	-	86%
Segment assets and liabilities						
Segment assets	1,120 6	367 9	150 2	245 4	0 1	1,884 2
Segment liabilities	(925 4)	(266 7)	(149 3)	(216 5)	(6 8)	(1,564 7)
Net assets	**195 2**	**101 2**	**0 9**	**28 9**	**(6 7)**	**319.5**
Additional information						
Capital expenditure	5 7	3 0	1 0	2 3	-	12 0
Depreciation	0 7	0 3	0 1	0 3	-	1 4
Net cash flow	64 7	17 0	8 9	14 5	-	105 1

	2005					
	Specialty lines £m	Property £m	Reinsurance £m	Marine £m	Unallocate d £m	Total £m
Segment results						
Gross premiums written	270 9	128 1	65 5	93 5	-	558 0
Net premiums written	207 7	98 5	41 0	78 6	-	425 8
Net earned premiums	192 2	81 2	37 2	64 5	(2 8)	372 3
Net investment income	19 5	5 8	3 0	3 3	-	31 6
Other income	2 4	1 4	0 2	2 9	-	6 9
Revenue	**214 1**	**88 4**	**40 4**	**70 7**	**(2 8)**	**410.8**
Net insurance claims	135 8	49 1	56 0	32 1	-	273 0
Expenses for the acquisition of insurance contracts	39 4	27 9	10 1	17 8	0 3	95 5
Administrative expenses	12 8	5 7	2 3	2 2	-	23 0
Other expenses	5 9	3 2	1 2	2 4	(11 3)	1 4
Expenses	**193 9**	**85 9**	**69 6**	**54 5**	**(11 0)**	**392 9**
Results from operating activities	**20 2**	**2 5**	**(29 2)**	**16 2**	**8.2**	**17 9**
Finance costs						(1 8)
Profit before tax						**16 1**
Tax expense						(5 0)
Profit after tax						**11 1**
Claims ratio	71%	60%	151%	50%	-	73%
Expense ratio	27%	41%	33%	31%	-	32%
Combined ratio	98%	101%	184%	81%	-	105%
Segment assets and liabilities						
Segment assets	895 8	282 9	186 6	178 1	-	1,543 4
Segment liabilities	(722 2)	(185 3)	(193 9)	(161 6)	-	(1,263 0)
Net assets	**173 6**	**97 6**	**(7.3)**	**16 5**	**-**	**280 4**
Additional information						
Capital expenditure	3 8	1 8	0 9	1 3	5 2	13 0
Depreciation	0 1	0 1	-	0 1	-	0 3
Net cash flow	15 4	7 8	0 6	3 7	-	27 5

b) Secondary reporting segment – geographical segments

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

	2006 £m	2005 £m
Net earned premiums		
Lloyd's	507 1	372 3
Non-Lloyd's	2 5	-
	509.6	**372 3**

	2006 £m	2005 £m
Segment assets		
Lloyd's	1,810 9	1,494 2
Non-Lloyd's	73 7	49 2
	1,884.2	1,543.4

Segment assets are allocated based on where the assets are located

	2006 £m	2005 £m
Capital expenditure		
Lloyd's	10 6	7 5
Non-Lloyd's	1 4	5 4
	12.0	12.9

Capital expenditure is allocated based on where the assets are located

4 Net investment income

	2006 £m	2005 £m
Investment income at fair value through income statement		
- Dividend income	-	-
- Interest income	28 0	31 3
Realised gains/(losses) on financial investments at fair value through income statement		
- Realised gains	22 9	1 8
- Realised losses	(9 9)	(3 6)
Net fair value gains/(losses) on financial investments through income statement		
- Fair value gains	24 4	5 7
- Fair value losses	(15 6)	(2 7)
Net fair value gains/(losses) on fair value hedge		-
- Change in interest rate swap	(3 0)	-
- Change in borrowings	3 0	-
Investment management expenses	(1 5)	(0 9)
Net investment income	48.3	31 6

5 Other income

	2006 £m	2005 £m
Profit commissions	5 5	4 9
Agency fees	1 1	1 3
Other income	0 5	0 7
	7 1	6.9

6 Operating expenses

	2006 £m	2005 £m
Fees payable to the company's auditor for the audit of the company's annual accounts	0 2	0 2
Fees payable to the company's auditor and its associates for other services		
- Audit of the company's subsidiaries	0 1	0 1
- Tax services	0 1	0 1
- other services	0 1	-
Operating leases	1 7	0 7
Profit commission related bonus payments		
- 2003 year of account	-	2 0
- 2004 year of account	4 2	1 3
- 2006 year of account	0 8	-
Foreign exchange loss/(gain)	22 3	(11 7)

7 Employee benefit expenses

	2006		2005	
	Group £m	Company £m	Group £m	Company £m
Wages and salaries	22.2	0 3	15 4	0 2
Short-term incentive payments	8 1	-	5 8	-
Social security	2 8	-	2 4	-
Share-based remunerations	1 3	-	0 8	-
Pension costs	3 7	-	2 9	-
	38 1	0 3	27 3	0 2
Recharged to syndicate 623	(7 8)	-	(7 8)	-
	30.3	0 3	19 5	0.2

8 Finance costs

	2006 £m	2005 £m
Interest expense	5 5	1 2
Arrangement fees	0 1	0 6
	5.6	1 8

9 Income tax expense

	2006 £m	2005 £m
Current tax expense		
Current year	21 4	6 2
Prior year adjustments	1 4	0 8
	22 8	7 0
Deferred tax expense		
Origination and reversal of temporary differences	5 6	(1 0)
Prior year adjustments	(1 5)	(1 0)
	4 1	(2 0)
Income tax expense	**26.9**	**5 0**
Profit before tax	**86 8**	**16 1**

Tax calculated at domestic tax rates	26 0	4 8
Effects of		
- Tax rates in foreign jurisdictions	0 6	0 3
- Non-deductible expenses	0 2	0 1
- Under/(over) provided in prior years	0 1	(0 2)
Tax charge for the period	26 9	5 0

The weighted average applicable tax rate was 30% (2005 30%)

10 Earnings per share

	2006 £m	2005 £m
Basic	16 8p	3 1p
Diluted	16 7p	3 1p

Basic

Basic earnings per share are calculated by dividing profit after tax of £59 9m (2005 £11 1m) by the weighted average number of issued shares during the year of 355 8m (2005 358 8m) The shares held in the Employee Share Options Plan (ESOP) have been excluded from the calculation, until such time as they vest unconditionally with the employees

Diluted

Diluted earnings per share are calculated by dividing profit after tax of £59 9m (2005 £11 1m) by the adjusted weighted average number of shares of 359 3m (2005 362 1m) 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

11 Dividends per share

A final dividend of 3 2p (2005 2 5p) per ordinary share is payable on 10 May 2007 to shareholders registered on 13 April 2007 in respect of the year ended 31 December 2006 Together with the interim dividend of 1 6p (2005 1 5p) this brings the total to 4 8p (2005 4 0p) These financial statements do not provide for the final dividend as a liability

12 Intangible assets

	Goodwill £m	Syndicate capacity £m	Licences £m	IT development costs £m	Total £m
Cost					
Balance at 1 January 2005	6 0	2 1	-	-	8 1
Acquisition of subsidiary	-	-	5 1	-	5 1
Additions	-	1 6	-	3 6	5 2
Disposals	-	-	-	-	-
Foreign exchange	-	-	0 1	-	0 1
Balance at 31 December 2005	6 0	3 7	5 2	3 6	18.5

Balance at 1 January 2006	6 0	3 7	5 2	3 6	18 5
Acquisition of subsidiary	1 9	0 7	-	-	2 6
Additions	-	-	-	3 7	3 7
Disposals	-	-	-	(0 8)	(0 8)
Foreign exchange		-	(0 6)	-	(0 6)
Balance at 31 December 2006	7 9	4.4	4.6	6 5	23.4
Amortisation					
Balance at 1 January 2005				-	-
Amortisation for the year				0 3	0 3
Balance at 31 December 2005				0 3	0 3
Balance at 1 January 2006				0 3	0 3
Disposals for the year				(0 2)	(0 2)
Amortisation for the year				1 4	1 4
Balance at 31 December 2006				1.5	1.5
Carrying amount					
31 December 2006	7 9	4 4	4 6	5.0	21 9
31 December 2005	6 0	3 7	5 2	3 3	18 2

Impairment tests

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

	2006		2005	
	Lloyd's £m	Non-Lloyd's £m	Lloyd's £m	Non-Lloyd's £m
Goodwill	7 9	-	6 0	-
Syndicate capacity	4 4	-	3 7	-
Licences	-	4 6	-	5 2

When testing for impairment, the recoverable amount of a CGU is determined based on value in use Value in use is calculated using projected cash flows based on financial budgets approved by management covering a three-year period Cash flows beyond a three-year period are extrapolated using an estimated growth rate of 2% (2005 2%) This growth rate is consistent with the long-term average growth rate for the industry A pre-tax discount rate of 8% (2005 8%) has been used to discount the projected cash flows

13 Plant and equipment

	Fixtures & fittings £m	Computer equipment £m	Total £m
Cost			
Balance at 1 January 2005	-	-	-
Additions	2 4	0 1	2 5
Disposals	-	-	-
Balance at 31 December 2005	2 4	0 1	2 5

Balance at 1 January 2006	2 4	0 1	2 5
Additions	4 9	0 8	5 7
Disposals	-	-	-
Balance at 31 December 2006	7 3	0 9	8 2
Accumulated depreciation			
Balance at 1 January 2005	-	-	-
Depreciation charge for the year	-	-	-
Disposals	-	-	-
Balance at 31 December 2005	-	-	-
Balance at 1 January 2006	-	-	-
Depreciation charge for the year	(1 0)	(0 2)	(1 2)
Disposals	-	-	-
Balance at 31 December 2006	(1 0)	(0 2)	(1 2)
Carrying amounts			
31 December 2006	6 3	0 7	7 0
31 December 2005	2 4	0 1	2 5

14 Investment in associates

The group has the following interests in associates

		Ownership	
	Country	2006	2005
Beazley Finance Limited	UK	22 7%	22 7%
Beazley Dedicated Limited	UK	22 7%	22 7%

Summary financial information on associates - 100%

	Assets £m	Liabilities £m	Equity £m	Profit £m
2006				
Beazley Finance Limited	0 2	(0 2)	-	0 1
Beazley Dedicated Limited	2 6	-	2 6	-
	2 8	(0 2)	2 6	0 1
2005				
Beazley Finance Limited	0 4	(0 5)	(0 1)	-
Beazley Dedicated Limited	4 2	(1 6)	2 6	-
	4 6	(2 1)	2 5	-

On 26 January 2006, the group increased its shareholding in Asia Pacific Underwriting Agency Limited to 100% from 79 8% at 31 December 2005 The company has been renamed Beazley Limited

Beazley Furlonge Holdings Limited owns 5,000,000 ordinary shares in Beazley Finance Limited, the holding company of Beazley Dedicated Limited, a dedicated corporate member of syndicate 623 This share represents 22 7% of the entire share capital of Beazley Finance Limited Beazley Furlonge Holdings Limited has guaranteed a letter of credit of £2m to support underwriting of Beazley Dedicated Limited on syndicate 623 The proportion of profits receivable by the group is determined by agreement between AON (the majority shareholder in Beazley Finance Limited) and the group and varies by year of account

Beazley Dedicated Limited participated in syndicate 623 for all years of account up to 2002 Reflected in these accounts are the results for the 2002 year of account together with the results of Beazley Finance Limited to 31 December 2006

15 Deferred acquisition costs

	2006 £m	2005 £m
Balance at 1 January	52 7	38 3
Additions	155 8	109 9
Amortisation charge	(129 6)	(95 5)
Balance at 31 December	**78.9**	**52 7**

16 Financial investments

	2006		2005	
	Group £m	Company £m	Group £m	Company £m
Financial investments at fair value through income				
Equity securities-listed	40 7	-	4 5	-
Hedge funds	50 3	-	42 5	-
Debt securities				
- Fixed interest	672 3	287 2	396 2	111 6
- Floating interest	195 1	52 8	328 7	110 3
Total financial investments at fair value through income	**958.4**	**340 0**	**771 9**	**221.9**
Current	538 8	297 0	366 7	151 5
Non-current	419 6	43 0	405 2	70 4
	958 4	**340 0**	**771 9**	**221 9**

The group has given a fixed and floating charge over its investments and other assets to secure obligations to Lloyd's in respect of its corporate member subsidiary Further details are provided in note 33

17 Insurance receivables

	2006 £m	2005 £m
Insurance receivables	244 0	158 9
	244.0	**158.9**

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

18 Reinsurance assets

	2006 £m	2005 £m
Reinsurers' share of claims	274 7	344 5
Impairment provision	(4 8)	(5 2)
	269 9	339 3
Reinsurers' share of unearned premium reserve	75 4	55 2
	345 3	394.5

19 Cash and cash equivalents

	2006		2005	
	Group £m	Company £m	Group £m	Company £m
Cash at bank and in hand	16 3	0 6	6 2	0 7
Short-term deposits	131 7	29 2	51 8	6 0
Overseas deposits	61 4	-	54 6	-
Cash and cash equivalent	209 4	29 8	112.6	6 7

20 Share capital

	2006		2005	
	No of shares (m)	£m	No of shares (m)	£ m
Authorised, issued and fully paid				
450,000,000 ordinary shares of 5p each	361 0	18 1	360 6	18 0
Balance at 1 January	360 6	18 0	360 6	18 0
Issue of shares	0 4	0 1	-	-
Balance at 31 December	361.0	18 1	360.6	18 0

21 Reserves

Group	Share premium £m	Merger reserve £m	Foreign currency translation reserve £m	Employee share options reserve £m	Employee share trust reserve £m	Total £m
Balance at 1 January 2005	230.5	1 6	-	0 4	-	232 5
Increase in employee share options	-	-	-	0 4	-	0 4
Acquisition of own shares held in trust	-	-	-	-	(1 6)	(1 6)
Foreign exchange translation differences	-	-	0 8	-	-	0 8
Balance at 31 December 2005	230 5	1 6	0.8	0.8	(1.6)	232 1
Issue of shares	0 3	-	-	-	-	0 3
Increase in employee share options	-	-	-	0 8	-	0 8
Acquisition of own shares held in trust	-	-	-	-	(4 0)	(4 0)
Change in net investment hedge	-	-	(0 6)	-	-	(0 6)
Foreign exchange translation differences	-	-	(2 8)	-	-	(2 8)
Balance at 31 December 2006	230 8	1 6	(2 6)	1 6	(5 6)	225.8

Company

	Share premium £m	Merger reserve £m	Foreign currency translation reserve £m	Employee share options reserve £m	Employee share trust reserve £m	Total £m
Balance at 1 January 2005	230 5	-	-	-	-	230.5
Foreign exchange translation differences	-	-	(1 1)	-	-	(1 1)
Balance at 31 December 2005	230.5	-	(1 1)	-	-	229 4
Issue of shares	0 3	-	-	-	-	0 3
Foreign exchange translation differences	-	-	1 2	-	-	1 2
Balance at 31 December 2006	230 8	-	0 1	-	-	230.9

22 Equity compensation plans

22 1 Employee share trust

	2006		2005	
	Number (m)	£m	Number (m)	£m
Costs debited to employee share trust reserve				
Balance at 1 January	1 9	1 6	-	-
Additions	3 3	4 0	1 9	1 6
Balance at 31 December	5 2	5 6	1 9	1.6

The shares are owned by the employee share trust to satisfy awards under the group's deferred share plan and retention plan These shares are purchased on the market and carried at cost

On the third anniversary of an award the shares under the deferred share plan are transferred from the trust to the employees Under the retention plan, on the third anniversary, and each year after that, 15 0% of the shares awarded are transferred to the employees

The deferred share plan is recognised in the income statement on a straight-line basis over a period of three years, while the retention share plan is recognised in the income statement on a straight-line basis over a period of six years

22 2 Employee share option plans

The group has a long term incentive plan (LTIP), approved share option plan, unapproved share option plan, phantom share option and SAYE that entitle employees to purchase shares in the group In accordance with these plans, options are exercisable at the market price of the shares at the date of the grant

In addition, the group further granted share options before 7 November 2002 The recognition and measurement principles in IFRS 2 "Share-based payment" have not been applied to these grants in accordance with the transitional provisions in IFRS 1 "First-time Adoption"and IFRS 2

The terms and conditions of the grants are as follows

Share option plan	Grant date	No of options (m)	Vesting conditions	Contractual life of options
LTIP	15/05/2003	0 6	Three year's service + NAV + TSR comparator	10 years
	13/06/2003	0 1		
	29/03/2004	0 4		
	06/12/2004	0 1		

	21/03/2005	2 0		
	21/03/2006	1 7		
Approved share option plan	13/11/2002	0 8		
	29/03/2004	0 5	Three year's service + NAV	10 years
Unapproved share option plan	15/05/2003	1 1		
	13/06/2003	0 2	Three year's service + NAV	10 years
	29/03/2004	0 7		
	06/12/2004	0 3		
Phantom share option	08/07/2003	0 4	Three year's service + NAV + TSR comparator	10 years
SAYE	20/04/2004	0 4		
	14/04/2005	0 3	Three year's service	
	13/04/2006	0 6		
Total share options outstanding		10.2		

Vesting conditions
In summary the vesting conditions are defined as

Three year's service	An employee has to remain in employment until the third anniversary from the grant date
NAV	The NAV growth is greater than the risk-free rate of return plus a premium per year
TSR comparator	The group's TSR growth is compared with that of members of the comparator group over a three-year period starting with the year in which the award is made

Further details of equity compensation plans can be found in the directors' remuneration report on pages 46 to 55

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

	2006		2005	
	Weighted average exercise price (pence per share)	No of options (m)	Weighted average exercise price (pence per share)	No of options (m)
Outstanding at 1 January	50 4	8 8	65 4	6 5
Forfeited during the year	73 2	(0 4)	62 3	(0 1)
Exercised during the year	73 0	(0 4)	-	-
Granted during the year	115 0	2 2	10 2	2 4
Outstanding at 31 December	43 2	10 2	50 4	8.8
Exercisable at 31 December		-		-

The share option programme allows group employees to acquire shares of the company The fair value of options granted is recognised as an employee expense with a corresponding increase in employee share options reserve The fair value of the options granted is measured at grant date and spread over the period in which the employees become unconditionally entitled to the options The fair value of the options granted is measured using the Black Scholes model, taking into account the terms and conditions upon which the options were granted The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except where forfeiture is due to the share option achieving the vesting conditions

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

	2006 £m	2005 £m
Share options charge to income statement	1 0	0 4
Weighted average share price (pence per option)	95 9	90 1
Weighted average exercise price (pence per option)	43 2	50 4
Weighted average expected life of options	6 0 yrs	6 0 yrs
Expected volatility	25 0%	25 0%
Expected dividend yield	4 0%	4 0%
Average risk-free interest rate	4 0%	4 0%

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

23 Insurance liabilities and reinsurance assets

	2006 £m	2005 £m
Gross		
Claims reported and loss adjustment expenses	278 2	349 3
Claims incurred but not reported	587 8	479 5
Gross claims liabilities	866 0	828 8
Unearned premiums	359 6	267 6
Total insurance liabilities, gross	1,225 6	1,096.4
Recoverable from reinsurers		
Claims reported and loss adjustment expenses	103 1	198 5
Claims incurred but not reported	166 8	140 8
Reinsurers share of claims liabilities	269 9	339 3
Unearned premiums	75 4	55 2
Total reinsurers' share of insurance liabilities	345 3	394 5
Net		
Claims reported and loss adjustment expenses	175 0	150 8
Claims incurred but not reported	421 1	338 7
Net claims liabilities	596 1	489 5
Unearned premiums	284 2	212 4
Total insurance liabilities, net	880 3	701.9

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

23 1 Movements in insurance liabilities and reinsurance assets

a) Claims and loss adjustment expenses

	2006			2005		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Claims reported and loss adjustment expenses	349 3	(198 5)	150 8	57 4	(12 2)	45 2
Claims incurred but not reported	479 5	(140 8)	338 7	209 8	(51 1)	158 7
Balance at 1 January	828 8	(339 3)	489 5	267 2	(63 3)	203 9
Claims paid	(258 3)	132 5	(125 8)	(140 4)	30 5	(109 9)

Increase in claims						
- Arising from current year claims	394 6	(92 9)	301 7	498 9	(211 7)	287 1
- Arising from prior year claims	(36 3)	5 3	(31 0)	(21 8)	9 6	(12 2)
- Reinsurance to close	23 4	(9 9)	13 5	184 6	(88 9)	95 7
Net exchange differences	(86 2)	34 4	(51 8)	40 4	(15 5)	24 9
Balance at 31 December	**866.0**	**(269 9)**	**596 1**	**828.8**	**(339.3)**	**489.5**
Claims reported and loss adjustment expenses	272 3	(103 1)	169 2	349 3	(198 5)	150 8
Claims incurred but not reported	593 7	(166 8)	426 9	479 5	(140 8)	338 7
Balance at 31 December	**866 0**	**(269 9)**	**596.1**	**828.8**	**(339 3)**	**489 5**

b) Unearned premiums reserve

	2006			2005		
	Gross £m	Reinsurance £m	Net £m	Gross £m	Reinsurance £m	Net £m
Balance at 1 January	267 6	(55 2)	212 4	193 3	(35 0)	158 3
Increase in the year	749 5	(170 6)	578 9	564 6	(38 7)	525 9
Release in the year	(657 5)	150 4	(507 1)	(490 3)	18 5	(471 8)
Balance at 31 December	**359 6**	**(75.4)**	**284.2**	**267 6**	**(55 2)**	**212 4**

23.2 Assumptions, changes in assumptions and sensitivity

a) Process used to decide on assumptions

The peer review reserving process

Beazley uses a quarterly dual track process to set its reserve

- The actuarial team uses several actuarial and statistical methods to estimate the ultimate premium and claims costs The most appropriate methods are selected depending on the nature of each class of business, and
- The underwriting teams concurrently review the development of the incurred loss ratio over time, work with our claims managers to set specific reserve estimates for flagged claims and utilise their detailed understanding of the risks underwritten to establish an alternative estimate of ultimate claims cost which are compared to the actuarially established figures

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

Actuarial assumptions

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

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

The Bornhuetter-Ferguson method uses a combination of a benchmark/market-based estimate and an estimate based on claims experience The former is based on a measure of exposure such as premiums, the latter is based on the paid or incurred claims observed to date The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes This technique has been used in situations where developed claims experience was not available for the projection (i e recent underwriting years or new classes of business)

The expected loss ratio method uses a benchmark/market-based estimate applied to the expected premium and is used for classes with little or no relevant historical data

The choice of selected results for each underwriting year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual underwriting years or groups of underwriting years within the same class of business As such, there are many assumptions used to estimate general insurance liabilities

We also review triangulations of the paid/outstanding claim ratios as a way of monitoring any changes in the strength of the outstanding claim estimates between underwriting years so that adjustment can be made to mitigate any subsequent over or under reserving To date, this analysis indicates no systematic change to the outstanding claim strength across underwriting years

Where a significantly large loss impacts an underwriting year (e g the events of 11 September 2001 and the hurricanes in 2004 and 2005), its development is usually very different from the attritional losses In these situations, the large loss is extracted from the remainder of the data and analysed separately by the respective claims managers using exposure analysis of the policies in force in the areas affected

Further assumptions are required to convert gross of reinsurance estimates of ultimate claims cost to a net of reinsurance level and to establish reserves for unallocated claims handling expenses and reinsurance bad debt

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

Throughout, judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect changes in external or market factors such as economic conditions, public attitudes to claiming, levels of claims inflation, premium rate changes, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures

c) Changes in assumptions
As already discussed, general insurance business requires many different assumptions The diagram below illustrates the main categories of assumptions used for each underwriting year and class combinations

Marine
Property
Specialty Lines
Reinsurance
Classes

Assumptions
Premium rate change
Claims inflation
Mix of business
Reporting patterns
Settlement patterns
Judicial decisions
Professional judgement

Underwriting years

1993 1994 2005 2006

Given the range of assumptions used, the group's profit or loss is relatively insensitive to changes to a particular assumption used for an underwriting year/class combination However, the group's profit or loss is potentially more sensitive to a systematic change in assumptions that affect many classes, such as judicial changes or when catastrophes produce more claims than expected The group uses a range of risk mitigation strategies to reduce the volatility including the purchase of reinsurance In addition, the group holds additional capital as ICA

The net of reinsurance estimates of ultimate claims costs on the 2004 and prior underwriting years has improved by £31 0m during 2006 (2005 £12 2m) This movement has arisen from a combination of better than expected claims experience coupled with small changes to the many assumptions reacting to the observed experience and anticipating any changes as a result of the new business written

d) Sensitivity analysis

The estimation of IBNR reserves for future claim notifications is subject to a greater degree of uncertainty than the estimation of the outstanding claims already notified This is particularly true for the specialty lines business, which will typically display greater variations between initial estimates and final outcomes as a result of the greater degree of difficulty in estimating these reserves The estimation of IBNR reserves for other business written is generally subject to less variability as claims are generally reported and settled relatively quickly

As such, our reserving assumptions contain a reasonable margin for prudence given the uncertainties inherent in the insurance business underwritten, particularly on the longer tailed specialty lines classes

Since March 2005, we have identified a range of possible outcomes for each class and underwriting year combination directly from our ICA process Comparing these with our pricing assumptions and reserving estimates gives our management team increased clarity into our perceived reserving strength and relative uncertainties of the business written

To illustrate the robustness of our reserves, the loss development tables below provide information about historical claims development by the four 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 2006 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	2002ae	2003 %	2004 %	2005 %	2006 %	
Specialty lines						
12 months		71 4	70 7	71 1	68 9	
24 months		67 3	69 9	68 3	-	
36 months		65 0	66 3	-	-	
48 months		57 4	-	-	-	
Property						
12 months		51 1	65 2	85 5	59 3	
24 months		38 3	65 1	82 9	-	
36 months		35 6	65 6	-	-	
48 months		34 9	-	-	-	
Reinsurance						
12 months		58 5	86 7	193 1	52 5	
24 months		33 5	80 7	183 9	-	
36 months		28 0	75 9	-	-	
48 months		28 2	-	-	-	
Marine						
12 months		60 2	62 0	82 6	57 3	
24 months		44 9	64 5	80 2	-	
36 months		39 0	62 2	-	-	
48 months		36 2	-	-	-	
Total						
12 months		62 9	69 7	90 0	63 2	
24 months		52 5	69 0	87 3	-	
36 months		49 4	66 5	-	-	
48 months		45 1	-	-	-	
Total ultimate losses (£m)	1,072 3	294 6	490 3	692 7	579 1	3,129 0
Less paid claims net of reinsurance (£m)	(811 8)	(136 6)	(227 2)	(237 7)	(15 1)	(1,428 4)
Less unearned portion of ultimate losses (£m)	-	-	-	(27 0)	(311 4)	(338 4)
Gross claims liabilities (100% level) (£m)	**260.5**	**158.0**	**263 1**	**428.0**	**252 6**	**1,362.2**
Less unaligned share (£m)	(119 8)	(72 7)	(121 0)	(128 4)	(54 3)	(496 2)
Gross claims liabilities, group share (£m)	**140 7**	**85 3**	**142 1**	**299.6**	**198.3**	**866 0**

Net ultimate claims	2002ae	2003 %	2004 %	2005 %	2006 %	
Specialty lines						
12 months		68 1	67 9	69 1	67 1	
24 months		64 9	67 8	67 4	-	
36 months		63 0	65 0	-	-	
48 months		55 9	-	-	-	
Property						
12 months		49 0	59 7	65 0	62 3	
24 months		42 4	61 6	62 9	-	
36 months		40 1	60 9	-	-	
48 months		39 6	-	-	-	
Reinsurance						
12 months		60 4	88 0	153 2	54 4	
24 months		38 2	84 7	128 9	-	
36 months		33 4	82 2	-	-	
48 months		34 1	-	-	-	
Marine						
12 months		55 5	57 7	55 6	54 3	
24 months		44 7	52 5	49 4	-	
36 months		39 5	48 7	-	-	
48 months		39 2	-	-	-	
Total						
12 months		60 3	66 2	73 5	63 0	
24 months		53 1	65 5	69 1	-	
36 months		50 5	63 1	-	-	
48 months		46 8	-	-	-	
Total ultimate losses (£m)	575 4	247 5	379 2	434 6	458 5	2,095 2
Less paid claims net of reinsurance (£m)	(455 3)	(124 9)	(176 4)	(110 1)	(14 4)	(881 1)
Less unearned portion of ultimate losses (£m)	-	-	-	(24 1)	(259 5)	(283 6)
Net claims liabilities (100% level) (£m)	120.1	122 6	202 8	300 4	184 6	930 5
Less unaligned share (£m)	(55 2)	(56 4)	(93 3)	(90 1)	(39 4)	(334 4)
Net claims liabilities, group share (£m)	64.9	66.2	109 5	210 3	145 2	596 1

Analysis of movements in loss development tables

Initial ultimate loss ratios (reading across the first line of each segment)

The 2004 and 2005 hurricanes have increased the initial gross and net ultimate loss ratios on the 2004 and 2005 underwriting years for the property, reinsurance and marine teams compared with the initial 2003 underwriting year ratios

The initial property 2006 underwriting year gross and net ultimate loss ratios are higher than the initial 2003 underwriting year ultimate loss ratios because of an increased catastrophe loading following the 2004 and 2005 hurricanes and due to less favourable underwriting conditions in UK home-owners in 2006

The initial reinsurance 2006 underwriting year gross and net ultimate loss ratios are lower than the initial 2003 underwriting year ultimate loss ratios as a result of the premium rate increases achieved and the changes made to the business mix following the 2005 hurricanes

Development of ultimate loss ratios (reading down the columns of the tables)

Specialty lines
The gross and net ultimate loss ratios on all underwriting years have continued to reduce as the impact of increased rates, tighter terms and conditions and an improved claims environment has become clearer

Property
The 2003 underwriting year gross and net ultimate loss ratios have continued to reduce as the level of attritional losses has become clear

The 2004 underwriting year gross ultimate loss ratio has been relatively stable with better than expected attritional claim experience and stable 2004 hurricane estimates offsetting the increase following the 2005 hurricanes The net ultimate loss ratio has increased slightly from its 12 month position as a result of the additional premiums paid to reinstate reinsurance cover ("reinstatement premiums") following the 2005 hurricanes which reduced our net premium estimates
The 2005 underwriting year reduction has been driven by better than expected attritional claim experience

Reinsurance
All years show reducing ultimate loss ratios over time reflecting our initially cautious reserving philosophy

Marine
The 2003 underwriting year gross and net ultimate loss ratios have continued to reduce as the level of attritional losses has become clear

During the second development year of the 2004 underwriting year we wrote more premium than expected At a gross of reinsurance level, the claims impact of the 2005 hurricanes more than offset this additional premium thereby increasing the gross ultimate loss ratio At a net of reinsurance level, however, the claims impact of the hurricanes was less than the additional premium (as a result of the relatively low reinsurance retention) thereby reducing the net ultimate loss ratio Thereafter, both gross and net ultimate loss ratios have reduced at the end of the third development year as a result of better than expected attritional claims experience

The 2005 underwriting year reduction has been driven by better than expected attritional claims experience

The table below illustrates movements in our net claims recognised in the income statement in 2006 by both underwriting year and by business segments

2006	Specialty lines £m	Property £m	Reinsurance £m	Marine £m	Total £m
Current year	164 3	68 2	19 6	49 6	301 7
Prior year					
- 2003 and earlier	(12 3)	(0 7)	(0 4)	(0 4)	(13 8)
- 2004 year of account	(4 7)	(0 7)	(0 8)	(3 0)	(9 2)
- 2005 year of account	(1 0)	(0 5)	(4 7)	(1 8)	(8 0)
	(18 0)	(1 9)	(5 9)	(5 2)	(31 0)
Net insurance claims	**146 3**	**66 3**	**13 7**	**44 4**	**270 7**

2005	Specialty lines £m	Property £m	Reinsurance £m	Marine £m	Total £m
Current year	136 5	53 0	60 2	35 5	285 2
Prior year					
- 2002 and earlier	(0 5)	(1 0)	(2 0)	(1 2)	(4 7)
- 2003 year of account	(0 8)	(1 9)	(1 6)	(1 6)	(5 9)
- 2004 year of account	0 6	(1 0)	(0 6)	(0 6)	(1 6)
	(0 7)	(3 9)	(4 2)	(3 4)	(12 2)
Net insurance claims	**135 8**	**49 1**	**56 0**	**32 1**	**273 0**

24 Borrowings

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

	2006		2005	
	Group £m	Company £m	Group £m	Company £m
Carrying value				
Syndicated loan	-	-	18 6	-
Subordinated debt	9 2	9 2	10 5	10 5
Tier 2 subordinated debt	145 7	147 8	-	-
	154 9	157 0	29 1	10 5
Fair value				
Syndicated loan	-	-	18 6	-
Subordinated debt	9 2	9 2	10 7	10 7
Tier 2 subordinated debt	150 2	148 2	-	-
	159 4	157.4	29.3	10 7

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

In November 2004, the group issued subordinated debt of US $18m to JPMorgan Chase Bank, N A (JPMorgan) The loan was unsecured and interest was payable at the US London interbank offered rate (LIBOR) plus a margin of 3 65% per annum The subordinated notes are due in November 2034

In October 2006, the group issued £150m of unsecured fixed/floating rate subordinated notes that are due in October 2026 with a first callable date of October 2016 Interest of 7 25% per annum is paid annually in arrears for the period up to October 2016 From October 2016, the notes will bear annual interest at the rate of 3 28% above LIBOR The notes were assigned a credit rating of BBB- by S&P's rating services

The group entered into a cross currency swap transaction with Lloyds TSB Bank plc (Lloyds TSB) and JPMorgan in October 2006 In exchange for £42 3m the group received US$40m from each party which will be finally exchanged on termination of the contract, being October 2016 Lloyds TSB charges interest at US three-month LIBOR plus 2 25%, while JPMorgan charges interest at US three-month LIBOR plus 2 23% As part of the agreement, the group receives interest at 7 25% from both parties There is an option to terminate the swaps in October 2011 and annually thereafter until October 2016

The group also entered into an interest rate swap transaction with Lloyds TSB and JPMorgan in October 2006 Under this agreement, the fixed interest rate of 7 25% on the balance of £107 7m (£53 8m from each party) is exchanged for floating interest rate of UK LIBOR plus 2 24% with Lloyds TSB and UK LIBOR plus 2 23% with JPMorgan This agreement terminates on 17 October 2016 with an optional early termination in October 2011 and annually thereafter

In 2005, the group had borrowing facilities of £150m available, of which £72m had been drawn down as a letter of credit with a further £18 6m being drawn as a cash borrowing A commitment fee of 0 5% per annum was paid for any undrawn part of the facility The utilised element of the facility drawn as cash was charged an interest of 1 5% above UK LIBOR The utilised element drawn down as a letter of credit was charged an annual rate of 1 5% The facility was repayable in 2008 and the group had given a fixed and floating charge over its assets to the syndicated banks led by Lloyds TSB The other banks participating in the syndicate are Calyon, Bank of America N A , HSH Nordbank AG and Commerzbank AG The draw down part of this facility has now been replaced by the subordinated notes issued during the year The overall facility has been reduced to £50m, none of which was drawn at 31 December 2006

25 Derivative financial instruments

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

	2006 £m	2005 £m
Fair value		
Interest rate swap	3 0	-
Cross currency swap	(0 6)	-
	2.4	-

a) Fair value hedges

As described in note 24, the group has hedged its fixed rate borrowing using fixed-to-floating interest rate swaps In 2006, the hedge was deemed 100% effective and therefore the group did not recognise any portion in the income statement

b) Hedge of net investment in foreign entity

The group's US dollar denominated borrowing is designated as a hedge of the net investment in the group's US subsidiaries The foreign exchange gains of £2 1m on translation of the borrowing to sterling at the balance sheet date was recognised in "foreign currency translation reserve" This offsets the gain or loss on translation of the net investment in the group's US based subsidiaries In 2006, the hedge was deemed effective and therefore the group did not recognise any portion in the income statement

26 Deferred income tax

	2006 £m	2005 £m
Deferred income tax asset	3 5	2 4
Deferred income tax liability	(11 6)	(6 0)
	(8.1)	(3 6)

The movement in the net deferred income tax is as follows

	2006 £m	2005 £m
Balance at 1 January	(3 6)	(5 6)
Income tax charge	(4 1)	2 0
Foreign exchange translation differences	(0 4)	-
Balance at 31 December	(8 1)	(3.6)

	Balance 1 Jan 06 £m	Recognised in income £m	Balance 31 Dec 06 £m
Plant and equipment	0 4	0 8	1 2
Intangible assets	(0 3)	(0 4)	(0 7)
Other receivables	(0 4)	0 3	(0 1)
Trade and other payables	1 1	1 1	2 2
Syndicate profits	(7 7)	(7 1)	(14 8)
Retirement benefit obligations	0 9	(0 3)	0 6
Tax losses	2 4	1 1	3 5
Net deferred income tax account	(3 6)	(4.5)	(8 1)

	Balance 1 Jan 05 £m	Recognised in income £m	Balance 31 Dec 05 £m
Plant and equipment	-	0 4	0 4
Intangible assets	(0 1)	(0 2)	(0 3)
Financial investments	0 2	(0 2)	-
Other receivables	(0 7)	0 3	(0 4)
Trade and other payables	1 2	(0 1)	1 1
Syndicate profits	(7 3)	(0 4)	(7 7)
Retirement benefit obligations	1 1	(0 2)	0 9
Tax losses	-	2 4	2 4
Net deferred income tax account	(5 6)	2 0	(3 6)

The group has recognised deferred tax assets on unused tax losses to the extent that it is probable that future taxable profits will be available against which unused tax losses can be utilised

27 Other payables

	2006 Group £m	2006 Company £m	2005 Group £m	2005 Company £m
Reinsurance premiums payable	108 2	-	78 3	-
Accrued expenses including staff bonuses	25 4	-	18 0	0 1
Other payables	9 9	0 1	5 2	-
Amounts due to subsidiaries	-	37 6	-	31 5
Due to syndicate 623 and associates	9 2	-	22 6	1 8
	152.7	37 7	124 1	33 4
Current	152 7	37 7	124 1	33 4
Non-current	-	-	-	-
	152.7	37 7	124 1	33 4

28 Retirement benefit obligations

	2006 £m	2005 £m
Retirement benefit obligations	1 9	2 9

Of the £1 9m (2005 £2 9m) of retirement benefit obligations £0 5m (2005 £1 3m) is recoverable from syndicate 623 Beazley Furlonge Limited operates a funded pension scheme ("the Beazley Furlonge Limited Pension Scheme") providing benefits based on final pensionable pay, with contributions being charged to the income statement so as to spread the cost of pensions over employees' working lives with the company The contributions are determined by a qualified actuary using the projected unit method and the most recent valuation was at 31 December 2006

Pension benefits

Amount recognised in the balance sheet

	2006 £m	2005 £m
Present value of funded obligations	16 0	14 1
Fair value of plan assets	(13 3)	(10 1)
	2 7	4 0
Unrecognised actuarial losses	(0 8)	(1 1)
Liability in the balance sheet	1.9	2.9

Amounts recognised in the income statement

	2006	2005
Current service cost	0 3	0 9
Interest cost	0 6	0 6
Expected return on plan assets	(0 6)	(0 5)
	0.3	1 0

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

	2006	2005
Balance at 1 January	14 1	10.9
Current service cost	0 3	0 9
Interest cost	0 6	0 5
Actuarial losses	1 0	1 8
Balance at 31 December	16 0	14 1

Movement in fair value of plan assets recognised in the balance sheet		
Balance at 1 January	10 1	6 7
Expected return on plan assets	0 6	0 4
Actuarial gains	0 5	1 2
Employer contributions	2 1	1 8
Balance at 31 December	**13 3**	**10 1**

Plan assets are comprised as follows:		
Equities	10 9	8 2
Bonds	2.4	1.9
Total	13.3	10 1

The actual return on plan assets was £1 2m (2005 £1 5m)

Principal actuarial assumptions		
Discount rate	5 2%	4 9%
Inflation rate	3 2%	2 9%
Expected return on plan assets	6 3%	5 8%
Future salary increases	4 4%	4 4%
Future pensions increases	2 7%	2 5%
Life expectancy	84 years	84 years

29 Acquisition of subsidiaries

On 29 December 2006, the group acquired all the shares in Santam Corporate Limited for £14 5m in cash The company was renamed Tasman Corporate Limited

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

Fair value of net assets on acquisition	£m
Cash and cash equivalents	12 6
Insurance receivables	0 8
Other receivables	0 6
Other payables	(1 7)
Intangible assets - syndicate capacity	0 5
Intangible assets - goodwill	1 7
Consideration paid	**14.5**

	2006 £m
Revenue	2 8
Profit before tax	2 5

On 22 March 2005, the group acquired all the shares in Omaha Property and Casualty Insurance Company for US$20 5m in cash The company was renamed BICI

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

Acquiree's net assets at the acquisition date·	£m
Cash and cash equivalents	6 0
Intangible assets - licences	4 6
Consideration paid	**10 6**

As part of the BICI acquisition, the group acquired licences to underwrite admitted lines business in all 50 states in the US The licences have an indefinite useful life and are carried at cost less accumulated impairment

In addition, the group increased its shareholding in Asia Pacific Underwriting Agency Limited, to 100% on 26 January 2006 and subsequently changed its name to Beazley Limited The group owned 79 8% at 31 December 2005

30 Operating lease commitments

The group leases land and buildings under a non-cancellable operating lease agreement

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

	2006 £m	2005 £m
No later than 1 year	1 3	1 2
Later than 1 year and no later than 5 years	5 3	4 8
Later than 5 years	5 3	5 8
	11.9	**11.8**

31 Related party transactions

The group has a related party relationship with syndicate 623, its subsidiaries, associates and its directors

31.1 Syndicate 623

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

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

	2006 £m	2005 £m
Services provided		
Syndicate 623	15 9	12 9
Balances due		
Due to syndicate 623	(6 3)	(19 7)

31 2 Key management compensation

	2006 £m	2005 £m
Salaries and other short-term benefits	8 3	7 1
Post employment benefits	0 4	0 4
Share-based remuneration	0 5	0 3
	9 2	7 8

Key management includes executives and non-executive directors and key management

Further details of directors' shareholdings and remuneration can be found in the directors' remuneration report on pages 47 to 56

31 3 Other related party transactions

At 31 December 2006, the group had a balance payable to the associates of £1 8m (2005 £2 6m) All transactions with associates are priced on an arm's length basis

32 Subsidiary undertakings

The following is a list of all the subsidiaries

	Country of incorporation	Ownership interest	Nature of business
Beazley Furlonge Holdings Limited	England	100%	Intermediate holding company
Beazley Furlonge Limited	England	100%	Lloyd's underwriting agents
BFHH Limited	England	100%	Dormant since 30 June 1994
Beazley Investments Limited	England	100%	Investment company
Beazley Corporate Member Limited	England	100%	Underwriting at Lloyd's
Beazley Dedicated No 2 Limited	England	100%	Underwriting at Lloyd's
Global Two Limited	England	100%	Underwriting at Lloyd's
Beazley Underwriting Limited	England	100%	Underwriting at Lloyd's
Beazley Management Limited	England	100%	Intermediate management company
Beazley Staff Underwriting Limited	England	100%	Underwriting at Lloyd's
Beazley Solutions Limited	England	100%	Insurance services
Beazley Corporate Member No 2	England	100%	Dormant
Beazley Corporate Member No 3	England	100%	Dormant
Beazley USA Services, Inc	USA	100%	Insurance services
Beazley Holdings, Inc	USA	100%	Holding company
Beazley Group (USA) General Partnership	USA	100%	General partnership
Beazley Insurance Company, Inc	USA	100%	Underwrite admitted lines
Beazley Limited	Hong Kong	100%	Insurance services
Tasman Corporate Limited	England	100%	Underwriting at Lloyd's
Beazley Pte Limited	Singapore	100%	Underwriting at Lloyd's

33 Contingencies

33.1 Funds at Lloyd's

The following amounts are subject to a deed of charge in favour of Lloyd's to secure underwriting commitments

Company	2006 £m	2005 £m
Debt securities and other fixed income securities	292 0	231 5
Letter of credit	-	70 0
	292 0	301 5

33 2 Collateralised guarantee at Lloyds TSB

The collateralised guarantee of £0 5m that existed with Lloyds TSB at the end of 2005 has been disposed of during 2006

34 Foreign exchange rates

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

	2006		2005	
	Average	Year end spot	Average	Year end spot
US dollar	1 84	1 96	1 82	1 72
Canadian dollar	2 09	2 28	2 21	2 01
Euro	1 47	1 48	1 46	1 46

GLOSSARY

Admitted carrier
An insurance company authorised to do business in the US A charger agreement is entered into which stipulates the terms and conditions under which a business must conduct within a state in the US

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 rating
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 A M Best has more than 100 years of experience and offices located in the US, UK and Hong Kong Beazley Group plc obtained an A rating, while BICI 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 specified limits, 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

Claim
Demand by an insured for indemnity under an insurance contract

Claims ratio
Ratio, in percent, of net insurance claims to earned premiums

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

Coverholder/managing general agent
A firm either in the UK 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 acts as a coverholder

Deferred acquisition costs
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

Dividend per share
Ratio, in pence calculated by dividing the dividends paid in the year by the number of shares eligible to receive those dividends in the year

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 issued by the group For calculating diluted EPS 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 to each risk involved in each loss

Expense ratio
Ratio, in percent, sum of expenses for acquisition of insurance contracts and administrative expenses to net earned premiums

Facultative reinsurance
A reinsurance risk that is placed by means of 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

Individual capital assessment (ICA)
Beazley's ICA is an estimation of the capital the business needs so that it can absorb unexpected losses This assessment takes account of losses that can arise from all major sources of risk underwriting, investment, credit, liquidity, operational and group The ICA is signed off by the board

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 (IFRSs)
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 IFRSs Until existing standards are renamed, they continue to be referred to as IAS

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

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

Lloyd's
Lloyd's is the world's leading specialist insurance market and expects to have the capacity to write approximately £16 1bn of business in 2007 It occupies sixth place in terms of global reinsurance premium income, and is the second largest surplus lines insurer in the US In 2007, 66 syndicates are underwriting insurance at Lloyd's, covering all classes of business from more than 200 countries and territories worldwide

Long tail
This refers to a type of insurance where claims may be made many years after the period of the insurance has expired Liability insurance is an example of long tail business

Managed syndicate
The combination of syndicates 2623 and 623 through which the group underwrites insurance business

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

Medium tail
A type of insurance where the claims may be made three to five 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 weighted average number of shares issued

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

Pro-rata reinsurance
A generic term describing quota share and surplus share reinsurance in which the reinsurer shares a proportional part of the ceded insurance liability, premiums, and losses of the ceding company Also known as participating reinsurance and proportional reinsurance

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 any income due to the closing year of account into an open year of account in return for a premium

Reinstatement premiums
The restoration of cover following its exhaustion as a result of a loss by payment of an additional (reinstatement) premium Many reinsurances provide for one or more automatic reinstatement of covers

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

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 insurance
These are insurance risks that have been certified by a local broker has having been declined by a prescribed number (usually three or four) of licensed insurers in a given state in the United States of America and which therefore can be underwritten as "surplus lines"

Total shareholders return (TSR)
The increase in the share price plus the value of any dividends paid and proposed during the year

Treaty reinsurance
A reinsurance contract under which the reinsurer agrees to offer and to accept all risks of certain size within a defined class

Unearned premiums reserve
The portion of premium income in the business year that is attributable to periods after the balance sheet date is accounted for as unearned premiums in the underwriting provisions

Vertical limits
Reinsurance coverage limits which exceed the group's retention limits